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INTERNATIONAL SOCIAL SECURITY ASSOCIATION

Survey Report

Survey on social security in times of crisis: Final report on findings and conclusions

Survey on social security in times of crisis: Final report on findings and conclusions

General Secretariat
International Social Security Association

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Executive summary

The International Social Security Association (ISSA) carried out a survey which was designed to collect quantitative and qualitative information from social security administrations about a number of operational issues linked with, and policy responses (implemented or planned) in response to, the financial and economic crisis that struck the world in 2007. A total of 86 ISSA member organizations from 68 countries responded to the survey.

Overview of the impact of the crisis on social security financing

- The majority of social security administrations experienced financing difficulties as a result of the crisis.
- High-income countries were the most affected by the crisis and had negative performances in their investment portfolios 2008 ranging from -30.6 per cent (Ireland) to -3.2 per cent (Denmark).
- By the end of 2008, the most important funds experienced combined losses in their assets under management of about USD 225 billion.
- Losses were however unrealized. Most funds were able to recover part of their original value once stock markets recovered.
- Diversification of fund assets failed in most cases to protect portfolios and, even more importantly, international diversification actually worsened the situation and generated deeper losses.
- Most funds have now recovered to their pre-crisis levels.
- The crisis illustrates the risks of funding social security programmes from sources that are dependent on the performance of capital markets.

Government responses to the crisis

- The survey confirms that the majority of national governments provided assistance to financial institutions or adopted other economic recovery measures.
- The majority of social security administrations report that their national governments included some provision for social security within their national crisis response measures.
- On average, measures directed to social security represented 12 per cent of national stimulus packages.
- Coordinated national stimulus packages and the stabilizing effect of social security limited the economic and social consequences of the crisis.
- If stimulus packages are discontinued prematurely, experts warn that there is a danger that a double-dip recession could emerge.
- While the need to reduce fiscal deficits built up during the time of the crisis is important for governments, the long-term impact on unemployment and social expenditure, and the erosion of the tax bases, could be considerable.

Impact of the crisis on labour markets

- A majority of countries experienced an increase in unemployment and therefore adopted a wide range of measures to address this increase.
- A number of short to mid-term measures were introduced to deal with the impact of increased unemployment.
- For some social security institutions, the crisis was used as an opportunity to extend coverage (South Africa) and bolster the adequacy (Russian Federation) of their benefits.
- Social security administrations estimate that they will have to contend with the consequences of the crisis for labour markets for 2-4 more years.

- A number of social security administrations made special provisions for vulnerable groups.

Conclusions

- Depleted fund reserves, diminished income and increased expenditure on benefits were the main consequences of the crisis experienced by administrations.
- Social security played a crucial role by sustaining the economy through maintaining public confidence and therefore stimulating aggregate demand. Arguably, social security contributed to reducing the potential for significant social unrest.
- Financing difficulties look set to persist for the foreseeable future as a result of a protracted labour market crisis, and debts incurred now will constitute a financial burden for many years to come.
- If there are future financial or economic shocks (e.g. in the case of a double-dip recession) in the near-term, there is concern that government finances, as well as the financial reserves of social security funds, would be unable to bankroll the necessary response measures on a scale comparable with that witnessed in the last few years.
- The crisis has underlined the value of social security as an effective response to crises and also as a social intervention integral to the smooth functioning of decent societies.
- Social security administrations have demonstrated their capacity to be actors in response to the financial and economic crises.

Introduction and scope of survey

While the financial crisis that began in mid-2007 appears to be subsiding now that stock market values have recovered, economic growth in Europe and North America is still timid and even negative in a number of countries. Numerous commentators argue that we should expect further financial and economic shocks ahead, given that major economic frailties exist and perverse (crises-inducing) incentives persist in financial markets. Consequently, it is necessary to be cautious of suggestions that the exodus from the crisis is already well underway. What is clear, however, is that the fallout from the financial-turned-economic crisis continues to affect the real economy, particularly in the form of increasing labour market difficulties (i.e. growing unemployment and a jobless recovery).

The crisis has affected social security in various ways, thereby demanding that social security administrations take a variety of actions. Consequently, the International Social Security Association (ISSA) decided to collect and analyse information on how social security administrations have responded to the crisis through a broad survey of its member organizations.

The information was gathered to enhance knowledge-sharing among all ISSA member organizations – the institutions that manage social security schemes throughout the world – and represents a unique source detailing good practices and lessons learned with regard to measures that countries have adopted or plan to adopt. It is expected that this information will also help strengthen the development of social security measures geared to provide better protection to all individuals in future crises.

The ISSA survey comprised questions covering both quantitative and qualitative information from social security administrations about a range of operational issues linked with, and policy responses (implemented or planned) in response to, the crisis. Specifically, questions asked for information on measures adopted to reduce the negative social and labour market impacts of the crisis; measures taken to strengthen the governance and investment performance of pension and social security funds; and measures to attenuate the negative financial impacts on pension and unemployment insurance/assistance programmes. The survey also draws from an additional survey on the investment performance of social security funds which was carried out in parallel with the main survey.

In total, 86 ISSA member organizations from 68 countries provided responses (see Annex). Most of these members represent national institutions covering all branches of social security, and their responses are based on their mandate. The survey data was collected between June and November 2009, thus the results may be deemed representative of a period during which the impacts of the crisis were at their peak. It should also be noted, that this survey report is a follow up to a provisional survey report published in April 2009¹. This version now includes all the responses of those members that responded to the ISSA crisis survey.

In analysing the survey responses, a number of caveats are necessary. Firstly, the survey findings represent a snapshot of a specific period in the crisis. The effects of the crisis on the

¹ ISSA. 2009. *Survey on social security in times of crisis: Summary of findings and conclusions*. <<http://www.issa.int/Resources/ISSA-Publications/Survey-on-social-security-in-times-of-crisis>> (accessed on 28.02.2011)

broad international sample of surveyed countries may now have intensified or diminished. Secondly, differences in country responses may reflect a number of domestic political, fiscal and institutional factors, including the level of political will, the space for fiscal latitude, existing institutional capacity and, in a more qualitative sense, the perceived threat posed by the crisis, all of which will have conditioned the nature of crisis responses. Finally, among and within countries, the mandates and institutional nature of social security administrations vary. In some countries, social security is administered through a centralized national administration. In others, social security administration is more diversified. Accordingly, survey responses should not be interpreted as national responses, apart from those which are stated as such.

Summary of survey findings

Table 1 presents an overview of the key findings of the ISSA survey. In order to gain a better understanding of the different experiences of the crisis, it was deemed necessary to give a picture of the impact and responses from both an industrialized and developing country perspective. Hence the distinction between OECD and non-OECD. The combined overall results for both OECD- and non-OECD-based members are also given. The results are discussed in further detail later in this the report.

