



International  
Labour  
Organization

# Financing social protection for the future of work: Fiscal aspects and policy options

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## EXECUTIVE SUMMARY

**Social protection or social security is a key element of national strategies to promote human development, political stability, and inclusive growth.** Social protection systems normally include a mix of social insurance and social assistance programmes designed to reduce and prevent poverty. In addition, social protection plays a key role in boosting domestic demand, supporting the structural transformation of national economies, promoting decent work, and fostering inclusive and sustainable growth. In the context of the Sustainable Development Goals (SDGs), countries have committed to universal coverage, implementing nationally appropriate social protection systems for all, including floors.

**Ensuring sustainability and adequacy of social protection to respond to the new social and labour market dynamics and the future of work.** Changing forms of work and employment, disruptions in labour markets, higher unemployment and poverty risks, as well as demographic change, are likely to increase demands for social protection. Well-designed social protection systems will ensure a greater capacity to adapt to the changing nature of the economy so that they can continue to play an important role in poverty reduction and as an economic and social stabilizer.

**Despite significant progress in extending coverage, there are significant gaps, determined mainly by limited resources.** Today 55 percent of the world's population does not have access to any form of social protection benefits. The largest coverage gaps are concentrated in Africa and Asia. Since social protection coverage gaps are largely determined by limited resources, hence the importance of identifying options to generate fiscal space to extend social protection.

**Options to finance social protection.** Given the importance of social protection for inclusive growth and development, it is crucial to explore all possible financing alternatives, including:

1. **Extending social insurance coverage and contributory revenues.** Social security contributions paid by workers and employers play a crucial role in financing social protection. Many Emerging Market Economies (EMEs) are successfully extending social security coverage by adapting contributory mechanisms to facilitate the coverage of workers in non-standard forms of employment and in informal jobs, increasing contributory revenues and progressing toward formalization of those in the informal economy.
2. **Increasing tax revenues.** Taxes are the main source of funding for social assistance programmes for those who cannot contribute. Tax revenues can be achieved by modifying different types of tax rates – e.g. on income, consumption, corporate profits, financial activities, property, imports/exports, natural resources – or by strengthening the efficiency of tax collection methods and overall compliance. Tax measures that are regressive or jeopardize inclusive development should be avoided.
3. **Reallocating public expenditures to social protection objectives.** It includes assessing ongoing budget allocations; replacing high-cost, low-impact investments with those with larger socio-economic impacts; and eliminating spending inefficiencies. For examples, many EMEs have reduced or eliminated fuel subsidies and used the proceeds to extend social protection programmes.
4. **Managing debt, by borrowing or restructuring existing debt.** It involves active exploration of domestic and foreign borrowing options at low cost, including concessional, following careful

assessment of debt sustainability. For countries under high debt distress, restructuring existing debt may be possible and justifiable if the opportunity cost in terms of worsening deprivations of vulnerable groups is high. More than 60 countries, including Advanced Economies (AEs) and EMEs, have successfully re-negotiated debts, some directing debt servicing savings to social programmes.

These sources of finance can be complemented by the following additional options:

5. **Using fiscal and central bank foreign exchange reserves.** This includes drawing down fiscal savings and other state revenues stored in special funds, such as sovereign wealth funds, and/or using excess foreign exchange reserves in the central bank for domestic development.
6. **Eliminating international illicit financial flows.** By cracking down on money laundering, bribery, tax evasion, trade mispricing and other financial crimes that are both illegal and deprive governments of revenues needed for social protection and the SDGs.
7. **Adopting a more accommodating macroeconomic framework.** Entails permitting higher budget deficit paths and/or higher levels of inflation without jeopardizing macroeconomic stability.

Options should be carefully examined, including the potential risks and trade-offs. Most governments adopt a mix of these policies. National social dialogue is best to generate political will and articulate optimal national solutions in macroeconomic, fiscal and social protection policies.

**Other crucial policy issues on social protection financing include:** The important role of social contributions as a source of financing, complementing general taxation; extending social security coverage to those in the informal economy through specific strategies; the advantage of systems based on solidarity and collective financing for sustainability and equity; the role of the State as the financial guarantor of last resort; the need for designing financially and economically sustainable systems; tackling gender inequalities; the importance of social dialogue, transparency in governance, and sound financial and administrative management.

**A G20 coordinated 'social protection expansion' would be financially viable and effective in terms of economic growth, employment and welfare.** Results of a simulation exercise presented in this report validate empirically the proposition of a G20 coordinated expansion of social protection systems. Positive effects are shown in fiscal balances, tax revenues, GDP growth, private investment, employment and the labour income share, among others, indicating that an expansion of social protection may be a most valuable option to counter potentially detrimental trends of job losses in the context of a fourth industrial revolution.

## A. INTRODUCTION

**Background.** In March 2018, on the occasion of its first meeting under the Argentinian Presidency, the G20 Finance Ministers and Central Bank Governors stressed the necessity of policy responses, including international cooperation, to harness opportunities and ensure that benefits are shared by all. It consequently entrusted its Framework Working Group (FWG) to develop a menu of policy options, in various policy areas, relevant to the Finance Track aimed at responding to the impacts of technological change. These potential policy areas include tax and transfer, public expenditure, competition and data. Subsequently, the Co-Chairs of the G20 FWG provided an update on their discussion to advance the priority and thematic issues under the G20 Framework for Strong, Sustainable, Balanced and Inclusive Growth (G20, 2009; IMF, 2017b).

Given the ILO's central role and extensive work in the area of social protection, the FWG invited the ILO to contribute a background report<sup>1</sup>. This report presents an overview of the critical fiscal aspects of social protection, as to providing G20 countries, both AEs and EMEs, with a menu of policy options to explore sustainable financing options for extending social protection.

## B. SOCIAL PROTECTION AND ITS ROLE IN REDUCING POVERTY AND PURSUING INCLUSIVE GROWTH

**Social protection or social security<sup>2</sup> is a set of policies and programmes designed to reduce and prevent poverty and vulnerability throughout the life cycle.** Social protection includes nine main policy areas: child and family benefits, maternity protection, unemployment support, employment injury benefits, sickness benefits, health care, old-age benefits, invalidity/disability benefits and survivors' benefits. Social protection systems address all these policy areas with a mix of contributory (social insurance) and non-contributory mechanisms (tax-financed benefits, including social assistance).

**Social protection systems are a key element of national strategies to promote inclusive growth and investments in people including to address the challenges for the future of work.** Changing forms of work and employment, disruptions in labour markets, higher unemployment and poverty risks, as well as demographic change, are likely to increase demands for social protection. At the same time, there are concerns about an erosion of the financial basis of social protection systems. Well-designed policy measures are required to ensure that social protection systems are well adapted to the changing nature of the economy at present and in the future, so that social protection systems can continue to play their important role as an economic and social stabilizer. They ensure that people enjoy income security and have effective access to health and other social services. By raising household incomes, such policies play a key role in boosting domestic demand, supporting the structural transformation of national economies, promoting decent work, and fostering inclusive and sustainable growth (ILO, 2018b; World Bank, 2017). They also create a conducive environment for fair competition and the development of sustainable enterprises.

