


Social Protection and Inequality in a Decade of Fiscal Consolidation 2010-20

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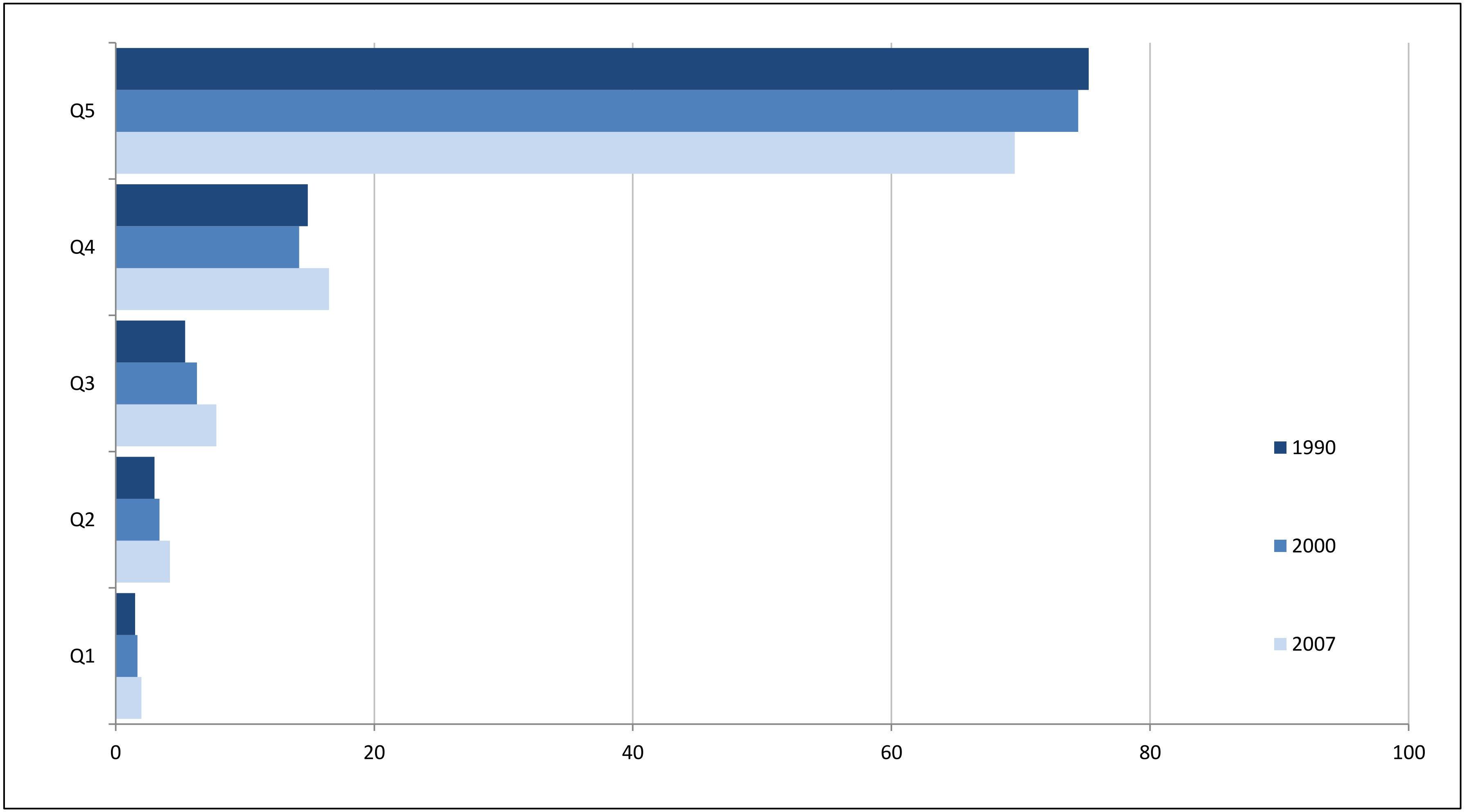
IMF and WB Annual Meetings
Lima, 8 October 2015

Distribution of World Income: Development for Whom?

Most people left behind before the crisis

Global Income Distribution by Countries, 1990-2007 (or latest available) in PPP constant 2005 international dollars



Source: Ortiz and Cummins. 2011. *Global Inequality: A Review of Income Distribution in 141 Countries.* UNICEF

Inequality Increased by Global Crisis/Recession:
Crisis Transmission Channels

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

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

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

4. Fiscal Consolidation: Government Spending on Economic and Social Sectors,
including education, health social protection

