The economic benefits of comprehensive social protection
Social protection as an automatic economic stabilizer and fiscal multiplier
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The economic benefits of comprehensive social protection
Social protection as an automatic economic stabilizer and fiscal multiplier
• **Comprehensive and effective social protection systems and programmes play an essential role in economic stabilization and growth.**

• **Spending on social assistance frequently displays a “multiplier effect”, whereby increases in local economic activity and income as a result of government spending can be many times larger than the original cash infusion.**

• **During economic recessions, social protection programmes ease liquidity constraints on citizens by making more cash available to them. This additional cash tends to be spent rather than saved, thereby immediately translating into local economic activity.**

• **Social assistance programmes that can be automatically initiated and adjusted to falling incomes in the event of a crisis can contain the economic impacts of fiscal shocks more rapidly and efficiently than setting up temporary and ad hoc policy solutions.**

• **The most effective responses to fiscal crises are found in countries which had comprehensive social protection systems in place before the crisis began.**
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## Abbreviations

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<tr>
<td>MMT</td>
<td>modern monetary theory</td>
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<td>MPC</td>
<td>marginal propensity to consume</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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Introduction

Arab countries have experienced a series of successive crises over the past decade. Poverty, which was already on the rise before the onset of the COVID-19 pandemic, has been further exacerbated by the pandemic, political instability, and economic uncertainty.¹ These mostly unexpected crises have negative impacts on citizens’ well-being in a variety of ways. Fiscal shocks can lead to increasing food and energy prices, loss of income, and unemployment, all of which can push citizens into financial distress and poverty.

Historically, many governments in the region have not considered and used the full range of options available to them to deal effectively with such crises. Although many countries have social protection systems in place in some form, these systems had previously been focused on insuring against life-cycle risks and alleviating poverty. Only recently, and on a larger scale only during the COVID-19 crisis, have social protection programmes been widely used as tools to mitigate the economic impacts of crises. Emerging evidence suggests that comprehensive social protection can indeed be effective in serving purposes beyond its traditional remit. Crucially, social protection has a particularly significant impact in the event of fiscal crises, which have become increasingly prevalent and severe in the Arab region. Especially in the event of an unforeseen crisis, social protection can serve as a quick-response mechanism, helping both to smooth consumption and to stabilize the wider economy.

This paper describes two primary mechanisms through which social protection can help to stabilize the economy during a crisis and stimulate economic growth:

1. **Multiplier effect**: expenditure on social protection, particularly during a crisis where the marginal propensity to consume² is higher, can cycle through the economy, increasing domestic demand.

2. **Automatic stabilizers**: automatic increases in social protection expenditure in response to a slowing economy can help to absorb economic shocks by stabilizing demand.

The available evidence suggests that government spending has the greatest potential impact in low-liquidity environments when there is a high propensity to consume. As a result, policies aimed at maintaining and promoting private consumption are particularly effective during a recession. Furthermore, economies tend to be more resilient in the face of crisis when the Government has a strong social protection system in place before the onset of the crisis, which can be quickly deployed to mitigate the impact of the crisis on the economy. These results underline the need to build a robust system for social protection

¹ Hoogeveen and Lopez-Acevedo, 2021.
² Marginal propensity to consume is the likelihood that people will spend any new income.
before a crisis begins, in order to ensure that the economy can recover efficiently.

A comprehensive welfare state, as well as mitigating idiosyncratic life-cycle risks that arise and cushioning the impacts of covariate shocks\(^3\) on private households, can promote economic development. While conventional wisdom might suggest that a generous set of benefits could dissuade job-seekers from finding work, recent research indicates that such benefits can – if well designed – actually reduce unemployment. It is not the case that generous unemployment benefits act as a disincentive to finding long-term work, as countries with high levels of benefits do not also experience similarly high levels of chronic unemployment. Instead, regular unemployment benefits allow for better skills matching. This type of benefits provides job seekers with an economic lifeline, giving them scope to find employment opportunities that match their skills instead of being forced to take the first one that comes along. This efficient matching of talent with jobs also promotes economic growth.

