Social Security Spending in Times of Crisis

NAREN PRASAD AND MEGAN GERECKE
International Labour Organization, Switzerland

ABSTRACT This article investigates the link between social security spending and financial crises. In doing so, the article answers two questions: what are the trends in social security spending in the aftermath of a financial crisis, and what factors can possibly explain these changes? The article shows that social security regimes have often been born out of crisis. In addition, on average, social security spending increases over the course of a crisis; however, there is wide regional variation, with advanced countries exhibiting the most countercyclical spending. This article lends support to the idea that crises can be used as an occasion to improve and strengthen social security; in doing so, countries not only mitigate the worst effects of the crisis, but also create better social policy and improve long-term crisis preparedness.

KEYWORDS *crisis*, *cyclical*, *developed economies*, *developing economies*, *social security*

1. Introduction

Financial crises, such as that of 2008–9, present obvious challenges: shrinking GDP growth, reduced trade, job losses, increased job precarity and growing social unrest are only a few of the problems that countries are likely to face in the coming financial quarters. As past crises have shown, in the long-term, poorly managed crises can increase poverty, create long-term unemployment and reduce growth potential. It is important to note, that whereas most of the recent financial crises were domestic or regional, the current crisis has a global bearing. Nonetheless, the social impacts of the crisis are likely to be similar to those of past crises.

1468-0181 vol. 10(2): pp 01–30; 366627; DOI:10.1177/1468018110366627 http://gsp.sagepub.com

Previous experience has shown that countercyclical fiscal policies and timely stimulus packages are important to resolve crises. While countries can adopt a range of policies, ranging from corporate governance strategies to monetary policies, this article will focus on fiscal policy responses, mainly social security spending. The need for countercyclical fiscal stimuli was well-illustrated by the Asian financial crisis, in which the fiscal discipline recommended by the IMF worsened the length and depth of countries' crises. Indeed all affected countries eventually switched to countercyclical policies when initial austerity policies proved ineffective. Korea, often seen as the most successful recovery, was 'the most consistent in targeting and maintaining large countercyclical deficits' (Green and Campos, 2001). There now appears to be a consensus on the importance of countercyclical policies and even the IMF is advocating increased spending and targeted tax cuts and transfers (Spilimbergo et al., 2008).

Social security has many functions ranging from fulfilling human rights to generating economic growth, nation building, fighting poverty and inequality as well as the usual role of protecting individuals during hardships (Townsend, 2009). Social security spending provides insurance to reduce external shocks, making it very relevant in a post-crisis environment. Yet, despite the importance of post-crisis social security spending, the topic has garnered very little attention. Article 22 of the Universal Declaration of Human Rights declares ' ... that everyone has the right to social security … ' and Article 25 further states that '…everyone has the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control'. Indeed, social security serves many purposes for individuals, business and the State: it helps individuals smooth consumption over the life-cycle and during macroeconomic downturns, it facilitates job mobility and job matching, it supports human capital formation for long-term growth and, by acting as an automatic stabilizer, it facilitates economic stability. Thus, if well-designed, social security spending does not only address immediate needs but can also translate into better crisis preparedness and better social policy in the future.

The crisis presents an opportunity for developing countries to introduce or improve their weak or nonexistent social security and expand on their limited capacity for information-gathering and programme evaluation. Crises also allow countries to reduce or remove ineffective policies in favour of equitable ones that promote long-term growth and better risk management. In the past, many countries have capitalized on this opportunity and successfully exited from their crises while also improving their policy frameworks in the long term.

In this article, we investigate what happens to social security spending during economic crises. Other functional substitutes for social protection like labour market programmes, education and health care will not be touched in this article given available international data and our focus on social welfare post-crisis. After introducing the concepts of the welfare state and social security and reviewing current trends, we draw on two bodies of literature to understand what happens to social security spending after a crisis. The first deals with the determinants of social security spending and social security policy more generally. The second addresses how fiscal policy, and within it social security expenditure, reacts to recessions and expansions. These two literatures are treated in turn. Following this, we examine the trends in social security spending during crises and conclude by presenting and analysing the results. We find that on average social security spending increases over the course of a crisis.

2. *The Welfare State and Social Security Policies*

The welfare state has its early beginnings in the 1601 Poor Laws in England and the 1889 Bismarckian social insurance scheme in Germany. The former laid down the foundation for modern day social assistance while the latter did the same for social insurance. The welfare state has numerous aims: poverty relief, redistribution, social inclusion, insurance against risk and consumption, smoothing over one's life, economic efficiency – both productive and allocative – and correcting for market imperfections. The characteristics of social security policies vary widely from contributory, means-testing to universal (as seen in Table 1) and some countries combine an element of universality and insurance.

In social transfers, all developed economies have some sort of unemployment benefit system, with varying replacement rates. In addition they all have a compulsory pension scheme and typically have both a minimum pension and

TABLE 1 *Social security schemes*

	Social insurance	*Social assistance*	*Universal social security*
Characteristics	• Contribution-based (voluntary or compulsory) • Financed by workers and employers	• Non-contributory • Redistributive targeting vulnerable groups • Rights-based • More relevant to agricultural societies/informal	• Non-contributory • Universal • Rights-based
Early origins	• Bismarck's German model (1889)	• Scandinavia (Denmark, 1891) • United Kingdom	• Beveridge Report 1942

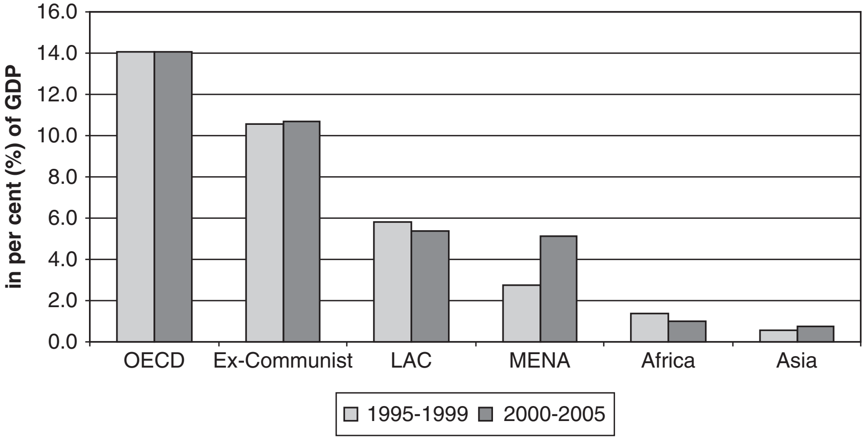

FIGURE 1 *Trends in spending on social security by region, per cent of GDP*
Source: IILS estimates based on International Monetary Fund 2007 Global Finance Statistics and Global Development Network Growth Database, GDP from World Development Indicators 2008, OECDStat for OECD countries, ADB Key Indicators for Asian countries.

an earnings-related pension.[1] Only New Zealand (1940) has a non-contributory universal pension system (Willmore, 2007).[2] Perhaps surprisingly, a few developing countries also have non-contributory universal pension systems, including Mauritius (1958), Namibia (1990), Samoa (1990), Nepal (1995), Bolivia (1996), Botswana (1996) and the City of Mexico (2001). Some developing countries have near-universal pensions that are means-tested: for example, Argentina, Brazil, Chile, Costa Rica, South Africa and Uruguay.

3. *Trends in Social Security Spending*

There are wide regional variations in social security spending, with Organisation for Economic Co-operation and Development (OECD) high-income countries spending the most on average, followed by former communist countries, Latin American and Middle Eastern countries, and finally African and Asian countries (see Figure 1). Of course, some exceptions exist, for instance Mauritius and Seychelles spend much more than the sub-Saharan African average.

In general, social security includes any social insurance or social assistance scheme that protects people from certain economic shocks or risks. Defining total social security spending in line with the International Monetary Fund's (IMF, 2001) definition of social protection, we include sickness and invalidity benefits, maternity allowances, children's or family allowances, unemployment benefits, retirement and survivors' pensions, and death benefits; these can take the form of subsidies, grants, and other social benefits. The data we

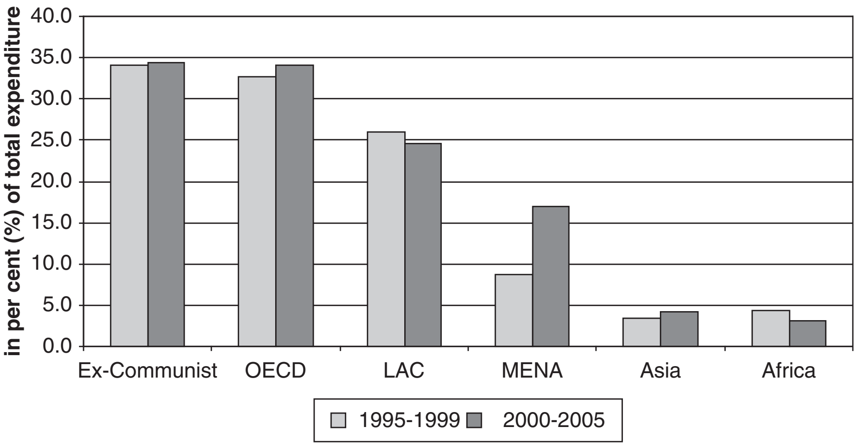

FIGURE 2 *Trends in spending on social security by region, per cent of total government expenditure*
Source: See Figure 1.

draw on does not include general education spending, provision of medical goods and services or untargeted labour market programmes.