Table 1

Key survey findings	OECD-based members (No= 34)	Non OECD-based Members (No=52)	Combined result for all members (No=86)
Social security financing			
Experienced financing difficulties	71%	70%	70%
Measures taken to restore the financial situation of funds	52%	67%	62%
Assets were affected by the financial crisis	77%	67%	70%
Experience of the crisis led to a modification in the investment strategy of assets	22%	73%	57%
Government responses to the crisis			
Government provided assistance to financial institutions or adopted economic recovery measures	89%	56%	68%
Government took economic recovery measures that specifically included social security	63%	44%	51%
Key social security measures			
Adoption of specific short and / or mid-term policy measures to mitigate adverse social effects of crisis	66%	77%	73%
Measures adopted for alleviating and keeping the elderly out of poverty	50%	57%	55%
Impact of the crisis on labour markets			
Increased unemployment	100%	82%	88%
Percentage of administrations located in countries affected by increased unemployment and took measures to protect people	87%	67%	75%

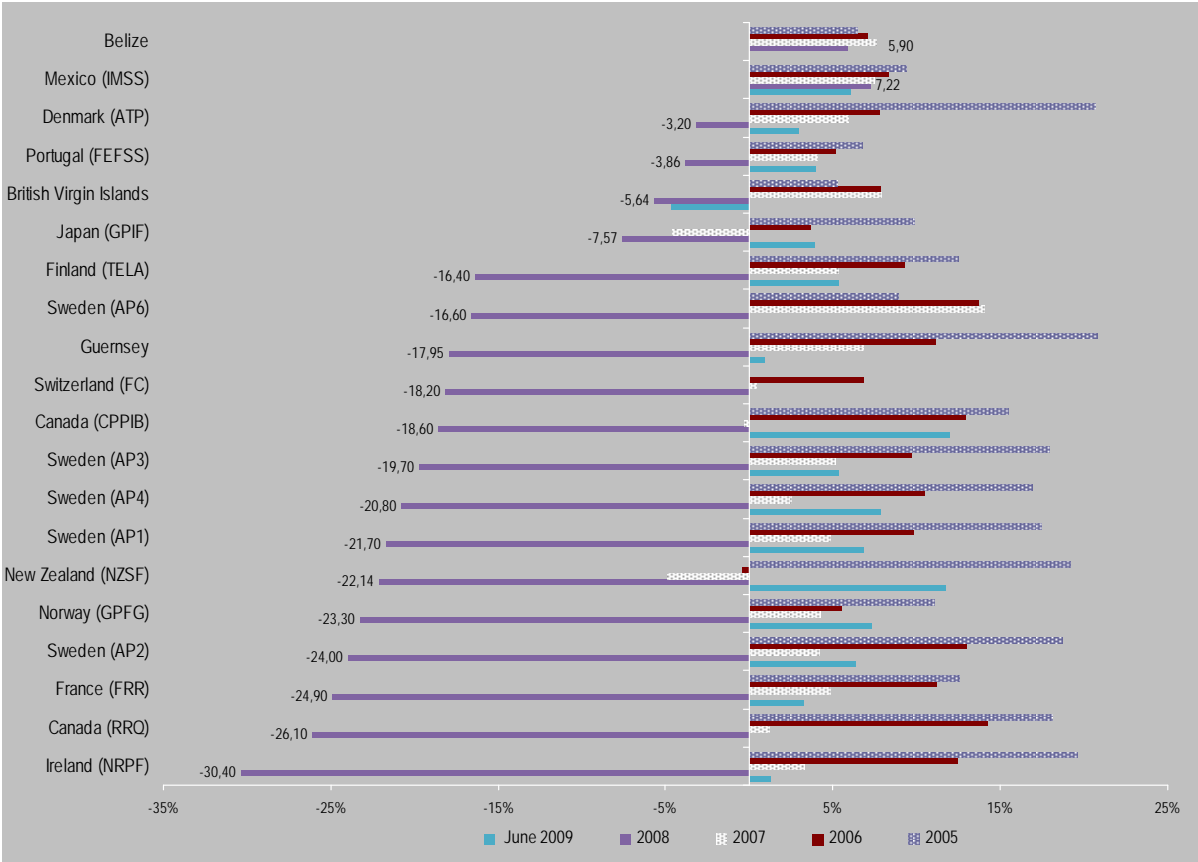
Impact of the crisis on social security financing

Social security revenue and reserves were reduced significantly by the crisis. This conclusion is substantiated by the fact that approximately 70 per cent of survey respondents confirmed that financing difficulties were generated as a result of the crisis. Results also show that 70 per cent of members found that their assets were affected by the crisis. As one might expect, these results were higher for the assets managed by OECD-based social security administrations than non-OECD based social security administrations, with the survey presenting results of 77 per cent and 67 per cent respectively.

In 2007, ISSA reported that, as at the end of 2005, social security administrations worldwide held assets under management of around USD 3.5 trillion² (2). As at the end of 2008, the most important funds experienced losses in the assets under management in the order of about USD 225 billion; most of these were unrealized losses (i.e. a result of holding assets whose value had fallen). Consequently, for some reserve funds, 2008 will be remembered as the year with the most negative financial performance in history. Others, however, will consider this downturn as a one-off stress test with a relatively positive outcome. Figure 1 shows that the investment returns of selected funds over the past 5 years. High-income countries were the most affected by the crisis and had negative performances in 2008 ranging from -30.6 per cent (Ireland) to -3.2 per cent (Denmark).

² ISSA. 2007. *Public scheme reserve funds: Helping sustain PAYG pensions* (Survey report). Geneva, International Social Security Association.
<www.issa.int/aiss/content/download/39239/765489/file/2surveyreport.pdf> (accessed on 28.02.2011)

Figure 1: Nominal investment returns on selected social security reserve funds (2005-2009)



Notes: New Zealand (NZSF): For the year ended 30 June 2009 and July-October 2009; Canada (CPPIB): For the year ended 31 March 2009 and April-September 2009; Japan (GPIF): For the year ended 31 March 2009 and April-June 2009; Canada (RRQ): For the year ended 31 March 2009 (no data available for April-September 2009).

Source: Fund reports.

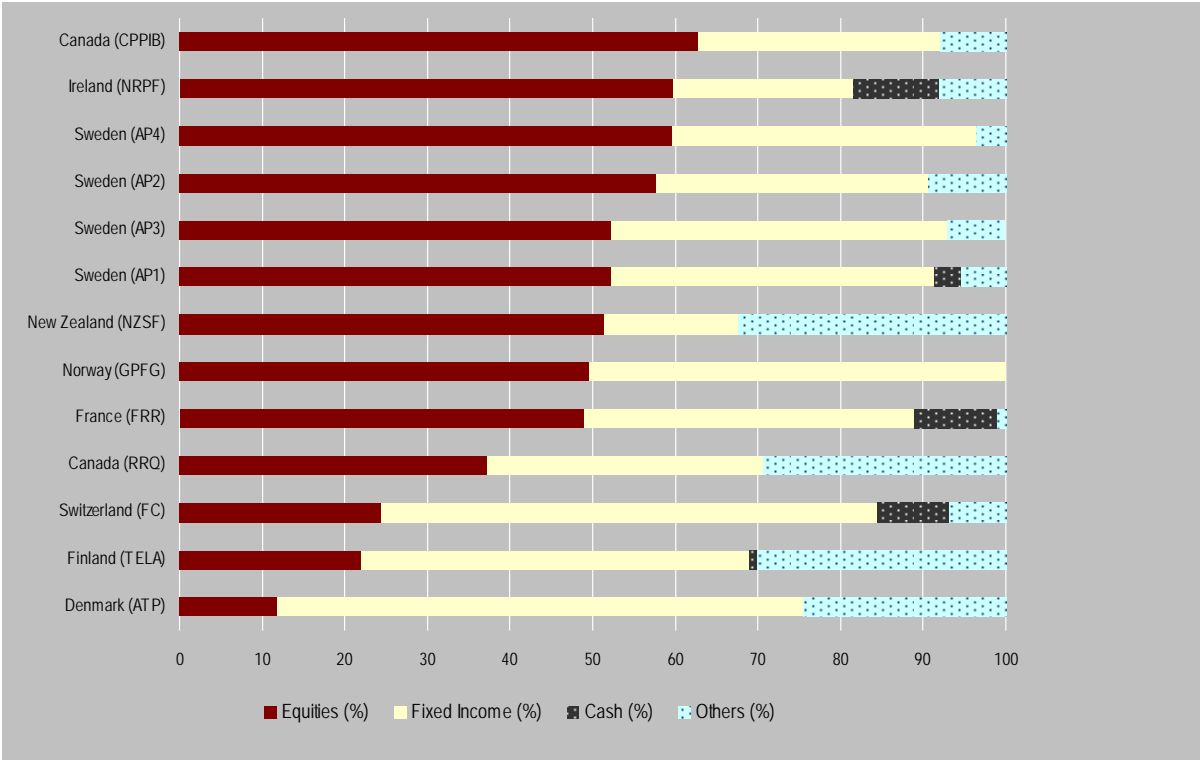
The financial crisis has also challenged the conventional investment wisdom that a strategy of asset diversification is fail-safe. In this crisis, where only a few asset classes avoided losses, diversification failed to protect portfolios and, even more important, international diversification actually worsened the situation and generated deeper losses. In times of crisis, and faced with such investment challenges, it appears that the most efficient tools that funds may use are risk management and good governance.

