#### Appendix

### Quantitative Indicators Relating to the Welfare State in Small States

To develop and document the issues raised in this thematic paper, several levels of quantitative indicators can usefully be assembled. In the first instance, the aim would be to get a high-quality set of cross-country data for a single year, preferably 2000. The prospects for assembling consistent time series are less clear, but wherever possible it is desirable to obtain point estimates for earlier years to provide indicative changes over time.

Once the database is set up, expanding it forward as data become available is a worthwhile goal.

The following sets of indicators are potentially relevant:

## 1. General contours of the formal state sector and its role in the wider economy

- (i) Total government revenue and expenditure on various measurement bases: the basic source is the IMF's Government Finance Statistics, Tables 2 and 7 (with functional and structural breakdowns where available), supplemented by OECD and other sources. Data should be in whatever currencies match with other economic statistics for purposes such as taking government expenditure as a proportion of GDP. This probably means that expenditure should be in the local currency of the day (which is what the IMF Government Finance Statistics (GFS) use), plus the ability to convert to a common currency such as US dollars. We may also need conversion factors to express expenditure in terms that are comparable to the purchasing power parity (PPP) inflation-corrected data in the major international databases such as the Penn World Tables.
- (ii) Government expenditure expressed as a percentage of GDP and gross national income (GNI). The relationship of government to the wider economy would use national accounts data from the IMF, World Bank, OECD, Commonwealth Secretariat and other official sources.
- (iii) A government revenue breakdown sufficient to identify the general sources of funding (local taxes, foreign grants and budgetary supplements, local social security contributions, etc.).
- (iv) Where social insurance and/or unemployment insurance programmes are operating, as in Barbados and the Netherlands Antilles, data on flows in and out of the fund, together with fund balances, if available.

#### 2. Indicators of the extent of poverty

Indicators of the extent of poverty and other conditions that could motivate establishment of welfare state mechanisms are also potentially relevant. Anticipated main sources are the World Bank's *World Development Indicators* database, *UN Statistical Yearbook*, OECD and country-specific sources, the IMF *Balance of Payments Yearbook* and International Labour Organization databases.

- (i) Estimates of per capita average income measured as GDP, gross national product (GNP), GNI and migration-adjusted GNP;
- (ii) Breakdown of income sources amongst wages and salaries, operating surplus, offshore income from remittances and overseas investments;
- (iii) Human and social development indicators from, e.g., http://unstats. un.org/unsd/demographic/products/socind/;
- (iv) Income distribution where available from, e.g., the WIDER database at http://www.wider.unu.edu/research/Database/en\_GB/wiid/;
- (v) Databases of gender-specific social conditions such as http://unstats.un. org/unsd/demographic/gender/wistat/index.htm;
- (vi) Data on unemployment, wages, and participation rates;
- (vii) Data on the extent of the diaspora, using the Parsons dataset http://www. migrationdrc.org/research/typesofmigration/Global\_Migrant\_Origin\_Data base\_Version\_4.xls.

#### 3. 'Welfare state' expenditures

'Welfare state' expenditures by the government sector, both national and local, together with indicators of government expenditure on welfare provision and related programmes to underpin social and economic development, should also be taken into account. The anticipated major source is the IMF GFS, supplemented by OECD and country-specific data.

- (i) Direct expenditure on social welfare/income support (transfers), expressed in absolute local currency terms, as a percentage of GDP and of the total government budget. Inclusive of (as appropriate) old age benefits, disability benefits, occupational injury and disease benefits, sickness benefits, services for the elderly and disabled, survivor's benefits, family cash benefits, unemployment benefits. See, for example, Naren Prasad's dataset at http://groups.google.com/group/small-states/files;
- (ii) Payments into and out of any government-related social insurance fund providing pensions, unemployment benefit, health insurance, etc., again in local currency and as a percentage of GDP;

- (iii) Government expenditures on education (at primary, secondary, and possibly tertiary level), healthcare, and public housing and housing subsidies, expressed in absolute local currency terms, as a percentage of GDP and as a percentage of the total government budget;
- (iv) Data on active labour market programmes, such as wage subsidies, government work schemes and possibly intervention in the migration/remittance nexus (this component is harder – see separate section on diasporas below).

## 4. Extent of income support and other benefits to home residents from the migrant diaspora

- (i) Size and location of the diaspora, measured as: (i) home-born; (ii) homeethnic; and (iii) home-national (whatever data are available);
- (ii) Migration flow data;
- (iii) Remittance flows;
- (iv) Estimates of the average income of the total home-born population set alongside the per capita income of the home-resident population.