As shown in Figure 1, total social security spending (% GDP) has generally stayed stable over the mid-1990s and early 2000 period in high-income OECD countries (14%), the former communist countries (10.5%) and Asian developing countries (< 1%). It has increased in the Middle East countries from 2.7% to 5.1%, while it decreased slightly in the Latin American countries from 5.8% to 5.3% and in African countries from 1.4% to 1.0%.

Similar trends appear if we take social security spending as percentage of total government spending. Slightly decreasing in Africa from 4.4% to 3.1%, from 26% to 24.6% in Latin American countries and slightly increasing in Asia, Former Communist countries and OECD countries. It doubled in the Middle Eastern region, moving from 8.7% to 17.0% of total expenditure.

Since the bulk of the social security spending is comprised of pension spending, it is worth looking at pension spending and coverage levels. In terms of pension spending, developing economies spend 2.2% of GDP on average, while the developed economies spend 9.3% (see Figure 3). In developed economies, Italy and Austria spend 15%, followed by France and Germany at 14% of GDP. Canada and Australia spend only 5% while Ireland has the lowest expenditure levels at 3.4%. Among developing economies, Latin American countries are high spenders: Brazil, Uruguay, Argentina – pioneers in social security provision in the region dedicate 13%, 10%, 8% of GDP respectively. In Asia, Malaysia devotes 6.5% of GDP to pensions, China 2.7%, and India only 2%. All the rest of the developing world spends less than 5% of GDP while sub- Saharan Africa spends the least at 0.7%.

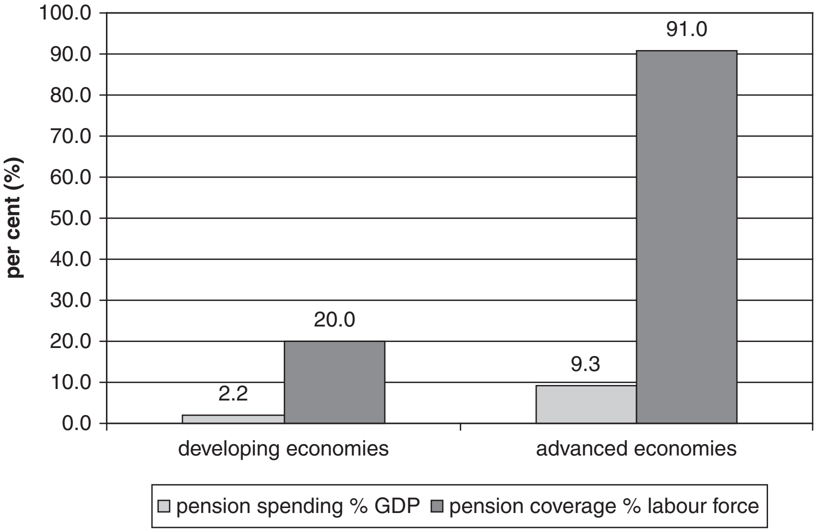

FIGURE 3 *Pension spending and coverage*
Source: WDI (2009).

In the developing countries, only 20% of labour force on average is covered by a pension system compared to 91% in the advanced countries. Among the developing countries, Latin American countries have the highest pension coverage with over 50% of coverage while sub-Saharan African countries have only 5% of coverage. China's coverage is 21% while that of India is only 9%. The total cost of providing universal pension coverage to all senior citizens in developing countries is estimated to be under 2% of GDP (International Labour Organization [ILO], 2008). Those without coverage have to rely on family and community during times of risk. Much of Africa's welfare system is classified as a generalized 'insecurity regime' based on families, clans and patrimonial relations, together with increased intervention by international organizations (Gough and Wood, 2004). In general pension spending and pension coverage is strongly correlated with income levels. As a country's income level increases so does pension spending.

Depending on the coverage rate, pensions can help in reducing poverty through a strong redistributive mechanism. In the advanced countries, more than half of the redistributive impact of social transfers comes from pension benefits (and even over 80% in Switzerland and 70% in Germany) (Mahler and Jesuit, 2006). In the European Union, social transfers other than pensions (such as unemployment, family and housing benefits) reduce the risk of poverty by 36% (from 25 to 16%) (EU 2009, Joint Report on Social Protection and Social Inclusion). Pensions contribute significantly in reducing poverty among the elderly population. Unemployment transfers contribute to around 7% of redistribution, and roughly a third of redistribution takes places through other benefits, such as social assistance and sickness benefits.

In Latin America and most developing economies, social transfers are mostly captured by the richer population, as most of the poor are in the informal sector of employment and are not included in any social protection scheme (Lindert et al., 2006; United Nations, 2006). For example, looking at six Latin American countries,[3] on average only 10% of the social protection transfers go to the poorest quintile, while 43% go to the richest. Social insurance is even more regressive as the poorest quintile receives only 2% of the transfers, compared to 58% for the richest (Lindert et al., 2006). This is expected since richer formal sector workers contribute to social insurance programmes and thus are eligible for the benefits. In the region, social assistance spending is progressive, with about 26% of the social assistance transfers go to the poorest 20%. However, social assistance outlays only constitute 1% of the GDP, while the other 6.3% of GDP spend on social transfer programmes goes to the social insurance (pension and unemployment insurance). This low level of public spending per unit implies that the impact on inequality and poverty will be minimal.

4. *Determinants of Social Security Spending*

Based on the available literature, several factors can be considered driving forces behind the welfare state and therefore social security spending patterns. The most commonly known are (1) income growth and level of development; (2) demographics and population ageing; (3) the rise of democracy and political institutions, political parties, and policy legacies; (4) globalization or trade openness, industrialization and urbanization. We introduce the argument that crises also shape the welfare state and therefore social security spending patterns.

The *economic development explanation* for welfare State spending suggests that as countries develop their need for social progress and size of the government increase (a process coined by Wagner as the 'law of expanding state activity'). This occurs because of increasing regulatory activities and pressure for public or collective such as transportation and education in addition to the need to mitigate the social impact of economic development.

The *demographic explanation* for welfare State spending looks at factors such as population ageing and labour market performance. Wilensky (2002: 214) explains that the percentage of elderly people increases with economic development, which increases spending (pensions, disability, health insurance). Similarly Kittel and Winner (2005), demonstrate that government spending is determined by domestic factors such as growth, unemployment and the dependency ratio. They find that neither globalization, nor the partisan composition of government determine government spending, though these factors may determine demographic trends themselves. These conclusions are similar to that of Castles (2001). Kittel and Obhinger (2003) also show that social spending is associated more with convergence and the increase in dependency ratio (unemployment and ageing population) than with political variables. On the other hand, Hicks and Zorn (2005) argue that welfare policy reform and retrenchment has been driven by fiscal pressures due to the aging population and increased unemployment.

The *political explanation* suggests electorate politics (democracy) increases the demand for social spending and thus increases the public economy. Such increase can be driven by parties (i.e. left-wing or social democrat) or by political institutions. For instance, the existence of formal relationship between different levels of the bureaucracy creates internal pressures for self-aggrandizement and expansion. Fiscal decentralization (or federalism) can also increase social spending. Finally, past experience shapes current social spending, making retrenchment and reform very difficult.

Recent literature shows that governments choose the level of spending that maximizes their political support among their constituency (Hausken et al., 2004). Autocratic governments generate political support by paying rents to the elite while democratically elected governments provide public goods to the general population for their support. Kaufman and Segura-Ubiergo (2001) demonstrate that democratically elected government do seem to protect social spending in health and education. However, once social transfers are taken into account, democracy does not have a strong overall impact on social spending.

Obinger et al. (2005) demonstrate that the patterns, directions and the extent of welfare state transformation are shaped by political institutions, political parties, and policy legacies. They show that both right- and left-wing governments have adopted new views on social policy, meaning that traditional partisan politics no longer have as strong of an effect on social spending. Kittel and Winner (2005) also show that partisan composition of government does not determine government spending.

The declining influence of parties may be due to inertia in welfare spending and social policy once established. For instance, Swank (2005) finds that welfare spending is resistant to international pressures and domestic changes such as internalization, de-industrialization and ageing. Governments find it very difficult to rollback spending to well-organized constituencies.