\(^3\) Covariate shocks are randomly or repeatedly occurring shocks that affect a large proportion of the population at a time, such as floods, economic crises and armed conflicts. Idiosyncratic shocks are shocks that affect households or individuals throughout their lives, such as old age, unemployment or the death of a breadwinner.
1. Definitions

A. Multiplier effect

One of the main advantages of spending on social protection is that the benefits of the expenditure do not stop at the recipient. This phenomenon is known as the *multiplier effect*. A multiplier value can be calculated which quantifies the degree to which an increase in government spending – for example, under a public works programme – results in an increase of greater magnitude in consumption or citizens’ income. This effect can be triggered both by government and non-government spending. The central idea is that when citizens receive monetary benefits from the government, they tend to spend that income locally, resulting in a spillover effect in the local economy and potentially also creating need for additional employment.

The *multiplier* can therefore be thought of as the change in output caused by a particular input. It measures the impact that a change in investment or spending has on output or consumption. This concept is used to measure how increases in spending can affect income or growth. The multiplier is generally calculated by dividing the change in income, growth or consumption by the change in spending: in this case, government spending. It can be illustrated as follows:

$$\text{Multiplier} = \frac{\text{Change in income}}{\text{Change in spending}}$$

When the resulting number is greater than one, the multiplier is positive. In other words, the spending in question resulted in an increase in economic output which was greater than the value of the original spending.

**Common multiplier effect pathways**
B. Automatic stabilizers

Automatic stabilizers are a key type of policy deployed by governments to protect their economies from the impact of economic crises. These are policies that increase spending or decrease taxes automatically when the economy slows. Crucially, these policy changes often do not require votes from legislators; instead, they take immediate effect in the event of an economic crisis. For example, when income declines, households may owe less in taxes, which helps to stabilize consumption by freeing up more disposable income. Furthermore, as income declines, more individuals become eligible for benefits such as unemployment insurance, food assistance, or health care. These policies are “automatic” in that they require no government action to be deployed; they take effect automatically in response to declining economic conditions. By decreasing tax bills and increasing cash benefits, automatic stabilizers can help households weather a loss of income.

Automatic stabilizers can be introduced through social insurance schemes and social assistance programmes. For example, legislators can put in place policies that would automatically increase the monetary amount of benefits during an economic downturn. Furthermore, existing benefits such as unemployment benefit can be set to be extended in the event of a crisis. Benefits such as food stamps and unemployment insurance can have the added advantage of serving as an economic stimulus during a crisis. By quickly infusing the economy with cash, these policies can serve to bolster demand during a downturn, stabilizing the wider economy.

What is modern monetary theory and why does it matter?

Recent debates have challenged traditional economic orthodoxy surrounding the dangers of deficit spending, providing an argument for governments to ensure fiscal space for welfare spending. Traditional economists fear that excessive government spending can lead to large deficits, high national debt and, ultimately, inflation. But economists who subscribe to modern monetary theory (MMT), argue that this is not necessarily the case. They claim that government budgets are structurally different from household budgets, because governments are able to maintain financial sovereignty, or control over their own currency. Governments achieve financial sovereignty when they fulfill a certain set of conditions. They must (1) have a monopoly over the creation of their national currency, (2) collect taxes in their own currency, and (3) only issue bonds in their own currency (Kaboub 2013). Once these conditions are met, MMT proponents argue, governments have both the means and the obligation to outspend unemployment.

High-income countries are often able to meet these conditions. These governments, supporters of MMT argue, should not be required to abide by debt ceiling rules because there are no adverse consequences to high government spending. This is because financial sovereignty gives them the tools to fight inflation. For example, while government spending injects money into the economy, governments can control inflation through taxation, which withdraws surplus money from circulation. Because governments can effectively control inflation with taxes, they do not have to constrain their spending to meet artificial debt limits. This logic frees governments to pursue spending on social protection and social safety nets, which can protect the economy in the event of a crisis. Some observers argued that the fiscal policy of the treasury of the United States of America during the COVID-19 crisis was informed by MMT.

