



The Global Economic Crisis and the Future of Social Protection

International Labour Conference

98th session

Geneva

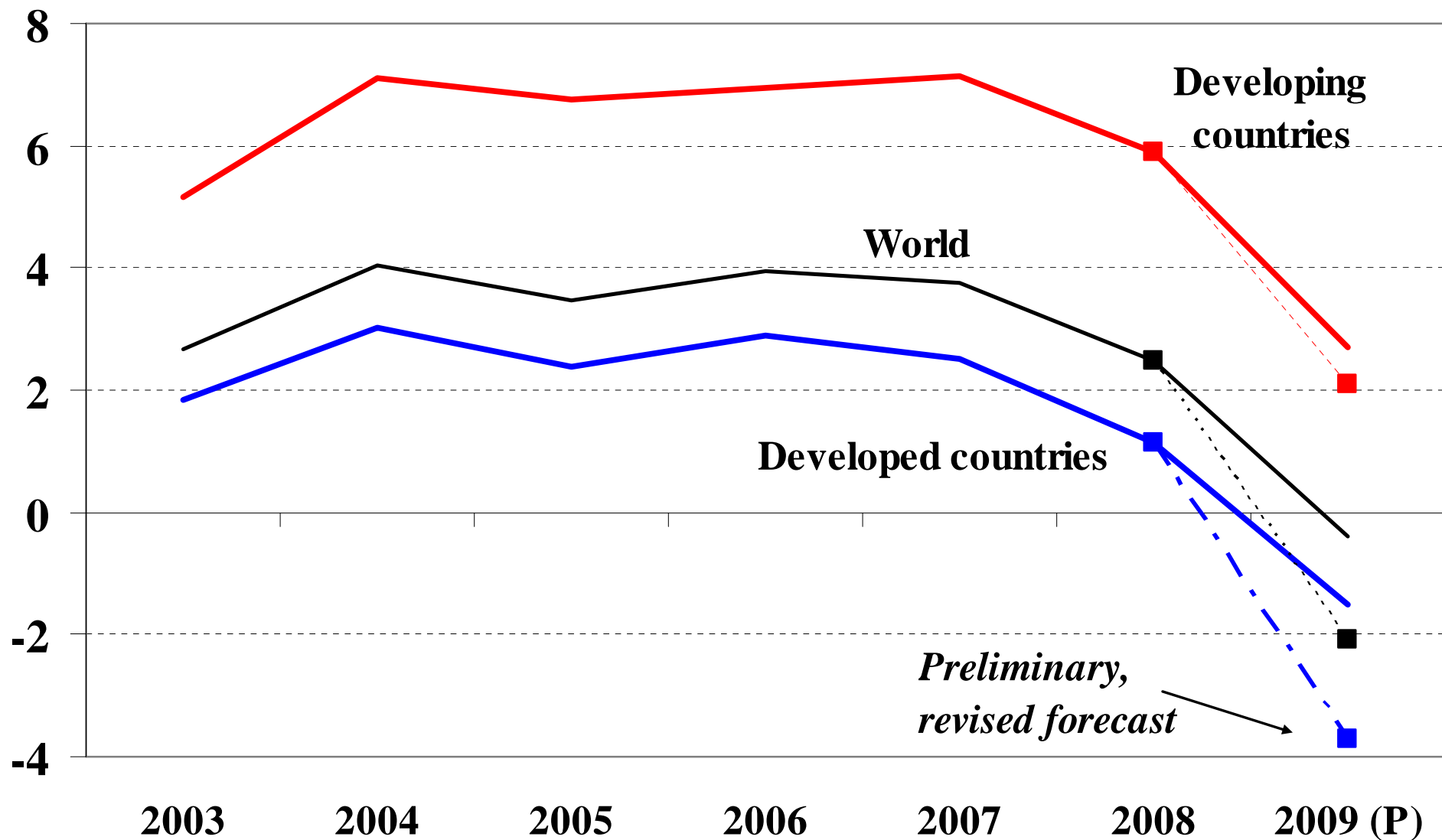
8 June 2009

Deflationary spiral



- Asset (stock, property) markets deflating
 - negative wealth effect
 - more bank insolvency
 - generalized credit squeeze
- Lower external demand, world trade
 - excess capacity
 - investment slowdown
- Depressed domestic demand
 - lower prices, output
 - lower employment, incomes

Globalization: Parallel fates



Growth by main country groups



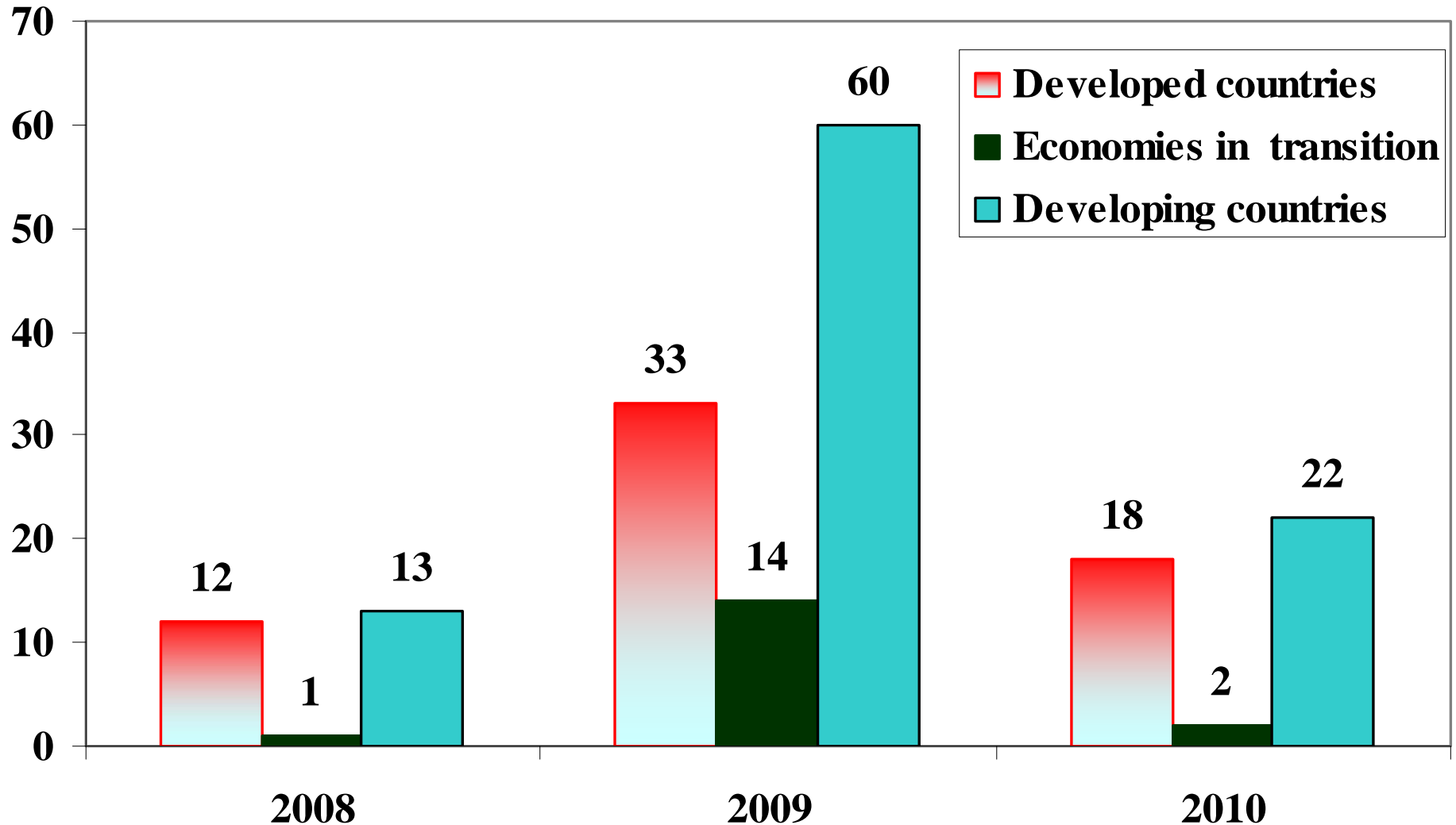
	Per capita GDP growth rate			Change in growth rate	
	<i>2004-07</i>	<i>2008</i>	<i>2009</i>	<i>2009/2008</i>	<i>2009/2004-7</i>
World	2.6	0.9	-3.4	-4.3	-6.0
Developed economies	2.1	0.3	-4.1	-4.4	-6.1
Economies in transition	7.7	5.5	-2.6	-8.1	-10.2
Developing economies	5.7	4.0	0.1	-3.9	-5.6
LDCs	5.2	3.6	0.3	-3.3	-4.9