The *openness*, *industrialization and urbanization explanations* for welfare State spending provide several sometimes contradictory arguments for welfare state growth (and decline). These include the arguments that more open economies:

- are exposed to risks and therefore the government must mitigate the risks through welfare state expansion (+)
- experience greater industrial concentration (in large firms), which increases the power of labour and collective bargaining institutions and thus leads to welfare state expansion (+)
- require new skills and training, and job mobility, which leads to welfare state expansion (+)

- allow the business community to lobby governments to rollback social spending through threats of capital flight (-)
- tend to have demographic characteristics (ageing, unemployment) that are associated with welfare state expansion (+)

Trade openness and free trade involve economic dislocations, adjustment to external shocks and greater exposure of workers to risk. There is an expectation from the population in industrial countries that their governments will limit the costs of global adjustment and distribute the benefits of open markets. In order to ensure continuing public support for trade openness, governments '[exchange] welfare state policies that cushion their citizens from the vagaries of the international economy' (Hays et al., 2005: 474). Ruggie (1982) terms this embedded liberalism. Twenty years later, Rodrik (2008) came to the same conclusion as to why open economies tend to have a larger public sector: more open economies are exposed to risks and therefore the government size increases to mitigate such risks.

In line with this argument, Cameron (1978) finds that more open economies have higher industrial concentration (that is, a large share of production and employment in a few large firms). This fosters unionization, greater scope for collective bargaining and strong labour confederations, which result in larger demands for government spending on areas such as social security, pensions, unemployment insurance and job training.

The argument of embedded liberalism has been challenged by Iversen and Cusak (2000), who show that it is de-industrialization, not globalization, which causes the observed increase in welfare spending. Workers who move from manufacturing and agriculture to services require additional skill upgrading and the transition becomes difficult. Government increases its spending to cater for this category of people.

Also challenging the idea of embedded liberalism, Swank (2005) argues that economic internationalization negatively impacts social spending through conventional domestic politics. The business community is able to lobby governments to rollback social spending by forwarding the threat of capital flight. Similarly, Kaufman and Segura-Ubiergo (2001) find that trade integration leads to a reduction in pensions and other transfers. They demonstrate that efficiency arguments tend to dominate over arguments regarding the political risks created by trade liberalization's 'social dislocations, uncertainty, and unequal distributive effects' and the needed skill upgrades and productivity (Kaufman and Segura-Ubiergo, 2001: 557). Notably, they find that globalization does not seem to impact all the types of social spending equally: social security transfers suffer the most compared to education and health spending.

Once other factors are taken into account, most other studies, such as Castles (2004), Hicks and Zorn (2005) and Huber and Stephens (2001), find no association between trade and various measures of welfare state. Garrett and Mitchell (2001) find a negative relationship between trade openness and welfare spending. Others find very weak or inconclusive results on the effect of trade on welfare spending (Allen and Scruggs, 2004; Burgoon, 2001; Garrett and Mitchell, 2001; Kittel and Obinger, 2003; Korpi and Palme, 2003). Similarly, Swank (2001, 2002, 2003) does not find any systematic relationship between the multiple dimensions of international capital mobility and social welfare protection. As of yet, research has failed to establish a clear association between trade and welfare spending.

Finally, *social, financial and economic crises* can induce a change in social security. In the next two sections we trace the history of social security policy during crises and review the literature on fiscal policy over the business cycle, drawing out its lessons for social security spending.

5. Social Security: Born Out of Crisis

Looking historically, crises have played defining roles in developing and strengthening social security policy. For example, the Great Depression and the Second World War were defining moments in the history of social security programmes. Since people needed protection and collective insurance against risks during the 1930s and 1940s, social programmes and social transfers were strengthened.

In the USA, the Depression helped forge new institutions and changed rules and attitudes towards the economy (Bordo et al., 1998). It marked the 1935 passage of the US Social Security Act (SSA), which is considered to be one of the 'finest social policy' legacies of the era (Skocpol, 2002: 221–2). Government spending increased considerably, mainly due to increased old-age pensions, welfare and unemployment insurance ushered in by the SSA, in addition to public works.

Similarly, in the UK in the early 1940s, political leaders were concerned about the consequences of soldiers returning and finding jobs after the Second World War. They were also concerned about poverty, lack of education and training and other adverse social conditions. Prime Minister Winston Churchill invited William Beveridge to look into the population's social needs. He recommended that social security and health care should be universally provided. These recommendations were adopted after the Second World War. *The Beveridge Report* became a model for many countries that introduced different social programmes for the welfare of the entire population. Other developed countries followed British (universal) and German (social insurance) examples of social security and, by the 1950s, most industrial countries provided extensive social services to almost the entire population. The Scandinavian countries were the most progressive and had universal social policies that aimed to foster economic development and labour market policies that maintained high employment. While other countries tried to integrate social and economic development, the Scandinavians used social development to generate economic development (Midgley, 1995: 63). This expansion of social policies marked the rise of the industrialized welfare state. It has to be noted that Brazil, Argentina, Chile and Uruguay were the pioneer countries in setting up pension systems in 1920s and 1930s while other countries followed in 1940s and 1950s (Haggard and Kaufman, 2008). The initial coverage was restricted to the powerful public sector employers and those in the formal sector.

More recently, countries have used economic crises to expand coverage of social insurance schemes, introduced social funds into their social assistance programmes, and introduce education assistance, in the form of conditional cash transfers, school feeding programmes, scholarships and other transfers.

In Latin America, crisis legacies are still present in many countries. For instance, the recent 1994 Tequila crisis led to the introduction of a social safety net for the poor in Mexico – the famous PROGRESA programme (Ravallion, 2008). Similarly, Argentina used its 2001 crisis to expand its pension system to include a large group of people previously excluded (Novick et al., 2007). It also improved labour regulations and has since witnessed declining informal employment.

Looking at the East Asian crisis, we find Korea increased its automatic stabilizers, extended its pension system, increased its social assistance and universalized health coverage. Indeed, public spending increased rapidly since the crisis and the expansion of Korea's welfare system is partially linked to the crisis (Park, 2008). For instance, since the crisis, unemployment insurance coverage has risen from 12.3% of the unemployed in 1999 to roughly 50% of the population in 2004 (Keum et al., 2006).

6. *Fiscal Policy and social Security Spending Over the Economic Cycle*

Two major theories that lend insight into how governments should spend (and tax, etc.) to stabilize economic cycles were introduced by Keynes and by Barro (1979) (neoclassical tax-smoothing model). The Keynesian approach recommends governments spend and tax countercyclically – that is when the economy is in recession, they stimulate demand through increased spending and deficits, and decreased taxes, and during expansions they do the opposite. Arguably, this approach to fiscal policy would stabilize the economy and reduce the social impact of recessions. Barro's tax-smoothing model recommends a neutral or acyclical fiscal policy that keeps spending and tax rates constant regardless of GDP growth or contraction; by extension, this implies tax revenue and budget surplus will increase during expansions and decrease during recessions.

Notably, neither theory recommends reduced spending during recessions. Such a procyclical policy would reinforce the volatility of the economy rather than counter it. Nonetheless, empirical studies have shown that many countries employ procyclical fiscal policy, especially developing countries. A small number of high-income countries have been found to practice procyclicality, though in general this group employs acyclical or countercyclical policies (Galí et al., 2003; Ilzetzki and Végh, 2008; Kaminsky et al., 2004; Lee and Sung, 2007; Talvi and Végh, 2005). On the other hand, there is a general consensus that developing countries practise procyclical fiscal policy, save for a few exceptions like Chile and Israel among others (Gavin and Perotti, 1997; Ilzetzki and Végh, 2008; Kaminsky et al., 2004; Lane, 2003a; Lee and Sung, 2007; Talvi and Végh, 2005; Thornton, 2008).[4] Most preliminary evidence suggests that all countries employ a greater degree of countercyclicality during recessions than expansions (Adam and Bevan, 2003; Lee and Sung, 2007).[5] This may be because automatic stabilizers are more sensitive to negative changes than positive ones and because crisis periods are more economically and politically costly than expansions (Gavin and Perotti, 1997).

Since procyclical fiscal policies have little normative foundation, researchers have tried to understand why countries pursue them. They have offered a number of explanations, which can be drawn upon to understand social spending.

The first set of explanations for procyclicality looks at the *availability of capital*, with a focus on foreign capital (aid, loans and investment). Access to international capital markets is tied to the business cycle – for instance, there are higher levels of FDI during boom periods (Diallo, 2009; Gavin and Perotti, 1997; Kaminsky et al., 2004). As developing countries suffer from reduced access to foreign capital during recessions, they contract spending because, unlike OECD countries, they cannot borrow to fund their programmes.[6] During times of inflation, debt held in foreign currency will exacerbate the problem by worsening the debt-output ratio (Lane, 2003a).

Alberola and Montero (2007) find that debt sustainability plays a determining role in Latin America's procyclicality, accounting for the phenomenon almost entirely. Similarly, aid-dependent countries may have poor coordination between their fiscal stance and business cycles as aid is often unpredictable and is generally thought to be procyclical (vis-a-vis the business cycle of the recipient – not necessarily the donor) (Bulir and Hamann, 2007; Pallage and Robe, 2001; Thornton, 2008). Looking at a panel of African countries, Thornton (2008) finds these countries have more procyclical policies.

Problems with access to capital can be exacerbated by procyclical changes in domestic revenue. Output is more volatile in developing countries, and this volatility has been found to increase procyclicality (Lane, 2003b; Talvi and Végh, 2005). Furthermore, Talvi and Vegh (2005) find the tax base revenue to be two to four times more variable in developing countries than in G7 countries, making government spending more volatile and procyclical. On the other hand, others find the difference between developed and developing countries lies on the spending side rather than revenue or tax ratios (which would lend support to competition argument expounded below) (Gavin and Perotti, 1997; Lane, 2003a).

