Fiscal Space for Social Protection Financing

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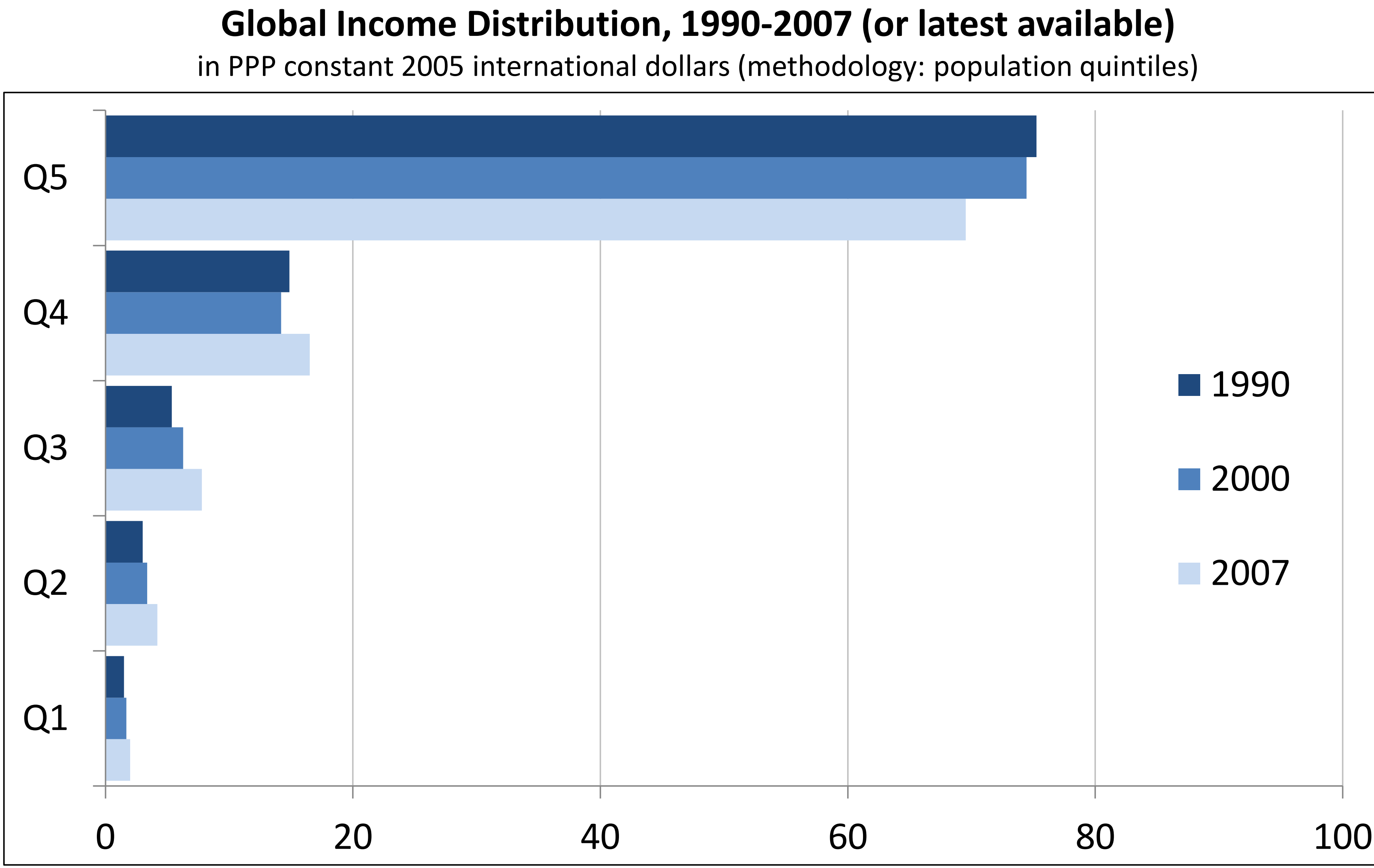
United Nations, New York, 28 May 2013

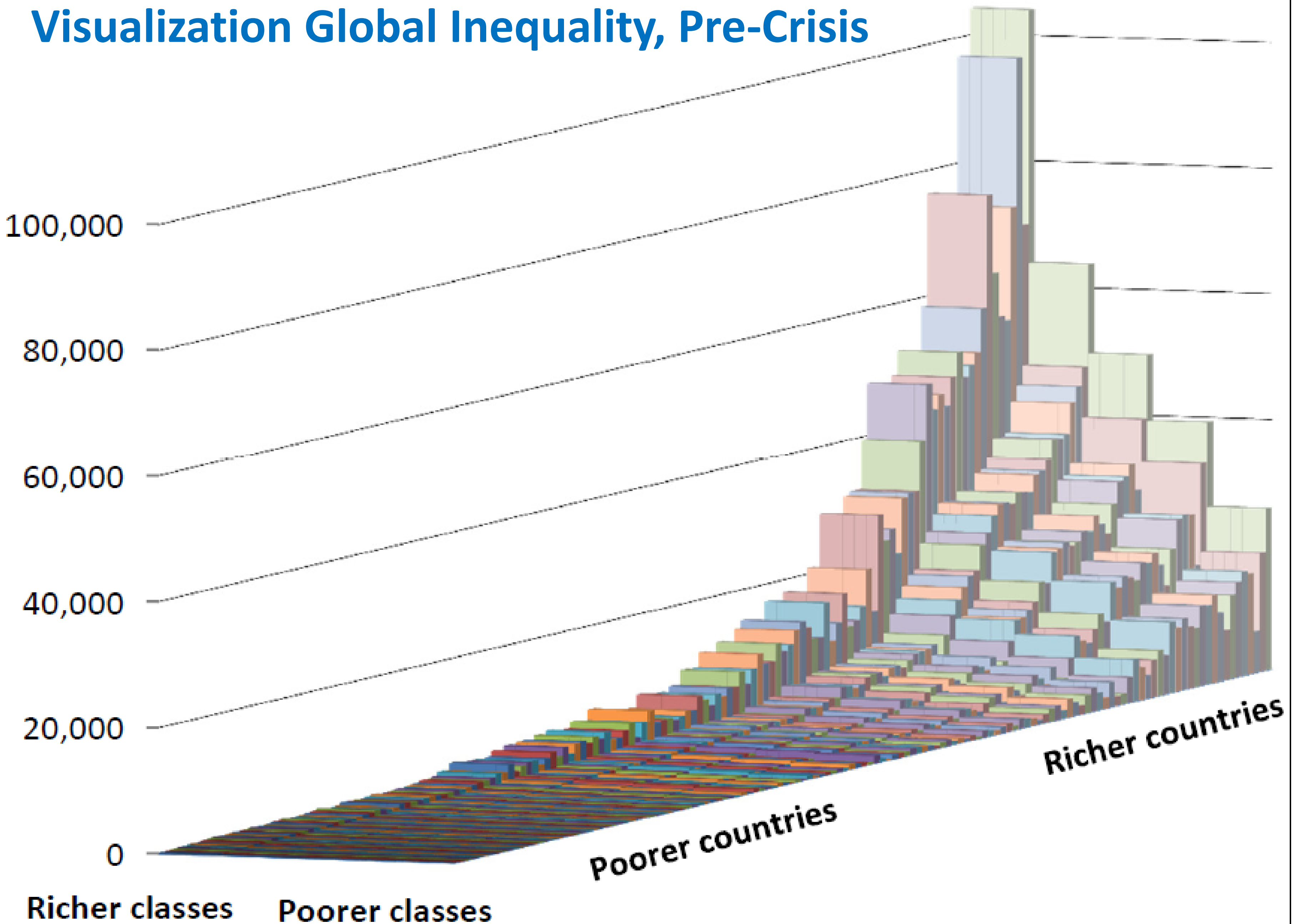



Starting Point: Most people left behind prior to the crisis



Source: Ortiz and Cummins, “Global Inequality: Beyond the Bottom Billion,” UNICEF, 2011