In contrast, reserve funds that mainly invested domestically, in public or private debt (e.g. government and corporate bonds) and in some non-listed assets (including cash and some alternative assets), have been shielded from the financial shock, and therefore have performed comparatively well. This group of countries would include Belize, the British Virgin Islands, Mexico and Portugal. Denmark has also performed well in comparison with other high-income countries. This performance can be mainly explained by its noteworthy reallocation of its investment portfolio towards asset classes other than equities; and reallocation of foreign securities to national assets, which overcame the pressure on the Danish kroner.

The overarching point that can be discerned amongst these high-income country funds is the exposure to equity risk, as shown in Figure 2. Bartram and Bodnar reported that, as of October 2007, the market capitalization of global equities was more than USD 51 trillion and as at February 2009 it was around USD 22 trillion, which represents a reduction of about 60 per cent in equity value. This loss in wealth to equity holders is equivalent in value to about

50 per cent of global GDP for 2007³ (3) and hence explains the impact on social security funds. Figure 2 shows the portfolio composition of selected reserve funds.

Figure 2: Portfolio composition of selected social security reserve funds, 2008



Notes: New Zealand (NZSF): For the year ended 30 June 2008; Canada (CPPIB): For the year ended 31 March 2008; Canada (RRQ): For the year ended 31 March 2008.

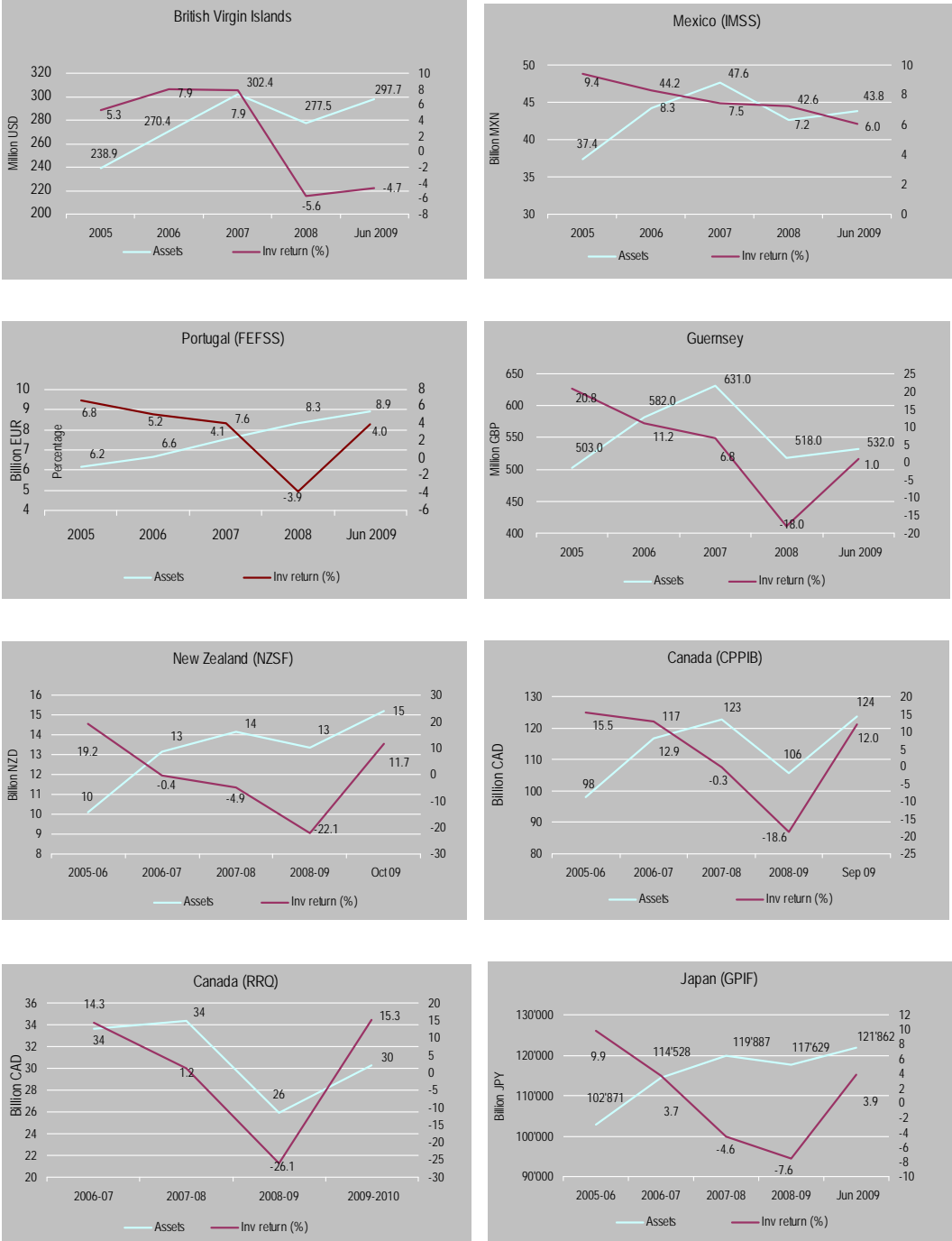
Source: Fund reports.

Funds recovered in 2009

In 2009 financial markets worldwide rallied significantly. The improvement of stock markets during 2009-2010, which reversed the negative trend of 2008, brought relief to funds. Most of the reserve funds have reported positive investment returns during the third trimester of 2009 — Canada (CPPIB, Q2), 4.6 per cent; Denmark, 6.6 per cent; Finland, 6.9 per cent; France, 9.2 per cent; Guernsey, 16.6 per cent; Ireland, 11.7 per cent; Mexico (IMSS), 5.6 per cent; Norway, 13.5 per cent; and Portugal, 4.23 per cent — and ended 2009 with returns fully in line with the observed market recovery, therefore experiencing a similar performance to the year 2007. Figure 3 shows fund assets and investment returns (in local currency) of selected reserve funds. Most reserve funds have now recovered.

³ Bartram, S.; Bodnar, G. 2009. “No place to hide: The global crisis in equity markets in 2008/2009”, in *Journal of International Money and Finance*, Vol. 28, No. 8. <<http://www.sciencedirect.com/science/article/B6V9S-4X08778-2/2/544d0196b6b88ef28ff66602497b7205>> (Accessed on 28.02.2011)

Figure 3: Selected investment returns and fund assets in local currency



Notes: New Zealand (NZSF): For the year ended 30 June 2009 and July-October 2009; Canada (CPPIB): For the year ended 31 March 2009 and April-September 2009; Japan (GPIF): For the year ended 31 March 2009 and April-June 2009; Canada (RRQ): For the year ended 31 March 2010 (no data available for April-September 2009). Source: Fund reports.