Even in developed countries, current concerns about fiscal space and burgeoning deficits may enact a similar dynamic. While the above countries will be constrained by the *availability* of deficit financing, others will be constrained by *unwillingness* to use deficit financing stemming from negative perceptions regarding its level, sustainability and impact on the economy. Drawing on the well-established European literature on the impact of deficit clauses, it appears that the service costs of public debt crowd out public expenditure including social outlays; yet starting positions matter and heavily indebted countries or those with high deficits tend to protect social expenditure from cuts over other expenditures. By contrast, countries that had reduced their debt loads or even created surpluses favour other expenditures over social ones (Hagfors and Saari, 2006).

The second set of explanations for procyclicality focuses on *domestic political factors*, namely competition for resources and corruption. Tornell and Lane (1999) suggest powerful rent-seeking groups compete for state resources.[7] All groups' expectations rise and fall during boom and bust periods – combined this leads to a disproportionate growth/fall in political pressure for public spending. This theory predicts that more fragmented societies (socially or politically) will have more procyclical fiscal policy. In a similar vein, Alesina and Tabellini (2005) suggest that countries with high levels of corruption will experience demands for procyclical policies as voters worry that the government will misappropriate boom-time funds. Governments that are viewed as more legitimate and accountable will be allowed by the electorate to retain budgetary surplus and, at the same time, will be more likely to engage in countercyclical policies (Alesina and Tabellini, 2005; Diallo, 2009).

Though less prominent, a third set of explanations for procyclicality rests on *domestic government's capacity and size*. Akitoby et al. (2006) suggest that difficulties in accessing the country's economic situation mean that policy responses are delayed (and do not appropriately coincide with business cycles).

7. *Past Evidence on Post-crisis Fiscal Policy and Social Security Spending*

Breaking down fiscal policy, government investment has been found to be the most procyclical (Lane, 2003b); debt servicing has been found to be on average acyclical though countercyclical in some high-income countries (Ilzetzki and Végh, 2008; Lane, 2003b); mixed results have been found for government consumption,[8] taxation is difficult to study as the revenue levels are linked to the business cycle and there is no easily accessible cross-country dataset on tax rates (Arreaza et al., 1999; Darby and Melitz, 2008; Ilzetzki and Végh, 2008).

Spending on social transfers can act as an ‘automatic stabilizer’, buffering declines in output and demand. This stems from the non-discretionary nature of much of transfer spending. On one hand, discretionary changes in spending reflect new policy choices, like the introduction or expansion of unemployment insurance, as seen in Korea. On the other hand, non-discretionary spending automatically reflects changes in the economy. For instance, high job losses during recessions will create more eligible claimants for unemployment insurance and entail more spending in this area.

For OECD countries, most studies find that spending on social transfers is countercyclical, though surprisingly this area has not been studied in as much depth as other areas of fiscal policy.[9] Bouget (2003) suggests that social spending (% GDP) increases initially during a crisis and decreases in the medium term due to increasing pressure to cut spending. By contrast, Castles (2001, 2006) suggests these areas are protected from retrenchment in general expenditures.[10] Transfers tend to be more countercyclical then other types of spending, with some evidence that overall fiscal countercyclicality stems from social transfers (Arreaza et al., 1999; Lane, 2003b).

Breaking down different types of social transfers within OECD countries, most attention has been focused on unemployment insurance; however, it appears that other transfers also act as automatic stabilizers (Darby and Melitz, 2008). Looking at a range of transfers, Darby and Melitz find that pensions have the most stabilizing effect, followed by health spending and unemployment insurance. Incapacity and sickness benefits have the least impact. The small proportion of transfers within developing country expenditure limits their impact on overall fiscal countercyclicality. Comparing cyclically adjusted and non-adjusted figures for 1980–2002, Galí et al. (2003) find that non-discretionary fiscal policy to be clearly countercyclical for EU countries. In Norway, they find that non-discretionary fiscal policy is procyclical, while in all other non-EU OECD countries, it is mildly countercyclical. Wibbels (2006) finds social security spending to be acyclical in the OECD.

The breakdown of social transfer spending in the developing world during crisis has not been extensively studied. The preliminary studies that exist typically focus on Latin America. Breaking down different types of transfers, Wibbels (2006) finds that social security spending is acyclical in Latin America. He links these trends to political voice, noting the strong voice of the recipients of social security – namely the richer, formal sector workers. Ilzetzki (2008), on the other hand, finds social security spending to be procyclical in Latin America.

Some studies on developing countries group all types of social spending together; that is, they combine social spending that would typically be considered government consumption with spending on transfers. Braun and di Gresia (2003) and Lee and Sung (2007) find social expenditure to be procyclical among Latin American or non-OECD countries and countercyclical among OECD countries. However, in both regions, they find social spending to be less procyclical than total spending (suggesting that social spending is protected during crises). In contrast, Hicks and Wodon find social spending to be more procyclical than total spending in developing countries (suggesting the opposite – that is, social spending is disproportionately cut during crises). Looking at Latin America and the Caribbean, Hicks and Wodon (2001) report social spending and targeted spending to be highly procyclical (even among countries that are classed as pro-poor).[11] Less comprehensive studies have found targeted social spending to be highly procyclical in Argentina and Mexico, shrinking 3% for every 1% per capita GDP fall (Lustig et al., 2000).

8. Post-crisis Social Security Spending: Increasing Trend

To identify crises, we used data provided by IMF researchers, Laeven and Valencia (2008). They have identified the starting date of 394 financial crisis episodes during 1970–2007 (124 systemic banking crises, 207 currency crises and 63 debt crises).[12] To summarize trends, we looked into the latest crisis of each country for which we had data available on social security spending, which left us with 62 cases of crisis since 1970 (see Appendix 1). We looked into average social security spending for the three years before a crisis (average of t: –1, –2, –3), the crisis year (t: 0) and the three years after the crisis (average of t: +1, +2, +3).

During a crisis, average unweighted global spending on social security increases, changing from 6.3% of national GDP for the three years before a crisis, to 6.7% during the crisis year and finally to 6.8% for the three years following a crisis. The relative share of spending on social security also increases, with the unweighted global average moving from 20.8% of total expenditure before a crisis to 21.6% during a crisis year and finally to 22.3% for the three years following a crisis.

Looking regionally we see variation in the trends in social security spending. In the nine OECD countries for which we have data, average unweighted social security spending spiked during the crisis year, increasing from 11.4% of GDP pre-crisis to 13.1% in the crisis year and then falling to 12.2% post-crisis; its share of total expenditure also spiked, moving from 33.2% to 34.3% and finally to 32.2% over the same period. This likely reflects the strong role of automatic stabilizers in these countries. Post-crisis social spending grew to a higher percentage of the GDP but shrunk to a lower percentage of total spending. Looking closer at the data, this does not reflect a decline in real levels of social security spending, but rather the fact that in all countries social security spending growth was outstripped by other expenditures.

Breaking this down to a national level, we see a similar pattern of rise and fall in Finland, Portugal, Spain, Sweden and the USA, with average post-crisis social security spending lower than pre-crisis levels as a share of total expenditure (for detailed country information see Appendix 1). In Iceland, Italy, Korea and Norway, social security spending steadily increases across the three periods both as a share of GDP and of total expenditure. The most dramatic post-crisis changes in the share of budget dedicated to social security expanding is the decline in Spain's by 27.9% and the growth in Iceland and Korea of 24.7% and 60.5% respectively.

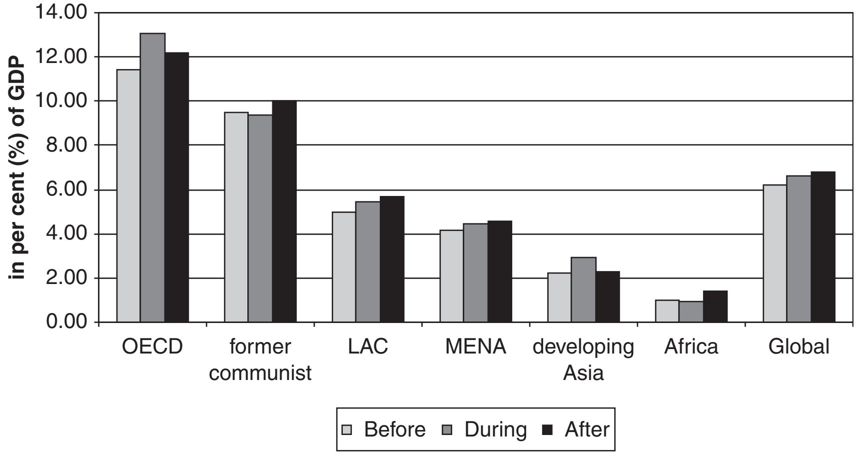

FIGURE 4 *Social security spending as a percentage GDP by region: Before, during and after a financial crisis*
Source: See Figure 1.

