

FISCAL POLICY ON PUBLIC SOCIAL SPENDING AND HUMAN DEVELOPMENT IN ARAB COUNTRIES

Economic and Social Commission for Western Asia

Niranjan Sarangi



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ESCWA

ECONOMIC DEVELOPMENT AND
INTEGRATION DIVISION

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Outline

- 1. Economic growth-human development linkages*
- 2. The weak linkage in the Arab region: Does the public social expenditure pattern explain?*
- 3. Regional challenges toward achieving social development and the SDGs*
- 4. Long-run impact: Re-emphasis of public social expenditure*
- 5. Conclusion (reinforcing social investments)*

Human development and economic growth: Two-way links

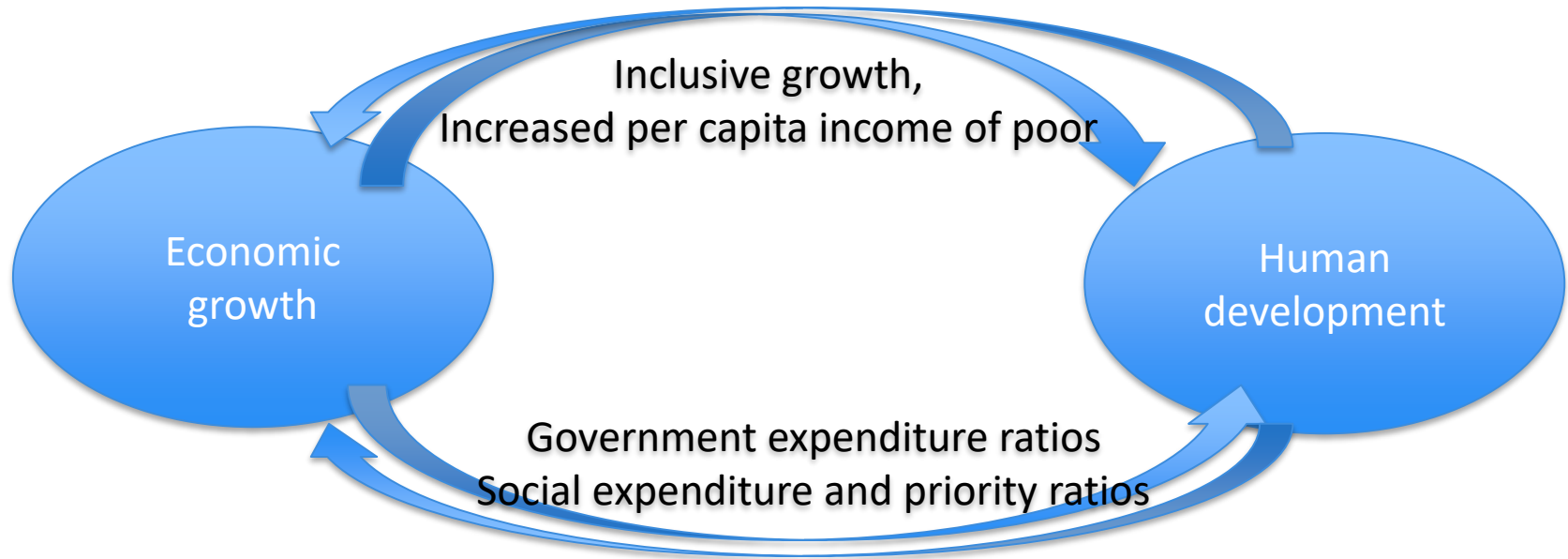


Illustration based on Ranis and Stewart 2005

Growth-human development linkages flourish (or deteriorate) through the combined effects of the distribution impacts of the growth process and the redistributive fiscal policy.

Where does the region stand in fostering growth-human development linkage?

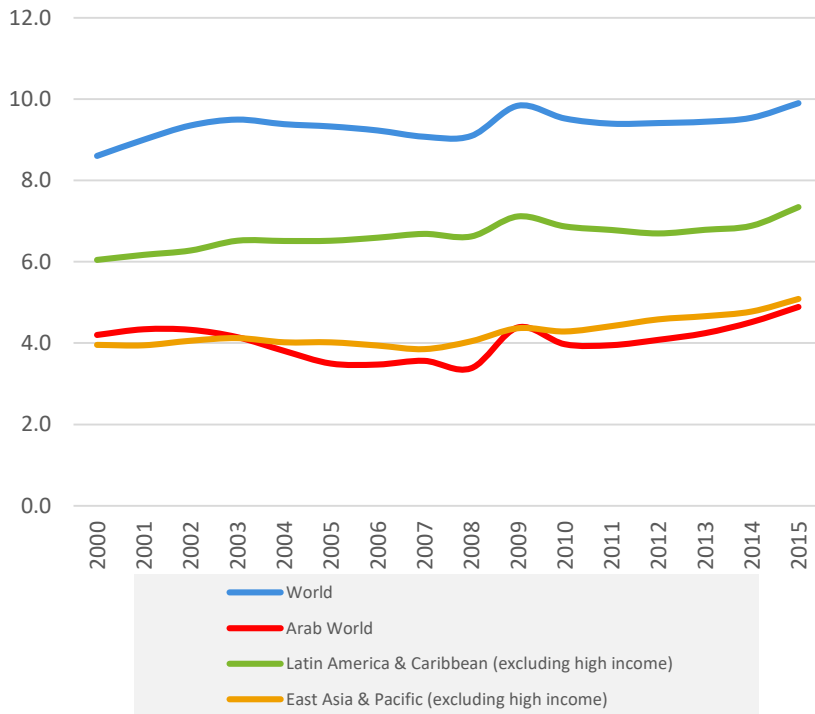
- No country in the region entered the *virtuous cycle*
- Some countries became trapped in *vicious cycle* (i.e., Egypt, Syria)
- Uprisings took place in some of the global “top performers” of human development until 2010 (i.e., Syria, Tunisia)
- During 2010-2013, the rate of HDI progress was marginal for most countries and negative for conflict-affected countries, such as Libya and Syria

The weak linkage in the Arab region: Does the public social expenditure pattern explain?

