

SOCIAL SECURITY: THREE LESSONS FROM THE GLOBAL CRISIS

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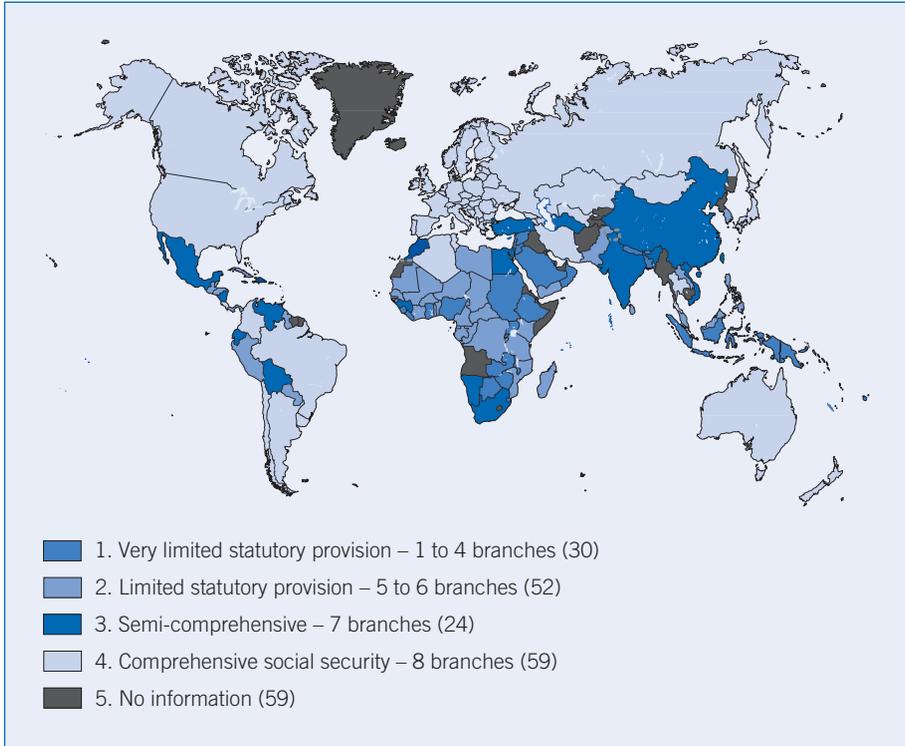
12.1 INTRODUCTION

The global financial and economic crisis has given new impetus to the debate on social security policies. Countries that had social security programmes in place strongly relied on them as automatic stabilizers in their stimulus packages. Where countries affected by the crisis did not have adequate social security mechanisms, the need to develop social security became more apparent. As a result, a number of social protection policy initiatives have begun or been stepped up at national, regional and global levels, including the UN Social Protection Floor Initiative and the Global Jobs Pact.

Positive changes had begun in many developing countries well before the crisis. But a large social security coverage deficit still prevails (ILO, 2010f; UNRISD, 2010). In many countries only a minority of the population has access – both statutorily and effectively – to existing schemes. Figure 12.1 shows the scope of statutory coverage through social security schemes around the world. It can be seen that in Asia, Africa and some parts of Latin America in particular there are large gaps in the scope of social security schemes statutorily available. It is estimated that only one-fifth of the global working-age population and their families have effective access to comprehensive social protection (ILO, 2010f, p. 1). The social security deficit is one of the main obstacles to achieving the Millennium Development Goals (UN, 2010).

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Figure 12.1 Statutory social security coverage worldwide:
Branches covered by a statutory programme, 2010
(number of countries in parentheses)



Note: The nine branches of social security as given in the Social Security (Minimum Standards) Convention, 1952 (No. 102) are aggregated to eight through the merging of sickness and health benefits. In addition, it is assumed that countries that have all eight classical branches in place also have functioning social assistance schemes.

Source: ILO (2010f, figure 2.4).

At the same time there is intense debate in some OECD countries on the adequacy and financial sustainability of social security options (ILO, 2010m). Some of the recent reforms have reduced levels of protection, in particular for those with broken or shorter careers or with non-standard employment status.