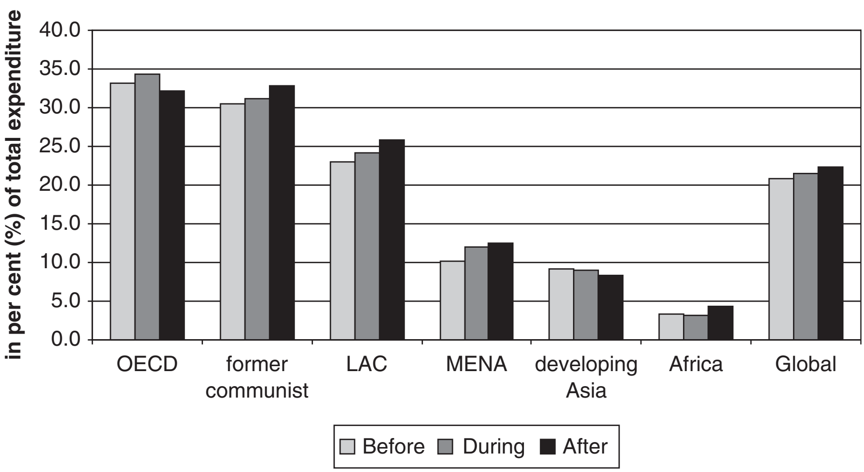

FIGURE 5 *Social security spending as a percentage of total expenditure by region: Before, during and after a financial crisis*
Source: See Figure 1.

In the former-communist countries of Central Asia and Eastern Europe, social security spending generally grew in absolute value over the course of a crisis, with the exception of Moldova and Georgia, who saw spending in local currency decline. For the region, as a share of GDP and total expenditure social security spending stayed roughly stable (for the pre-crisis, crisis and post-crisis periods: 9.5%, 9.4% and10.0% of GDP, and 30.6%, 31.1%, 32.8% of total expenditure). On a country-by-country basis, there is a lot of variation in the crisis trajectories of the share of GDP and of total expenditure dedicated to social security. Social security spending in Croatia, Latvia and Mongolia steadily increased as both a share of GDP and of total expenditure. Aside from these counties, by the post-crisis period, the share of the budget allocated to social security had grown in Bulgaria, Georgia, Moldova and Romania, and markedly grew in Belarus (by 26.3%), Czech Republic (by 33.7%), Hungary (by 28.9%), and Tajikistan (by 87.1%). The share of the budget allocated to social security contracted markedly in Albania (by 17.3%), Estonia (by 29.1%), and Kazakhstan (by 17.7%), and slightly in Lithuania and Slovakia. Share of GDP typically followed a different pattern.

In the 11 African countries for which we have data, on average social security spending dips during the crisis year but then surpasses its former level both as a share of GDP (1.0%, 0.9%, 1.4%) and of total expenditure (3.4%, 3.2%, 4.4%). Post-crisis social security spending (% GDP, % total expenditure) surpassed pre-crisis levels in Burundi, Liberia, Madagascar, Togo and Zimbabwe. The share of the budget dedicated to social security spending more than doubled in both Togo (growing by 150%) and Zimbabwe (growing by 116%). Post-crisis social security spending fell lower than pre-crisis levels in Mali, Zaire and Zimbabwe; its share of the budget fell by 42.5% and 98% in Mali and Zaire, respectively.

In the 4 Asian developing countries for which we have data, average unweighted social security spending spiked during the crisis year, increasing from 2.2% of GDP pre-crisis to 2.9% in the crisis year and then falling to 2.3% post-crisis; its share of total expenditure fell moving from 9.2% to 9.0% and finally to 8.3% over the same period. Large variation is seen among the countries, with the share of budget dedicated to social security expanding by 91.6% in Thailand (pre-crisis to post-crisis) and contracting by 38.3% in Sri Lanka.

In other regions of the developing world average social security spending steadily increased over the pre-crisis, crisis and post-crisis periods. It grew both as a share of GDP (at 4.96%, 5.47%, 5.67% in Latin America and the Caribbean and at 4.16%, 4.44%, 4.59% in the Middle East and North Africa) and as a share of total expenditure (at 23.0%, 24.2%, 25.9% in LAC and at 10.1%, 11.9%, 12.5% in MENA). On a country-by-country basis, post-crisis social security spending (% GDP, % total expenditure) surpassed pre-crisis levels in about half of each region's countries: Bolivia, Brazil, Chile, Costa Rica, Dominican Republic, Panama and Uruguay in LAC and Iran, Kuwait and Tunisia in MENA. Post-crisis social security spending (% GDP, % total expenditure) was lower than pre-crisis levels in the other half: Argentina, Colombia, Jamaica, Mexico, Paraguay and Venezuela in LAC and Egypt and Syria in MENA. Marked growth in the share of budget dedicated to social security was seen in Brazil (by 46.6%), Costa Rica (by 74.8%), Dominican Republic (by 98.7%), Iran (by 56.8%), Kuwait (by 44.1%), and Panama (by 67.2%). Marked contraction was seen in Syria (by 51.6%) and Venezuela (by 33.9%).

One can compare these results to the previous literature on social security spending in the OECD countries, Europe and Latin America (though for the latter, the literature is still under-developed). As expected, OECD social security spending counters the economic cycle and automatically stabilize the economy. From Central and Eastern Europe only Albania and Slovakia follow this pattern in both share of total expenditure and GDP dedicated to social security, while other countries react acyclically or even procyclically (including: Bulgaria, Czech Republic and Romania).

For Latin America, the literature predicts that overall spending will be lowest when most needed, creating a dip in general spending. However the literature provides no clear predictions on how social security spending will act during crisis: Wibbels (2006) suggests it will be acyclical, while Ilzetzki (2008) suggests it will be procyclical. Using three-year pre- and post-crisis averages, we find that social security spending increases for the region, suggesting that it is not strongly correlated with the business cycle (acyclical), and if anything, helps stabilize the economy after recessions. In addition, some country-specific predictions for the region are as expected; for instance, we also find countercyclical social security spending in Chile, moving from 11.4% GDP to 13.6% and finally to 12.1% (for percent total expenditure the pattern is as follows: 36.9%, 42.7%, 39.6%)

Looking at the rest of the developing world, the trends in MENA are in line with those of Latin America. To a certain extent the impact of a crisis is masked by the high overall trend growth in social protection in the region. Nonetheless, in some countries in the region the crisis clearly exerts its own influence. For instance in Kuwait while the growth in total spending sharply declined following its 1982 crisis, social security spending was relatively protected and saw a slow but steady increase.

In line with the predictions of pro-cyclical fiscal policy, Africa sees a dip in social security spending during the crisis year and an increase in spending post-crisis. Asia on the other hand sees a decline in the share of budget dedicated to the social security spending, despite an apparent countercyclical trend of social security spending when one looks at its share of GDP.

Differences from past findings may be partially explained by two factors: the crises studied and the asymmetry of fiscal policy. As noted, these trends only explore the *latest* crisis of each country, while much of the literature draws on earlier crises, with those of the 1980s being noted to have particularly procyclical fiscal policy.[13] In addition, as noted earlier, many authors find an asymmetry between boom and bust periods, with fiscal policy being more countercyclical in recession times. Indeed, it is possible that overall procyclicality of fiscal policy is swayed by boom-period spending (rather than bust-period austerity), which would allow for the observed acyclical bust-period spending.

9. Conclusion

This article has sought to understand what happens to social security spending in the aftermath of a crisis. Data presented in the paper shows that social security spending generally increases during and after a crisis. It tried to explain the social security policies within the welfare state regimes of universalism and contributory social insurance schemes. It also provided and discussed some of the usual determinants of social security spending such as economic development, democracy and political institutions, demographics, and industrialization and trade liberalization. The determinants of spending cyclicality include political fragmentation, corruption and competition; availability of capital and willingness to accrue debts; and state capacity. In looking at these two literatures side-by-side, one gains better insight on the diverse range of factors affecting social security spending after economic crises. Comparative case studies of this dynamic would be welcome to analyze which factors were significant.

The article showed that social security regimes have often been born out of crisis: for instance, the German social insurance model responded to a social crisis or social threat, the British Beveridge model responded to the emerging social crisis after the Second World War, the American Social security Act responded to the social crisis of Great Depression, Latin American conditional cash transfers responded to various economic and social crises, and Asian social assistance responded to the Asian financial crisis. Likewise, during this crisis, what is needed is Keynesian-style countercyclical fiscal policy, with a particular emphasis on social spending. Introducing automatic stabilizers, such as unemployment insurance and social assistance, will benefit countries by mitigating the worst effects of the crisis in the short term and improving crisis preparedness in long term.

The main emphasis should be placed on spending to kick start the economy and protect the poor and vulnerable groups (unemployed) from falling further into poverty. Policy makers should ensure that pensioners' incomes are not lost or decreased. Unemployment insurance, social transfers and human capital spending should be protected. For the 40–50% of developing countries without any social safety net programmes (Lustig, 2008), the crisis presents an opportunity for improvement and expansion. Where programmes exist, first step should be to expand on or increase the eligibility of current well-performing programmes. However, in countries where there are no programmes in place, setting one up from scratch should be carefully planned and will likely take four to six months. Other policies such as the promotion of public works programmes have also been shown to be effective tools of social protection if carefully managed.