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4 Lee and Sheiner, 2022.
5 Blinder, 2016.
2. Global and regional evidence on the multiplier effects of social protection

A. Jordan

One of the most straightforward means of measuring the multiplier effect is by determining the impact of cash transfer programmes on the local economy. A prominent example is the case of cash for work programmes in Jordan. Cash for work programmes, supported by development partners, has often been used with the aim of helping Syrian refugees, who are often unable to participate in the formal labour market and may compete with low-skilled Jordanians in the informal labour market. Cash-for-work programmes typically provide jobs to poor households in the construction sector, working on public infrastructure projects such as road-building, maintenance and irrigation. These programmes provide support for the able-bodied, working-age poor while providing the rest of society with a public good. However, recent research has provided evidence of another benefit from this type of programme: a positive impact on local economic development as a result of the multiplier effect.

The key determinant of whether cash-for-work programmes, or any injection of foreign funding, will have a positive effect on local economic development is whether or not beneficiaries spend most of their income locally. To answer this question, researchers surveyed local community members to determine whether they experienced changes in earnings and spending levels, employment, and investment following the implementation of cash-for-work schemes in their communities. The researchers found that 30 per cent of surveyed beneficiaries spent most of their income on food, while 47 per cent spent the most on housing rents, both of which contribute to local income levels. Around 22 per cent spent most of their income on the repayment of debts, which tended to go towards local creditors. The authors concluded that, because most cash-for-work income was being spent locally instead of being saved or sent abroad, the programme had an indirect effect on improving local economic development, and that this was amplified by the multiplier effect. These findings are consistent with existing studies, which find that social cash transfer programmes tend to have multipliers ranging from 1.34 to 2.52.

B. Brazil

Social protection expenditure has also demonstrated a strong multiplier effect in other emerging economies. Brazil has been facing an economic crisis since 2015, but the country operates one of the world’s most extensive conditional cash transfer programmes, Bolsa Familia, which served more than 67 million people.
beneficiaries during the COVID-19 pandemic. Comprehensive social benefits provided by the government include pensions, cash transfers for the poor, disability benefits, and unemployment insurance. Researchers deployed modelling to determine the effect of increasing social protection spending on household consumption. They found that during recessions, increases in social protection resulted in higher multipliers than in non-crisis contexts, leading to higher household consumption and private investment. They find that for every additional unit spent on social protection, household consumption rose by 2.3 units after two years. Based on this analysis, they determined that social protection expenditures played a key role in stabilizing the Brazilian economy during the COVID-19 crisis.

C. Other low- and middle-income countries

Other studies have demonstrated that social transfers can result in multiplier effects, especially in low-income countries. In a review documenting the effect of several social transfer programmes and their impact on growth, Barrientos and Scott note the positive impacts of transfers not just on their intended beneficiaries, but also on surrounding communities. They point to examples in sub-Saharan Africa where beneficiaries were spending their incomes locally. In Mozambique, following the implementation of Gabinete de Apoio à População Vulnerável, a cash transfer programme aimed at urban families, an increase in the number of street traders around the offices dispensing the payments was observed. In Namibia, after the government implemented a social pension programme, local grocery stores began emerging, even in the smallest villages.

The authors found that in low- and middle-income countries, lifting credit constraints is one of the key mechanisms through which social transfers can lead to growth at household level, and thus higher levels of consumption. When citizens receive transfers, they are able to save or invest some of their incomes in productive assets. For example, in Mexico, the government introduced a transfer programme named “Programa de Apoyos Directos al Campo” to compensate farmers for their anticipated losses due to the North American Free Trade Agreement and decreased crop prices. The authors found that the transfers had relaxed liquidity constraints for farmers, allowing them to invest in their land, resulting in an income multiplier of between 1.5 and 2.6.