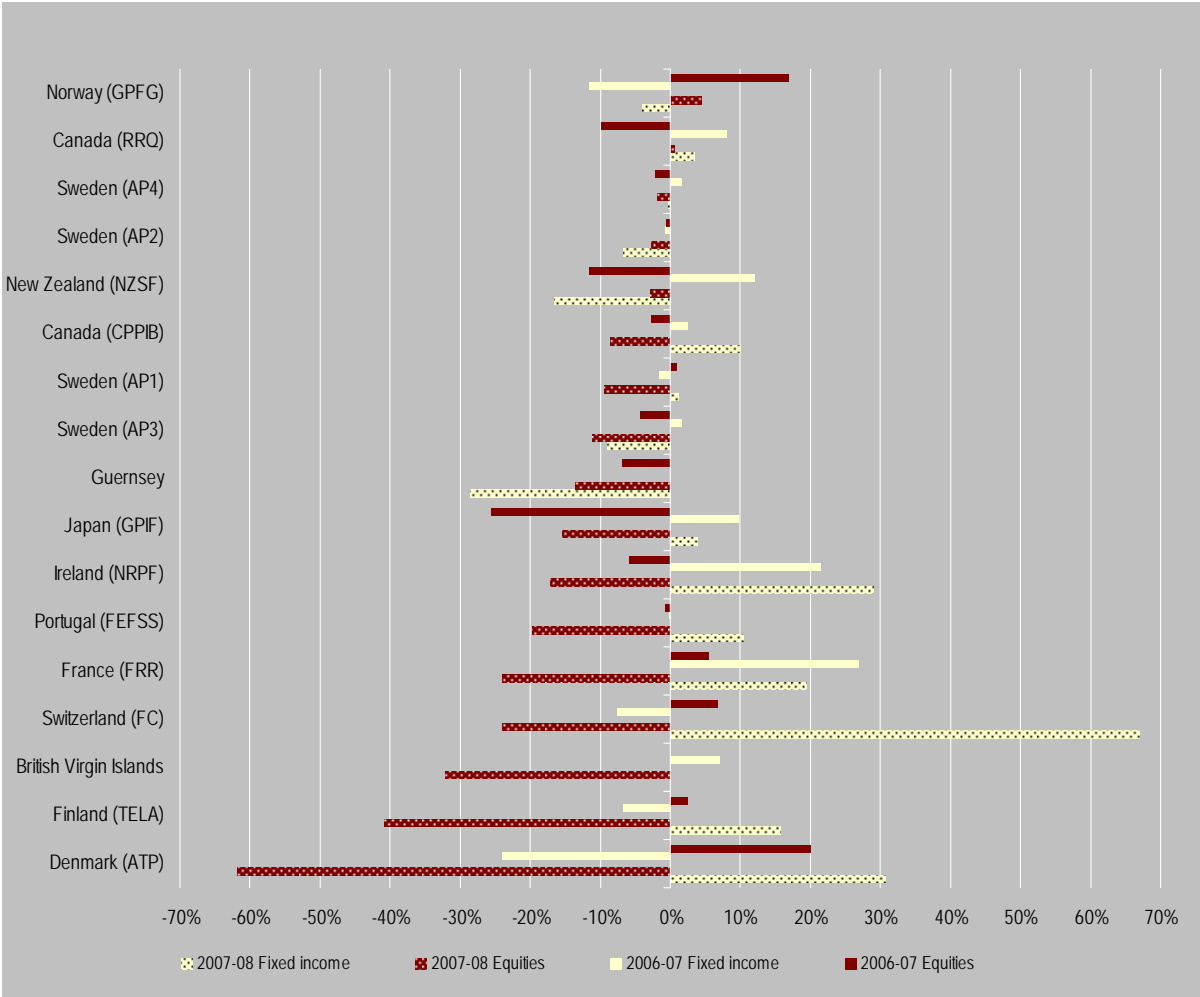
In some funds, however, asset growth can be explained by contribution levels, the receipt of capital transfers, either from the related social security scheme or the government (e.g. Ireland and Norway.)

The crisis has hampered the growth of reserve funds and consequently is threatening the investment performance needed to ensure future financial sustainability over the long term. While the year 2008 was dramatic for almost all reserve funds, it is essential that reserve

funds are analysed over a longer period of time, since they are supposed to support systems that operate in the long term and are not being called upon to pay benefits.

On the basis of all of the above, it is important to highlight that the majority of reserve funds have not performed negatively when investment returns are taken into account since their inception or over the last five years. For example, since inception, the reserve fund in the British Virgin Islands has had an annual rate of return of 10.7 per cent; Canada, (CPPIB) 5.2 per cent; Finland, 4.9 per cent; France, 2.6 per cent; Ireland, 2.2 per cent; Norway, 4.49 per cent; and Portugal 4.51 per cent. In the more recent past, the performance of some reserve funds has been substantially lower. For example, in the last five years, the Japanese reserve fund achieved an annual average rate of return of 0.77 per cent.

Figure 4. Changes in equities and fixed income



Source: Fund reports.

Notes: New Zealand (NZSF): For the years ended 30 June; Canada (CPPIB): For the years ended 31 March; Canada (RRQ): For the years ended 31 March; Japan (GPIF): For the years ended 31 March.

The financial crisis has placed asset managers and risk management in the spotlight and has generated forces of change in the asset mix to be held by reserve funds. Figure 4 shows changes in equity and fixed-income holdings with respect to the previous year in selected reserve funds. Many funds reduced their allocation to equities during 2007, before the crisis hit, and increased the investments in fixed income and other asset classes, which are not

represented in Figure 4. Some continued to reduce equity exposure into 2008. As mentioned, the timely judgements by Denmark to reduce equities by 61.8 per cent and then to hedge the remaining equity exposure were critical risk management decisions that led to the comparatively less severe -3.2 per cent return in 2008.

In summary, it can be observed that a majority of social security administrations experienced financing difficulties as a result of the crisis. Most administrations that managed assets were affected by the crisis, and more so in OECD countries. Non-OECD countries seemed to be less affected, as positive investment performances were still recorded in these countries.

There are several additional striking findings from the survey:

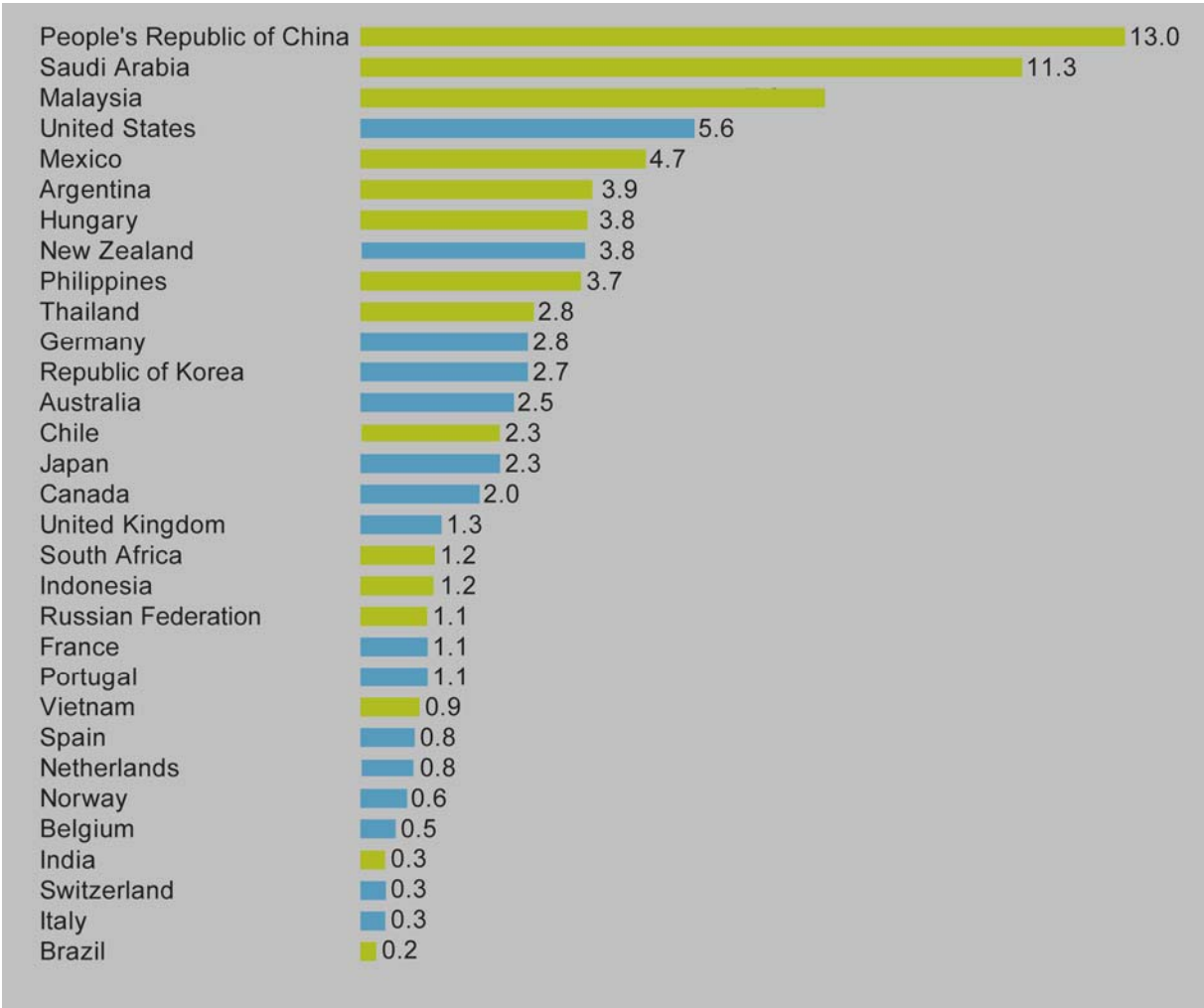
- Diversification failed to protect portfolios and, even more importantly, international diversification actually worsened the situation and generated deeper losses.
- Losses were however virtual, hence most funds have been able to recover part of their original value once stock markets recovered.
- Although funds are recovering, this does not mean all losses have been recovered and that a return to a pre-crisis point has been achieved.
- The crisis illustrates the risk of funding programmes from sources that are dependent on the performance of capital markets.

Government responses to the crisis

It is clear that without the government stimulus packages and the role of social security systems acting as an economic and social buffer, the crisis, which threatened to be more severe than that of the Great Depression of the 1930s, could have generated far more wide-reaching consequences.

Fiscal stimulus packages varied in size as a proportion of GDP and close to 90 per cent of the total global stimulus packages came from G20 countries. As can be seen in Figure 5, some packages represented significant amounts of GDP. For example, the People's Republic of China announced the biggest total package with 13 % of GDP, followed by Saudi Arabia (11.3%), Malaysia (7.9%), and the United States (5.6%). On average, rescue packages represented around 1.4 per cent of GDP.

Figure 5: Total fiscal rescue package as a percentage of GDP in 2009



Note: Developed economies are indicated in blue; developing and emerging economies, in green. Time frame of spending is not clear for most countries and in some cases. These estimates were calculated by taking the total package as the numerator and the GDP in 2009 as the denominator. The GDP in 2009 was estimated by using 2008 GDP and growth forecasts (March 2009) by the IMF for 2009.

Source: Khatiwada, S. 2009. *Stimulus packages to counter global economic crisis: A review* (Discussion paper, No. 196). Geneva, International Institute for Labour Studies.

Table 2 Social protection crisis response measures in the G20 countries

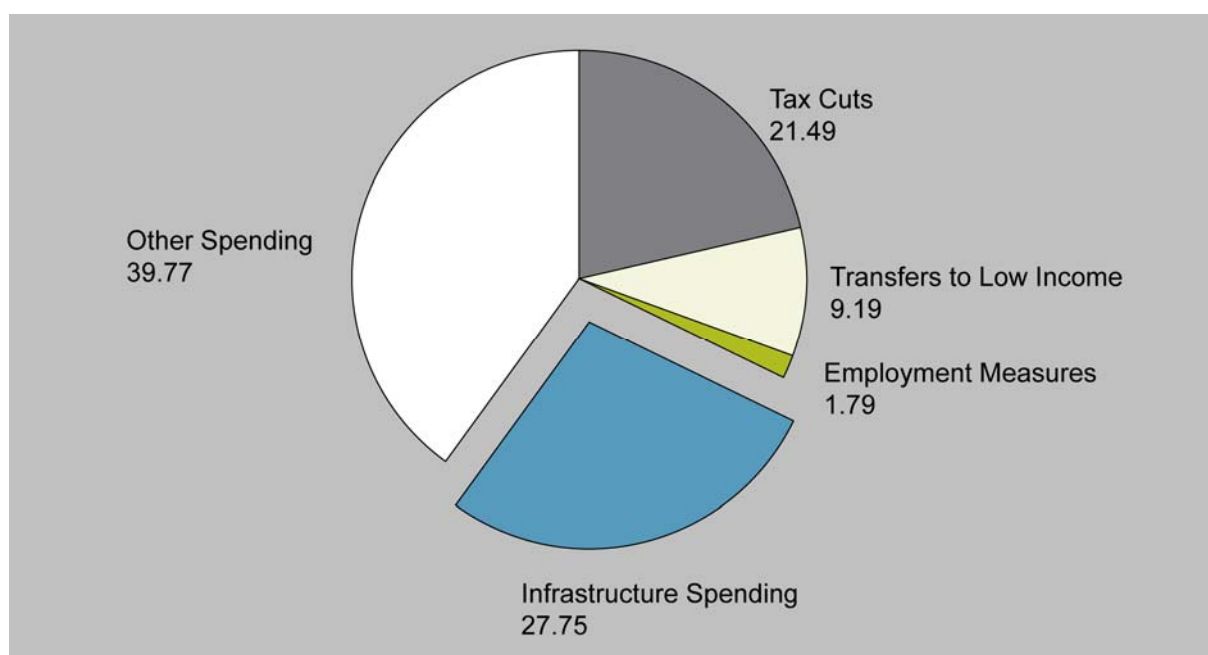
	Old age and disability pensions	Cash transfers for family and children	Unemployment and employment policies	Food security	Health/Education	Social housing/ water and sanitation
Argentina	X	X		X		
Australia	X	X			X	X
Brazil	X	X	X			X
Canada			X			X
China	X				X	X
France	X		X			X
Germany		X	X		X	X
India	X		X		X	
Indonesia				X		X
Italy	X	X	X			
Japan			X		X	
Korea, Rep. of	X	X	X		X	
Mexico			X		X	
Netherlands			X		X	
Russian Federation	X	X	X		X	X
South Africa		X		X	X	X
Spain	X		X		X	
Turkey	X		X			
United States	X	X	X	X	X	X
United Kingdom			X			

Source: ILO. 2010. *Employment and social protection policies from crisis to recovery and beyond: A review of experience*. An ILO report to the G20 Labour and Employment Ministers Meeting, Washington, DC, 20–21 April 2010. Geneva, ILO.