Growth by main regional groups

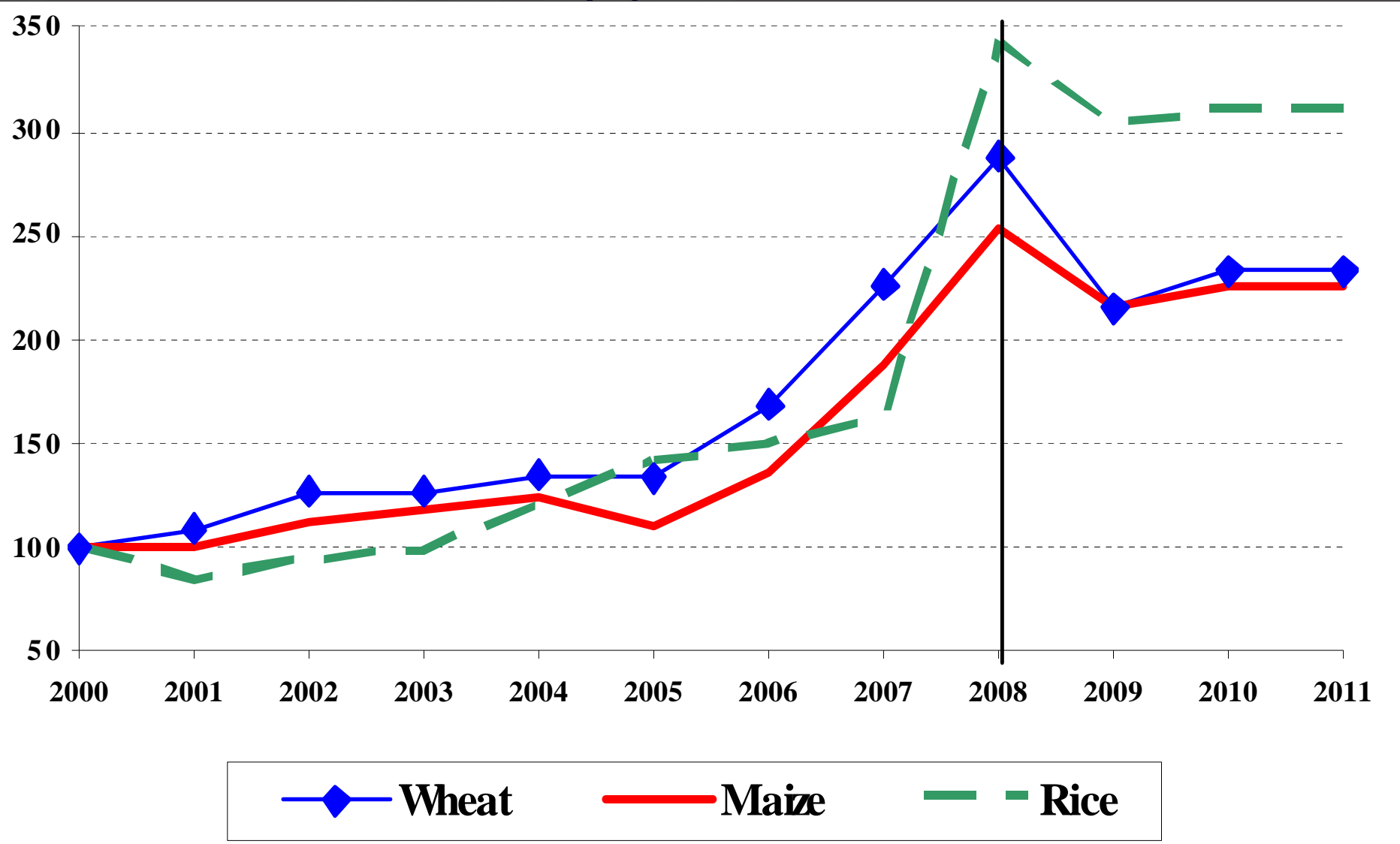


	Per capita GDP growth rate			Change in growth rate	
	2004-07	2008	2009	2009/ 2008	2009/ 2004-7
World	2.6	0.9	-3.4	-4.3	-6.0
Developed economies	2.1	0.3	-4.1	-4.4	-6.1
USA	1.6	0.1	-4.4	-4.6	-6.0
Japan	2.1	-0.6	-5.9	-5.3	-8.0
European Union	2.4	0.7	-3.4	-4.1	-5.8
Economies in transition	7.7	5.5	-2.6	-8.1	-10.2
Developing economies	5.7	4.0	0.1	-3.9	-5.6
Africa	3.4	2.5	-1.0	-3.5	-4.4
North Africa	3.6	3.6	1.4	-2.3	-2.2
Sub-Saharan Africa	3.6	2.2	-1.9	-4.1	-5.5
East and South Asia	7.3	5.0	1.8	-3.2	-5.5
East Asia	7.8	5.3	1.8	-3.5	-6.0
South Asia	6.5	4.9	2.6	-2.4	-3.9
West Asia	3.7	2.6	-1.2	-3.8	-5.0
Latin America + Caribbean	4.0	2.7	-3.0	-5.8	-7.0
LDCs	5.2	3.6	0.3	-3.3	-4.9
<i>LDCs excl. Bangladesh</i>	<i>5.4</i>	<i>3.4</i>	<i>-0.6</i>	<i>-3.9</i>	<i>-6.0</i>

60 developing countries will see declining incomes in 2009



Food prices will remain higher



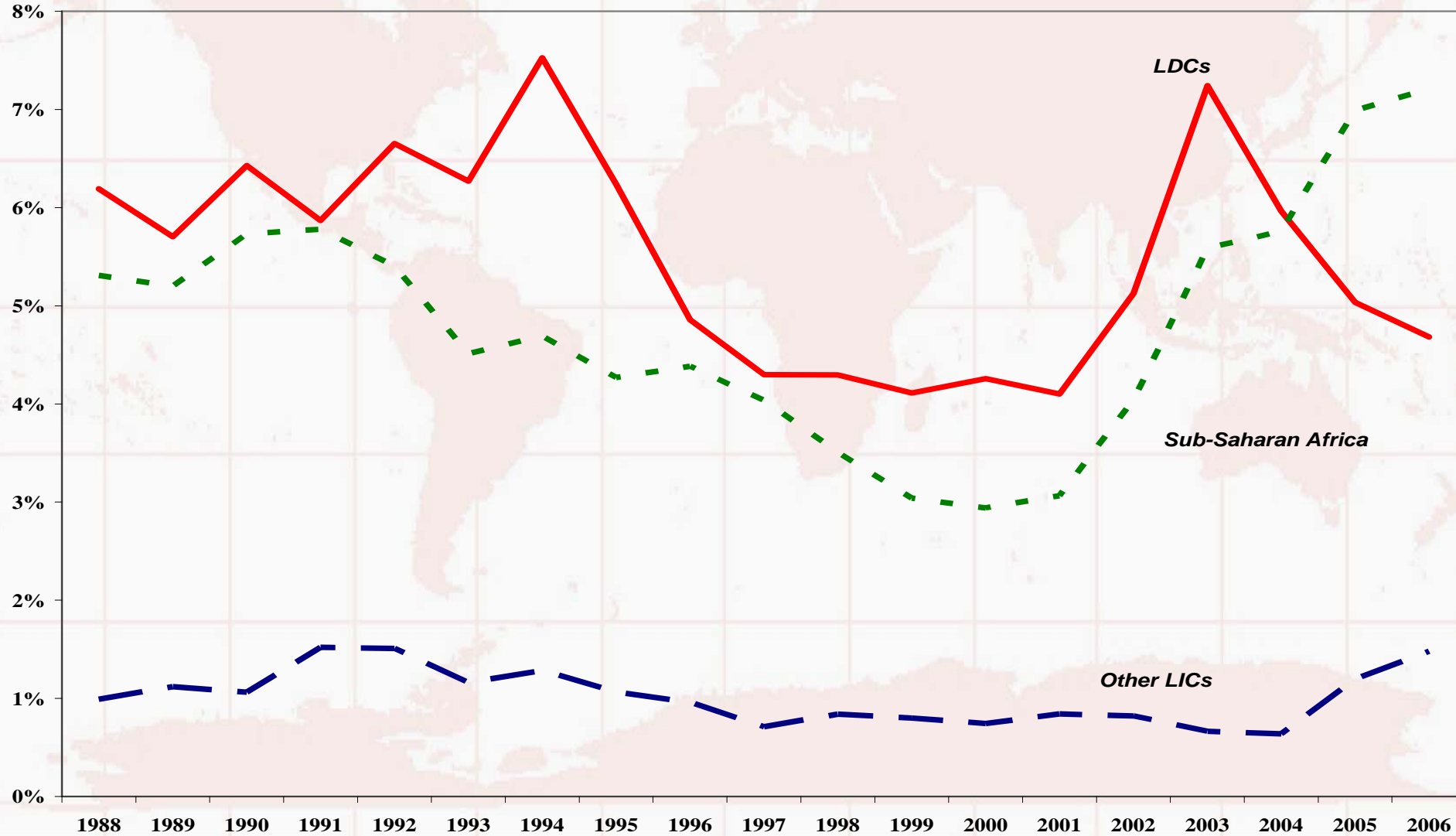


Trade impacts

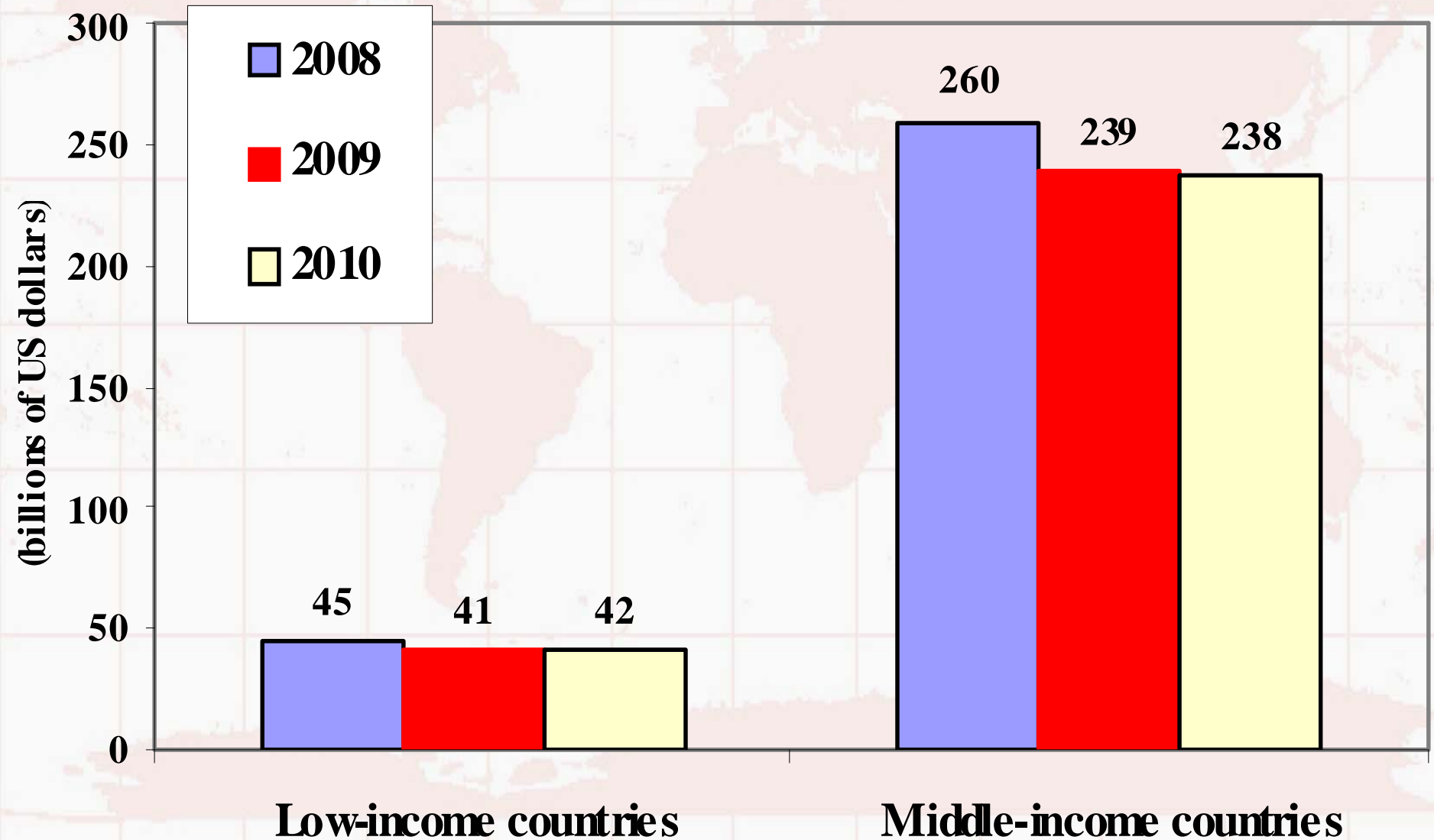


- Exports decline →
all developing countries
- Terms of trade → **primary exporters**
- **Trade surpluses,**
reserves may run down quickly
- **But lower energy, food prices help net food and oil-importers**