Against this background, this chapter¹ will focus on three lessons that can be drawn from responses to the global crisis:

¹ This chapter draws heavily on the report submitted to the 100th Session of the International Labour Conference in June 2011 (ILO, 2011g), as well as the analyses in other recent ILO publications on social security.

- People covered by different social security arrangements with respect to financing, design and coverage are exposed to economic shocks in different degrees.
- With adequate financing, design and coverage, social security acts as an economic and social stabilizer during a crisis.
- While the crisis has opened a window of opportunity for the extension of social security, particularly in low-income countries, more political will is needed both nationally and internationally to create the necessary fiscal space.

12.2 LESSONS FROM THE CRISIS

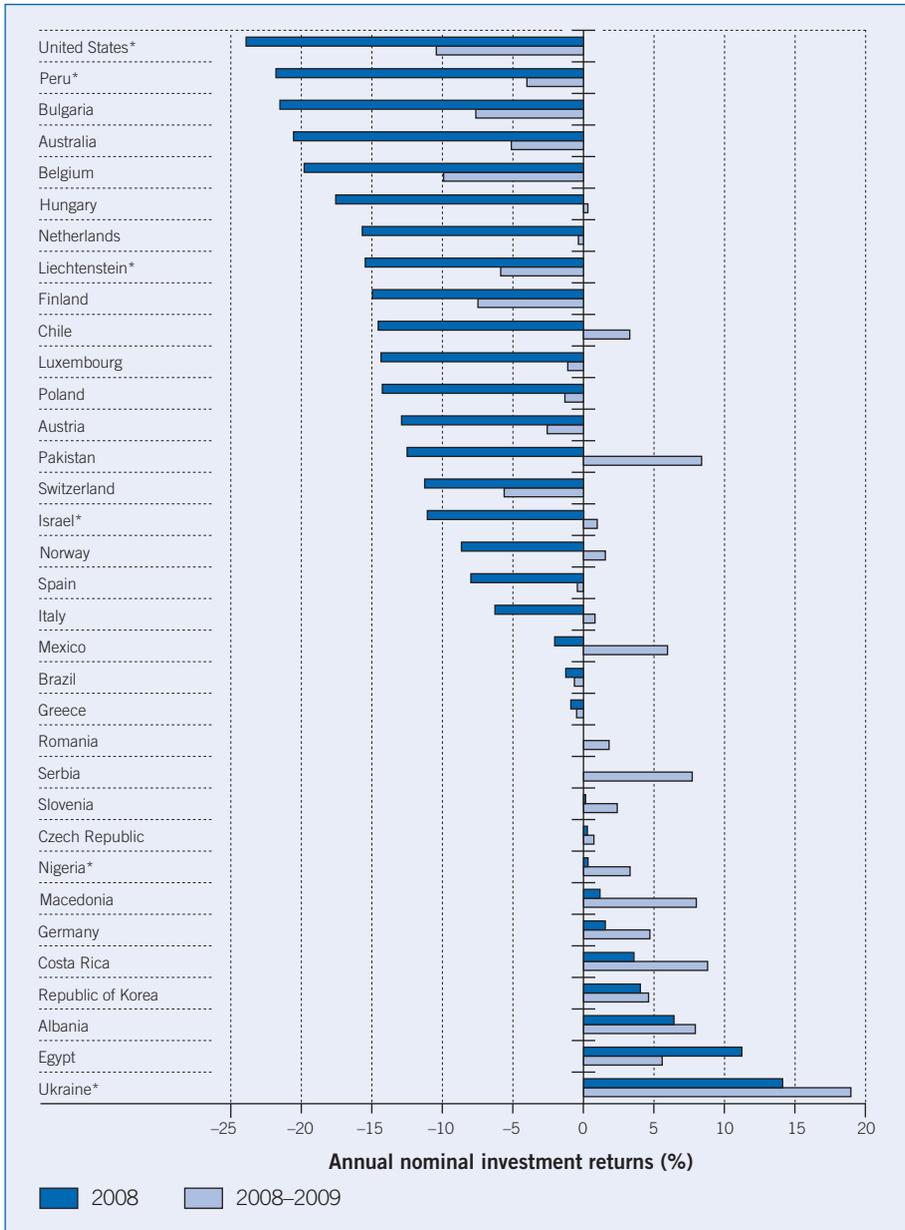
12.2.1 Exposure of different types of social security schemes to economic shocks

The first lesson from the global crisis underlines the need for guarantees in the design and financing arrangements of social security schemes, particularly pension schemes. Recent pension reforms in some countries have shifted the financial risk to workers, exposing them unduly to the volatility of financial markets. Moreover, social security finances are both directly and indirectly negatively affected by rising unemployment, underemployment and informalization of employment. The crisis has highlighted the need to counterbalance these risks through appropriate guarantees.

