

## Social policy in times of crisis

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### Introduction

Financial crises, such as that of 2008-2009 triggers GDP to decline, trade to shrink, unemployment to rise and social problems to increase. It is important to note that whereas most of the recent financial crises were domestic or regional, the latest crisis had a global bearing, with the social impacts of the crisis likely to be similar to those of past crises. What is the link between social security spending and financial crises? This article examines the trends in social security spending in the aftermath of a financial crisis.



Social security serves many purposes for individuals, businesses and the State: it helps individuals to 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 ([Townsend, 2009](#)). 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 ([Islam and Chowdhury, 2010](#)).

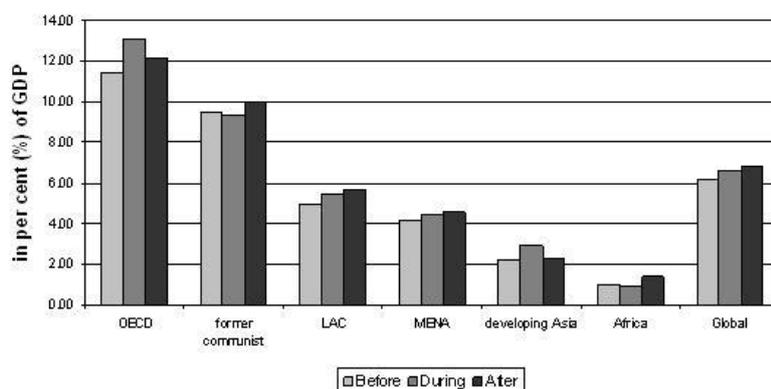
### Social policy born out of crisis

Looking historically, crises have played defining roles in developing and strengthening social security policy. 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 looming from World War II, the American Social Security Act responded to the social crisis of the Great Depression, Latin American conditional cash transfers responded to various economic and social crises, and Asian social assistance responded to the Asian financial crisis.

### Social spending increases in the aftermath of crisis

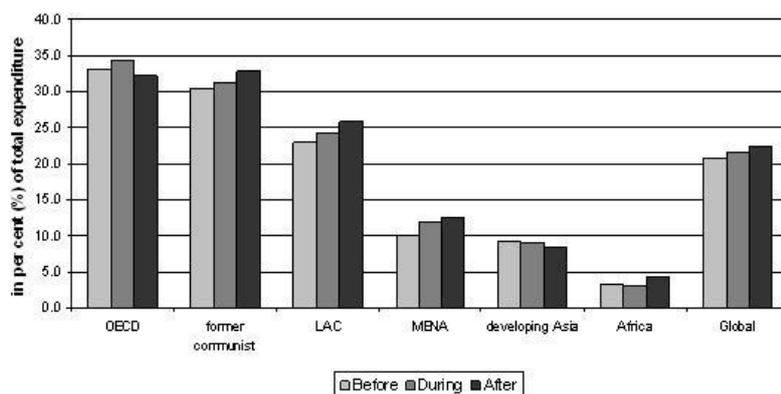
Data presented in the paper shows that social security spending generally increases during and after a crisis. During a crisis, average un-weighted global spending on social security increases, changing from 6.3% of national GDP for the three years before a crisis, to 6.7% during the crisis year and finally to 6.8% for the three years following a crisis. The relative share of spending on social security also increases, with the un-weighted 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.

**Figure 1:** Social security spending as a percentage GDP by region: before, during and after a financial crisis



**Source:** Estimates based on International Monetary Fund 2007 Government Finance Statistics and Global Development Network Growth Database, GDP from World Development Indicators 2008, OECDStat for OECD countries, ADB Key Indicators for Asia and the Pacific 2009.

**Figure 2:** Social security spending as a percentage of total expenditure by region: before, during and after a financial crisis



**Source:** Estimates based on International Monetary Fund 2007 Government Finance Statistics and Global Development Network Growth Database, GDP from World

Development Indicators 2008, OECDStat for OECD countries, ADB Key Indicators for Asia and the Pacific 2009.

