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Social security policies for social cohesion and economic development

Towards a global social floor?

The need for a global strategy for social security

The era of globalization has increased the need for strong social security systems that effectively reduce poverty and inequality while encouraging economic growth. However, 80 per cent of the world's working women and men have little or no social security. Furthermore even in countries with long-established systems, many workers are not fully covered for essential health care, old age and contingencies such as unemployment and sickness. In an increasingly global market economy building strong social protection systems, of which social security is a key part, requires internationally coordinated efforts, especially to support poverty reduction in developing countries. The effects of inadequate social security provision spill over international boundaries and a global pool of resources is needed to finance an adequate social floor in all countries.

"Everyone, as a member of society, has the right to social security" states article 22 of the Universal Declaration of Human Rights but after almost 60 years we are far from realizing this right. To many people a basic set of benefits could make the difference between a liveable and a miserable life, or even the difference between life and premature death. Millions of children under the age of 5 die every year in Africa alone because they have no access to adequate health care and there is no income to secure their food.

According to ILO calculations, less than 2 per cent of global GDP would be necessary to provide a basic set of social security benefits to all of the world's poor. Social protection is a powerful tool to alleviate poverty and inequality. It has reduced poverty and mitigated inequality in many OECD countries by almost 50 per cent. And there are good and positive examples of successes with modest universal social benefit systems in Africa, Latin America and Asia. In Botswana, Mauritius, Namibia and South Africa, for example, basic universal pensions have shown positive poverty alleviation effects. Valuable experience has been gained regarding the potential role of social transfers in combating poverty in countries such as Brazil and Mexico and in parts of India. Experience shows that implementing basic social security systems in low-income countries can make an enormous contribution to achieving the first Millennium Development Goal of halving poverty by 2015. And yet investing in social security has not yet become a widely accepted development strategy.

The recent phase of financial globalization has coincided with real or perceived erosion of the fiscal affordability of social protection, but this is happening precisely at a time when social security is needed all the more as a consequence of intensified labour market turbulence provoked by technological changes, trade liberalization and global production shifts. These factors exacerbate insecurity among workers and enterprises in developed and developing countries alike. The need for bold and concerted efforts at national and international levels towards a viable “global social floor” has thus become an imperative for globalization to become fair, and be perceived to be fair and thus politically sustainable.

Building consensus on the importance of investing in social security

Why does the stabilization of social security systems or the introduction of at least basic systems of social security not play a bigger role in economic and development policies? In a tough competitive global market environment every perceived detriment to national competitiveness is subject to intense scrutiny. Thus, social expenditure – at a level of between 25 and 35 per cent of GDP in industrialized countries and between 5 and 15 per cent of GDP in many middle-income developing countries – needs to be justified on economic grounds. The international social protection policy debate has become a debate on fiscal and economic affordability. The costs are seen as economic and the benefits as only social.

In the developed world it is a double-edged debate. On the one hand – on the revenue side – globalization is perceived to limit the fiscal space for transfers through real or alleged global tax competition, while on the other – the expenditure side – the ageing of the population leads to higher dependency levels and is hence seen as inevitably driving up expenditure levels. In the developing world the fiscal space debate is also about economic and fiscal affordability but also implicitly an opportunity cost debate. It is argued that scarce public resources can better be invested elsewhere where they would create more economic growth which would in the long run be more beneficial to the welfare of a population than allegedly “unproductive” transfer payments.

National social security systems in industrialized countries came under political pressure following the two oil crises of the 1970s, when economic growth slowed down and the fiscal space for income transfers in cash and in kind contracted or at least no longer expanded. The perceived need to contain social security expenditure became even more pronounced when globalization took off in full force at the beginning of the new millennium. The pressure to perform in a global competitive environment led to a one-sided view of social security as a cost to society rather than a potential benefit and an investment in economies and people. As long as this view prevails a race to the bottom of public social expenditure will be hard to avoid. However, social transfers are also good for economic development – as well as having positive effects on social development, if well designed, they also yield strong economic returns and should thus be regarded as an investment.

Social security as an economic investment

Economic growth does not trickle down automatically and redistributive policies including social security are needed to reduce poverty and inequality

While the resources generated by economic growth are essential for sustained poverty reduction, experience shows that growth does not automatically reduce poverty without putting redistributive mechanisms (such as social security systems) in place. Countries with the same levels of GDP per capita would show a wide range of different levels of poverty and one of the major factors affecting the level of poverty is the existence of an effective social security system. Growth does not trickle down to the poorest or does so painfully slowly unless public policies are in place to encourage its redistribution.

A low level of economic development does not prevent the growth of social expenditure

At any given level of GDP per capita there is a wide range of social expenditure between different countries. This implies that conditions differ from country to country (for example the demographic situation) but also that there is considerable room for manoeuvre with respect to choosing the level of national social expenditure. For many highly indebted developing countries, however, there may be considerable fiscal and policy space constraints related to unsustainable debt repayments and conditionalities imposed by international financial institutions.

A country can have a high level of social expenditure and be competitive on global markets

There is a fairly strong correlation between per hour productivity and per capita expenditure on social protection in OECD countries. While we are not sure that this constitutes causality we know at least that extensive social protection expenditure per capita and high productivity can coexist; we also know that high social security does not automatically suppress employment and hence we know that high social expenditure and top economic performance are mutually compatible. Social equity and efficiency are not of necessity contradictory. Well designed social policies can go hand in hand with strong economic performance.