The effect of the crisis on pension finances has received worldwide attention. Investment returns on pension funds dropped markedly during the crisis (figure 12.2), leading in many countries to a contraction of pension reserves (see for example OECD, 2010a, pp. 117–19; OECD, 2010b; World Bank, 2010b; Bonnet et al., 2010; Pino and Yermo, 2010).

Although the rates of return on many pension funds have recovered since the height of the crisis, there is no reason for complacency. The rebound veils the fact that many workers and retirees, especially cohorts retiring during or shortly after the crisis, have had to face markedly reduced pension levels, given that they have not had the chance to wait for a full recovery (Bonnet et al., 2010). Moreover, the crisis has brought to light the volatility of investment returns, the levels of financial risk carried by workers and the resulting insecurity and inequity (Burtless, 2000, 2009). It will take a long time for pension funds not only to recover losses but also to make up for the years of workers' lost contributions (Bluhm, forthcoming). As a result, in many countries higher levels of variance and volatility in pension incomes are likely and may result

Figure 12.2 Impact of the global crisis on the rate of return to pension funds, selected countries, 2008 and 2008–2009 (percentages)



Note: * Data for 2009 refer to January to June only. Data for the United States include individual retirement accounts (IRAs).

Source: ILO (2011g), based on OECD (2010a, Statistical tables).

in decreasing relative income levels for pensioners and higher risks of poverty for older women and men.

The crisis exposed the increased vulnerability of privatized pension schemes to the ups and downs of the financial markets. This has also temporarily attenuated the wide spread enthusiasm for the privatization of pension schemes which inspired a series of pension reforms in various parts of the world during the past three decades, particularly in Latin America and Central and Eastern Europe (World Bank 1994, 2006; for critical reviews of these policies, see Gillion et al., 2000; Diop, 2008). The OECD highlighted “the need for resilience to a future crisis” referring to the still “relatively minor” impact of the crisis on pension finances and workers’ entitlements in countries where private pensions have been introduced recently (OECD, 2009c, p. 3). While disenchantment with pension privatization policies had begun well before the crisis even amongst previous supporters of such policies (see for instance World Bank, 2006) in response to shrinking coverage, eroding benefit levels and high fiscal cost, the crisis has provided the impetus for countries such as Argentina, Bolivia, Hungary and Poland to reverse some of their previous reforms. Further efforts are necessary, however, to strengthen appropriate guarantees which would ensure at least a minimum level of income security for workers. International labour standards provide essential guidance in this respect.

The crisis also had a wide effect on other types of social security schemes. Rising levels of unemployment, underemployment and an increasing informalization of employment have led to a contraction in contribution and tax revenues, and in consequence – unless appropriate provisions are made – have narrowed the scope of manoeuvre available to finance social security benefits at a time when these are most needed (see Orton, 2010). The crisis has highlighted the need to review social security policies and governance structures in order to ensure that the design and financial architecture of social security systems are conducive to ensuring sufficient stability and flexibility even during major shocks.