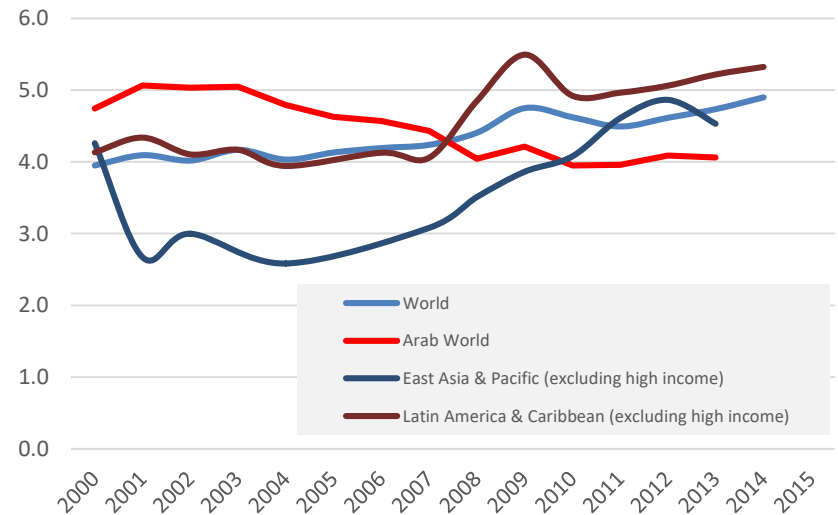


Public current expenditure in health (% GDP) in the Arab region is significantly below the World average;
 Arab region was ahead of other regions in making investments in education (% GDP) since the 1970s, but it has seen a declining trend recently , particularly declined since mid-2000s

*Current Health Expenditure 2000-2015
 (% GDP)*

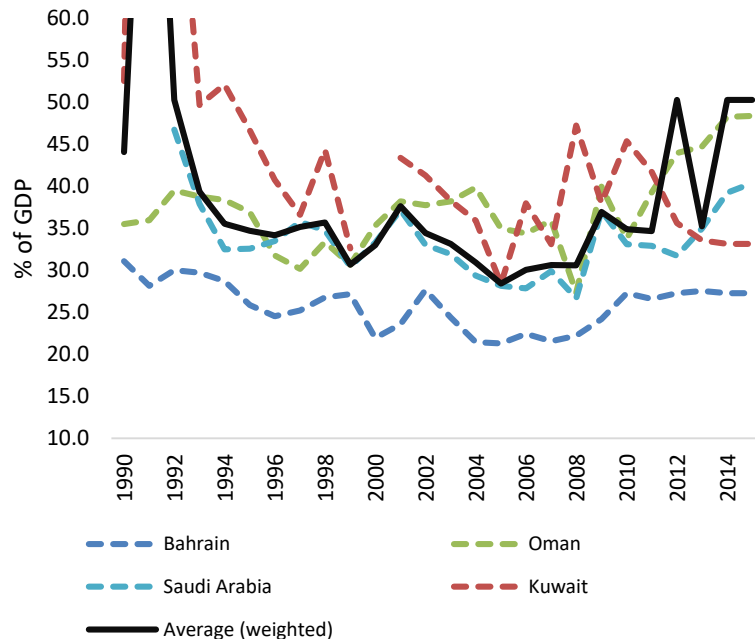


*Government Expenditure on Education, Total
 2000-2014 (% GDP)*

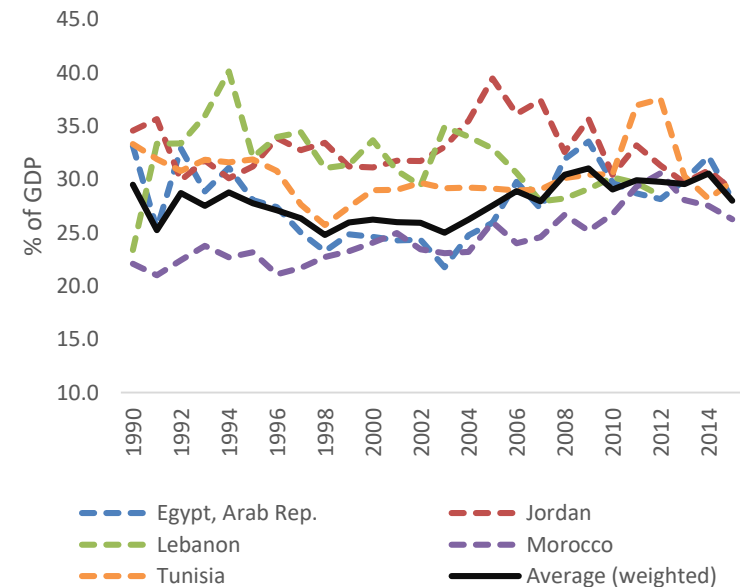


Declining trend of government expenditure (% GDP) during 1990s-mid-2000s; increasing unpredictabilities in government expenditure in the 2010s.

