

The social contract and the role of universal social security in building trust in government

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Preface

In 2019, Development Pathways and Act Church of Sweden co-published the report [*Hit and Miss: An assessment of targeting effectiveness in social protection*](#). The report exposed the limitations of poverty-targeted social protection programmes in terms of their development effectiveness. It specifically considered the extent to which they reached their intended target group: the poorest members of society. At the same time, the research demonstrated the effectiveness of universal schemes in reaching their target group as well as those living in extreme poverty.

The massive increase in need for social protection during the COVID-19 pandemic, and the attempts by many governments to respond has brought to light another limitation/drawback/restriction of poverty-targeted programmes: they also exclude a large ‘missing middle’ of the population in each country – those who are not the poorest members of society but work (or worked) in the informal economy and experience highly precarious livelihoods. The majority of this group have also been severely hit during the pandemic and, in many countries, received no support at all.

In this paper, yet another aspect of the debate on targeting and universality is considered: the role that social protection can play in strengthening or weakening social contracts, which depends on the design of the programmes. Throughout the paper, we underscore that the design question is not purely a technical issue for social protection experts to solve or discuss. Rather, it should consider both recipients’ and non-recipients’ reactions to different forms of targeting, which are closely linked to issues around surrounding trust, fairness and political choices.

The social contract has a key role in contributing to many development initiatives, such as peace building, the strengthening of democracy and generating greater domestic resource mobilisation. Hence, the choice between a predominantly/principally universal or targeted model of social protection should be the concern of anyone who is engaged in promoting the democratic and peaceful development of low- and middle-income countries, and in the gradual expansion of their domestic capacity to realise the human rights of their citizens/inhabitants – including the right to social security.

Eva Ekelund, Policy Director at Act Church of Sweden

Executive Summary

A strong social contract is a precious resource in any country. Without it, citizens will be reluctant to pay their taxes resulting in governments being unable to collect the revenues they need to offer good quality public services to their citizens. Indeed, one of the main challenges facing countries across the Global South is low government revenues: in most, revenues are less than 20 per cent of GDP, similar to those of Europe prior to the Second World War when poverty, inequality and the Great Depression reigned, and fascism was able to flourish.

Building trust in government in Western Europe, after the Second World War

The fundamental building block of a strong social contract is citizens being able to trust their governments. As Sweden's Ministry of Finance argues, governments build trust through the provision of **universal public services**. The introduction of universal public services – including universal social security – following the Second World War transformed Western Europe. Whereas, prior to the war, social assistance for the poor dominated social policy, the Second World War marked a paradigm shift in European social policy. Progressive politicians were elected who, as a priority, established universal public services, including schemes such as universal old age pensions and child benefits. In a relatively short period of time they built trust among their citizens, enabling governments to vastly increase levels of taxation. In some of the most successful countries government revenues increased to over 50 per cent of GDP. Western Europe was transformed: social cohesion was strengthened, inequality was tackled, peace was maintained, economies grew, and prosperity was shared among the many, not the few.

How trust is undermined in the Global South through poverty-targeted social security

An underlying cause of low tax revenues across the Global South is the limited trust that citizens have in their governments. This is due, in part, to the low quality of public services which undermine social contracts and discourage people from paying taxes. In fact, in many countries, the middle-class and rich have abandoned state-financed health and education services and opted for private provision. This, naturally, deepens their reluctance to pay the taxes that would fund the public services that they no longer use.

The model of social security that is prevalent across today's Global South has a strong emphasis on programmes targeted at the poorest members of society. In this paper, we argue that this model contributes heavily to the undermining of trust in government. Through targeted programmes the majority of the population – the so-called 'missing middle' – are, by design, excluded from the national social security system while the 'poor relief' programmes that are delivered tend to be of poor quality: targeting errors are high

while selection is widely perceived by citizens as arbitrary and unfair; transfer values are low, with their real value falling year on year; conditions and sanctions are often used, which undermine dignity and self-respect; recipients are often stigmatised; and, local elites often use programmes as a means of exercising power and control over recipients. Indeed, the proxy means test – a targeting mechanism that is particularly arbitrary in its selection of recipients – functions as if it were designed with the sole purpose of undermining trust in government. Yet, it continues to be strongly promoted across the Global South in the guise of social registries.

A strategy to rebuild trust in government across the Global South through universal social security

The COVID-19 crisis is an opportunity to re-think the paradigm of social security and learn the lessons of history (while listening to Sweden’s Ministry of Finance). If governments want to establish relations of trust with their citizens, universal social security could be a singularly effective tool. In theory, governments could gain the trust of their citizens by investing in universal health and education services. Yet, good quality health and education services take a long time to establish with citizens not noticing improvements for many years, resulting in them losing faith in even well-intentioned, progressive politicians. In contrast, a high quality universal social security scheme could be established in a very short period of time: for example, a government could promise to give every older person or child a regular income transfer and, within a year, could deliver on this promise, ensuring that everyone receives exactly the cash that they were promised on time. When people receive cash in their hands every month from government, they will have real evidence that their taxes are being used well and that the government cares for them. By starting with universal social security, governments could create a virtuous circle that engenders greater trust, a stronger social contract, higher government revenues and further investment in good quality universal public services. Just as Western Europe was transformed after the Second World War, the Global South could be similarly transformed.

Fragile states and the role of universal social security in strengthening the social contract

Building trust and a strong social contract is particularly important in fragile states. Unfortunately, normal practice is for donors and governments to implement poor quality, poverty-targeted social security schemes that contribute to undermining trust among the citizens of fragile states. In effect, they are in danger of fanning the flames of an already dangerous fire. Universal social security is the answer to fragility. Just as the fragile states of Western Europe were healed after the Second World War through universal public services – including social security – the same solution must be applied to today’s fragile states across the Global South. The answer is not “there is no fiscal space”: instead, finding the fiscal space, which is almost always available for universal social security –

such as an old age pension or child benefit – if there is political commitment, is the only answer. It worked in Europe and, arguably, it has been successful in other fragile states, including Georgia, Kosovo, Nepal, South Africa and Timor-Leste. A national old age pension and/or child benefit in countries such as Afghanistan, Iraq, Myanmar, Somalia, South Sudan and Yemen could be a game-changer in building national social contracts and in signalling to everyone that they are part of the nation-state.

Incorporating informal economy workers into the tax system through Universal Child Benefits

Universal social security could also be designed to encourage informal economy workers into the tax system. For instance, a government could decide to introduce a Universal Child Benefit but only pay it to those who have made an annual income declaration. In practical terms, families could make an income declaration at the same time as applying for the Child Benefit (which, in effect, is what happens whenever a family applies for the Child Support Grant in South Africa). This could create a powerful incentive for families to declare their incomes, in particular if the value of the Child Benefit is higher than the tax paid by most of the population. Governments would, of course, have to establish the infrastructure – such as a One-Stop shop – to make it easy for citizens to apply for the Child Benefit at the same time as they make their income declaration, and to apply for their child's birth certificate. This is feasible: it just requires the political will.

Conclusion

In conclusion, trust in government is the basic building block of any successful nation-state. It needs to be at the very top of the list of government priorities since, once trust is undermined, the state itself can be threatened. History tells us that a key factor in building trust is the provision of universal public services, since they can be enjoyed by everyone on an equal and impartial basis. And, if trust is to be built quickly, the best means of doing so is through universal social security.

COVID-19 has created a major crisis across all countries and has highlighted the failings of the prevailing social and economic policies in most countries in the Global South. A key question is whether COVID-19 can be the catalyst for the type of paradigm shift in social and economic policy that occurred across Western Europe following the Second World War. If this change in paradigm is to happen, it will need progressive politicians and development partners to come together and move away from the poor relief model that has dominated policy thinking across the Global South. Instead, they need to have an unremitting focus on building the type of universal social security system that transformed the social contract in Europe. Listening to Sweden's Ministry of Finance could be a good first step.

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Of course, the authors take full responsibility for the paper. We hope that it will help generate debate on the role that universal social security could play in building trust in government, strengthening the national social contract and creating nation-states in which everyone can enjoy a decent and fulfilling life. At a time when the influence of demagogues and populists is growing and national economies, livelihoods and social cohesion are threatened by an invisible virus, universal social security has never been more important.

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Acronyms

APIS	Annual Poverty Indicators Survey (Philippines)
CCT	Conditional Cash Transfer
COVID-19	Coronavirus disease
ECV	<i>Encuesta Nacional de Calidad de Vida</i> (Colombia)
ENCV	<i>Encuesta Nacional de Condiciones de Vida</i> (Ecuador)
GDP	Gross Domestic Product
HIES	Household Income Expenditure Survey (Bangladesh, Pakistan, Sri Lanka)
IHDS	India Human Development Survey
IMF	International Monetary Fund
KIHBS	Kenya Integrated Household Budget Survey
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing Power Parity
SASSA	South African Social Security Agency
SOCX	Social Expenditure Database (OECD)
SUSENAS	National Socioeconomic Survey (Indonesia)
UDHR	Universal Declaration of Human Rights
UN	United Nations
UNDESA	United Nations Department of Economic and Social Affairs
US\$	United States Dollar
USA	United States of America
WEO	World Economic Outlook (IMF database)

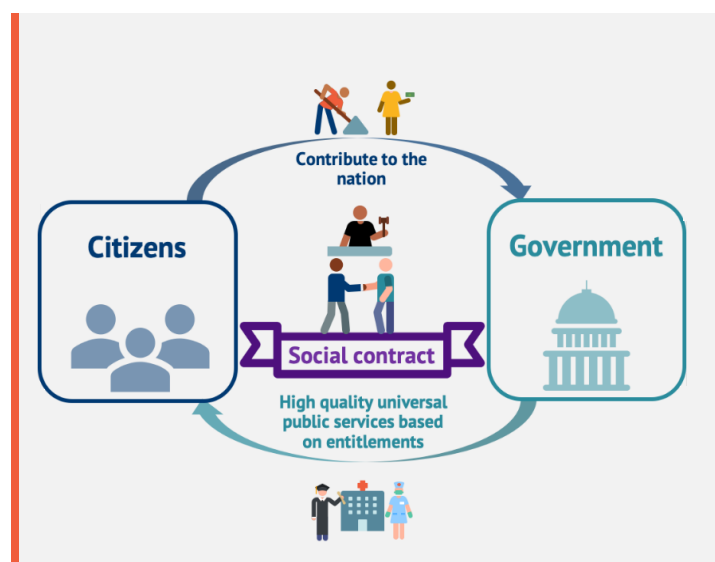
1 Introduction

Most countries in the Global South are held back by the curse of low government revenues – usually below 20 per cent of GDP – which undermines state effectiveness since the resources to deliver good quality public services are not available. In contrast, government revenues in high-income countries are much higher and, in some of the most successful states – such as Denmark, Finland, Norway, and Sweden – they reach beyond 50 per cent of GDP.¹ Despite the widespread belief that paying taxes is unpopular, these same high-tax countries are also ranked among the happiest countries in the world: Finland is ranked first, Denmark second, Norway third and Sweden seventh.² Indeed, the majority of the citizens of these countries appear content to pay high taxes, with the tax office in Sweden being one of the country’s most trusted government agencies.³

Most low- and middle-income country governments – alongside their development partners – recognise the importance of increasing tax revenue. Yet, the solution is often seen as technical, with the stress placed on more efficient tax collection. In reality, though, a key underlying reason for low government revenues is the weakness or the perverse nature of the national social contract. As a result, even if the best technical improvements to national tax collection capacity are in place, unless national social contracts are strengthened, government revenues

are unlikely to grow to the level required to provide decent public services.

Figure 1: A simple depiction of the social contract



Source: *Development Pathways*.

At a simple level, a social contract can be understood as an agreement between citizens and government. As shown by Figure 1, when it functions well, citizens pay taxes to the government and, in return, the government should use these revenues to provide their citizens with good quality public services, infrastructure and protection.⁴ As long as both sides keep to the agreement, a functioning, decent

¹ Source on tax revenues is the IMF’s World Economic Outlook Database.

² Helliwell et al. (2019).

³ Cf: Fouché, G. (2008); Fouché, G. (2009); Livingston (2016); Jansson (2018); Wiles (2020).

⁴ Scholz (2003).

1 Introduction

and fair society can exist. However, if governments do not fulfil their side of the bargain, citizens will resent paying taxes and, often, actively avoid doing so. The Boston Tea Party is often regarded as a great example of what happens when governments are perceived as unjustly enforcing taxation without returning to citizens their due. The British colonial authorities were accused by the American colonists of unjustly taxing tea imports to America and, in 1773, the protests culminated in a shipment of tea being thrown into the harbour in Boston, alongside calls of “no taxation without representation”. It was a key precursor to the American War of Independence.

One of the most important policy challenges facing countries across the Global South is how to strengthen their national social contracts, within a context of often high or rising inequalities. Without strong social contracts, states will be unable to generate trust. As a result, they will be unable to generate the level of government revenues that is required to build decent societies and deliver public services to the quality that their citizens deserve and in a manner that is compliant with human rights. Without good quality public services, countries will find it challenging to achieve the Sustainable Development Goals, still less to move beyond them. The reality facing the Global South is that, when a sensible international poverty line – such as US\$10 per person per day in purchasing power parity (PPP) terms – is used, the vast majority of people are found to be living in poverty. Only through strong social contracts and the fair redistribution of wealth will countries be able to ensure that they can effectively tackle poverty and provide their citizens with an adequate standard of living, which the Universal Declaration of Human Rights states is a basic human right.

The aim of this paper is **to examine the role that social security can play in either strengthening or weakening national social contracts**. The social contract depends, largely, on the extent to which citizens trust their governments and the design of social security schemes and systems plays a key role in either engendering or undermining this trust. The paper begins, in Section 2, by examining how trust in government is generated through the provision of universal public services, using post-Second World War Europe as an example. In Section 3 it describes the weak social contract and low government revenues that are found in many low- and middle-income countries, where low quality public services prevail, including the provision of poor relief – or social assistance for the ‘poor’ – as the dominant social security model. Section 4 argues that if low- and middle-income countries wish to strengthen the social contract and build more cohesive and successful nation-states, a paradigm shift in the model of social security will be necessary, from poor relief to universal, lifecycle systems. Section 5 highlights how delivering universal social security is particularly important in fragile states, while Section 6 proposes using universal schemes – in particular child benefits – to encourage people working in the informal economy to enter the tax system.

