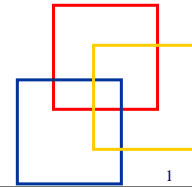# Social Solidarity:
the basis of social security in times of crises and beyond

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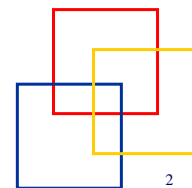The ILO Global Campaign to extend Social Security to all

1

Structure of the presentation

- One: Effects of the crisis on schemes and people
- Two: Responses so far and beyond
- Three: The three dimensions of an emerging solidarity based policy paradigm
- Four: What did we learn, what can we do?

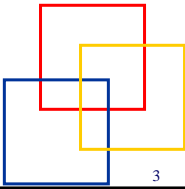The ILO Global Campaign to extend Social Security to all

2

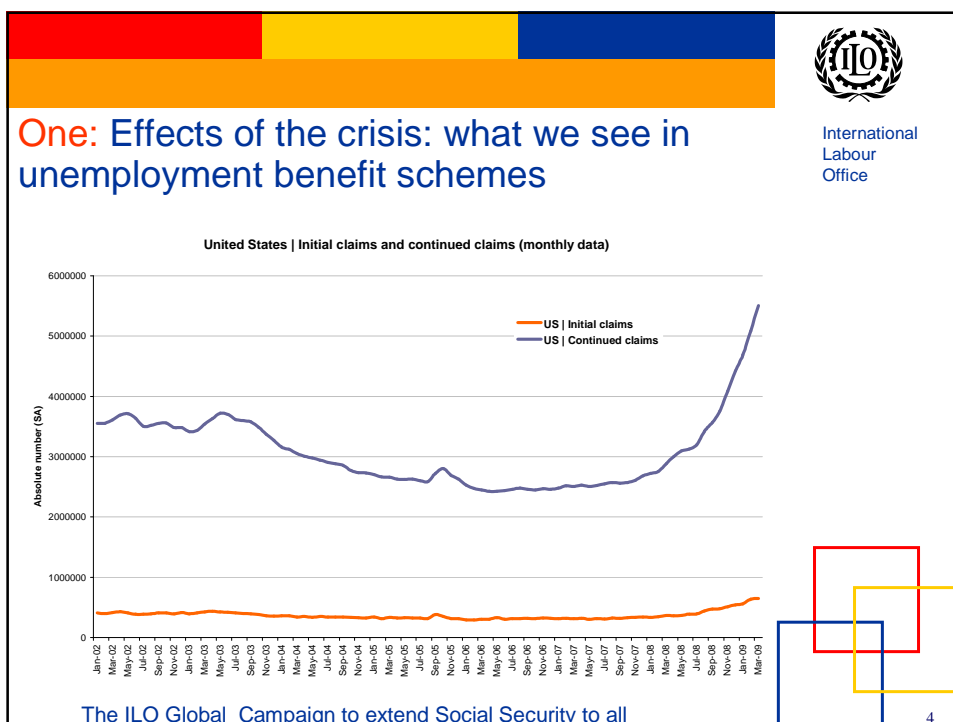# One: Effects of the crisis - what we expected

- All PAYG non-pension cash benefit and in-kind benefit schemes:
  - reductions of revenues and probably increase of expenditure => reductions of contingency reserves,
  - need for state subsidies,
  - increased social assistance payments
- Pension insurance schemes:
  - DB schemes (fully or partially funded):
    - some pressure on contribution rates depending on level of funding,
    - potentially longer term indirect effects on pension levels
  - DC schemes:
    - pressure on benefit levels and
    - public social assistance expenditure (to compensate for losses in DC pensions)

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One: Effects of the crisis: what we see in unemployment benefit schemes

United States | Initial claims and continued claims (monthly data)

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One: Effects of the crisis

Index total monthly numbers of Social security unemployment beneficiaries (base 100 in January 2008) in selected countries and
Weighted average indexed value for the selection of countries and programmes since January 2008