Oil-rich countries

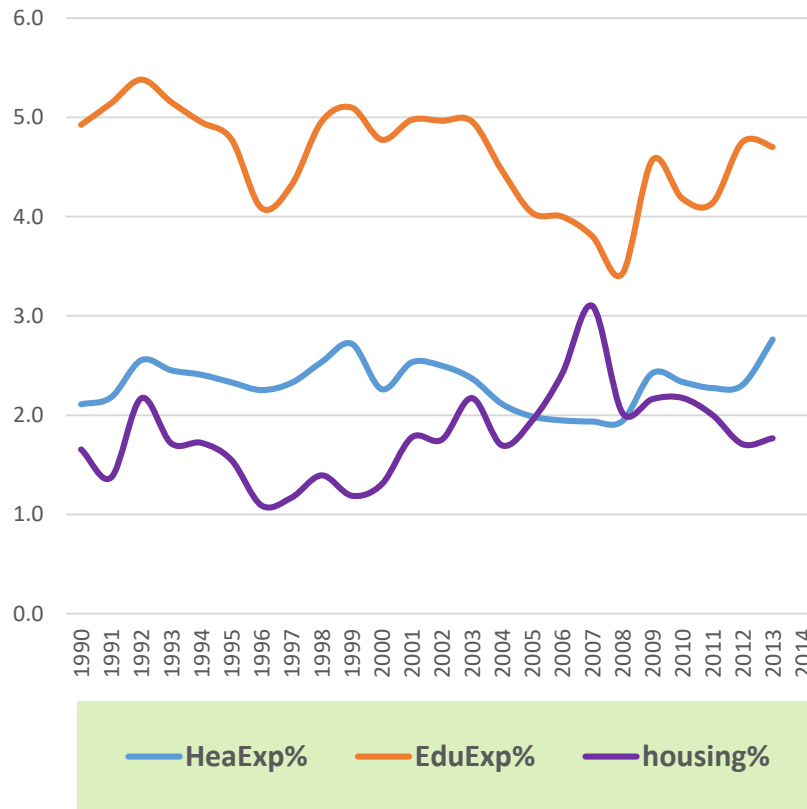


Oil-poor countries

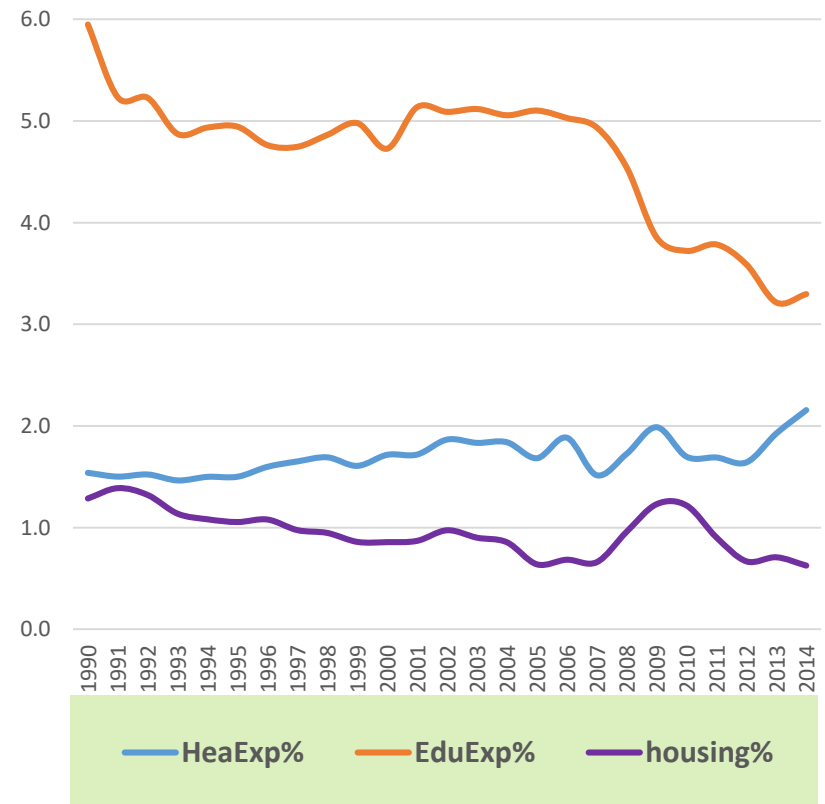


Expenditure in health, education and housing remained neglected, as public budgets have contracted in oil-poor countries (percentage of GDP)