Visualization Global Inequality, Pre-Crisis



Source: Ortiz and Cummins. 2011. *Global Inequality.* UNICEF

Poorest and Richest Quintiles in the World

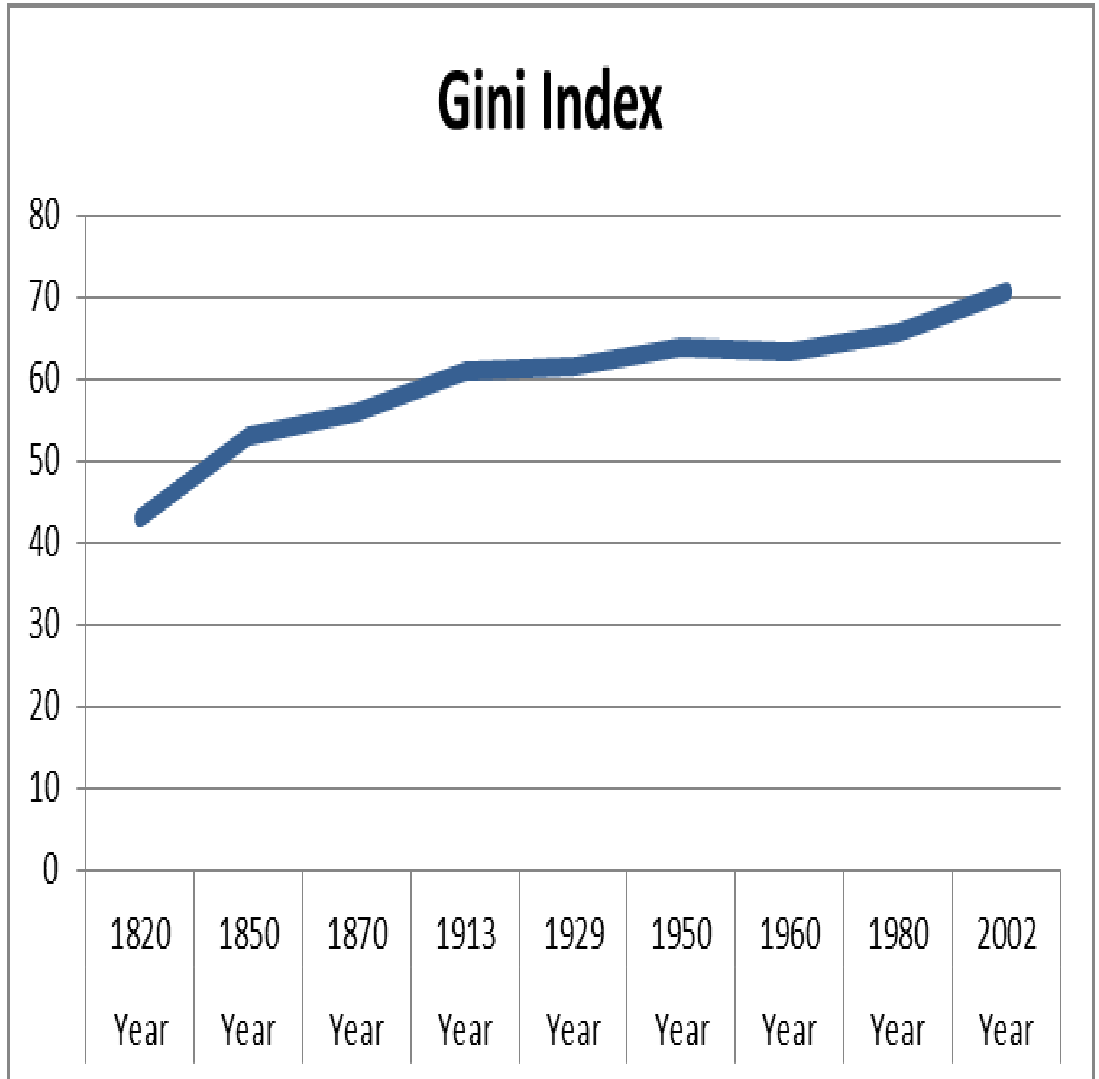
2007, constant 2000 U.S. dollars

Poorest				Richest			
Country	Quintile	GDP per capita	Population	Country	Quintile	GDP per capita	Population
Dem. Rep. of Congo	1	26	12,504,557	Luxembourg	5	104,189	95,999
Dem. Rep. of Congo	2	43	12,504,557	United States	5	96,946	60,316,000
Liberia	1	47	725,457	Singapore	5	76,189	917,720
Haiti	1	49	1,944,017	Switzerland	5	73,404	1,510,223
Burundi	1	49	1,567,596	Norway	5	70,184	941,831
Niger	1	50	2,827,937	Luxembourg	4	63,986	95,999
Guinea-Bissau	1	51	308,208	Ireland	5	63,507	871,386
Malawi	1	52	2,887,899	United Kingdom	5	58,408	12,196,061
Central African Rep.	1	60	851,481	Denmark	5	56,421	1,092,288
Dem. Rep. of Congo	3	65	12,504,557	Sweden	5	55,543	1,829,618

Source: Ortiz and Cummins (2011) based on World Bank (2011), UNU-WIDER (2008) and Eurostat (2011)

Historical Perspective: Income Inequality Increasing

Year	Gini
1820	43.0
1850	53.2
1870	56.0
1913	61.0
1929	61.6
1950	64.0
1960	63.5
1980	65.7
2002	70.7



Source: Milanovic (2009) World Bank

Inequality Further Increased by Global Crisis (I):
Crisis Transmission Channels

1. Employment and Income
- Unemployment, underemployment
- Wage cuts, reduced benefits
- Decreased demand for migrant workers
- Lower remittances
- Negative returns from pension funds

2. Prices
- Basic food, agricultural inputs
- Fuel
- Medicines, drugs

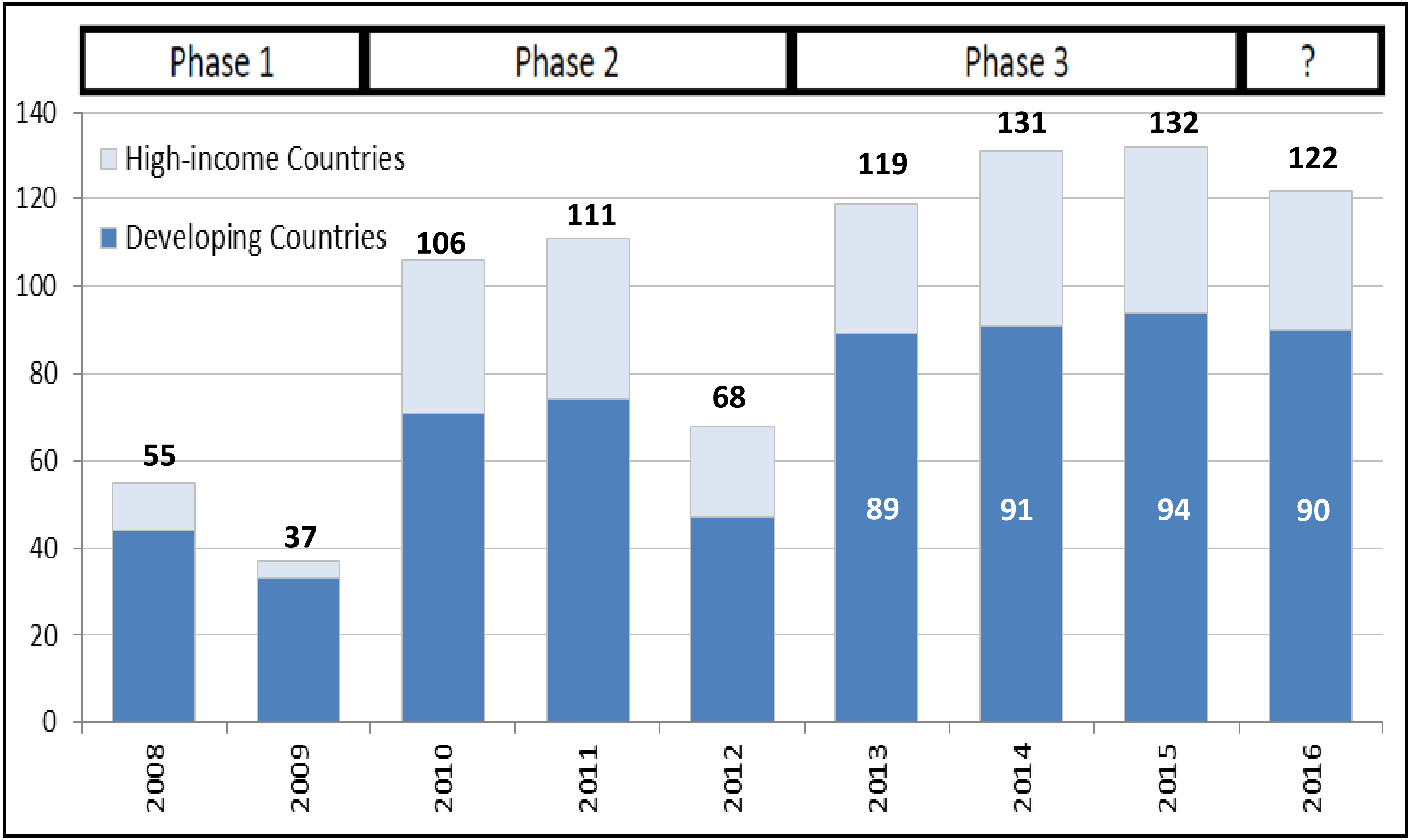
3. Assets and Credit
- Lack of access to credit
- Loss of savings due to bank failures
- Loss of savings due to coping mechanisms
- Home foreclosures