12.2.2 Recognition of social security as a social and economic stabilizer

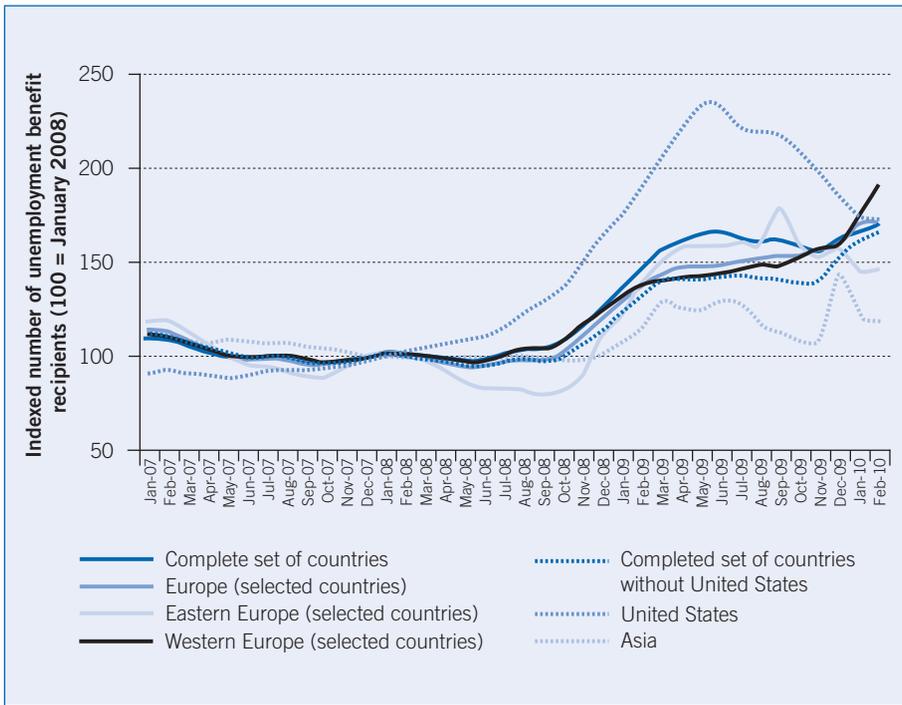
The second lesson of the crisis highlights the essential role of social security programmes as economic stabilizers, going beyond ad hoc crisis responses. While this function attracted much attention during the crisis, it is important to note that it is relevant not only during crises but as a permanent stabilizing element that can ensure balanced economic growth and social cohesion and facilitate adjustment to structural change. This

view seems to have found wider support since the onset of the crisis, as demonstrated by the growing number of middle-income countries that are considering the introduction of unemployment insurance schemes, even though fiscal austerity measures may obstruct a systematic implementation of these policies in the short and medium terms.

In the wake of the crisis, the value of social security as an automatic economic and social stabilizer has been widely recognized in countries at all levels of development, as shown in a review of country responses to the crisis (ILO 2010f, pp. 112–16). Several examples describe how social security programmes were successfully used in different ways to alleviate the impact of the crisis on employment and incomes, to sustain aggregate demand and buffer economic growth. Such programmes played a strong role in the strategies of many OECD and G20 countries, which maintained social security programmes or even expanded them, or temporarily reduced contribution rates (*ibid.*; European Parliament, 2010). According to recent reviews some countries, including Italy, the Netherlands, Russian Federation, South Africa and the United States, allocated over 30 per cent of their fiscal stimulus packages to discretionary social protection expenditure (ILO, 2010m, p. 7).

The crisis has illustrated the critical importance of unemployment benefits in ensuring income security for workers (figure 12.3 highlights the increasing number of unemployed receiving unemployment benefits), facilitating job matching and skills upgrading in close coordination with employment services and other active labour market policies, and in stabilizing aggregate demand (see ILO, 2010f, pp. 106–12). Many countries have taken ad hoc measures to expand coverage, adjust benefit levels and extend the maximum duration of benefit payments. Such measures include relaxing eligibility conditions, increasing benefit levels and reducing contribution rates (ILO, 2010n, pp. 15–25). Unemployment schemes proved beneficial not only in OECD countries with traditionally well-institutionalized schemes, but also in countries whose unemployment insurance schemes have been introduced more recently and often as a response to previous crises, such as Argentina, Bahrain, Republic of Korea and Thailand (Prasad and Gerecke, 2009; Behrendt et al., 2009). Unemployment assistance programmes also played a critical role in ensuring a minimum level of income security for workers at the margins of the formal economy; these include the local programmes in Mexico and the programmes for fishers and domestic workers in Brazil. At present, however, statutory unemployment benefit programmes exist in only 78 out of 184 countries studied, and usually cover only some qualified formal employees. According to recent estimates, only 15.4 per cent of the unemployed are receiving some unemployment benefits, with

Figure 12.3 Number of unemployed receiving social security unemployment benefits, selected countries, 2007–2010 (weighted averages)



Note: The details and explanations are available in the source.

