



# A Lost Decade for Equality, Development and Human Rights?

Assessing austerity and its alternatives  
10 years after the global financial crisis

Isabel Ortiz, Director Social Protection  
International Labour Organization



International  
Labour  
Office

IMF and WB Annual Meetings  
Washington DC, 20 April 2018

# 2008-2018 - A Lost Decade?

## Main 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

# Financial crisis

Bailouts of the financial sector

Fiscal stimulus plans

Fiscal deficit  
Debt

Less public revenue

Lower public investments

Downward adjustments in health

Downward adjustments in pensions

Downward adjustments in social benefits

Increases in taxes, VAT

Decline in health status  
Lower productivity

Decline in disposable incomes

Lower consumption

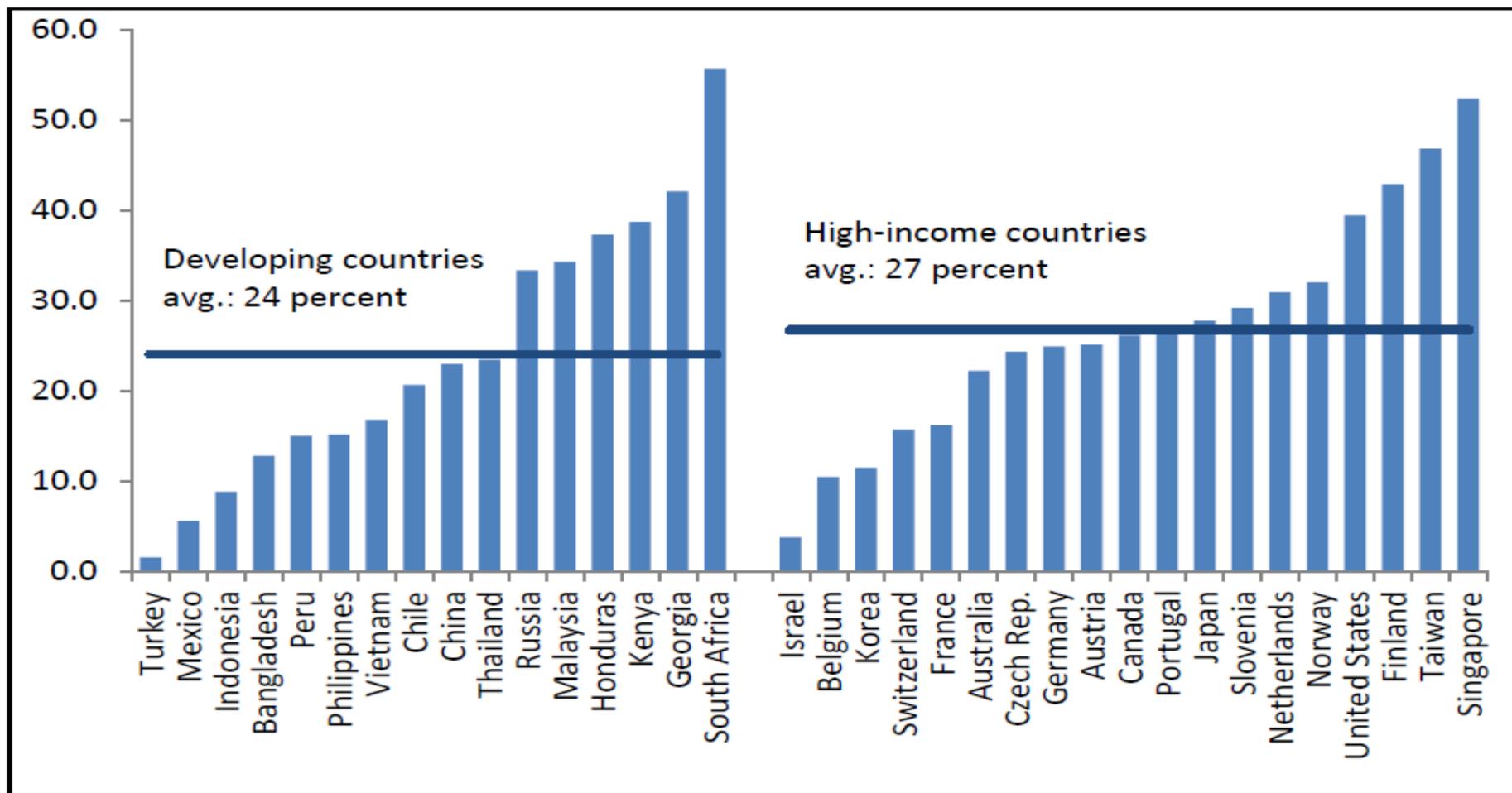
Decline in economic activity

Lower wages  
Higher unemployment

# Crisis Phase I (2008-09) – Fiscal Expansion

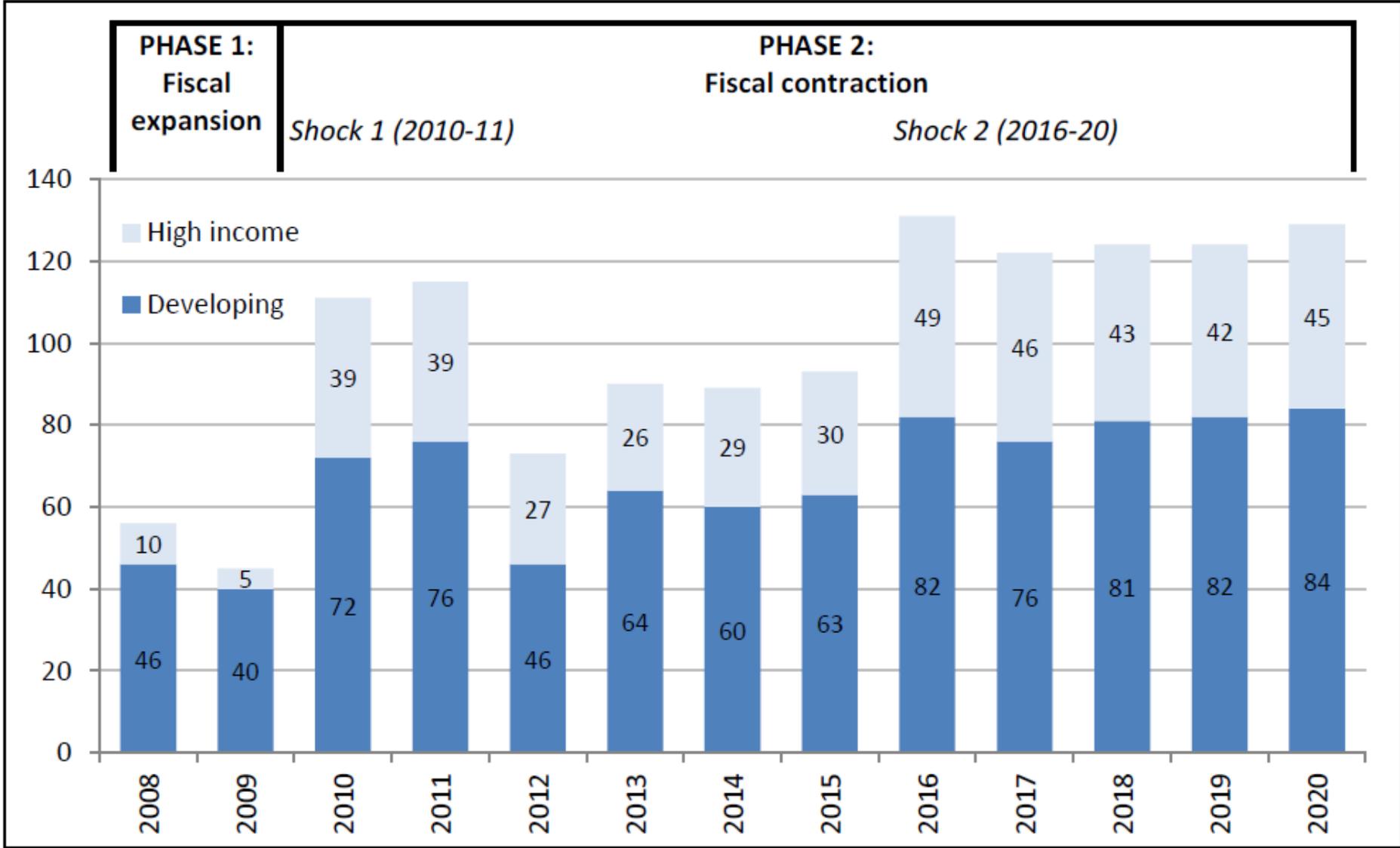
- \$2.4 trillion fiscal stimulus plans in 50 countries