4. Government Spending on Economic and Social Sectors
- Education
- Health
- Social protection
- Employment programmes
- Public investment (e.g. infrastructure, green growth)

5. Aid Levels - ODA

Inequality Further Increased by Global Crisis (II): Countries Contracting Public Expenditures

Number of Countries Contracting Public Expenditures as a % GDP, 2008-16

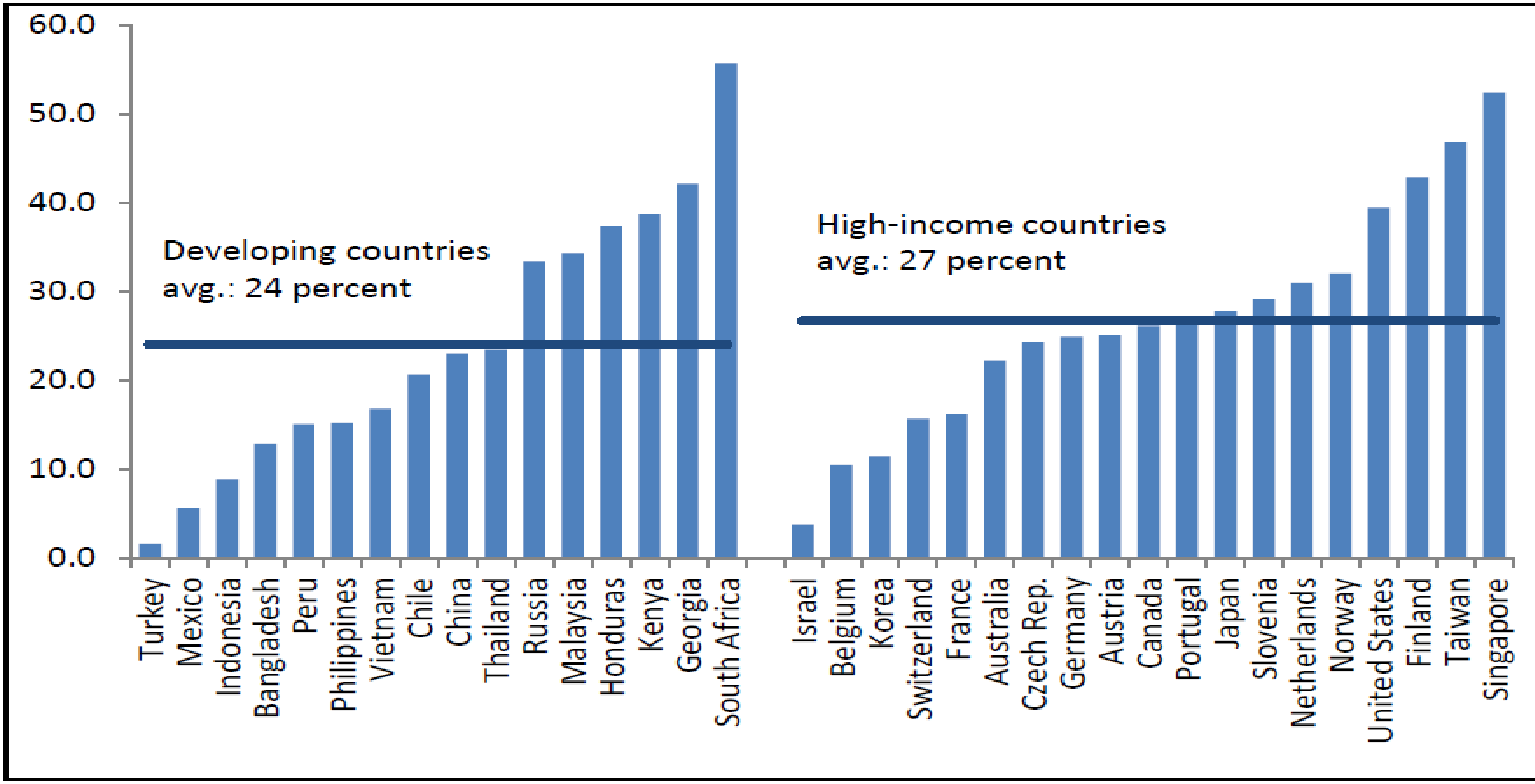


Source: Ortiz and Cummins.2013. *The Age of Austerity*. IPD and the South Centre - based on IMF's *World Economic Outlook* (October 2012)

Crisis Phase I (2008-09) – Fiscal Expansion

- $2.4 trillion fiscal stimulus plans in 50 countries

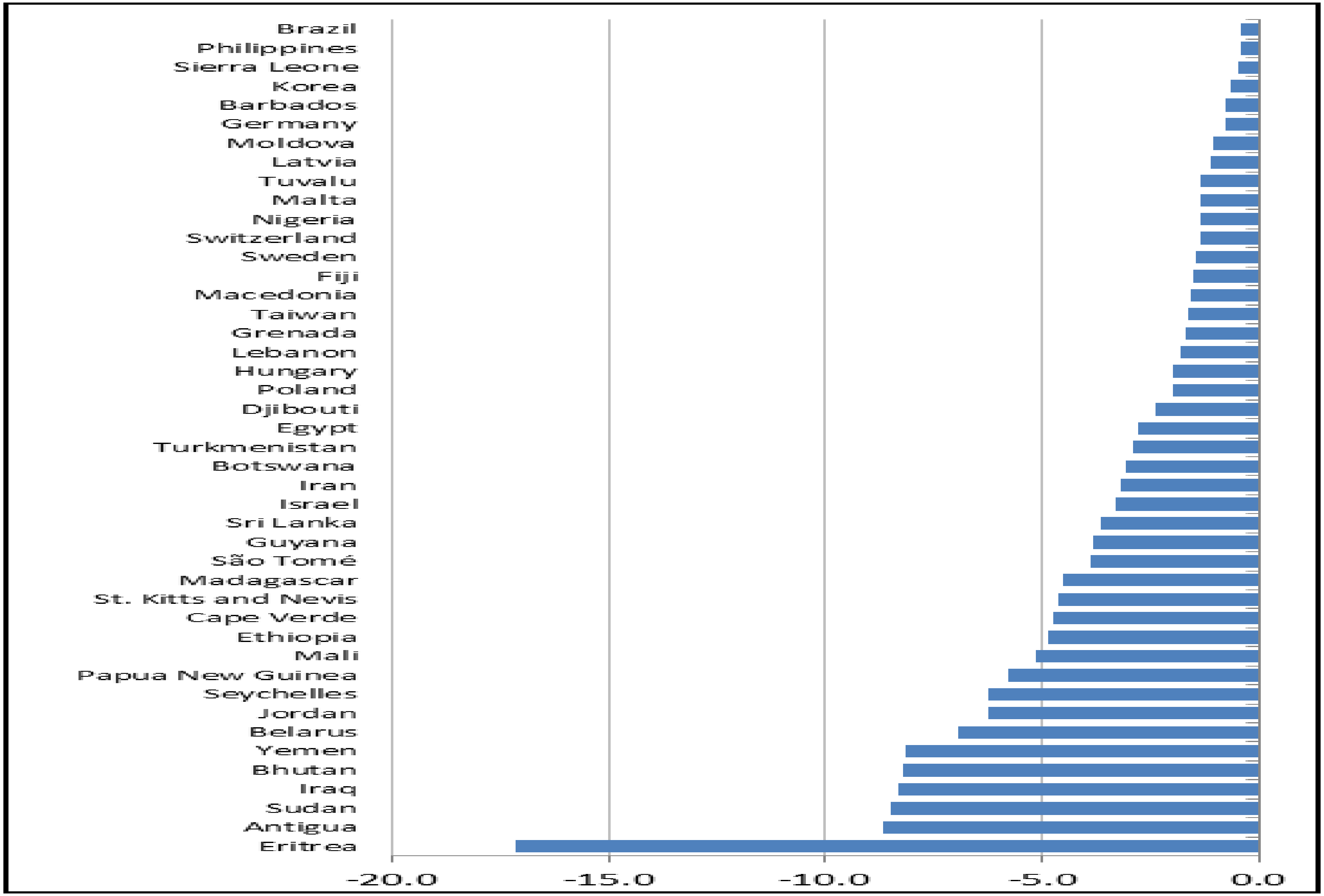
Social Protection in Fiscal Stimulus Plans 2008-09