2 Trust, the social contract and universal public services

Trust is at the heart of any relationship but especially within the national social contract. As a result, trust in government determines the extent to which governments are able to tax their citizens. This is clearly understood by the Ministry of Finance in one of the countries – Sweden – that has been most successful in building trust between citizens and the government. In a recent publication, it states: *“If citizens do not trust that the resources they give up when they pay taxes or charges are used appropriately, there may be serious resistance to contributing to the common good.”*⁵ In other words, when trust is weak, citizens may resist paying their taxes. The success of Sweden in building trust and a strong social contract between its government and citizens is evidenced in the fact that government revenues are around 49 per cent of GDP.⁶ Trust, therefore, is central to Sweden’s economic and social success.

It was not always like this. At the beginning of the Second World War, in 1940, government revenues in Sweden – in common with other European countries – were low: at less than 20 per cent of GDP, they were similar to many countries of the Global South today. At the time, Europe was marked by political instability and division, with the Great Depression creating severe economic hardship and inequality. This created fertile ground for the rise of fascism, which was characterised by authoritarian policies that sought to control economies and societies and was underpinned by political violence, genocide and war.

Social security was not absent from Europe prior to 1940, but it had a particular characteristic. To a large extent, it was still based on a model of **poor relief**, a form of social security which had dominated welfare provision in a number of European countries in the 18th and 19th Centuries, including Belgium, Denmark, France, the Netherlands, New Zealand, Norway, Sweden, and the United Kingdom.⁷ Poor relief had, in fact, begun in England in 1598 with the passing of the Poor Laws. Its objective was to provide the poorest members of society with a regular handout to alleviate their poverty. It was not regarded as an entitlement but was given to ‘the poor’ as a form of charity. In some cases, it became conditional on participating in workfare, at least for those of working age who came to be regarded as the ‘undeserving poor’. Thanks to [Charles Dickens and his story of](#)

⁵ Sweden’s Ministry of Finance (2017).

⁶ Source: IMF World Economic Outlook Database.

⁷ Lindert (2004).

[Oliver Twist](#), the most well-known workfare programmes were the punitive workhouses of 19th Century England.

While the Second World War devastated Europe, it was also the catalyst for a paradigm shift in social policy across Western Europe that ushered in a ‘golden age’ of social security (while Eastern Europe entered into a long experiment with communism). European countries took steps to ensure that the underlying causes of the Second World War – in particular widespread extreme poverty and inequality – would be eliminated. Across the continent, political parties were voted into power on the back of promises to reduce poverty and tackle inequality through the effective redistribution of wealth. Rapidly, the social contract was strengthened with citizens agreeing to pay higher taxes in exchange for better quality public services. In 1948, the aspirations of politicians and the citizens of their countries were captured, globally, in the Universal Declaration of Human Rights (UDHR).

At the heart of the UDHR is a commitment to the **universal** provision of public services, including social security (see Box 1). The UDHR highlighted the importance of ensuring that income security was provided to everyone, to address risks that all of us could face across the lifecycle, from birth to death.

Throughout Western Europe, progressive policymakers established universal public services, gradually building

comprehensive welfare states. In the United Kingdom, for example, the Labour Party won power in 1945 with a promise to implement the Beveridge Report, which had been published during the Second World War and sought to provide all citizens with protection from ‘the cradle to the grave’. As Figure 2 illustrates, its aim was to tackle the five giants of Want (through universal social security), Ignorance (through universal education), Disease (through a universal National Health Service), Squalor (through the provision of social housing) and Idleness (by ensuring jobs for everyone). A key feature of Beveridge’s

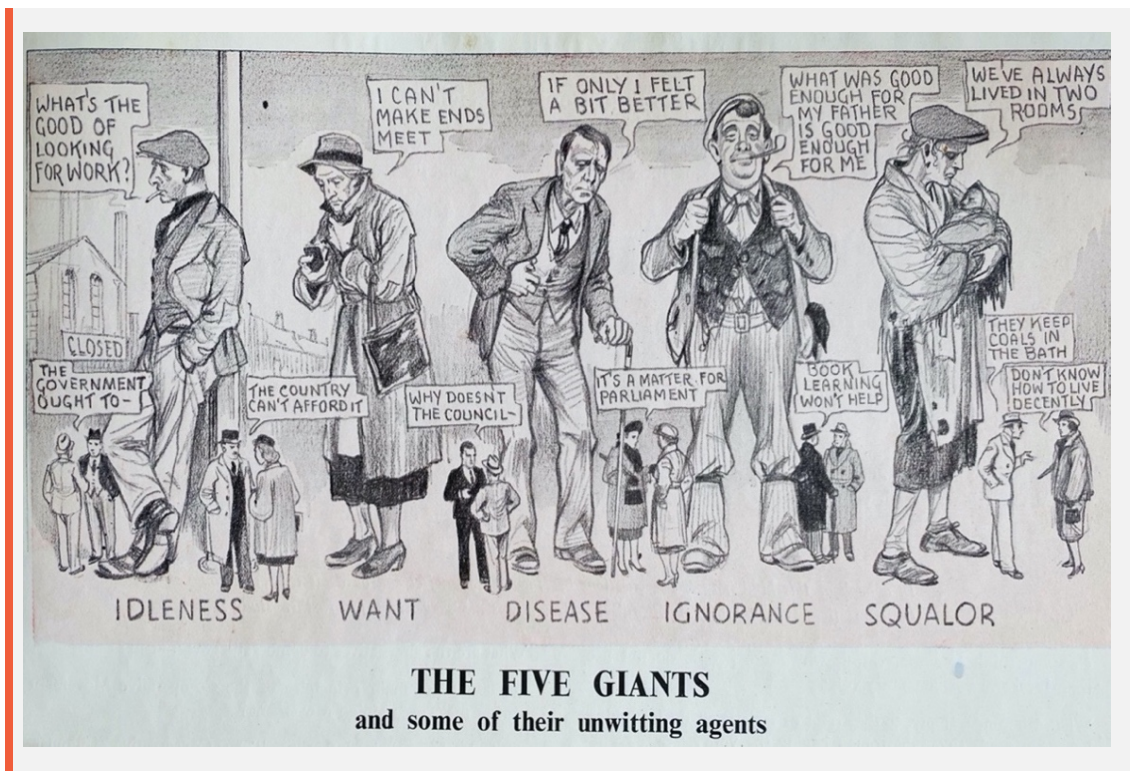
Box 1: The right to social security in the Universal Declaration of Human Rights

Article 22: “Everyone, as a member of society, has the **right to social security**”

Article 25: “(1) Everyone has **the right to a standard of living** adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the **right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control**. (2) Motherhood and childhood are entitled to special care and assistance. **All children**, whether born in or out of wedlock, shall enjoy the same **social protection**.”

proposals was the elimination of the unpopular household means-tests that had characterised social security during the economic slump of the 1930s.⁸

Figure 2: The five giants identified in the Beveridge report



Innovative, universal, lifecycle social security schemes sprung up across the continent, including Universal Child Benefits in Finland (1948), Sweden (1948) and the United Kingdom (1946).⁹ Over time, European countries built large-scale inclusive, universal, lifecycle social security systems, focused on providing protection against the contingencies that people would face across their lives, in line with the stipulations in the UDHR.¹⁰ These rights were further encapsulated in Convention 102 of the International Labour Organization, in 1952.

Alongside this major change in paradigm, which recognised the redistribution of national wealth as a core function of government, came a significant increase in government revenues. As Figure 3 shows – using the examples of France, Sweden and United Kingdom – between 1940 and 1950, government revenues jumped massively, indicating a

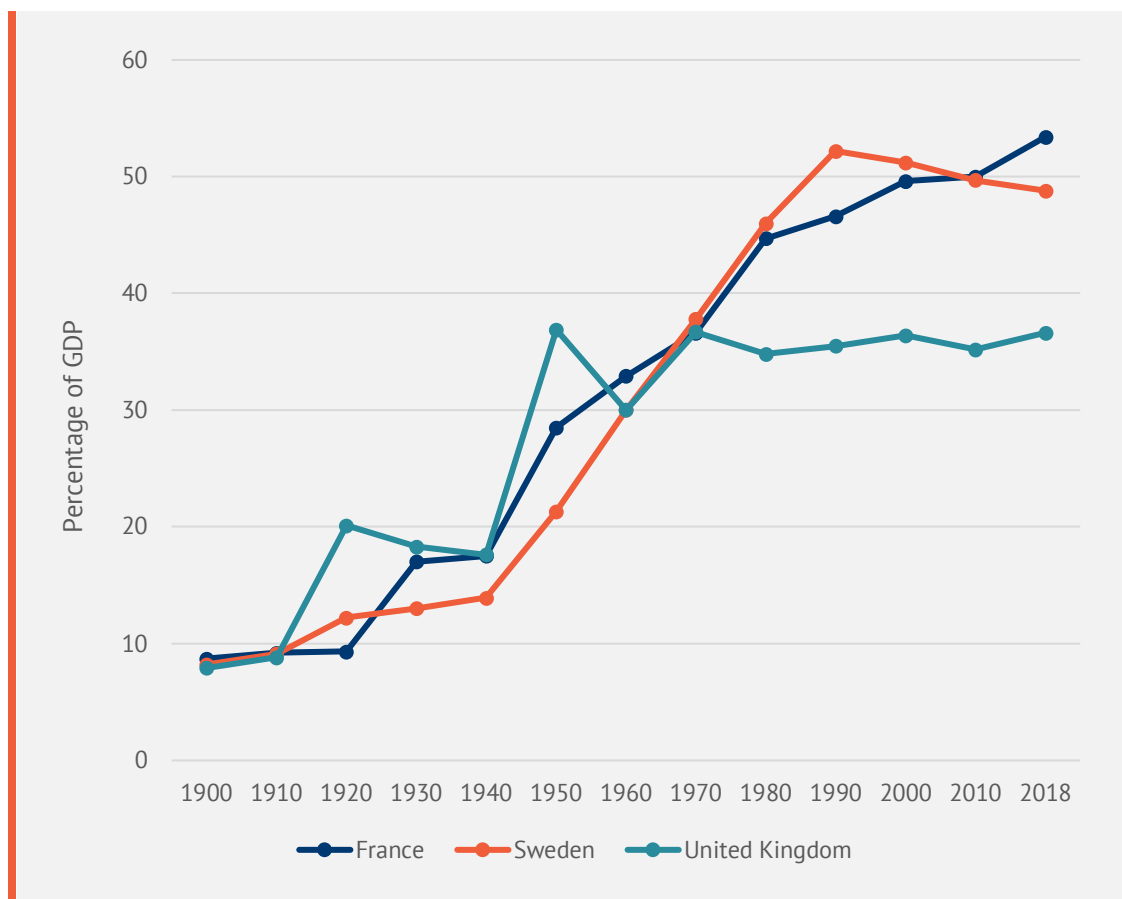
⁸ Whiteside (2014).

⁹ In the United Kingdom, the child benefit introduced in 1946 was only for the 2nd child onwards. It only became truly universal for all children in 1977.

¹⁰ Prior to the Second World War, some European countries had begun investing in small universal schemes – such as Sweden's universal old age pension which began in 1913 and may have played a small role in the overall increase in government revenues at the time.

general consensus for greater redistribution via higher taxation and higher investment in universal public services. In many countries, government revenues continued to grow: in France and Sweden, for example, they reached 50 per cent of GDP by 2000. In the United Kingdom, after the initial rise in revenues, they remained relatively constant at around 35 per cent of GDP. Nonetheless, this still enabled many public services – including core lifecycle social security schemes such as child, old age and disability benefits – to be offered by successive governments on a universal basis, irrespective of their ideological tendencies.

Figure 3: Government revenues as a percentage of GDP in France, Sweden and the United Kingdom (1900-2018)



Source: <https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/index.aspx>. For some years, the information for Sweden is given for the closest year.

The large increases in government revenues across many high-income countries reflected a major increase in trust in government, which was achieved by governments offering public services, including social security, on a universal basis. All citizens, whether rich or poor, were able to receive equal benefits which were perceived as being delivered in a fair and just manner. In turn, citizens were much more willing to be taxed. As Sweden's Ministry of Finance (2018) states:

“Another important explanation for the widespread public trust in the welfare systems and for why they are perceived as legitimate is that they have been mainly universal and covered everyone, rather than being needs-based (selective) and covering only those with the greatest need. It is easier to build a universal welfare policy on simple and clear-cut rules. This creates legitimacy and reduces distrust in politics and the system. The universal policy also means that commonly shared welfare benefits everyone. Experience has shown that citizens are more willing to accept financial responsibility for various initiatives when they understand how the initiatives will benefit them.”

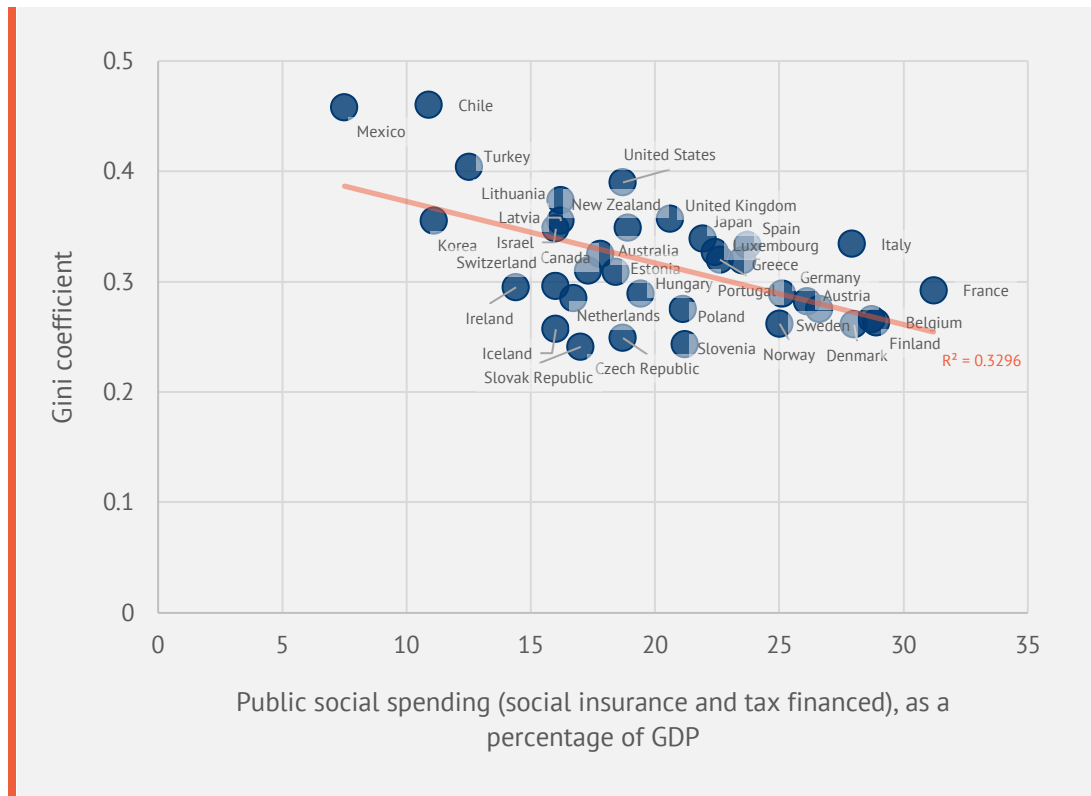
The move to universal provision and higher government revenues not only strengthened the social contract in Western Europe, it also generated further significant benefits. As a result of more nutritious diets, stronger health systems and higher quality education, human capital across Europe grew considerably, contributing significantly to Europe’s economic success in the years following the Second World War. With greater entitlements to public services, citizens’ expectations of what the state should offer were raised, contributing to a greater participation in politics and a strengthening of democracy, while fascism was kept at bay.¹¹ Importantly, through large-scale investment by governments, Europe was transformed from a war-torn continent, which had suffered two devastating conflicts within the space of twenty-five years, to one of the world’s most peaceful regions (which generated further economic benefits).

