

Supporting the establishment of Social Protection Floors

More than 1.4 billion people around the world live in abject poverty.¹ Many more are at risk of falling into poverty because of unemployment, sickness, old age and other conditions that threaten to remove their livelihood. To address this ongoing humanitarian crisis, we must extend basic social protection to more countries and enhance existing social protection systems.

The labour movement has always advocated universal social programs. The International Trade Union Confederation, representing 176 million workers in 151 countries, was an early proponent of enhancing such programs in response to the global economic crisis.

The United Nations adopted the Social Protection Floor initiative in April 2009, with former Chilean President Michelle Bachelet chairing its advisory group. At the June 2011 International Labour Conference, worker, employer and government representatives agreed on the broad outlines of a resolution on social protection.

The details of this resolution will be hammered out and adopted at the next Conference in June 2012. Therefore, the coming year is a particularly important time for international trade union mobilization around the issue of social protection.

What is the Social Protection Floor?

The social protection floor is a basic set of public services – water, sanitation, health and education – and social transfers to help realize human rights and foster decent living standards. Within this framework, the International Labour Organization is promoting four essential guarantees: healthcare, child benefits, pensions, and income support for the working poor and unemployed.

Progress is being made at the national level, especially in Latin America. For example, Mexico's "Progresa/Oportunidades" transfers have reduced the poverty gap by 30%, Brazil's "Bolsa Familia" transfers have reduced extreme poverty by 16% and Chile's social pension has reduced the number of indigent households by 11%.²

¹ Less than US\$1.25 per day.

² Michael Cichon, Christina Behrendt and Veronika Wodsak, *The UN Social Protection Floor Initiative* (Friedrich Ebert Stiftung, January 2011), page 7 (Table 1).

Implementing a social protection floor would be an important step forward in many countries. However, it should be considered a minimum starting point toward the objective of developing stronger and more comprehensive social protection systems. In particular, we must continue campaigning for more countries to ratify and implement the International Labour Organization's Convention 102 on Social Security.

Domestic Funding for Social Protection

The social protection floor is affordable. For low-income countries in Africa and Asia, providing the transfer components would cost between 2% and 6% of Gross Domestic Product. Of course, particular transfers would cost even less. For example, Burkina Faso, Ethiopia, Kenya, Nepal, Senegal and Tanzania could provide a universal basic pension for little more than 1% of Gross Domestic Product.³

Social protection should be funded from domestic resources. Informal and unregulated economic activities severely undermine public revenue and social protection in many developing countries. Businesses and workers in the informal economy generally do not pay taxes or social-insurance contributions. They are generally not protected by government regulation or contributory social benefits.

Formalizing the informal economy is a means of giving more workers access to social protection and generating revenue to finance it. However, since this necessary process will take time, we must also find ways to quickly extend social protection to those currently in informal work.

Developing countries could collect more corporate tax revenue by improving enforcement and resisting business lobbying to slash corporate tax rates. Some developing countries currently lack the capacity to effectively identify and tax the profits of multinational corporations.

But to the extent that multinational or local businesses are extracting natural resources, it is possible to tax the value of those commodities. Resource royalties are relatively simple to collect because the market prices of commodities are well known.

Norway has been notably successful in collecting revenue from petroleum resources to build up a pension fund for its citizens. Many developing countries with rich endowments of natural resources could also collect more royalty revenue and use it for social protection.

³ Michael Cichon, Christina Behrendt and Veronika Wodsak, *The UN Social Protection Floor Initiative* (Friedrich Ebert Stiftung, January 2011), page 9.

International Funding for Social Protection

Of course, many countries may initially require some external financing to establish social protection programs. The International Monetary Fund and World Bank should prioritize loans and grants for this purpose.

A few of the world's poorest countries may require ongoing international assistance to fund social protection. While the social protection floor for such a country would cost a few percentage points of the national economy, it would cost well under one percentage point of a donor country's much larger national economy.

If developed countries met their longstanding commitment to devote 0.7% of Gross Domestic Product to development assistance, there would be no shortage of money for social protection. New international revenue sources like a global tax on financial transactions could also pay for social protection in the world's poorest countries.

The Economic Benefits of Social Protection

While social protection undeniably entails a fiscal cost, it also provides significant economic benefits. Money invested in the social protection floor goes to poor people who spend it in their local economy.

Because people at lower income levels must spend a higher proportion of their incomes to get by, redistributing income to the less fortunate increases total consumer demand. Furthermore, if people have a safety net to fall back on in the event of income loss, they will be more confident in making major purchases and investments rather than trying to accumulate cash.

The social protection floor would not account for a large share of any country's overall economy. However, the additional spending could add significantly to the growth rate in a particular year. For example, increasing aggregate demand by 2% or 3% of Gross Domestic Product would provide a much-needed boost to softening economic growth.

Social protection functions as an automatic stabilizer. In boom years when employment rises, more people contribute to social protection schemes and fewer people collect benefits. During recessions, social protection supports aggregate demand as more people qualify for benefits and spend the money.

Social protection thereby helps to moderate economic cycles. Countries with well-developed social security systems were less badly affected by the global financial crisis.

The main rationale for the social protection floor is to allow all people to live with dignity. However, it is also a beneficial policy for the wider economy.

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