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Responding to the crisis with solidarity:
The Decent Work Agenda and social security

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Numerous aspects of the financial and economic crisis now gathering must be of deep concern to us all. The prospect of economic downturn threatens not only enterprises and employment but also savings and investments devoted to pensions and other branches of social security.

Workers around the world are likely to face a double threat – both to their jobs and to their social security, in the short and the long term, with the revenue bases of social security schemes contracting. Meanwhile, entrepreneurs face the simultaneous shrinking both of business opportunities and of the flow of investment capital from pension savings, as well as a possible increase, sooner or later, in social security contributions or taxes.

Governments around the world have acted swiftly in recognition of the need to stabilize financial markets. However, an urgent next step will be to address the parallel dangers to people's social security and to the viability of social security schemes and their financing.

Some of the expected impacts on social security schemes are obvious, starting with demands on systems of unemployment insurance and social assistance, which will be suffering like all other social security schemes from the double burden of declining tax or contribution income and increasing expenditure due to increasing numbers of beneficiaries. As the financial crisis turns into a full-blown economic recession, then health systems and unemployment benefit schemes as well as social assistance will face immediate financing problems. There will be increasing demand for early retirement through existing or ad hoc arrangements so as to limit the effects of job cuts on unemployment. This will place additional burdens on the finances of pension schemes – whether occupational or managed by social security institutions.

The impact of a market downturn like the current one falls heavily on contributors and pensioners. What is needed is to restore solidarity-based minimum guarantees of pension amounts, in order to avoid losing ground both against existing poverty thresholds and against the rates of replacement income provided – guarantees which must be underwritten by nation States.

Also needed immediately is to protect the pension levels of people who are close to retirement. A minimum pension based on a reasonable minimum rate of return ought to be financed or at least guaranteed by the State; hopefully, this should be needed for only a transitional period. The State may authorize pension schemes to reduce the level of capitalization, also for a transitional period; in other words, auditing formalities should be relaxed to allow schemes to go into temporary actuarial deficit. This may be the most – indeed, the only – realistic option at present, given global resource constraints. If asset prices rebound in due course, then the ultimate net cost of such guarantees will be only a fraction of the momentary losses of pension assets.

As the crisis has developed, one response of many governments has been to seek to stimulate and reactivate spending and general economic activity through drastic reductions in interest rates. This in itself has major implications for old-age protection. In a number of countries the elderly population relies heavily on income from savings, which is likely now to be severely curtailed. On the other hand, in countries which rely on annuitization of individual savings accounts as a result of pension reforms which have converted their system to one based on “defined contributions”, any prolonged suppression of interest rates is likely to lead to serious difficulties by way of destabilized annuity rates (prices) and management of annuity reserve funds.

It now seems inevitable that the current crisis will lead to deep and long-lasting recession, resulting in increased unemployment. Policies are being put in place to combat this danger. However, if the rate and average duration of unemployment increase, the result will be a further reduction in the future incomes from pension schemes – the vast majority – which link benefit amounts to contributions paid. And here again there is a need to ensure strong minimum guarantees protecting men but especially women, whose careers are typically shorter by reason of unemployment, family caring responsibilities and maternity breaks.

Now is thus the time for a systematic overall reassessment of global pension policies. The ILO has a range of tools through which to address these needs, notably the social security standards (formalized in the relevant instruments, such as Conventions 102 and 128, both of which have, I am pleased to say, been ratified by Slovakia). Built up over many decades, they specify the way in which social security systems should provide such guarantees. It has never been more timely to refresh, promote and apply these principles. Appropriate guarantees can be applied to both pay-as-you-go and fully funded pension schemes, and in principle they can be legislated by any government. As with the bail-outs now being organized for so many national financial systems – and at a fraction of the cost – the net real expenditure required for reinforcing social protection is unlikely to come anywhere near the gross, headline figures quoted. To prepare concrete

suggestions in this environment, we now intend to undertake a review of past policies and reforms, to analyse consequences of the crisis and suggest medium- and long-term strategies.

It is obvious that the financial crisis depletes pension reserves and thus affects current and future pension benefits, and that the wider economic crisis will lead to reduced revenue flows to contributory social security programmes at the same time as increasing demand for benefits (as the number of those without sufficient income from work increases). At the same time, it is well known that in such crisis situations the provision of social protection benefits – paid to unemployed workers and other vulnerable recipients – is doubly valuable, not only helping to prevent individual men and women and their families from falling into deep poverty but equally serving to limit the fall in aggregate demand and so restrict the potential depth of recession and open the way for recovery. That is why it is critically important, in many countries where unemployment benefits and other social security and income support programmes exist, that economic stimulus packages strengthen them by broadening the eligibility conditions, boosting benefit amounts or increasing their budgetary allocations.

Increased allocation to different social security programmes represents an important part of the European Economic Recovery Plan. In recommending the stimulation of demand in the short term, this document states: “Measures that can be introduced quickly and targeted at households which are especially hard hit by the slowdown are likely to feed through almost directly to consumption, e.g temporarily increased transfers to the unemployed or low income households, or a temporary lengthening of the duration of unemployment benefit.”

Belgium’s budget for 2009 includes 600 million euros for increased unemployment benefits and additional allocations to social security. Denmark plans to increase spending on short-term social compensation. Spain will spend an additional 1.1 billion euros on public works organized by municipalities. France will increase the allocation to its *revenu de solidarité active* scheme by 800 million euros. Italy will allocate an additional 2.5 billion euros for support to low-income families and unemployment benefit. The Netherlands is budgeting an additional 200 million euros for unemployment benefits.

