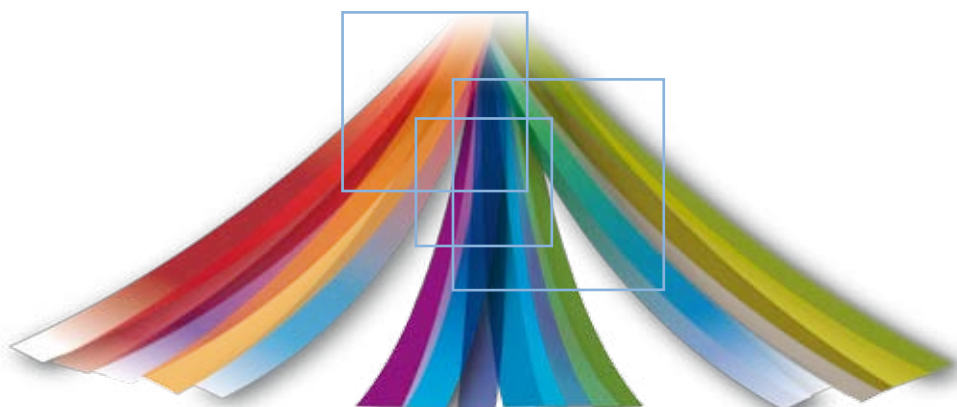


# GLOBAL JOBS PACT POLICY BRIEFS



International  
Labour  
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## THE ILO STRATEGY TO EXTEND SOCIAL SECURITY

### 1. Executive summary

Experience during current and past crises have shown that development gains achieved during times of economic growth can evaporate quickly in the absence of sound social security systems protecting people during crisis or other risks throughout the life cycle. Some countries tend to cut social expenditure significantly when the budget is under pressure due to economic downturns. However, social security benefits play an important role in times of crisis: at the micro level, they allow households to smooth consumption in periods of reduced household income and avoid poverty. At the macro level, they stabilize aggregate demand, alleviate the adverse impacts of a crisis and reduce inequalities thus enhancing social cohesion.

In light of the importance of national social security systems in times of crisis and beyond, the ILO has launched a Global Campaign on the Extension of Social Security and Coverage for all which promotes extending social security along to dimensions: horizontally, to an increasing number of people and vertically, providing progressively higher level of benefits. A key message at the heart of the extension strategy is the recognition that social security systems are not simply a cost for governments on the expenditure side but rather an investment with a rate of return in terms of more productive workers and a smooth functioning of the economy throughout the business cycle.

### 2. Description of the policy challenges

Only a fifth of the world's population enjoys comprehensive social security coverage. This has been the case before the global economic crisis, and has been further exacerbated by the crisis in large parts of the world. However, the crisis has also provided an opportunity to address these challenges in a more coordinated and forceful way.

Some of the main policy challenges, aggravated during the crisis, are the following:

- Rising unemployment and an informalization of employment pose a fundamental threat to people's livelihoods and lead to more socio-economic insecurity.
- A lack of access to health protection has critical effects, both in the short and long term, on the physical health, well-being, as well as on the productivity of women and men and the physical development of children.
- Economic insecurity tends to prevent women and men from full participation in productive employment, and can also have a negative impact on the health, physical development and education of their children, with critical long-term effects.

*The Global Jobs Pact policy brief series is intended to inform readers of the relevance of the ILO's technical areas of work in addressing economic downturns as well as assisting in sustainable economic recoveries. Each brief is an invitation to the reader to contact the ILO for additional information and support.*

*More briefs can be found and downloaded at <http://www.ilo.org/jobspact>*



- The lack of adequate social security mechanisms does not only expose people to unnecessary risks in the event of a loss of income and access to health care in the event of a contingency, but also fails to stabilize aggregate demand during major shocks.

These policy challenges obviously occur in different forms in countries at different levels of development and in different socio-economic contexts.

### 3. Policy options to address the challenges

Building a national social protection system that provides guaranteed, adequate, sustainable social benefits and access to social services is an economic and social necessity for all countries to be able to alleviate the effect of economic crises and to ensure equitable growth. The ILO proposes a two-dimensional approach to the extension of social security at the heart of its Global Campaign for Social Security and Coverage for All. The first, horizontal dimension comprises the extension of some income security and access to health care, even if at a modest level, to the whole population. In line with Articles 22 and 25 of the Universal Declaration of Human Rights, the horizontal dimension is important to ensure that everybody will be able to realize their human right to social security. The second, vertical dimension, provides higher levels of income security and access to higher quality health care at a level that protects the standard of living of people even when faced with fundamental life contingencies such as unemployment, ill health, invalidity, loss of breadwinner and old age. The vertical dimension seeks to increase the scope of the coverage, i.e. the range and level of benefits, at least to a level that is described in Convention No. 102 and preferably to a higher level as defined in other up to date ILO Conventions.