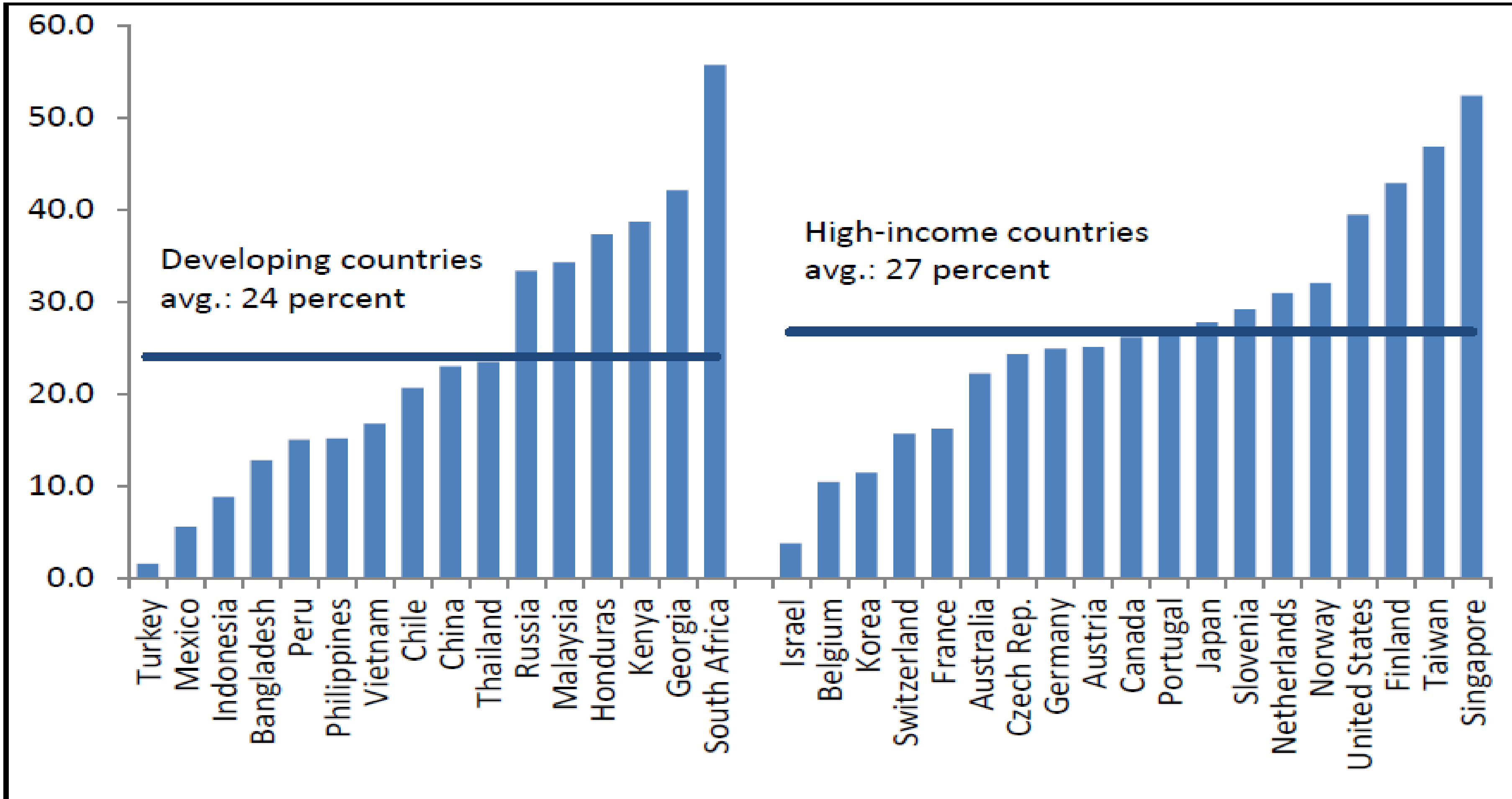
- Reducing subsidies
- Wage bill cuts/caps
- Reforming pensions and health
- Targeting social protection
- Other adjustment measures