How centrally did social security feature in fiscal stimulus packages?

As can be seen in table 2 social security responses were a central component of the overall social protection responses of the G20 countries. To give a sense of what proportion of the stimulus packages were assigned for social security spending we can draw on a study by the International Institute of Labour Studies in Figure 6 below. According to this study which was based on 22 countries (10 high-income and 12 developing and emerging economies), social security spending represented on average 11.7 per cent of the total spending of national fiscal stimulus packages.

Figure 6: Composition of spending as a percentage of total fiscal package (March 2009)



Note: ILO study based on 22 countries – 10 advanced and 12 developing & emerging economies.

Source: Khatiwada, S. 2009. *Stimulus packages to counter global economic crisis: A review* (Discussion paper, No. 196). Geneva, International Institute for Labour Studies.

In light of this, it is important to recognize that social security expenditure has represented only a minor portion of the total spending of national fiscal response packages. Although relatively low, the role assigned to social security should not be considered as insignificant. This is because it is complemented by other aspects of the package, such as through tax cuts, especially consumption taxes, which help increase the spending power of low- and middle-income households. Moreover, other measures helped keep the economy functioning and people in jobs, which helped maintain contribution income to social security. At times of non-crisis, social security maintains contribution income by ensuring people's income and therefore smoothing consumption patterns across society and stabilizing the economy. The seemingly low allocation of resources to social security should not be seen in isolation but as part of an integrated approach. In fact, there were examples of countries devoting substantially more of their stimulus package specifically to social security and these delivered good results. Australia can be highlighted as an example. It allocated as much as 41 per cent of its stimulus package to social transfers. These transfers proved very important in stimulating aggregate demand and perhaps explain why the Australian economy has performed better than any other advanced economy since the onset of the crisis⁴.

Of those social security administrations surveyed by the ISSA, 68 per cent were based in countries where the national government had provided assistance to financial institutions or adopted other economic recovery measures. More specifically, when asked whether these national crisis response packages included an explicit social security provision, social security

⁴ ISSA. 2010. *Australia's successful income-led response to the crisis*. (Snapshot) <www.issa.int/Observatory/In-Focus/In-Focus-Social-security-responding-to-the-financial-crisis/Snapshots/Australia-s-successful-income-led-response-to-the-crisis> (accessed 28.02.2011)

was widely assigned importance. The overall result for all social security administrations suggested that half of social security administrations' national governments included social security as part of their crisis response package. Once more, the results indicate that social security measures featured more centrally in the stimulus packages of OECD countries.

Some key conclusion can be drawn regarding the role and significance social security was assigned in fiscal rescue packages:

- Social security was part of an integrated national crisis response in a number of countries.
- Coordinated national stimulus packages and the general stabilizing effect of social security softened the impact of the crisis.
- One can also suppose that if spending had been higher on social security and measures directly related to social security the cushioning effect could have been even more effective.
- There is a danger that stimulus packages will be withdrawn prematurely. Such an action could provoke a reduction in consumer confidence and spending and engender the emergence of a double-dip recession. Although the short term pressures to reduce fiscal deficits is attractive, especially given soaring public debt, the long term impact on unemployment, social expenditure and the erosion of the tax bases are considerable⁵.

Impact of the crisis on labour markets

In 2008, the market capitalization of the world's stock exchanges fell by 47 per cent in value representing a loss of USD 29.4 trillion which was equal to about half of global GDP⁶. According to the ILO, the crisis caused world production to contract by 2.2 per cent in 2009. To paraphrase the ILO further, this contraction in output raised the number of unemployed people worldwide by about 34 million, from 2007 to the end of 2009, corresponding to an estimated increase of 0.9 percentage points in the global unemployment rate during this period. Unemployment is only the tip of the iceberg of labour market distress. Underemployment has also increased significantly, raising concerns that many discouraged workers may permanently detach from the labour market. A marked increase in vulnerable employment and working poverty has also occurred between 2008 and 2009⁷.

Pressing additional concerns also persist with regard to the future labour market outlook. For instance, it is estimated that without appropriate action, nearly 43 million persons over the period 2009-2012 could enter inactivity or long-term unemployment⁸. The social exclusion synonymous with long-term unemployment creates the risk of more widespread inactivity,

⁵ ILO 2010. *Extending social security for all: A guide through challenges and options*. Geneva, ILO.

⁶ Shutt, H. 2010. *Beyond the profit system: Possibilities for a post-capitalist era*. London & New York, Zed Books.

⁷ ILO. 2010. *Recovery and growth with decent work*. Report of the Director-General for International Labour Conference, 99th Session, 2010. <www.ilo.org/wcmsp5/groups/public/--ed_norm/---relconf/documents/meetingdocument/wcms_140738.pdf> (accessed 28.02.2011)

⁸ ILO. 2009. *World of Work Report 2009: The Global Jobs Crisis and Beyond*. Geneva, ILO.

increased informal employment, loss of skills, along with diminished social cohesion and trust. A number of these consequences may also have an insidious impact on society.

The gravity of this situation is further accentuated by the predictions that the labour market crisis will not peter out for several more years. The ILO suggests that employment in high GDP per-capita countries will not return to pre-crisis levels before 2013 and employment rates not before 2014. For emerging and developing countries, employment levels could start recovering from the end of 2010, but employment rates might not recover in the near term⁹. This is not unusual, given that the labour-force participations of rates countries impacted by 1997 Asian financial crisis still have some way to go until their labour market conditions return to those prior to the crisis 13 years ago¹⁰. The forecast of a protracted labour market crisis means that social security will have to continue to focus its efforts on dealing with a prolonged and deep labour market crisis.

With regard to the experience of social security administrations the immediate effect of the economic crisis was the sharp increase in unemployment rates. These rates varied considerably between countries, ranging from a rate of 4.5 per cent (Netherlands) to 17.4 per cent (Spain). Many social security administrations bore the brunt of this particular impact of the crisis. A large majority of social security administrations reported that unemployment in their country had increased. Social security administrations based in OECD countries all reported that there had been an increase in unemployment (100 per cent) and in non-OECD countries a slightly lower percentage of 82 per cent reported increased unemployment. Of course, the degree of unemployment varied considerably. Many non-OECD social security administrations made the important point that while the crisis had certainly impacted on the labour markets it was difficult to disaggregate the precise impact and pin it down since they have experienced chronic unemployment for so long and are visited by crises frequently.

The survey also indicated that 75 per cent of those social security administrations that were able to (i.e. were social security administrations tasked with responding to unemployment) and were located in countries that had experienced a significant labour market impact from the crisis had at the time of the survey taken measures to protect people affected by the increase in unemployment. A higher percentage of this response is attributable to OECD-based social security administrations (87 per cent) than non-OECD-based social security administrations (67 per cent). This difference is once again a reflection of the abovementioned factors such as fiscal space and institutional capacity, with OECD administrations being generally better placed to react to this contingency. Moreover, few African countries have unemployment insurance schemes to mobilize.

Governments and social security administrations generally seem to have reacted rapidly with the overall objective of avoiding lay-offs and protecting the unemployed. Respondents reported a range of specific measures that have been adopted. These included: increased unemployment benefits; extended benefit duration; granting of exceptional unemployment allocations; adapted qualifying conditions to the situation; established new, and extended existing, work-sharing agreements; provided training and re-skilling; stimulated employment

⁹ Ibid.

¹⁰ Ibid.

through reduction in contributions or financial compensation; promoted labour-intensive sectors; and, extended health coverage to the unemployed.