As mentioned at the beginning of this article, the countries that have avoided fiscal discipline during past crises have typically been more successful. Nonetheless, countries may engage in procyclical policies due to the availability or willingness to use capital. Some countries may not have the fiscal space to increase spending appropriately, especially in the face of high post-crisis borrowing costs; others may worry about the longer-term implications of social security expansion for the government's fiscal position and the financial health of social security funds. Yet, where possible, fiscal discipline should not be practiced, as it could further harm the economy and increase poverty. Based on common sense and past experience, countries should be encouraged to adopt expansionary policies during times of crisis.

ACKNOWLEDGEMENTS

We would like to thank Raymond Torres, Steven Tobin, Sameer Khatiwada, Ekkhehard Ernst and colleagues from the International Institute for Labour Studies for their useful comments. The responsibility for opinions expressed in this article rests solely with the author and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them, or of any products, processes or geographical designations mentioned.

NOTES

1. The only exceptions are Denmark and Ireland (only minimum pensions) and Germany (only compulsory earnings-related scheme).
2. Resident based pension systems are present in Denmark, Finland, Iceland, Norway, Sweden and Canada after 40 years of residence and in the Netherlands after 50 years. Social assistance pensions are most common among the non-contributory schemes.
3. Argentina, Brazil, Chile, Colombia, Mexico, Peru.
4. There are some exceptions to this consensus. Adam and Bevan (2003) observe mildly countercyclical policies in a group of low-income countries, while Afonso et al. (2008) find acyclical policies in a group of 132 countries (including low-income and middle-income ones).
5. Among the literature reviewed, two exceptions stand out: Ilzetzki (2008) finds a symmetrical response across booms and busts and Gavin and Perotti (1997) find that Latin American fiscal policy is more procyclical during busts than booms.
6. On the other hand, the evidence of procyclical policy among OECD countries suggests that there are additional factors at work (Talvi and Végh, 2005)
7. Thornton (2008) and Ilzetzki (2008) observe a similar dynamic.
8. Government consumption has been found to be procyclical (Lane, 2003b), acyclical (Talvi and Végh, 2005) and countercyclical (Arreaza et al., 1999) for different groups of high-income countries (OECD, G7 and EU respectively). This is partly due to country selection, but may also have to do with choice of indicators, methods and, to a lesser extent, data sources.
9. Gali et al. (2003) find strong procyclical behaviour in Norway's non-discretionary cyclic spending, warranting further study.
10. This idea is also supported by Hagfors and Saari's (2006) finding social expenditure has crowded out core government expenditure in heavily indebted countries and deficit countries in the EU. On the other hand, Korpi and Palme (2003) note that social insurance programmes are most likely to be cut when government financial balances are not in the best position.
11. In this case, countries who increase targeted spending and social spending at a higher rate than other types of spending (during boom periods).
12. Data available at: http://www.luclaeven.com/Data_files/IMF%2520Financial%2520crisis%2520episodes%2520database%25202008.xls&ei=vZHDSZ3LIs-J_gbhsqWECw&sig2=NvA_lizTDPbGNeQTlISQjQ&usg=AFQjCNGp5L6WlbItnnTCWH2FyuY8pKdRjw (accessed: 24 November 2009).
13. For instance, much of Lustig's (2000) conclusions rest on the Latin American crises of the 1980s. Gavin and Perotti (1997) and Braun and di Gresia (2003) look at crises up until 1995 and 1997, respectively. We include six crises since 1995, with five of these falling after 1997.

APPENDIX 1

Country	*Country code*	*Year of latest crisis**	*Social protection (% GDP)*			*Social protection (% total expenditure)*		
			pre-crisis	*at crisis*	*post-crisis*	*pre-crisis*	*at crisis*	*post-crisis*
Albania	ALB	1997	6.93	7.37	6.68	24.28	24.35	20.07
Argentina	ARG	2002	8.21	7.51	7.40	48.24	37.94	38.32
Burundi	BDI	1994	1.76	1.82	2.05	5.57	6.41	6.90
Bulgaria	BGR	1996	12.57	8.92	10.22	29.02	18.71	31.27
Belarus	BLR	1999	10.98	10.29	12.34	34.32	33.34	43.34
Bolivia	BOL	1994	3.09	3.38	4.56	15.38	14.62	20.65
Brazil	BRA	1994	9.10	10.27	10.20	30.59	30.42	44.86
Chile	CHL	1983	11.37	13.64	12.08	36.91	42.73	39.60
Colombia	COL	1985	2.90	2.73	2.42	18.77	19.43	17.78
Costa Rica	CRI	1994	2.39	4.27	4.87	12.27	17.70	21.45
Czech Republic	CZE	1996	10.13	8.28	11.98	27.75	25.07	37.10
Dominican Republic	DOM	2003	1.48	2.99	3.07	8.79	19.51	17.47
Egypt, Arab Rep	EGY	1990	4.12	3.58	3.70	12.01	12.89	10.41
Spain	ESP	1983	17.83	20.67	14.91	60.69	63.52	43.75
Estonia	EST	1992	9.94	7.74	8.92	41.93	33.51	29.74
Finland	FIN	1993	18.06	23.71	20.03	41.92	45.50	41.12
Georgia	GEO	1999	4.54	4.41	3.70	27.99	29.47	31.16
Croatia	HRV	1998	14.61	16.52	18.94	32.88	36.04	40.31
Hungary	HUN	1991	15.28	20.36	20.44	28.19	37.75	36.33
Indonesia	IDN	1999	1.05	1.09	1.51	6.28	5.32	7.56
Iran, Isalmic Rep.	IRN	2000	4.09	5.06	6.58	16.91	23.40	26.52
Iceland	ISL	1989	5.13	6.78	6.93	17.03	20.41	21.24
Israel	ISR	1985	11.35	11.04	10.31	13.56	15.85	18.59

(Continued)

APPENDIX 1 *(Continued)*

Country	*Country code*	*Year of latest crisis**	*Social protection (% GDP)*			*Social protection (% total expenditure)*		
			pre-crisis	*at crisis*	*post-crisis*	*pre-crisis*	*at crisis*	*post-crisis*
Italy	ITA	1981	10.58	12.26	13.52	28.93	31.38	32.42
Jamaica	JAM	1996	0.61	0.52	0.51	1.88	1.27	1.44
Kazakhstan	KAZ	1999	8.08	6.98	5.00	42.07	46.28	34.63
Korea, Rep.	KOR	1998	1.53	2.34	2.97	9.57	12.56	15.35
Kuwait	KWT	1982	1.95	4.02	4.40	6.29	8.26	9.06
Liberia	LBR	1980	0.40	0.40	0.52	1.37	1.35	1.45
Sri Lanka	LKA	1978	5.79	9.08	5.24	23.32	23.29	14.39
Lesotho	LSO	1985	0.44	0.41	0.85			
Lithuania	LTU	1995	8.48	8.15	8.93	36.34	34.80	33.80
Latvia	LVA	1995	10.14	12.11	12.62	36.69	41.30	42.46
Morocco	MAR	1983	1.77	1.96	1.75	4.86	6.06	5.90
Moldova	MDA	1999	13.45	10.51	10.27	37.50	35.39	39.94
Madagascar	MDG	1994	0.11	0.18	0.15	1.24	1.90	1.71
Mexico	MEX	1995	3.26	3.18	2.97	22.22	20.01	19.30
Mali	MLI	1987	1.46	0.79	0.95	5.48	2.91	3.15
Mongolia	MNG	1997	3.93	5.05	6.33	20.97	23.85	24.96
Malaysia	MYS	1998	1.39	0.80	1.00	3.50	4.00	4.40
Norway	NOR	1991	14.01	14.95	15.33	35.48	36.20	36.85
Panma	PAN	1988	3.95	5.40	5.44	13.64	21.29	22.81
Portugal	PRT	1983	8.02	8.21	8.11	25.13	24.26	23.02
Paraguay	PRY	1984	3.04	3.28	2.39	27.68	30.39	27.47
Romania	ROM	1996	9.29	9.05	10.22	29.26	28.95	30.70

APPENDIX 1 *(Continued)*

Country	*Country code*	*Year of latest crisis**	*Social protection (% GDP)* pre-crisis	*at crisis*	*post-crisis*	*Social protection (% total expenditure)* pre-crisis	*at crisis*	*post-crisis*
Senegal	SEN	1981	1.20	1.18	1.27	6.05	5.93	5.30
Slovak Republic	SVK	1998	11.79	11.81	11.70	29.21	30.70	28.97
Sweden	SWE	1993	20.90	22.79	21.93	51.53	47.48	49.55
Syrian Arab Republic	SYR	1988	1.42	0.78	0.52	4.50	3.46	2.18
Togo	TGO	1979	1.49	1.65	2.85	3.57	4.58	8.92
Thailand	THA	1998	0.63	0.76	1.39	3.61	3.35	6.91
Tajikistan	TJK	1999	1.35	2.32	2.26	10.57	18.73	19.78
Tunisia	TUN	1991	4.43	4.64	4.85	12.65	13.64	14.95
Tanzania	TZA	1984				0.61	0.29	0.54
Uruguay	URY	1990	12.32	11.72	15.58	50.54	50.18	57.20
United States	USA	1988	6.57	6.10	5.97	28.52	27.59	26.10
Venezuela, RB	VEN	2002	2.76	2.24	2.16	12.19	8.57	8.05
Congo, Dem. Rep.	ZAR	1994	0.19	0.00	0.00	1.06	0.02	0.02
Zambia	ZMB	1983	0.78	0.74	0.57	2.06	2.29	1.72
Zimbabwe	ZWE	1995	1.83	2.15	5.08	6.65	6.02	14.37

