Is Social Protection a Luxury Good

Author:Michael Lokshin, Martin Ravallion, Iván Torre

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The claim that social protection is a luxury good—with a national income elasticity exceeding unity—has as been influential. The paper tests the “luxury good hypothesis” using newly-assembled data on social protection spending across countries since 1995, treating the pandemic period separately, as it entailed a large expansion in social protection efforts. While the mean income share devoted to social protection rises with income, this is attributable to multiple confounders, including relative prices, weak governance in low-income countries and access to information-communication technologies. Controlling for these, social protection is not a luxury good. This was also true during the pandemic.