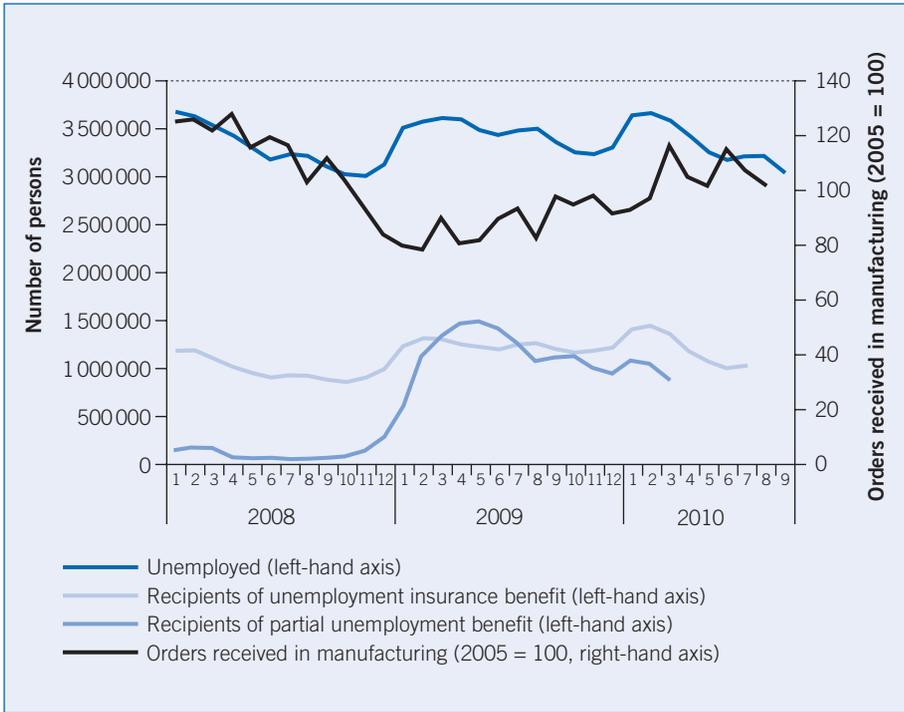
Source: ILO (2010f, figure 10.1).

about 1 per cent in the low-income countries and almost 40 per cent in the high-income countries (ILO, 2010f, p. 245).

Partial unemployment benefits also proved to be particularly helpful. By allowing a reduction in working time while at the same time maintaining income security for workers, these benefits helped workers and employers to maintain their employment relationship throughout the crisis (ILO, 2010o; ILO 2010f, pp. 107–10). They contained the rise in unemployment rates caused by the fall in demand, and enabled employers to react quickly as markets picked up again (see figure 12.4 for evidence from Germany).

While unemployment benefit schemes have attracted most attention as automatic stabilizers, other social security programmes play a similar role. For example, social assistance programmes prevent or alleviate vulnerability and poverty at the micro level, and a drop in aggregate demand at the macro level even though their effective outreach is sometimes

Figure 12.4 Germany: Partial unemployment benefits during the global crisis, 2008–2009, by month



Source: ILO (2011g), based on statistics from the German Federal Employment Agency and the National Statistical Office.

limited. The experience of Brazil (see Chapter 13 in this volume) illustrates the beneficial role played by social assistance programmes, together with other policies, in reducing poverty, boosting aggregate demand and stimulating broad-based growth. Programmes that facilitate access to health services can help to prevent situations where the loss of a job is coupled with loss of access to health services (through the loss of an employer-sponsored health insurance plan). Both types of programme are important elements of crisis response in the short run, but they also play a major role in preventing negative long-term effects of a crisis on people's health, well-being and perhaps also future productivity.