D. Conditions under which the multiplier effect is strongest and weakest

The key component which determines the strength of the multiplier effect is the likelihood that citizens will actually spend the benefits they receive. This is referred to as “marginal propensity to consume” (MPC). MPC measures how much more individuals are likely to spend for each additional unit of income. When MPC is higher, recipients are more likely to spend their newly received income, and thus the money can flow through the economy, increasing GDP and income across the economy as a whole. Typically, MPC is higher during recessions, when citizens are dealing with more fiscal

8 Sanches and Barbosa de Carvalho, 2023.
9 Barrientos and Scott, 2008.
constraints and are thus more likely to spend rather than save.\textsuperscript{11} For example, one study finds that an increase in the value of unemployment benefits serves to raise aggregate demand when the recipients of the benefits have a higher MPC, as they do during a recession.\textsuperscript{12}

Other structural factors of the economy can affect the degree to which benefits have a multiplier effect. One of the most important of these factors is the country’s reliance on trade: when an economy has a high percentage of imports, especially food imports, the multiplier effect will tend to be lower because demand will tend to be focused on imports instead of domestically produced goods.\textsuperscript{13} Another important structural component is the degree of informality in the economy. Particularly when the benefit in question is channelled through income tax, it can be less effective if a country has a large informal sector, as the stimulus will not reach informally employed persons. This impact is particularly unfortunate because these low-income informal workers would be more likely to spend their extra income, given their higher marginal propensity to consume.\textsuperscript{14} If benefits are unable to reach those with the highest MPC, they are likely to demonstrate a lower multiplier effect.

\textsuperscript{11} Auerbach and Gorodnichenko, 2012.
\textsuperscript{12} Kekre, 2023.
\textsuperscript{13} International Monetary Fund, 2014.
\textsuperscript{14} Loayza and Pennings, 2020.
Automatic stabilizers are non-discretionary funding policies that can increase spending when the economy slows without action from legislators. For examples, during normal times, legislators can determine economic indicators of recession which, if met, will automatically trigger measures of social spending: for example, social protection policies such as unemployment insurance or wage subsidies. However, recent research on the COVID-19 crisis has also highlighted how discretionary spending can serve as a stabilizer. During the pandemic, numerous governments put in place emergency cash transfer programmes which helped to stabilize demand and smooth consumption. Evidence suggests that, while they are helpful in stabilizing the economy, these measures are not as effective as having a comprehensive, pre-existing social protection system in place that can be ramped up rapidly.

A. During crises

One of the key ways that governments can make their economies resilient in the face of covariate shocks is by putting in place a strong social protection system. Multiple studies have drawn comparisons between the relatively comprehensive systems of social protection present in many European countries and the more limited systems found in the United States of America. These studies tend to find that comprehensive social transfer policies in Europe, and in particular generous systems of unemployment insurance, have helped to automatically stabilize European economies during crises, particularly by stabilizing demand. These benefits are not limited to unemployment benefits: further research on 21 OECD countries has found that health spending and pensions, as well as incapacity and sick benefits, can all serve as automatic stabilizers.

Maintaining a strong set of automatic stabilizers has been proven to help countries better weather crises. Numerous studies have shown that countries with strong automatic stabilizers tend to be resilient in the face of crisis, while those without have been subject to prolonged economic contractions and increases in unemployment. Finland, for example, which maintains one of the most comprehensive social protection systems in the world, was able to contain the impact of the COVID-19 crisis on its economy, registering only a small increase in inequality. Simulations suggest that the comprehensive Finnish welfare system helped

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16 Darby and Melitz, 2008.
to avoid between 70 and 85 per cent of the increases in poverty and inequality that the pandemic could potentially have caused. In particular, automatic stabilizers in the form of increased transfers and lower taxes in response to declining economic conditions helped to contain the crisis in a rapid and effective manner.

B. Temporary emergency approaches versus pre-existing comprehensive social protection systems

During the COVID-19 crisis, numerous Governments provided ad hoc benefits in an attempt to stabilize demand. However, these emergency benefits were not as effective in stabilizing the economy as benefits which responded automatically. In Ecuador, before the crisis, the Government had a system of automatic stabilizers in place, including automatic changes to personal income tax and social insurance contributions, as well as unemployment insurance provisions. When COVID-19 began to take hold, the Government introduced a Family Protection Grant scheme in an attempt to protect low-income families. The scheme was successful in protecting these households, but did not address underlying problems of poverty and inequality. Pre-existing automatic stabilizers had a larger effect on household disposable income than COVID-19-specific benefits, but they tended to replace the losses in earnings of higher income families more than those of low-income families, concentrating their effect on the upper end of the income distribution curve.