5. Aid Levels - ODA

Crisis Phase I (2008-09) – Fiscal Expansion

- $2.4 trillion fiscal stimulus plans in 50 countries

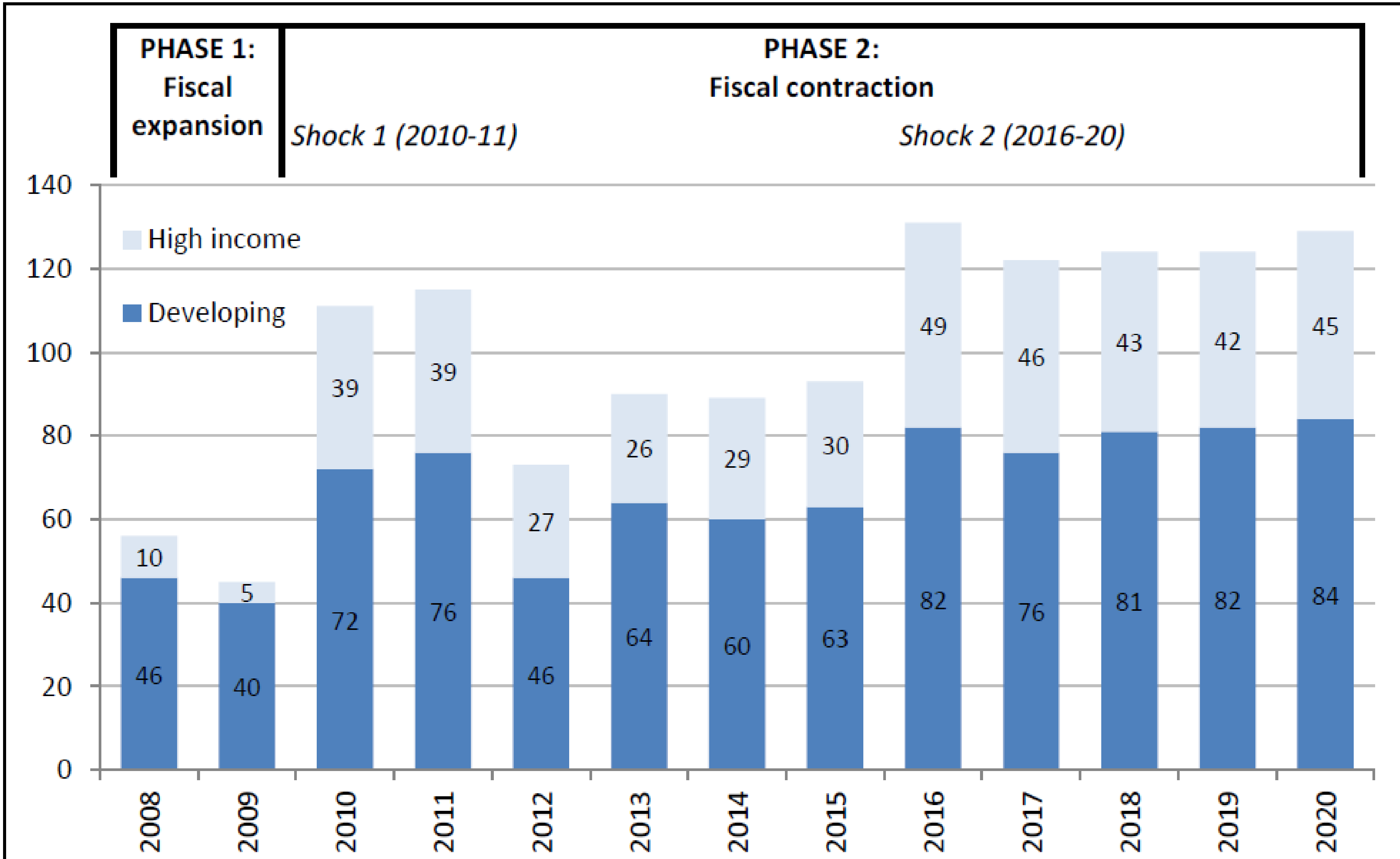
Social Protection in Fiscal Stimulus Plans 2008-09