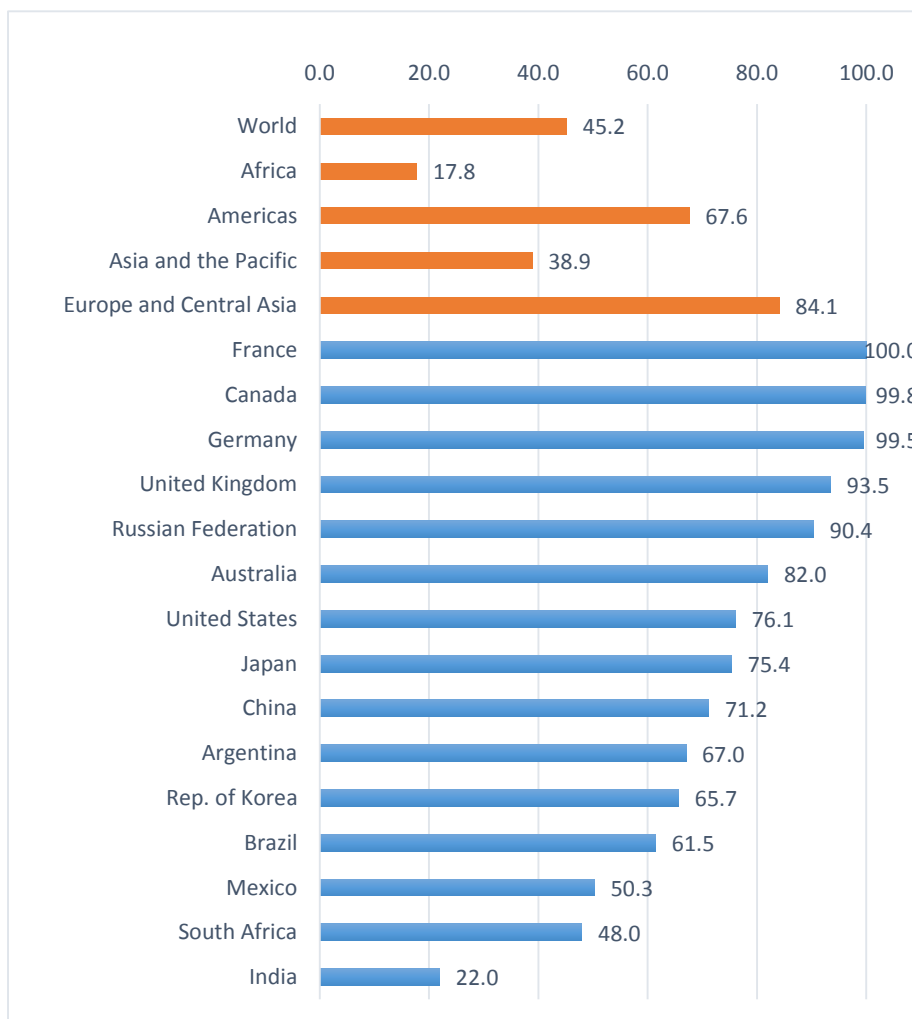
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<sup>1</sup> Another background report was submitted by the ILO to the 1st Meeting of the G20 Employment Working Group in early 2018. It related to the coverage of social security for workers, including non-standard forms of employment. See: ILO and OECD, 2018.

<sup>2</sup> Social protection and social security are used interchangeably to mean the same thing for this report.

**Progress made in extending effective social protection coverage.** The human right to social security remains unachieved for a majority of the world’s population: 55 percent of the global population remains unprotected and only 45 percent is now protected in at least one social protection policy area. Barely 29 percent of the global population enjoys access to comprehensive social security systems. The world is facing a number of fundamental challenges, related to demographic change, low economic growth, migration, conflicts, and the environment. Employment patterns are also evolving fast, with new forms of employment on the rise, characterized by limited job and income security, and lacking adequate social protection.

**Figure 1. Effective coverage of social protection- Population covered by at least one benefit (percentage), 2015 or latest available year**



Source: ILO World Social Protection Database

**The Sustainable Development Goals (SDGs) were adopted in 2015 to address those challenges.** The extension of social protection systems and measures for all are a central part of the 2030 Agenda for Sustainable Development (UN, 2015a). SDG 1.3 commits countries to implement nationally appropriate social protection systems for all, including floors, for reducing and preventing poverty. This reflects the commitment to building social security systems, including floors, advocated by the ILO Social Protection Floors Recommendation, 2012 (No. 202), which was adopted by representatives of workers, employers, and governments from all member countries of the ILO.



**SDG Target 1.3:** Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.

**SDG Indicator 1.3.1:** Proportion of population covered by social protection systems and floors, by sex, distinguishing children, unemployed persons, older persons, persons with disabilities, pregnant women with newborns, work-injury victims and the poor and the vulnerable.

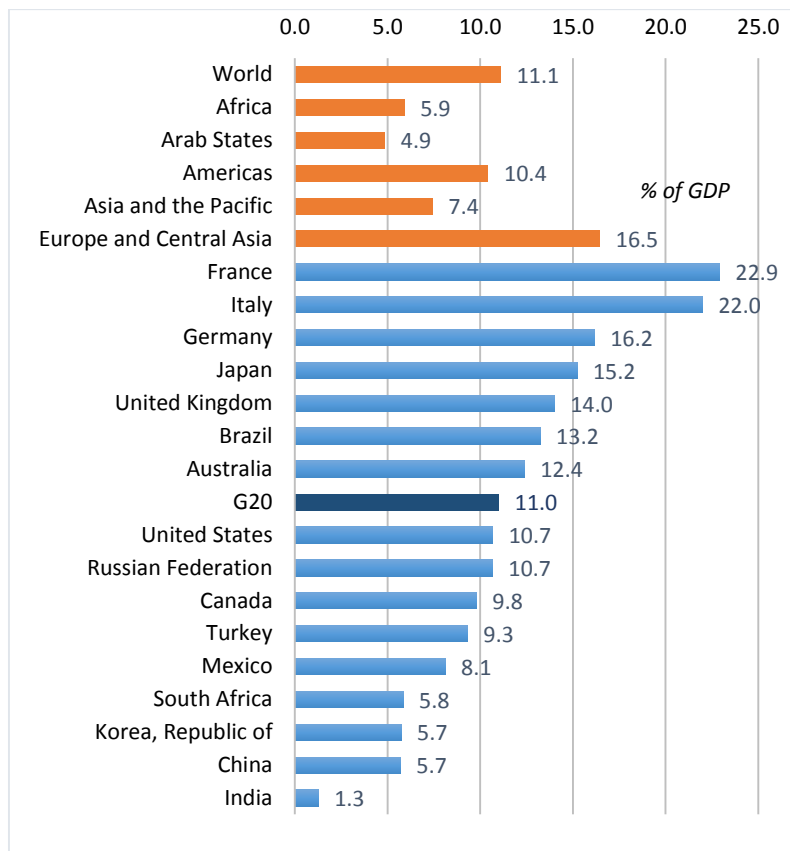
**Innovation and resources are needed to improve social protection systems.** Countries are exploring policy options and innovative approaches to social protection systems, particularly with regard to improving the coverage of workers in non-standard forms of employment, as well as for workers in the informal economy such as rural or domestic workers. For example, in some Emerging Market Economies (EMEs), universal coverage for older persons was achieved thanks to the role of non-contributory rural pensions (for example in Argentina, Brazil, China, South Africa). Generally, in developing countries the aggregate level of public expenditure on social protection needs to be increased, particularly in Africa, Asia and the Arab States. International experience and empirical evidence shows that there is a wide variety of options to generate resources for financing social protection, which are presented in this report.

## C. FINANCING SOCIAL PROTECTION: CRITICAL ISSUES

**There are substantial global gaps in financing social protection.** The overall situation of social protection financing is challenging. Figure 2 presents regional averages and figures for G20 countries on public social protection expenditure, excluding health, as a percentage of GDP in 2015 or latest available year. There are large regional differences in the proportion of resources allocated to social protection. In Africa and the Arab States, where human needs are larger, show the lowest social protection spending. There are also marked differences in the levels of expenditure among G20 countries. On the one hand, there are countries such as Japan, Germany, Italy, and France with spending levels above 15 percent of GDP. On the other hand, countries such as India, China, the Republic of Korea and South Africa spend less than 6 percent of their GDP. Investment deficits in social protection partly explain the gaps in terms of population covered as well as benefit levels. Although almost all social security systems in the world combine resources from different sources, social contributions play a central role in financing.

**More resources are required for extending social protection.** Adequate financing of social protection systems is fundamental to achieve the SDGs and other international agreed goals. In 2015, a United Nations Inter-Agency Task Force on Financing for Development was created in order to monitor international commitments - the ILO leads the social protection task force (UN, 2015b).