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One: Effects of the crisis: what we see in funded pension schemes: the base of 2007
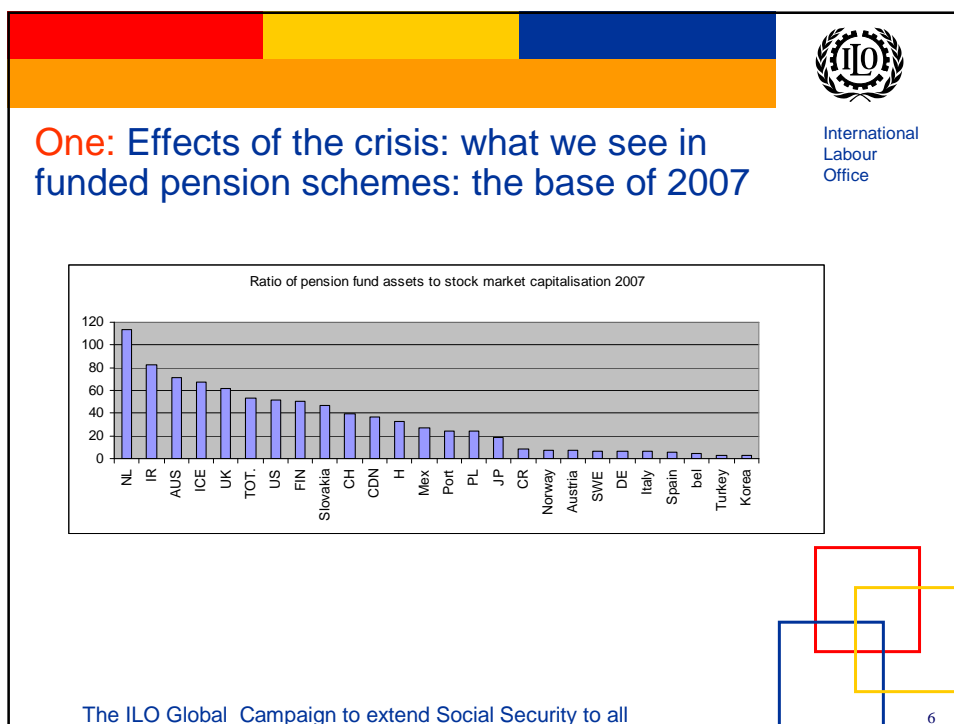
Ratio of pension fund assets to stock market capitalisation 2007
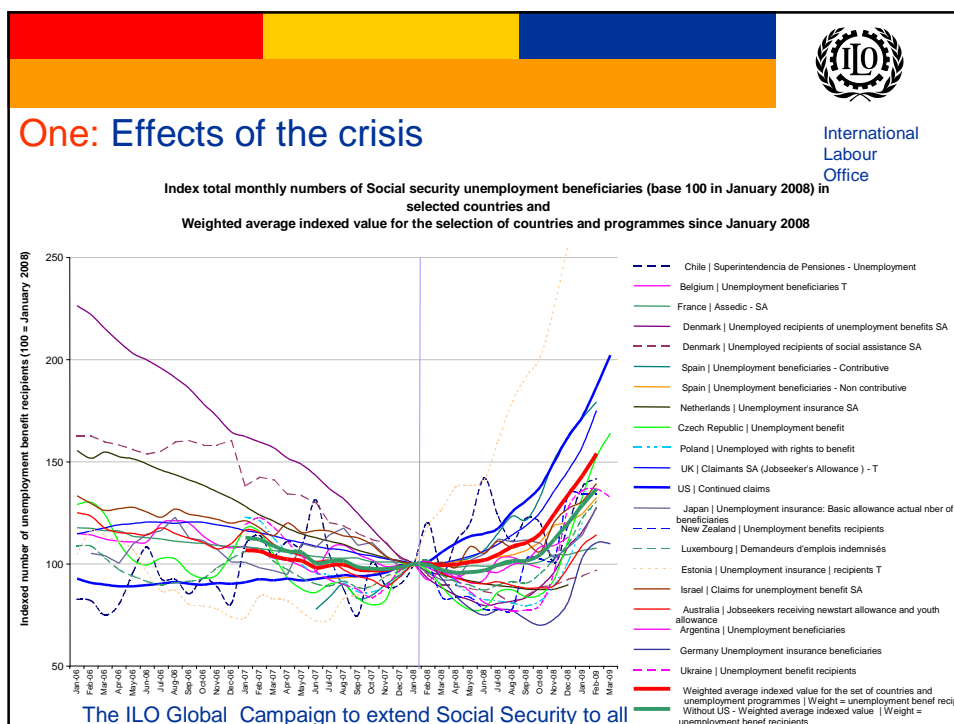
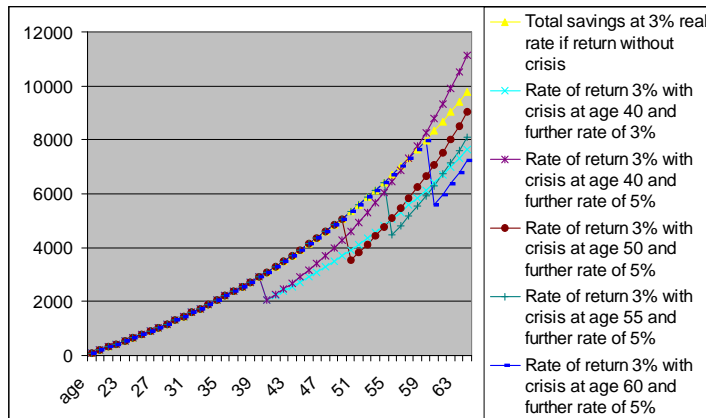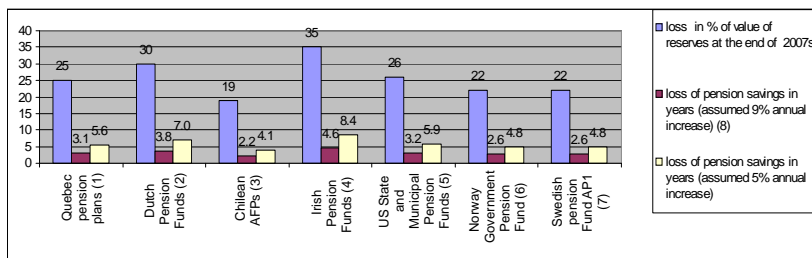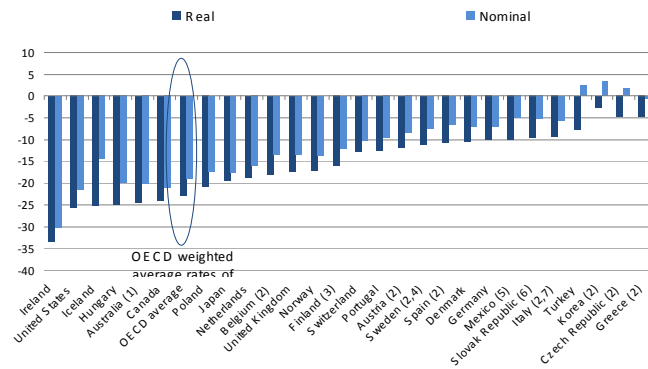The ILO Global Campaign to extend Social Security to all