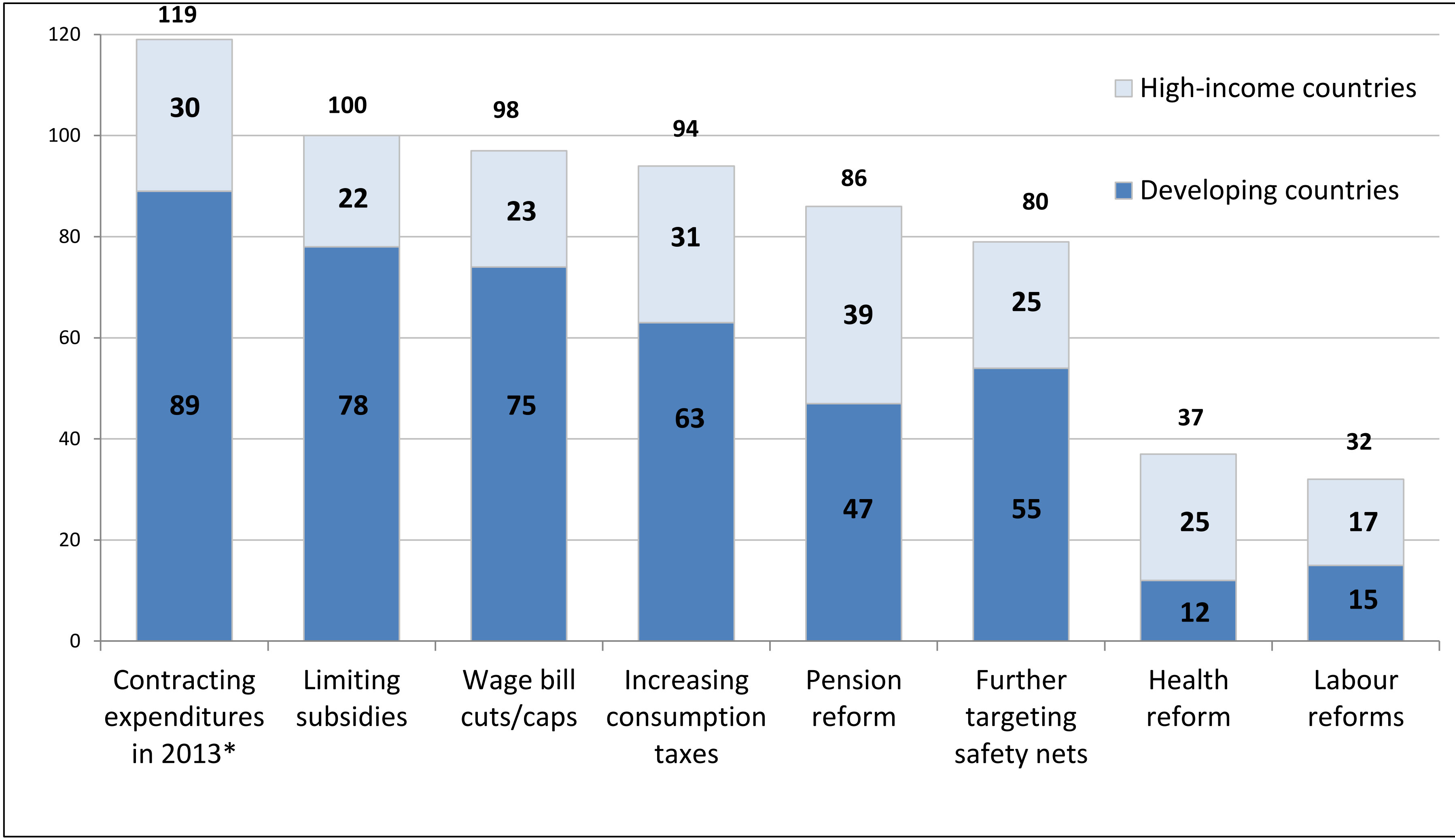
Source: Ortiz and Cummins.2013. *The Age of Austerity*. IPD and the South Centre - based on IMF's *World Economic Outlook* (October 2012)

Inequality Further Increased by Global Crisis (II):
2013-15: A quarter of countries excessive contraction
(44 countries with expenditures below pre-crisis levels)

Changes in Total Government Spending as a %GDP, 2013-15 avg. over 2005-07 avg.



How are Countries Adjusting? Austerity Measures in 174 Countries, 2010-13



Source: Ortiz and Cummins. 2013. *The Age of Austerity.* IPD and the South Centre – based on 314 IMF country reports 2010-2013

Fiscal Austerity: Crisis of Social Support

- **Phasing out subsidies** (food, fuel and others) in 100 countries, despite record-high food prices in many regions
- **Wage bill cuts or caps** in 98 countries, includes reducing salaries/size of public sector workers who deliver essential services
- **VAT increases** on basic goods and services that are consumed by the poor – and which may further contract economic activity – in 94 countries
- **Reforming old-age pensions** in 86 countries, e.g. by raising contribution rates, increasing eligibility periods, prolonging retirement age, lowering benefits
- **Rationalizing and targeting safety nets** in 80 countries, a *de facto* reduction of coverage at a time when governments should be scaling up benefits – building social protection floors
- **Healthcare system reforms** in 37 countries, includes raising fees and co-payments, introducing cost-saving measures in public healthcare centers
- **Labor flexibilization reforms** in 32 countries, e.g. revising minimum wage, limiting salary adjustments, lowering collective bargaining rights

Source: Ortiz and Cummins. 2013. *The Age of Austerity.* IPD and the South Centre – based on 314 IMF country reports 2010-2013

Deflationary spiral

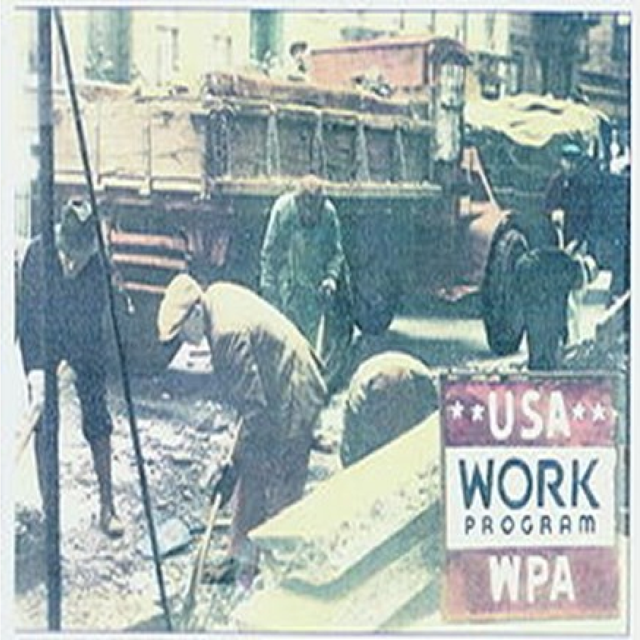
- Asset (stock, property) markets deflating
  → negative wealth effect
  → more bank insolvency
  → generalized credit squeeze
- Lower external demand, world trade
  → excess capacity
  → investment slowdown
- Depressed domestic demand
  → lower prices, output
  → lower employment, incomes

Risks to Socio-Economic Recovery – The Need for a Policy Shift

- **United Nations: Austerity is likely to bring the global economy into further recession. Called on governments for concerted policy action to support development goals**
- **Policy shift started in a few Asian and Latin American countries 2012-13 . Concern on low growth and demand for their exports:**
  - **Building internal markets (minimum wage policies, social protection, subsidies, social services, etc)**
  - **New round of fiscal stimulus to be invested in infrastructure, tax incentives -- the amounts are small for sustained recovery ($0.38 trillion in 2012, compare to $2.4 trillion fiscal stimulus in 2008) but a sign of policy change**

Policies for an Equitable Recovery

- Current crisis presents an opportunity to rethink socio-economic policies for all persons
- 1929 financial crash led to a New Deal that radically altered the development model of the day:
  - ✓ Stimulated economic growth and employment
  - ✓ Regulated the financial sector
  - ✓ Expanded social security



- A comparable policy push is needed today
- It is not too late
- Increased international cooperation/coordination is urgently needed for a more robust and sustained recovery, with benefits far more widely shared

Reducing Inequality and Promoting a Recovery for All: Social Protection Floors

- **Social protection floors are nationally defined sets of basic social security guarantees which secure protection to**
  - **old persons**
  - **children**
  - **persons with disabilities**
  - **the unemployed**
  - **the poor and food insecure, other**
- **All countries have some form of social security but few provide a basic social floor**
- **80% of the world population without coverage**

International and regional endorsements of the SPF (2011 – 2012)

Feb ’11 — UNESCO Forum/ South Asian Ministers of Social Development in Colombo

June’11 — ILC 2011 called for a new recommendation on SPF

Nov ’12 — Full support G20 in France / Launch ‘Bachelet’ report

Jan’12 — 4th SPF-I Inter-agency meeting in New York

Civil Society Forum New York

May/June ’12 — ILC 2012 - adoption of SPFs Recommendation 202

G20 in Mexico

July ’12 — 2012 ECOSOC Annual Ministerial Review

1st Social Protection Inter-Agency Coordination Board (SPIAC-B) meeting, NY

RIO+ 20

2 de Social Protection Inter-Agency Coordination Board (SPIAC-B) meeting in Hyderabad , India