Some administrations experienced unprecedented increases in demand in unemployment insurance claims. This upsurge in demand necessitated administrative improvements in providing benefits and employment services (e.g. case management), and in some cases, recruitment of additional staff to cope with the demand, as was the case in France and the Netherlands.

Diverse measures taken to combat unemployment

As shown in Table 3, the enhancement of unemployment programmes was the main public intervention in the field of social security. The adoption of short- and medium-term measures was a popular action among social security administrations, with three quarters of those surveyed reporting that their national governments adopted short- and and/or medium-term measures to mitigate the adverse social effects of the crisis. Short- and medium-term social security measures were adopted to replace the loss of income generated by the crisis and to stimulate spending, measures included: New social security benefits, increase of benefits, an easing of the qualifying conditions of benefits, greater training and re-skilling for unemployed persons, tax reductions, investment in infrastructure, financial assistance to enterprises and relaxation of state borrowing limits. For instance, with regard to a specific group, 55 per cent of social security administrations adopted measures targeted at alleviating and preventing poverty rates among the elderly.

Importantly, although the crisis constituted a problematic event for social security it also acted as an incentive to enact improvements in social coverage. In this regard, we find that a number of countries seized on the crisis as an opportunity. For example South Africa chose to extend their coverage by committing to raise the coverage of its Child Support Grant (CSG) from ages 0-15 to 0-18 over the next three years¹¹. In a similar fashion, the Russian Federation opted to fulfil its commitment to increase the adequacy of benefits; of notable significance was the increasing of pension benefits by 46 per cent and unemployment benefits by 50 per cent¹². Equally we find that the crisis meant that some administrations such as Latvia felt compelled to cut their social security spending in some areas¹³ and the severe budgetary reductions in Greece will impact social security¹⁴.

¹¹ ISSA. 2009. *South Africa uses crisis as an opportunity to extend social security coverage*. (Snapshot) <www.issa.int/Observatory/In-Focus/In-Focus-Social-security-responding-to-the-financial-crisis/Snapshots/South-Africa-uses-crisis-as-an-opportunity-to-extend-social-security-coverage> (accessed 28.02.2011)

¹² ISSA. 2009. *Russia limbering up to launch anti-crisis response*. (Snapshot) <www.issa.int/Observatory/In-Focus/In-Focus-Social-security-responding-to-the-financial-crisis/Snapshots/Russia-limbering-up-to-launch-anti-crisis-response> (accessed 28.02.2011)

¹³ ISSA. 2009. *Latvia implements anti-crisis measures*. (Snapshot) <www.issa.int/Observatory/In-Focus/In-Focus-Social-security-responding-to-the-financial-crisis/Snapshots/Latvia-implements-anti-crisis-measures> (accessed 28.02.2011)

¹⁴ ISSA. 2009. *Reduced social spending: A third stage to the crisis?* (Snapshot) <www.issa.int/Observatory/In-Focus/In-Focus-Social-security-responding-to-the-financial-crisis/Snapshots/Reduced-social-spending-A-third-stage-to-the-crisis> (accessed 28.02.2011)

Table 3: Social protection crisis response measures in the G20 countries

	Extend coverage	Reduce contribution	Increase duration	Increase benefits	Partial unemployment
Brazil			X		
Canada	X	X	X		X
France	X		X	X	X
Germany		X	X		
India			X		
Italy			X		
Japan	X	X	X		X
Korea, Republic of			X		X
Netherlands					X
Russian Federation				X	
Spain	X				
South Africa	X				X
Turkey				X	X
United Kingdom	X				
United States	X		X	X	

Source: ILO. 2010. *Employment and social protection policies from crisis to recovery and beyond: A review of experience*. An ILO report to the G20 Labour and Employment Ministers Meeting, Washington, DC, 20–21 April 2010. Geneva, ILO.

To summarize this section, the ISSA survey and subsequent analysis reveals a number of core findings:

- A majority of countries experienced an increase in unemployment and therefore adopted a wide range of measures to address this increase.
- A number of short to mid-term measures were employed to deal with the impact of increased unemployment.
- For some members the crisis did act as an opportunity to extend coverage and bolster the adequacy of their benefits.
- While developing countries have not been hit so hard in terms of unemployment, the ripple effect of the crisis may land on their shorelines in the not too distant future through the impacts on trade, reduced direct foreign investment and a lack of unemployment schemes¹⁵.
- Most administrations will have to contend with the labour market crisis for several more years to come, especially in dealing with unmotivated workers and those who have exited the labour market on a semi-permanent basis.

Conclusions

¹⁵ Stiglitz, J. 2009. “The global crisis, social protection and jobs”, in *International Labour Review*, 1-2, Volume 148, June 2009.

The ISSA survey confirms earlier observations of the impact of the crisis on social security. The findings indicate that the financial crisis affected social security schemes in a number of ways, with depleted fund reserves, diminished income and increased expenditure on benefits being the key impacts. More than this, there are also a number of other important observations that can be made about the experience and role played so far by social security, and the context in which administrations will have to operate in the emerging post-crisis world.

Social security played a crucial role

Social security has demonstrated that it is an important component of the exit strategy from the crisis. It helped maintain economic activity through restoring public confidence and therefore stimulating aggregate demand (public consumption). Arguably, it helped foster social peace and social cohesion and helped protect some of the most vulnerable groups in society. It has also softened the impact of the crisis by acting as an important countercyclical economic and social buffer. There is evidence that governments – and public opinion – now better recognize the important social and economic roles played by social security programmes. Its role in helping to alleviate social risks and support economic recovery are, perhaps more than ever, readily accepted. As a result, social security administrations, and the values they represent, may find themselves in a politically stronger situation and support from government maybe more forthcoming in the future. In the current context of the crisis, this is a positive development.

Of course it is important to acknowledge that those countries already with strong fiscal positions have, naturally, been better able to provide financial stimuli, including tax-financed social assistance initiatives. They were therefore more successful in responding to the impact of the crisis.

Financing difficulties look set to persist

The crisis depleted social security reserves and rendered social security administrations financially vulnerable, thus less capable of responding to subsequent shocks even in the medium term. Additionally, the evolution of the financial crisis to an economic crisis has meant that social security administrations are receiving less income – mainly because of lower investment returns and lower levels of contributions – and are incurring higher expenses – as a result of the cost of higher demand for existing benefit programmes. These difficulties have been further compounded by the fact that many administrations have incurred higher debt, which threatens the financial resilience of social security programmes. In a broader context of demographic ageing the crisis has revealed serious concerns about the sustainability of social security funds and their ability to continue to finance benefits over the coming decades.

These difficulties will increase as long as unemployment remains high, thus implying higher expenditure on unemployment benefits and reduced levels of social security contributions. This possible scenario is very likely to constitute a semi-permanent financial burden for social security. However, if governments continue high levels of expenditure they will incur greater interest on their debts and saddle generations to come with a significant debt burden and reduce the capacity of future generations to deal with major shocks/contingencies when and where they arise. Of equal significance, and especially given the debt crisis, is that governments are faced with a genuine either/or dilemma: they need to maintain levels of recurrent social expenditures, as well as maintaining short- to medium-term expenditures in support of extended provisions in response to the crisis, but keep their deficits as low as possible. Ultimately, however, mounting fiscal pressures may be decisive.

There is a compelling argument that taking preventive action now through continued social spending can be cost-effective in the long term. This argument is particularly pertinent to the labour market crisis because trying to enable those who have exited the labour market to re-enter productive employment at a later stage can prove extraordinarily difficult and very costly for the public purse. Moreover, the social and economic costs of reducing public spending levels would also involve increased human suffering and hardship, spiralling unemployment, lower consumption, reduced social cohesion and even diminished social peace and the destabilisation of government.