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One: Effects of the crisis: effects on the individual pension saver in DC schemes under different crisis scenarios

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Legend:
- Total savings at 3% real rate if return without crisis
- Rate of return 3% with crisis at age 40 and further rate of 3%
- Rate of return 3% with crisis at age 40 and further rate of 5%
- Rate of return 3% with crisis at age 50 and further rate of 5%
- Rate of return 3% with crisis at age 55 and further rate of 5%
- Rate of return 3% with crisis at age 60 and further rate of 5%

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One: Effect of the crisis: what we see in funded pension schemes – fund losses in 2008 ….and lost years of pension savings

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Legend:
- loss in % of value of reserves at the end of 2007s
- loss of pension savings in years (assumed 9% annual increase) (8)
- loss of pension savings in years (assumed 5% annual increase)

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8

One: Effect of the crisis: what we see in funded pension schemes – pension fund returns

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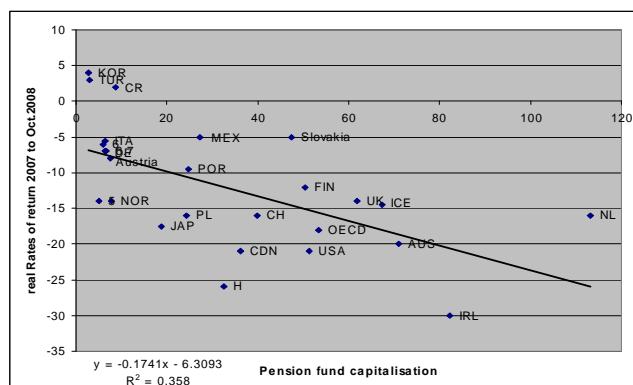
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9