Oil-rich Arab countries

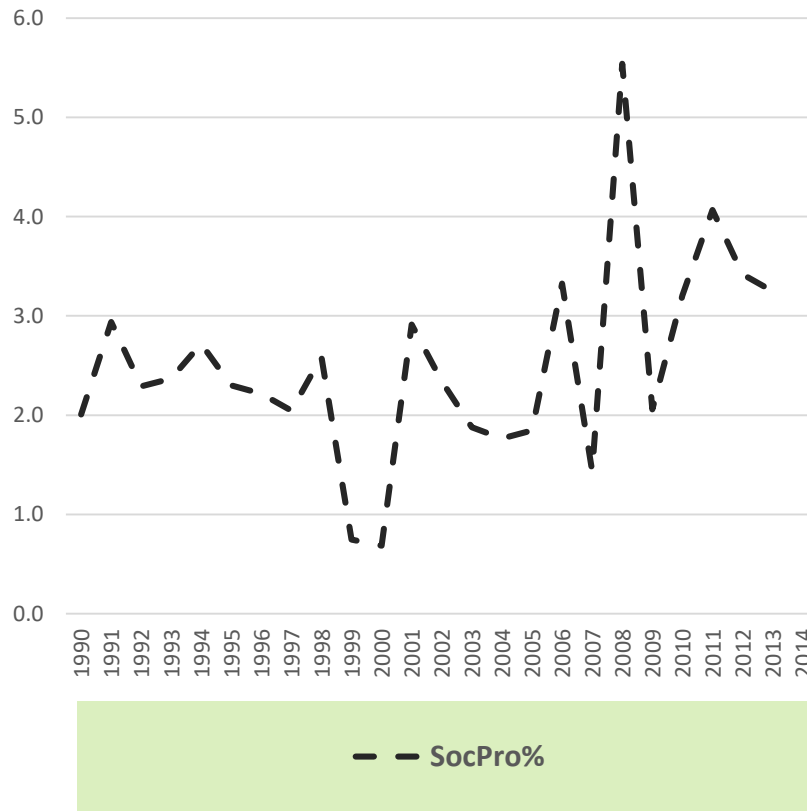


Oil-poor Arab countries

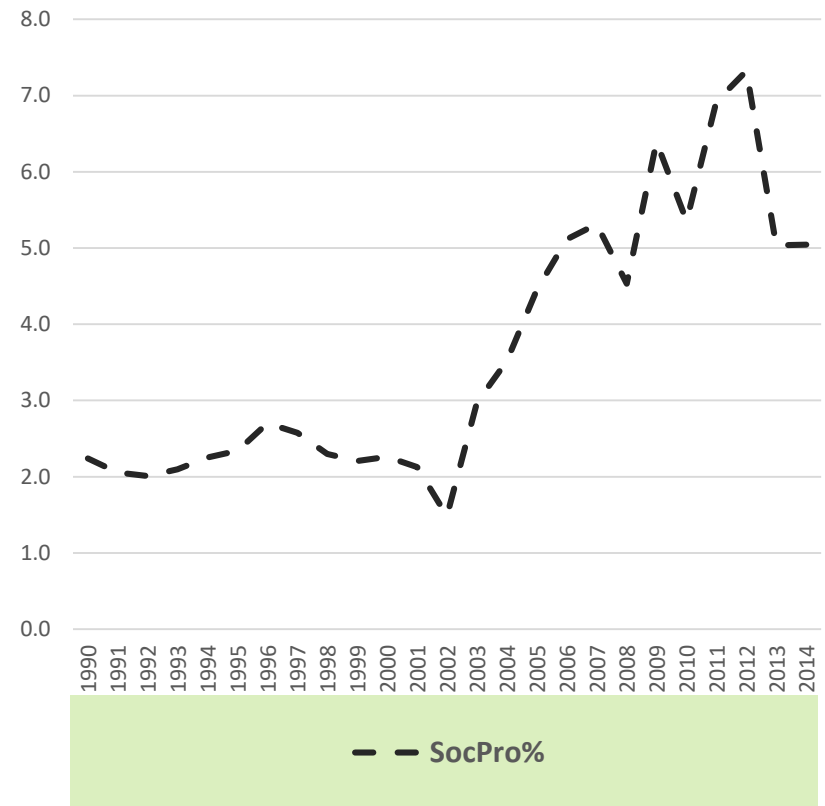


Increase in social protection expenditure was mainly led by increase in energy subsidies (percentage of GDP)