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

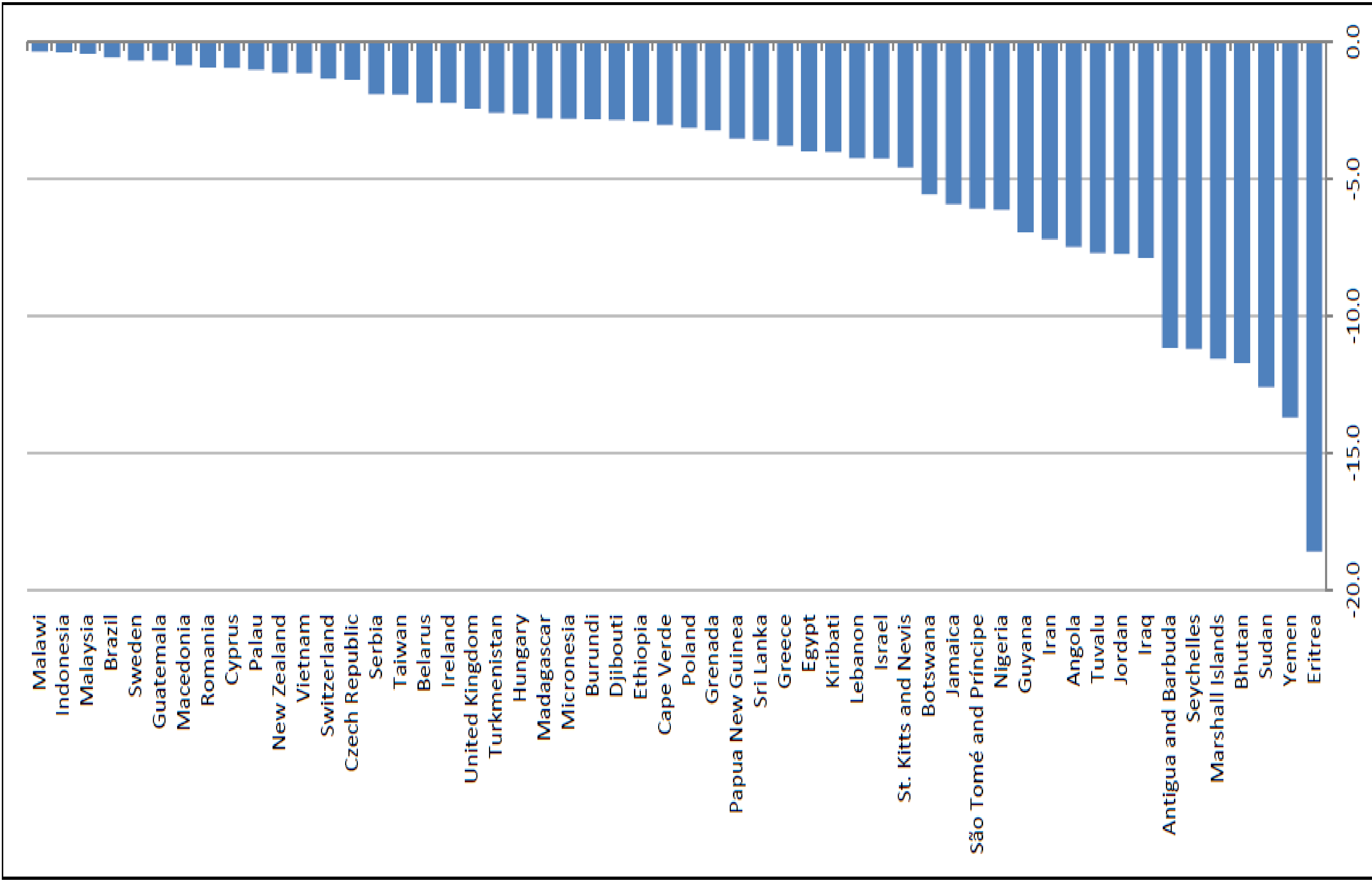
Crisis Phase II (2010-20) – Fiscal Consolidation

Figure 1: Number of Countries Contracting Public Expenditure as a percentage of GDP, 2008-20