One: Effects of the crisis: what we see in funded pension schemes – relationship between negative rates of return and stock market penetration of pension funds

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Two: Responses and effects so far… and beyond

- **Immediate responses:**

  – social security is a means to combat the social and economic consequences of the crisis through individual consumption smoothing and stabilisation of aggregate demand
  – acceptance of stabilisation function of social transfers leads to extending benefits (G8)...
  – ... But there are first signs of "consolidation measures" ...

- **Long term effects:**
  – Budgetary pressures due to multi-trillion dollar rescue packages (that cannot be absorbed inflation free through "quantitative easing") will lead to pressures on government expenditure and hence social transfers (at an interest rate of 2% and financing over 15 years the 6 trillion rescue package would have to increase the government spending in the G20 by 1%-point of GDP) => social transfer recipients could pay the bill...
  – Loss of pension funds (if not recovered) can be as big as the fiscal stimulus package of 5-6 trillion US $

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Social security components of stimulus packages

Country	Strengthening systems						Consolidating systems	
	Employment subsidies/active LM measures	unemployment benefit systems	social assistance	pension benefits	and increasing other cash benefit	improving access to HC systems	benefit cuts	Increasing revenues/changing financing
Algeria			1		1			
Argentina								
Armenia			1	1				
Australia			1			1	1	
Belize			1					
Brazil	1	1	1					
Bolivia	1							
Bulgaria	1							
Costa Rica	1		1	1	1			
Canada	1		1	1	1			
China				1	1			
Czech Republic								
Denmark	1							
Dominican Republic		1	1	1	1	1		
Ecuador			1					
El Salvador			1	1				
France		1						
Germany	1	1	1	1	1			
Georgia			1					
Honduras			1		1			1
Hungary	1							1
India		1						
Kazakhstan			1	1	1	1		
Morocco		1						
Netherlands		1						1
Norway	1							
Philippines	1							
Poland			1					
Portugal	1	1						1
Romania								1
Russia				1				
Senegal						1		
Singapore	1		1		1			
Spain	1	1	1	1	1			
Tunisia		1						
Turkey		1						1
Thailand	1							
United Kingdom						1		
US								
Total =39	**16**	**13**	**17**	**11**	**12**	**6**	**5**	**10**

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Three: The three dimensions of an emerging solidarity based policy paradigm for the crisis and beyond…

- **Fix existing schemes**

- **Introduce/strengthen a social protection floor**

- **Combine the two into a rational long-term social security development strategy**

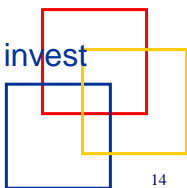**Three: Fix existing schemes - A reminder of facts and myths …**

- Transfer schemes /pension schemes can only define entitlements to a share of present/future consumption (not absolute amounts) – no society can promise more
- Markets cannot be asked to secure the income of people who cannot or can no longer operate in markets
- The statement that pension schemes can only be stabilised by paradigmatic reforms is a myth…
- The statement that countries can only afford a basic social safety net type welfare state in the globalised economy is likewise a myth…
- The statement that developing countries cannot invest in social security with wide coverage is a further myth
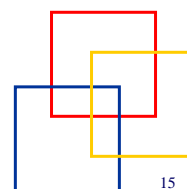
Three: Fix existing schemes

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- *Ensure decent minimum income security*
- *Stop wasting public money* on providing tax breaks for voluntary private third tier pension schemes
- *Stop undermining trust in public DB schemes* by pretending that DC schemes are immune to ageing
- *Enforce efficiency:* minimum administrative cost levels
- *Improve the incentive structures* in unemployment and social assistance schemes
- *Intelligent pension age rules* need to be used as stabilisers
- *Intelligent funding levels* in DB pension schemes need to be developed to optimise the economic role of pension schemes …
- *Reduce dependency of benefit levels in pension schemes on financial market performance* through:
    - Shifting the balance in the systems back to DB schemes
    - Develop DB guarantees for DC schemes
    - Turn public/publicly mandated DC schemes into NDC schemes with guaranteed minimum rates of return