At the same time the European Recovery Plan recommends longer-term measures to be supported by refocused European Social Fund expenditure:

- within flexicurity strategies, rapid reinforcement of activation schemes, in particular for low-skilled workers, involving personalized counselling, intensive retraining and upskilling of workers, apprenticeships and other subsidized employment schemes, as well as grants for self-employment and business start-ups;
- refocusing programmes to concentrate support on the most vulnerable members of society, and where necessary opt for full Community financing of projects during this period; and

- improved monitoring and matching of skills development and upgrading with existing and anticipated job vacancies; this will be implemented in close cooperation with social partners, public employment services and universities.

The plan also recommends lowering the social contributions paid by employers and lower taxation of labour income, as this can have a positive impact on job retention and creation and “can support purchasing power in particular for low wage earners”. However, lowering social security contributions would need to be compensated so that the necessary financing for benefits currently in payment is secured and workers’ entitlements to future benefits are not reduced.

In addition to implementing measures shortening the duration of the crisis and cushioning its impact, we have to look at the roots of the crisis and work on eliminating the structural problems underlying it.

At the recent 8th European Regional ILO meeting in Lisbon, Director General Juan Somavia pointed out that “there was already a crisis before the current financial and economic crisis”. The ILO had started to sound the alarm years ago based on the findings of the World Commission on the Social Dimension of Globalization. As the Director General also said:

“Globalization was operating in an ethical vacuum, making it morally unacceptable and politically unsustainable. The economic upswing was not creating enough decent work. Inequalities within and between countries were widening. The role of markets was overvalued, the role of States undervalued and the dignity of work devalued”.

To strengthen national and international action aimed at bringing fairness to the globalization process, the International Labour Conference in June 2008 unanimously adopted a Declaration on Social Justice for a Fair Globalization.

This landmark Declaration is a powerful reaffirmation of ILO values. It is the outcome of tripartite consultations that started in the wake of the Report of the World Commission on the Social Dimension of Globalization. By adopting this text, the representatives of governments and employers’ and workers’ organizations from 182 member States have emphasized the key role of our tripartite Organization in helping to achieve progress and social justice in the context of globalization. Together, they have made a commitment to enhance the ILO’s capacity to advance these goals, through the Decent Work Agenda. The Declaration institutionalizes the decent work concept developed by the ILO since 1999, placing it at the core of the Organization’s policies to reach its constitutional objectives.

The Declaration expresses the universality of the Decent Work Agenda: all Members of the Organization must pursue policies based on the strategic objectives – employment, social protection, social dialogue, and rights at work. At the same time, it stresses a holistic and integrated approach by recognizing that these objectives are

“inseparable, interrelated and mutually supportive”, highlighting the role of international labour standards as a useful means of achieving all of them.

The Declaration strongly reaffirms ILO values which can be summed up in two fundamental statements:

- labour is not a commodity, and
- poverty anywhere constitutes a danger to prosperity everywhere.

The Declaration confirms that the ILO has the solemn obligation to further among the nations of the world programmes which will achieve the objectives of full employment and the raising of standards of living, a minimum living wage and the extension of social security measures to provide a basic income to all in need, along with all the other objectives set out in the Declaration of Philadelphia. It reminds us that the ILO has the responsibility to examine and consider all international economic and financial policies in the light of the fundamental objective of social justice.

The Decent Work Agenda gives us clear guidelines not only on responding to the crisis but also on avoiding similar meltdowns in the future. The officers of the ILO Governing Body highlighted six key priority actions:

- ensuring the flow of credit and stimulating demand
- extending social protection, training and retraining opportunities and other employment policies
- supporting productive, sustainable enterprises,
- ensuring that fundamental principles and rights at work are not undermined and that respect for decent labour standards is promoted
- deepening social dialogue and tripartism to promote solidarity within countries
- strengthening international cooperation, regionally and globally, to ensure solidarity between countries, including maintaining and expanding development aid and other investment flows to vulnerable countries

Participants in the 8th European Regional ILO Meeting agreed on the particular role of social security in restoring economic and social stability during the crisis and beyond. There was also an agreement that governments should avoid cutting allocations to finance social security benefits; on the contrary, there is a clear need to enhance social security systems.

Social security will effectively cushion the negative impacts of the crisis if its foundations based on solidarity are strengthened. To achieve this, social security policies should follow the relevant international labour standards, in particular ILO Convention No. 102 on Minimum Standards in Social Security, and the basic principles embedded in these standards:

- i) **Universal coverage of income security and health systems.** All residents (both permanent and temporary) should have gender-fair access to an adequate level of basic benefits that lead to income security and comprehensive medical care.
- ii) **Benefits and poverty protection as a right.** Entitlement to benefits should be specified in a precise manner so as to represent predictable rights of residents and contributors; benefits should protect people effectively against poverty; if based on contributions or earmarked taxes, minimum benefit levels should be in line with the Social Security (Minimum Standards) Convention, 1952 (No. 102), or more recent Conventions providing for higher levels of protection, and the European Code of Social Security of the Council of Europe.
- iii) **Actuarial equivalence of contributions and benefit levels.** The benefits to be received by scheme members should represent a minimum benefit replacement rate, and a minimum rate of return in the case of savings schemes, and must adequately reflect the overall level of the contributions paid; such minimum levels should be effectively guaranteed, preferably by the State.
- iv) **Sound financing.** Schemes should be financed in such a manner as to ensure to the furthest extent possible their long-term financial viability and sustainability, having regard to the maintenance of adequate fiscal space for the national social security system as a whole and individual schemes in particular.
- v) **Responsibility for governance.** The State should remain the ultimate guarantor of social security rights, while those who finance, contribute to or benefit from social security schemes should participate in their governance.

Solidarity, social justice and decent work are the keys to overcoming the current crisis. But they are also essential to ensure that the global economic system is fair – and thus sustainable.