**Figure 2. Public social protection expenditure (excluding health), by region and for selected G20 countries, 2015 or latest available year (percentage of GDP)**



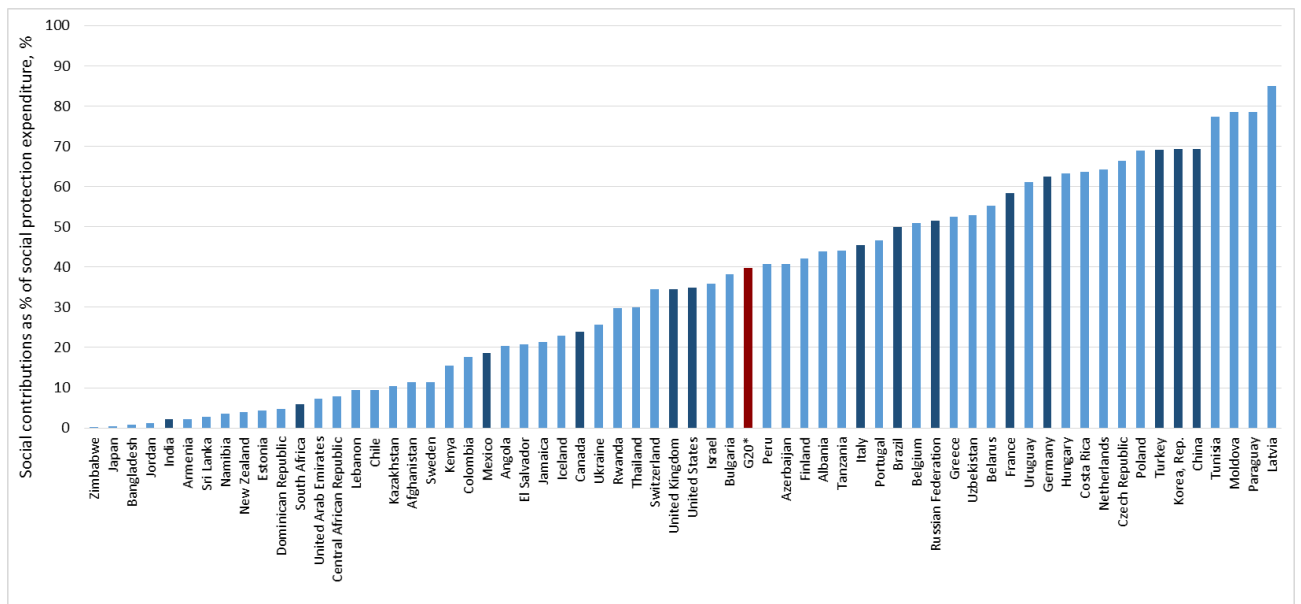
Note: Regional averages are weighted by GDP of the countries for which data is available. The G20 average is based on the selected countries in the Figure.

Source: ILO estimates based on data from ILO Social Security Inquiry, Asian Development Bank, Economic Commission for Latin America and the Caribbean, EUROSTAT, Government Spending Watch, International Monetary Fund, Organisation for Economic Co-operation and Development, and the World Bank.

**Employers and workers contributions play a critical role in financing social security.** Social security schemes, based on social contributions, continue to play a central role in the development of comprehensive national social protection systems. The substantial share of social contributions to total social protection expenditure shows its critical role in financing social security, as presented in Figure 3.



**Figure 3. Share of social security contributions in total social protection expenditure for selected countries and G20 average (Latest available year)**

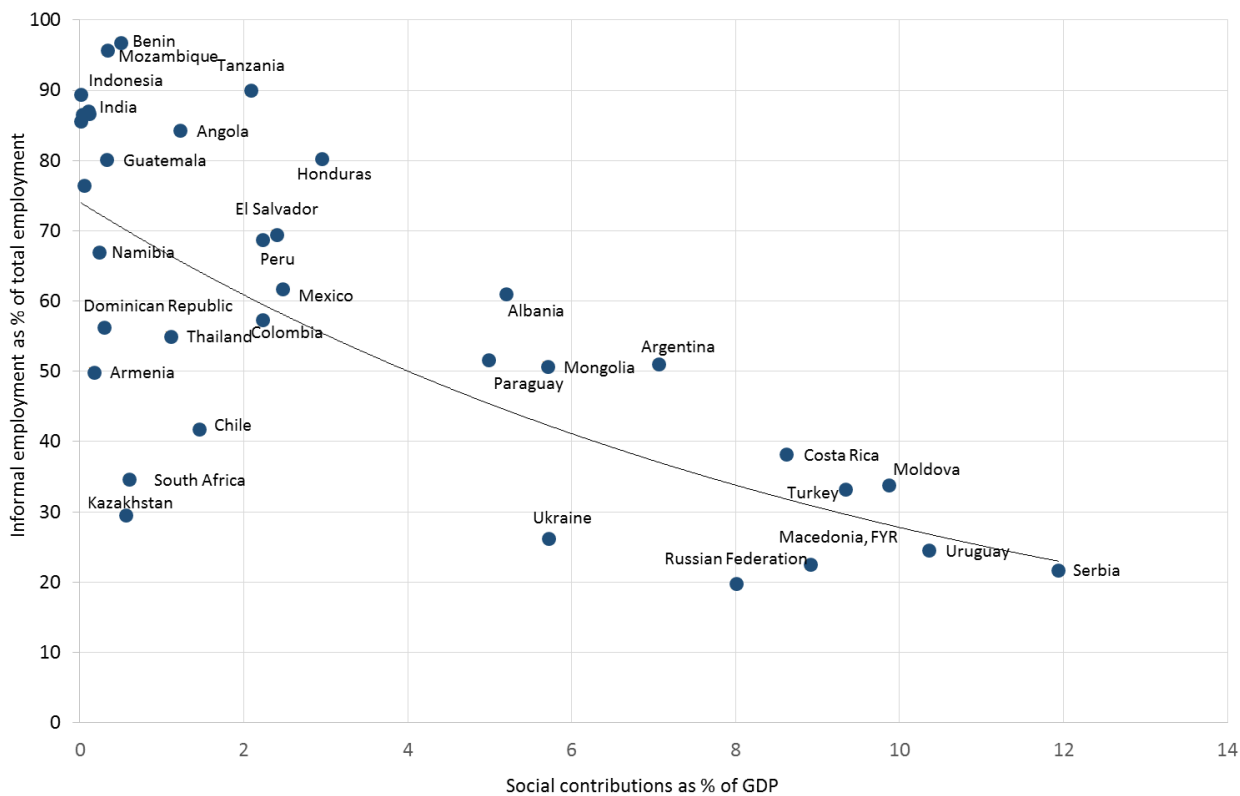


Source: ILO World Social Protection Database

In countries such as China, Costa Rica, Germany, the Republic of Korea, Turkey, Paraguay, and Tunisia, social contributions represent over 60 percent and in some cases almost 100 percent of the total resources allocated to social protection. Many European Union countries, as well as countries like Argentina, Brazil and Uruguay, have made important progress in adapting social insurance schemes by simplifying procedures, facilitating access, and by fully or partially subsidising social security contributions of low income groups with limited or inexistent contributory capacity. This is a remarkable trend, in particular when dealing with policies aiming at the extension of social security to workers in the informal economy.

**Informality is not generally generated by high social security contributions.** Despite arguments based on neoclassical microeconomic model, available empirical evidence shows that there is no known causal relationship between informality and social contributions. Figure 4 shows that countries with lower levels of social contributions are those that in turn show the higher rates of informal employment. Informality is the result of the interaction of a complex set of institutional, economic and social factors; social contributions are just one of the many factors.

**Figure 4. Social contributions as per cent of GDP vs Informal employment share in total employment (latest available year)**



Source: ILO World Social Protection Database and ILOSTAT.