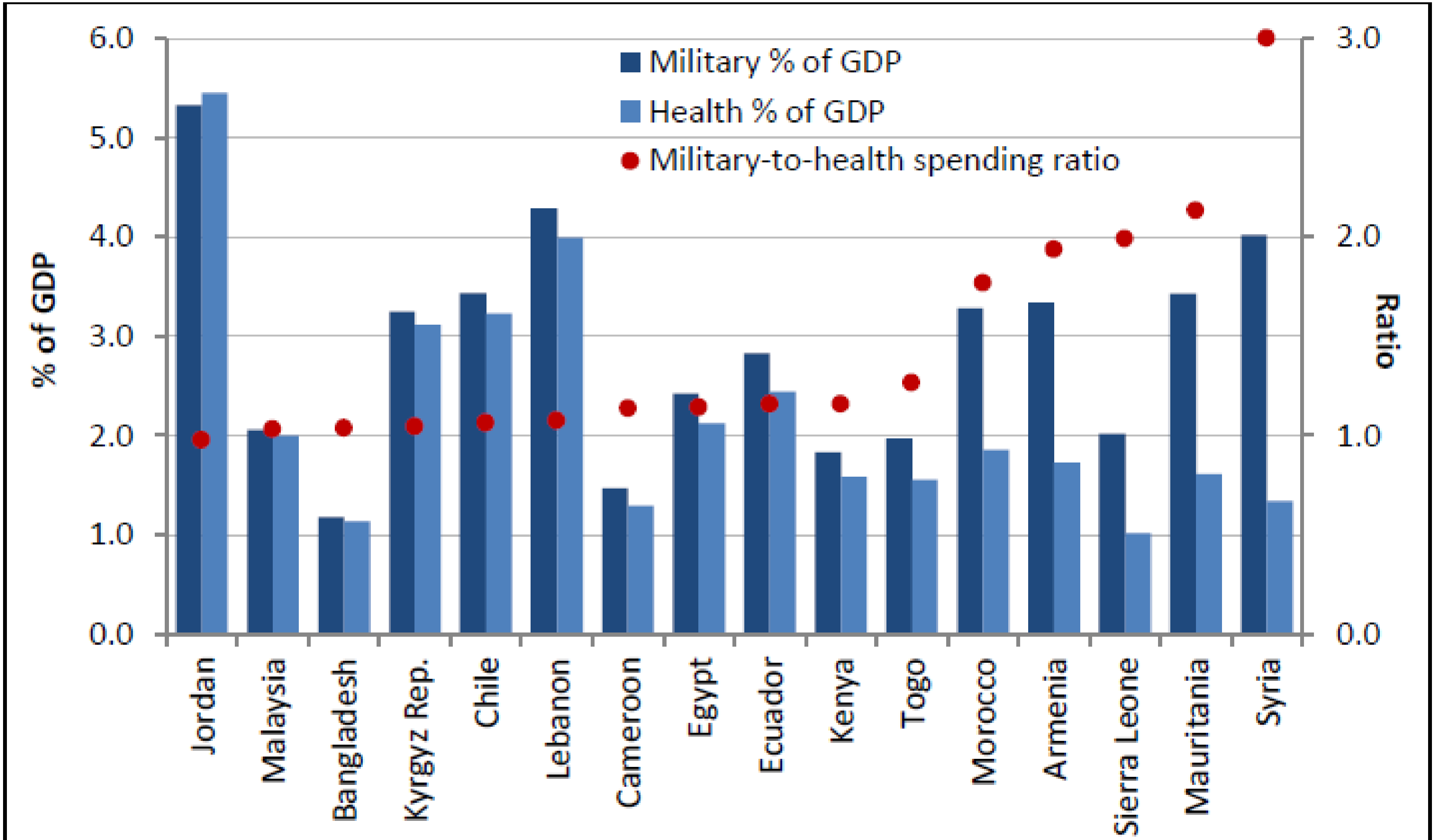
Fiscal Space for Social Protection Floors Exists Even in the Poorest Countries

- **There are many options, supported by UN and IFIs policy statements:**
  1. Re-allocating public expenditures
  2. Increasing tax revenues
  3. Lobbying for increased aid and transfers
  4. Fighting illicit financial flows
  5. Tapping into fiscal and foreign exchange reserves
  6. Restructuring debt
  7. Adopting a more accommodative macroeconomic framework (e.g. tolerance to some inflation, fiscal deficit)

Source: Ortiz and Cummins, "Finding Fiscal Space," in *A Recovery for All*, UNICEF, 2012

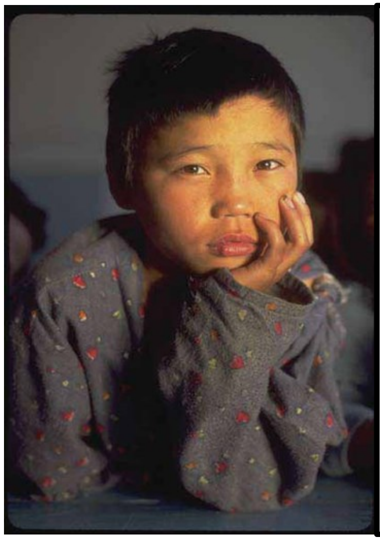
1. Re-allocate Public Expenditures

Military and Health Spending in Selected Developing Countries, 2006-09
(countries with no major armed conflict since 2000)



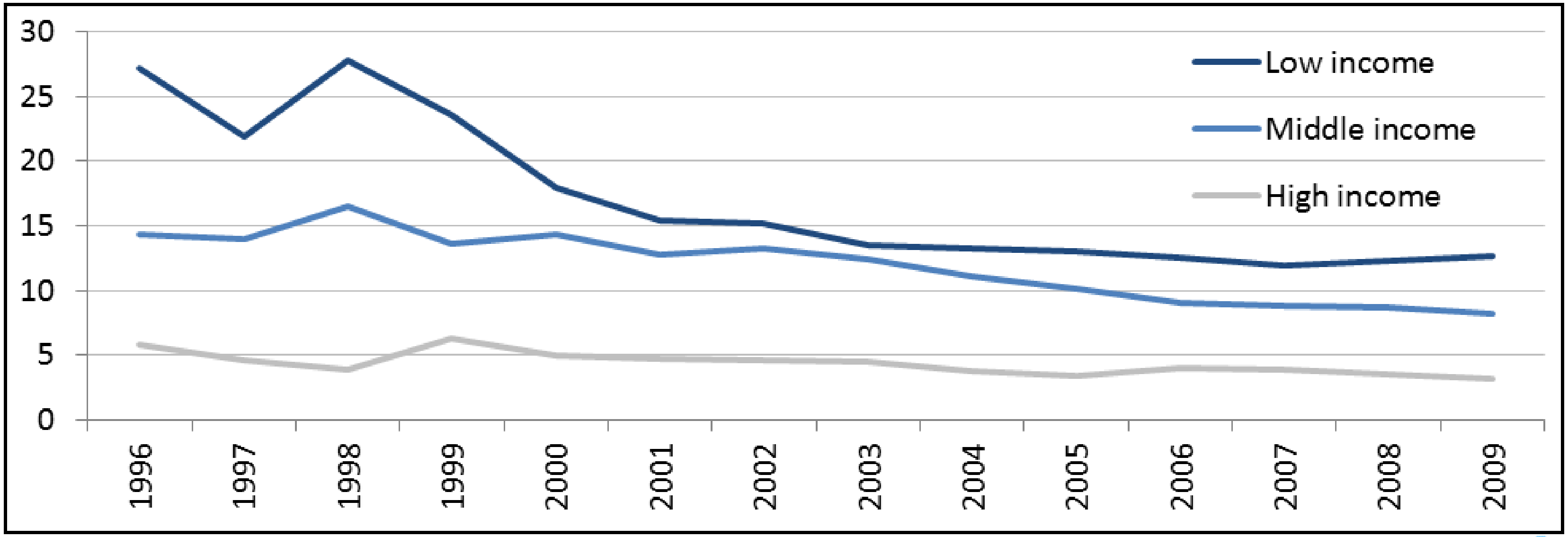
2.a. Increasing Tax Revenues

- Income taxes
- Property and inheritance taxes
- Corporate taxes, including the financial sector
- Tariffs (imports/exports)
- Consumption/sales taxes, tolls



Mongolia: Tax on copper exports financing child benefit

Tariff Rates by Country Income Groupings, 1996-2009 (in %)



Source: Ortiz and Cummins, "Finding Fiscal Space," in *A Recovery for All*, UNICEF, 2012

2.b. Increasing Tax Revenues

High income inequality should make governments move away from indirect taxation (eg. consumption/sales taxes)

