

3. BUILDING A SOCIAL FLOOR UNDER THE GLOBAL ECONOMY

Even before the food and financial crises hit in 2008, there were alarming figures showing that the world was much further behind in meeting the MDGs than previously assumed.¹⁹ A change of policy directions is all the more urgently required and a good starting point is from the perspective of ordinary people. From that angle, Juan Somavia has noted that it is an “aberration” to measure progress simply because there might be some statistical movement in the number of people that live on US\$1/day to US\$2/day: this is not how people define their goals and aspirations in life. The measure is rather in terms of their prospect of securing a decent job or livelihood and a future for their children. An immediate priority is *a social floor that can prevent people from falling into destitution* and help them move up the social and economic ladder.

“Everyone, as a member of society, has the right to social security” states Article 22 of the Universal Declaration on Human Rights. Yet, some 80 percent of the world’s working women and men have little or no social protection.²⁰ To many people, a basic set of social benefits could make the difference between a liveable and a miserable life, or even the difference between life and premature death. Even in countries with long-established social protection systems, many workers are not fully covered for essential health care, old age and contingencies such as unemployment and sickness – a trend that is expanding with the proliferation of casual and part-time work especially for youth. In fact, over the past 15 years, social transfers as a percentage of gross domestic product (GDP) have declined on average in developed countries (Prasad 2008).

Social protection is a powerful tool to alleviate poverty and inequality. It has reduced poverty and mitigated inequality in many countries of the Organisation for Economic and Co-operation Development (OECD) by almost 50 percent. There are good and positive examples of successes with modest universal social benefit systems in Africa, Latin America and Asia (see below). But investing in social security has not yet become a widely accepted development strategy.

SOCIAL PROTECTION AS AN ECONOMIC INVESTMENT

Why have the stabilization of social security, or the introduction of at least basic social protection systems, not played a bigger role in economic and development policies? Or worse, why have they been downgraded in a number of countries?

¹⁹. The global food, fuel and financial crises have caused a major setback on progress towards meeting the MDGs. However, even before their manifestation, the World Bank had issued new revised estimates suggesting that extreme poverty in the developing world is much more pervasive than previously assumed (Chen and Ravallion 2008).

²⁰. In ILO terminology, social protection and social security tend to be used interchangeably, although social protection is usually understood as broader than social security.

The most common argument against extending social security is its economic cost. In a nutshell: a large welfare State is not compatible with a competitive economy; and social protection expenditures are too expensive for developing countries. Furthermore, limited resources are best invested in more productive endeavours.

In response to the competitiveness argument, studies show that there is a fairly strong correlation between per hour productivity and per capita expenditure on social protection in OECD countries. The OECD now argues that some of the most successful open economies are also the ones with the most extensive welfare States (ILO 2008c).

Social equity and economic efficiency are not necessarily contradictory. Quite the opposite: **social protection systems are an economic investment**. In particular, social protection plays an essential stabilizing (or “counter-cyclical”) role during an economic downturn or financial crisis by maintaining some degree of effective demand in the economy, thus helping domestic businesses to stay afloat. ILO studies had already suggested that the social and economic impact of the 1997-98 East Asian crisis would have been much less severe had countries adequately invested in social protection schemes. Argentina’s much quicker than expected recovery from its 2001-03 crisis is partly attributed to the *Plan Jefas y Jefes de Hogar Desocupados*, which was introduced in the wake of the crisis to provide basic income to unemployed households in exchange for public utility work (see Box 3.2).

In addition, well-designed social protection schemes can help ensure that children are more adequately nourished and get a basic education and, combined with active labour market policies (such as training and job-search assistance), boost the chances of people finding a job and being “employable.” Social protection can also serve to play other functions not directly related to decent work such as providing some cushion against food price hikes or climate change-related disasters (an element of climate change adaptation).

ELEMENTS OF A SOCIAL PROTECTION FLOOR

The shift in perspective regarding social protection – from cost to investment – needs to be accompanied by a change in paradigm, from “exclusive protection,” which covers only civil servants and formal economy private sector employees, to “progressive universalism” covering all population groups, including the poorest in the informal economy (Jomo 2007). World Bank research showed that universal approaches are the most efficient, as targeted approaches risk excluding as much as three-quarters of potential beneficiaries (ILO 2009a). In order to be non-exclusive (to reach out to workers in the informal economy), many argue that social protection schemes should be “non-contributory” (meaning not financed through insurance schemes but fiscal transfers).

The crisis also brought into sharp relief the limitations of private social insurance, especially privatized pension schemes, which have recorded substantial losses with the collapse of capital markets. Well-designed public pension systems have been much less affected. This has motivated a policy shift in the stance of certain international organizations which now advocate greater focus on more stable, security-oriented public pension systems (ILO/IILS 2009).