**Combining different instruments and resources for funding.** The combination of non-contributory and contributory mechanisms has proven to represent the most effective manner to extend coverage, typically by combining social insurance contributions, and general taxation for universal benefits (eg child or disability benefits) or means-tested social assistance. The latter are aimed at providing basic protection to vulnerable populations lacking contributory capacity. In Advanced Economies (AE), social insurance usually covers the large majority of the population and is complemented by non-contributory schemes, such as universal programmes (i.e. universal child or disability benefits), as well as means-tested benefits (social assistance) for the poor. In EMEs, poverty-targeted social assistance programmes tend to play a relatively larger role, though benefits tend to be low, with social insurance providing more adequate benefits.

**The majority of countries have adopted systems based on solidarity and collective financing.** Most AEs, EMEs and developing countries use defined benefit (DB) schemes, to guarantee predictable and adequate benefits, in time and in monetary value. Thus, generating positive redistribution effects without transferring the financial and labour market risks to individuals, as is the case for individual savings and insurance mechanisms. Collective financing and the sharing of risks on as broad a basis as possible, combined with a transparent, accountable and participatory management of social security schemes set-out in national legislation, coherence with macroeconomic, fiscal social and other policies, under the overall responsibility and direct oversight of the State, offers the best guarantees of the financial viability and sustainable development of social protection systems. Pooling financial risks through public insurance schemes contributes to social cohesion and stable societies.

**The State as the guarantor of last resort.** It is of utmost importance that the State remains the ultimate guarantor of social protection for its populations, including in times of crises, ensuring that possible budget deficits do not undermine social guarantees and that adequate benefits are effectively delivered to people.

**Development of financially, economically and socially sustainable systems.** Sustainability refers to the current and future capacity of the economy to bear social security costs in the long-term. Ensuring sustainability of social protection systems is a permanent challenge. In countries with recently implemented pension systems, for instance, costs will naturally increase due to the scheme's maturation process. Parametric adjustments need to be introduced timely, as to ensure the stability of the system. Given that public pension schemes have a rather predictable pattern and given that reforms tend to be politically unpopular, governments -through social dialogue- have the responsibility of anticipating trends and introducing the necessary parametric adjustments to balance the system in a timely way, so as to ensure the current and future adequacy of benefits and sustainability of the system. This can also help to ensure that future costs are within an economically affordable range.

**Structural reforms that are pro-privatization have failed to protect people and have high fiscal costs.** Experience shows that pension privatization policies, implemented in the past in a number of countries, did not deliver the expected results, as coverage and benefits did not increase, systemic risks were transferred to individuals and fiscal situations worsened. As a result, a number of countries are reversing privatization measures and returning to public solidarity-based systems. At least six countries –Argentina (2008), Bolivia (2011), Czech Republic (2014), Hungary (2011), Kazakhstan (2013) and Poland (2011–14) – underwent further reforms leading to a return to or a strengthening of their public and solidary pension schemes. Other countries, such as Estonia (2009), Latvia (2009), Lithuania (2009) and Slovakia (2012), drastically reduced the size of their individual account schemes by lowering their contribution rates and redirecting the financing to the public defined benefit systems (Kay, 2014; ILO, 2017).

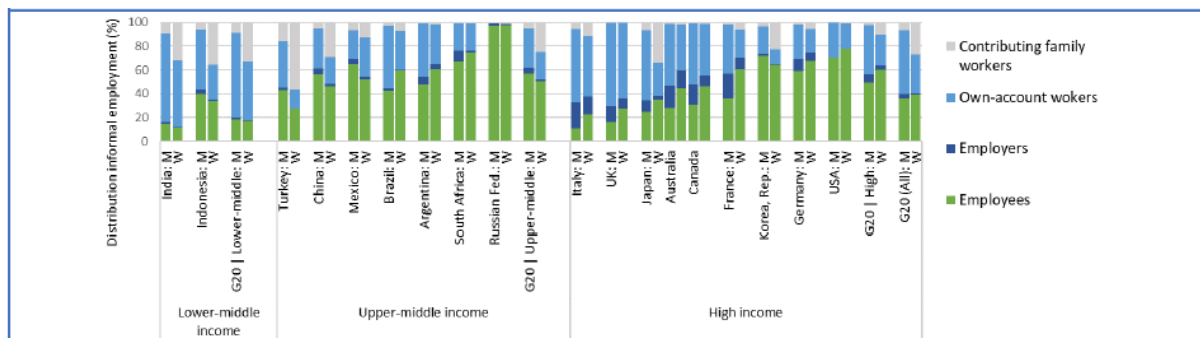
**Adjusting social security systems through parametric reforms, instead of structural reforms.** Social protection systems develop in a changing environment, requiring permanent adjustments that do not affect the function of the system. The changing demographics and forms of work and employment, including an expansion of non-standard forms of employment within or outside the digital economy, call for the permanent improvement of social protection systems. Countries, especially developing countries, are adjusting social protection systems to effectively protect the urban and rural self-employed, as well as other categories of vulnerable population, such as domestic and migrant workers and their families. International experience shows that innovative solutions have already been designed to adapt social protection systems to changing circumstances, which can offer lessons learnt for other countries.

**Many countries have successfully introduced innovations to extend social insurance coverage.** Many AEs and EMEs such as Argentina, Brazil, China, South Africa, Thailand, Uruguay or Viet Nam, to name a few, have successfully extended coverage (ILO, 2017; ILO, 2014). Often policies have been associated with the design and implementation of formalization policies, as well as the introduction of innovations in the financing of social security systems. Innovations comprise the introduction of subsidized social contributions, simplified tax and contribution collection mechanisms as well as design adaptations considering the need of for example low-income self-employed workers, small and micro-enterprises, and specific categories of workers, such as domestic workers and workers in the agricultural sector. These policies have contributed to significantly reducing the high levels of inequality.

**Promoting gender equality through social protection.** Social protection systems have proven to be an effective mechanism for improving gender equality, through amongst others designs that consider solidarity between men and women. This could be achieved by adopting financing mechanisms that do not create gender inequalities, both in terms of the level of social contributions and in the entitlement to benefits. Society derives great benefit from the unpaid care to children, parents and infirm family members, which are disproportionately shouldered by women. Therefore, those who take on care responsibilities during their working years should not be systemically disadvantaged later in life. Germany, Japan, and the United Kingdom, amongst others, have adopted measures to recognize care work as contribution periods counting towards social security entitlements, facilitating access for part-time workers to improved social security benefits, which can reduce gender inequalities in social insurance systems (Fultz, 2011; ILO, 2017).

In the context of policies extending social security to all, including workers in non-standard forms of employment, it is necessary to consider the gender dimension of informality. In G20 countries informal employment currently represents a greater source of employment for men (58.9 per cent) than for women (50.4 per cent). However, women are overrepresented compared to men in informal employment and are often found in the most vulnerable situations, for instance as unpaid family workers, domestic workers or home-based workers. In G20 countries, 26.6 per cent of all women in informal employment are family workers compared to 6.9 per cent of men. In high-income G20 countries the vast majority of women holding informal jobs are employees but nearly half of them (47.8 per cent) are either in temporary or part-time employment compared to 28 per cent among men (ILO, 2018a; see also ILO and OECD, 2018) (See Figure 5).

**Figure 5. The gender dimension of informality (latest available year)**



Source: ILO calculations based on labour force survey or similar national household survey data.

**Social dialogue is a key for good governance of social security systems.** Social dialogue, with the participation of government, organizations of employers and workers and other relevant stakeholders including those engaged in financing social security, is a good practice to ensure the good governance of social security systems around the world. Through social dialogue, governments and organizations of employers and workers could create social consensus and the political will to act, in particular when countries are carrying out national reforms to address financial and sustainability challenges.