The shift in paradigm resulted in a fundamental change in the nature of social security: it moved from being based on poor quality poor relief to universal systems that protected people across the lifecycle, alongside other universal public services. Europe was transformed. More egalitarian societies were created, alongside a widespread acknowledgement of the value of redistributing wealth through progressive taxation and the delivery of universal services. As indicated by Figure 4, across high-income countries there is a strong correlation between lower levels of inequality and higher social spending, which is facilitated by higher levels of taxation. And, greater equality is also a characteristic of many societies in which people have higher levels of trust in their fellow citizens and government.¹²

¹¹ Cf. Michener (2018).

¹² Wilkinson & Pickett (2009); Rothstein (2018).

Figure 4: Relationship between inequality (Gini coefficient based on disposable income) and public social spending across OECD countries (2015-2018)

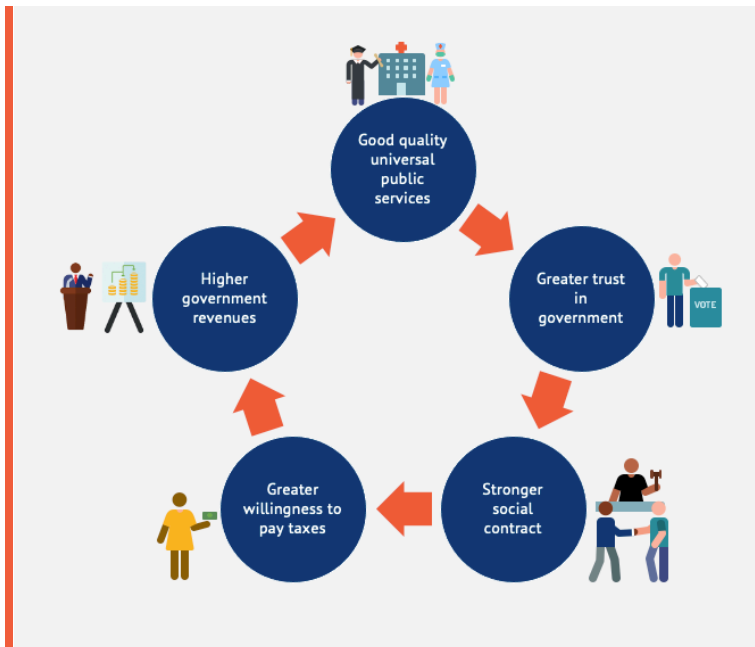


Source: OECD Social Expenditure Database (SOCX), retrieved from <https://www.oecd.org/social/expenditure.htm>; OECD Data 'Income Inequality', retrieved from <https://data.oecd.org/inequality/income-inequality.htm>.

As Rothstein (2018) argues: “One of the most effective ways for decreasing economic inequality ... is via universal or broad-based public services and benefits such as universal health care and pensions, childcare allowances and free higher education.” Indeed, the provision of universal public services is at the heart of a virtuous circle that delivers decent societies through greater trust in government and higher government revenues.¹³ As indicated by Figure 5, if citizens receive good quality universal public services, their trust in government will grow, thereby strengthening the social contract. As a result, they will be more willing to pay taxes leading to higher government revenues which, in turn, enables governments to invest in high quality public services, enabling the virtuous circle to continue. To a large extent, this was the direction taken by high-income countries following the Second World War.

¹³ Cf. Fjeldstad et al. (2014).

Figure 5: The virtuous circle of investing in good quality public services and a strong social contract



Source: *Development Pathways*.

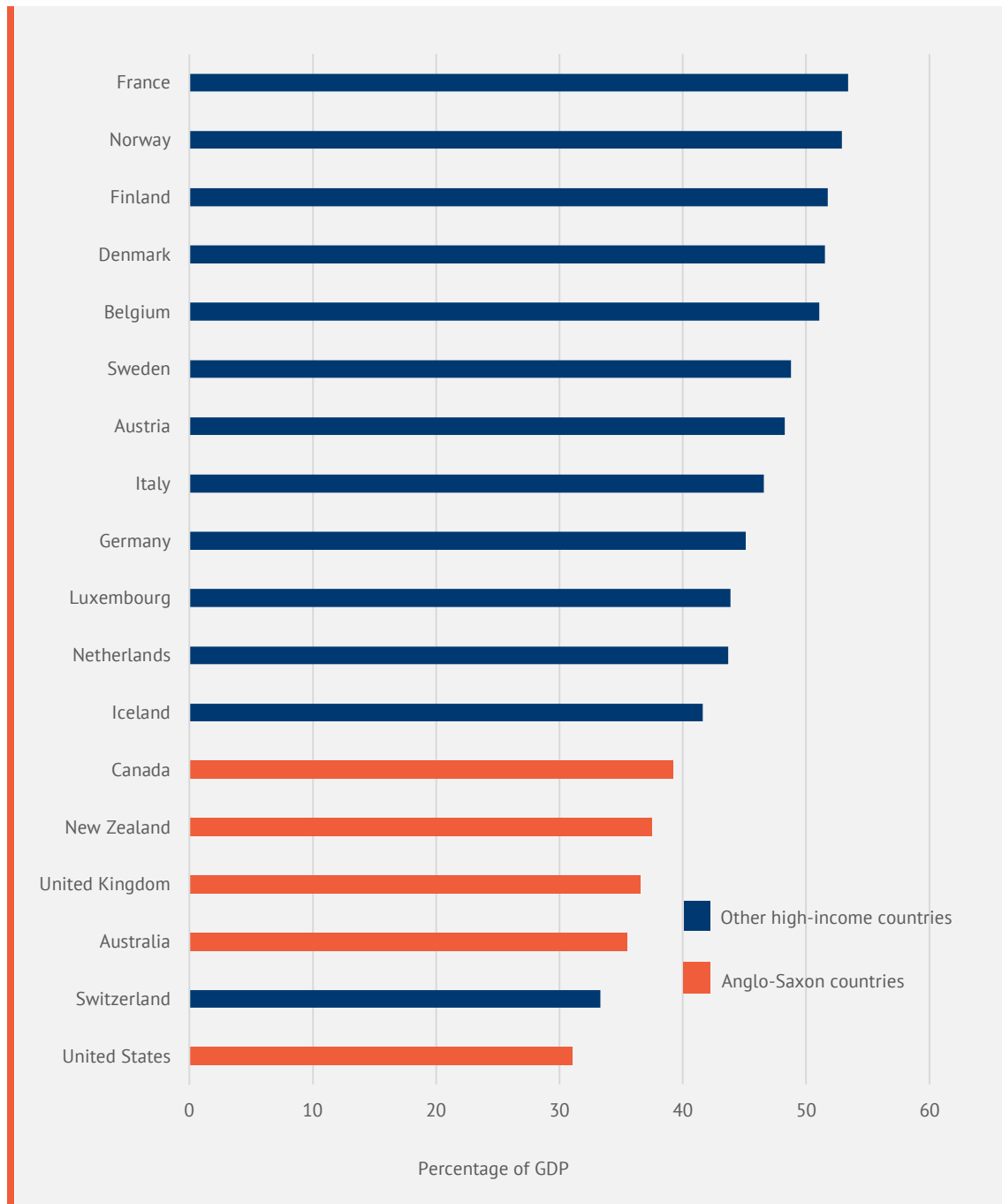
Nonetheless, since the late 1970s, and the rise of free market fundamentalism, the broad political consensus around higher taxation and good quality, universal public services has been under threat from followers of a neoliberal ideology. Across high-income countries, the influence of neoliberalism has been most visible in countries with an Anglo-Saxon tradition, in particular the USA, United Kingdom, Australia, New Zealand and Canada. As

Figure 6 shows, these countries tend to have much lower levels of overall taxation than most other rich countries in Europe, as well as higher levels of income inequality.¹⁴ Yet, even in Anglo-Saxon countries, a range of key public services are still offered on a universal basis (in particular health, education, and old age and disability social security benefits). As a result, a level of trust in government has been maintained, although as neoliberalism has tightened its grip, national social contracts have come under threat: in the United Kingdom, for example, it has been argued that the Brexit vote was to a large extent, the result of the social contract being undermined by austerity and spending cuts in the aftermath of the global recession of 2009.¹⁵ This included introducing means testing to some universal social security schemes, such as [the child benefit](#), while strengthening sanctions within the unemployment benefit system. In effect, as a result of government action, trust in the state was weakened, and it was no coincidence that this happened at a time when more people were forced into using the means-tested welfare system.

¹⁴ Korpi & Palme (1998).

¹⁵ Fetzer (2019).

Figure 6: Government revenues as a percentage of GDP across a range of high-income countries



Source: IMF World Economic Outlook database (October 2019).

Rothstein (2018) has helpfully summarised the ‘leaps of faith’ that determine a citizen’s willingness to pay taxes in any society and which, to a large extent, have resulted in the high government revenues found in many high-income countries:

- One must trust that most other citizens are also paying their taxes;

2 *Trust, the social contract and universal public services*

- One must trust that most other citizens are not overusing or cheating the various programmes provided by government;
- One must be confident that the tax administration can collect the money in a fair and impartial manner;
- One must trust that the taxes collected by government will not disappear through various forms of corruption;
- One must believe that the service or benefit will be delivered when a person needs it; and,
- When the service is delivered, people want it done in a way that respects their integrity and dignity.

The latter two factors are particularly important for social security schemes: it is essential that they are immediately accessible when people need them and they should be delivered in [a dignified manner](#), without stigmatising or humiliating individuals. In the main, high-income countries have managed to build social security systems that fulfil these criteria, although, as indicated above, the use of sanctions and means testing undermines recipients' sense of integrity and dignity, which are values at the core of any human rights-based approach.

A further factor that builds trust in the state is governments acting impartially with their citizens and treating them fairly. As Rothstein and Teorell (2008) state: "The core idea of quality of government has been theorized to be that of impartiality in the exercise of power." Similarly, Jansson (2018) argues that: "Research has demonstrated that perceived fairness is decisive for tax compliance; if citizens perceive the tax system or the government's use of tax money as fair, it is more likely that they will comply." An important characteristic of universal public services is their impartiality and fairness: everyone is able to receive the same standard of service, irrespective of where they are placed in society. Universal tax-financed social security schemes are particularly impartial and inclusive since everyone receives the same transfer value, no matter how rich or poor they are. By offering impartial, universal services, the state in most high-income countries has managed to build a degree of legitimacy so that, even when political parties change power, the fundamental basis of the state is not threatened and the rule of law, which is fundamental to the delivery of high-quality services, is maintained.

Unfortunately, as the next section describes, it is common for the basic elements that build trust to be missing in the delivery of public services – including social security – in many low and middle-income countries. As a result, trust in government is undermined and the virtuous circle that generates high quality public services is absent, thereby contributing to a weakening of the national social contract.

3 The vicious circle: low government revenues and poor quality social security across the Global South

The reality facing most countries in the Global South today is that, in many ways, they are in a similar position to that of Europe prior to the Second World War. Social contracts are weak or distorted, as evidenced by widespread low government revenues, while inequality is high and corruption is widespread.¹⁶ Figure 7 outlines the level of government revenues across more than 50 low- and middle-income countries. Most countries have revenues below 20 per cent of GDP, very much in line with Europe in the 1930s.

In many of these countries, a core challenge is that the public services offered to citizens are limited and of poor quality. The most visible public services – such as health and education – are frequently underfunded, which means that they cannot satisfy the demands of taxpayers. In most countries of the Global South, the middle-class – who comprise only a small proportion of the population – have effectively boycotted public services, preferring to pay directly for private, and higher quality, health and education. As a result, they resent paying taxes for services that they do not use, often leading to governments imposing relatively low levels of taxation on the wealthiest members of society: for example, in South Asia, the income tax rates paid by the richest members of society vary between 18 and 30 per cent, well below the levels found in many high-income countries.¹⁷ The situation is exacerbated in many countries by the fact that the rest of the population is often obliged to pay directly for public services, through user fees, resulting in their further reluctance to pay taxes. Since most work in the informal or subsistence economies, tax avoidance is relatively easy.