Social expenditure has an investment character

We know that social security systems reduce poverty. The World Bank's World Development Report 2005 argues that poverty is a risk to security and lack of security is a hindrance to the investment climate. [1] Furthermore, people who enjoy a minimum material security can afford to take entrepreneurial risks. [2] Social security benefits can facilitate the adjustment of labour markets in the industrialized and the developing world. They can thus help to facilitate public acceptance of global changes in production processes triggered by

[1] See World Bank, 2005: *A better investment climate for everyone* (Washington, DC).

[2] See OECD DAC, 2006: *Promoting pro-poor growth: Key policy messages* (Paris: OECD Development Assistance Committee), http://www.oecd.org/dataoecd/33/54/36570936.pdf.

globalization. Collective social security systems are generally more socially efficient in that they provide a large number of citizens with a reasonable degree of security for a lower share of national income than systems that rely on private provision.

Moreover, social protection plays an essential stabilizing or counter-cyclical role during an economic downturn or financial crisis by maintaining some degree of effective demand in the economy thus helping domestic businesses to stay afloat. ILO studies suggest that the social and economic impact of the 1997 East Asian crisis would have been much less severe had countries adequately invested in social protection schemes. Argentina's much quicker than expected recovery from its 2001 crisis is partly attributed to the *Plan Jefas y Jefes de Hogar Desocupados*, which was introduced in the wake of the crisis to provide basic income to unemployed households in exchange for work.

A fiscal strategy for investing in a global social floor

According to some estimates, the cost of closing the social security deficit for the poorest countries is in the order of US$380 billion annually. So even if the international community were able to double the volume of ODA from its current level of about US$70 billion a year (net disbursements), the bulk of financing would have to remain the responsibility of nation States. However, the catalytic role that net additional aid can play in kick-starting national social protection schemes cannot be overstressed. Some donors are starting to see the pay-off, but there is still a long way to go in mainstreaming social protection in development debate and policy.

At the national level, fiscal space is obviously always limited, especially at the early stages of development where the introduction of social security benefits may have to be sequenced by order of priority.

However, ILO calculations have shown in the case of 12 developing countries that some form of basic social security can be afforded by virtually all countries. A basic package consisting of modest pensions and child benefits in Senegal and the United Republic of Tanzania, for example, could reduce the poverty headcount (measured against the food poverty line) by about 40 per cent and would cost less than 4 per cent of their respective GDP. At the same time, countries need to invest in tax system design and the effectiveness of contribution collection mechanisms. The net cost of early investments into a basic set of social security benefits could in fact be zero or even negative, given expected offsets by positive economic returns.

The basic conditional cash transfer programme *Oportunidades* in Mexico reduces sickness days of adults by about 19 per cent, a major productivity push. The cash-for-education programme in Bangladesh increased the lifetime earnings of beneficiaries by 25 per cent, again an indication for a productivity hike. [3] If we assume that we only increase overall levels of GDP by 10 per cent due to productivity increases that are linked to basic social security schemes, then modest schemes should quickly pay for themselves. In the long run – and after some investment in the tax collection mechanisms – the tax revenues would increase in line with growth creating the fiscal space that is needed to finance the benefits.

[3] See DfID, 2005: Social transfers and chronic poverty: Emerging evidence and the challenge ahead, DfID practice paper (London: Department for International Development, United Kingdom), http://www.dfid.gov.uk/pubs/
files/social-transfers.pdf, pp. 14 and 17.

Issues for discussion

Social security systems effectively reduce poverty and inequality and are compatible with high economic growth, provided they are well designed and do not lead to waste and perverse incentives. The key issues for governments, social partners and civil society in shaping social security policies in all countries irrespective of their level of development, is not whether to have such systems but how to design systems that get the balance right.

Social security systems can help mitigate the intensified social dislocations associated with globalization. They can contribute to stabilizing societies in low-, middle- and high-income countries alike. Stable societies in low-income countries are of direct economic benefit to economically more advanced countries as only stable countries provide a favourable environment for investment, higher volumes of trade and further global growth. Building a social security system is in the interest of all countries regardless of whether others do also. However, if all countries were to move forward together, progress in alleviating poverty and promoting growth would most likely be faster and more evenly spread. Enabling lower income countries to make the initial investments in social security systems should therefore be an important component of international development strategies.

In the framework of its campaign for the extension of social security, the ILO seeks to turn the right to social security into a reality for all people through promoting the early introduction of a basic and modest set of social security benefits for all residents that could consist of:

- universal child benefits;
- universal access to essential health services;
- some modest financial relief for the working poor unable to earn enough for their families to escape poverty as a result of underemployment or low productivity; and
- basic tax financed pensions for the old, the disabled and those who have lost the main breadwinner in a family.

This could constitute the social security component of a global social floor. The ILO is presently reviewing whether its legal instruments (i.e. Conventions and Recommendations) are appropriate to support such policies or whether they should be reviewed in view of creating broader commitment and legitimacy for the global campaign for the extension of social security through promoting a global social floor. At the same time, the ILO has embarked on major technical cooperation activities that support countries in the exploration of the feasibility and the implementation of basic cash and health benefits.