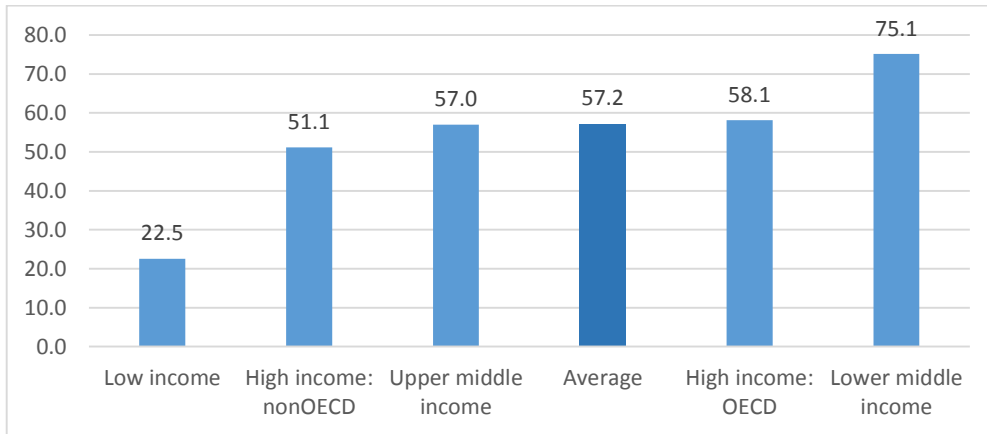
**Good governance and sound financial and administrative management.** Many social security schemes, mainly in developing countries, have suffered from bad management and bad governance, which have often strongly reduced the trust of their members. There is a need for improving the governance of systems, in particular with respect to financing and administration. In democratic societies, tripartism has proven to be an essential ingredient for good governance and efficiency. When the private sector is involved in the financing and administration of the social security system, the need for good regulation and state supervision of the system is a priority.

## D. POLICY OPTIONS TO EXPAND FISCAL SPACE FOR SOCIAL PROTECTION

Exploring all possible means of expanding fiscal space is crucial to promote social protection, the SDGs and inclusive development. There is a wide variety of options to expand fiscal space and generate resources for social protection, even in the poorest countries. Specifically, seven financing options have been identified, all supported by policy statements of the international financial institutions and the United Nations. Governments around the world have applied these options for decades (IMF, 2016; Roy et al., 2007; Heller, 2005). These seven options to expand fiscal space are:

**1. Increasing social insurance coverage and contributory revenues.** The flow of contributions generated by social security systems is generally the most important option to extend fiscal space. Most countries in the world have some form of contribution-based social insurance system, covering a wide range of policy areas such as employment-related protection (i.e. unemployment and employment injury protection), family and children protection, old-age and disability pensions, and health insurance, among others. As presented in Figure 6, the share of employers and workers contributions used to finance social protection systems is substantial, with some countries financing nearly all their social protection expenditures by social contributions.

**Figure 6: Ratio of social security contributions to public social protection expenditure (2015 or latest year available)**

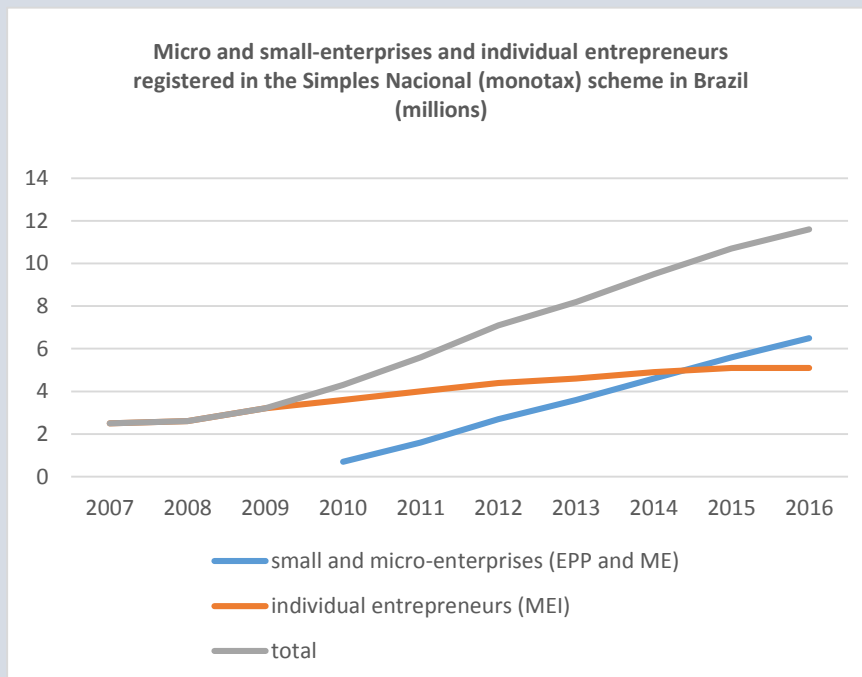


Source: ILO World Social Protection Database

Increasing social security coverage and collecting social contributions is a reliable way to finance social protection, freeing fiscal space for alternative social spending. Social protection benefits linked to employment-based contributions also encourage formalization of the informal economy: a remarkable example is the Brazil monotax scheme (Box 1). Argentina, Brazil, Tunisia and many other countries have successfully broadened both coverage and contributions.

**Box 1. The Monotax in Brazil:  
Extending social security to micro-enterprises and the self-employed**

Simple Nacional/Supersimples is a simplified tax collection/payment scheme for small contributors in Brazil, which unifies several taxes and contributions in a unique tax payment (a “monotax”). The micro-entrepreneurs who join the scheme are automatically entitled to the benefits of the contributory social security system. Contributions are collected by the central fiscal administration and the share corresponding to social security contributions is transferred to the National Social Security Institute (INSS) to finance social security benefits for members affiliated through the scheme and their families. Simple has proven to be an effective tool to formalize millions of micro-and small enterprises, as well as to extend social security coverage to millions of self-employed workers. Argentina, Uruguay and Ecuador have developed schemes similar to Simple.



Source: Datasebrae, at <http://datasebrae.com.br/simples-nacional/>

**2. Increasing tax revenues.** This is the main channel for generating financial resources for social assistance and non-contributory social protection policies. This is generally achieved by altering different types of tax rates – e.g. on income, consumption, real estate, corporate profits, financial activities, imports/exports, natural resources – or by strengthening the efficiency of tax collection methods and overall compliance (Ortiz et al, 2017). Most AEs allocate resources to non-contributory social assistance from general tax revenues. Many developing countries are also using taxes to finance social protection: for example, Bolivia, Mongolia and Zambia are financing universal pensions, child benefits and other schemes from mining and gas taxes (ILO, 2016a). Ghana, Liberia and the Maldives have introduced taxes on tourism to support social programmes. Gabon has used revenues from VAT on mobile communications to finance its universal health-care system. Algeria, Mauritius, and Panama, among others, have complemented social security revenues with high taxes on tobacco; and Brazil has introduced a temporary tax on financial transactions to expand social protection coverage (ILO, 2016b). Other countries use revenues from lotteries to supplement social security spending (e.g. China’s Welfare Lottery or Spain’s ONCE Lottery for the social inclusion of the blind). China introduced residential property taxation in 2011, aimed partly at reining-in speculation and strong price appreciation in the property sector, and partly to address the country’s widening wealth gap and

provide local governments with a significant revenue source. Mexico passed a significant tobacco tax increase in 2010; the government succeeded due to a well-coordinated campaign by tobacco control advocates. Tax measures that are regressive or jeopardize inclusive development should be avoided.

**3. Reallocating public expenditures.** This includes assessing ongoing budget allocations through public expenditure reviews, social budgeting and other types of budget analyses; replacing high-cost, low-impact investments with those with larger socio-economic impacts; eliminating spending inefficiencies; and/or tackling corruption. For example, Costa Rica and Thailand have reallocated military expenditures to universal health (Duran and Pacheco, 2012; Global Partnership for Universal Social Protection, 2016). Ghana, Indonesia, Iran and many other developing countries have reduced or eliminated fuel subsidies and used the proceeds to extend social protection programmes. Starting in 2005, Indonesia gradually phased-out its fuel subsidy, while extending social services, including cash transfers. Similarly, Iran introduced its energy subsidy reform in 2010, reallocating fiscal resources to a universal cash transfer programme and to the extension of health care coverage (IMF, 2010; Guillaume et al., 2011, ILO, 2016d), all in all significantly contributing to reducing poverty rates (by 50 percent) and inequality (Gini coefficient dropped from 0.41 in 2010 to 0.37 in 2011) among Iranians.