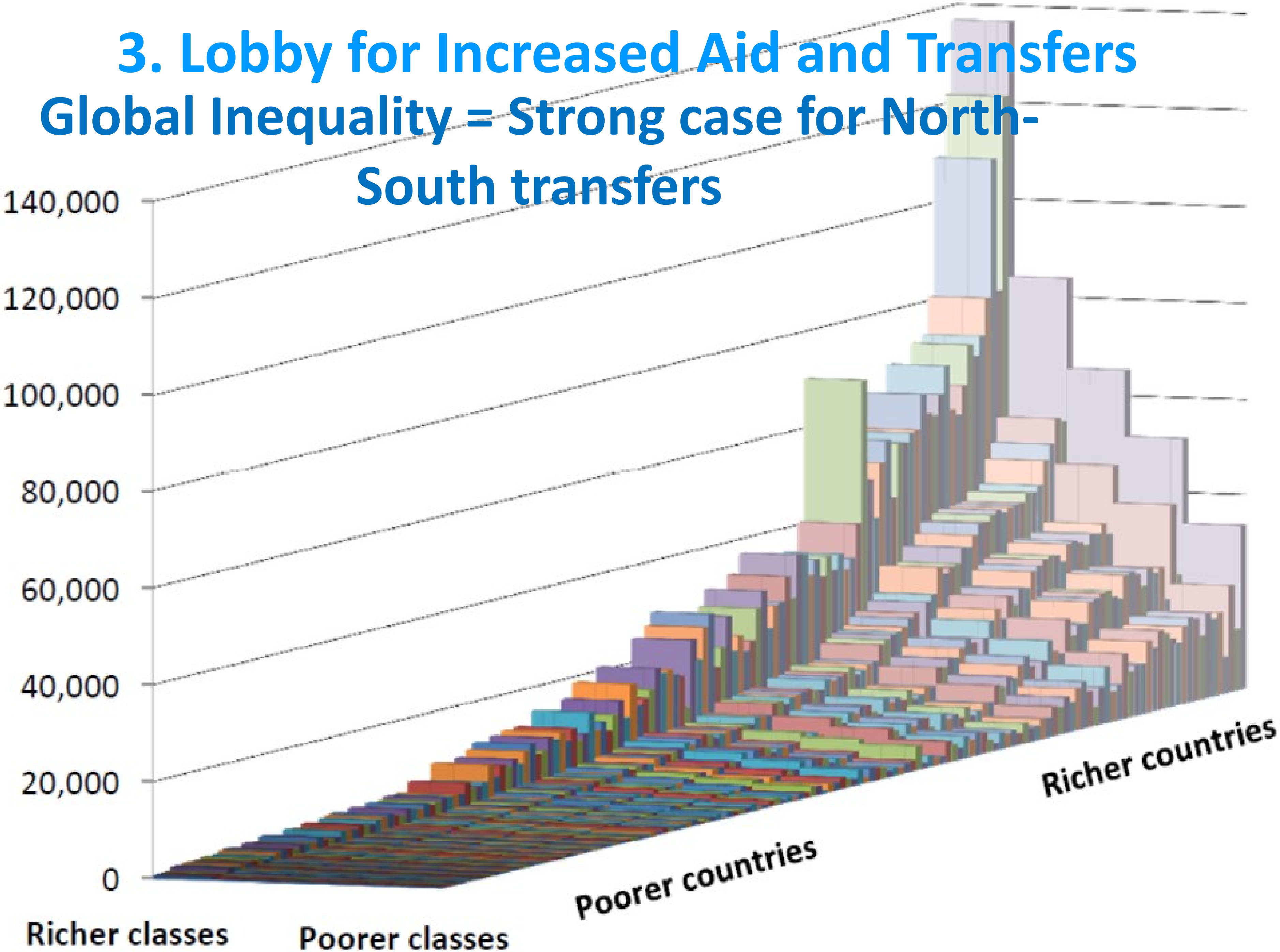
Developing Countries that Lowered Individual and Corporate Income Tax Rates for the Top Income Brackets, 2009*

Individual Income Tax	Corporate Income Tax		
Bulgaria	Albania	Ghana	Romania
Colombia	Bangladesh	India	Russian Federation
Egypt	Bosnia & Herzegovina	Indonesia	Serbia
Indonesia	Bulgaria	Kazakhstan	South Africa
Kazakhstan	China	Kenya	Swaziland
Lithuania	Colombia	Macedonia	Thailand
Malaysia	Costa Rica	Malaysia	Tunisia
Mauritius	Côte D'Ivoire	Mauritius	Uganda
Mexico	Dem. Rep. of Congo	Mexico	Venezuela
Pakistan	Dominican Republic	Papua New Guinea	
Papua New Guinea	Ethiopia	Peru	
Viet Nam	Fiji	Philippines	

Source: Ortiz and Cummins, "Finding Fiscal Space," in *A Recovery for All*, UNICEF, 2012

3. Lobby for Increased Aid and Transfers

Global Inequality = Strong case for North-South transfers

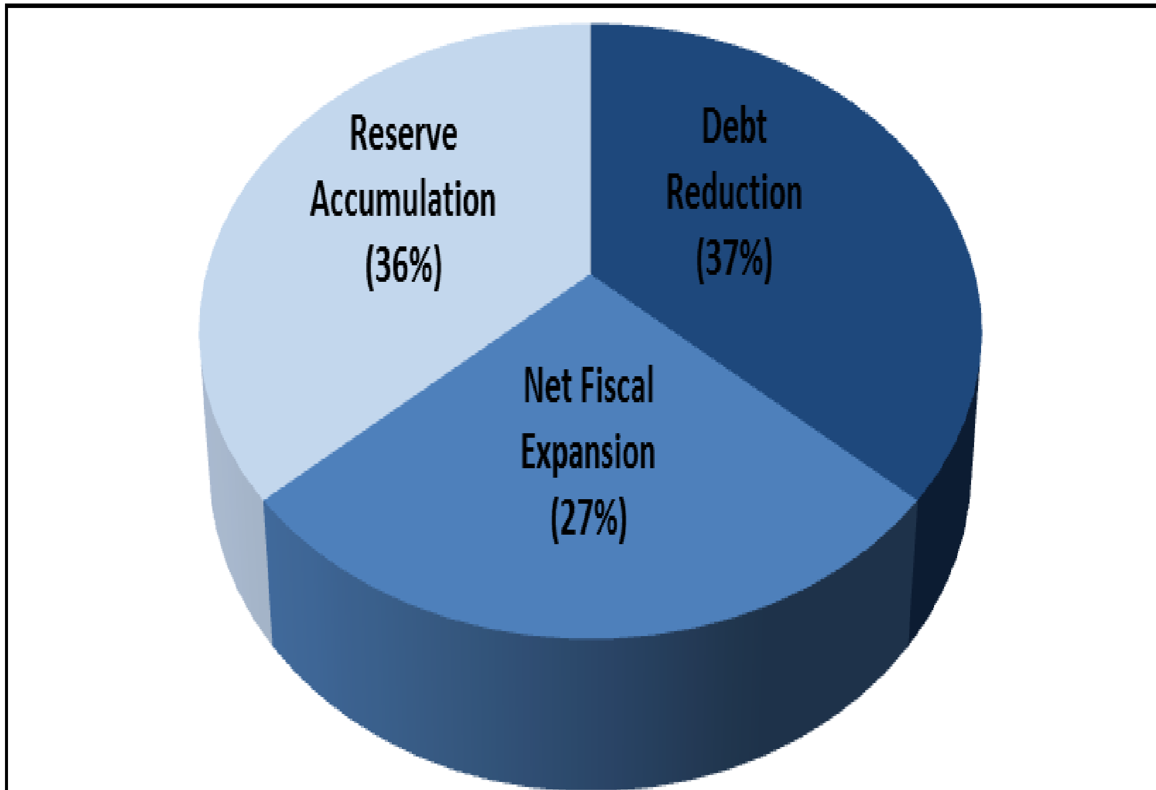


3. Increased Aid

- Limited volume, at about 0.3% of GNI donors
- Issues such as concentration of aid, utlization

	Country	% of Aid
Significant Aid Flows	Iraq	12.3
	Nigeria	5.3
	Afghanistan	4.8
	Ethiopia	3.2
	Vietnam	2.9
	Tanzania	2.7
	Sudan	2.5
	Pakistan	2.4
	West Bank and Gaza	2.3
	Dem. Rep. of Congo	2.2
	India	2.1
	Mozambique	2.0
	Uganda	1.8
	Bangladesh	1.7
	China	1.7
	Total/Average	***50.0***
Limited Aid Flows	Gambia	0.10
	Guinea-Bissau	0.13
	Central African Republic	0.21
	Eritrea	0.21
	Togo	0.26
	Guinea	0.27
	Timor-Leste	0.27
	Tajikistan	0.33
	Chad	0.47
	Sierra Leone	0.47
	Burundi	0.54
	Zimbabwe	0.58
	Niger	0.62
	Nepal	0.72
	Cambodia	0.75
	Malawi	0.87
	Haiti	0.87
	Rwanda	0.88
	Madagascar	0.90