Aid flows unreliable



Remittances to developing countries, 2008-2010



Social impacts



- ILO: >200 m. more working poor
- ILO: Unemployment to rise by 51m
- ILO projections based on IMF 0811
- MDGs, IADGs, social spending at risk
- Rising social unrest
- US intelligence report:
crisis -- greatest security risk

Livelihoods threatened



- Declining living standards
- Many livelihoods under threat, especially when social protection not well-developed
- Migrant workers especially vulnerable
- Prolonged slowdown in world economy likely to cause remittances, job creation, tourism and ODA to decline, unemployment to increase, particularly among youth

Lessons from Other Crises



- Social consequences need to be tackled urgently
 - Fast increase of unemployment, poverty, hunger
 - Women worse hit than men
 - More children malnourished, out of school
 - Increased morbidity, mortality
 - Contracting fiscal space

Social Impact Transmission



Employment and Income

- Wage cuts
- Reduction in benefits
- Casualization
- Decreased demand for migrant workers
- Reduced remittances
- Lower returns from pension funds

Extreme poverty worsens

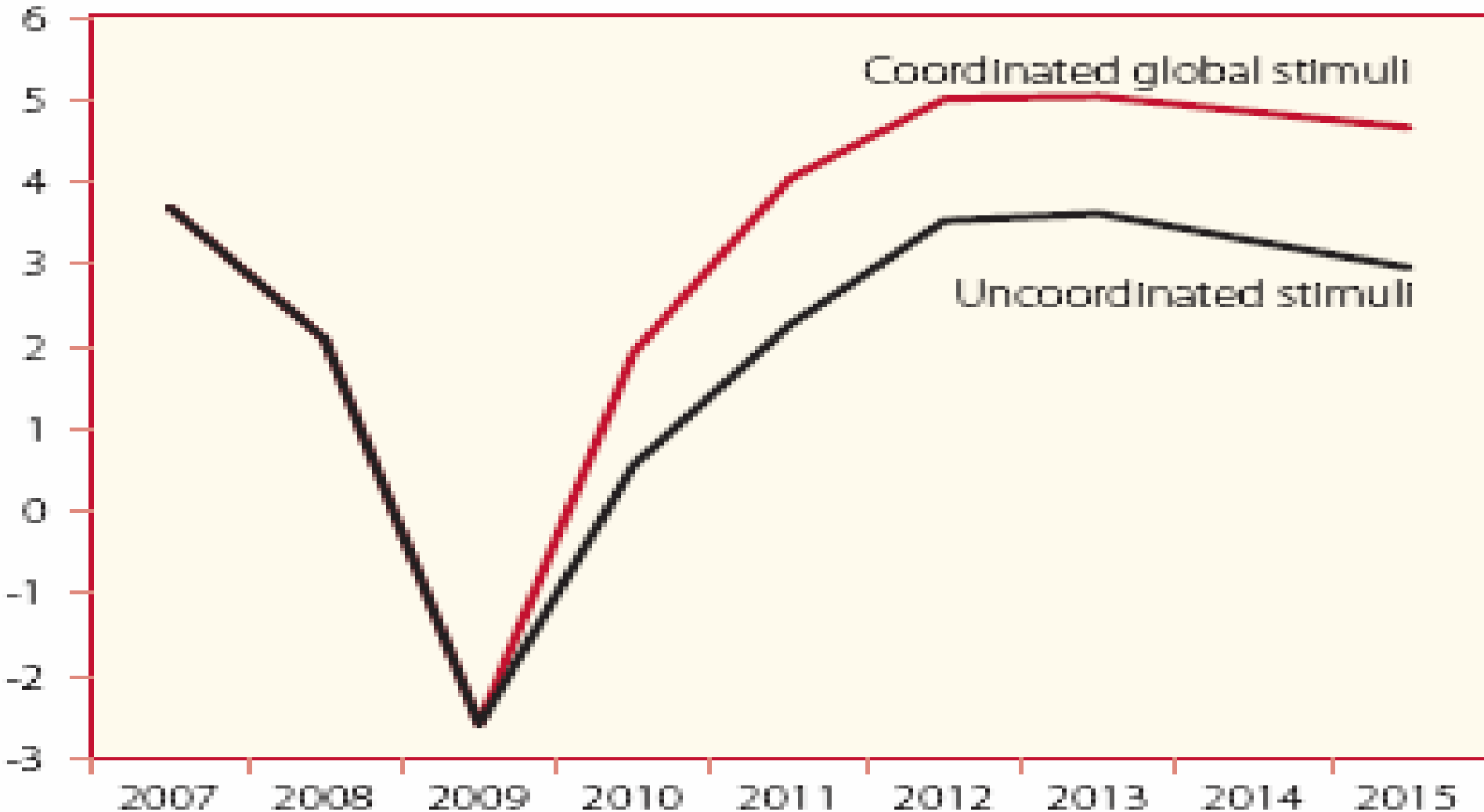


	Change in extreme poverty (< \$1.25/day)			
	<i>No. of Poor</i>		<i>Change in poverty</i>	
	'09/'04-'07	'09/'08	'09/'04-'07	'09/'08
Transition economies	0.6	0.6	0.3%	0.3%
Developing economies	111.1	73.5	1.8%	1.2%
Africa	5.9	4.2	1.2%	0.9%
North Africa	0.1	0.1	0.1%	0.1%
Sub-Saharan Africa	5.8	4.1	1.6%	1.1%
East and South Asia	101.0	65.6	2.0%	1.3%
East Asia	16.2	27.5	0.8%	1.3%
South Asia	84.2	37.8	3.0%	1.3%
West Asia	0.6	0.2	0.5%	0.2%
LAC	4.1	3.7	0.7%	0.7%

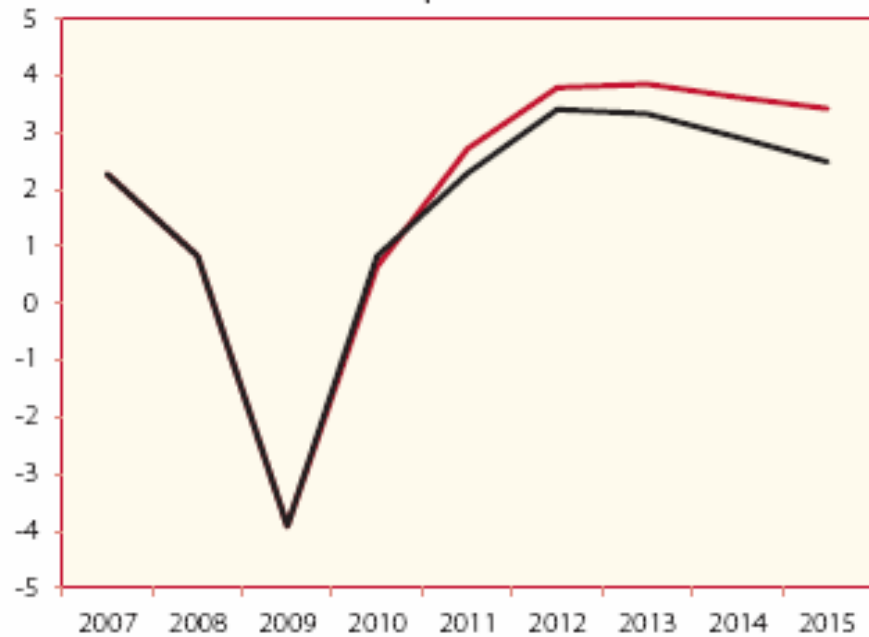
Global recovery with coordinated vs uncoordinated stimuli, 2010-2015