The crisis has once more confirmed that demand-strengthening crisis response strategies can be implemented much more quickly in countries where social security programmes, including administrative structures, are already in place and can be easily extended (Bonnet et al.,

2010). The lack of effective programmes and institutional structures in many developing countries has further exacerbated pre-existing vulnerabilities (McCord, 2010). The importance of pre-existing structures has been demonstrated not only throughout the current global crisis, but also in earlier economic crises as well as in other kinds of crisis. For example, due to relatively broad social security coverage and access to health-care services, Sri Lanka after the tsunami in 2004 was able to confront at least some aspects of the situation more effectively than some other countries affected by that or similar natural disasters.

12.2.3 Opening a window of opportunity for the extension of social security

The third lesson from the crisis stresses the opportunities arising from it. The crisis opened a window of opportunity to firmly anchor social protection policies in national economic and social development strategies as an essential component, and to harness the necessary international support for this matter. However, more intensive efforts are still necessary if sustainable political will is to be mobilized in creating the required fiscal space, primarily at the national level but also internationally.

National efforts to implement social protection policies as a key element of development strategies have been amplified since the crisis. Some prominent examples in middle-income countries include the conditional cash transfer programmes Bolsa Família in Brazil and Oportunidades/ Progresá in Mexico; recent pension and other reforms in Chile; the extension of effective access to health care and cash transfers in Thailand; and the high-coverage social grants programme in South Africa which includes non-contributory benefits for children, the disabled and the elderly (see ILO, 2010n). Similar efforts to introduce and extend social protection programmes have been undertaken or are under debate in a number of low-income countries too, including social pensions in Nepal and Timor-Leste, the extension of target cash social assistance (“food subsidy”) in Mozambique and cash transfers in Zambia. Where effects on human development, poverty alleviation, employment and local economic development can be discerned, these have been largely positive (ILO, 2010p). While such efforts had already gained momentum before the crisis and were also reflected in a number of regional policy documents – such as the Livingstone Declaration in 2006, the African Union Social Policy Framework in 2009 and most recently the Yaoundé Tripartite Declaration on the Implementation of the Social Protection Floor in 2010 (see ILO, 2010q) – the crisis contributed to moving the issue higher on the international agenda.

All these efforts have gained international attention and support. Social protection is now widely accepted as a key element in national crisis response and prevention policies. This has been marked by the inclusion of the Social Protection Floor concept in the Global Jobs Pact (ILO, 2009d; UN, 2009) and as one of eight United Nations crisis response initiatives (UN-CEB, 2009). The Social Protection Floor Initiative of the United Nations, co-led by the ILO and the World Health Organization (WHO), promotes a set of guarantees aiming to ensure universal access to at least a nationally defined set of essential health-care services; at least a basic level of income security for children, older women and men and people with disabilities; and programmes for those in active age groups who are unable to earn sufficient income in the labour market. Several G20 documents have also highlighted the role of social protection as an element of national crisis response policies and of wider social and economic development.

12.3 POLICY IMPLICATIONS AND RESEARCH GAPS

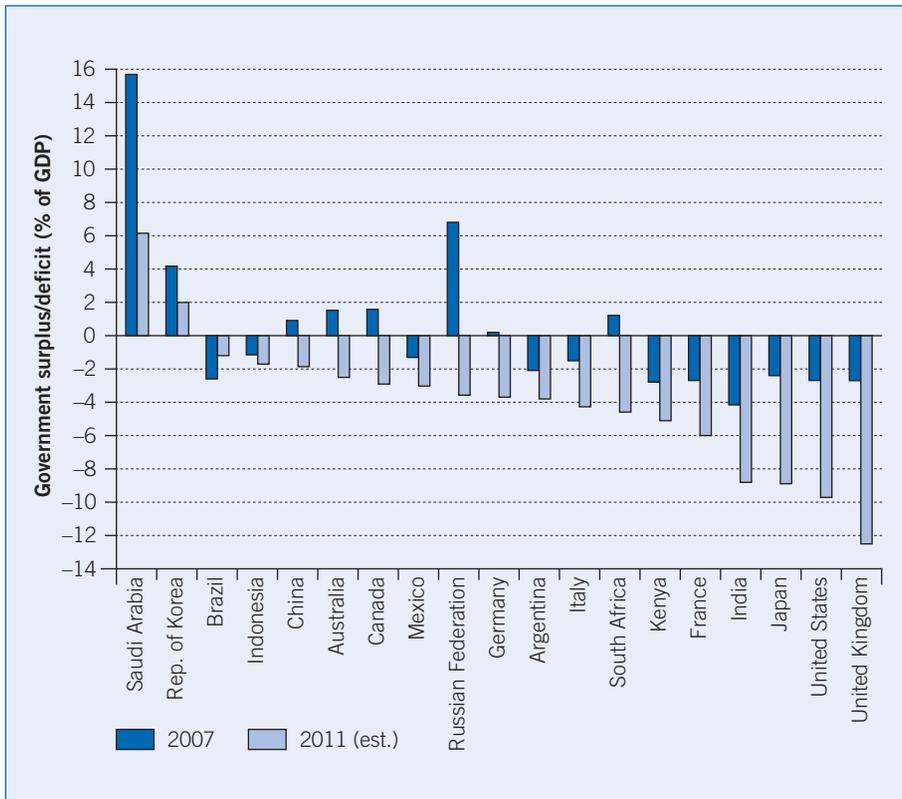
The lessons from the global crisis have several implications for future social security policies and for wider social and economic policies. The most fundamental is the call for a new global development paradigm focusing on income-led growth. The necessary change in policies is taking place in a context of widespread fiscal austerity which might obstruct the extension of social security. This requires a clear prioritization of social security needs in policy decisions at both national and international levels.