Oil-rich Arab countries



Oil-poor Arab countries

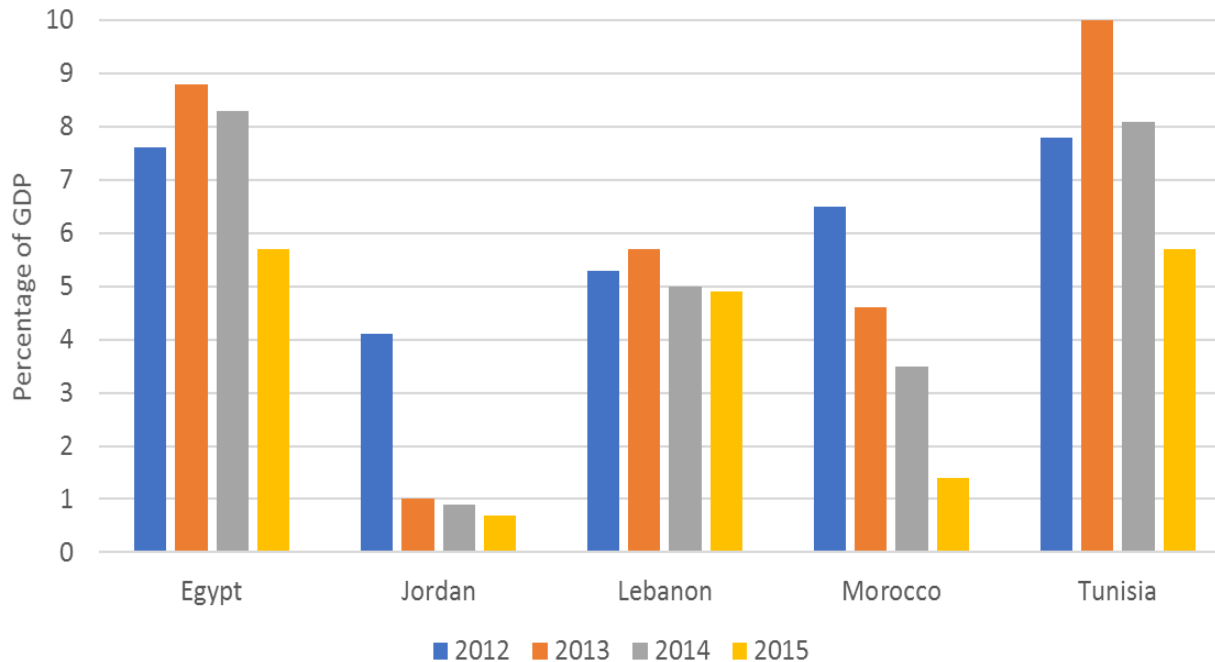


Highest income quintile corners a larger share of benefits from energy subsidies

	Lowest quintile	Second quintile	Third quintile	Fourth quintile	Top quintile
Gasoline					
Egypt	1%	2%	4%	7%	86%
Jordan	8%	12%	13%	17%	50%
Lebanon	5%	11%	20%	26%	38%
Diesel					
Egypt	1%	9%	5%	14%	71%
Jordan	4%	10%	16%	24%	46%
Mauritania	1%	2%	6%	14%	77%
Morocco	7%	11%	16%	24%	42%
Yemen	2%	8%	9%	25%	56%
LPG					
Egypt	15%	18%	20%	22%	25%
Jordan	18%	19%	20%	20%	23%
Morocco	13%	16%	19%	22%	30%
Yemen	12%	16%	20%	23%	29%
Kerosene					
Jordan	19%	21%	22%	23%	15%
Yemen	27%	22%	18%	19%	14%
Electricity					
Jordan	17%	18%	19%	20%	26%
Lebanon	10%	15%	19%	23%	33%
Mauritania	2%	8%	12%	25%	53%

Source: Based on IMF

Recent reforms significantly reduced government spending on subsidies (% of GDP)

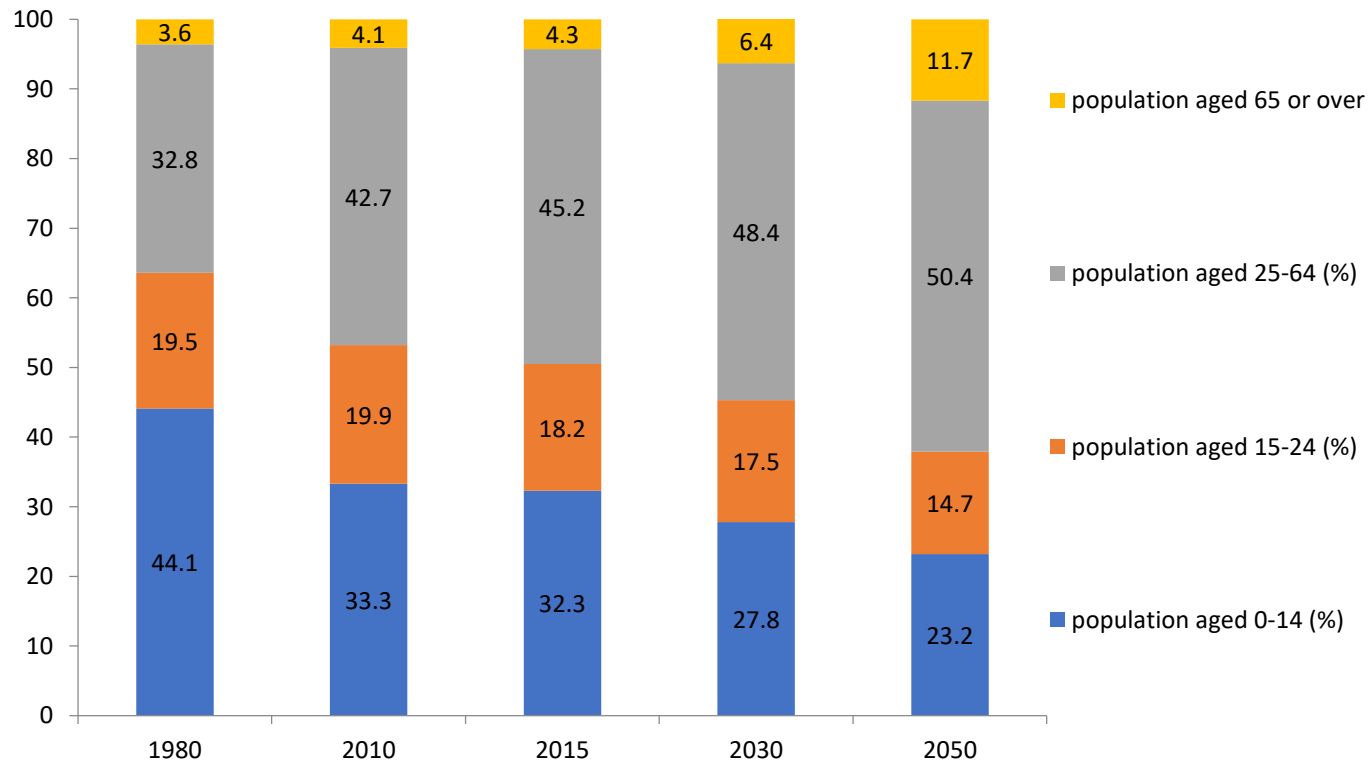


but most of the savings from subsidy reforms tend to serve fiscal consolidation rather than channeled back to other forms of social protection (SDD paper)