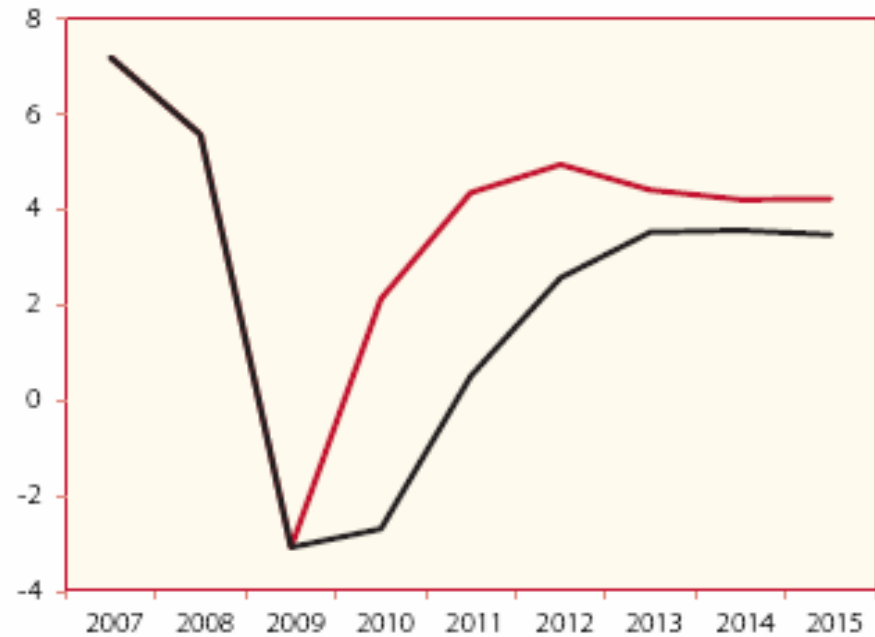
World



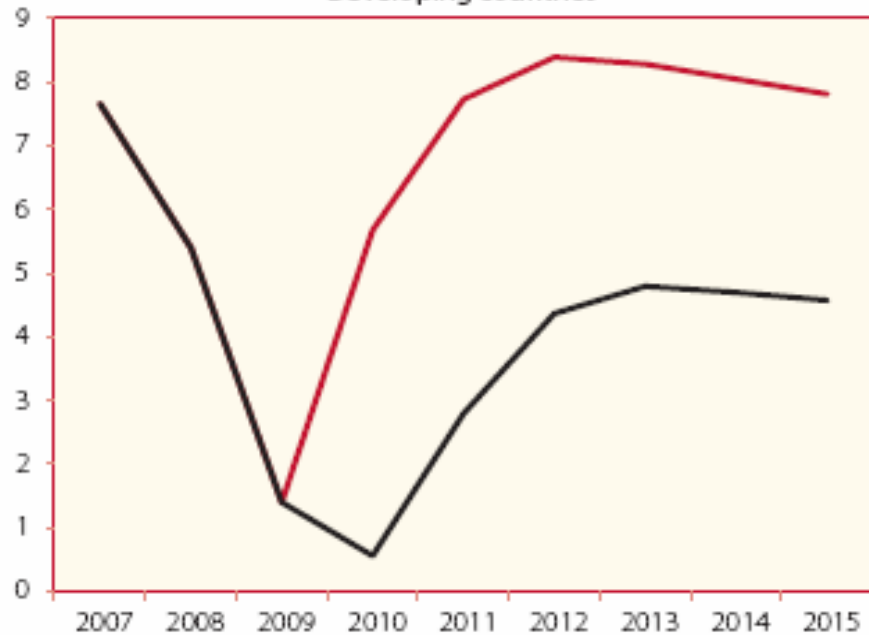
Developed countries



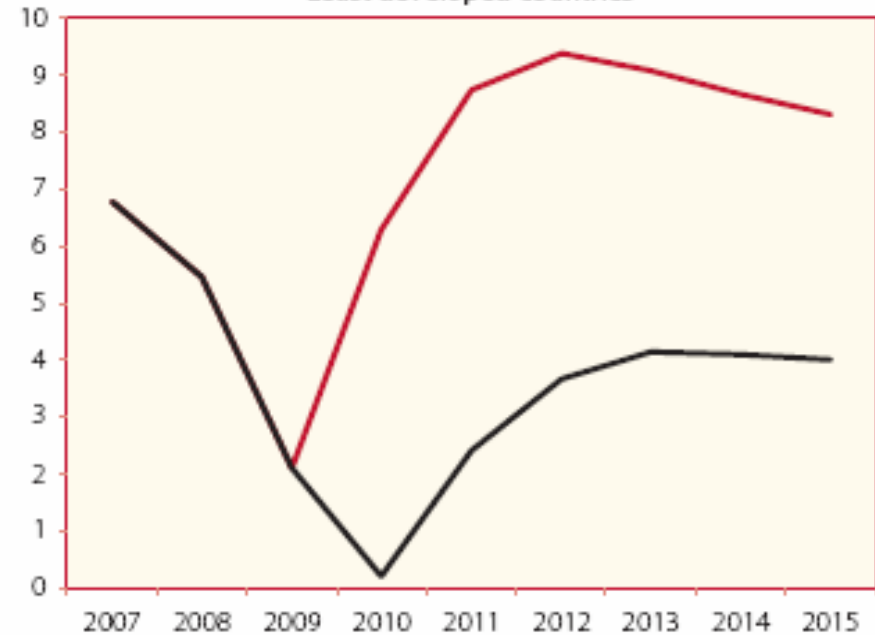
Economies in transition



Developing countries



Least developed countries

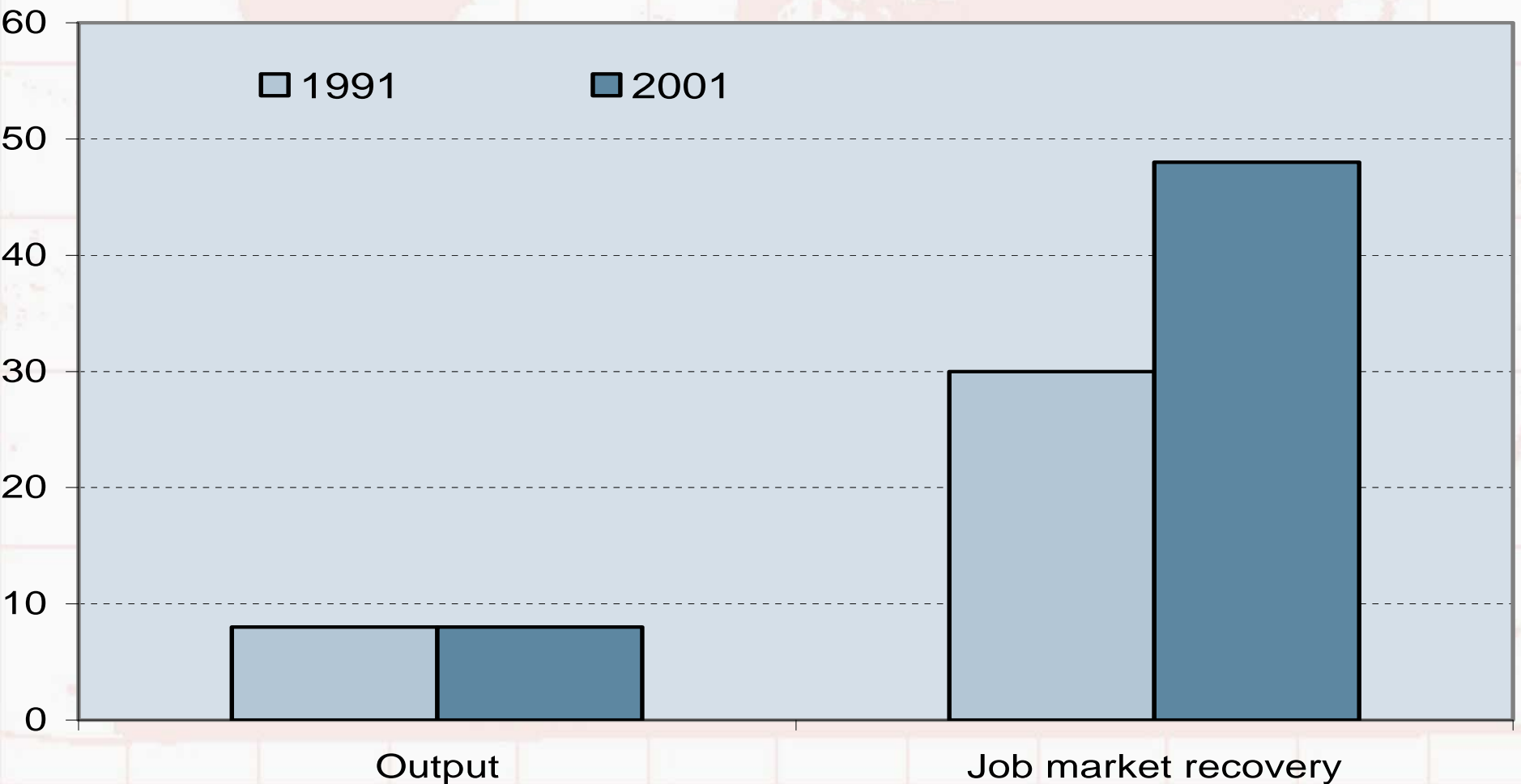


Source: UN/DESA, based on policy stimulations with the UN Global Policy Model.

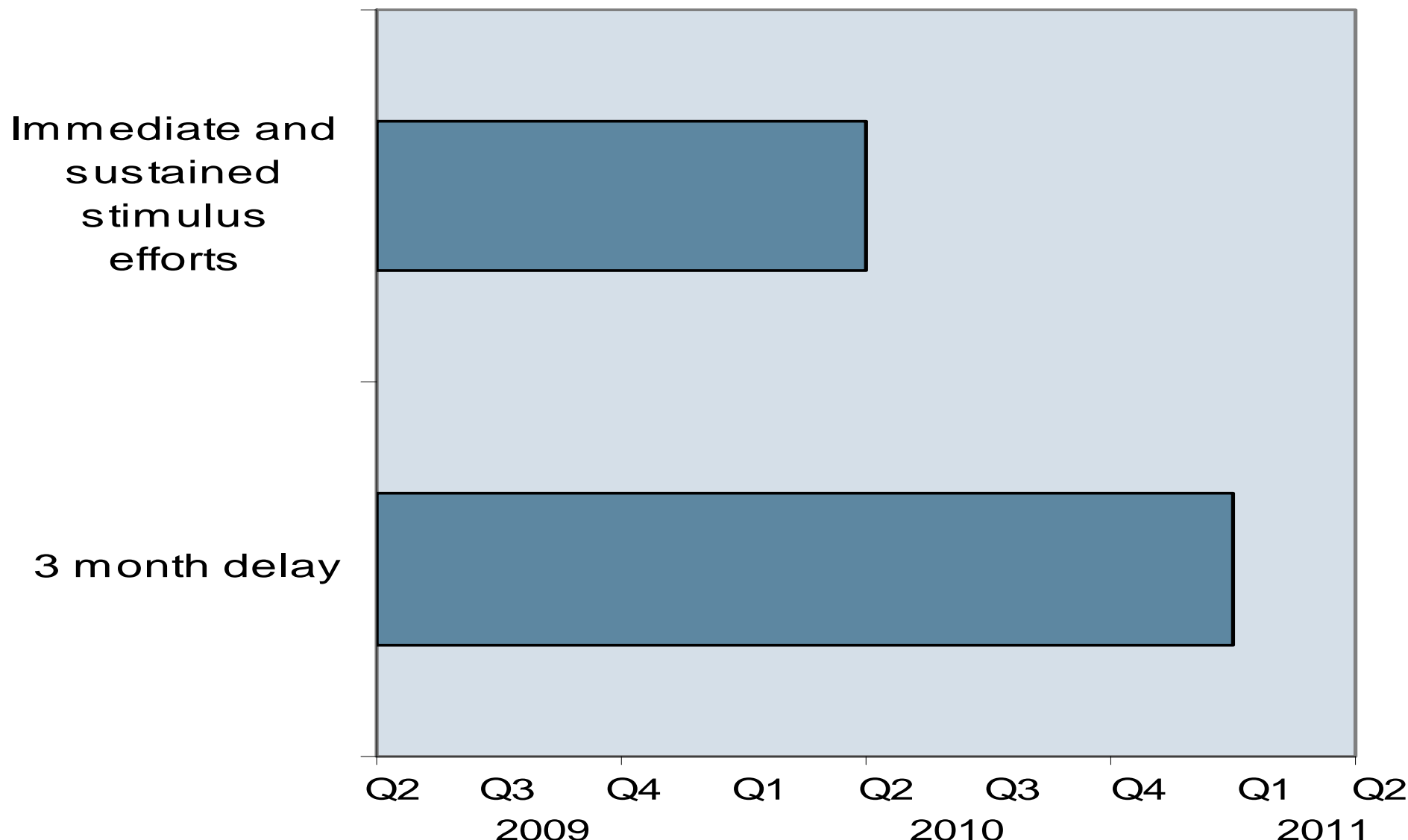
Output, jobs recovery lags, 1991, 2001



Duration of output recovery and job market recovery after the 1991 and 2001 US recessions (in months)