**4. Managing debt: Borrowing or restructuring existing debt.** This involves active exploration of domestic and foreign borrowing options at low cost, including concessional, following careful assessment of debt sustainability. For countries in high debt distress, restructuring existing debt may be possible and justifiable if the legitimacy of the debt is questionable and/or the opportunity cost in terms of worsening the deprivation of vulnerable groups is high. In recent years, more than 60 countries have successfully renegotiated debt and over 20 (e.g. Ecuador and Iceland) have defaulted on or repudiated public debt, directing debt servicing savings to social protection programmes (ILO, 2016c).

**5. Using fiscal and central bank foreign exchange reserves.** This includes drawing down fiscal savings and other state revenues stored in special funds, such as sovereign wealth funds, and/or using excess foreign exchange reserves in the central bank for domestic and regional development. Chile, Norway and Timor Leste, among others, are tapping into fiscal reserves for social investments; Norway's Government Pension Fund Global is perhaps the best-known case.

**6. Eliminating illicit financial flows.** Estimated at more than ten times the size of all development assistance, a colossal amount of resources illegally escapes countries each year. To date, little progress has been achieved, but policy-makers can devote greater attention to cracking down on money laundering, bribery, tax evasion, trade mispricing and other financial crimes that are both illegal and deprive governments of revenues needed for social protection and the SDGs.

**7. Adopting a more accommodating macroeconomic framework.** Entails permitting higher budget deficit paths and/or higher levels of inflation without jeopardizing macroeconomic stability. A significant number of developing countries used deficit spending and more accommodating macroeconomic frameworks during the global recession to attend to pressing demands at a time of low growth and to support socio-economic recovery.

Each country is unique, and all options should be carefully examined, including the potential risks and trade-offs, and considered in national social dialogue. Most governments adopt a mix of these policies. National social dialogue with government, employers, and workers as well as civil society, academia, United Nations agencies and other relevant stakeholders, is fundamental for generating the political will to exploit all potential fiscal space options and adopt the optimal mix of public policies for inclusive growth and social protection. National social dialogue is best to articulate optimal solutions in macroeconomic, fiscal and social protection policy.

## E. A G20-COORDINATED ‘SOCIAL PROTECTION EXPANSION’

The purpose of this section is to present the results of a simulation exercise of empirical validation to the proposition that a coordinated policy action of G20 members to support social protection is effective in terms of economic growth, employment and welfare, and is also financially viable (ILO, 2018c).

The simulation exercise is carried out with the UN Global Policy Model, a tool shared by the ILO and UNCTAD.<sup>3</sup> For the sake of simplicity results are presented for the aggregate of the G20, but the model has produced results for all members individually, taking into account specific financial conditions and economic structures.

The post-crisis period, especially from 2010 onwards, was characterized by a continuing effort towards fiscal consolidation and labour market flexibilization that tended to undermine workers’ income shares and social protection benefits. Against this background, the policy scenario presented explores the effects of fiscal expansion and promotion of private sector spending.

Injections of government expenditure in goods and services (including health care, education, social services, etc.), as shown in Figure 7 are moderate and do not cause a rise of government spending relative to GDP because of projected faster growth of aggregate income (as explained below). Likewise, Figure 8 shows the proposed increases in social protection spending (ranging from pensions to child care to unemployment benefits, etc.)<sup>4</sup>. By contrast, as shown in Figure 9, government tax and social protection income also tends to rise, partly exogenously because the simulation proposes a progressive increase in taxation, and partly endogenously because of two known mechanisms. On the one hand, the expansion of government-funded social protection coverage also induces increases of contributory revenues; on the other hand, the resulting increased economic activity also tends to increase government tax revenue.

The first result to observe, in Figure 10, is that fiscal balances tend to improve on the back of the combined measures noted above, together with the GDP expansionary effect (shown in Figure 11). One of the triggers of the expansion is the combined effect of the fiscal multiplier on consumption, as well as the positive effect of increased demand and activity on private sector investment (Figure 12), which has been particularly sluggish after the crisis (except mostly in China, which is what contributes to the appearance of a positive investment environment for the G20 as a whole).

Crucial to the findings in this simulation is the notably positive effects of a social protection expansion on employment (Figure 13) and the labour income share (Figure 14). Some of these effects are explicitly contemplated as part of the expected ‘social protection expansion’ (for example: childcare and care of older persons, education, health provision, etc. require active employment policies; likewise, increased contributions to social protection goes hand in hand with gross wage increases).

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<sup>3</sup> See [http://www.ilo.org/global/about-the-ilo/how-the-ilo-works/multilateral-system/g20/WCMS\\_444510/lang--en/index.htm](http://www.ilo.org/global/about-the-ilo/how-the-ilo-works/multilateral-system/g20/WCMS_444510/lang--en/index.htm) and <http://debt-and-finance.unctad.org/Pages/GPM.aspx>

<sup>4</sup> It should be noted that, unlike government spending in goods and services, the simulated social protection spending continues to rise at a rate faster than GDP. This is intended to partially counter the continuing decline of these expenditures across most G20 economies. Though some of such decline reflects the relative decline of interest payments in a context of supportive monetary policy and relative decline of government debt, it is also the case that social protection spending has tightened in the context of fiscal austerity.

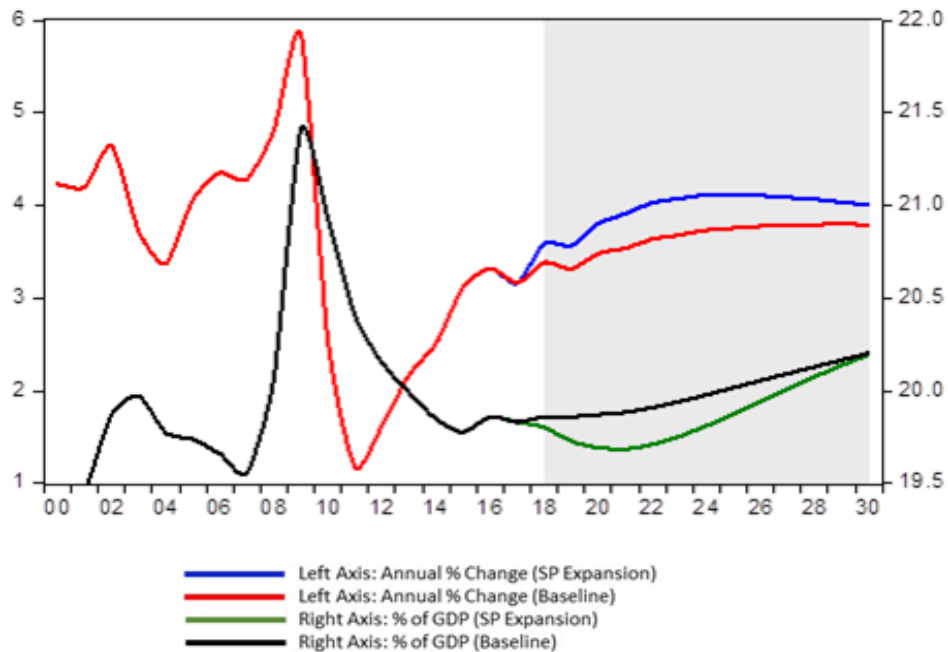


Yet, a considerable benefit of a scenario leading to greater economic activity and welfare protection is that wages tend to catch up with labour productivity.

This scenario shows, overall, that increased attention to social protection policies may be a most valuable option to counter potentially detrimental trends of job losses in the context of a fourth industrial revolution. Moreover, especially if technological advances tend to increase overall productivity, these policy options will be more affordable than before and therefore financially sound.