The consequences of weak social contracts and low government revenues across the Global South have included high and rising levels of inequality, limited social cohesion and more violent societies. As a result, the armed forces and police often enjoy levels of public spending that are comparable with those found in high-income countries, despite low government revenues. Further, the middle-class and rich are obliged to spend a significant proportion of their income on building defences against potential threats from those who have been left behind, living behind high walls that are protected by armed

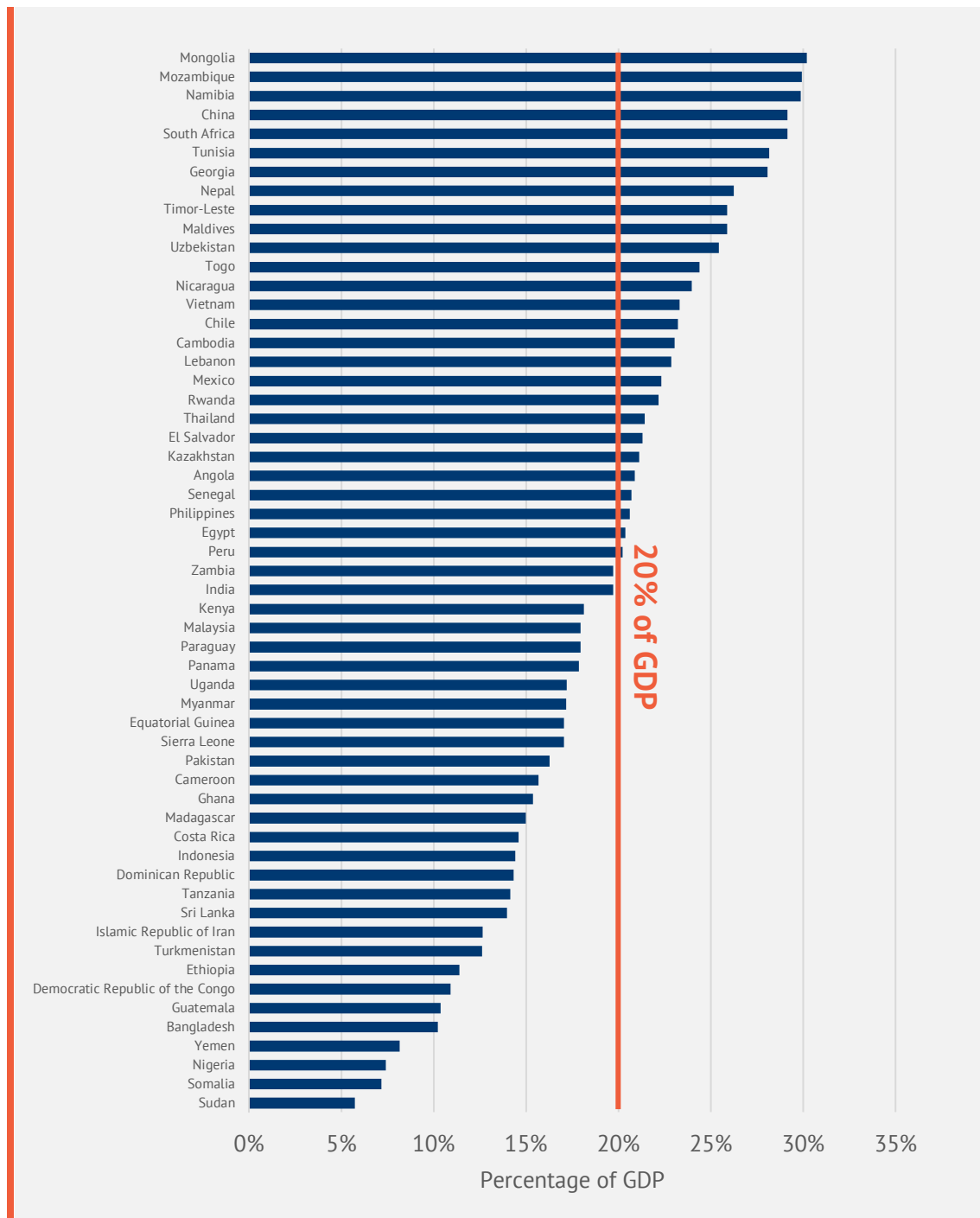
¹⁶ This is not to say that corruption is not prevalent in high-income countries, in particular in those with weaker social contracts, such as the United States, although it is often under the guise of legalised lobbying.

¹⁷ Trading Economics (2020).

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guards. This further deepens social divisions and creates more distrust and friction across societies.

Figure 7: Government revenues in a range of low- and middle-income countries¹⁸



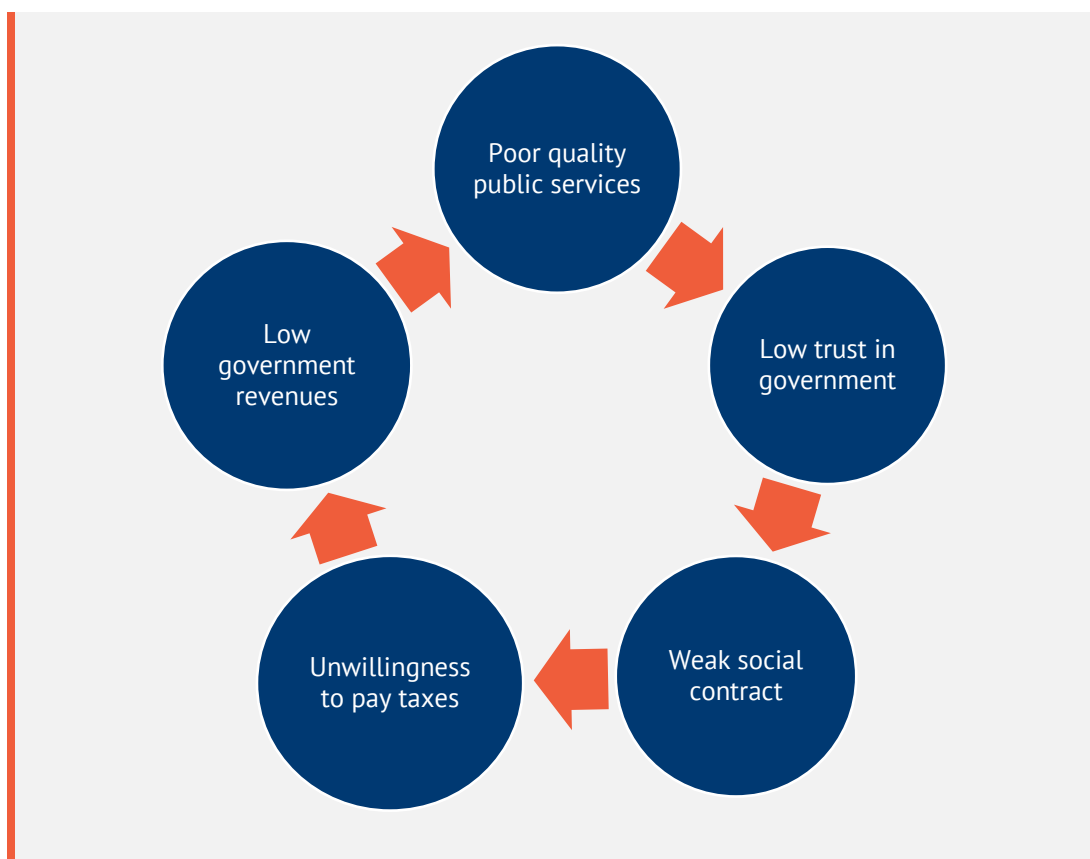
Source: IMF World Economic Outlook Database (October 2019).

¹⁸ The information provided is the estimates made by the IMF in October 2019 for 2020.

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In effect, as Figure 8 illustrates, many low- and middle-income countries are currently experiencing the type of vicious circle that Europe faced prior to the Second World War. Governments provide poor quality services, which weakens citizens' trust in their governments, thereby undermining the social contract. As a result, citizens are discouraged from paying taxes, leading to low government revenues and, therefore, low investment in public services, which further undermines trust, and so it goes on. It is a vicious circle that countries need to break.

Figure 8: The vicious circle of a weak social contract



Source: *Development Pathways*

It is likely that, if low- and middle-income countries were to follow the model of many high-income countries and offer universal social security, they could build trust and strengthen the social contract, eventually enjoying the virtuous circle that delivers good quality public services. Unfortunately, as we discuss below, high quality social security is absent from most low- and middle-income countries.

Poor relief across the Global South and the undermining of trust in government

Over the past 30 years, a growing number of countries across the Global South have begun to build tax-financed social security systems. However, in many cases those

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designing the systems do not seem to have looked back through history to learn the lessons of how social security developed in high-income countries. Rather than building the type of modern, universal social security systems that high-income countries developed following the Second World War – when they were no more than middle-income countries themselves – they have built systems that are more characteristic of the poor relief model of the pre-war period in Europe and, indeed, of the 19th Century. As a result, the dominant social security model found across the Global South is unlikely to break the vicious circle of low government revenues and poor-quality public services. In contrast, it is likely to actively undermine trust in government and weaken the social contract.

The poor relief programmes of many low- and middle-income countries are, as in 19th Century Europe, targeted at the poorest members of society, deliberately excluding the majority of the population, including those paying for the programmes from their taxes. Often the schemes follow the punitive model of 19th Century England, either by imposing sanctions on families who do not comply with conditions set by government – such as the well-known Conditional Cash Transfer (CCT) programmes – or by obliging people to undertake hard, physical labour, characterised by the so-called '[productive safety net](#)' programmes that have proliferated across Africa.¹⁹

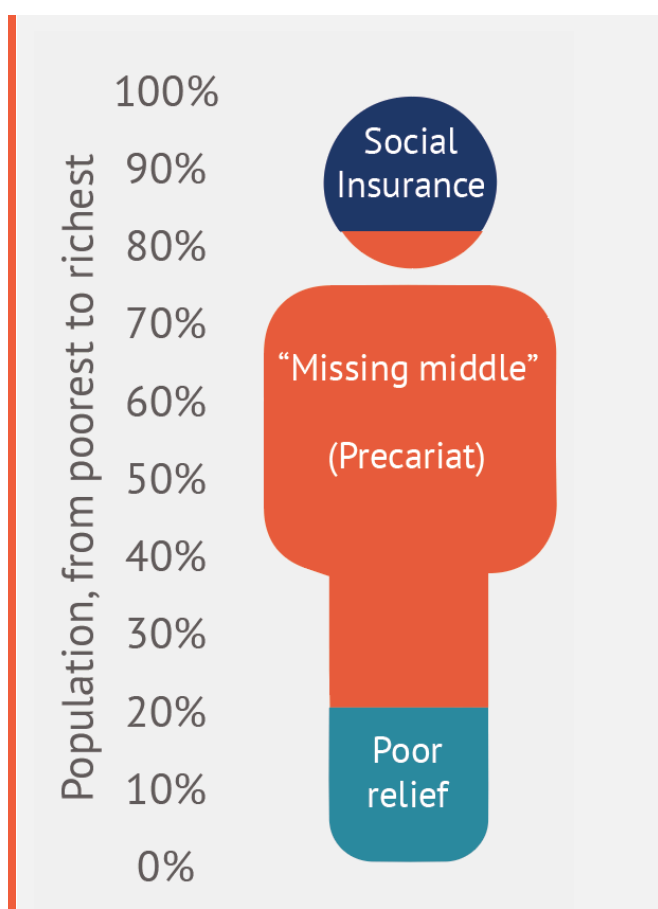
It is, of course, highly unlikely that low- and middle-income countries deliberately looked to 19th Century Europe as the model for their social security systems. Instead, two other factors drove the commitment to poor relief. The first was that many programmes were introduced at a time when neoliberalism was dominating international social policy. Since the 1980s, the IMF and World Bank have had a strong influence on countries and, as part of the Washington consensus, they have promoted low cost, means-tested schemes across the world (the so-called 'social safety nets'). In some countries, they found natural allies in influential economists who, themselves, had been trained within a neoliberal paradigm. The second factor has been the weakness – or absence – of democracy, with many countries only recently recovering from post-colonial, authoritarian rule when programmes were introduced. As a result, the awareness and demand from citizens for popular, universal schemes was limited. The combination of a neoliberal ideology and weak democratic accountability meant that there was minimal opposition to the introduction of poor relief across the Global South.

There are many ways in which poor relief social security systems undermine trust. An overarching challenge is embedded within the design itself, with regard to who is meant to be included and who is not. In slight contrast to 19th Century Europe, in many low- and

¹⁹ Kidd, S. (2013).

middle-income countries, a bifurcated model can be found, as illustrated by Figure 9: those in the formal economy enjoy social insurance or civil service pensions while the poorest members of society are offered means-tested poor relief. The major design flaw with this bifurcated system is that the majority of the population living on middle – but still low and insecure incomes are, by design, excluded from social security. They have become known as the ‘missing middle’ and, since most of them work in the informal economy, they have the characteristics of the ‘precariat’ described by Guy Standing.²⁰ By excluding the majority of the population from social security, the poor relief systems of the Global South are inherently unpopular and undermine trust: the ‘missing middle’ – too ‘rich’ to be recipients of poor relief programmes but too poor to save or be able to pay for their own private provision – pay their taxes yet are excluded from an essential public service that they not only desperately need but should also be entitled to.

Figure 9: Idealised depiction of the type of bifurcated social security system found in many low- and middle-income countries



Source: *Development Pathways*

Unfortunately, the implementation of poor relief programmes further undermines trust and legitimacy in government and, therefore, the social contract. As discussed earlier, trust in government is fostered by the delivery of high-quality schemes that provide everyone with support when needed on an impartial basis, while preserving the dignity of recipients.

Yet, the poor relief found in low- and middle-income countries cannot, by any stretch of the imagination, be regarded as fair and of high quality. One of the key aspects of its poor quality is in how it selects recipients, who are meant to be the poorest members of society.

²⁰ Standing (2011). Cf. Birdsall et al. (2013).

To date, no country – or development partner – in the Global South has come anywhere near designing a poverty targeting mechanism that actually works (although, as Box 2 explains, South Africa’s social security schemes are relatively effective in excluding the most affluent members of society). A recent study found that the best targeting error found across programmes targeted at the poorest 25 per cent of the population or less is 44 per cent and, as Figure 10 shows, in some schemes, almost all intended recipients are excluded.²¹

Therefore, while governments, and their development partners, may promise to provide the poorest members of society with a social protection benefit, and may even do so with the best of intentions, in practice it cannot

be done with any degree of accuracy. As a result, these poor relief programmes have poor quality delivery and are failing one of the key tenets set out by Rothstein (2018) that must be in place if a public service is to engender trust: it has to be delivered in a fair and impartial manner and be available whenever someone needs it.