Lags delay recovery



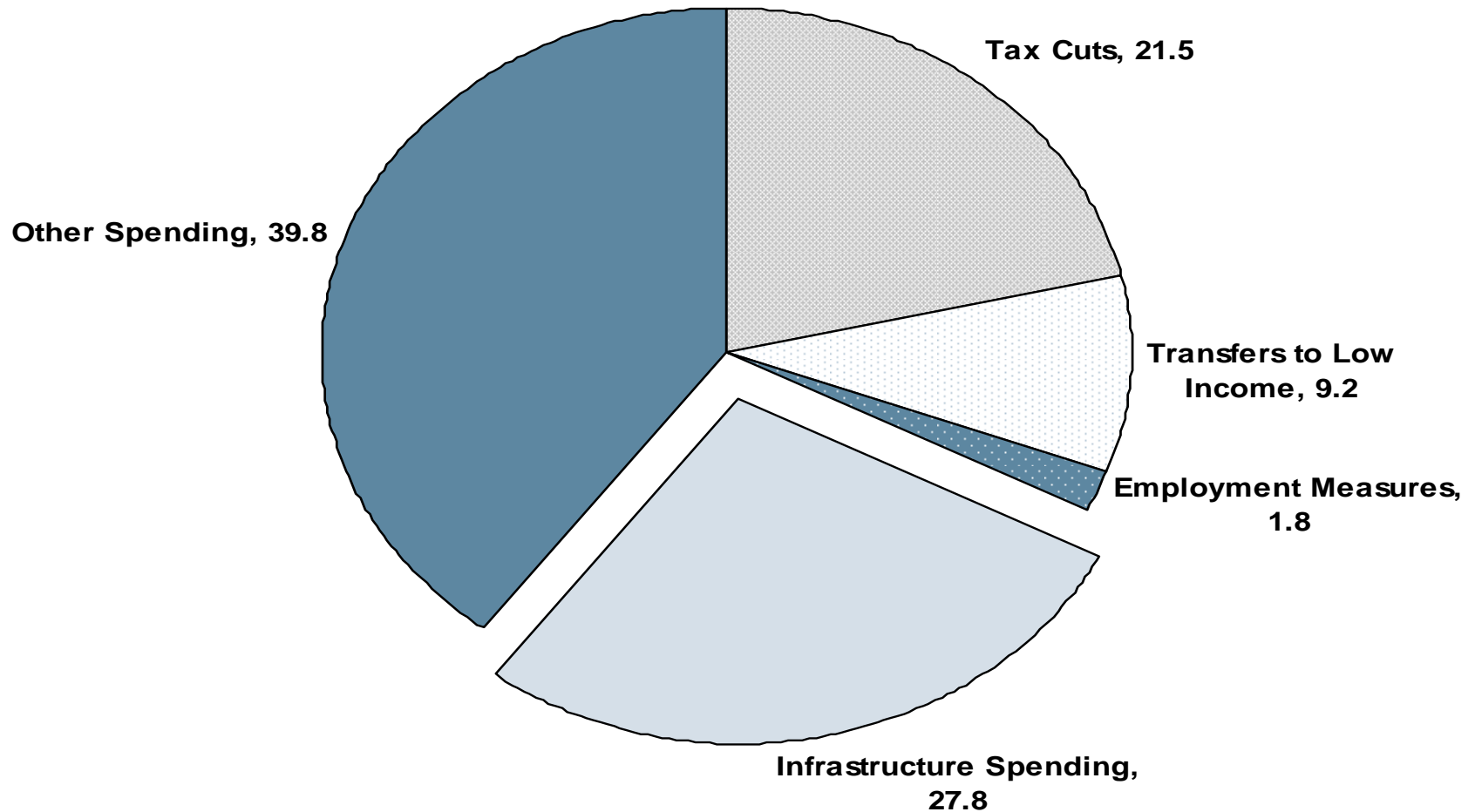
Coordination failure



Table 7: Economic Stimulus in 2009

	As a % of GDP	As a % of World GDP
Total	1.7	1.4
Advanced Economies	1.3	-
Developing & Emerging Economies	2.7	-

Social spending low priority (11%)



Government Spending on Social Services down

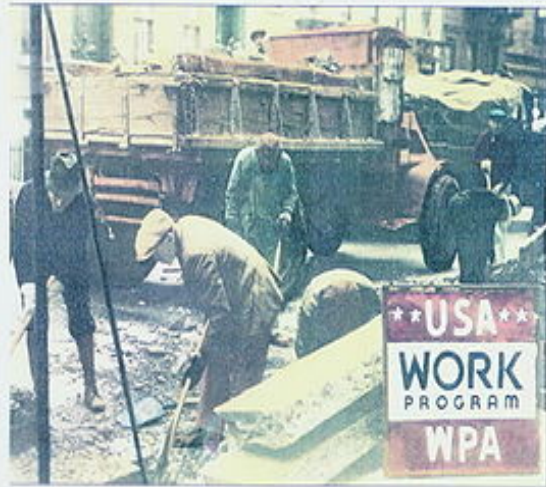


- Education
- Health
- Employment programmes
- Social security

1929 Crash → New Deal



- Bank reforms
- Social Security Act (1935)
 - Universal old-age pensions
 - Unemployment insurance
 - Social assistance for poor families, persons with disabilities
- Employment programs (public works), collective bargaining, minimum wages
- Farm/rural programs



Global New Deal?



- Limit contagion
- Monetary responses
- Fiscal stimuli
- Poor coordination
- Improve + enforce regulation
- Reform international system

A Social Protection Floor?



- basic and modest social protection guarantees for all
 - Income security for older persons and persons with disabilities through basic, universal non-contributory pensions
 - Child benefits
 - Employment programmes
 - Universal basic health care
 - Food security programmes

Normative Reasons



- Unacceptable poverty and inequality
 - > half the world below \$2/day poverty line
- Social security is a human right:
 - Articles 22, 25 of Universal Declaration of Human Rights: “*Everyone, as a member of society, has the right to social security*”
 - But 80% of world population no access
- 1995 World Summit – “society for all”

Economic Reasons



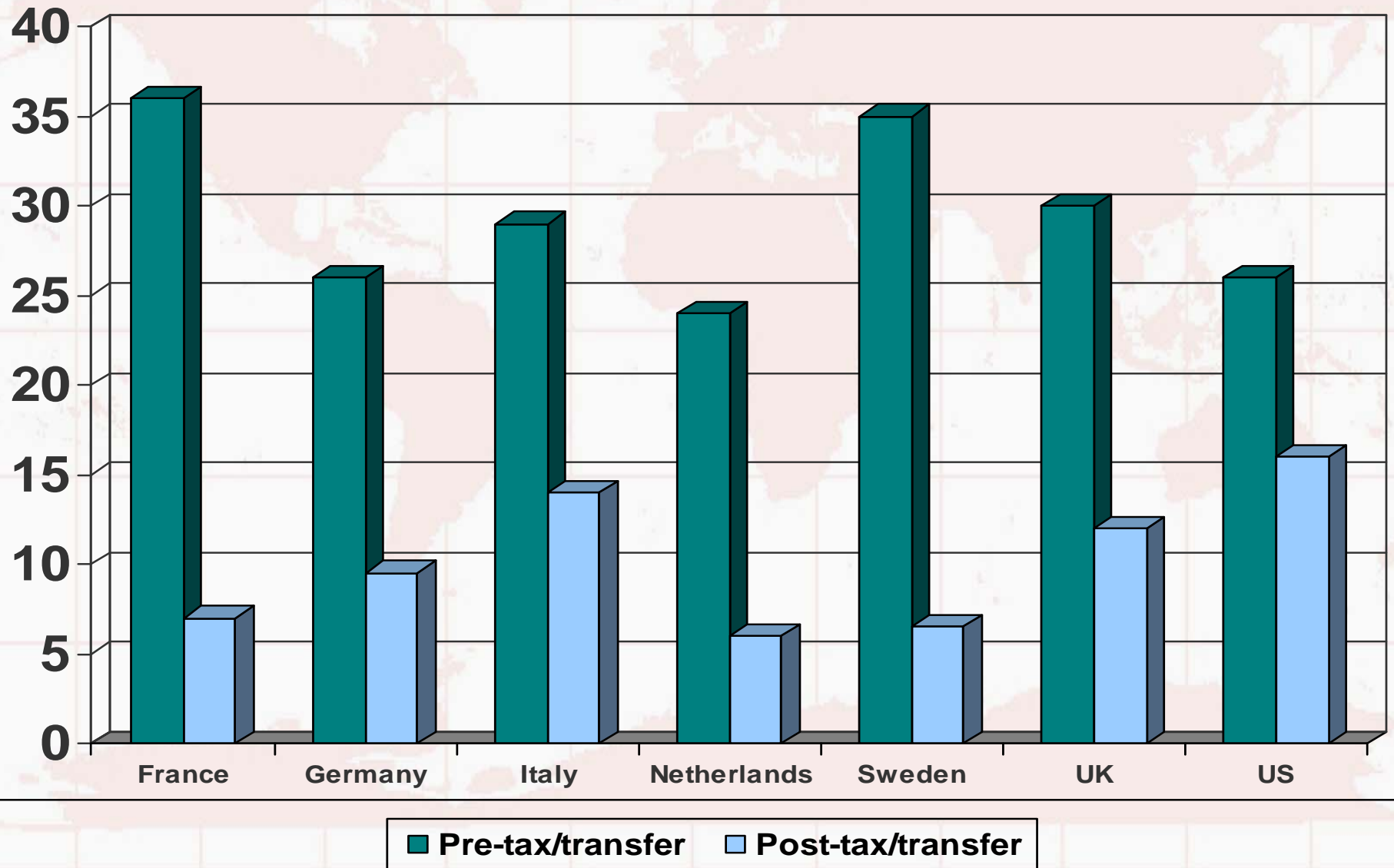
- Inequality economically inefficient, dysfunctional
- Raising incomes of poor increases domestic demand, encouraging growth by expanding domestic markets
- Social Protection enhances human resources and productive employment with better educated, healthy and well nourished workforce.