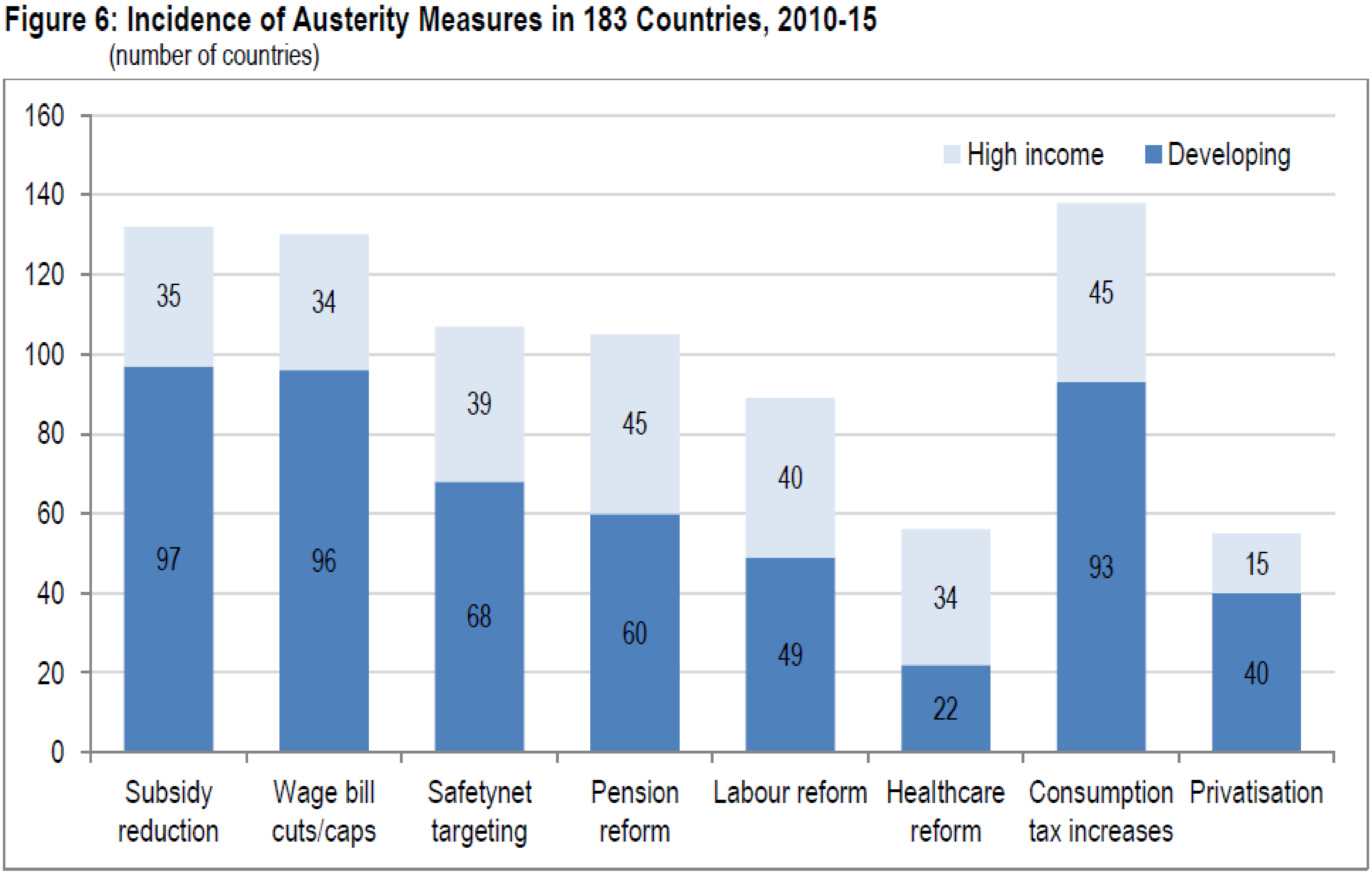


Source: The Adjustment Decade, ILO/IPC/South Centre, based on IMF's *World Economic Outlook* (April 2015)

2016-20: 30% of world countries excessive contraction
(expenditures below pre-crisis levels)



Adjustment Measures in 183 Countries 2010-15



Source: ILO The Adjustment Decade, , ILO/IPC/South Centre, based on 616 IMF Country Reports

Adjustment Measures in 183 Countries 2010-15

Incidence - Percentage of Countries

Region/income	Subsidy reduction	Wage bill cuts/caps	Safety net targeting	Pension reform	Labour reform	Health reform	Consumption tax increases	Privatization
East Asia and Pacific	62	62	24	29	29	10	76	19
Eastern Europe/Central Asia	53	84	58	68	53	32	47	26
Latin America/Caribbean	42	53	37	74	58	11	58	11
Middle East and North Africa	100	75	50	50	75	13	75	13
South Asia	71	71	43	29	29	0	86	29
Sub-Saharan Africa	74	62	24	24	19	14	55	14
Developing countries	65	66	34	42	37	15	61	17
High-income countries	47	51	51	70	72	51	55	23
All countries	**59**	**61**	**40**	**51**	**48**	**26**	**59**	**19**

Source: ILO The Adjustment Decade, , ILO/IPC/South Centre, based on 616 IMF Country Reports

Fiscal Consolidation/Adjustment: Negative Social Impacts

132 countries contracting public expenditures in 2016 (82 developing)

- **Eliminating subsidies** (fuel, food, agriculture) in 132 countries, despite record-high food prices in many regions
- **Wage bill cuts or caps** in 130 countries, reducing or freezing the salaries and number of public-sector workers who provide essential services to the population, including education, health and social workers
- **Rationalizing and narrow-targeting welfare ("safety nets") is** under consideration in 107 countries, at a time when governments should be scaling up (not scaling down) social protection
- **Reforming pension and health care systems** in 105 and 56 countries by adjusting benefits and entittlements
- **Labour market reforms** in 89 countries

- **VAT increases** on basic goods and services that are consumed by the poor – and which may further contract economic activity – in 138 countries
- **Privatizations** in 55 countries