The extension of social security along the horizontal and vertical dimension is mutually reinforcing and should be pursued in parallel, adapted to national circumstances.

#### *The horizontal dimension*

Social security should ensure that two fundamental needs are met for all, namely: basic income and access to health care. Social security thus plays an important role within the overall framework of economic and social policies. Even a modest level of benefit can go a long way in alleviating poverty and vulnerability and enabling people to participate more fully in education, productive employment and society as a whole.

In April 2009 the UN Chief Executive Board (CEB), has pointed to a new strategic approach to the need for a horizontal extension through the promotion of a set of basic social security guarantees within the framework of a wider Social Protection Floor consisting of social transfers and services (see Policy Brief No. 20 for more detail).

The transfer guarantees of the Social Protection Floor aim at a situation in which:

- all residents have the necessary financial protection to afford and have access to a nationally defined set of essential health care services, in relation to which the State accepts the general responsibility for ensuring the adequacy of the (usually) pluralistic financing and delivery systems;
- all children have income security, at least at the level of the nationally defined poverty line level, through family/child benefits aimed at facilitating access to nutrition, education and care;
- all those in active age groups who are unable to earn sufficient income on the labour markets should enjoy a minimum income security through social assistance or social transfer schemes (such as a minimum income guarantee for women during the last weeks of pregnancy and the first weeks after delivery) or through employment guarantee schemes;
- all residents in old age and with disabilities have income security at least at the level of the nationally defined poverty line through pensions for old age and disability.

The Social Protection Floor provides the framework for the horizontal extension of social protection which reflects a rights-based, flexible and outcome-oriented approach. Benefits may be organised as universal benefits (as in the



case of a universal tax financed pension or a universal national health service) or as social insurance schemes with complete population coverage (which may mean subsidised insurance coverage for some population groups), they may be conditional or unconditional, or organized as social assistance schemes that guarantee access to income security and health care only for those who enjoy no other form of risk protection. What is important is that everyone who is in need of income transfers or health services can access these transfers in cash or in kind and does not have to meet conditions that effectively exclude him/her from coverage.

The guarantees approach also creates the flexibility that makes the concept of a social protection floor compatible with all possible national social security systems. What the package of the four guarantees actually sets is a minimum performance standard with respect to the access, the scope and the level of income security and health in national social security systems. Such quality standards can and should be met by all national social security systems.

The rationale for introducing a basic set of social security guarantees is grounded in rights, but the level and scope of benefits in any given country will have to reflect the prevailing capacity to finance the benefits. A national forward-looking social security strategy and diagnosis of priority needs can help sequence the implementation of various social programmes and policy instruments that address individual guarantees. The examples in many middle and low income countries show that some elements of the floor are affordable everywhere, others may have to wait till fiscal space can be extended through policy and governance decisions or widens as a corollary to economic growth.

Even if not all social security guarantees can be implemented at once, there is still a need to adopt the package of four guarantees as policy objectives even if it is to be implemented gradually. This helps (a) to avoid losing sight of the overall objective of achieving a comprehensive protection of all residents and (b) to assess and maintain awareness of the opportunity cost in terms of other guarantees that are put on hold when deciding on fulfilling priority guarantees. Formulating a package of guarantees as a floor thus should lead to rational cost-benefit based policy decisions.

### ***The vertical dimension***

The vertical extension of social security aims at the gradual progression towards higher levels of income security and access to higher quality health care, in line with levels of

development. As countries gain fiscal space – it is to be expected that steps will be taken, within the framework of the ILO social security conventions to put in place correspondingly higher levels of provision. The objective will be to build higher levels, with wider perspectives, which complement the minimum provided by a comprehensive Social Protection Floor.

It is obvious that population groups with income levels higher than the “poverty line” will seek, and have a right, to create social security measures for themselves that provide significantly higher levels of income replacement in case of loss of income than those that may be deemed adequate as mere poverty protection. In many countries, there is also a need to further differentiate between different risks to be covered in addition the four guarantees, such as maternity benefits or employment injury and disability benefits, in order to ensure a more comprehensive protection of the population.

The mechanisms to achieve such levels of income replacement, or access to quality health care, are fairly well developed, ranging from social insurance, through community based protection systems and tax-financed defined benefit schemes to mandatory private insurance. ILO Conventions stipulate minimum benefit levels and thus help to promote effective income replacement in countries where they are ratified. In other countries they provide a unique set of internationally accepted minimum benchmarks for benefit levels against which to assess the design of national social security systems that help to formulate long-term national aspirations in form of national social security development plans.