## Social Protection in Fiscal Stimulus Plans 2008-09



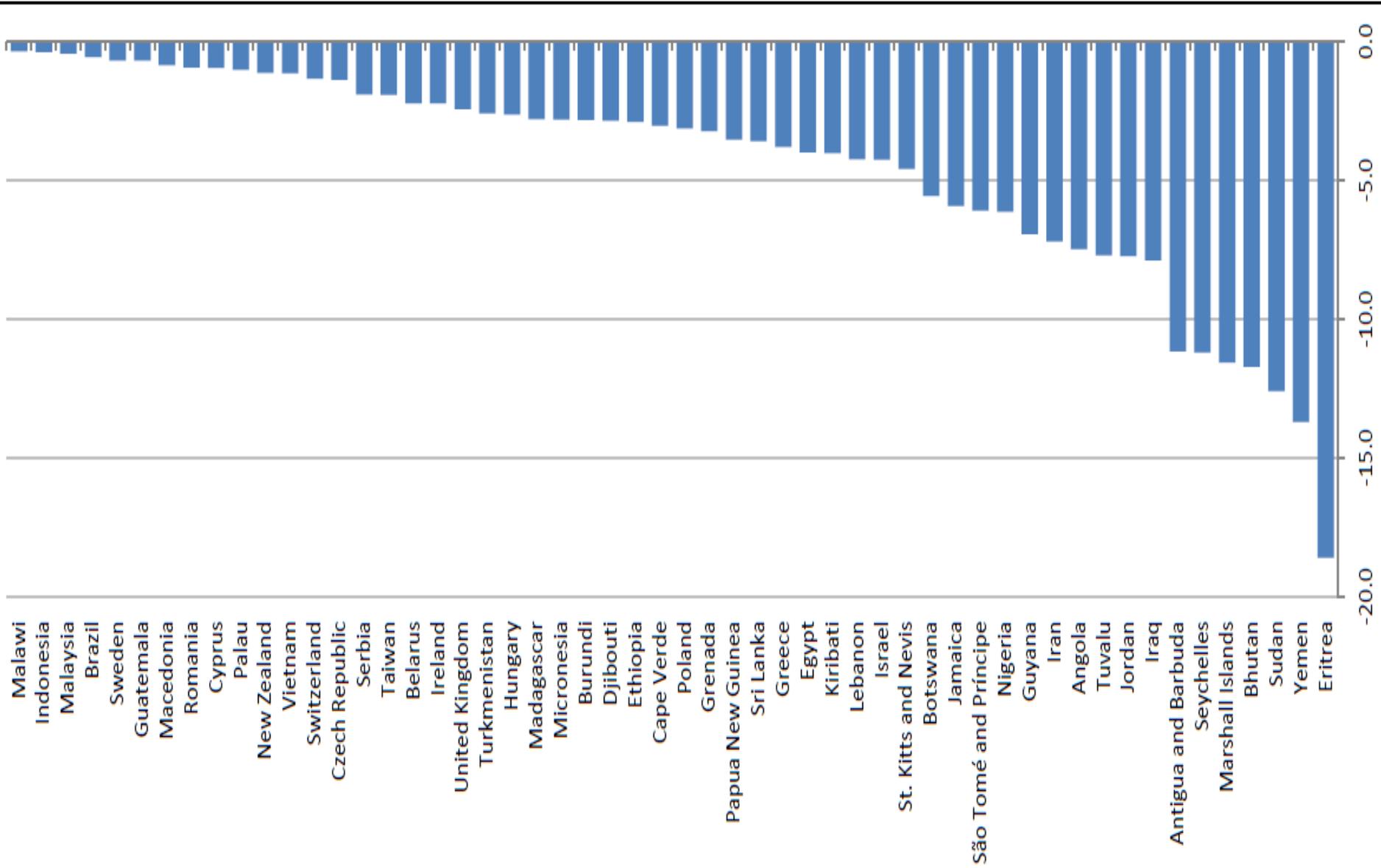
# Crisis Phase II (2010-20) – Fiscal Consolidation

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



Source: [The Adjustment Decade: A Review of Austerity Trends 2010-2020 in 187 Countries](#) ILO/IPC/South Centre

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



# Adjustment Measures in 183 Countries 2010-15

Figure 6: Incidence of Austerity Measures in 183 Countries, 2010-15

(number of countries)



# 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	<b>59</b>	<b>61</b>	<b>40</b>	<b>51</b>	<b>48</b>	<b>26</b>	<b>59</b>	<b>19</b>

# 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 entitlements
- **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

# Fiscal Consolidation vs. the Right to Social Security

Instead of financing the extension of social protection, many countries are adjusting expenditures since 2010 such as cuts to social benefits for cost-savings:

- Narrow targeting and reducing universal child and family allowances, disability benefits
- Cuts in gender equality programs, child-care services, services to victims of domestic violence
- Structural changes include replacing existing social benefits with a safety net for the poorest (sometimes called *Guaranteed Minimum Income*), a low benefit

Reforming pensions to reduce the long-term financial obligations of the state

- Pension reforms such as raising the retirement age, reducing benefits, lowering replacement rates, altering contribution rates, reducing pension tax exemptions, structural reforms introduced in some countries - old-age poverty increasing in many countries as a result of inadequate pension reforms