Specific crisis-related measures can still play a role in helping to mitigate the impact of shocks on economies. Even before the COVID-19 crisis, Germany had in place a system of “short-time work”, a contributory benefit funded mostly by social security contributions which automatically compensates employees for wage losses caused by involuntary reduction in working hours. During the pandemic, the government strengthened and expanded the existing short-time work system and introduced a number of other discretionary policy measures, including a child bonus and an increased tax allowance for single parents. These measures were successful in cushioning the income loss caused by COVID-19 in Germany, absorbing about 85 per cent of income shock in 2020.

C. Conditions under which the effect of automatic stabilizers is strongest and weakest

Automatic stabilizers can certainly serve as an important tool for developing country Governments when preparing for crises. However, the effect of automatic stabilizers can be limited by the presence and extent of an informal sector. In countries where informal work is widespread, it can be more difficult for Governments to reach citizens by adjusting spending or taxes if they are not officially registered. In particular, benefits such as unemployment insurance will have limited reach.

Due to high levels of informality, some countries such as Jordan also sought to address

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18 Kyyrä, Pirttilä and Ravaska, 2021.
19 Jara, Montesdeoca and Tasseva, 2022.
21 Christl and others, 2023.
22 Ohnsorge and Yu, 2022.
the economic challenges associated with the pandemic with targeted cash transfers. Before the pandemic, the country’s National Aid Fund had relied on an income imputation formula for informal workers to estimate their income level and determine their benefit allocation. Given that Jordan was under complete lockdown at the beginning of the pandemic and informal workers could no longer reach their workplaces, the National Aid Fund modified the informal income value in its targeting formula to zero, ensuring that informal workers would be eligible receive cash transfers given their loss in income. Adjustments such as these can allow governments to rapidly adjust the targeting of their policies even in contexts where informal work is common.

Table 1. Sample Effect Sizes

<table>
<thead>
<tr>
<th>Author and year</th>
<th>Country</th>
<th>Contexta</th>
<th>Programme type</th>
<th>Size of multiplier effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank 2014</td>
<td>Kenya, Ethiopia, Zimbabwe, Zambia, Kenya, Lesotho, Malawi, Ghana, Ethiopia</td>
<td>Low-income countries/Lower-middle-income countries</td>
<td>Cash transfer social safety nets</td>
<td>1.34–2.52</td>
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<tr>
<td>Sadoulet and others, 2001</td>
<td>Mexico</td>
<td>Upper-middle-income countries</td>
<td>Cash transfer to farmers</td>
<td>1.5–2.6</td>
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<tr>
<td>Sanches and de Carvalho 2023</td>
<td>Brazil</td>
<td>Upper-middle-income countries</td>
<td>Social protection during crisis</td>
<td>2.3</td>
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<tr>
<td>Mostafa and others, 2010</td>
<td>Brazil</td>
<td>Upper-middle-income countries</td>
<td>Social assistance benefits paid for older people and the disabled</td>
<td>1.38</td>
</tr>
<tr>
<td>Mostafa and others, 2010</td>
<td>Brazil</td>
<td>Upper-middle-income countries</td>
<td>General social security programme</td>
<td>1.23</td>
</tr>
<tr>
<td>Lehmann and Masterson 2014</td>
<td>Lebanon</td>
<td>Upper-middle-income countries</td>
<td>Cash aid to Syrian refugees</td>
<td>2.13</td>
</tr>
<tr>
<td>Davies 2007</td>
<td>Malawi</td>
<td>Low income countries</td>
<td>Emergency cash transfers</td>
<td>2.11</td>
</tr>
</tbody>
</table>

a Income classifications are based on the study year.
4. Examples of relevant social protection approaches

A. Cash transfers

In recent years, cash transfers have emerged as one of the most clear-cut examples of how a social protection benefit can have a multiplier effect. By injecting money into the local economy, cash transfers can increase demand for local products and services, including labour. A recent analysis of seven social cash-transfer programmes in sub-Saharan Africa found that all seven programmes generated significant positive spillover effects for the local economy. The multipliers for all programmes were greater than 1, ranging from 1.27 in Malawi to 2.52 in Ethiopia.23 In other words, each dollar transferred to households can be expected to raise income in the local community by between $0.27 and $1.52. Differences in multiplier magnitudes can be attributed to the nature of the local economy, types of production activities, and the supply response to the influx of cash. In particular, the multiplier is shaped by the degree to which households spend money on local products and services from within their community. In rural areas, recipients tend to spend more of their income on products from within the local community.