Use of ODA in Sub-Saharan Africa, 1999-2005



Source: IMF (2007)

Source: Ortiz and Cummins, "Finding Fiscal Space," in *A Recovery for All*, UNICEF, 2012

Fiscal Space for Social Protection Floors:
4. Avoiding South-North Transfers

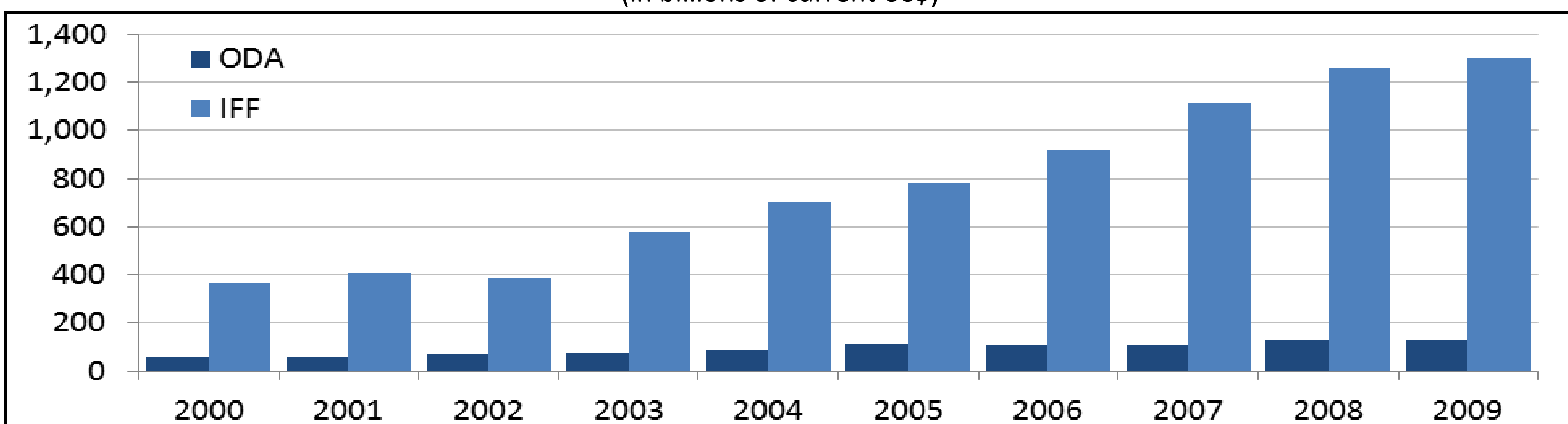
Net Transfer of Financial Resources to Developing Economies, 1998-2010

(in billions of US dollars)

Developing Region	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Africa	2.9	1.6	-13.7	-16.4	-4.2	-16.1	-34.5	-76.4	-108.3	-100.9	-99.1	2.9	-35.3
Sub-Saharan Africa*	11.5	7.9	2.3	6.4	4.4	5.3	3.5	-0.6	-10.5	-9.1	-4.8	27.3	14.6
East and South Asia	-129.8	-139.8	-122.8	-120.8	-149.2	-175.6	-183.4	-265.7	-385.7	-529.8	-481.3	-427.5	-352.9
Western Asia	34.5	2.7	-35.3	-29.7	-23.2	-46.7	-76.3	-143.7	-175.6	-144.0	-222.5	-48.4	-112.7
Latin America	41.5	7.4	-4.2	2.5	-33.6	-64.3	-85.4	-111.4	-138.0	-106.4	-73.5	-72.1	-56.1
All Developing Economies	-41.0	-128.0	-194.0	-164.4	-210.2	-302.7	-379.5	-597.2	-807.8	-881.1	-876.4	-545.1	-557.0

Illicit Financial Flows (IFF) versus Official Development Assistance (ODA), 2000-09*

(in billions of current US$)



Fiscal Space for Social Protection Floors: 5. Use of Reserves

Sovereign Wealth Funds (SWFs) based on Fiscal Reserves in Selected Developing Countries, June 2011 ***Example - Timor Leste – Dismal human development indicators but billions invested overseas in SWF***

Country	Fund Name	Assets US$billion	Inception	Origin
Russia	National Welfare Fund	142.5	2008	Oil
Libya	Libyan Investment Authority	70.0	2006	Oil
Algeria	Revenue Regulation Fund	56.7	2000	Oil
Kazakhstan	Kazakhstan National Fund	38.6	2000	Oil
Malaysia	Khazanah Nasional	36.8	1993	Non-Commodity
Azerbaijan	State Oil Fund	30.2	1999	Oil
Iran	Oil Stabilisation Fund	23.0	1999	Oil
Chile	Social and Economic Stabilization Fund	21.8	1985	Copper
Brazil	Sovereign Fund of Brazil	11.3	2008	Non-Commodity
Botswana	Pula Fund	6.9	1994	Diamonds and Minerals
Timor-Leste	Timor-Leste Petroleum Fund	6.3	2005	Oil and Gas
Mexico	Oil Revenues Stabilization Fund of Mexico	6.0	2000	Oil
Venezuela	FEM	0.8	1998	Oil
Vietnam	State Capital Investment Corporation	0.5	2006	Non-Commodity
Kiribati	Revenue Equalization Reserve Fund	0.4	1956	Phosphates
Indonesia	Government Investment Unit	0.3	2006	Non-Commodity
Mauritania	National Fund for Hydrocarbon Reserves	0.3	2006	Oil and Gas

Source: Ortiz and Cummins, 2012: *A Recovery for All*, UNICEF

Fiscal Space for Social Protection Floors: 5. Borrowing and Debt Restructuring

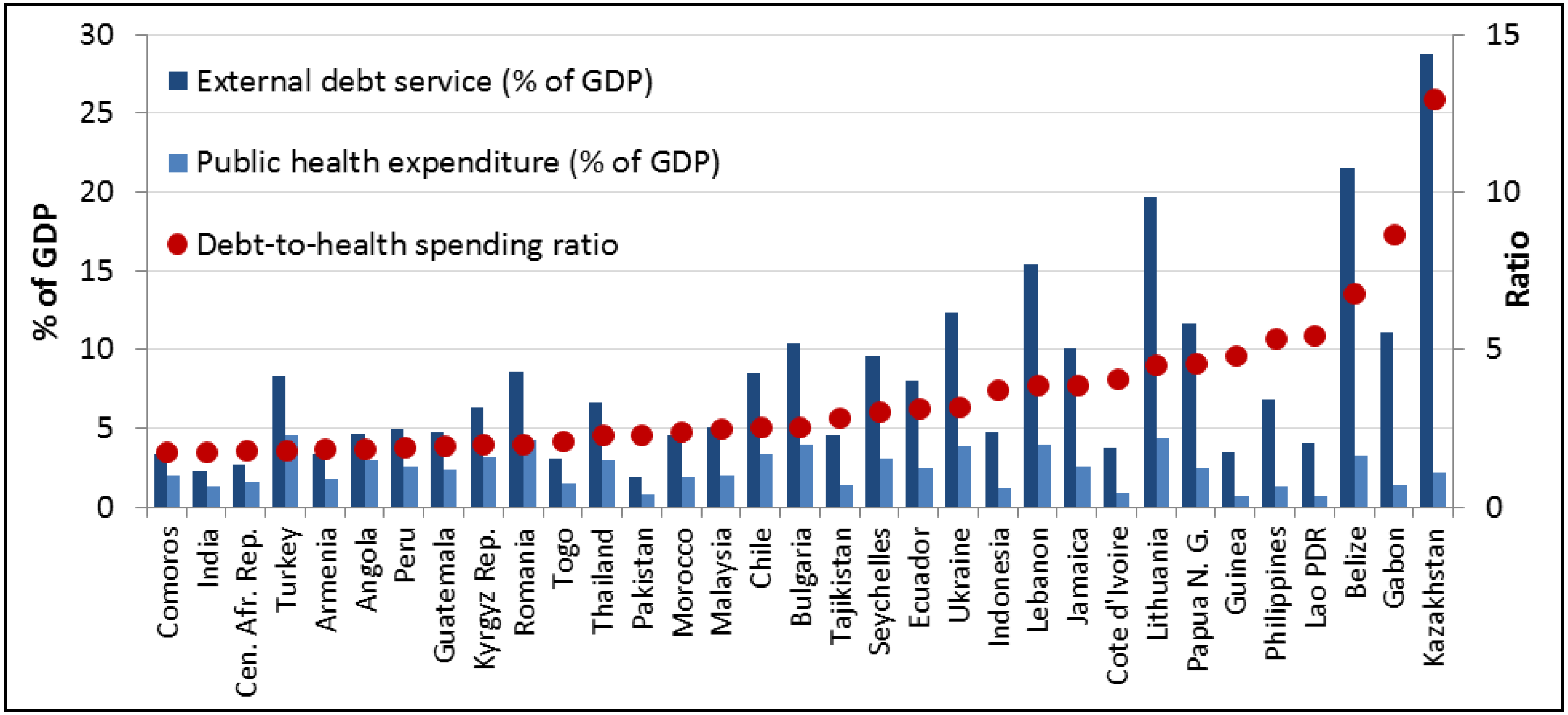
Borrowing

Some developing countries show potential capacity to engage in further borrowing, both domestically and externally

