

The Extension of Social Security Coverage in Developing Countries

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- We investigate the effects of extending the coverage of social security system in developing countries, where there is a severe lack of formal risk-sharing mechanisms.
- We develop a dynamic general equilibrium overlapping generations economy of developing countries with two-sided altruistic agents, competitive firms and a fully-committed government.
- Our quantitative results suggest that extending retirement benefits to workers in the informal sector results in a welfare increase with relatively minor efficiency losses.
- Our results, in contrast to the previous literature focused on developed countries, indicate that the welfare gain resulting from the insurance and redistribution functions of social security dominate the welfare loss resulting from the crowding-out effects in an environment without adequate risk-sharing mechanisms and high income inequality.