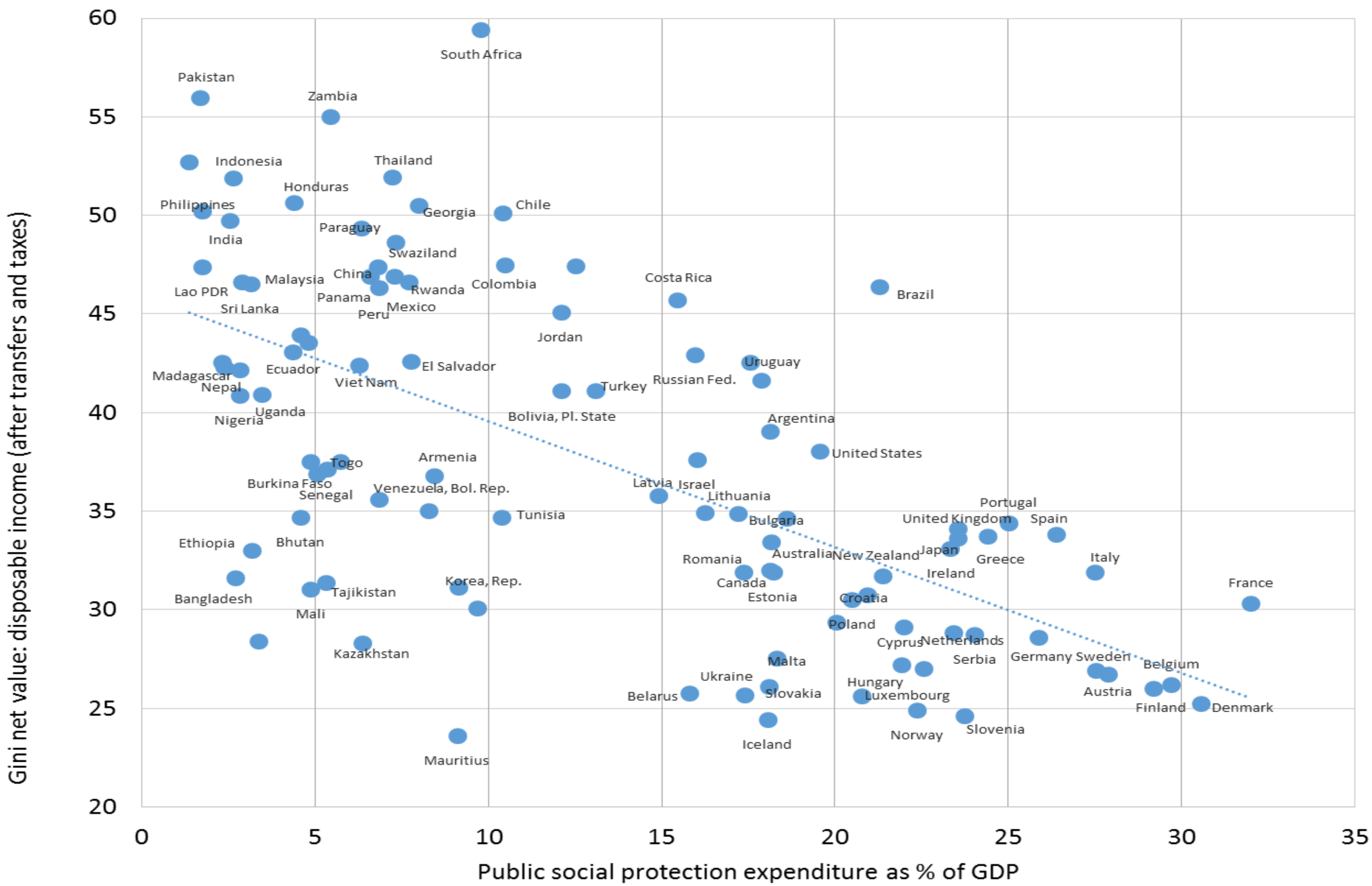
Reducing Universal Food and Fuel Subsidies

sometimes targeted safety nets to the poorest as compensation -- insufficient, punishing "middle classes"

- **Higher food and transport costs:** Less household income
- **Higher energy costs** tend to have negative impact on economic activity, employment, domestic demand
- **Timing:** While subsidies can be removed overnight, developing social protection programs takes a long time, particularly in countries where institutional capacity is limited
- **Allocation of cost savings:** The large cost savings resulting from reductions in energy subsidies should allow countries to develop comprehensive social protection systems; eg. in Ghana, the eliminated fuel subsidy would have cost over US$1 billion in 2013, whereas the targeted LEAP programme costs about US$20 million per year.
- **Targeting to the poorest excludes by design vulnerable populations** IMF reports discuss targeting in 68 developing countries, including low income such as the Gambia, Haiti, Mali, Mauritania, Nicaragua, Senegal, Sudan, Timor-Leste, Togo and Zambia, where on average about half of the population is below the national poverty line. Countries should aim to scale up (not down) social protection