- Loans, either from commercial or development banks or funds
- Issuing government securities, such as bonds

Debt restructuring

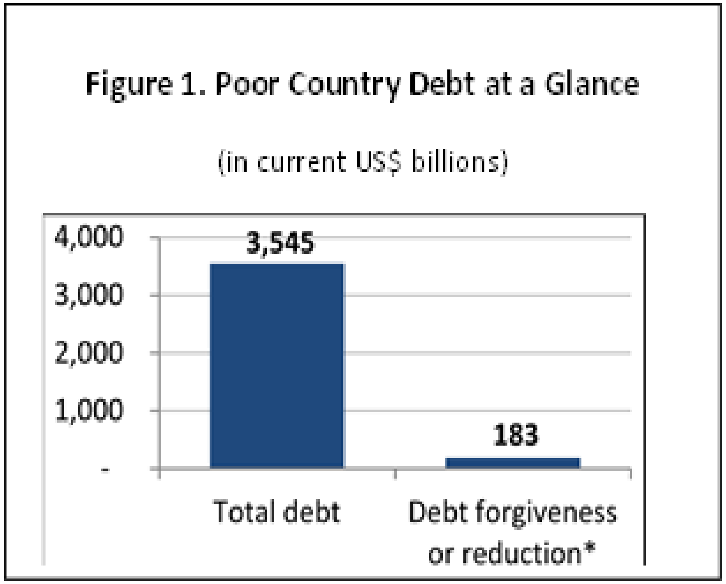
Some developing countries need to reduce existing levels of debt or debt service.



Fiscal Space for Social Protection Floors: 6. Debt Restructuring

Five main options available to governments to restructure sovereign debt:

- *Re-negotiating debt* – More than 60 countries since 1990s
- *Achieving debt relief/forgiveness* - HIPC
- *Debt swaps/conversions* – More than 50 countries since 1980s
- *Repudiating debt* – Iraq, Iceland
- *Defaulting* – more than 20 coutries since 1999, including Argentina and Russia



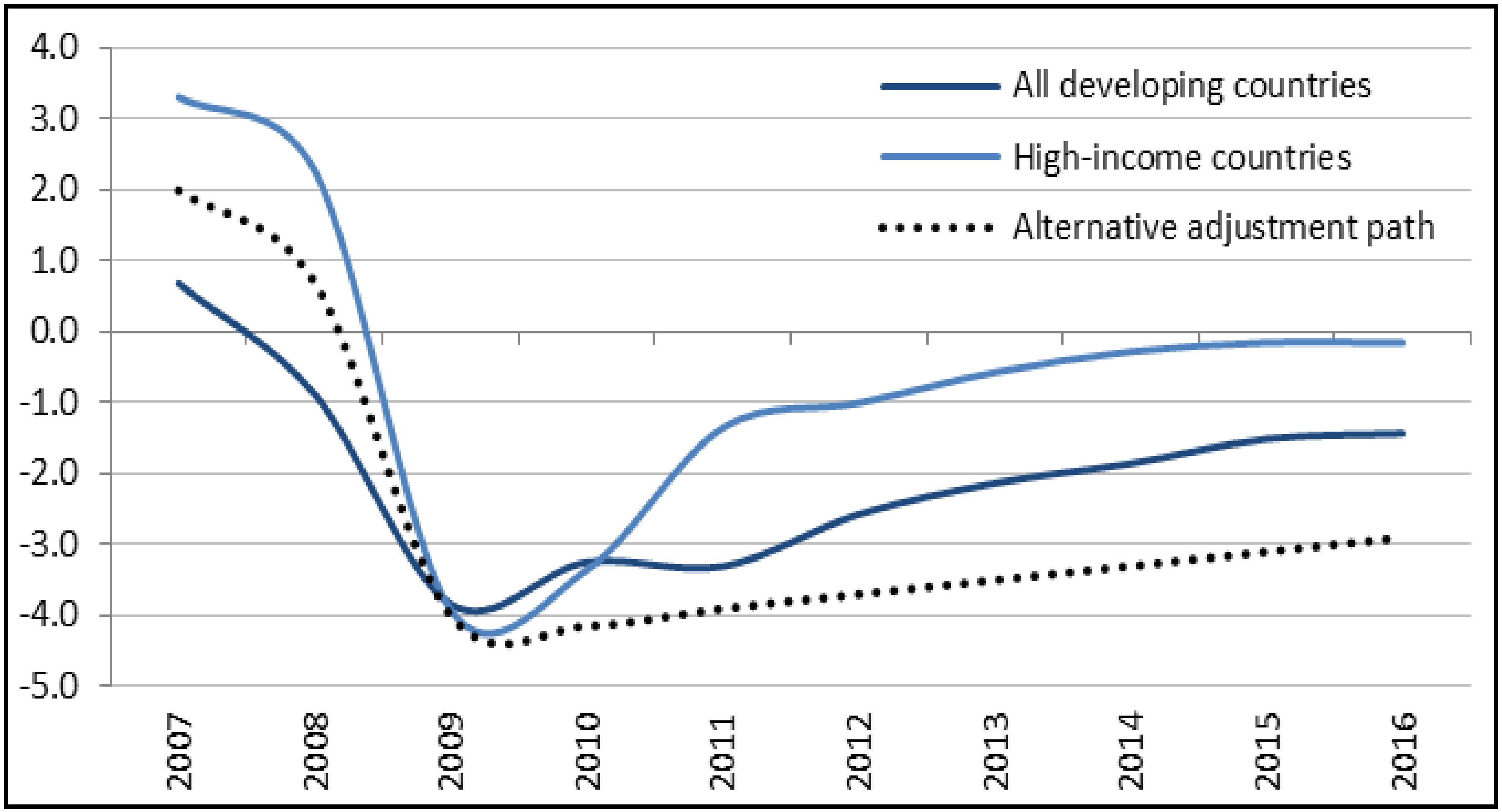
Important – concept of illegitimate debt: responsibility not only debtors, but also creditors

Need for an international debt work-out mechanism

Fiscal Space for Social Protection Floors:
7. Adopt a more Accommodating Macroeconomic Framework

Fiscal policy

Projected Budget Deficits and Alternative Adjustment Path, 2007-16 (% of GDP)



Monetary policy

Purported Safe Inflation Thresholds for Developing Countries

Source	Author(s)	Inflation Threshold (%)
Academic Papers	Fischer (1993)	15-30
	Bruno (1995)	20
	Barro (1996)	10-20
	Bruno and Easterly (1998)	40
	Gylfason and Herbertsson (2001)	10-20
	Rousseau and Watchel (2002)	13-25
	Burdekin et al. (2004)	3
	Gillman et al. (2004)	10
	Sepehri and Moshiri (2004)	5-15
	Pollin and Zhu (2006)	14-16
	Li (2006)	14
	Vaona and Schiavo (2007)	12
	US GAO (2009)	5-12
	Bick (2010)	12
	Kremer et al. (2011)	17
IMF Papers	Sarel (1996)	8
	Ghosh and Phillips (1998)	>5
	Kochar and Coorey (1999)	5
	Khan and Senhadji (2001)	11-12
	Selassie et al. (2006)	5
	Espinoza et al. (2010)	10
	Blanchard et al. (2010)	4

Countries with Inflation Rates <4%, 2012 forecasts

Country	Inflation Rate
St. Vincent and Grenadines*	1.4
Liberia*	1.6
Dominica*	1.9
Djibouti	1.9
Burkina Faso*	2.0
Guinea-Bissau*	2.0
Macedonia, FYR	2.0
Montenegro	2.0
Niger*	2.0
Latvia	2.3
Mali*	2.3
Peru	2.4
Armenia	3.3
China	3.3
Comoros	3.3
Belize	3.3
Gabon*	3.4
Albania	3.5
Panama	3.5
Myanmar	3.7
Tunisia	4.0

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  6. Restructuring debt
  7. Adopting a more accommodative macroeconomic framework (e.g. tolerance to some inflation, fiscal deficit)

  Each country is a different case, it may allow a different combination of options

Thank You

Download:

"The Age of Austerity – A Review of Public Expenditures and Adjustment Measures in 181 Countries." 2013. New York and Geneva: IPD and South Centre http://policydialogue.org/files/publications/Age_of_Austerity_Ortiz_and_Cummins.pdf

"A Recovery for All". 2012. New York: UNICEF Policy and Practice. http://arecoveryforall.blogspot.com/