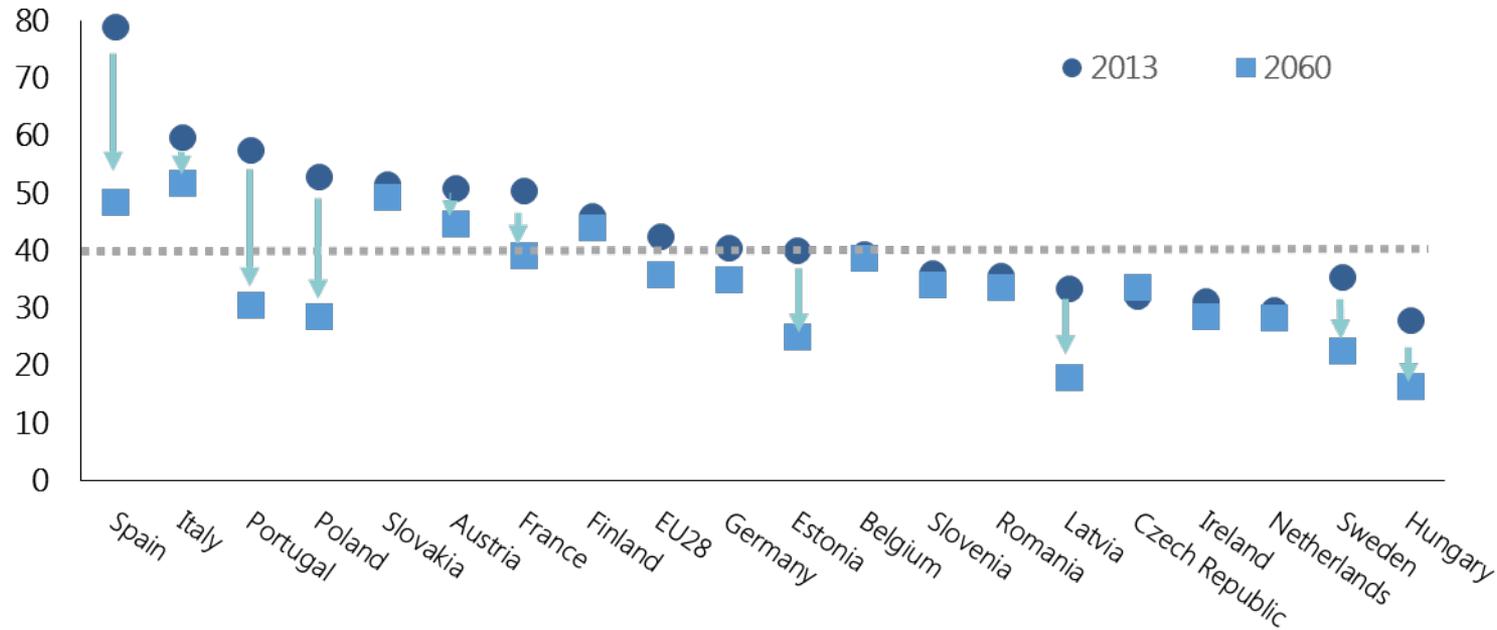
Many of this austerity reforms have a high human cost and have been found unconstitutional by national supreme courts ([Latvia 2009](#), [Romania 2010](#), [Portugal 2013-14](#))

**Instead of focusing on cuts, focus on extending fiscal space for universal social protection at adequate benefit levels**

# Inadequate pension reforms increasing old-age poverty and adding to inequality trends

## Pension levels in at least 19 European countries estimated to decrease

Average replacement rates at retirement in public pension schemes in 2013 and projected for 2060, selected European countries (per cent)