The growing use of proxy means tests is exacerbating the challenge and further undermining trust in government. As shown in other papers – despite the claim by the World Bank that proxy means tests are accurate²² – in reality, they are not only very inaccurate but also appear to citizens as highly arbitrary in their selection. This is due to

Box 2: Means-tested schemes could build trust if designed well

Potentially, a poverty-targeted programme could incorporate a high-quality selection of recipients. To do so, it would have to be able to guarantee that whenever a person qualifies for a scheme, they can apply and be immediately selected, if eligible, without error. To a large extent this is the case in South Africa, which uses an unverified means test. When individuals apply for a social security scheme in South Africa, they declare their income and the government believes that they are telling the truth. As a result, as long as their income is below the eligibility line for the scheme, they are automatically selected. It is possible that some people could give a false income declaration and be accepted onto the scheme, but the evidence indicates that this is not a significant issue (Kidd and Athias 2020). Overall, therefore, South Africa’s means test is designed to engender trust in government since almost everyone who is eligible is able to access the scheme. It is unsurprising, therefore, that the level of investment by South Africa in tax-financed social security is one of the highest in the world at 3.4 per cent of GDP. At its heart, it builds trust, although there are aspects that could be improved (Kidd and Wapling 2018).

However, the success of South Africa is derived from its willingness to accept everyone who is eligible for the scheme and, to a large extent, the targeting system used is better understood as affluence testing, in that it aims to exclude the wealthy rather than identifying the poorest members of society. Brazil’s *Bolsa Família* programme also uses an unverified means test but excludes 44 per cent of those who are eligible. This is because Brazil does not accept all of those who declare incomes below the income eligibility line and, instead, imposes quotas on each municipality (Kidd and Athias 2020).

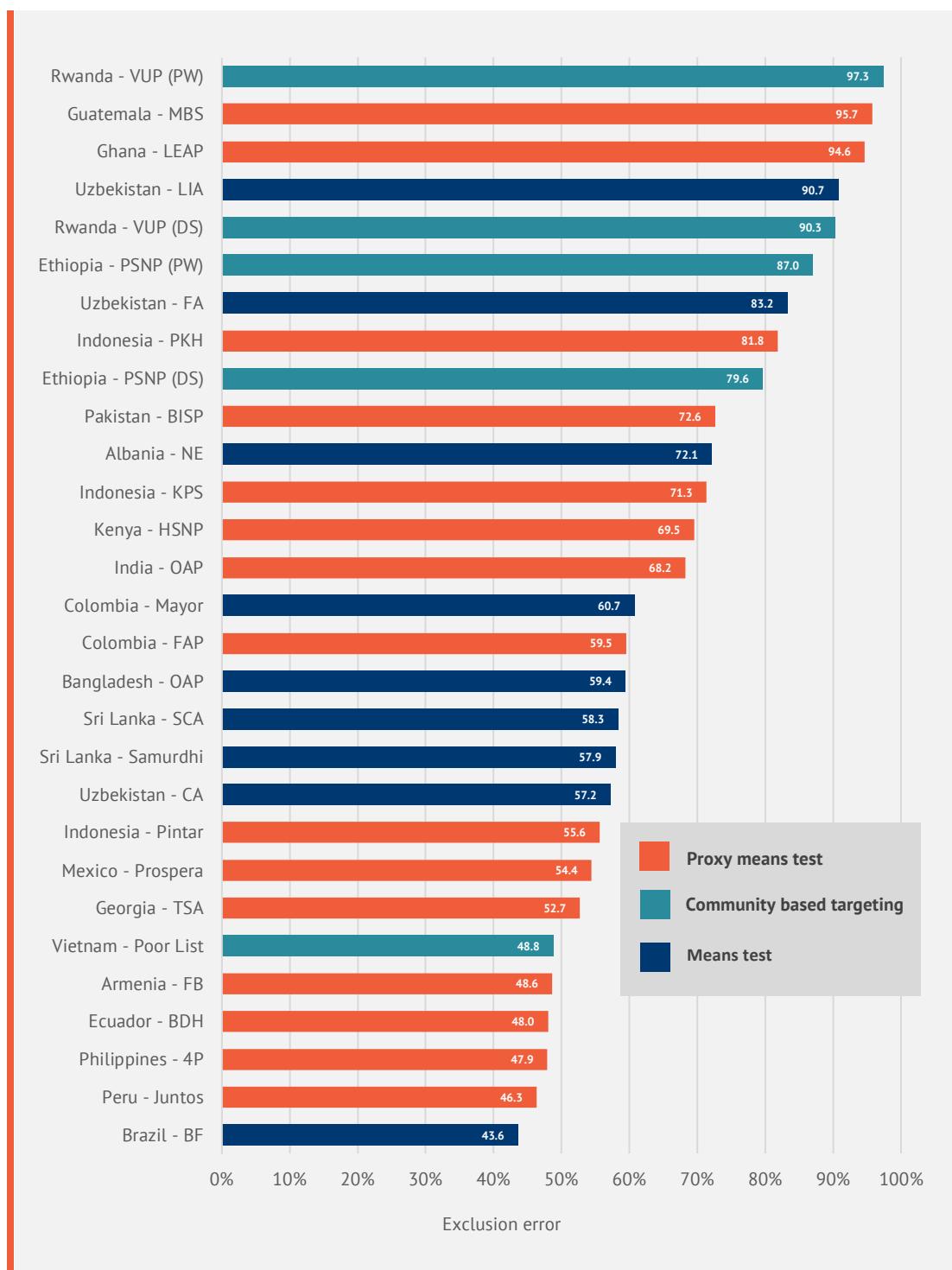
²¹ Kidd & Athias (2020).

²² Leite (2014); del Ninno & Mills (2015).

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the nature of the mechanism itself: while the proxy means test predicts a household's income through an algorithm, in reality, the prediction is usually incorrect.

Figure 10: Targeting errors across poverty-targeted programmes in low- and middle-income countries

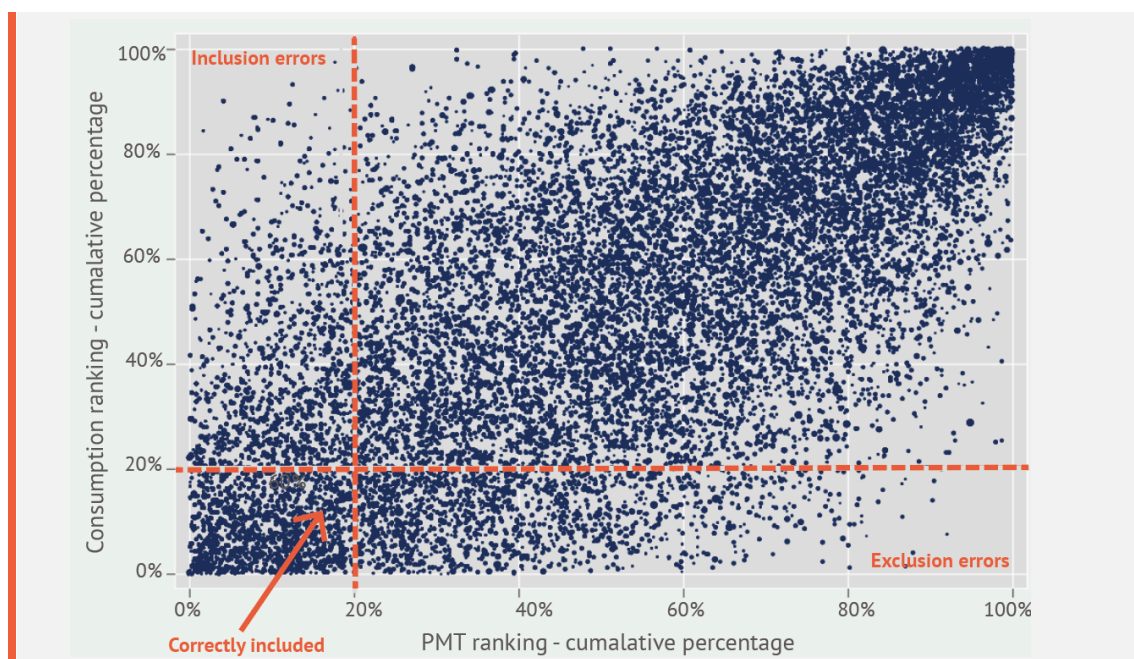


Source: Kidd and Athias (2020).

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As a result, the ranking of households from poorest to richest that is produced by proxy means tests is always very wrong. This is illustrated by Figure 11 in which the ranking of households predicted by a proxy means test is plotted against actual household consumption, using a national household survey from Uganda. If the targeting were accurate, all the blue dots would be on a straight diagonal line from the bottom left to top right. In reality, there is a wide scatter across the graph, indicating the arbitrariness of the selection.

Figure 11: Scattergraph indicating the design errors of a proxy means test in Uganda



Source: Kidd & Athias (2020).

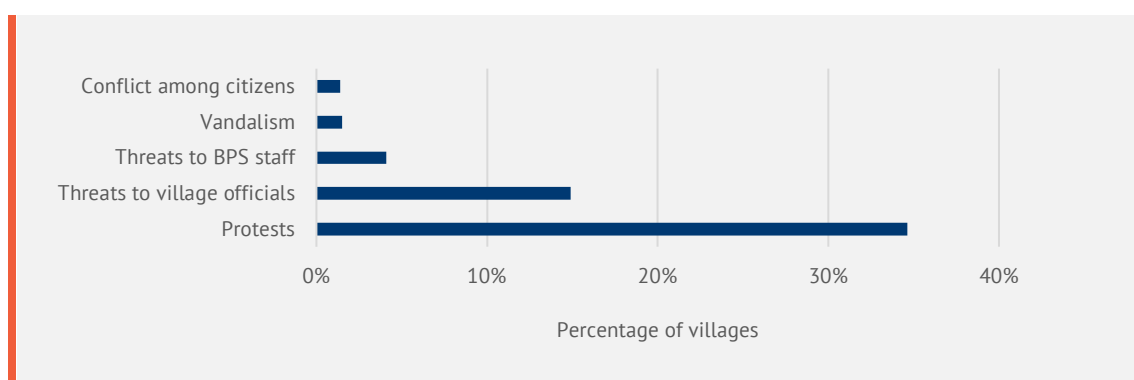
It should come as no surprise that selection by a proxy means test is often regarded as random by citizens, who cannot understand why households living in poverty are excluded while many better-off households are included: it is not uncommon for people to explain that selection is down to luck, God or the computer, effectively symbolising its arbitrariness.²³ Worse still, in relation to the social contract, is that some targeting systems lead to patronage by giving government officials or local authorities on-the-ground power in the decision-making process, leading to manifestations (or accusations) of abuse, nepotism, corruption or exploitation. This further undermines the trust that states should be trying to build with citizens within social security schemes.

Given that governments promise to target 'the poorest' but usually exclude over half of their target population, it is little wonder that proxy means tests are highly unpopular and

²³ Adato & Roopnaraine (2004); Kidd & Wylde (2011); Cheema et al. (2014); Molyneux et al. (2016); Kidd et al. (2017).

undermine trust in governments. How could citizens trust governments that deliver such a poor-quality service? Evidence on the undermining of trust can be found in the high levels of social conflict and protest generated by proxy means tests. For example, as Figure 12 indicates, when an emergency cash transfer programme was rolled out in Indonesia in 2005 using a proxy means test, protests occurred in over a third of villages nationwide while there were threats to government and programme officers in over 15 per cent. Further, a study by Cameron and Shah (2011) found that the proxy means test in Indonesia caused crime to increase by 6 per cent while Hossein (2012) reports ‘complaints, whispering and gossip’ as well as protests, verbal abuse and attacks on the houses of village heads across Indonesia. Many other studies have reported proxy means tests causing similar social unrest in other countries.²⁴

Figure 12: Incidences of protests and other challenges as a result of a proxy means test, during the roll-out of Indonesia’s *Bantuan Langsung Tunai* programme in 2005



Source: Widjaja (2009).

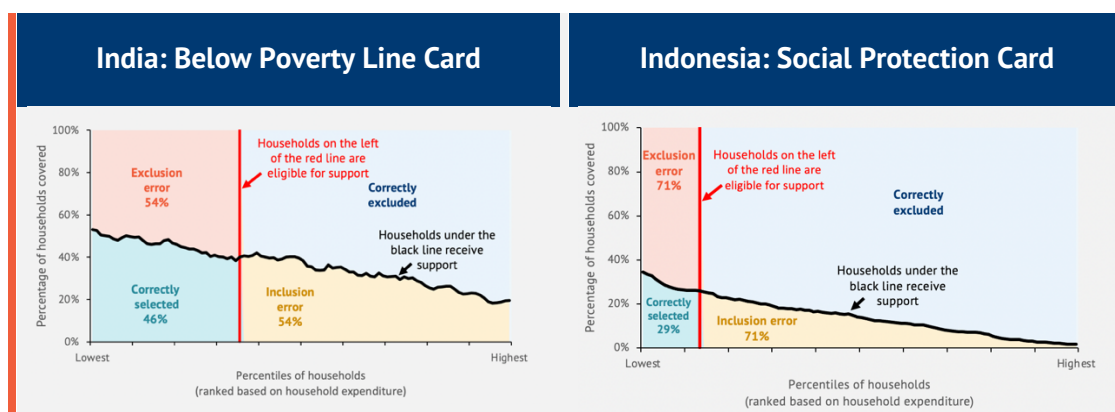
The proxy means test is, therefore, paradoxically, truly a very effective means of generating distrust in government and weakening the social contract. Despite this, it is still strongly promoted by many development partners across the Global South: the growing use of so-called ‘social registries’ – or ‘poor lists’ – are one means by which proxy means tests are being embedded within the institutional fabric of many countries. Social registries enable governments to use the proxy means test across a range of social programmes, further undermining trust. Figure 13 shows the level of inaccuracy produced by the social registries in India and Indonesia, both of which generate a form of ‘poor list.’ Across each percentile of the welfare distribution, those under the black line received cards identifying them as ‘poor’ while those above the line were denied the card, with the social registry classifying them as ‘non-poor’: in India the targeting error was 54 per cent and, in Indonesia, 71 per cent. In effect, in these two countries alone, on a daily basis the

²⁴ Adato (2000); Adato et al. (2000); Adato & Roopnaraine (2004); Huber et al. (2009); Hannigan (2010); Kidd & Wylde (2011); Kidd et al. (2017).

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social registries condemn over 1.5 billion people to the vagaries of inaccurate targeting, with the majority of those in need excluded from essential public services.