Political Reasons



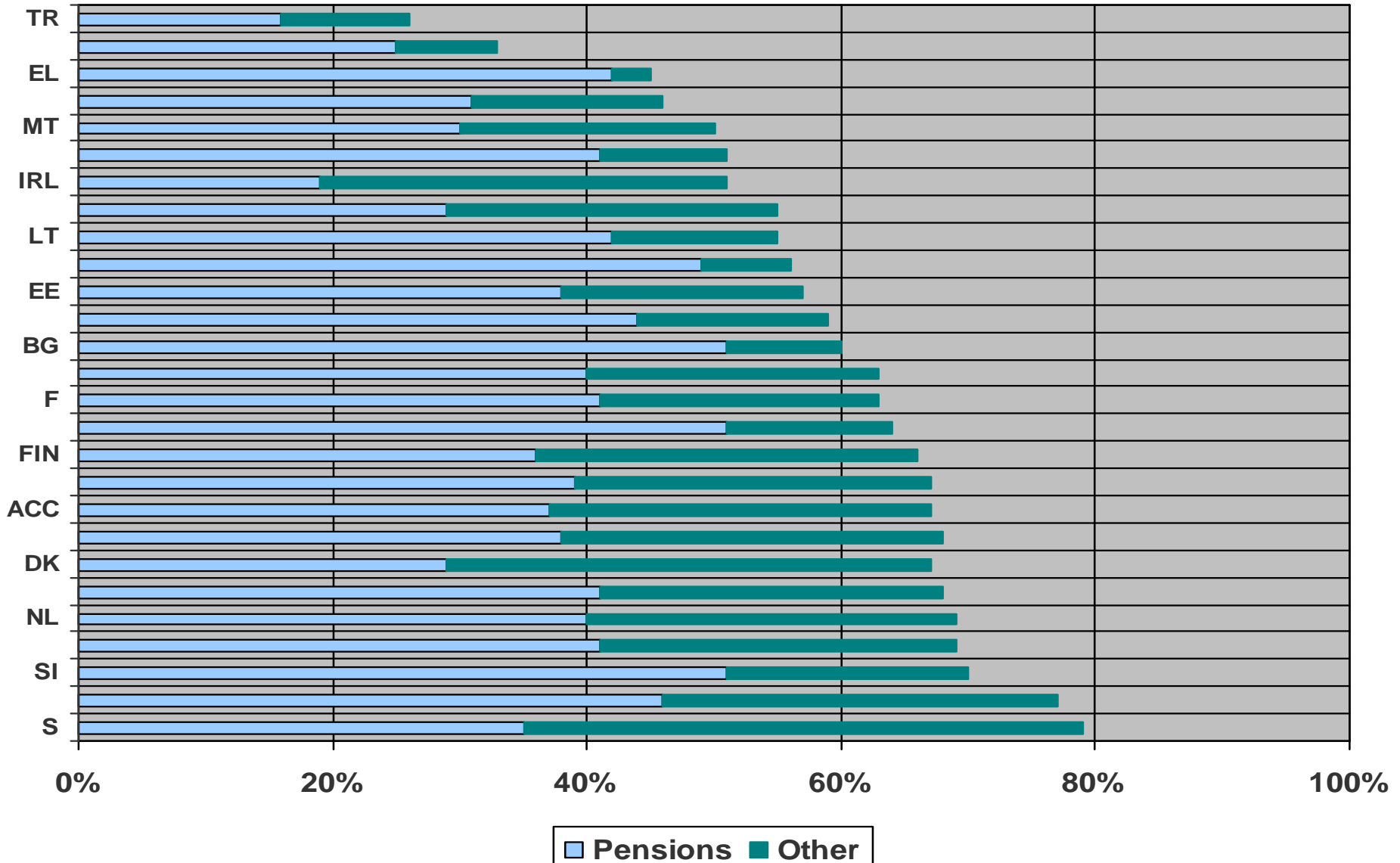
- Social Protection can help
 - * prevent conflict
 - * enhance political stability
- Poverty and gross inequities generates social tensions and conflicts
- Social benefits ensure political support of citizens

Social Transfers Reduce Poverty in >half OECD countries

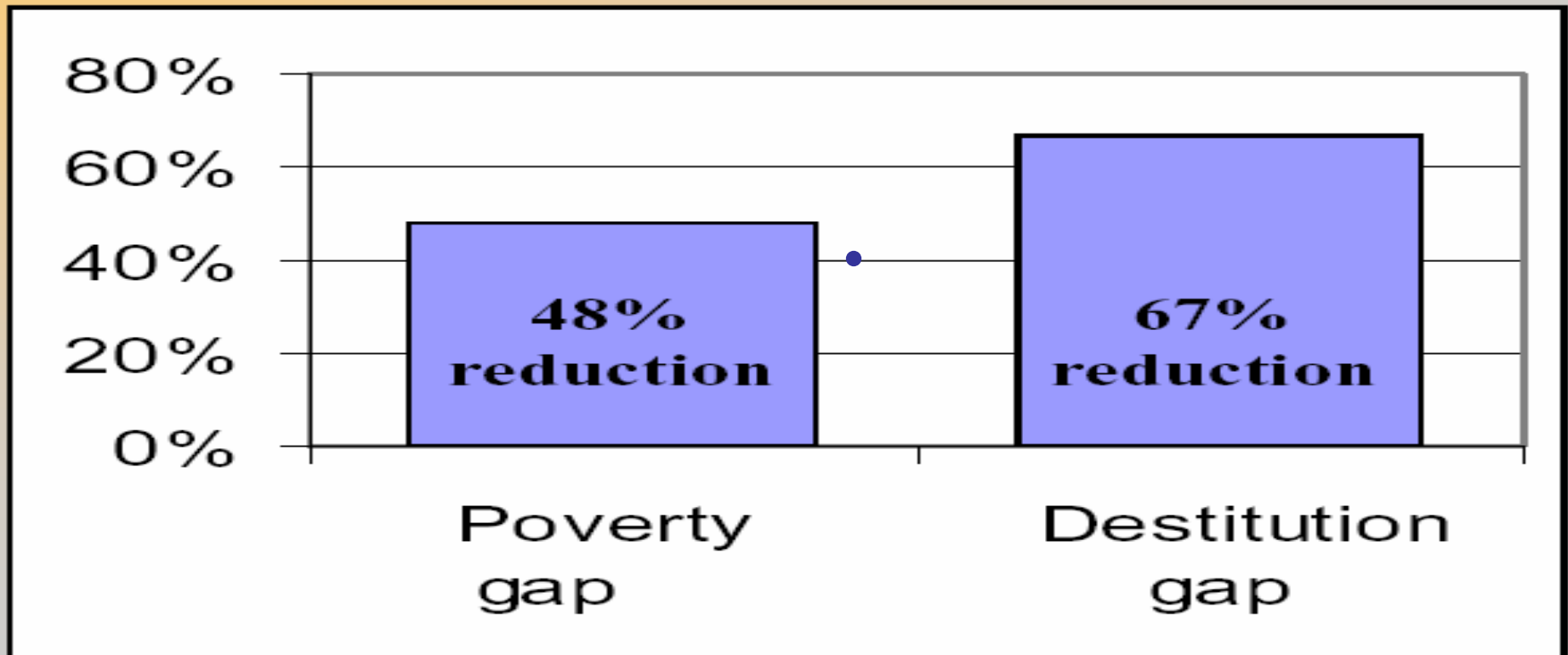




Poverty risk reduced by social protection transfers



South Africa: Social Transfers Cut Poverty, Cost 3% of GDP



- Social protection rarely considered in PRSPs
- Social protection can help achieve MDG1 of halving poverty by 2015

Reducing Poverty Requires:



1. Employment-generating macroeconomic and sectoral policies
2. Progressive fiscal policies: taxation, spending
3. Social Transfers
4. Remittances

Cash Transfer Schemes Expanding in Developing Countries



Type Of Transfers

Countries

Unconditional

Household Income Support

Chile, China, Mozambique, Zambia

Social Pensions

Argentina, Bolivia, Bangladesh, Brazil, Botswana, Chile, Costa Rica, India, Lesotho, Mauritius, Moldova, Namibia, Nepal, Samoa, South Africa, Tajikistan, Uruguay, Vietnam

Child/Family Benefits

Mozambique, South Africa

Conditional

Cash for Work

Argentina, Ethiopia, India, South Korea, Malawi, South Africa

*Cash for Human
Development*

Bangladesh, Brazil, Colombia, Ecuador, Honduras, Jamaica, México, Mongolia, Nicaragua

Developing Countries' Social Transfers 1



- **Prevalence**

- > 25 developing countries
- Covering 150-200 million

- **Poverty impact**

- South Africa reduced poverty by 48%
- Mexico's *Oportunidades* and Brazil's *Bolsa Família*: Reduced poverty by 12 points

Developing Countries' Social Transfers 2



- **Education:**

Positive enrolment and school attendance effects in Mexico, Brazil, Colombia, Bangladesh, Nicaragua, Zambia

- **Health:**

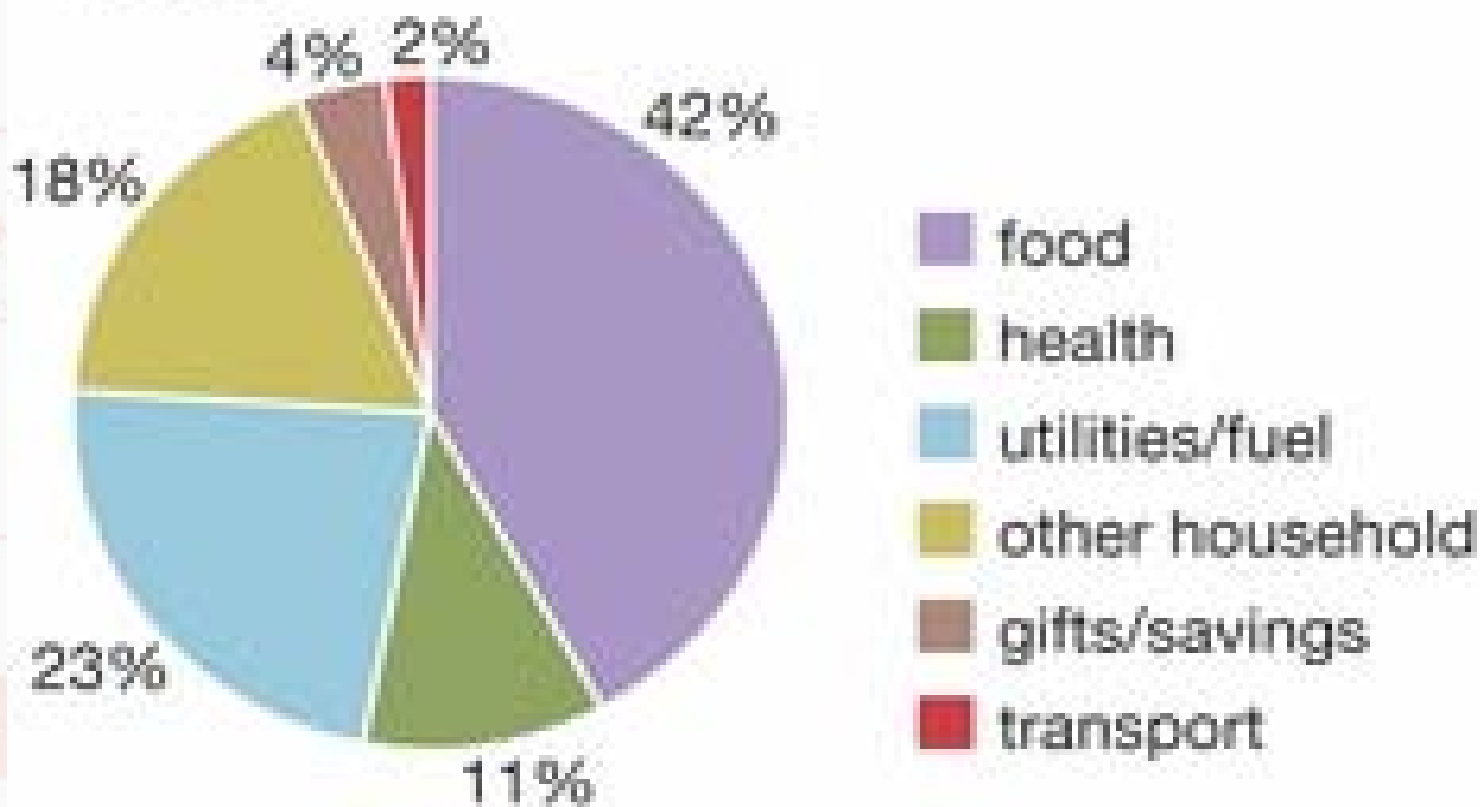
Positive effects on height, weight of children and nutritional status in Colombia, Mexico, Chile, Malawi, South Africa