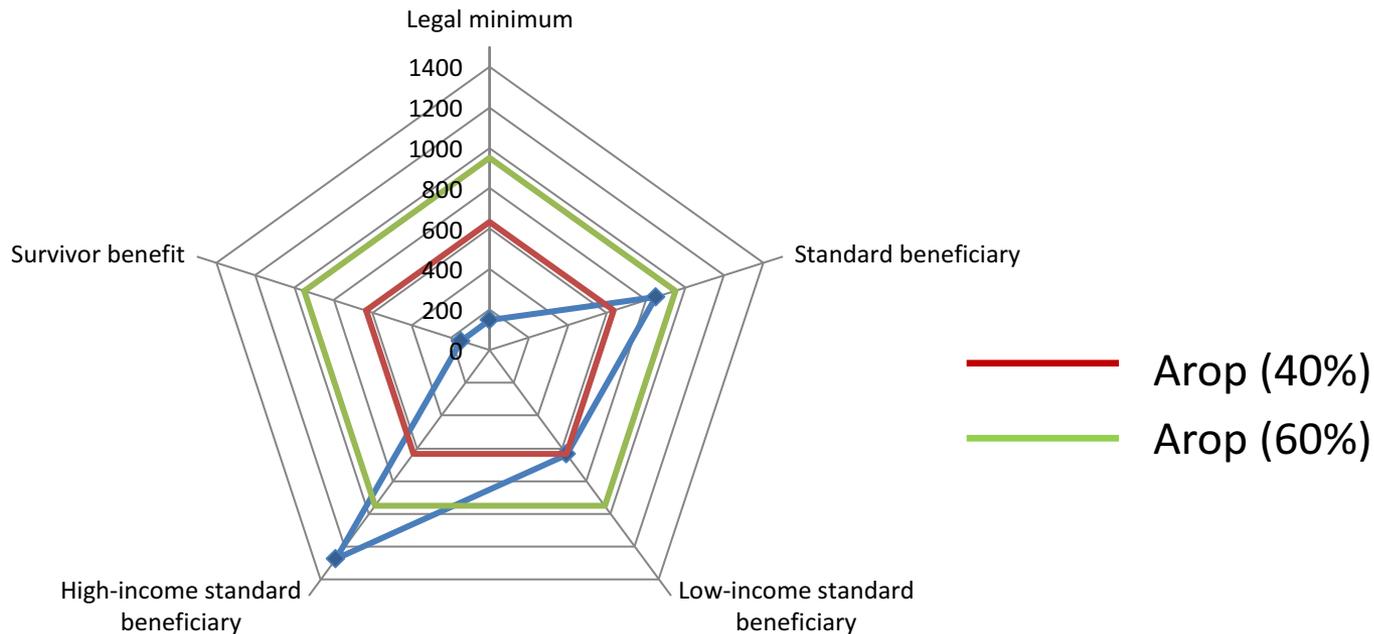
Source: European Commission, 2015, Adequacy and sustainability of pensions

- Social security reforms, if needed, need to balance equity and sustainability
- Must be agreed in national dialogue including government, trade unions, employers, CSOs, development partners where relevant

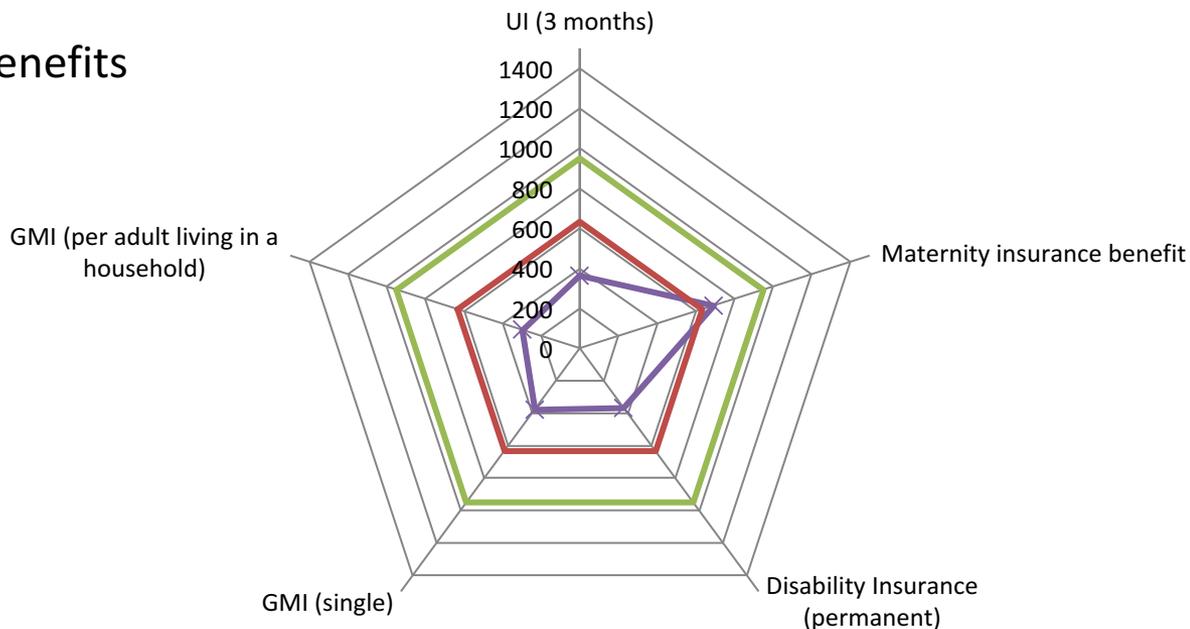
# United Kingdom

(in Euros, 2012)