Figure 13: The effectiveness of targeting in the social registries of India and Indonesia



Source: Kidd & Athias (2020)

Many other aspects of poor relief programmes further undermine trust in government. Basic human rights principles are often ignored, such as the right to privacy and dignity. It is common for poverty-targeted programmes to actively stigmatise recipients by making their names public, either by reading them out in community meetings or putting up lists in public places. Brazil even goes so far as to place the identity of the *Bolsa Familia* programme's beneficiaries online. In most poverty-targeted programmes, it is not possible for people to effectively appeal against their exclusion.²⁵ Similarly, constantly living under the threat of losing desperately needed cash if judged as non-compliant with conditions is unlikely to generate faith in the fairness of the system and the state itself. When corruption accompanies poverty targeting, which is not uncommon, the important value of impartiality is undermined, as it is when governments decide to abdicate responsibility for identifying the recipients of social security by handing it over to communities. Community-based targeting can be experienced by many people as particularly unfair, with many of the most vulnerable, less-connected and socially excluded members of society abandoned by government and left to the vagaries of their community leaders and neighbours. Ansell et al. (2018) also highlight how the targeting of vulnerable households rather than individuals is also often seen as arbitrary and unfair.

A further indicator of the quality of social protection programmes is the value of the benefit provided to recipients. Contrary to popular belief, poor relief programmes tend to deliver much lower transfers than universal schemes. For example, when comparing social pensions globally, the average transfer value in countries with coverage above 70

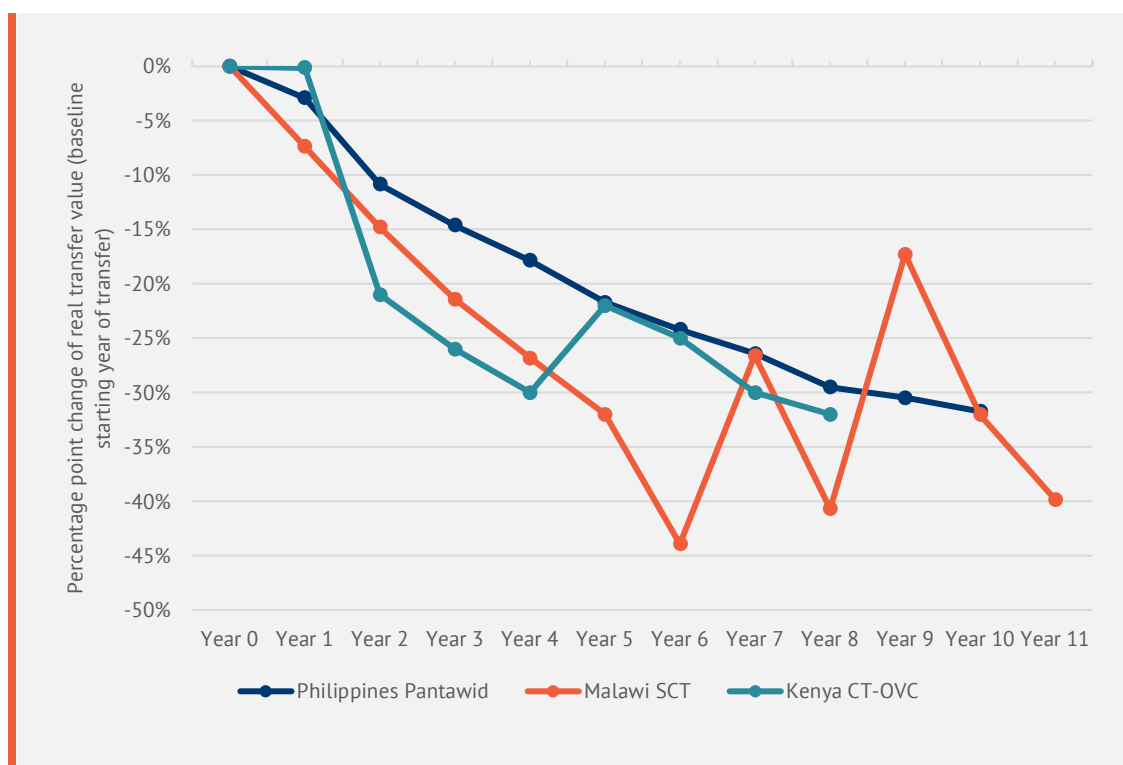
²⁵ Molyneux et al. (2016); Kidd, Gelders & Athias (2017).

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per cent of those aged 65 years and above is 17.6 per cent of GDP per capita, while in countries with coverage below 40 per cent it is 11.4 per cent.²⁶ This is due to what Korpi and Palme (1998) called the ‘redistribution paradox’: when programmes are universal, governments in democratic contexts tend to pay higher transfer values than they do for poverty-targeted programmes due to the fact that universal schemes, which reach everyone, are more popular.

Further, real transfer values in poor relief programmes – which tend to be low anyway – [are likely to fall over time](#), often because they are not adjusted for inflation. Figure 14 shows how, over a number of years, transfer values shrank across poor relief programmes in the Philippines, Malawi and Kenya. To a large extent, this is, as indicated above, due to the unpopularity of the schemes, since the majority of the population are excluded.²⁷ When governments allow the purchasing power of transfers to fall, they further undermine trust in them.

Figure 14: The fall in real transfer values over time in the Philippines’ *Pantawid*, Malawi’s *Social Cash Transfer* and Kenya’s *Cash Transfer for Orphans and Vulnerable Children* programmes



Source: Government of Kenya (2017); Freeland (2018).

²⁶ Kidd (2020).

²⁷ See Kidd (2015) for a more detailed explanation.

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Many low- and middle-income countries are, therefore, following a similar model of social security to that employed by high-income countries in the 19th and early 20th Centuries. By targeting poor quality poor relief at ‘the poor,’ countries are facilitating a vicious circle of distrust in government, an unwillingness among citizens to be taxed, low government revenues and, therefore, continuing poor quality public services. As a result, the citizens of low- and middle-income countries are condemned to poor quality health, education, social security, social care, policing, legal services and infrastructure, among others. It is little wonder that the middle-class and rich have boycotted public health and education systems, which makes them even less willing to pay taxes: why pay for services that they do not use?

Often, the poor quality of social security programmes for the ‘poor’ derives from how the ‘poor’ are conceptualised by policymakers. It is important to note that language can drive how we think and behave, and how the ‘poor’ are conceptualised reflects the actual meaning of the word ‘poor’ itself. ‘Poor’ can either mean ‘bad,’ as in ‘poor quality,’ or unfortunate, as in ‘you poor thing.’ These two meanings of ‘poor’ translate into beliefs on the causes of poverty among some policymakers: the ‘poor’ are poor either because they are lazy and therefore guilty of creating their own poverty or, alternatively, they are poor because they have suffered a misfortune such as a disability, or have become old and frail. These two conceptions further translate into views on deservingness within a poor relief paradigm: the lazy poor are the ‘undeserving poor’ while the unfortunate poor are the ‘deserving poor.’ While this narrative dominated policy thinking in 19th Century Europe and resulted in the workhouse for the ‘undeserving poor’ and ‘unconditional transfers for the ‘deserving poor,’ it also continues to influence policy thinking among many of today’s policymakers and development partners. So, for example, many of the so-called ‘productive safety nets’ in Africa oblige the ‘undeserving poor’ – those with labour capacity – to undertake public works while the ‘deserving poor’ receive unconditional transfers. Or, in a country like the Philippines, working age families living in poverty – the ‘undeserving’ – are offered a conditional cash transfer, with sanctions, while the ‘deserving poor’ are given a poverty-targeted old age pension.

Often policymakers and development partners do not realise that they hold these views. Indeed, they are part of their unconscious biases, which result in them imposing poor quality schemes on people of colour, which they would never accept for themselves. But, given the prevalence of these views (which are also found in many high-income countries) it is unsurprising that, to paraphrase Richard Titmuss (1967)²⁸ and Amartya Sen (1995), programmes for the ‘poor’ tend to be poor quality programmes. Even the Swedish development agency Sida has followed the general trend and supported a large poor

²⁸ As cited in Alcock et al. (2001).

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relief programme in Tanzania, with in-built sanctions for recipients: it seems, thereby to have been guided more by other development partners than the strong messages from its own Ministry of Finance on the importance of universal public services. However, as we have explained above, the introduction of poor relief not only affects the recipients of the programmes themselves but has society-wide consequences by undermining trust in the state and, ultimately, democracy.

In summary, therefore, as in pre-Second World War Europe, the social contract in many low- and middle-income countries is weak or broken. If the citizens of these countries are to enjoy good quality public services and an adequate standard of living, it is imperative that the social contract is strengthened, thereby enabling government revenues to increase and national wealth to be redistributed. The next section explores how universal social security could play a key role in strengthening the social contract across the Global South by building greater trust in government.

4 **Creating a virtuous circle of universal benefits and higher government revenues across the Global South**

A core challenge facing countries across the Global South today is how to create the virtuous circle of increased government revenues and higher quality public services. As discussed earlier, the circle is predicated on building greater trust in government. In theory, governments could gain the trust of their citizens by investing in universal health and education services. Yet, good quality health and education services cannot be established quickly. Even when governments have the best intentions of improving health and education services, citizens are unlikely to see meaningful change for many years. It takes a long time to construct the necessary infrastructure, to build schools, clinics and hospitals, train teachers and medical staff and transform service delivery cultures. Most citizens may not notice improvements for many years. This is particularly problematic in democracies when governments have only a few years in which to build the trust of citizens: by the time the next election comes around, if there is no visible change, even a progressive government may be thrown out by a disillusioned electorate.

In contrast, by investing in universal social security, progressive governments could create a very different dynamic. As has often happened, a government could promise to give every older person or child a regular income transfer and, within a year, could deliver on this promise, ensuring that everyone receives exactly the cash that they are promised on time. Large-scale universal schemes could mean that a high proportion of households in the country – indeed the majority – could be receiving this regular support. The cash they receive in their hands each month would be visible proof that the government is delivering on its word and providing a high-quality public service. Trust would begin to grow, resulting in citizens gradually becoming more willing to pay higher taxes as they are literally receiving the proceeds of their taxes back into their hands. If, at the same time, a progressive government is also investing in other public services, such as health and education, the trust garnered through universal social security may well give it more time in power so that it can demonstrate the fruits of this investment. Once citizens perceive that health and education services are also improving, trust in government will grow even more and tax revenues should rise even further. And, of course, since investments in social security, health and education generate higher economic growth, government revenues will grow even more. A virtuous circle is created.

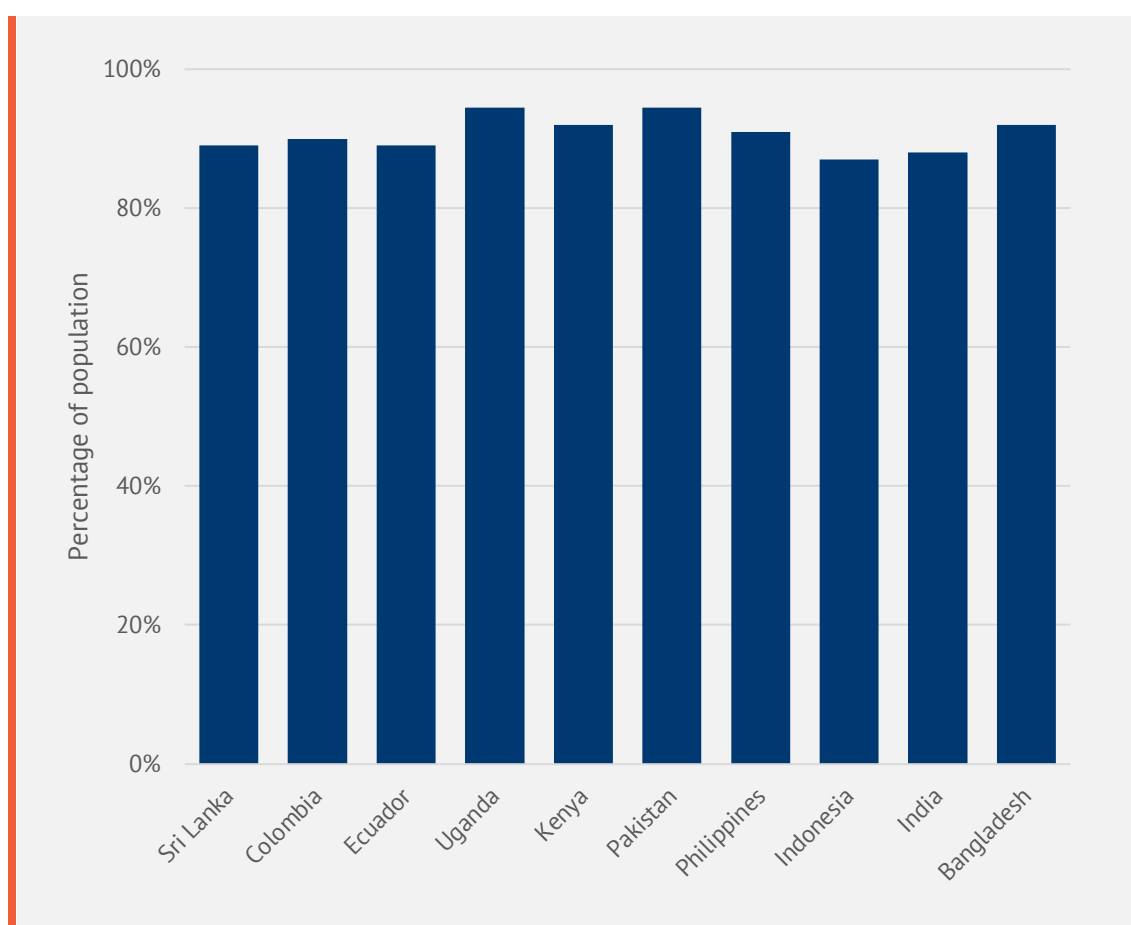
In the short term, investing in universal social security can also be more effective than investments in health and education in strengthening democracy: a political party can

4 Creating a virtuous circle of universal benefits and higher government revenues across the Global South

promise to expand social security during an election campaign and, shortly after being installed in power, can deliver on that promise. As a result, citizens will begin to trust elections while politicians themselves will appreciate the value of elections and democracy as a legitimate means to power, as well as recognising the political benefits to themselves of promoting and delivering progressive policies.

The best and easiest means of building trust in government through social security is by investing in universal lifecycle schemes, in particular child, old age and disability benefits. If governments were to provide every child, person with a disability under 65 years of age and older person aged 65 years and above with a regular social security transfer, they would be able to reach the vast majority of households in any country. Figure 15 shows that, across a range of countries in Asia, Africa and Latin America, such schemes would reach around 90 per cent of the population, either directly or indirectly.