Old Age Pensions Support All Household Members



How older poor spend non-contributory pensions

Brazil



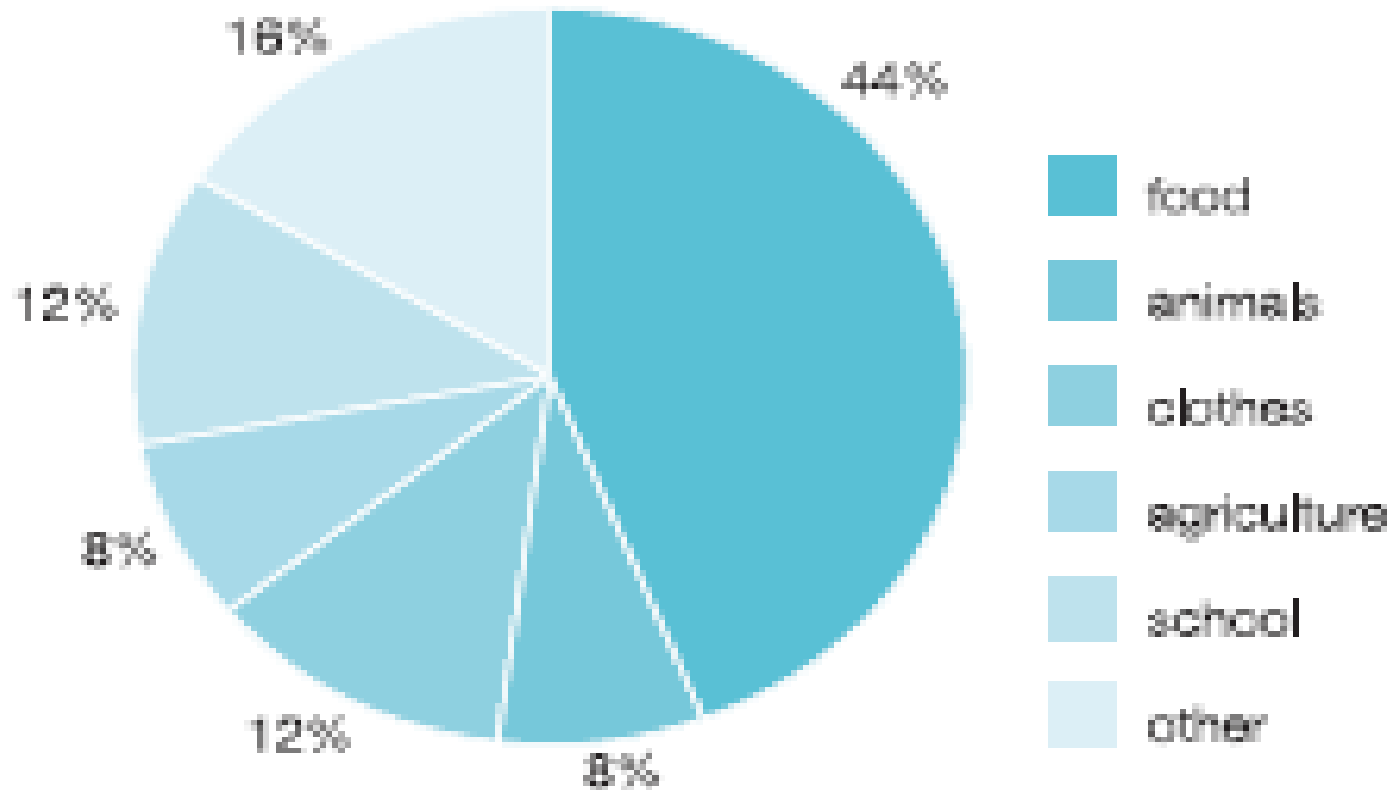
Old Age Pensions Support



All Household Members

How older poor spend non-contributory pensions

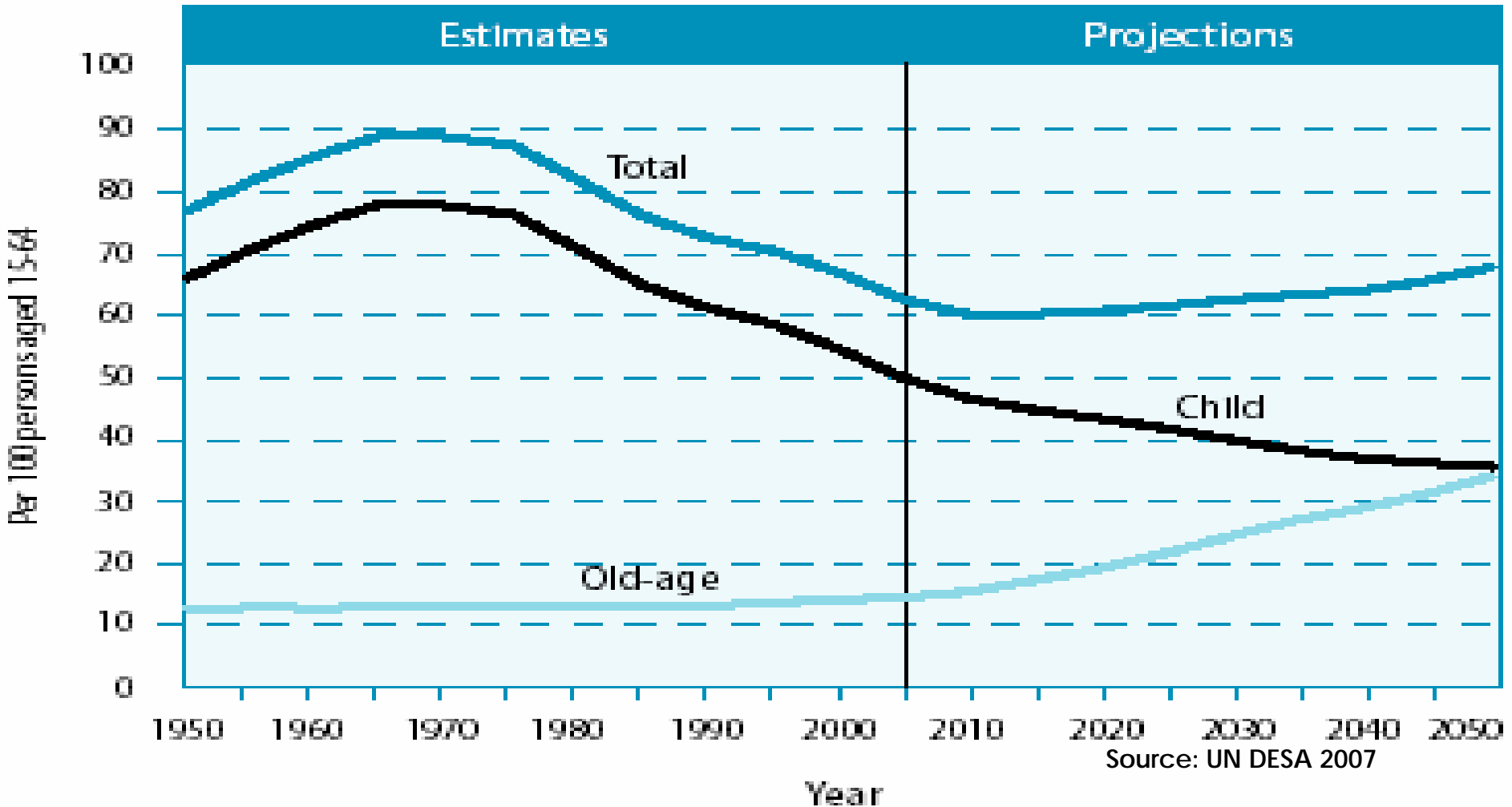
Zambia²



Old-Age Crisis? Changing dependency ratios



Child and old-age dependency ratios, 1950-2050, developing countries



Can Developing Countries Afford Social Protection?

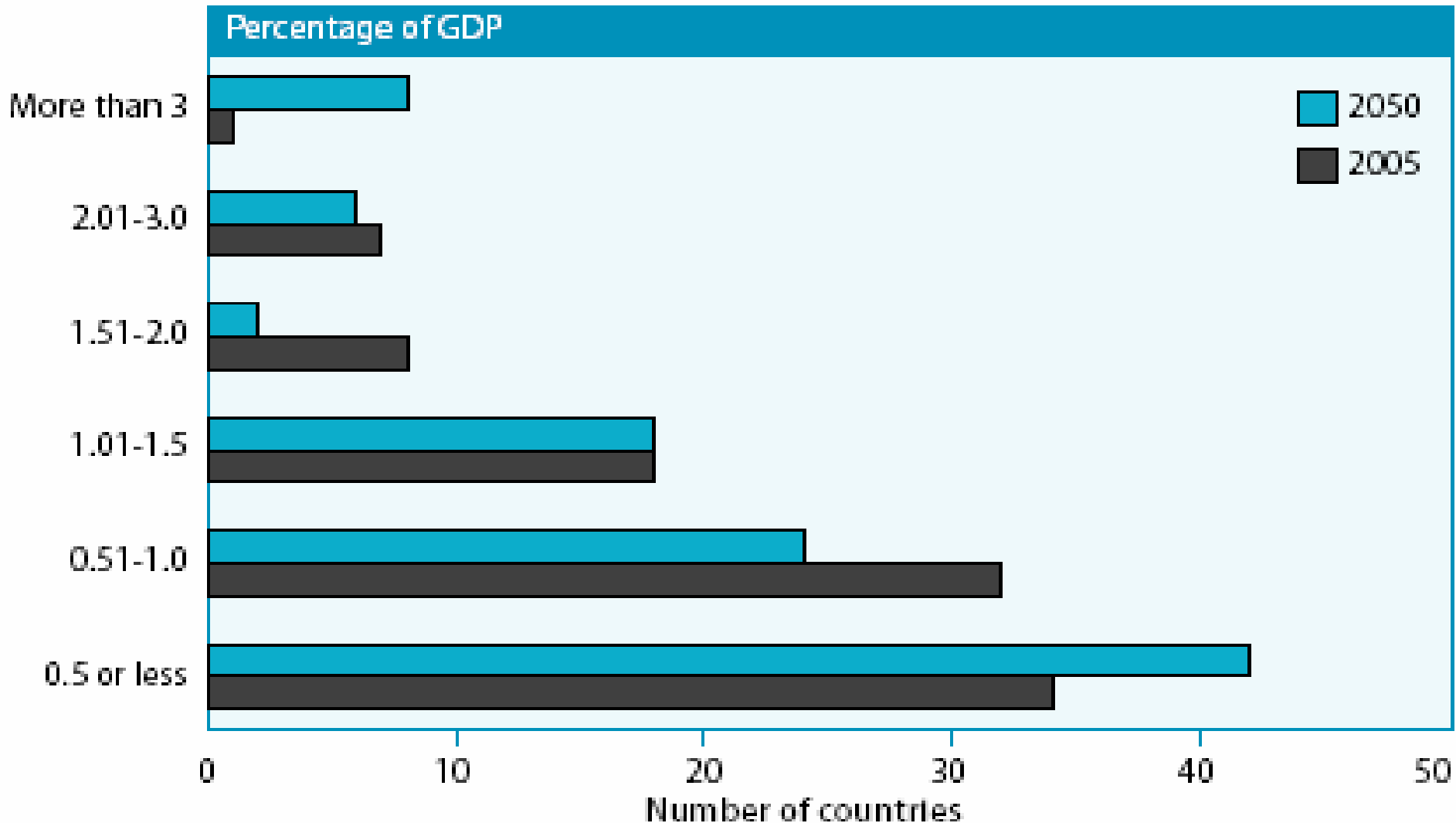


- Countries at same level of economic development differ significantly in terms of social protection, spending
- Reach of social protection systems depends on political attitudes:
 - to win electoral support
 - to reduce poverty
- Affordability -- issue of political will:
 - how much society is willing to redistribute
- Universal approach politically more
- Targetting (safety net) expensive, misses many