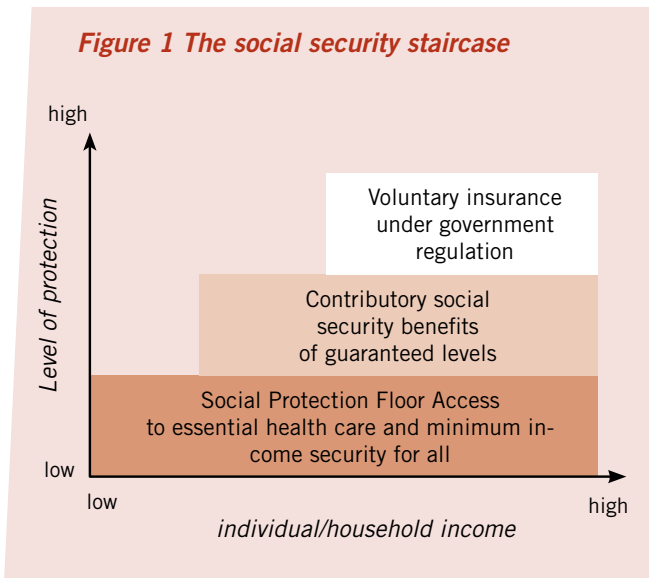
### ***The social security staircase***

The metaphor that thus emerges for the extension of social security coverage is the image of a social security staircase (see Figure 1).

The floor level comprises a set of basic guarantees for all. For people with tax-paying or contributory capacity, a second level of benefits as a right (defined and protected regarding the minimum levels by law) can be introduced and, finally, for those with need or wish for still higher levels of protection, a “top floor” of voluntary private insurance arrangements can be organized (but should be subject to regulation and public supervision in the same way as all private insurance schemes). This metaphor is appropriate to all countries, albeit that the number of people whose only protection consists of basic social guarantees is naturally larger in countries at lower income levels or with limited fiscal space.



**Figure 1 The social security staircase**



#### **Extending social security during fiscal austerity**

The aftermath of the financial crisis has left many countries with large and partly further growing government deficits. The surge in public deficits increases the pressure to contain public expenditure. A premature consolidation of public expenditure may however lead to pro-cyclical contractions of demand and delayed investments in infrastructure and social capital, with negative effects on long-term growth and social cohesion. Such effects may be exacerbated by a structural bias in fiscal consolidation measures of many countries neg-

atively affecting low income earners and the middle classes through a combination of cuts in social security and labour market spending programmes and tax cuts for high-income earners and companies.

Paradoxically, in many countries post crisis fiscal consolidation is followed not only by temporary cuts in social spending, but also in some cases by measures not only aimed at cost-cutting but also at trimming down previously achieved levels of protection.

At the same time there is a need for solutions which would prevent weakening of protection levels below the accepted standards, especially in view of current fiscal austerity policies. Balancing adequacy objectives with challenges arising from demographic ageing, fiscal consolidation and future economic downturns can be only partially solved by changes in the benefit design, eligibility conditions and financing mechanisms. What is required more than ever, is a well governed process of policy making embedded in a well informed social dialogue.

While there has been growing recognition of the need to prioritize social security spending and to increase the fiscal space for social security in many countries at all levels of development, the pressure on public budgets may close this window of opportunity prematurely. It is therefore necessary to ensure an adequate level of social spending as a critical element of economic and social policies, which needs to be translated into effective policies at the national and international level.

## **4. Policy options and recommendations**

The crisis has forcefully illustrated the importance of social security coverage as a key factor ensuring economic security and access to medical care. There is also growing recognition that comprehensive social security schemes contribute to cushioning effects of economic downturns, stabilizing aggregate demand, facilitating structural transitions of the economy and respond to shocks, thereby fostering balanced growth, reducing poverty and enabling social cohesion.

There is a strong case to be made for the extension of social security in both the horizontal and vertical dimensions. International experience has shown that the gradual extension

of at least a basic level of social security to larger groups of the population is feasible even in very poor countries. At the same time, the range of contingencies covered can be gradually extended and benefit levels adapted to increasing needs and wider financial possibilities.

Especially in the context of (economic) recovery from the crisis, it is important to ensure adequate public investment in social protection system and avoid a premature introduction of austerity measures that may jeopardize human development achievements and future productivity of workers.



## 5. Further reading and resources

- ILO, 2010: *World Social Security Report 2010/11: Providing coverage in the time of crisis and beyond* (Geneva: International Labour Office), <http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=15263>
- ILO, 2010: *Extending social security to all. A guide through challenges and options* (Geneva: International Labour Office), <http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=16152>
- ILO, 2010: *Employment and Social Protection in the New Demographic Context* (Geneva: International Labour Office), <http://www.ilo.org/gimi/gess/RessFileDownload.do?ressourceId=16272>
- ILO Social Security Department <http://www.ilo.org/public/english/protection/secsoc/>
- Global Extension of Social Security website [www.socialsecurityextension.org](http://www.socialsecurityextension.org)
- Social Protection Floor Website <http://www.socialsecurityextension.org/gimi/gess/ShowTheme.do?tid=1321>