There is variation in the regional trends in social security spending. In the nine countries of the Organisation for Economic Co-operation and Development (OECD) for which we have data, average un-weighted 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. 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. 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, which saw a decline in local currency spending.



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% and 10.0% 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. 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, Democratic Republic of the Congo and Zimbabwe; its share of the budget fell by 42.5% and 98% in Mali and Democratic Republic of the Congo, respectively.

In the four Asian developing countries for which we have data, average un-weighted 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 (LAC) 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 the Middle East and North Africa (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%).



## Conclusion

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.

During this crisis, what is needed is Keynesian-style counter-cyclical fiscal policy, with a particular emphasis on social spending. For the 40-50% of developing countries without any social safety net programmes, the crisis presents an opportunity for improvement and expansion. 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.

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**Note 1** - 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. ([Back to text](#))

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Further resources

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ILO. 2010. [Employment and social protection policies from crisis to recovery and beyond: a review of experience \(pdf 819 KB\)](#), an ILO report to the G20 Labour and Employment Ministers Meeting, Washington, DC, 20–21 April 2010 (Geneva).

ILO. 2010. [World social security report 2010/11: providing coverage in times of crisis and beyond \(pdf 3.88 MB\)](#) (Geneva).

ILO. 2009. [Protecting people, promoting jobs: a survey of country employment and social protection policy responses to the global economic crisis \(pdf 1.05 MB\)](#) (Geneva).  
• [Français \(pdf 1.17 MB\)](#) • [Español \(pdf 1.07 MB\)](#)

ILO. 2009. [Recovering from the crisis: a global jobs pact \(pdf 93 KB\)](#) (Geneva).  
• [Français \(pdf 105 KB\)](#) • [Español \(pdf 108 KB\)](#)

ILO. 2001. [Social security: a new consensus \(pdf 502 KB\)](#) (Geneva).  
• [Français \(pdf 858 KB\)](#) • [Español \(pdf 830 KB\)](#)

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Townsend, P. 2007. [The right to social security and national development: Lessons from OECD experience for low-income countries \(pdf 501 KB\)](#), Issues in Social Protection, Discussion Paper 18 (Geneva, ILO).

## ILO Labour Standards

[Social Security \(Minimum Standards\) Convention, 1952 \(No. 102\)](#)

- [Français](#) • [Español](#)

[Medical Care and Sickness Benefits Convention, 1969 \(No. 130\)](#)

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[Medical Care and Sickness Benefits Recommendation, 1969 \(No. 134\)](#)

- [Français](#) • [Español](#)

[Employment Promotion and Protection against Unemployment Convention, 1988 \(No. 168\)](#)

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[Employment Promotion and Protection against Unemployment Recommendation, 1988 \(No. 176\)](#)

- [Français](#) • [Español](#)

[Invalidity, Old-Age and Survivors' Benefits Convention, 1967 \(No. 128\)](#)

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[Invalidity, Old-Age and Survivors' Benefits Recommendation, 1967 \(No. 131\)](#)

- [Français](#) • [Español](#)

[Employment Injury Benefits Convention, 1964 \(No. 121\)](#)

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[Employment Injury Benefits Recommendation, 1964 \(No. 121\)](#)

- [Français](#) • [Español](#)

## ILO Videos

- [Achieving the Millennium Development Goals with social protection - !\[\]\(7a13c89a7e02cd54f6e0e8b16e39fb70\_img.jpg\)](#)
- [Empowering people through social protection - !\[\]\(1918b951dff174b9b966e27d5f7d1f3b\_img.jpg\)](#)

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- [Social Protection Floor For All: An Interview with Her Excellency, Michelle Bachelet - !\[\]\(36f8637baaa56c4be44b454435949289\_img.jpg\)](#)

## ILO Websites

- [Former President of Chile Michelle Bachelet heads global panel to promote social protection](#)
- [Global Extension of Social Security \(GESS\)](#)
- [Global Job Crisis Observatory: Social Security](#)
- [Global Jobs Pact](#)
- [Social Protection Floor Advisory Group](#)
- [Social Security Department](#)
- [Social Security](#)
- [What is the Social Protection Floor?](#)