* for which there is data available

APPENDIX

Indicator choice for selected studies

	Total or current government expenditure	*Government Consumption*	*Government Investment*	*Government savings, surplus, deficit or revenue*	*Government spending on transfers, subsidies or social security*	*Other social spending*
Adam and Bevan, 2003	X			X		
Afonso, Agnello and Furceri, 2008	X			X		
Alberola and Montero, 2007				X		
Arreaza, Sørensen and Yosha, 1999		X		X	X	
Braun and di Gresia, 2003	X					X*
Darby and Melitz, 2008	X			X	X	X**
Diallo, 2008	X***					
Fallon and Lucas, 2002		X				X****
Galí, Perotti, Lane and Richter, 2003	X*****		X	X	(X*****)	
Gavin and Perotti, 1997	X	X	X******	X	X	
Ilzetzki, 2008	X	X	X******		X	
Ilzetzki and Végh, 2008	X	X	X******			

APPENDIX *(Continued)*

	Total or current government expenditure	*Government Consumption*	*Government Investment*	*Government savings, surplus, deficit or revenue*	*Government spending on transfers, subsidies or social security*	*Other social spending*
Kaminsky, Reinhart and Végh, 2004	X				indirectly	
Lane, 2003a				X		
Lane, 2003b	X	X	X	X	indirectly	
Lee and Sung, 2007	X		X******	X	X	
Talvi and Végh, 2004	X	X	X	X		
Thornton, 2008		X				
Wibbels, 2006	X			X	X	X*******

Notes: * Social spending and targeted social spending; ** (1) Health expenditure; (2) Total social security spending; Key Components of Social Security Spending: (2a) Pension related cash benefits; (2b) Incapacity related cash benefits; (2c) Unemployment compensation; (2d) Sickness pay; (3) Subsidies; *** Lagged and mean (minus interest payments); **** public health and education expenditure; ***** Defined as discretionary and non-discretionary fiscal policy; ****** Capital expenditure; ******* All social spending and human capital spending

REFERENCES

Adam, C. and Bevan, D. (2003) 'Staying the Course: Maintaining Fiscal Control in Developing countries', *Brookings Trade Forum*: 167–227.

Afonso, A., Agnello, L. and Furceri, D. (2008) *Fiscal Policy Responsiveness, Persistence and Discretion*, Working Paper Series 954, European Central Bank.

Akitoby, B., Clements, C., Gupta, S. and Inchauste, G. (2006) 'Public Spending, Voracity, and Wagner's Law in Developing Countries', *European Journal of Political Economy* 22(4): 908–24.

Alberola, E. and Montero, J.M. (2007) 'Debt Sustainability and Procyclical Fiscal Policies in Latin America', *Economia* 7(1): 157–93.

Alesina, A.F. and Tabellini, G. (2005) 'Why is Fiscal Policy Often Procyclical?', Discussion Paper No. 2090, Institute for Economic Research, Harvard University.

Allen, J. and Scruggs, L. (2004) 'Political Partisanship and Welfare State Reform in Advanced Industrial Societies', *American Journal of Political Science* 48(3): 496–512.

Arreaza, A., Sørensen, B. and Yosha, O. (1999) 'Consumption Smoothing Through Fiscal Policy in OECD and EU Countries', Working Paper Series 6372, NBER.

Barro, R. (1979) 'On the Determination of the Public Debt', *Journal of Political Economy* 87(5): 940–71.

Bordo, M.D., Goldin, C. and White, E.N. (eds) (1998) *The Defining Moment: The Great Depression and the American Economy in the Twentieth Century*. Chicago, IL: The University of Chicago Press.

Bouget, D. (2003) 'Convergence in the Social Welfare Systems in Europe: From Goal to Reality', *Social Policy & Administration* 37(6): 674–93.

Braun, M. and di Gresia, L. (2003) 'Towards Effective Social Insurance in Latin America: The Importance of Countercyclical Fiscal Policy', Working Paper 487, Inter-American Development Bank.

Bulir, A. and Hamann, A.J. (2007) 'Volatility of Development Aid: From the Frying Pan Into the Fire?', *World Development* 36(10): 2048–66.

Burgoon, B. (2001) 'Globalization and Welfare Compensation: Disentangling the Ties that Bind', *International Organization* 53(3): 509–51.

Cameron, D.R. (1978) 'The Expansion of the Public Economy: A Comparative Analysis', *The American Political Science Review* 72(4): 1243–61.

Castles, F.G. (2001) 'On the Political Economy of Recent Public Sector Development', *Journal of European Social Policy* 11(3): 195–211.

Castles, F.G. (2004) *The Future of the Welfare State: Crisis Myths and Crisis Realities*. Oxford: Oxford University Press.

Castles, F.G. (2006) 'The Growth of the Post-war Public Expenditure State: Long-term Trajectories and Recent Trends', TranState Working Paper 35, Universität Bremen Collaborative Research Center 597.

Darby, J. and Melitz, J. (2008) 'Social Spending and Automatic Stabilizers in the OECD', *Economic Policy* 23(56): 715–56.

Diallo, O. (2009) 'Tortuous Road Toward Countercyclical Fiscal Policy: Lessons from Democratized Sub-Saharan Africa', *Journal of Policy Modeling* 31(1): 36–50.

Galí, J., Perotti, R., Lane, P.R. and Richter, W.F. (2003) 'Fiscal Policy and Monetary Integration in Europe', *Economic Policy* 18(37): 533–72.

Garrett, G. and Mitchell, D. (2001) 'Globalization Spending and Taxation in the OECD', *European Journal of Political Research* 39(3): 145–78.

Gavin, M. and Perotti, R. (1997) 'Fiscal Policy in Latin America', *NBER Macroeconomics Annual* 12: 11–61.

Gough, I. and Wood, G. (eds.) (2004) *Insecurity and Welfare Regimes in Asia, Africa and Latin America: Social Policy in Development Contexts*. Cambridge: Cambridge University Press.

Green, D.J. and Campos, J.E. (2001) 'Fiscal Lessons from the East Asian Financial Crisis', *Journal of Asian Economics* 12(3): 309–29.

Hagfors, R. and Saari, J. (2006) *Social Policy in the Economic and Monetary Union: Social Expenditures and Public Indebtedness in 15 EU Countries*, Social Security and Health Reports 72. Helsinki: Kela, Research department.

Haggard, S. and Kaufman, R.R. (2008) *Development, Democracy, and Welfare States: Latin America, East Asia, and Eastern Europe*. Princeton, NJ: Princeton University Press.

Hausken, K., Martin, C.W. and Plümper, T. (2004) 'Government Spending and Taxation in Democracies and Autocracies', *Constitutional Political Economy* 15(3): 239–59.

Hays, J., Ehrlich, S. and Peinhardt, C. (2005) 'Government Spending and Public Support for Trade in the OECD: An Empirical Test of the Embedded Liberalism Thesis', *International Organization* 59(2): 473–94.

Hicks, N. and Wodon, Q. (2001) 'Social Protection for the Poor in Latin America', *CEPAL Review* 73.

Hicks, A. and Zorn, C. (2005) 'Economic Globalization, the Macro Economy, and the Reversals of Welfare: Expansion in Affluent Democracies, 1978–94', *International Organization* 59(3): 631.

Huber, E. and Stephens, J. (2001) *Development and Crisis of the Welfare State: Parties and Policies in Global Markets*. Chicago, IL: University of Chicago Press.

International Labour Organization (ILO) (2008) *Can Low-income Countries Afford Basic Social Security?*, Social Security Policy Briefings Paper 3. Geneva: International Labour Office, Social Security Department.

Ilzetzki, E. (2008) *Rent Seeking Distortions and Fiscal Procyclicality* 11900. Munich Personal RePEc Archive.

Ilzetzki, E. and Végh, C.A. (2008) 'Procyclical Fiscal Policy in Developing Countries: Truth or Fiction?', Working Paper Series 14191, NBER.

International Monetary Fund (IMF) (2001) *Government Finance Statistics Manual 2001 (GFSM 2001)*, IMF.

Iversen, T. and Cusack, T. (2000) 'The Causes of Welfare State Expansion: Deindustrialization or Globalization?', *World Politics* 52(3): 313–49.

Kaminsky, G.L., Reinhart, C.M. and Végh, C.A. (2004) 'When it Rains, it Pours: Procyclical Capital Flows and Macroeconomic Policies', Working Paper 10780, NBER.