The wider context

Looking at the wider context in which social security is compelled to operate there are a number of concerns that need to be analysed. There is uncertainty about how long economic and labour markets difficulties will continue, and in many countries growth remains low and unemployment rates remain high and may climb higher.

There are also concerns about the possibility of a new economic crisis following the present one. The reason for this concern is based on the observation that government stimulus packages may have artificially improved the health of national economies. Once these measures, inevitably, are scaled back or come to an end, the fear is that national economies may slide back into recession. If the global economy were to falter again in the near-term, the concern is that government finances, as well as the financial reserves of social security funds, would be unable to bankroll the necessary response measures on a scale comparable with that witnessed in the last few years. Some administrations are not well-placed to deal with more financial and economic shocks. The possibility of such a scenario occurring is supported by emerging evidence of the broader challenges facing public finance in some countries, as for example in Greece and Portugal, had no other option than to commit to reducing their public debt and deficit whatever the social costs.

Furthermore, the financial sector that precipitated the crisis has remained largely unchanged in the wake of the crisis and thus its potential to produce further shocks remains an ever-present threat. If more shocks occur, it will be social security that is expected to step in as a buffer once more. It is too early to say what will come of these concerns but it would be wise for all social security administrations to remain watchful of the bigger macro-economic picture in order to be able to continue to respond effectively.

In summary, the crisis has demonstrated the existing weaknesses of some social security schemes and bolstered the value of social security as a form of social solidarity. Moreover, social security seemed to have acted as an important component of the exit strategy from the crisis. Principally, it has acted as an economic buffer, reinforced social cohesion and improved socio-economic stability. Likewise it has played an important role in restoring public confidence. Another key point is that those countries that were able to deal with the crisis effectively were those ones already in a healthy fiscal position prior to the onset of the crisis. It seems that those countries that have pursued a responsible countercyclical fiscal policy in the past – accumulating surpluses when the economy was healthy (and thus reducing or eliminating public debt) – have proven to be in a far stronger position to loosen up their fiscal policy in a downturn and provide a fiscal stimulus that includes social assistance initiatives. Many of these countries had also been pursuing a tight monetary policy, again affording them greater leeway to loosen monetary policy in response to the crisis.

Ultimately, the lesson to be drawn from the ISSA survey responses is not simply that social security is unrivalled as “the” necessary societal response to crises, but, on a day-to-day basis, is integral to the smooth functioning of decent societies. Finally, social security as part of an integrated component of fiscal stimulus packages played a key role in preventing the emergence of social conditions which threatened to be more severe than that of the Great Depression and which could have generated consequences that were far worse than those in the depression years after 1929.

ANNEX

ISSA member organizations participating in the survey

1.	Algeria	National Social Security Fund for Non-Salaried Workers
2.	Argentina	Social Fund for Commercial Travellers of the Republic of Argentina
3.	Austria	Federal Ministry of Labour Social Affairs and Consumer Protection
4.	Azerbaijan, Republic of	State Social Protection Fund
5.	Bahamas	The National Insurance Board
6.	Belgium	National Social Insurance Institute for Self-Employed Persons
7.	Belgium	National Employment Office
8.	Brazil	National Institute of Social Security
9.	Brazil	Ministry of Social Insurance
10.	Bulgaria	National Social Security Institute
11.	Burkina Faso	Autonomous Retirement Fund for Public Employees
12.	Burundi	National Social Security Institute
13.	Burundi	Mutual Benefit Society for Public Employees
14.	Canada	Office of the Superintendent of Financial Institutions - Office of the Chief Actuary
15.	Canada	The Quebec Pensions Board
16.	Chile	Superintendency of Social Security
17.	China	Ministry of Human Resources and Social Security
18.	Côte d'Ivoire	General Mutual Benefit Fund for Civil Servants and State Employees of Côte d'Ivoire
19.	Denmark	National Board of Industrial Injuries
20.	Egypt	Government Sector Insurance Fund
21.	Estonia	Estonian National Social Insurance Board
22.	Ethiopia	Social Security Agency
23.	Finland	Finnish Centre for Pensions
24.	Finland	Farmer's Social Insurance Institution
25.	Finland	Ministry of Social Affairs and Health
26.	Finland	Social Insurance Institution
27.	Finland	Unemployment Insurance Fund
28.	France	National Family Allowances Fund
29.	France	National Old-Age Insurance Fund for Employees
30.	Germany	German Federal Pension Insurance
31.	Germany	German Social Accident Insurance
32.	Greece	General Secretariat of Social Security
33.	Guatemala	Social Security Institute of Guatemala
34.	Guernsey	Social Security Department
35.	Indonesia	Employees Social Security System
36.	Iran, Islamic Republic of	Civil Servants Pension Fund

37.	Iran, Islamic Republic of	Social Security Organization
38.	Italy	National Employment Accident Insurance Institute
39.	Italy	National Insurance Institute for Employees of the Public Administration
40.	Japan	Government Pension Investment Fund
41.	Japan	Ministry of Health, Labour and Welfare
42.	Jordan	Social Security Corporation
43.	Korea, Republic of	National Health Insurance Corporation
44.	Korea, Republic of	National Pension Service
45.	Korea, Republic of	Korea Occupational Safety and Health Agency
46.	Latvia	State Social Insurance Agency
47.	Lithuania	State Social Insurance Fund Board of the Republic of Lithuania under the Ministry of Social Security and Labour
48.	Luxembourg	Association of Social Security Bodies of Luxembourg
49.	Macedonia, Republic of	Pension and Disability Insurance Fund of Macedonia
50.	Madagascar	National Social Insurance Fund
51.	Mauritius	Ministry of Social Security, National Solidarity & Senior Citizens Welfare and Reforms Institutions
52.	Mexico	Mexican Social Security Institute
53.	Mexico	State Employees' Social Security and Social Services Institute
54.	Moldova	National Office of Social Insurance
55.	Mongolia	Ministry of Social Welfare and Labour
56.	Nepal	Employees Provident Fund
57.	Netherlands	Health Care Insurance Board
58.	Netherlands	Social Insurance Bank
59.	New Zealand	Ministry of Social Development
60.	Nigeria	National Pension Commission
61.	Oman	Public Authority for Social Insurance
62.	Peru	Derrama Magisterial
63.	Peru	The Social Health Insurance Institute ESSALUD
64.	Philippines	Social Security System
65.	Philippines	Philippine Health Insurance Corporation
66.	Portugal	General Directorate for Social Security
67.	Rwanda	The Rwandaise Health Care Insurance
68.	Saint Lucia	National Insurance Corporation
69.	Saudi Arabia	General Organization for Social Insurance
70.	Seychelles	Seychelles Pension Fund
71.	Slovakia	Social Insurance Agency
72.	Slovenia	Health Insurance Institute of Slovenia
73.	Spain	Federation of Administrative Bodies of Spanish Social Security

74.	Sri Lanka	Employees' Provident Fund
75.	Sudan	The National Pensions Fund
76.	Sweden	Public Employment Service
77.	Switzerland	Federal Social Insurance Office
78.	Tanzania, United Republic of	Public Service Pensions Fund
79.	Thailand	Social Security Office
80.	Trinidad and Tobago	National Insurance Board
81.	Turkey	Social Security Institution
82.	Uruguay	República AFAP
83.	Yemen	General Authority for Social Security and Pensions
84.	Zambia	National Pension Scheme Authority
85.	Zambia	Zambia Workers' Compensation Fund Control Board
86.	Zimbabwe	National Social Security Authority

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