Figure 15: Coverage of households by universal child benefits (0-17 years), disability benefits (0-64 years) and old age pensions (65 years and above)



Source: Secondary analysis of Sri Lanka HIES 2016, Colombia ECV 2017; Ecuador ENCV 2013/14; Uganda UNHS 2016/17; Kenya KIHBS 2015/16; Pakistan HIES 2015/16; Philippines APIS (2014); Indonesia SUSENAS (2017); India IHDS (2012) and Bangladesh HIES 2016.

This would be a very visible means of governments demonstrating to their citizens that they care for them, thereby generating greater trust. Over time, other schemes – such as maternity, paternity, sickness and unemployment benefits – could be introduced, which would ensure a minimum level of protection for every member of society.

Figure 16– under Option 1 – sets out the overall level of investment required to deliver the lifecycle benefits outlined above, across ten countries in Asia, Africa and Latin America (see Box 3 for further details on the proposed schemes). It would range between 1.8 per cent of GDP in Bangladesh to 3 per cent in Sri Lanka, which is still less than South Africa is currently investing in similar schemes.

However, if this is thought to be too high a cost, countries could, initially, begin with more reduced coverage, for example, with a lower age of eligibility for children or a higher age for older people. Option 2 shows the costs if child benefits were given, initially, to all children up to 10 years of age, older people aged 70 years and above, and people with disabilities up to the age of 70 years. In the countries included in Figure 16, the cost would be less than 1.5 per cent of GDP and only in Sri Lanka would it be above 2 per cent of GDP. These schemes could expand over time, for example by not removing children until 18 years of age – as it was done for South Africa’s Child Support Grant – and gradually reducing the old age pension age of eligibility, an approach that has been adopted by a number of countries.

Box 3: Parameters used in the calculation of level of investment required for schemes in Figure 15

Under **Option 1** the parameters for calculating the costs of schemes are:

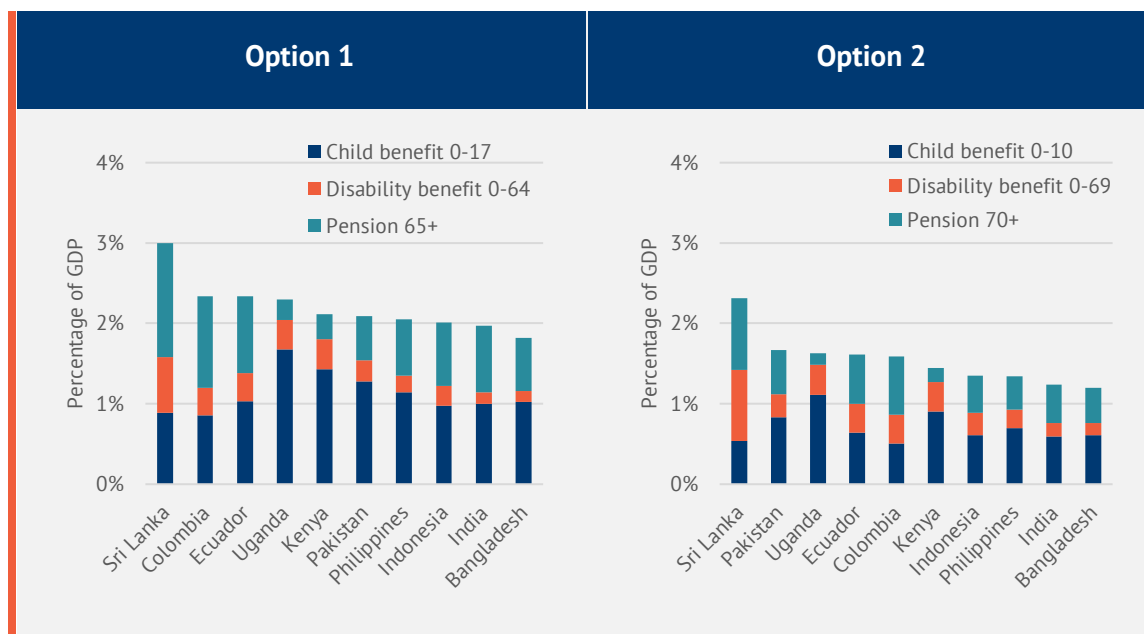
- **Child benefit:** 0-17 years and a transfer value of 3 per cent of GDP per capita.
- **Old age pension:** 65+ years and a transfer value of 12 per cent of GDP per capita.
- **Disability benefit:** 0-64 years and a transfer value of 12 per cent of GDP per capita.

Under **Option 2** the parameters for calculating the costs of schemes are:

- **Child benefit:** 0-10 years and a transfer value of 3 per cent of GDP per capita
- **Old age pension:** 70+ years and a transfer value of 12 per cent of GDP per capita.
- **Disability benefit:** 0-69 years and a transfer value of 12 per cent of GDP per capita

The transfer values are slightly lower than the average values found for similar schemes around the world. However, politically, it is good to start with a lower budget and allow popular demand to push for increases in the transfers values.

Figure 16: Costs of establishing universal child, old age and disability benefits across a range of low- and middle-income countries

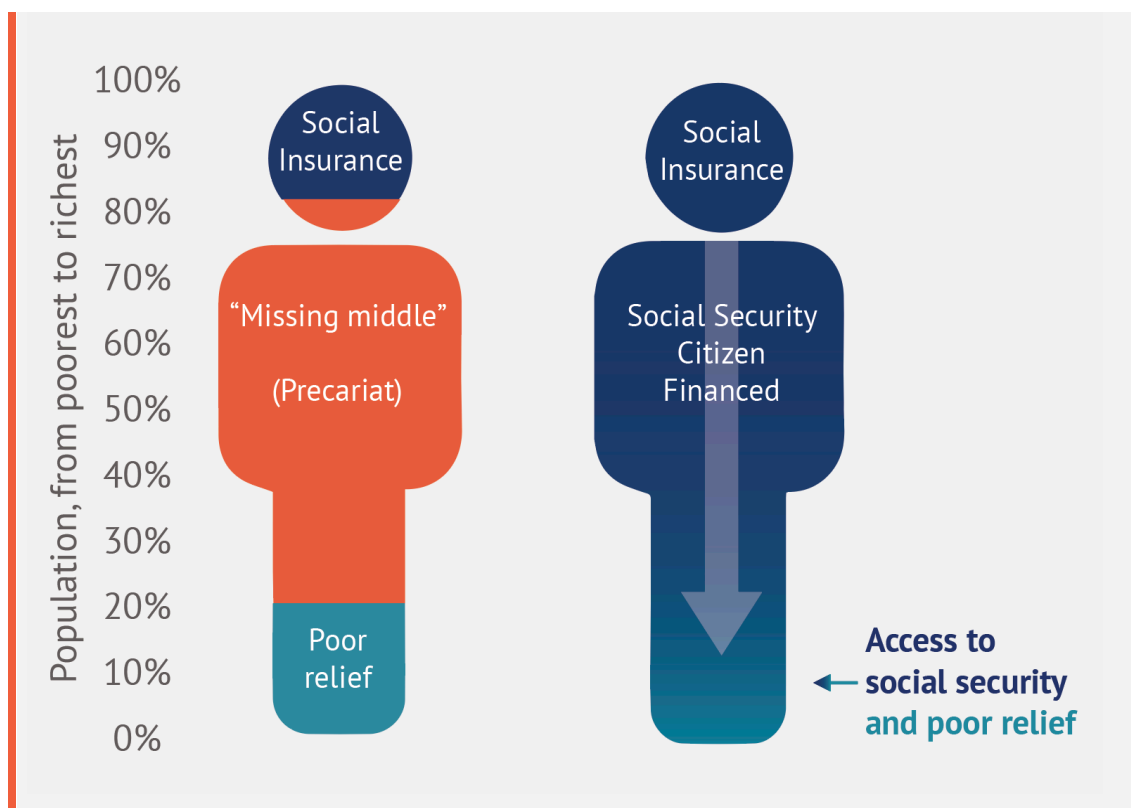


Source: Secondary analysis of India IHDS (2012), Indonesia SUSENAS (2017), Pakistan HIES (2015-2016), Philippines APIS (2014) and UN DESA Population Prospects 2019 for Colombia, Ecuador, Uganda and Kenya. Note: coverage of the disability benefit is based on disability estimates provided by the household surveys used, and 3 per cent for other countries. The cost estimates take into account an administrative cost equivalent to 5 per cent of total programme costs.

While the costs set out in Figure 16 may appear high, the investment could pay for itself many times over if it succeeds in generating greater trust in government and putting countries onto the virtuous circle path. As government revenues and expenditures increase, so will the quality of public services and standard of living across the population. Over time, societies will become more equal and socially cohesive while the middle-class and rich will be able to reduce their private spending on health, education and personal security. There is no reason why countries could not follow the trajectory of Western Europe after the Second World War as long as ambitious and progressive politicians are willing to grasp the opportunity. In effect, as Figure 17 illustrates, countries could move from the current poor relief model with its large ‘missing middle’ to a proper, multi-tiered social security system in which all members of society are able to access income support whenever they need it, and which can only be guaranteed through universal provision. It would be a move from a charity model of provision to one based on entitlements and the right of everyone to social security.²⁹

²⁹ Kidd (2017).

Figure 17: Moving from a poor relief paradigm to social security for all



Source: *Development Pathways*

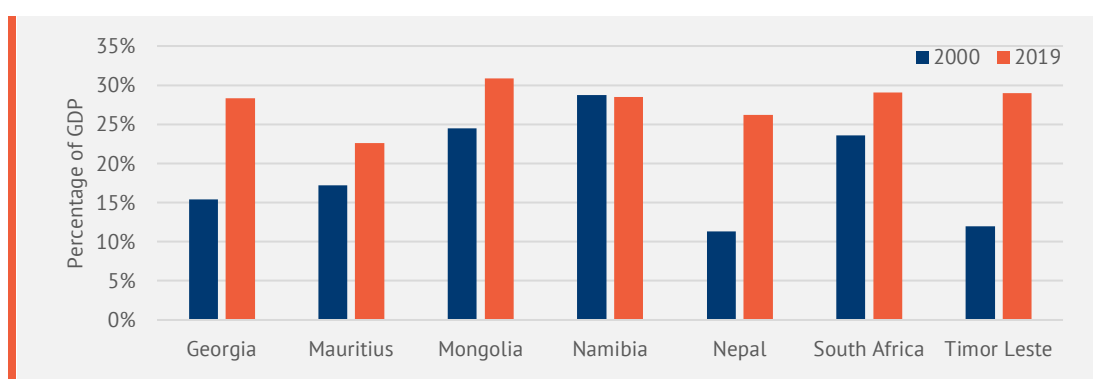
The good news is that some countries in the Global South have begun to build stronger social contracts through universal, high-quality social security. Most have started by introducing universal old age pension coverage although others have also put in place universal disability benefits. The countries offering universal coverage for both older people and people with disabilities – and which score above five on the Economist’s democracy index – include Georgia, Mauritius, Mongolia, Namibia, Nepal and Timor Leste, while South Africa provides high coverage to both older people and people with disabilities. In addition, Mongolia and South Africa offer child benefits to a high proportion of children. As indicated in Figure 7, apart from Mauritius, each of these countries had government revenues, in 2019, above 25 per cent of GDP, placing them among the low- and middle-income countries with the highest revenues.

It is, of course, difficult to prove that these higher revenues are the result of their investments in universal social security causing greater trust in government. Nonetheless, as Figure 18 shows, with the exception of Namibia, in each of these countries, government revenues as a percentage of GDP have grown significantly over recent decades. Indeed, in most cases, the schemes were introduced when government revenues were much lower than they are now. So, we should remain open to the possibility that the guarantee to all citizens of social security in the event of disability or old age has

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generated greater trust across society in some countries in the Global South and offered governments the legitimacy to increase taxation. At the same time, some of these countries should beware of the danger of undermining trust by also offering poor quality poor relief: for example, Georgia, Mauritius and Mongolia should reflect on their use of the proxy means test and social registries.

Figure 18: Government revenues as a proportion of GDP across seven countries offering high coverage of social security benefits to people with disabilities and older people³⁰



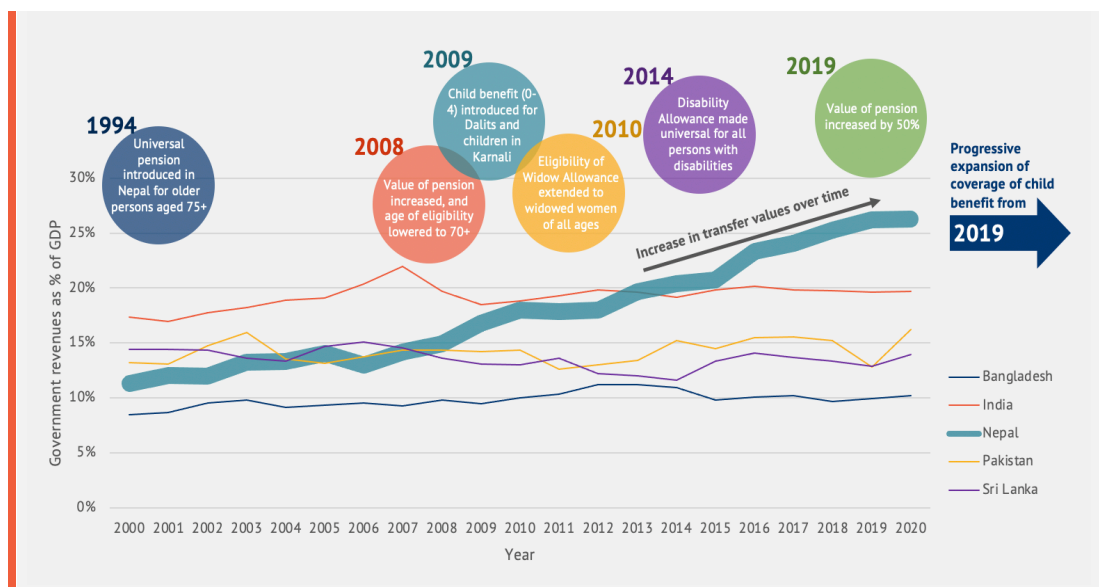
Source: IMF World Economic Outlook database, October 2019 information.

The case of the Indian sub-continent is particularly interesting. Nepal is the only country in the region to offer universal social security schemes: Bangladesh, India, Pakistan and Sri Lanka have focused on providing poor quality poor relief. Over the past 20 years, government revenues in Nepal have more than doubled while elsewhere in the region there has been little change. While it is not possible to demonstrate causality, Figure 19 shows the changes over time in government revenues across Bangladesh, India, Nepal, Pakistan and Sri Lanka alongside the main advances in Nepal's social security system. It should not be discounted that the universal schemes in Nepal – which are very popular³¹ – may have helped build trust in government and contributed to higher government revenues, despite Nepal being the poorest country in the region.