Source: ESCWA 2017. Rethinking Fiscal Policy for the Arab Region

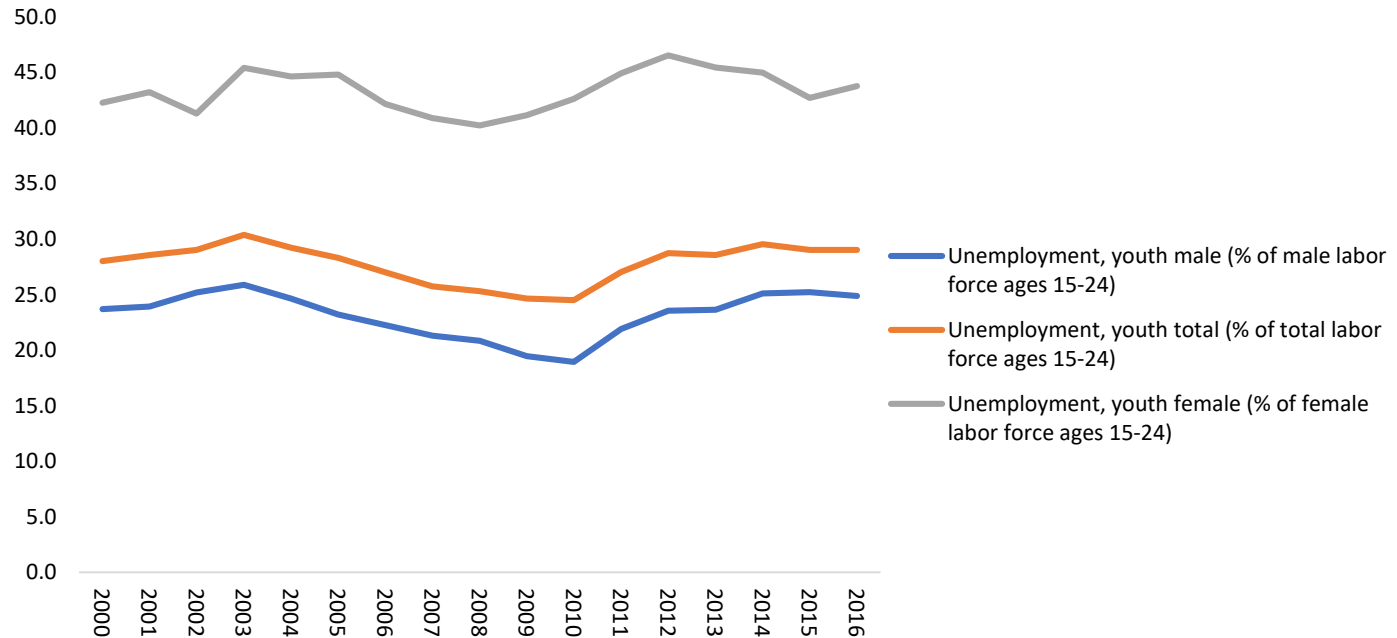
Regional challenges toward achieving social development and the SDGs

The demographic transition (slowly rising ageing population)



Source: ESCWA 2016

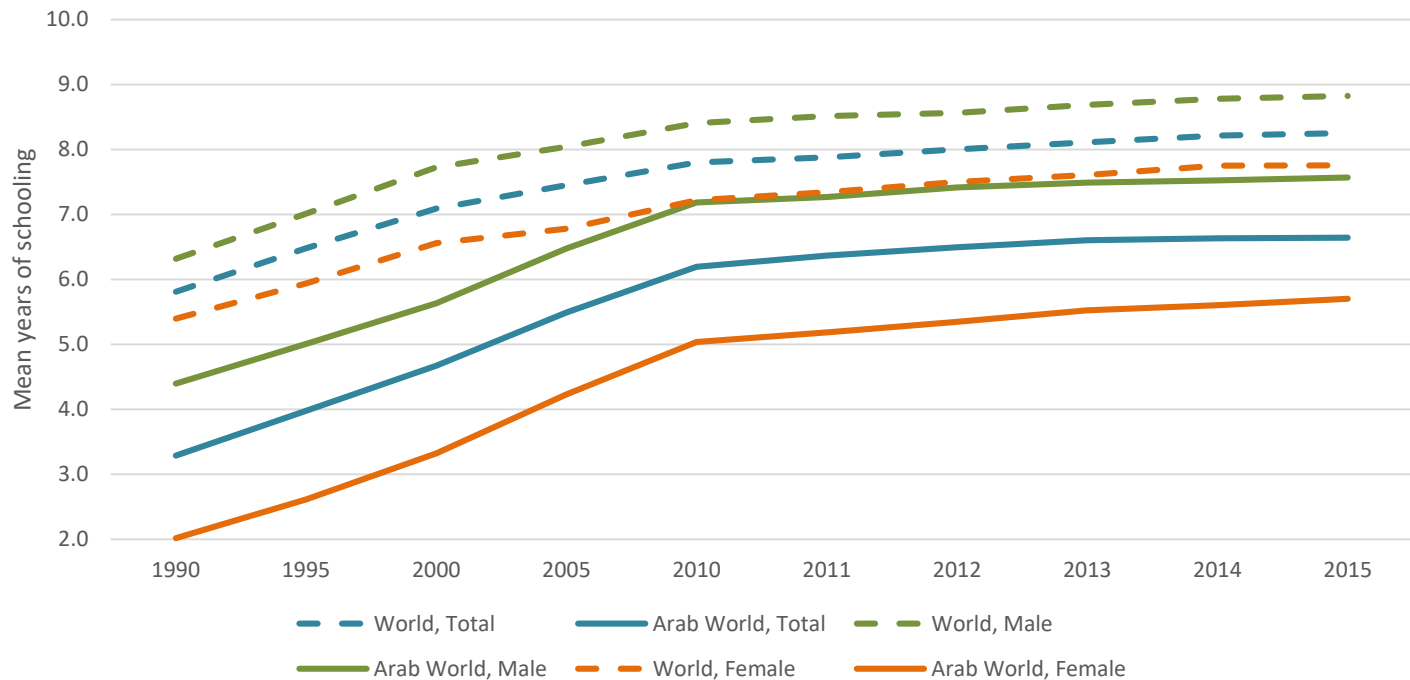
High youth unemployment in the region remains a persistent challenge