## Old-age Pensions (Contributory)



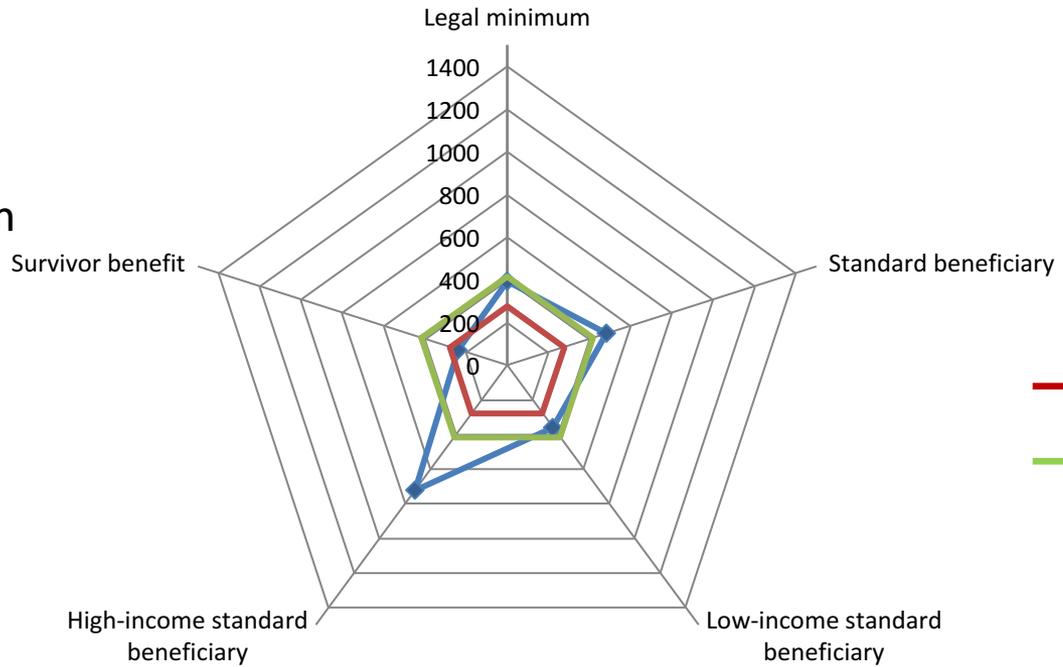
## Other Cash Benefits



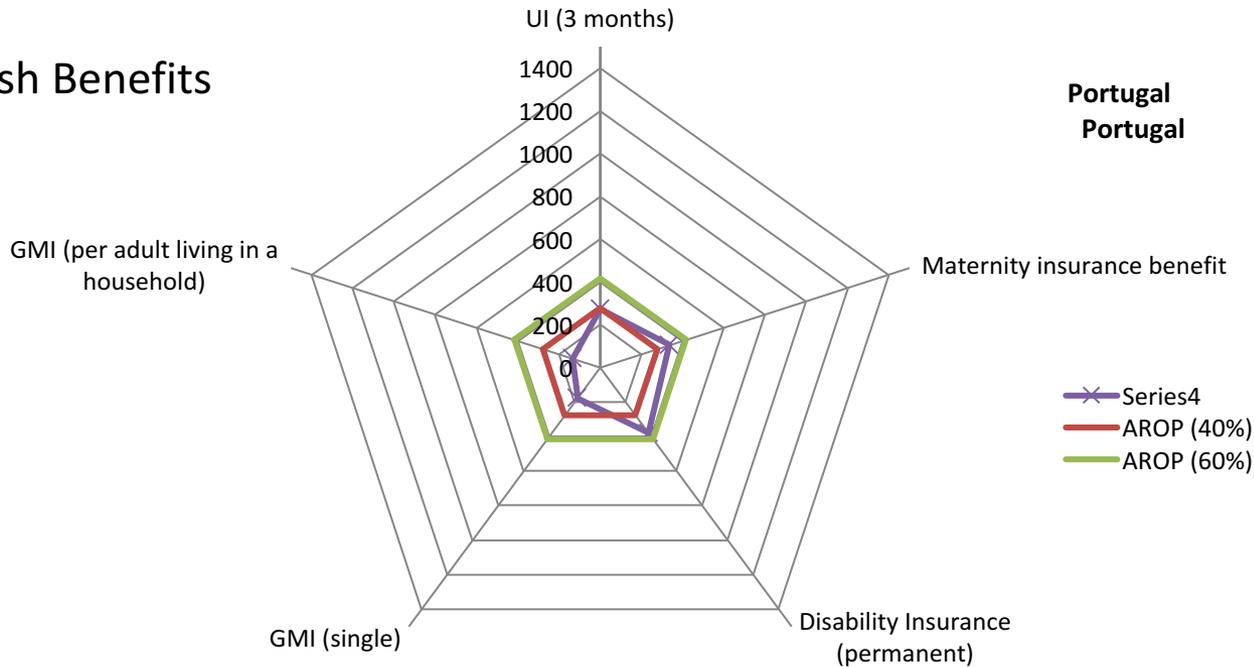
# Portugal

(In Euros, 2012)

