



Economic insecurity is a global crisis

ILO report shows how and where

Economic security index linked to happiness

Economic security promotes happiness, and is beneficial for growth and social stability. This is a central finding of a new ILO report, which attempts for the first time to measure social and economic security of individuals and countries around the world.

An Economic Security Index (ESI) has been calculated for over 90 countries (covering 86% of the world's population). This is based on seven forms of work-related security, taking account of policies, institutions and outcomes in each case.

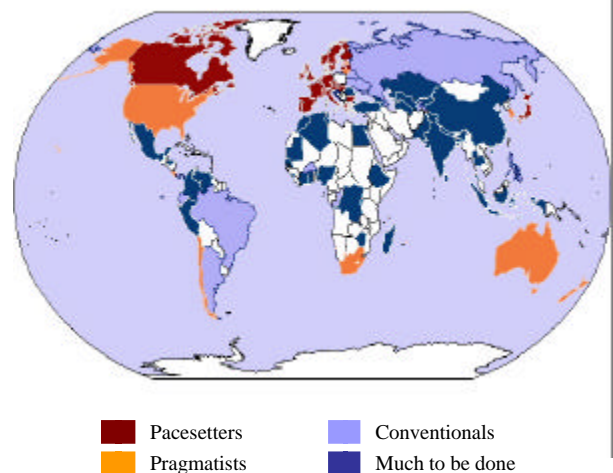
People in countries that provide their citizens with a high level of economic security have a higher level of happiness on average, measured by surveys on level of life-satisfaction and inequality in happiness within countries. The most important determinant of national happiness is not income level – there is a positive association but rising income seems to have little effect as wealthy countries grow wealthier. The most important factor is the extent of income security, measured in terms of income protection and a low degree of income inequality.

By contrast, happiness does not appear to be related to the level of skill. The ILO report finds that a high level of skills security, measured by an index incorporating indicators of schooling and training, is actually inversely related to happiness. The report suggests that this is due to jobs being poorly attuned to the needs and aspirations of people, as they become more educated and acquire more competencies. Job quality and mobility need to adjust upwards. At present, too many people are finding that their skills and qualifications do not correspond to the jobs that they have to perform, resulting in what the report calls a “status frustration” effect.

The report shows that political democracy and a trend towards civil liberties significantly increases economic security and that government spending on social security policies also has a positive effect. But there is only a weak impact of economic growth on security, measured over the longer-term.

In looking at national levels of economic security, countries are divided into four clusters – Pacesetters (with good policies, good institutions and good outcomes), Pragmatists (good outcomes in spite of less impressive policies or institutions), Conventionals (seemingly good policies and institutions but with less impressive outcomes) and Much-to-be-Done countries (weak or non-existent policies and institutions, and poor outcomes).

Economic Security Index: Clusters by region



Note: Countries in “white” are not part of the analysis.

Source: IFP-SES database 2004 and World Bank, World Development Indicators, 2003.

The report shows that about 73% of all workers live in circumstances of economic insecurity, while only 8% live in “pacesetter” countries, that is, in societies providing favourable economic security.

Many rich countries could achieve more economic security for their citizens, since some lower-income countries achieve higher levels than some of the rich countries. Indeed, the ILO analysis finds that the global distribution of economic security does not correspond to the global distribution of income, and that South and South-East Asia have greater shares of economic security



than their share of the world's income. Whereas South Asia has about 7% of the world's income, it has about 14% of the world's economic security. By contrast, Latin American countries provide their citizens with much less economic security than could be expected from their relative income levels.

A feature of the findings is that only countries that provide a coherent set of policies that strengthen all seven forms of labour security have a high score on overall economic security. Countries with very strong attainment in some spheres but with weak attainment in one or more others do not do well overall.

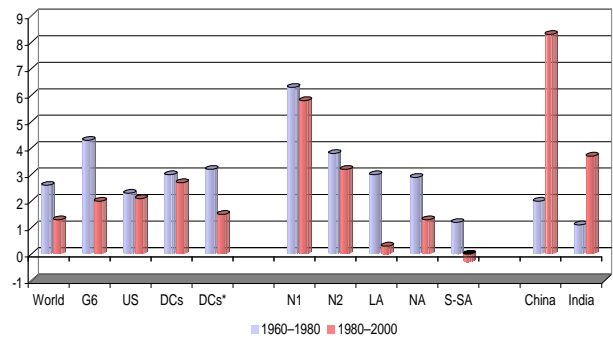
The report also finds that "income security is a major determinant of other forms of labour-related security" (p.296), and that income inequality worsens economic security in several ways. "The message is," the report concludes, "that highly unequal societies are unlikely to achieve much by way of economic security or decent work".