Source: World Bank, WDI

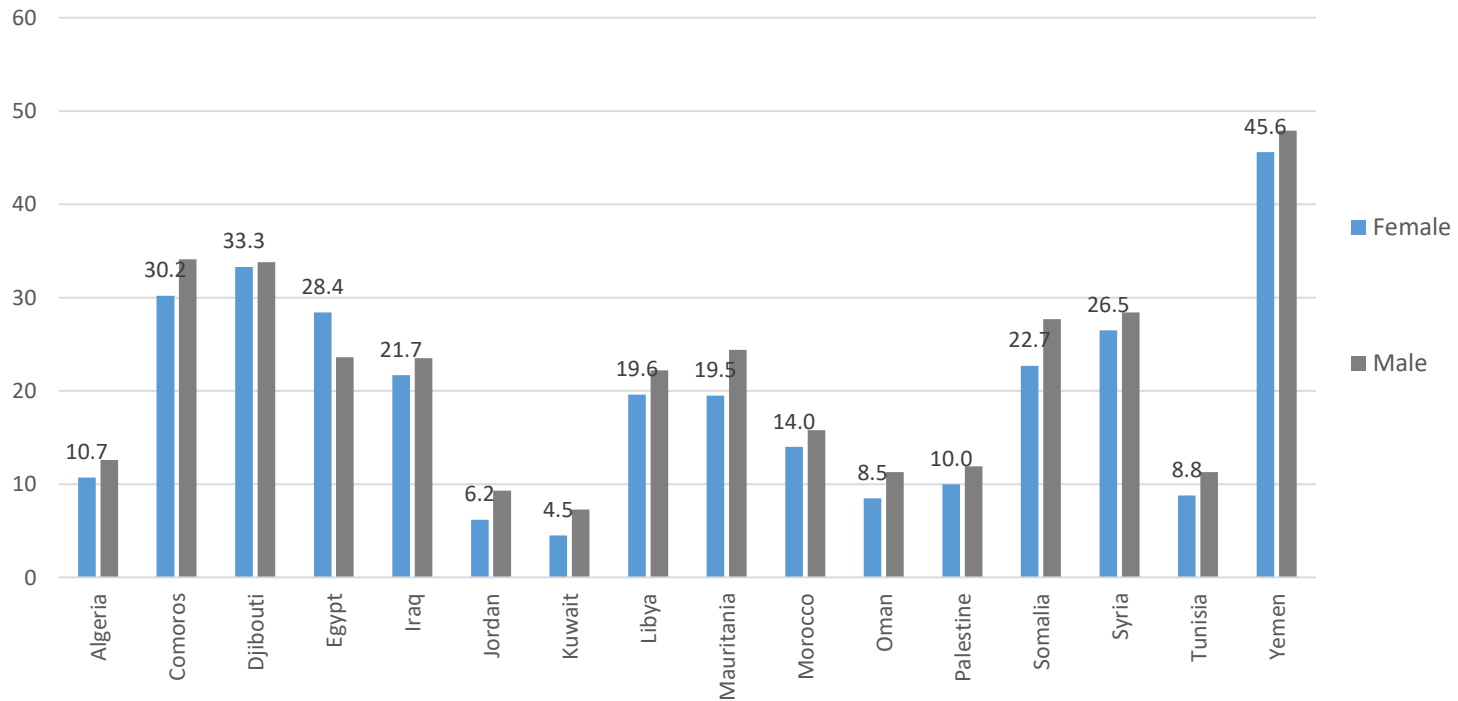
Deficits in education achievements in terms of mean years of schooling is apparent as against the world average, which is key challenge to structural transformation and innovations

Mean years of schooling (years)



Prevalence of stunting is high in several countries; which is another manifestation of poverty as in the region quality health services are highly privatized and unaffordable

Stunting remains high in some countries, and is slightly more common among boys (Percentage of children under five)



Long-run impact: Re-emphasis of public social expenditure

Methodology

The estimation strategy takes the form of a dynamic panel model as follows:

$$y_{it} = \gamma y_{it-1} + \beta x_{it} + u_i + \varepsilon_{it}$$

We have a panel of countries (N) equals to 10 and time periods (T) varying between 11 and 20 observations.