A recent report by the World Bank highlighted the promising nature of cash transfers and their potential spillover effects, but cautioned that rigorous evidence remains scant.24 The most significant reason is that the methods used to determine multipliers are considerably heterogeneous. Most studies use models determining the precise impact of an intervention on the economy at large, given the complex nature of this practice. However, different papers use different models which rely on different assumptions, which makes it difficult to compare effects across studies.25 As a result, the magnitudes of the multiplier effect across different analyses tend to vary widely. Nonetheless, the authors determine that most studies report positive multiplier effects.

B. Unemployment insurance

Given that it is targeted at people experiencing a loss in income, unemployment insurance has the potential to benefit the local economy through the multiplier effect. The consumption of households affected by unemployment tends to be especially responsive to these transfers, given their temporarily depressed income and liquidity constraints. In turn, these unemployed affected households are more likely to spend their new income, and thus pass the benefit along to the local

23 Food and Agriculture Organization of the United Nations, 2016.
24 Gassmann and others, 2023.
economy. A study conducted in the United States following the 2008 recession found that an additional week of unemployment benefits increased household spending by 1.7 per cent.26

Unemployment insurance can also serve as an automatic stabilizer. Another study from the United States of America found that unemployment insurance had a local fiscal multiplier of 1.9, indicating a substantial positive effect on local economic output. Furthermore, the authors found that an increase in benefit generosity of one standard deviation (equivalent to an increase of between 4 per cent and 7 per cent of the absolute amount) mitigates the negative impact of shocks on employment growth by 7 per cent and earnings growth by 6 per cent.27 While these results are promising, there exists limited evidence for the multiplier effect of unemployment insurance outside of high-income settings. Further research is needed to confirm whether these results can be extrapolated to developing countries.

C. Tax relief

In recent years, automatic income tax decreases have frequently been used to cushion the impact of fiscal crises. Tax relief can be an effective policy instrument because they can be deployed automatically, without intervention from legislators, in response to a particular economic trigger, such as the economy entering a recession or experiencing a decline in aggregate demand. Governments can ensure the effectiveness of these measures by targeting tax cuts towards people whose liquidity is most likely to be constrained, and who are therefore more likely to spend their extra incomes. However, research has shown that the spillover effects of broad-based tax cuts are generally fairly low, as it may not push the average citizens to spend more28. The advantage of targeted tax transfers is that they can be aimed at low-income and credit-constrained households, can be deployed quickly, particularly when using pre-existing programmes, and can be implemented on a temporary basis. However, it can be difficult to ensure that the additional income available to individuals as a result of tax relief is spent rather than being saved. Furthermore, tax breaks are less effective in countries where informal work is widespread. In such countries, many low-income households may not be paying income taxes in the first place, so tax relief will have little impact on their disposable income.

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26 McKee and Verner, 2015.
28 Spilimbergo and others, 2009.
Table 2. Interventions and optimal country application contexts

<table>
<thead>
<tr>
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<th>Lower income</th>
<th>Lower middle income</th>
<th>Upper middle income</th>
<th>High income</th>
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<tr>
<td>Cash transfers</td>
<td>Positive multipliers identified</td>
<td>Positive multipliers identified</td>
<td>Positive multipliers identified</td>
<td>Minimal evidence</td>
</tr>
<tr>
<td>Unemployment insurance</td>
<td>Limited relevance where informal work is widespread</td>
<td>Results depend on prevalence of informal work</td>
<td>Potential to absorb shocks if there are low levels of informal work</td>
<td>Generous unemployment insurance systems can absorb shocks</td>
</tr>
<tr>
<td>Tax relief</td>
<td>When targeting is difficult, reductions in consumption taxes can be effective</td>
<td>Results depend on ability of government to target</td>
<td>Results depend on ability of government to target</td>
<td>Targeted tax rebates can be beneficial where the state has the capacity</td>
</tr>
<tr>
<td>Wage subsidies</td>
<td>Limited relevance due to informality</td>
<td>Results depend on prevalence of informal work</td>
<td>Can help to stabilize demand when well targeted</td>
<td>Can help to stabilize demand when well targeted</td>
</tr>
</tbody>
</table>