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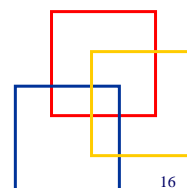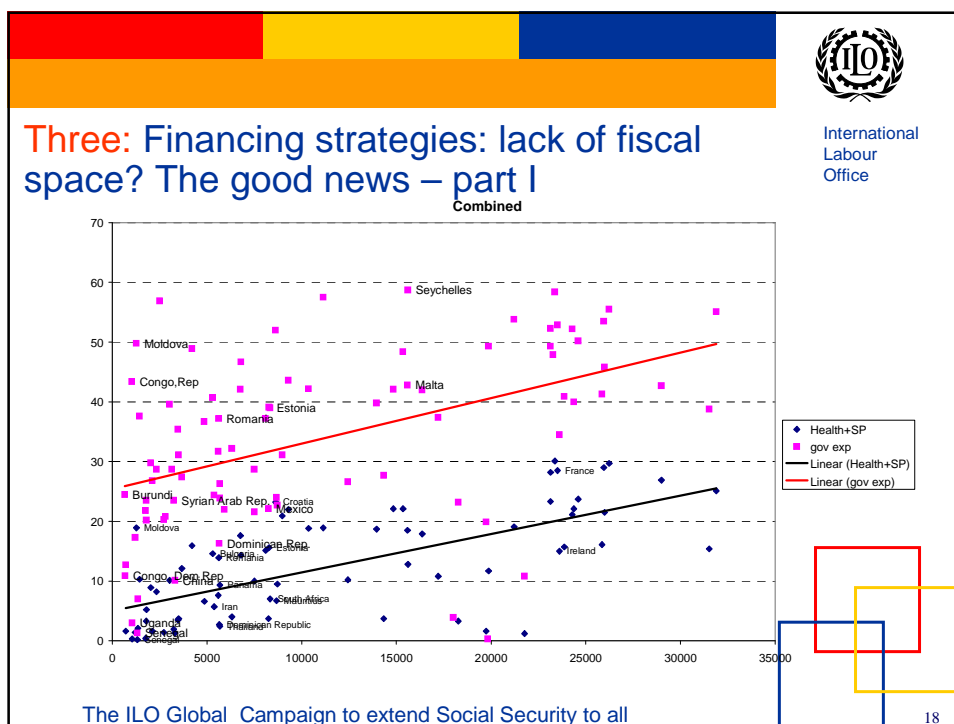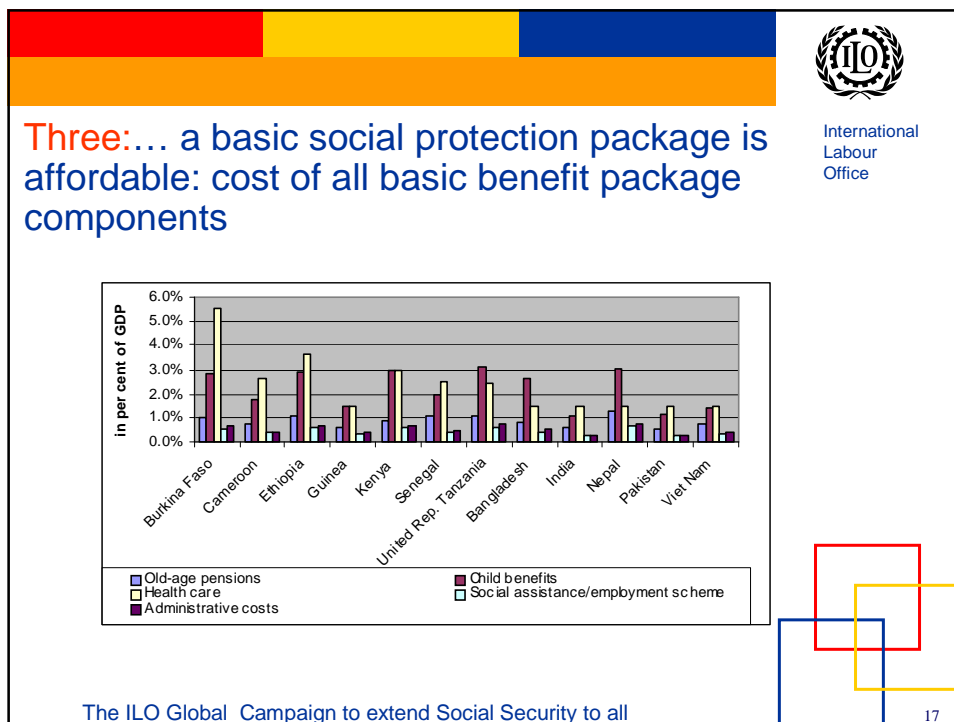
15