12.3.1 Prioritizing social security in the context of fiscal austerity

The aftermath of the global crisis has left many countries with large and in some cases still growing government deficits. Estimates by the International Monetary Fund (IMF) show increasing levels of public debt in a majority of countries (see figure 12.5).

The surge in public deficits increases the pressure to contain public expenditure (IMF, 2010b). Obviously, social security expenditure is, in many countries, one of the targets of possible curtailments, along with public investments and public-sector wages. A premature consolidation of public expenditure may however lead to pro-cyclical contractions of demand and delayed investments in infrastructure, with negative effects on long-term growth and social cohesion. Such effects may be exacerbated in many countries by a structural bias in fiscal consolidation measures, which combine cuts in social security and labour market

Figure 12.5 Pre- and post-crisis levels of government deficit, selected countries (IMF estimates, percentage of GDP)



Source: ILO (2011g), based on IMF (2010h).

spending programmes with tax cuts for high-income earners and companies, negatively affecting low-income earners and the middle classes (IILS, 2010, pp. 57–75; Torres, 2010a). In many countries post-crisis fiscal consolidation is followed by temporary cuts in social spending, but also by measures aimed not only at cost-cutting but also at trimming down previously achieved levels of protection.

While there has been growing recognition of the need to prioritize social security spending and to increase the fiscal space for social security in many countries at all levels of development, the pressure on public budgets may close this window of opportunity prematurely. Some countries, however, have already embarked on large retrenchment measures in order to contain their public deficits (e.g. Greece, Ireland, United Kingdom), and others may follow.

Challenges arising from fiscal consolidation, demographic ageing and future economic downturns can be only partially addressed by changes in benefit design, eligibility conditions and financing mechanisms, which may weaken protection levels below the accepted standards. International experience has shown that a well-informed social dialogue can help to find, and agree on, solutions that ensure sustainable and adequate levels of protection.

The recognition of the need for effective social spending as a critical element of economic and social policies has to translate into appropriate policies at the national and international level. The increased pressure on public budgets may give way to a new wave of poorly balanced fiscal austerity measures which threaten to undermine the foundations of more balanced economic and social development (Ortiz et al., 2010; Zhang et al., 2010). The international financial institutions play a particularly important role in this respect. While in their policy statements the leaders of the IMF and World Bank have acknowledged the objectives of full employment and decent work and the need to better integrate economic and social policies, their institutions' policy recommendations at the international and country level do not necessarily keep pace.

In order to maintain or extend the fiscal space available for the promotion of policies conducive to income-led growth, more attention needs to be given to the structure of public expenditures and sources of revenue. Public expenditure reviews need to be focused more narrowly on the effectiveness and efficiency of allocated expenditure in reaching a country's strategic objectives and, if necessary, suggest a revision of spending priorities. What counts is not the level of social expenditure, but its efficient allocation so as to effectively achieve social outcomes. This puts a strong emphasis on policy design, coordination and coherence. A promising area for research in this context would be the role of rules, discretion and social dialogue in setting public spending patterns in the shorter and long run. To some extent, the analysis and sharing of good practice experiences can help policy-makers to develop new policy options adapted to the particular context.