Optimal context

Mixed evidence, sub-optimal context

D. Relevance for the Arab region

A limited number of studies have examined the presence of automatic stabilizers and their multiplier effect in the Arab region. A study on Jordan found that in that country, Syrian recipients of cash for work tended to spend their income in local businesses, thus boosting local economic development.29 A similar study on Lebanon examined the effect of cash aid to Syrian refugees on the Lebanese economy. The authors found that recipients of cash aid were no more likely than non-recipients to save more or to send more money back home in the form of remittances. This is partly because the amount of the aid was not sufficient to cover all household expenses. As a result, beneficiaries tended to spend the entire amount of cash aid on consumer goods in Lebanon. The authors calculated that each additional dollar of cash assistance generated $2.13 in GDP for the Lebanese economy.30

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29 Loewe, 2021.
30 International Rescue Committee, 2014.
Further studies have examined the effects of these types of policies in similar socioeconomic environments. In middle-income countries such as Ecuador, Mexico and Brazil, Governments have successfully stabilized consumption during crises by investing in social protection. Governments in sub-Saharan Africa have also seen positive multipliers across the region for cash-transfer programmes aimed at the most vulnerable.

Despite this promising evidence, there are indications that a strong, positive multiplier is more difficult to achieve in low- and middle-income countries. Much of the available evidence comes from OECD countries, where comprehensive data is more readily available. At times, the conditions in low-and middle-income countries are not conducive to strong multiplier effects. In particular, countries with high levels of imports tend to experience leakage on their benefits, which lowers the multiplier effect. Countries with high levels of debt also tend to have lower multipliers. For certain mechanisms such as unemployment insurance, informal work can also make it difficult for Governments to direct benefits towards those who need them most. Nonetheless, if they are well targeted, social protection policies can generate positive returns for the economy. The key factor that determines whether these policies generate multipliers is whether they are appropriately targeted towards the most liquidity-constrained citizens who are most likely to spend, and thus to pass on the benefits of these programmes throughout the economy.
5. Conclusion

There is strong evidence that investing in a comprehensive, effective social protection system can deliver economic returns. These returns can help to cushion the effects of crises. But such comprehensive and effective social protection systems can have benefits even beyond crises. Social protection systems and programmes allow Governments to channel resources towards those who need it most, the same people who are most likely to disperse these resources throughout the economy during a downturn. The most effective means of ensuring that government resources stabilize the economy during a crisis is by putting in place policies that will automatically trigger increases in the event of an economic slowdown. When such policies are in place, governments are able to respond rapidly to crises and minimize their impact on the economy and on citizens’ wellbeing. Comprehensive social protection systems and programs therefore do not just cushion households’ vulnerabilities during economic shocks, but also serve wider economic policy objectives. There is a case to be made for integrating social, financial, and economic policy more closely.
References


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This working paper explores the impact of comprehensive social protection systems on economic resilience and growth in the Arab region, particularly in the context of economic downturns and crises. The paper summarizes empirical data from various countries and case studies. It discusses the significance of “multiplier effects” which further augment the capacity of social assistance expenditure to boost local economies. The paper also highlights the role of social protection schemes as automatic stabilizers, policy mechanisms which adjust automatically in response to economic fluctuations to mitigate the impacts of fiscal shocks, thereby promoting quicker economic recovery. The paper concludes that beyond mitigating the immediate economic distress of affected households, social protection systems contribute to long-term economic development by enhancing consumption, improving labour market outcomes, and fostering a more resilient economic structure. The research emphasizes the strategic importance of proactively developing robust social protection systems in Arab countries with the aim not only of addressing immediate economic challenges but also of underpinning sustainable economic development. On the basis of these insights, the paper advises Governments to further integrate economic and social policymaking.