Kaufman, R.R. and Segura-Ubiergo, A. (2001) 'Globalization, Domestic Politics, and Social Spending in Latin America: A Time-series Cross-section Analysis, 1973–97', *World Politics* 53(4): 553.

Keum, J., Chang, J., Hwang, D.-S., Kim, D.-H., Kim, J., Lee, B.-H., Lee, K.-Y., Park, S.-J. and Yoo, K.-s. (2006) *Employment Insurance in Korea: The First Ten Years*. Korea: Korean Labor Institute.

Kittel, B. and Obinger, H. (2003) 'Political Parties, Institutions and the Dynamics of Social Expenditure in times of Austerity', *Journal of European Public Policy* 10(1): 20–45.

Kittel, B. and Winner, H. (2005) 'How Reliable is Pooled Analysis in Political Economy? The Globalization-welfare State Nexus Revisited', *European Journal of Political Research* 44(2): 269–93.

Korpi, W. and Palme, J. (2003) 'New Politics and Class Politics in the Context of Austerity and Globalization: Welfare State Regress in 18 Countries, 1975–95', *The American Political Science Review* 97(3): 425–46.

Laeven, L. and Valencia, F. (2008) *Systemic Banking Crises: A New Database*, Working Paper 224, IMF.
Lane, P.R. (2003a) 'Business Cycles and Macroeconomic Policy in Emerging Market Economies', *International Finance* 6(1): 89–108.
Lane, P.R. (2003b) 'The Cyclical Behaviour of Fiscal Policy: Evidence From the OECD', *Journal of Public Economics* 87(12): 2661–75.
Lee, Y. and Sung, T. (2007) 'Fiscal Policy, Business Cycles and Economic Stabilisation: Evidence From Industrialised and Developing Countries', *Fiscal Studies* 28(4): 437–62.
Lindert, K., Skoufias, E. and Shapiro, J. (eds.) (2006) 'Redistributing Income to the Poor and the Rich: Public Transfers in Latin America and the Caribbean', SP Discussion Paper no. 0605, Social Safety Nets Primer Series.
Lustig, N. (2000) 'Crises and the Poor: Socially Responsible Macroeconomics', Technical Papers Series No. POV-108, Inter-American Development Bank.
Lustig, N. (2008) 'Thought for Food: The Challenge of Coping with Soaring Food Prices', Working Paper 155, Center for Global Development.
Lustig, N., Fishlow, A. and Bourguignon, F. (2000) 'Presidential Address: Crises and the Poor: Socially Responsible Macroeconomics [with Comments]', *Economía* 1(1): 1–30.
Mahler, V.A. and Jesuit, D.K. (2006) 'Fiscal Redistribution in the Developed Countries: New Insights from the Luxembourg Income Study', *Socio-Economic Review* 4(3): 483.
Midgley, J. (1995) *Social Development: The Developmental Perspective in Social Welfare*. London: SAGE.
Novick, M., Tomada, C., Damill, M., Frenkel, R. and Maurizio, R. (2007) 'In the Wake of the Crisis: Argentina's New Economic and Labour Policy Directions and Their Impact', Research Series 114, International Institute for Labour Studies; International Labour Organization.
Obinger, H., And, S. and Castles, F. (2005) 'Bypasses to a social Europe? Lessons from Federal experience', *Journal of European Public Policy* 12(3): 545–71.
Pallage, S. and Robe, M.A. (2001) 'Foreign Aid and the Business Cycle', *Review of International Economics* 9(4): 641–72.
Park, Y. (2008) 'Revisiting the Welfare State System in the Republic of Korea', *International Social Security Review* 61(2): 3–19.
Ravallion, M. (2008) 'Bailing out the World's Poorest', Policy Research Working Paper 4763, Development Research Group; World Bank.
Rodrik, D. (2008) 'Normalizing Industrial Policy', Working Paper No. 3, Commission on Growth and Development, World Bank.
Ruggie, J.G. (1982) 'International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order', *International Organization* 36(2): 379–415.
Skocpol, T. (2002) 'What it Will Take to Build a Family-friendly America', in S.A. Hewlett, N. Rankin and C. West (eds) *Taking Parenting Public: The Case for a New Social Movement* (pp. 219–34). Lanham, MD: Rowman & Littlefield.
Spilimbergo, A., Symansky, S., Blanchard, O. and Cottarelli, C. (2008) *Fiscal Policy for the Crisis*, IMF Staff Polisition Note SPN/08/01.
Swank, D. (2001) 'Mobile Capital, Democratic institutions and the Political Economy in Advanced Industrial Societies', *Journal of Comparative Policy Analysis* 3(2): 133–62.
Swank, D. (2002) *Global Capital, Political Institutions, and Policy Change in Developed Welfare States*. Cambridge Cambridge University Press.
Swank, D. (2003) 'Withering Welfare?: Globalization, Political Economic Institutions, and the Foundations of Contemporary Welfare States', in L. Weiss (ed.) *States in the Global Economy: Bringing Domestic Institutions Back In* (pp. 58–82). Cambridge: Cambridge University Press.

Swank, D. (2005) 'Globalization, Domestic Politics, and Welfare State Retrenchment in Capitalist Democracies', *Social Policy & Society* 4(2): 183–95.

Talvi, E. and Végh, C.A. (2005) 'Tax Base Variability and Procyclical Fiscal Policy in Developing Countries', *Journal of Development Economics* 78(1): 156–90.

Thornton, J. (2008) 'Explaining Procyclical Fiscal Policy in African Countries', *Journal of African Economies* 17(3): 451–64.

Tornell, A. and Lane, P.R. (1999) 'The Voracity Effect', *The American Economic Review* 89(1): 22–46.

Townsend, P. (ed.) (2009) *Building Decent Societies: Rethinking the Role of Social Security in Development*. Basingstoke: Palgrave Macmillan/ILO.

United Nations (2006) *Social Panorama of Latin America 2005.* Santiago: CEPAL.

Wagner, A. (1883) 'The Nature of the Fiscal Economy', in R.A. Musgrave and A.T. Peacock (ed.) *Classics in the Theory of Public Finance* (pp. 1–8). London: Macmillan.

Wibbels, E. (2006) 'Dependency Revisited: International Markets, Business Cycles, and Social Spending in the Developing World', *International Organization* 60(2): 433–68.

Wilensky, H.L. (2002) *Rich Democracies: Political Economy, Public Policy, and Performance.* Berkeley: University of California Press.

Willmore, L. (2007) 'Universal Pensions for Developing Countries', *World Development* 35(1): 24–51.

RÉSUMÉ

Dépenses de Sécurité Sociale Pendant la Crise Économique

Cet article étudie le lien entre les dépenses de sécurité sociale et les crises économiques. Dans cette manière, cet article réponde aux deux questions: Quelles sont le tendance des dépenses de sécurité sociale au lendemain d'une crise financière? Quels éléments peuvent l'expliquer? Cet article montre que des règimes de sécurité sociale produit souvent en période de la crise. En outre, en moyenne, les dépenses de sécurité sociale augmentent au cours d'une crise. Cependant, il y a de variation régionale importante par rapport aux pays avancés qui montrent plus de dépense anticyclique. Cet article supporte l'idée que la crise est une occasion d'améliorer et renforcer la sécurité sociale. De cette manière, les pays réduisent des mauvais effet de la crise, mais créent également une meilleure politique sociale et améliorent l'état de préparation pour la crise à long terme.

RESUMEN

El presente documento investiga el lazo entre los gastos de seguridad social y las crisis financieras. Al hacerlo, el documento contesta dos preguntas: ¿cuáles son las tendencias en los gastos de seguridad social tras la crisis financiera?; ¿y cuáles son los factores que pueden explicar estos cambios? El documento muestra que los regímenes de seguridad social han nacido muchas veces de una crisis. Además, los gastos de seguridad normalmente aumentan en el curso de una crisis. Sin embargo, hay una gran variación regional, con los países avanzados mostrando los gastos contra-cíclicos más altos. Este documento apoya la idea de que se puede usar las crisis como una oportunidad de mejorar y fortalecer la seguridad social. Al hacerlo, los países no sólo atenúan los peores efectos de la crisis, sino también crean una política social más efectiva y mejoran la preparación a largo plazo para las crisis.

BIBLIOGRAPHICAL NOTES

NAREN PRASAD is a Development Economist with ILO's International Institute for Labour Studies and former Research Coordinator with the United Nations Research Institute for Social Development (UNIRSD). Megan Gerecke is with the International Labour Organization. Her current research interests include comparative social policy, gender in the labour market, and financial crises. Please address correspondence to: Naren Prasad, International Institute for Labour Studies, International Labour Organization, Route des Morillons 4, CH-1211 Geneva 22, Switzerland. [email: prasadn@ilo.org]

MEGAN GERECKE received her Master's in Political Science from McGill University. Her research interests include comparative social policy, gender and inequality. She has served as a research officer with the ILO's International Institute for Labour Studies and the McGill Institute for Health and Social Policy. Please address correspondence to: Megan Gerecke, 331 Longfellow Drive, Waterloo ON N2L 2S4, Canada. [email: megan.r.gerecke@gmail.com]