
Committee of the Whole on Crisis Responses

Thematic dialogue 9: Social protection

Main challenges

The crisis poses multiple threats to people around the world – their job security in the formal and informal economies, their incomes and their social security, in the short and the long term. Economic downturn threatens not only enterprises and employment but also revenues, savings and investments devoted to pensions and other branches of social security.¹

For 80 per cent of the world's population – the vast majority of whom are living in the developing world – who are not covered by social security provisions and those who are losing their daily income due to job retrenchments and reduced demand globally, the main challenge is to provide them with some form of social cash transfers financed through public resources to ensure a basic income to their households.

In the industrialized countries, which have well-established social security systems, the main challenges are the need to extend in duration and in form the measures of social security for those who have lost their jobs and vulnerable categories of the population (i.e. the elderly, the disabled, children), as well as to stabilize the social security systems which are facing increased expenditure simultaneous to reduced revenues and hence financial strains.

Furthermore, countries with pension systems based on capitalization (defined contributions), such as in various countries in Latin America and in Central and Eastern Europe, have seen their reserves fall sharply due to the decline of asset prices on the financial markets. This will translate into much lower pension benefits at least for members of these schemes who will be retiring in the coming years.

Patterns of response

In times of crisis, transfer incomes, notably social assistance and social security benefits paid to unemployed workers and other vulnerable recipients, act as social and economic stabilizers. Benefits not only prevent people from falling further into poverty but also limit the contraction of aggregate demand thereby curtailing the potential depth of the recession.

¹ *The need for solidarity: Social security system in times of crises*, paper presented by A. Diop at the ISSA Seminar on Social Security in Times of Crisis: Impact, Challenges and Responses, Geneva 24–25 April 2009.

A number of industrialized countries have implemented stimulus packages which not only seek to stabilize their financial markets but also aim to tackle the problem of growing unemployment and social vulnerability. The main measures taken are increased and greater flexibility of unemployment benefits (Belgium, Germany, Italy, the Netherlands, etc.), increased transfers to vulnerable households (Belgium, Canada and Italy,) and additional funding for the extension of social security coverage in other programmes (such as the Medicaid programme in the United States). Many governments thus use existing social transfer systems to respond to the heightened need for protection during the crisis. Much of the additional expenditure that social security systems face due to increased numbers of beneficiaries, which are de facto hidden stimuli to the economy, remain so far unaccounted for.

Various governments in the developing world have also taken measures to include direct social security interventions such as the extension of unemployment benefits in duration and/or amounts (Brazil, Costa Rica), increase of cash transfers to vulnerable households (Brazil, China, El Salvador, India, Singapore) and indirect measures through major public investment programmes (China, India and South Africa). China and India have included in their stimulus packages funds equivalent to billions of US dollars to accelerate the extension of health system reform and cash benefits for the unorganized and rural workers.

The ILO has been recommending in the framework of its Global Campaign on Social Security and Coverage for All to ensure as matter of priority a minimum set of publicly financed social security benefits for all, i.e. *a social protection floor* covering access to basic health care, income security for the elderly and the disabled, child benefits and income security combined with employment guarantees for the poor in active age.² The ILO has shown that it is feasible to implement all or some of the basic elements of the social protection floor even in low-income countries. In some cases, a phased introduction and limited donor support may be necessary. Many developing countries have taken measures to introduce elements of national social protection floors in form of cash transfer programmes (such as *Oportunidades* in Mexico, *Bolsa Familia* in Brazil) during the last ten years. Consequently, they are now in a much better position to cope with the social fallout of the crisis, as the cash transfers systems can now be used as flexible response mechanisms.

Future policy development issues

Short-term measures to guarantee income replacement or support and in-kind transfers are essential to curtail the immediate effects of the crisis.

However, lessons learned from previous crises (such as the Asian crisis of the 1990s) have shown that systemic longer term social security measures are equally important to secure the permanent reduction of poverty and insecurity and ensure at the same time the capacity and flexibility to react fast to future crises thus ensuring the economic and social stabilizer function of social security.

The ILO is undertaking efforts to build a coalition of UN agencies and some of the key donors to promote the concept idea of a social protection floor as a cornerstone of national Decent Work policies. In April 2009, the UN Chief Executives Board (CEB)

² ILO, 2008: *Can low-income countries afford basic social security?* Social Security Policy Briefings, Paper 3, Geneva.

accepted the concept of the social protection floor as one of its policies to cope with the global crisis.

In countries with mature social security systems, policies need to be developed to provide for the necessary fiscal space for social transfers, even in the face of budgetary pressures that are building up due to the necessity to finance huge stimulus packages. The crisis also embodies a giant stress test for pension policies. The increasing reliance of pension financing on the performance of capital markets has provided for greater uncertainty with regard to individual pension levels. Policies that reintroduce some benefit guarantees into pension systems have to be explored.

The emerging policy issues can be summarized in a set of core questions. How can a basic level of social protection for all – including first and foremost the most vulnerable – be implemented? How can such policies and measures be made compatible with the necessity to build a long-term sustainable architecture of national social protection systems? How can the fiscal space for social transfers be secured or increased? How can mature social security schemes be financially stabilized and adequate benefit levels secured in view of budgetary pressures and loss of reserves that are caused by the crisis?

How are different agencies reacting in their approaches and policy advice on employment and social protection and their combination? Are their approaches coherent? Is there a need to revise policies that have been promoted so far? Are agencies cooperating? How can cooperation, inter alia, the new Social Protection Floor initiative of the CEB, be made more effective, including in the informal economy?

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References

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