The exact definition of a **social protection floor** will vary from country to country, but it is generally understood that it would include the four following components:

- Basic health care for all;
- Child benefits conditional on schooling;

- Self-selected targeted social assistance; and
- Universal benefits for the elderly, the disabled, and in the event of loss of the household breadwinner.²¹

CASH TRANSFERS AND EMPLOYMENT GUARANTEES

In the wake of the crisis, much attention has focused on the effectiveness of cash transfers and employment guarantee schemes. **Cash transfer schemes** are defined as regular non-contributory payments of money provided by government or non-government organizations to individuals or households, with the objective of decreasing chronic or shock-induced poverty, addressing social risks and reducing economic vulnerability. They can be unconditional, or subject to conditions such as sending children to school. Today, almost 200 million people are covered by such schemes in 25 developing countries. The impact of cash transfer schemes is well illustrated by the success of Mexico's *Oportunidades* and Brazil's *Bolsa Família* (see Box 3.1), which have reduced poverty substantially. Evaluations find that between the mid-1990s and the mid-2000s, these programmes were responsible for a 21 percent reduction in income inequality in Brazil and Mexico, and constituted 50 and 25 percent of incomes of the poorest households, respectively (ILO 2009b).

Employment guarantee schemes have elements in common with the idea that the State should act as an “employer of last resort,” to provide employment at a basic wage for those who cannot otherwise find work. This should be seen not only as an emergency measure

BOX 3.1

THE BOLSA-FAMÍLIA PROGRAMME IN BRAZIL

Introduced in 2003, the *Bolsa-Família* Programme consists of a conditional cash transfer to families of up to a maximum of US\$60 per month, requiring children's regular school attendance and regular health visits for the whole family. In 2006, over 11 million household benefits were disbursed through this scheme. Between 2003 and 2006, the poorest decile in household survey data rose by 10 percent while the richest grew at lower rates, suggesting a positive contribution of the scheme to reducing poverty and inequality. The cost of the programme amounted to 0.3 percent of GDP which had been financed out of revenue earmarked for social security. In recent years the availability of funds was strengthened by the positive results of the public service pension reform in 2003 and (for some time) the proceeds of a tax on financial transactions, fixed at 0.38 percent. According to the Ministry of Social Security of Brazil, the tax did not have the negative economic consequences its detractors had warned of when it was first introduced. One key challenge, the Ministry notes, is to achieve the institutionalization of the *Bolsa Família* as a State policy to ensure its continued existence beyond the current government (ILO 2008c).

21. The ILO with WHO and other development partners developed a manual to provide guidance for a Social Protection Floor Approach at country level. The manual gives an overview of steps to take and tools to use for country operations of UN agencies and other institutions that might want to join Social Protection Floor initiatives on a local level. The manual offers a checklist for possible country activities rather than a prescription for action. See: <http://www.socialsecurityextension.org/gimi/gess/ShowNews.do?nid=6043>.

in times of crisis but a permanent complement to private sector employment (Wray 2007). The Jefas Plan in Argentina is often cited as an example²² (see Box 3.2). A more institutionalized example is India's National Rural Employment Guarantee (NREG) Act, which was adopted by the Indian Parliament in 2005 and came into effect in April 2006. The Act provides mandatory assurance of at least 100 days of public employment every year at the minimum wage, for at least one person in every rural household. The budget for the NREG in 2006-2007 was 0.3 percent of GDP. The scheme is expected to cover the entire country within five years (ILO 2008c; ILO/IILS 2009). Civil society movements in the country are playing an important role in pressing for the NREG's faster implementation, ensuring knowledge of the scheme is spread to the most remote areas, and contributing to improving the quality of delivery, in terms of responding to local needs and promoting greater transparency and accountability (Centre for Environment Concerns 2009).

BOX 3.2

THE PLAN JEFAS Y JEFES DE HOGAR DESOCUPADOS IN ARGENTINA

The *Plan Jefas y Jefes de Hogar Desocupados* (hereafter the "Jefas Plan") was introduced by Presidential decree in early 2002, in the midst of Argentina's 2001-2003 financial and economic crisis and signed into law in April of that year. The Jefas Plan paid 150 pesos (~US\$50) per month to a household head for a minimum of four daily hours of public utility work. This corresponded to half the sum needed to stay above the poverty line, so participants were expected to search for additional hours of work. At its peak, the programme provided work for 2 million people or 5 percent of the population and 13 percent of the workforce within just a few months of its creation. Peak spending on the programme amounted to about 1 percent of GDP. The "multiplier effects" resulting from the boost in aggregate demand were estimated to be about 2.5 percent of GDP. More recently as the economy recovered, the Plan has been redesigned in a "Families for Social Inclusion" programme to support unemployed female-headed households (most of the beneficiaries of the Plan) and a Training and Employment Insurance Scheme for the unemployed having difficulties in finding formal employment (Novick, et al 2007; Wray 2007).

A UNIVERSAL BASIC INCOME GUARANTEE ?

The ILO has also raised the question as to whether a basic minimum income - essentially a regular and unconditional cash grant from the State - could become an unconditional right of all citizens (ILO 2004b). Many civil society movements have been actively campaigning for this right, including in the context of Namibia where a coalition of civil society organizations implemented a pilot Basic Income Grant (BIG), a proposal emanating from a commission appointed by the Government of Namibia. The results of the initiative produced very high social and economic returns in the pilot area in a short period of time. The coalition argues it is affordable to implement BIG on a national scale (see Box 3.3).