³⁰ In the case of Timor Leste, information is from 2005 since during the early years of independence, government revenues were high and did not reflect a normal situation.

³¹ Druzca (2016).

Figure 19: Government revenues across five countries in South Asia over time, alongside the main innovations in Nepal's universal social protection system



Source: Based on data collected from IMF WEO April 2019.

Making the move to universal social security systems would be a significant paradigm shift for those low- and middle-income countries that are used to delivering poor relief. Yet, it would be an important step to take and would enable governments to enter into the virtuous circle of higher revenues and enhanced public services, which is predicated on gaining the trust of their citizens. The prize would be the creation of more decent, just and equal societies, alongside stronger economic growth, laying the foundations for the further strengthening of the social contract.

The Second World War was the catalyst for a major paradigm shift in high-income countries, with countries recognising that they needed to strengthen the social contract and create more equitable and just societies. A key question in the post-COVID-19 world is whether the virus – and its economic consequences – can be the catalyst for a similar change across the Global South. COVID-19 has demonstrated the fragility of livelihoods across the majority of families. It has also highlighted how public services – in particular social security and health systems – are too weak to respond effectively to the crisis. António Guterres, the UN Secretary-General, has suggested that the pandemic has been like an X-ray, revealing the fragile skeleton of many societies.³² In particular, social security systems based on poor relief have been unable to compensate the income losses experienced by families due to their low and arbitrary coverage. Yet, strengthening public services to respond to COVID-19 and future crises will necessarily require significant

³² United Nations Secretary-General, the Nelson Mandela Annual Lecture (2020).

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increases in government revenues. If nothing is done, we should expect many more protests from the 'missing middle,' such as those we have recently seen in Chile, Iran, Lebanon, Nigeria and many other countries.

If countries across the Global South decide to move from poor quality poor relief to universal, lifecycle social security, not only will they take a significant step forward in building the trust of their citizens – and put in place a foundation for growing tax revenues – they will also support their economic recovery from COVID-19. As we have shown elsewhere, universal, lifecycle social security schemes provide an economic stimulus and, in the medium- and long-term, higher and more robust economic growth.³³ They will enable standards of living across society to recover and, as government revenues increase due to an enhanced strong social contract, countries will be in a stronger position to pay off their debts while also delivering higher quality public services. However, if countries decide not to invest in universal social security, they run the danger of greater social unrest and political instability with more and more countries becoming fragile states. And, of course, for those countries that are already fragile, building a strong social contract is even more important, as discussed in the next section.

³³ See Kidd et al (2020a; 2020b; 2020c).

5 Fragile states and strengthening the social contract through universal social security

A key characteristic of fragile states is a weak national social contract. Therefore, one of the key policy priorities in any fragile state should be to build trust between government and all of its citizens which, as discussed earlier, is underpinned by impartiality in the exercise of power. Despite this, it is not uncommon for fragile states to actively – but unwittingly – take measures to undermine trust by establishing poor relief schemes, often with the support of international donors. In some cases – such as Egypt, Yemen and Palestine – they also implement proxy means tests. This will, however, make an already bad situation worse, since we know that many people will feel that they are not being treated fairly. It should not surprise us that many fragile states are mired in a downward spiral of social unrest and violence if their governments are actively implementing policies that undermine trust.

In divided countries ruled by different factions, there is often nothing that reminds residents living in regions outside the control of national governments about the existence of the state, and even less that demonstrates that the national government cares about them. People are often unable to access national health and education services. Indeed, rebel groups often provide these services themselves as a means of building their own legitimacy and highlighting the inadequacy of the state.³⁴ Similarly, in Gaza, the provision of social services was a strategy to build Hamas's popularity, eventually bringing it into power.³⁵

Establishing universal social security in fragile states would be a very effective means of building trust in national governments. It needs to be remembered that, following the Second World War, many European countries were also fragile states with high levels of inequality and widespread poverty. As discussed earlier, a core component of their strategies to overcome fragility and build strong nation-states was to turn away from poor relief and, instead, establish universal public services, including social security. The expansion of inclusive social security to build more cohesive nation-states has also happened in other countries, such as South Africa after apartheid (pensions, disability benefits and child benefits), Timor-Leste after independence (pensions and disability benefits), Georgia after the break-up of the Soviet Union and the war with Russia (pensions and disability benefits) and Kosovo after the break-up of the former Yugoslavia

³⁴ Levitt (2007); Malka (2007); Grynkewich (2008); Pham (2014); Frisch (2015); Shitrit (2015); Szekely (2015).

³⁵ Malka (2007) and Pham (2014).

(pension). Indeed, the lessons of the post-Second World War Europe should have been applied in many more of today's fragile states.

A national old age pension and/or child benefit in countries such as Afghanistan, Iraq, Myanmar, Somalia, South Sudan and Yemen could be a game-changer in building national social contracts and in signalling to everyone that they are part of the nation-state. True 'nation-building' after a civil conflict between warring factions or sectarian violence requires much more than peacekeepers, handshakes and donor money. Indeed, settling grievances from the past requires a true commitment to define a new beginning that demonstrates a clear break with the past. Yet, time and again, the support provided by development partners in fragile states defaults to poor relief, demonstrating a woeful misunderstanding of how to build trust and successful, inclusive nation-states.

The experience of Nepal, which was discussed earlier, is illustrative. In 1996, a ten-year civil war broke out, with Maoist rebels gaining control of large areas of the country. Yet, in 1994, the national government had instituted a universal old age pension for everyone over 75 years of age. It became the only – or, at least, one of the very few – government schemes that the Maoists allowed to be delivered in the areas under their control: indeed, it was likely too popular to ban. As a result, residents in Maoist areas were able to regularly receive cash in hand as a clear sign that the national government in Kathmandu not only existed but also cared about them, and that they had rights as citizens. It is possible that the universal old age pension contributed in some small way to bringing about peace by maintaining a clear link between the nation-state and all of its citizens. Certainly, once the Maoists entered into power, they decided to expand the existing universal schemes.³⁶ Druzca (2016), who undertook a study of the political economy of social security schemes in Nepal has argued: *"Giving excluded citizens access to government benefits enables them to feel part of the system of the state and to have a relationship with the government. It gives them a sense of citizenship, rights consciousness, and of feeling included, respected, and cared for."* This is a form of positive (electoral) inducement that fosters the social contract and strengthens the relationship between the state and the citizens of failed states.

Supporting the building of universal social security schemes in fragile states would be a significant change in strategy for international donors. Yet, if donors truly wish to strengthen national social contracts and build an awareness of a nation-state, it is a necessary step. In fact, given that in many fragile states almost everyone is living in poverty, poor relief makes little sense, even if it could be done accurately. Development partners in fragile states need to be willing to move away from a humanitarian mindset –

³⁶ Druzca (2016).

in which they seek to support 'the most vulnerable' even when they cannot identify 'the most vulnerable' – to one in which they practise good social policy by learning the lessons from history. If development partners want to support the building of cohesive and peaceful nation-states, delivering good quality public services that function along lines of inclusivity and social justice, rather than division and unfairness, will be necessary. And, given that, as pointed out above, it will take many years to build effective health and education systems, universal social security – which can be achieved in a short space of time – is the place to start.

6 Using universal social security benefits to expand the tax base

A major failing in many countries of the Global South is that it has been implicitly accepted that the majority of working age citizens will never be able to pay income tax since they work in the informal economy. Yet, in a functioning nation-state, every citizen of working age should be expected to declare their incomes so that they can be taxed, if eligible. It is at the core of the social contract: citizens have the **right** to access public services, but they also have the **responsibility** to pay their taxes. And, they can only do this if they declare their incomes to the state.

High income countries began the process of declaring incomes many years ago, at a time when they also experienced high levels of informal employment. For example, in 1913, in the United States, the 16th Amendment to the Constitution was passed which made it mandatory for everyone to declare their incomes so that they could be taxed; and, in 1919, it was made mandatory in Belgium.³⁷ In theory, there is no reason why the same demands could not be placed on the citizens of low- and middle-income countries, despite high levels of illiteracy. This does not, of course, mean that most people would pay income tax since, in poor countries, the majority would likely be under the tax threshold. Nonetheless, by declaring their incomes they would be within the tax system and have a greater sense of their place within the nation-state and their right to access public services.

A major change like this would, of course, be challenging to introduce in most countries. To enhance its feasibility, it would be necessary to create incentives and it is here that a universal social security system could play a major role, with universal child benefits in the vanguard of progressive change given that it is the benefit most likely to be accessed by working families. A government could decide to introduce a universal child benefit but only pay it to those who have made an annual income declaration. In practical terms, families could make an income declaration at the same time as applying for the child benefit (which, in effect, is what happens whenever a family applies for the Child Support Grant in South Africa). This could create a powerful incentive for families to declare their incomes, in particular if the value of the Child Benefit is higher than the tax paid (which it would be in most countries since, as indicated above, few people would be eligible to pay income tax, at least in the years following the introduction of obligatory income declarations). It would be necessary to also put in place appropriate sticks alongside the

³⁷ Terrell (2012).

social security carrots, such as fines for those who do not make the income declaration. In the early years, these more coercive measures could be targeted at the higher earners in the informal economy (in other words, those who are likely to pay taxes that are higher than the benefits they receive), while adopting a relaxed attitude to the majority of the population.

Governments would need to invest in infrastructure that would enable people to declare their incomes alongside their applications for social security benefits. There is a range of options including establishing one-stop shops across the country where people can declare their incomes alongside paying taxes, applying for social security benefits, obtaining birth certificates and identity documents, and declaring deaths, among other things. For some, the declaration – and the application for the Child Benefit – could be undertaken on-line. In order to reduce the travel burden on individuals, one-stop shops could provide a mobile service with either temporary outreach offices set up in outlying areas every week or month while e-enabled vehicles could visit communities on a regular basis. South Africa's Social Security Agency (SASSA) is a good example of an organisation undertaking this type of outreach, but many other countries are capable of setting up similar systems on a cross-governmental basis. It would, however, be essential to ensure that people experiencing limitations in their capabilities – such as those who find it difficult to travel due to, for example, logistical challenges, opportunity costs or disability – are also able to make income declarations, potentially through house visits or by the use of proxies.³⁸

Given that the majority of families in low- and middle-income countries would be net winners – in other words, they would be unlikely to pay tax since they would be under the income threshold for tax yet would gain the child benefit – the provision of child benefits could be a strong incentive to make income declarations. Further, the introduction of these cash benefits would, at least in part, pay for themselves, given the probable overall increase in government revenues that would result from a minority of people paying more income tax in the medium- to long-term. And, of course, as trust is built and the social contract strengthens, overall government revenues will grow.

Over time, similar linkages could be made to other social security schemes such as tax-financed old age, disability and maternity benefits. After the system has been running for a number of years, rules could be established whereby people could only receive these schemes if they have a track record of making income declarations over a number of years. This is similar to the principle behind the receipt of Brazil's rural pension, although in this case the requirement is a minimum number of years working in a rural occupation,

³⁸ See Kidd (2014) for more information on SASSA's outreach programme.

rather than an income declaration. Of course, appropriate caveats and safeguards would have to be put in place to ensure that particularly vulnerable people are not disadvantaged. For example, people unable to make annual income declarations could be given permanent dispensations and, each year, could be credited with the equivalent of an income declaration so that they gain an appropriate track record.

While critics may argue that people will falsify their income declarations, this should not be a major concern initially. Rather, the focus should be on ensuring that citizens become accustomed to the practice of making income declarations. Nonetheless, each income declaration should be accompanied by a sworn statement that the information given is true, with the threat of prosecution if the declaration is found to have been deliberately falsified. As indicated above, however, any actions taken should be focused on those with high incomes rather than the majority of people who would not be liable for tax anyway. In later years, once the system is running smoothly, governments could introduce more robust mechanisms to verify incomes as the system, and resulting social contract, becomes entrenched and flourishes.

7 Conclusion

Trust in government is a precious resource. It is the basic building block of any successful nation-state. Once trust is undermined, the state itself can be threatened. History tells us that a key factor in building trust is the provision of universal public services, which are given to everyone on an equal and impartial basis. In contrast, poverty-targeted schemes – such as the poor relief programmes found across the Global South – are perceived as arbitrary and unfair and, therefore, actively undermine trust. It is unsurprising, therefore, that many countries that have used poor relief as the basis of the social security systems – and have purposively excluded the majority of the populations, in particular the ‘missing middle,’ from support – have weak social contracts and, as a consequence, low levels of government revenue. These countries are stuck in a downward spiral – the vicious circle – which, ultimately, further undermines trust, threatens democracy and may generate social unrest and conflict. Fragile states are those in which trust is weakest and, in such countries, it is both self-defeating and dangerous to implement poor relief which, rather than building social cohesion, further divides society.

Generating trust between citizens and the state should be the priority for any government that wishes to build a successful, peaceful and prosperous nation. The easiest and best means to start the process of (re)building trust is through the provision of universal social security, following the example of high-income countries after the Second World War. In this way, a virtuous circle can be generated that delivers both greater government revenues and higher quality public services for all citizens.

COVID-19 has created a major crisis across all countries and has clearly shown the failings of the prevailing social and economic policies in most countries in the Global South. Countries need to find a way to respond to the pandemic and come back stronger than before, building a resilience into their systems that enables them to address not only the idiosyncratic shocks that we all face throughout our lives, but major national and global crises. A key question is whether COVID-19 can be the catalyst for the type of paradigm shift in social and economic policy that occurred across Western Europe after the Second World War. In his recent annual Nelson Mandela lecture, António Guterres warned that the world is a “breaking point” and concluded that now is the ideal moment to promote a “new social contract for a new era”. The countries that grasp the opportunity by building universal social security systems are likely to be the winners from the COVID-19 crisis. Those that refuse to change and continue on the same path as before will likely continue to stumble from crisis to crisis: it is a future that their citizens are unlikely to welcome.

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Development Pathways is committed to bold and innovative thinking on social policy. Our aim is to provide creative, evidence-based and context-specific solutions to the social and economic challenges facing low- and middle-income countries.

Act Church of Sweden defends people's dignity and rights – through humanitarian and long-term development work, church collaboration, and advocacy. We work together with churches and actors from the civil society and belong to the ACT Alliance – Action by Churches Together.

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