## Old-age Pension (Contributory)

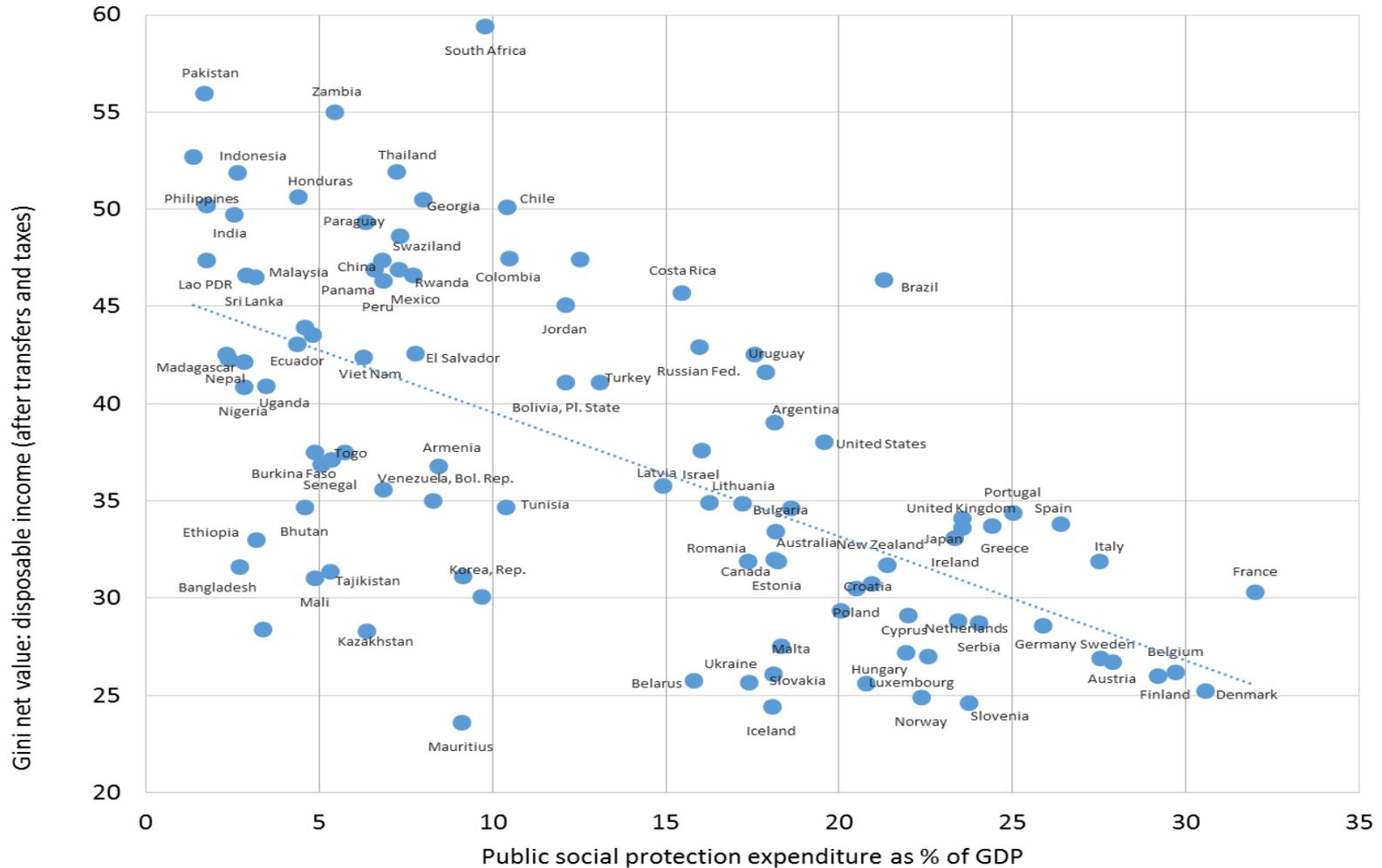


## Other Cash Benefits



# Higher Social Protection Expenditure is related to Lower Levels of Inequality

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

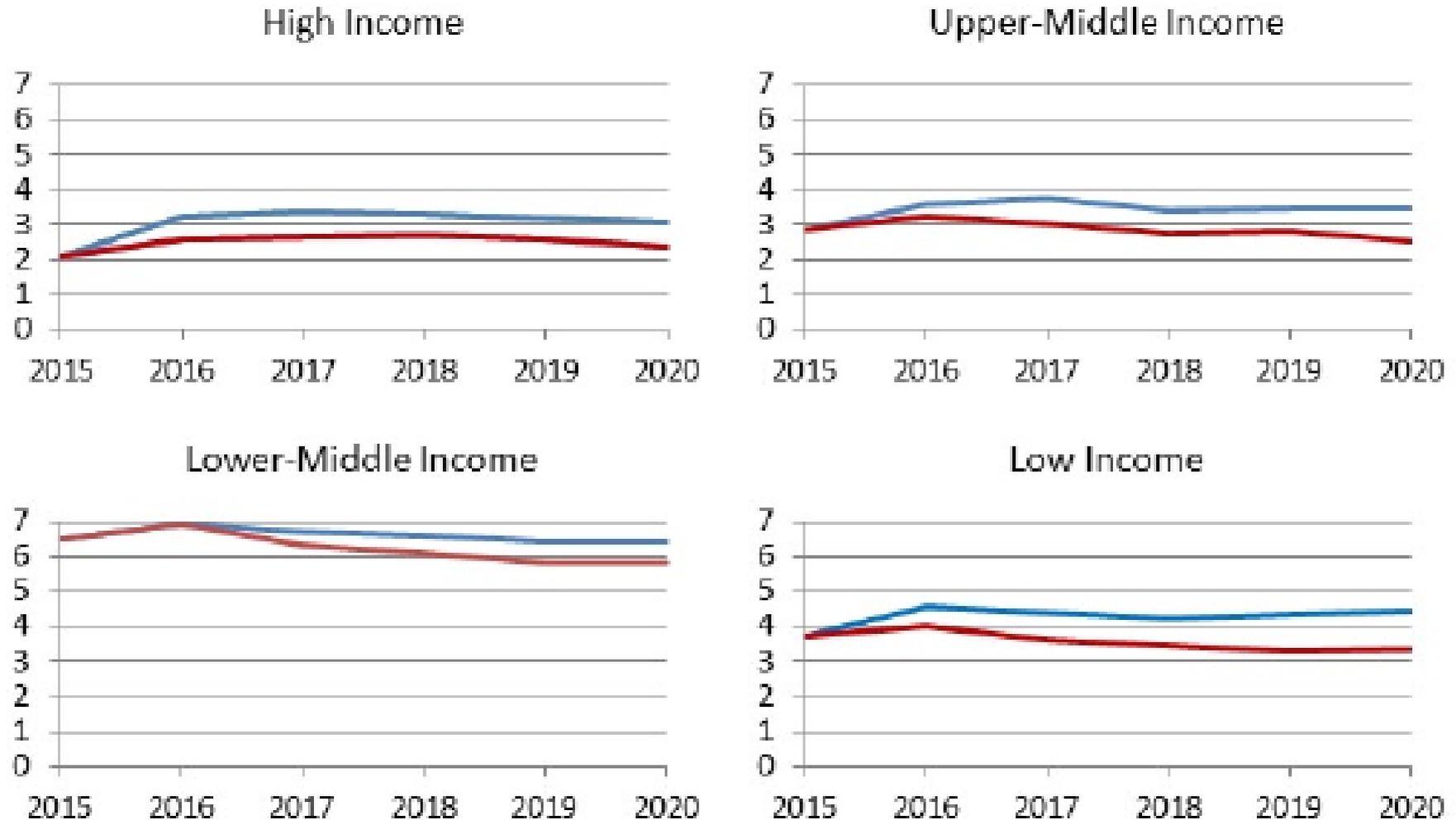


Source: ILO World Social Protection Report 2014/15.

# Fiscal Consolidation 2016-20: Negative impacts on Growth...

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

## Income Groups



## ... 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
<b>GDP</b>	-4.98	-7.62	-2.60	-6.17
<b>Jobs</b>	-4.75	-4.39	-0.14	-2.45

---

Developing Countries				
	Eastern Europe and Central Asia	Middle East and Northern Africa	South Asia	Sub-Saharan Africa
<b>GDP</b>	-3.73	-3.67	-2.66	-4.92
<b>Jobs</b>	-0.39	-0.71	-1.06	-2.46

---

# 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)

# Financing - Examples

- Costa Rica and Thailand reallocated military expenditures for universal health
- Argentina, Brazil, Tunisia, Uruguay, and many others expanded social security coverage, formalizing those in the informal sector
- Brazil used a financial transaction tax to expand social protection coverage
- Bolivia is taxing hydrocarbons to finance “*Renta Dignidad*”, a universal social pension for all older persons
- Mongolia financed a universal child benefit from a tax on copper exports
- Botswana and Zambia are taxing mineral extraction for social investments
- Ghana, Liberia and Maldives have introduced taxes on tourism
- Chile, Norway and Venezuela, among others, are using fiscal reserves to support social development
- Ecuador and Iceland restructured their sovereign debt and are using savings from debt servicing for social programs
- **Each country different options; these different alternatives must be discussed in national dialogue**

Source: “[Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries](#)” ILO, UNICEF and UNWOMEN 2017



# Thank You

## Download:

- [The Decade of Adjustment: A Review of Austerity Trends 2010-2020 in 187 Countries](#) ILO
- [Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries](#) ILO, UNICEF and UNWOMEN



Source:

International  
Labour  
Office