# 5. Aid flows and some indication of what part of aid is directed to social welfare, as distinct from sectors such as the military or physical infrastructure

- (i) Total aid flows from Development Assistance Committee (DAC) statistics, UN statistics and other sources;
- (ii) Aid as a proportion of GDP and of government funding;
- (iii) Destination of aid funding by sector/function, as available.

## 6. General background data on country size and economic drivers, to provide possible explanatory variables in cross-country work

- (i) Population from World Development Indicators and the UN Demographic Yearbook;
- (ii) Information to classify the economy's sources of dynamism; see, e.g., Geoff Bertram and Bernard Poirine's balance of payments classificatory scheme in Island Political Economy, Chapter 10 in Baldacchino, G (ed.) (2007). A World of Islands, University of Prince Edward Island.
- (iii) Sectoral composition of GDP.

#### Notes

- 1 Besanko and Braeutigam (2005: 113–116) show analytically the case for vouchers over subsidies in the provision of publicly supported housing. Mill (1910: 8–11) provides the classic statement of the argument that the benefits of education cannot be appreciated until education itself has been acquired, and that therefore relying on the uneducated to choose education *ex ante* will be inefficient. 'It is better to be a human being dissatisfied than a pig satisfied; better to be Socrates dissatisfied than a fool satisfied. And if the fool, or the pig, are of a different opinion, it is because they only know their own side of the question. ... Capacity for the nobler feelings is in most cases a tender plant, easily killed, not only by hostile influences, but by mere want of sustenance; and in the majority of young persons it speedily dies away if the occupations to which their position in life has devoted them, and the society into which it has thrown them, are not favourable to keeping that higher capacity in exercise. ... Utilitarianism ... could only attain its end by the general cultivation of nobleness of character.'
- 2 For example Prasad (2007: 12) cites Baker's (1992) finding that 'countries with large public sectors have more equitable levels of prosperity amongst the population'.
- 3 Esping-Andersen (1996: 3): '[T]he advanced Western nations' welfare states were built to cater to an economy dominated by industrial mass production'.
- 4 Esping-Andersen (1996: 9): '[the welfare state's] ideals of universalism and equality emerged with reference to a relatively homogeneous industrial working class'. The same author notes the organisation of welfare policies around a statistical one-income 'model family'. Both these are faced with disintegration in the post-industrial era.
- 5 Available at http://ssdc.ucsd.edu/ssdc/iri00001.html
- 6 Available at http://www.worldbank.org/wbi/governance/pubs/govmatters3.html
- 7 Khan (2007) points out that most regression studies include developed along with developing economies and obtain strongly positive coefficients. His tables and scatter plots for 1980–1990 and 1990–2003 on pp. 10–14, however, demonstrate that 'converging' and 'diverging' developing countries have essentially the same institutional scores, so that new Washington-style institutional reform is not a sufficient condition for improved growth performance.
- 8 It is noteworthy that the most dramatic fiscal retrenchment programmes, in terms of mass dismissals of public sector employees, tend to be encountered in small island settings and are carried through usually with minimal political fall-out. One example is the Tongan fiscal crisis of 2006: 'Following a six-week strike in July-August 2005, the government agreed to a settlement with the unions calling for civil service wages to be raised by 70 per cent over two years at a full annual cost of about 7 per cent of GDP. To contain the medium-term fiscal impact of the settlement, the government launched a voluntary redundancy program in the last weeks of the fiscal year ending in June 2006, which resulted in an 18 per cent reduction in civil service staffing – about 3 per cent of Tonga's total labor force' (IMF, 2007: 4). An even more severe fiscal retrenchment and stabilisation programme was imposed by the Cook Islands Government in 1996: 'Between March 1996 and October 1998, the number of public servants declined by 57 per cent. The decline in GDP during 1995–1998 was not matched by an equivalent decline in per capita income. Following the public service retrenchments, many Cook Islanders exercised their option, as New Zealand citizens, to migrate. In the three years from 1996 to 1998, there was a net migration of 3,328 people - 18 per cent of the 1995 resident population' (Asian Development Bank, 2000: 1; see also Gani and Duncan, 2007). The retrenchment cut total government expenditure by one-third from the 1995/96 to the 1996/97 fiscal year, with wage and salary spending falling by 37 per cent. Political stability and the electoral system were maintained without stress through this experience. (In Tonga the retrenchment was followed by riots in downtown Nuku-alofa, but these were linked more to political unrest over slow constitutional reform than with the fiscal squeeze.)