**Figure 7. Government spending in G20 countries, 2000-2030**

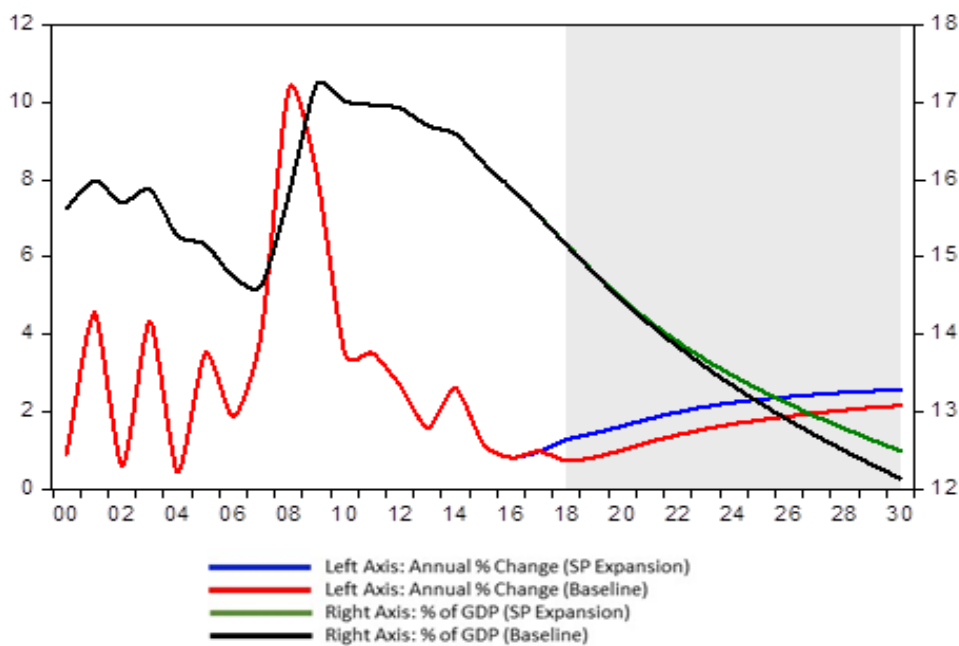
Simulation with and without expansion of social protection



Source: United Nations Global Policy Model. Data after 2018 are projections.

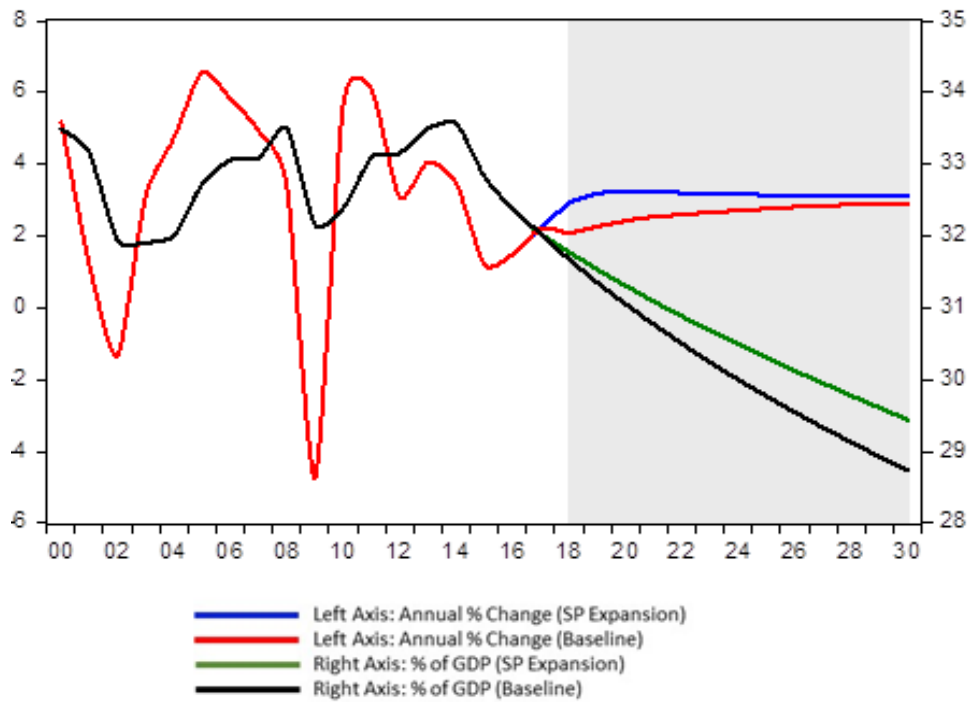
**Figure 8. Government spending for transfers, subsidies and interest in G20 countries, 2000-2030**

Simulation with and without expansion of social protection



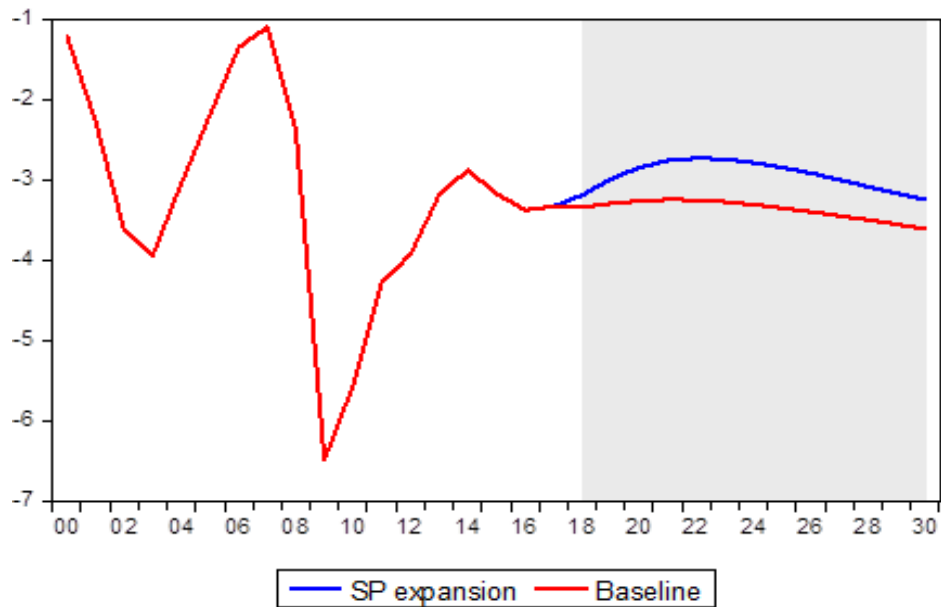
Source: United Nations Global Policy Model. Data after 2018 are projections.

**Figure 9. Tax revenue in G20 countries, 2000-2030**  
Simulation with and without expansion of social protection



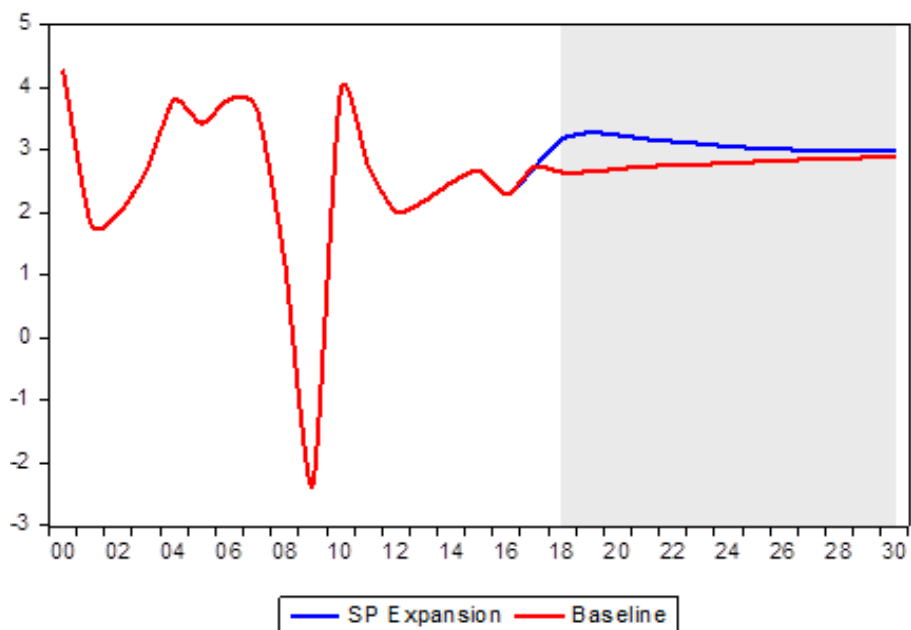
Source: United Nations Global Policy Model. Data after 2018 are projections.