Higher Social Protection Expenditure is related to Lower Levels of Inequality

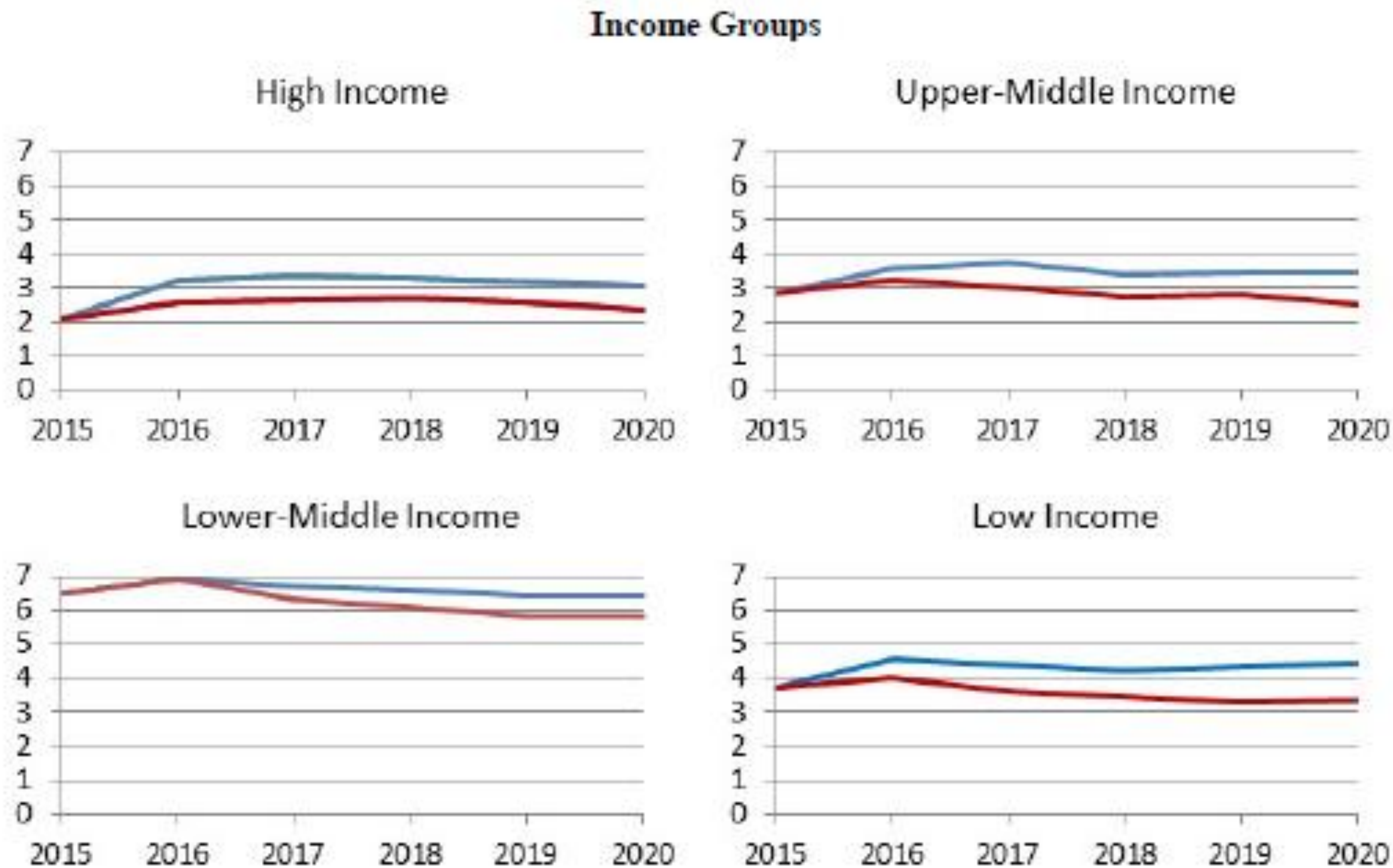
Public social protection expenditure as a percentage of GDP and GINI coefficient



Source: ILO World Social Protection Report 2014/15.

Fiscal Consolidation 2016-20: Negative impacts on Growth…

Figure 8: Annual GDP Growth Rates, baseline (blue) and fiscal adjustment (red)



Source: ILO The Adjustment Decade, , ILO/IPC/South Centre, based on UN Global Policy Model