Greater attention is also necessary to strengthen the domestic resource base available for the implementation of social policies, particularly with respect to enhancing the effectiveness, efficiency and equity of revenue collection. This is of particular relevance for middle-income countries, which are home to the majority of the world's poor (Sumner, 2010); and it also has important implications for national social and economic policies, as well as for international development policies.

12.3.2 *Extending coverage and strengthening social security guarantees*

The lessons from the crisis call for a new development paradigm which reflects a more balanced understanding of the interdependency of economic and social development. The failure of the export-led growth model in a context of a fairly unchecked globalization has forcefully underlined the need to develop policies which would ensure that the benefits of globalization are more widely shared and more equitably distributed. While the export-led growth model has overemphasized export sectors and has depressed wages and incomes and exacerbated income inequality (WCSDG, 2004; IILS, 2008), a new development model should give more emphasis to domestic consumption supported by productive employment, fair wages and working conditions and adequate social protection.

A number of countries have moved towards income-led growth strategies during recent years, and already follow an income-led growth strategy with a strong social protection component. Brazil has followed a strategy of extending non-contributory social security benefits for the poor, combined with higher minimum wages. China has extended both contributory and non-contributory social security programmes in many provinces, and facilitated access to health care. Thailand's policy of granting universal access to health care and extending cash transfer programmes is equally notable, as are India's policy initiatives for the extension of social security benefits to unorganized workers. While it is too early for a full assessment, there is growing evidence that these policies have contributed to boosting resilience against the effects of the global crisis and have supported economic and social structural change. More systematic research on the role of social security in buttressing economic and social transformations in Africa, Asia and Latin America, as well as on earlier experiences in post-war and post-1989 Europe, would help to generate important lessons for other countries. In this context, more research assessing the long-term dynamic implications of investments in social security, especially in low- and middle-income countries, would help to ensure that such investments can be designed in the most effective and efficient way.

As a corollary to economic and labour market policies, income-led growth requires strong social security guarantees which can provide at least a minimum level of income security and access to social services, and thus contribute to achieving higher levels of health, education and productive employment in the short and medium term. These are at the core of the Social Protection Floor Initiative. Equally important is the protection of at least minimum adequacy standards and the gradual progression

towards higher levels of protection in line with economic development. Together, these two aspects of the extension of social security – the “horizontal” dimension of extending coverage to all as reflected in the Social Protection Floor Initiative, and the “vertical” gradual progression towards higher levels of protection – represent the ILO’s two-dimensional approach to the extension of coverage (ILO, 2011g). International social security standards play an indispensable – albeit often underestimated – role in setting internationally accepted benchmarks for social security.² In view of the key role of these standards in times of crisis and structural change, more research would be needed to assess their role in specific national contexts of acute crisis and structural change, and to develop proposals on how they can be applied more effectively.

Rights-based approaches to the extension of social security coverage are therefore necessary to underpin future economic and social development (Hagemeyer, 2009). These go beyond the provision of safety nets, and require legislative foundations defining individual entitlements, clear and transparent eligibility criteria, and rights of appeal as well as adequate sources of funding. Such approaches are supported by policies driven by national strategies based on a broad social dialogue, and efficient institutional frameworks funded from reliable sources. In many developing countries, however, many of the new social protection programmes are still limited to pilot projects and temporary ad hoc support for which future funding perspectives, in particular with respect to incorporating these programmes into national policies, are uncertain. Further efforts are needed to ensure that these programmes become an integral part of national policies and budgets.

The design of future policies should take into account the growing evidence demonstrating the important role of social security in supporting the long-term development of countries, facilitating structural transition and change, cushioning the effects of economic downturns, letting all share the fruits of growth and globalization, reducing poverty and enabling social cohesion. The priority is to establish at least basic social protection to all in need everywhere.

² See for example the discussion on the practical application of such benchmarks in multi-pillar pension schemes in Drouin and Cichon (2009).