**Figure 10. Fiscal balance (government deficit) in G20 countries (%GDP), 2000-2030**  
Simulation with and without expansion of social protection



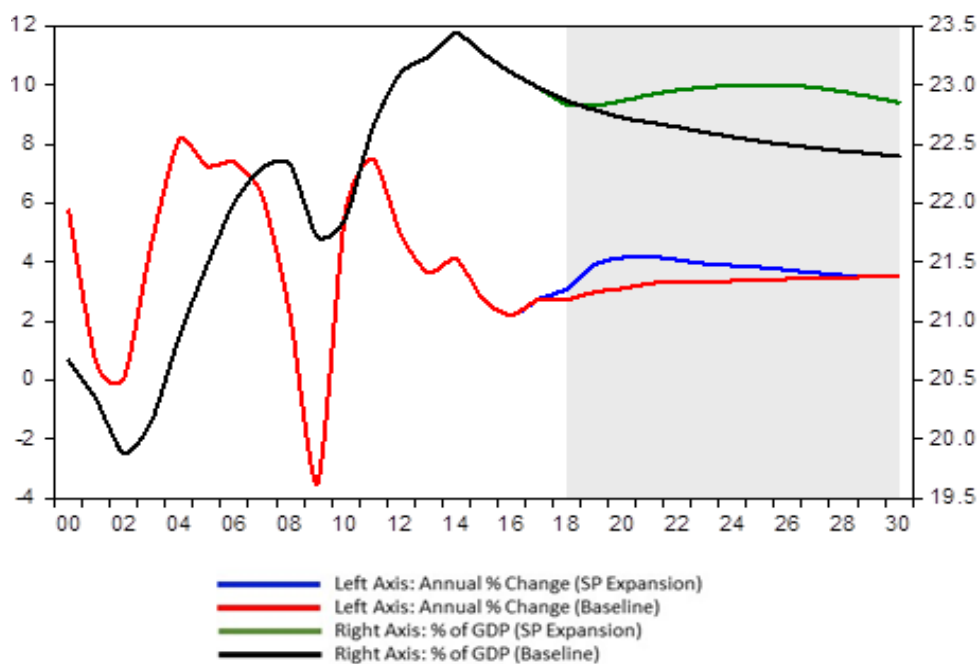
Source: United Nations Global Policy Model. Data after 2018 are projections.

**Figure 11. GDP growth (% annual change) in G20 countries, 2000-2030**  
Simulation with and without expansion of social protection



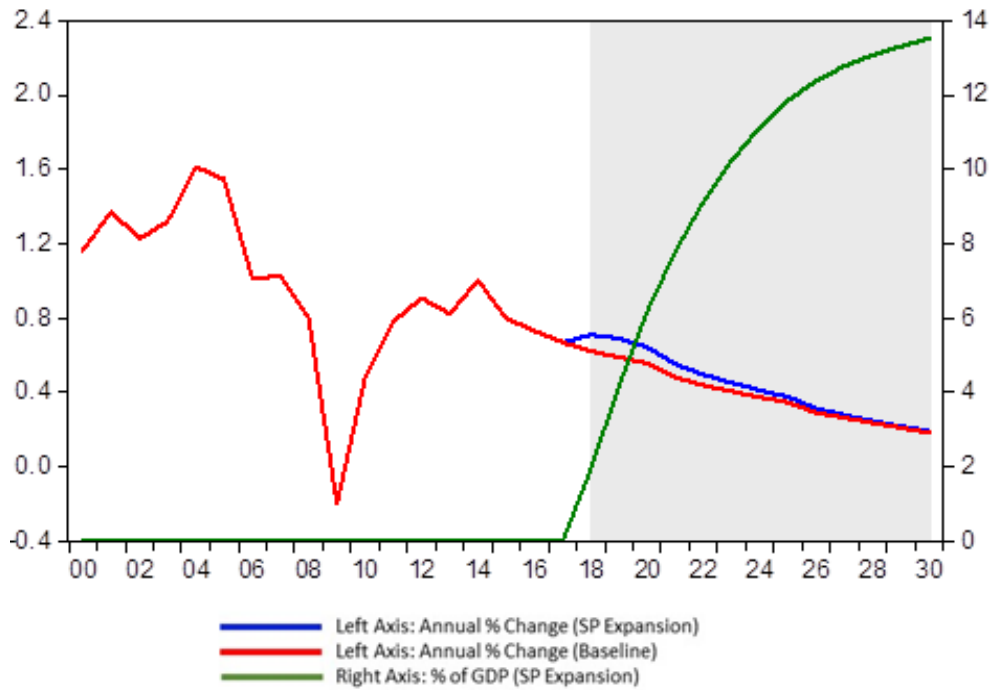
Source: United Nations Global Policy Model. Data after 2018 are projections.

**Figure 12. Private investment in G20 countries, 2000-2030**  
Simulation with and without expansion of social protection



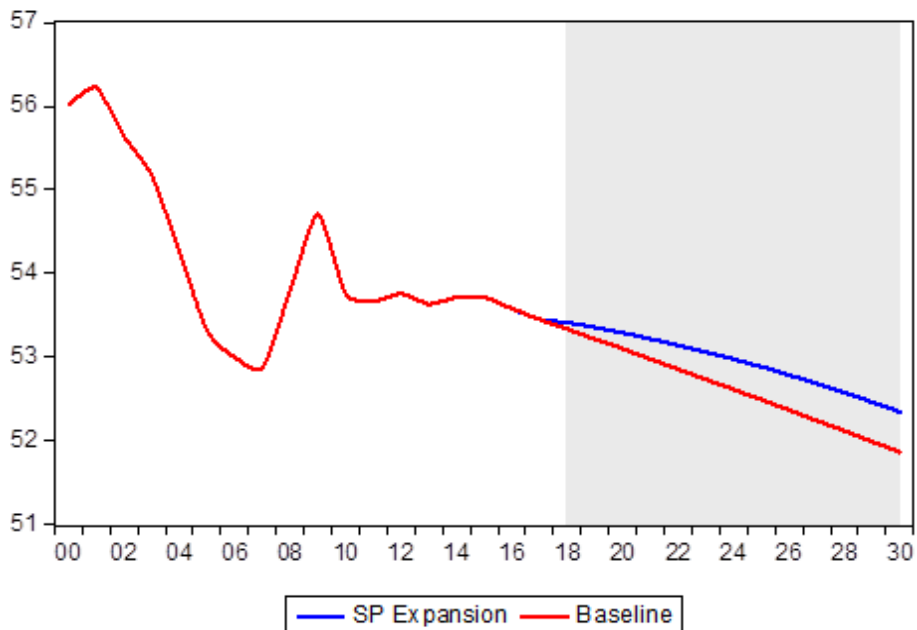
Source: United Nations Global Policy Model. Data after 2018 are projections.

**Figure 13. Employment in G20 countries, 2000-2030**  
Simulation with and without expansion of social protection



Source: United Nations Global Policy Model. Data after 2018 are projections.

**Figure 14. Labour income share in G20 countries (%GDP), 2000-2030**  
Simulation with and without expansion of social protection



Source: United Nations Global Policy Model. Data after 2018 are projections.

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