The analysis shows that there has been an upward trend in the frequency and severity of economic shocks during the recent period of globalization (since 1980), as well as a coincidental growth in the number of natural disasters affecting very large numbers of people. It also shows that, in the cases of China and India, the two mega-countries, are set aside, economic growth rates in per capita terms have declined while the variability of annual economic growth rates has increased (see Figure attached, and chapter 2), implying more national economic insecurity, contrary to predictions made by those pushing for rapid economic liberalization.

The ILO report notes that these trends are important because they show that more people are being exposed to systemic risk, rather than contingency risks. The latter are due to individual life-cycle events, such as individual unemployment or illness, which are covered by standard social security systems. People are far less able to prepare for shocks that affect whole communities and regions.

The ILO report also shows that for developing countries national level of economic security is inversely related to capital account openness (Chapter 11), implying that it would be sensible for developing countries to delay opening their capital accounts until institutional developments and social policies were in place to enable their societies to withstand external shocks. In other words, countries should postpone opening their financial markets until they have the institutional capacities to handle fluctuations in confidence and the impact of external economic developments.

REGIONAL DIVERSITY: ANNUAL GDP PER CAPITA GROWTH (%)
1960-80 AND 1980-2000



G6 = Canada, France, Germany, Italy, Japan and United Kingdom.
US = United States DCs = aggregate output of 59 developing countries.
DCs* = Developing countries, excluding China and India. N1 = first-tier NICs. N2 = second-tier NICs. LA = Latin American countries. NA = North Africa. S-SA = sub-Saharan countries, excluding South Africa.
Source: World Bank: World Development Indicators 2003.

Besides drawing on a global databank of national policies, the report uses statistics from a series of People's Security Surveys carried out in 15 countries, in which over 48,000 working people were interviewed about their work, the insecurities they experience, and their attitudes to inequality and related aspects of social and economic policy.

Respondents were asked about their attitudes to various aspects of economic insecurity and inequality, and it is clear that there is very widespread favourable opinion for a greater support for the economically vulnerable and a desire to reduce inequality (Fact Sheet 3 and chapter 12). A point that stands out is that economic insecurity fosters intolerance and stress, both of which contribute to social illness and ultimately to social violence.

Among other findings are the following:

- most workers in developing countries are unaware of trade unions, and a majority in countries surveyed do not have much faith in them (Fact Sheet 2);
- women experience more insecurity than men and more types of insecurity (Fact Sheet 4);
- employment security is diminishing almost everywhere, due to informalization of economic activities, outsourcing, and regulatory reforms (Chapter 6);
- a large number of people possess skills that they do not use in their work (Fact Sheet 13 and chapter 8);
- job security (the possession of a niche with prospects of satisfying work and a career) is weak in most countries, and data from the People's Security Surveys highlights widespread job dissatisfaction (chapter 9).



The report also draws on specially designed Enterprise Labour Flexibility and Security Surveys, in which managers of over 10,000 firms in 12 countries were asked about their labour and employment practices. The outstanding result from those data is that companies that provide their workforce with greater levels of economic security are more likely to be successful commercially, to grow, and to generate productive employment.

Finally, the analysis considers a wide range of policies to determine which offer the best prospect for providing greater levels of economic security, particularly in developing countries. To evaluate such policies, it proposes a novel approach, evaluating them on the basis that they should offer the strong prospect of reducing the economic insecurity of the most insecure groups in society and of not imposing controls and “unfreedom” on intended beneficiaries.

The ILO analysis concludes that conventional social security systems are inappropriate for responding to the new forms of systemic risk and uncertainty that characterize the emerging global economic system (Chapter 14). Accordingly, governments and international agencies should promote universalistic, rights-based schemes that provide people with basic economic security, rather than resort to selective, means-tested schemes.

Attached is:

1. Executive Summary in four languages (English, French, German and Spanish)
2. Table of Contents of book
3. Fact Sheets Nos.1-13
4. Comments on the Report
5. Procedures for obtaining further information

PROCEDURES FOR OBTAINING FURTHER INFORMATION

For further information, please contact Christian Colussi at the Socio-Economic Security Programme secretariat:

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or by phone: +41 22-799.7913

Members of the team could give interviews in English, French, Portuguese or Spanish.

For those interested in the issues in Africa, you may be interested to know that a companion book is due for publication in September 2004, namely *Confronting Economic Insecurity in Africa*. Copies of this could be obtained from the secretariat.