Three: Towards a progressive development of social security starting with a basic social protection floor that could inter alia consist of four essential social security guarantees:

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- Universal access to basic health benefits, through a set of sub-systems linked together: basically a public health service funded by taxes, social and private insurance and micro-insurance systems.
- Income security for all children through family/child benefits aimed to facilitate access to basic social services: education, health, housing.
- Access to basic means tested/self targeting social assistance for the poor and unemployed in active age groups.
- Income security for people in old age, invalidity and survivors through basic pensions.

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16

Three:… a basic social protection package is affordable: cost of all basic benefit package components

Chart legend:
- Old-age pensions
- Health care
- Administrative costs
- Child benefits
- Social assistance/employment scheme

Countries (x-axis): Burkina Faso, Cameroon, Ethiopia, Guinea, Kenya, Senegal, United Rep. Tanzania, Bangladesh, India, Nepal, Pakistan, Viet Nam

y-axis: in per cent of GDP (0.0% to 6.0%)

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17

Three: Financing strategies: lack of fiscal space? The good news – part I

Combined

Legend:
- Health+SP
- gov exp
- Linear (Health+SP)
- Linear (gov exp)

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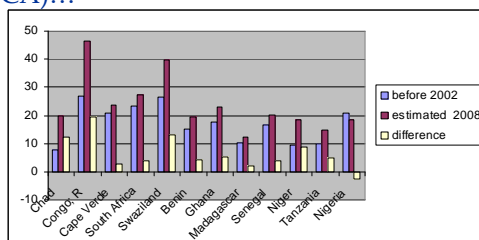
18

Three: The good news - part II: growing fiscal space

- Sub-Saharan African countries increased on average domestic revenue from 15% to 19% of GDP between 1997 and 2006
- …and after Monterrey domestic resources increased (source OECD and ECA)…

Three: Preliminary results of an ILO Meta study "Compendium of cash transfer programs in Developing Countries" …a number of countries are already providing basic guarantees

- **Number of countries in study:** 28 - 8 in Africa, 9 in Asia, 11 in Latin America
- **Number of studies:** 80 studies during 1999 and 2008
- **Number of programmes: 63**
- **Estimated number of total beneficiaries (primary and secondary, at the end of 2008):**
  - Programmes for the active population: **43 Million**
  - Programmes for the elderly and disabled: **30 Million**
  - Programmes for children: **146 Million**

Three: Social impact – preliminary results of an ILO Meta study

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Criteria	Number of studies that found Effect positive	Effect small/neut.	Effect negative
Poverty/Vulnerability			
Poverty	46	9	-
Inequality	5	1	-
Health/nutrition	25	1	-
Education			
Enrolment	30	-	-
Quality	9	5	-
Labour Market Participation	9	5	3
Child labour	12	3	-
Prod. Investments/act's	40	5	-
Social Status/bonds	23	1	2
Gender	13	4	-