22. It should be noted that this emergency programme has since been transformed into more conventional models of social protection and active labour market policy.

THE BASIC INCOME GRANT (BIG) PILOT PROJECT IN NAMIBIA

The original proposal for a Basic Income Grant in Namibia was made in 2002 by the Namibian Tax Consortium (NAMTAX), a commission appointed by the government to review the tax system in Namibia. The Basic Income Grant in Namibia was conceived as a monthly cash grant of not less than N\$100 (~US\$13) which should be paid to every Namibian citizen as a citizen's right. Every Namibian, regardless of age or income, would receive such a grant until the age of 60, after which he/she would be eligible to the existing universal State Old Age Pension of N\$370. The money paid to people not in need or not in poverty would be recuperated through adjustments in the tax system.

In 2007, a Basic Income Grant (BIG) Coalition of civil society organizations decided to implement a pilot BIG project, in order to demonstrate the impact of a BIG in practice. Since the introduction of the BIG, household poverty has dropped significantly in the pilot area. The proportion of residents living below the food poverty line fell from 76 percent to 37 percent within one year of the BIG. Child malnutrition was reduced within a year of implementation from 42 percent to 10 percent. The positive economic spin-offs in terms of increased economic activity were considerable. The average per capita income in the pilot area increased from N\$160 to N\$303, far exceeding the value of the BIG. The rate of those engaged in income-generating activities increased from 44 percent to 55 percent. The grant enabled recipients to increase their productive income earned, particularly through starting their own small business, sustained by increased buying power in the area.

Based on econometric analysis, the BIG Coalition has put forward a number of options to fund BIG on a national scale, which would amount to between 2.2 percent to 3 percent of Namibia's GDP. These include reprioritization of the national budget or increasing the current tax collection rate to its full capacity, which itself, the Coalition affirms, would be more than enough to cover the net costs of BIG (Prove 2009).

HOW MUCH DOES BASIC SOCIAL PROTECTION COST? IS IT AFFORDABLE?

According to ILO calculations, less than 2 percent of global GDP would be necessary to provide a basic set of social security benefits for all the world's poor (ILO 2008b). Some estimates suggest the cost of a basic package of social transfers would amount to between 1 and 4 percent of GDP in developing countries (ILO 2009a). These might be higher in some cases, depending on the measures and assumptions used. Box 3.4 presents the results of various cost simulations, which suggest that a basic social protection package could be affordable in some developing countries, provided there is enough political will to significantly increase the share of public spending attributed to social protection. But for others, even a significant increase (of 20 percent) would not even cover a third of the projected costs in 2010.

Therefore, even if domestic political will is strong, many developing countries would still need substantial budget support to kick-start meaningful social protection schemes, as called for in the Global Jobs Pact. Some donors are starting to see the pay-off, but there is still a long way to go in mainstreaming social protection in development debate and policy.

THE FISCAL SPACE CHALLENGE

These calculations pre-date the global economic crisis and its catastrophic impact on the fiscal space available to developing countries. There is potential in expanding the domestic tax base and the progressivity of tax structures in most jurisdictions, but these may face limitations in the absence of significant international action. The recent phase of financial globalization has coincided with intensified tax competition, a “*race to the bottom*” that makes progressive taxation on mobile capital much more difficult. At the same time, widespread trade liberalization has been causing very significant tariff revenue losses in developing countries not recouped from other sources. These phenomena are draining public resources at precisely the time when greater fiscal revenue is most needed to buffer the intensified social dislocations associated with globalization.

We will return to the issue of international taxation in Chapter 7. But first, let us examine how macroeconomic policies can be made more employment-oriented (that is, contribute to more employment-intensive patterns of growth) in the context of crisis recovery.

BOX 3.4

THE COST OF A SOCIAL PROTECTION FLOOR : SOME PROJECTIONS

The ILO (2008b) has undertaken two different sets of simulations of costs and affordability of a basic social protection package in a representative sample of African and Asian developing countries. These were in Africa: Burkina Faso, Cameroon, Ethiopia, Guinea, Kenya, Senegal, United Republic of Tanzania; and in Asia: Bangladesh, India, Nepal, Pakistan and Viet Nam.

The first simulation set looks at individual elements of a basic social protection package as follows :

Social protection component:	Cost as a percentage of GDP in 2010 depending on country specificities
Universal basic old-age and disability pensions	Between 0.6 and 1.5 percent
Basic universal child benefits	Between 1.2 and 3.6 percent
Universal access to essential health care	Between 1.5 and 5.5 percent
Social Assistance/100 day employment scheme	Between 0.3 and 0.8 percent

The second simulation set looks at an overall package composed of universal cash benefits and access to health care that would cost between 3.7 percent and 10.6 percent of GDP in 2010 depending on country specificities under two scenarios :

Scenario 1: Status quo (share of public expenditure devoted to basic social protection remains constant) →	Share of total basic social protection costs covered by existing allocated resources: Between 4 percent and 25 percent depending on country specificities
Scenario 2: Policy change (spending levels increase to 20 percent of government expenditure) →	Share of total basic social protection costs covered by increased allocated resources: Between 30 percent and 100 percent depending on country specificities