UNDESA: Cost of Universal Old-Age Pensions (\$1/day) in 100 countries



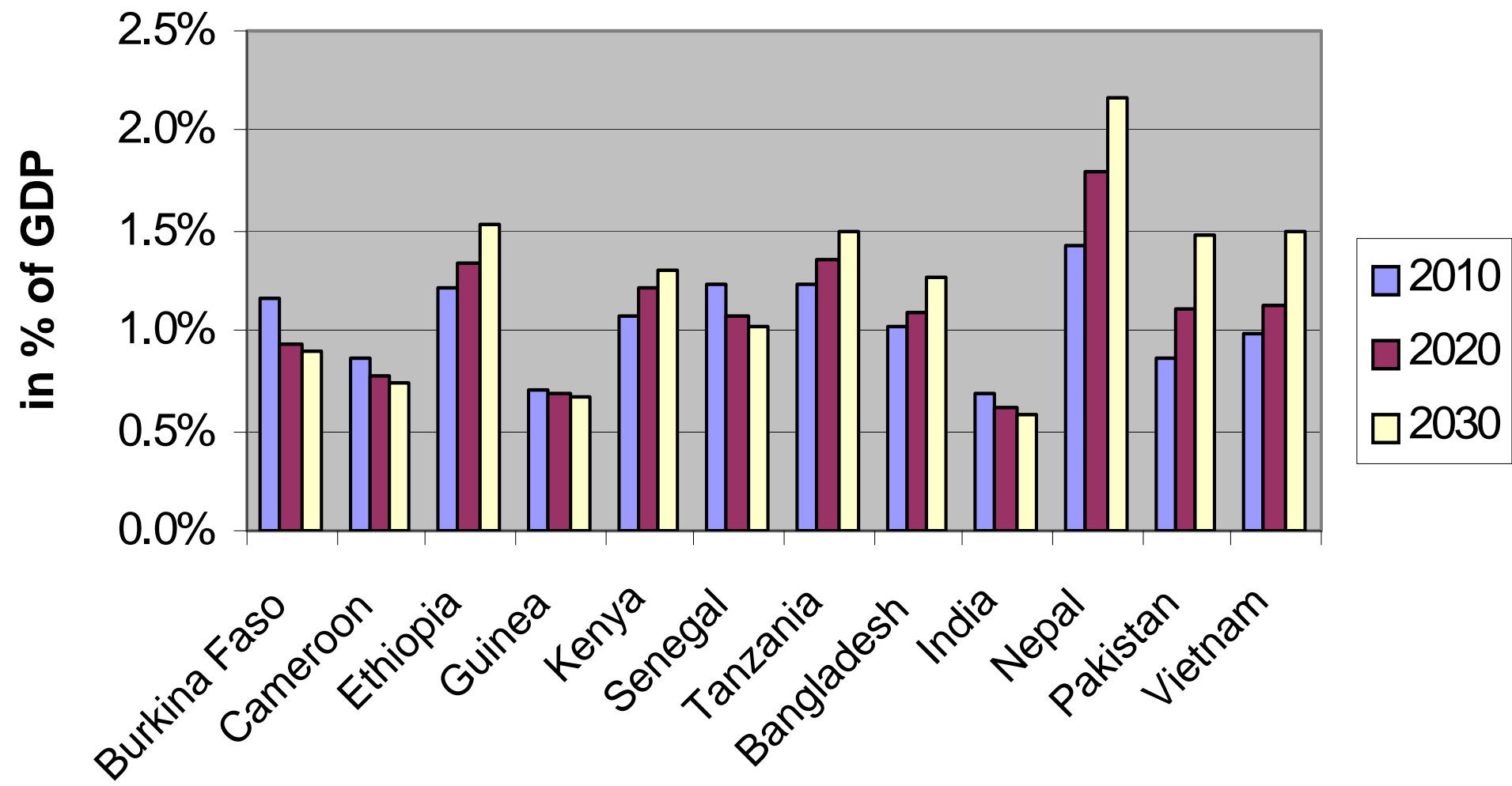
Simulated costs for developing countries of a universal social pension scheme designed to keep older persons out of extreme poverty, 2005 and 2050



ILO: Cost of Universal Old Age and Disability Pensions



(universal old-age 65+ / disability pension of \$1/day + 15% admin costs) (% of GDP)



Affordability, Financing

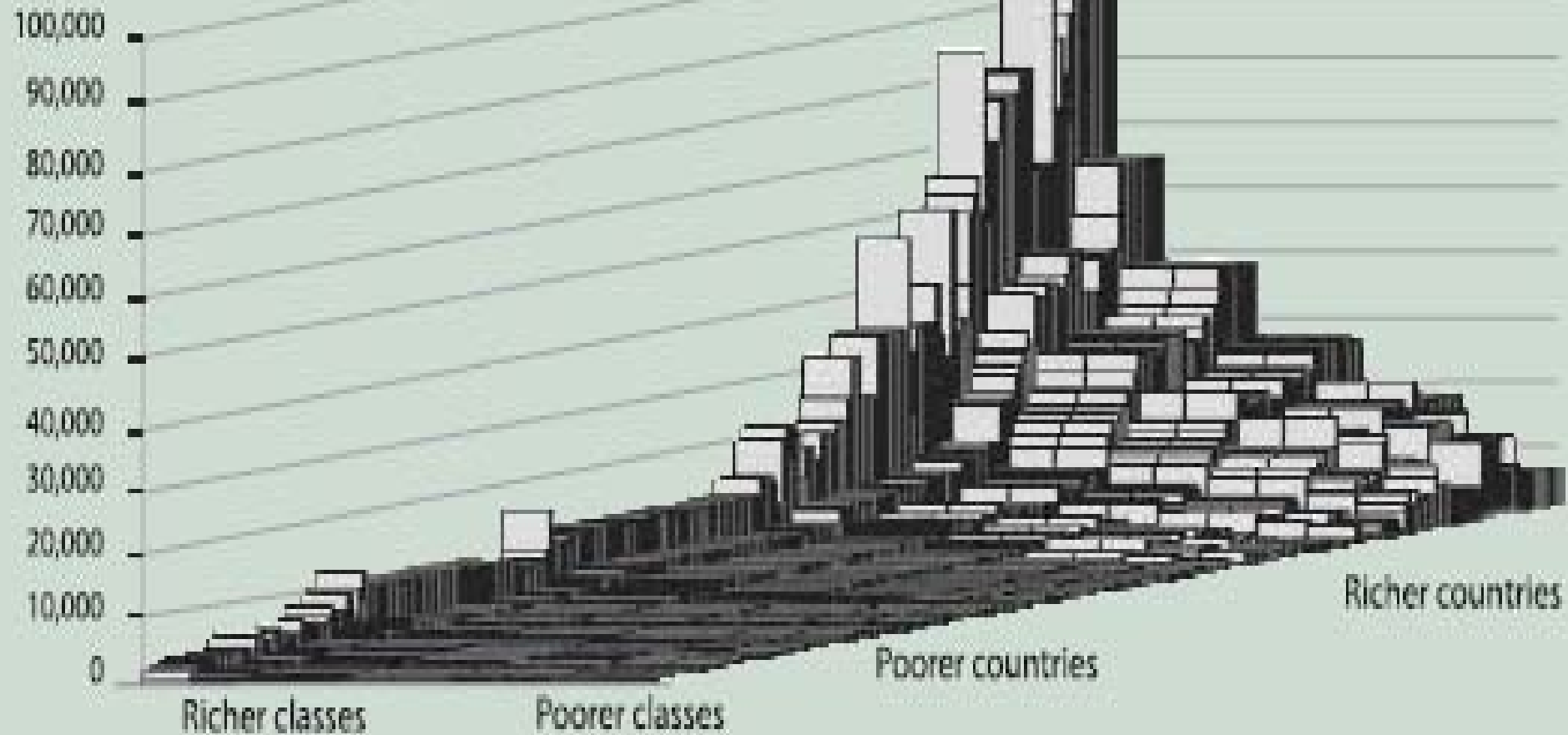


- Basic package of social transfers affordable with 1-3% of GDP in developing countries
- Social transfers grow with fiscal space available by increasing GDP, taxation or aid
- Billions lost through poor international tax cooperation, tax systems
- 70% of world inequality due to international inequalities

World Income Distribution



Decile income in USD



International responses



- UN, BIS forecasts more accurate than others; IMF, WB upbeat till late 2008
- IMF, WB also marginalized by G7, etc
- IMF discouraging strong fiscal stimulus by developing countries without surplus
- G7 → G20: more inclusive? legitimate? crisis-, but not developmental or equitable
- London \$1.1 trillion -- costless: loans + SDRs
- PGA (Stiglitz) Commission of Experts
- Doha Declaration: June 09 summit on impact of crisis on developing countries

New Bretton Woods moment?



Bretton Woods, 1944: United Nations conference on monetary and financial affairs

- 15 years after 1929 Depression
- Middle of WW2
- US initiative vs UK Treasury stance
- 44 countries (28 developing countries; 19 LA)
- IMF, IBRD, ITO – UN system
- Clear emphasis on sustaining growth, employment creation, development,
not just financial stability
- But BWIs very different governance arrangements

UN leadership?



- Universal, legitimate → *lead* reform process?
- Ensure *comprehensive systemic* reform
- Ensure *developmental* financial system
- Ensure *inclusive* financial system
- Develop capacity for offering *2nd opinion* to interested member states
- Align IMF, WB with UNDA (including FfD), IADGs to ensure *policy coherence*

Thank you



Please visit UN-DESA www.un.org

G24 www.g24.org and PGA

www.un.org/ga/president/63/ websites

- Research papers
- Policy briefs
- Other documents

Acknowledgements: Isabel Ortiz