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21

Three: The emerging comprehensive policy paradigm - key principles
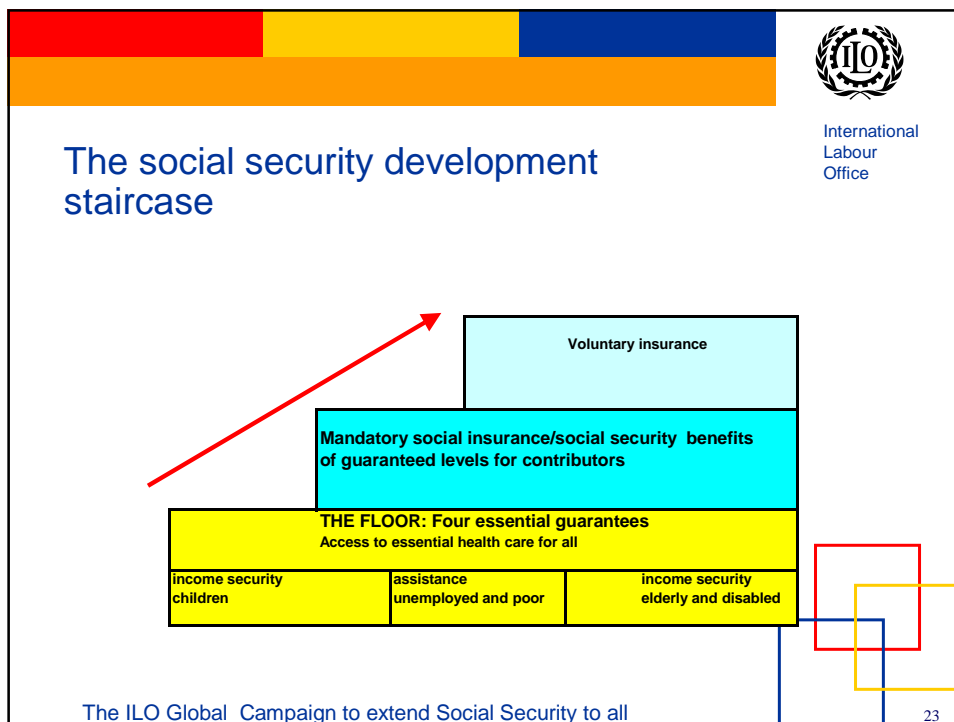
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Based on the human right to social security, in the ILO's constitution and the relevant international labour standards, in particular ILO Convention No. 102, solidarity based social security systems should comply with the following social outcomes:

- Universal coverage of basic income security and essential health care.
- Benefits and poverty protection as predictable rights.
- Actuarial equivalence of contributions and benefit levels.
- Sound financing.
- Societies should remain the ultimate guarantor of social security rights and benefit levels.

Key observation: the crisis is a giant stress test for the (pensions) reform experiments of the last 2.5 decades – many failed on at least four of the five counts…

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The social security development staircase

	Voluntary insurance
Mandatory social insurance/social security benefits of guaranteed levels for contributors	
THE FLOOR: Four essential guarantees **Access to essential health care for all**	
income security **children**	**assistance** **unemployed and poor**	**income security** **elderly and disabled**

23

Four: What did we learn…

- **Positive:**
  - **Role of social transfers as economic and social stabilisers is widely accepted**
  - **There are new basic cash transfer systems that help to cope with the social fall out of the crisis**
  - **Public PAYG social security schemes are still holding out**
  - **Social assistance and unemployment benefit schemes work**

- **Negative**
  - **Too many people are not benefiting from any form of social security although it would be affordable**
  - **DC pension schemes are failing the crisis stress test with respect to their social outcomes**
  - **There is new talk on protecting the "most vulnerable" and not all...(G20 and G8) = focus an "assistantialism"**
  - **There will be long-term pressures on social expenditure**
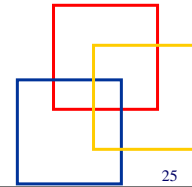
24

Four: What can we do…

- **Social security schemes:** Fill maximum policy space with respect to extension, free financial space through efficiency gains, ...inform the public...
- **National governments:** should not fall prey to myths ...and perceived need for reforms again...
- **ILO/ISSA:** Rapid knowledge generation and dissemination (GESS platform etc...), a pension commission ?, basic review of experience in 2011
- **ILO with ISSA and national schemes:** Support policy development on the international and national levels
  - Promoting existing standards as social safeguards
  - Developing new instrument (on the social protection floor)
- **UN/CEB:** Create a global coalition (with UNICEF, UNDESA, WHO, and bilaterals) to advocate the idea of a social protection floor
- **Social partners:** Defend solidarity within the workforce, within societies and between societies

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