… and Negative Impacts on Jobs

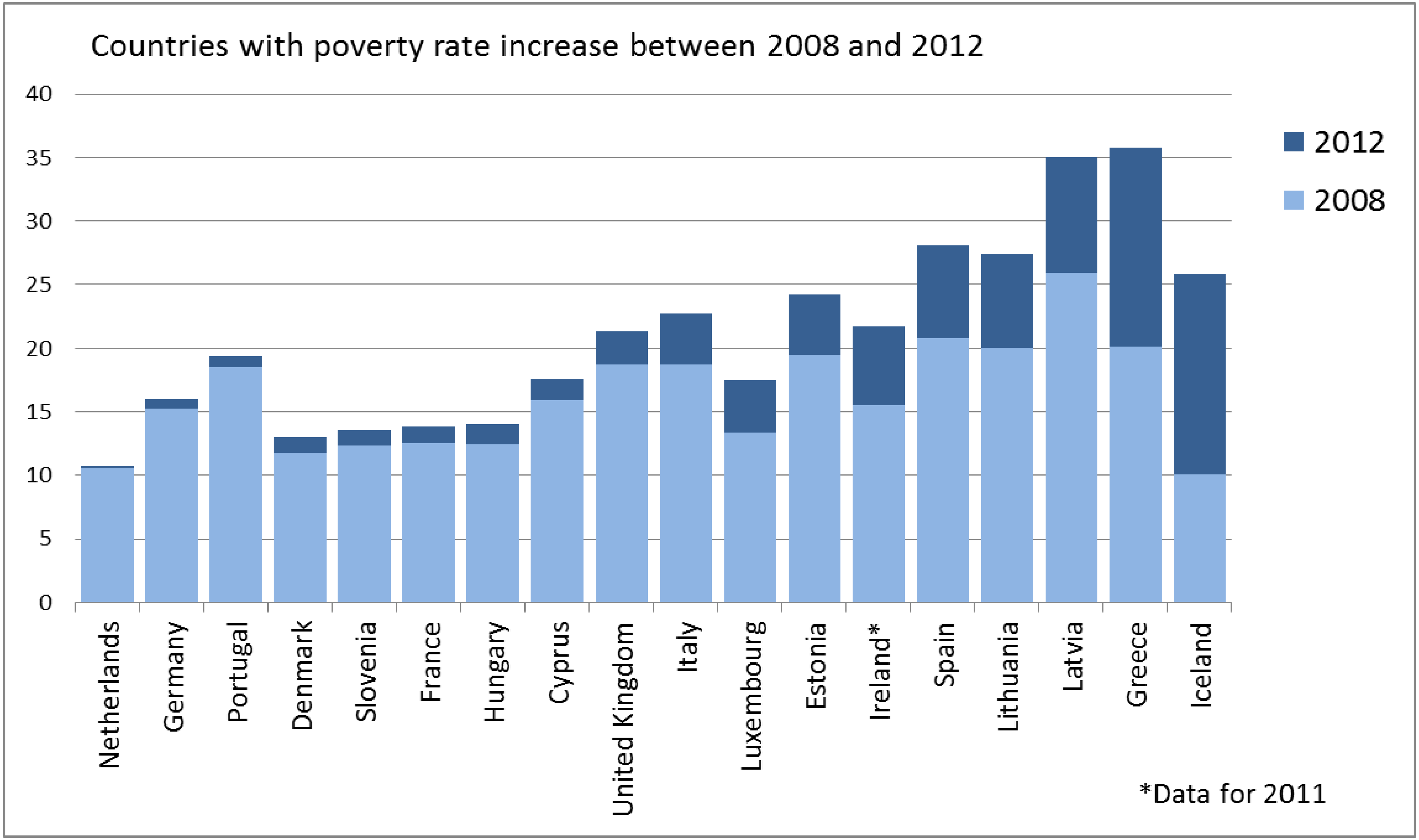
Impact of Fiscal Adjustment on GDP (%) and Employment (millions) compared to baseline, 2015-2020

All Countries				
	High Income	**Upper-Middle Income**	**Lower-Middle Income**	**Low Income**
GDP	-4.98	-7.62	-2.60	-6.17
Jobs	-4.75	-4.39	-0.14	-2.45

Developing Countries				
	Eastern Europe and Central Asia	**Middle East and Northern Africa**	**South Asia**	**Sub-Sahara Africa**
GDP	-3.73	-3.67	-2.66	-4.92
Jobs	-0.39	-0.71	-1.06	-2.46

Source: ILO The Adjustment Decade, , ILO/IPC/South Centre, based on UN Global Policy Model

Europe: Increasing Poverty - 123 million or 24% Europe's population



Source: ILO World Social Protection Report 2014-15

It Does Not Need to be a Decade of Adjustment

- The United Nations has repeatedly warned that austerity is likely to bring the global economy into further recession and increase inequality. It has called on governments for forceful and concerted policy action at the global level to make fiscal policy more countercyclical, more equitable and supportive of job creation; to tackle financial market instability and accelerate regulatory reforms; and to support development goals.
- If governments opt for adjustment, the pace and intensity of fiscal consolidation can be slower, allowing for much needed social –economic investments
- After the first adjustment shock 2010-11, most developing countries chose to increase deficits in 2012-14 in order to attend to pressing demands at a time of low growth
- The crisis has already triggered a policy shift in some regions. Policymakers in Asia are increasingly moving away from unsustainable export-led growth models toward more inclusive employment-intensive recovery strategies that are centered on building internal markets and improving social protection systems.
- Some countries have been launching minor fiscal stimulus plans in 2012-2015 (Brazil, China, Indonesia, Japan, Malaysia, Peru, Singapore, South Korea , Sweden, Vietnam)

Fiscal Space for Jobs and Social Protection Exists Even in the Poorest Countries

- **There is national capacity to social protection in virtually all countries. There are many options, supported by UN and IFIs policy statements:**
  1. Re-allocating public expenditures
  2. Increasing tax revenues
  3. Expanding social security coverage and contributory revenues
  4. Lobbying for increased aid and transfers
  5. Eliminating illicit financial flows
  6. Using fiscal and foreign exchange reserves
  7. Managing debt: borrowing or restructuring debt
  8. Adopting a more accommodative macroeconomic framework (e.g. tolerance to some inflation, fiscal deficit)

Source: Ortiz, Cummins, Karunanethy 2015: "*Fiscal Space for Social Protection: Options to Expand Social Investments in 187 Countries*" ILO.




Thank You

Download:

The Decade of Adjustment: A Review of Austerity Trends 2010-2020 in 187 Countries by I. Ortiz, M. Cummins, J. Capaldo and K. Karunanethy; International Labour Office, Initiative for Policy Dialogue and The South Centre. Geneva, 2015

International Labour Office