Estimation method:

- (a) Least Square Dummy Variable Corrected (LSDVC) estimators (Bruno 2005)
- (b) Two-step GMM and system GMM, which takes into account the problems of endogeneity, serial correlation and unobserved country level heterogeneity

The education model

$$\text{Edu } y_{it} = \gamma y_{it-1} + \beta x_{it} + u_i + \varepsilon_{it}$$

y_{it} is the log of mean years of schooling and x_{it} is the set of regressors comprising some endogenous w_{it} and exogenous z_{it}

$$\text{Edu } y_{it} = \gamma y_{it-1} + \theta w_{it} + \delta z_{it} + u_i + \varepsilon_{it}$$

i stands for the number of countries (1, 2...10) and t –are the time periods (1, ...k). w_{it} represents some endogenous regressors:

Eduexp_gdp: public expenditure on education as a share of GDP

Spending_gdp: total public expenditure on social sector as a share of GDP

Ln_gdppc: log of income per capita

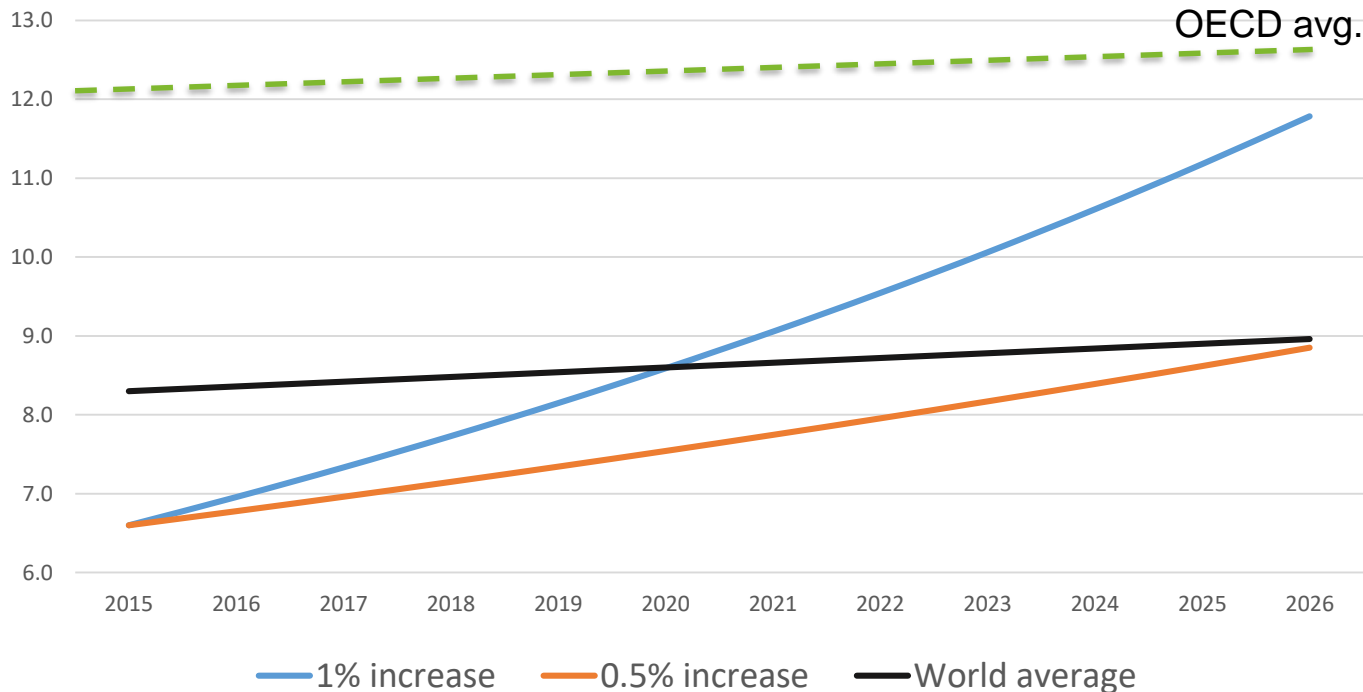
z_{it} represents for some exogenous regressors:

Gov_ge1: government effectiveness index, transformed to min-max 0-5

Gov_cc1: control of corruption index, transformed to min-max 0-5

An increase of 0.5 per cent spending could raise the mean years of schooling of the Arab region to the world's average by 2026; A 1 per cent increase could achieve the same result in six years, by 2020

Long Term Effects of Increasing Education Expenditure on Mean Years of Schooling



Conclusion: Reinforcing social investments

- ✓ The period since 2011 has raised uncertainties and unpredictabilities in public expenditure policies of most governments.
- ✓ Public expenditure on health and education across countries remain largely neglected.
- ✓ Recent energy subsidy reforms since 2013 in several countries helped fiscal consolidation more than rechanneling the savings to social protection. Evidence is however inadequate on mapping the comprehensive social expenditure over time.

Conclusion: Reinforcing social investments

- ✓ Dynamic panel model estimates show that increasing public education expenditure is crucial for improving education outcomes, including quality education, toward achieving the SDGs.
- ✓ The returns on outcomes in the oil-poor countries, that have lower per capita income on average, are higher than that of the oil-rich countries
- ✓ Enhance investment in quality health services. This is again important for poor and middle-income households given the high reliance on out-of-pocket expenditure for health services at a time of rising poverty and high stunting among children.

Main message

Improving the nexus between economic growth and human development is important for a virtuous cycle of development that can lead to achieving the SDGs. Social investments play an important role in connecting this cycle.

The paper “Fiscal policy on public social spending and human development in Arab countries” is accessible at:

https://www.unescwa.org/sites/www.unescwa.org/files/page_attachments/fiscal_policy_on_public_social_spending_and_human_development_in_arab_countries_0.pdf

The paper “Changes in public expenditure on social protection in Arab countries” is accessible at:

https://www.unescwa.org/sites/www.unescwa.org/files/page_attachments/change_s-expenditure-social-protection-arab-countries.pdf

Thank you



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