Future challenges for social protection systems: 
lessons learned from the interregional experience

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Virtual roundtable and workshop
“Opportunities to move towards universal social protection systems in Latin America and the Caribbean: the role of interregional dialogue”
UN Economic Commission for Latin America and the Caribbean (ECLAC)
14 and 15 March 2023
Main future challenges for social protection systems

1. Demographic change
2. The uncertain future of work
3. Macro-shocks (economic, health, political, natural, environmental)
4. Climate change
1. Demographic change

Life expectancy is rising

Fertility rates are decreasing

Out-migration reduces further the number of people at working-age (in some countries)

As a result: age dependency is rising (less children, but far more retired people)
1. Demographic change

Total age dependency ratio (LAC without high-income economies)

- **14 years old or less**
- **65 years old or more**

- 1950: 0.47
- 2020: 0.14
- 2080: 0.83
- 2100: 0.59

Source: German Institute of Development and Sustainability (IDOS)
1. Demographic change

Total age dependency ratio (LAC without high-income economies)

- **Subsahara-Africa**
- **OECD**
- **East Asia**

- **14 years old or less**
- **65 years old or more**

<table>
<thead>
<tr>
<th>Year</th>
<th>age 65 and above</th>
<th>age 14 and below</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>0.1</td>
<td>0.9</td>
</tr>
<tr>
<td>1960</td>
<td>0.2</td>
<td>0.8</td>
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<tr>
<td>1970</td>
<td>0.3</td>
<td>0.7</td>
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<td>1980</td>
<td>0.4</td>
<td>0.6</td>
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<tr>
<td>1990</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>2000</td>
<td>0.6</td>
<td>0.4</td>
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<tr>
<td>2010</td>
<td>0.7</td>
<td>0.3</td>
</tr>
<tr>
<td>2020</td>
<td>0.8</td>
<td>0.2</td>
</tr>
<tr>
<td>2030</td>
<td>0.9</td>
<td>0.1</td>
</tr>
<tr>
<td>2040</td>
<td>1.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>
1. Demographic change

Life expectancy is rising

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Out-migration reduces further the number of people at working-age (in some countries)

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Hence: Financing of SP by intergenerational redistribution becomes more and more difficult. This concerns social pension and health insurance but also non-contributory health and transfer schemes
1. Demographic change

Impact of social insurance and social assistance programmes on the Gini coefficient in selected regions

OECD: 8-18 percentage points

1. Demographic change

- Life expectancy is rising
- Fertility rates are decreasing
- Out-migration reduces further the number of people at working-age (in some countries)
- Female labour force participation will increase

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Additional need for funding

Increasing demand for old-age people and child care
1. Demographic change

- **Life expectancy** is rising
- **Fertility rates** are decreasing
- **Out-migration** reduces further the number of people at working-age (in some countries)
- **Female labour force participation** will increase

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**Hence:**
Financing of SP by intergenerational redistribution becomes more and more difficult. This concerns social pension and health insurance but also non-contributory health and transfer schemes.

- **more intertemporal redistribution** (accumulation of funds over the life-span)
  but beware of mistakes made in the past
- plus: more vertical redistribution (top-down) through taxes
- plus: extended capacities of tax-funded kindergartens and old people’s homes

**Increasing demand for old-age people and child care**

**Additional need for funding**
2. The uncertain future of work

Automation and digitisation → accelerated structural change → frictional unemployment to rise

Continued globalisation → investment can increase or decrease → informal sector is likely to grow

Net effects depend on the framework conditions (i.e. good industrial policies) → while overall unemployment might decrease on the long-term
2. The uncertain future of work

Figure 2.6 Share of persons in employment who contribute to a social insurance scheme, by status and type of employment, selected countries, latest available year

- Full-time employees with indefinite contracts
- Part-time employees
- Temporary employees
- Multiple job holders
- Self-employed

Note: Multiple job holders are defined as employed individuals holding multiple simultaneous jobs (wage employment and/or self-employment).

Sources: ILO calculations based on Luxembourg Income Study (LIS) database (http://www.lisdatacenter.org, multiple countries; 2007-18) and national household surveys.

Link: https://wspr.social-protection.org.

design social protection schemes that do not build on formal relations e.g. tax-financed social insurance programmes (following the examples of the Skandinavian countries)
3. Macro shocks


- **Commodity supply and price crises:** FFF crisis (2006-2007), price hikes because of Russia's aggression in Ukraine (2022)

- **Pandemics:** Spanish flu (1916), Covid19 (2020-2022)

- **Flight and migration waves:** Cuba (1959-), Viet Nam (1960-70), Syria (2011-), Ukraine (2022-)

- **Natural disasters:** earthquake in Turkey and Syria (2023), El Niño (1997-98), flash floods in Chile (2015), river flood in Ahr Valley, Germany (2021)

- **Climate change-induced extreme weather events:** hurricane Katrina (2005), extreme drought in Northern Italy (2022), Uruguay river basin floods (2017), heatwave in Europe (2019), South Amazon drought (2010)
3. Macro shocks: e.g. global economic crisis 2008-09

- Less exports
- Less tourism
- Less investment
- Less remittances

**Dismissals** (loss of jobs)

**Decrease in income**

*Negative multiplicator*

Less spending domestically

Rise in poverty, vulnerability and inequality

Decline in economic growth
3. Macro shocks

Share of people in India in extreme poverty, %

The Economist, 12 Jan. 2022
3. Macro shocks: e.g. global economic crisis 2008-09

Less exports

Less tourism

Less investment

Less remittances

Dismissals (loss of jobs)

Decrease in income

Stable domestic spending:
No negative multiplicator effect

Extension of social transfer spending to compensate for decline in spending

Social protection as a micro- and macroeconomic stabiliser

Stable domestic spending: No negative multiplicator effect
In general:

Countries can respond more quickly to macro crises if they have social transfer programmes in place at the onset.

They then only need to pump additional money into these programs and can cushion the crisis even before it has fully infected the country in question.

This was also demonstrated in the Covid19 pandemic.
4. Climate change

**Extreme events**
more likely (heavy rain, flood, storm, flood, drought, landslide)

**Loss of income or assets**

**Slow onset events**
(Sea level rise, soil salinisation, decrease or increase in precipitation etc.).

**Loss of livelihoods and employment; migration**
4. Climate change

**Extreme events**
more likely
(heavy rain, flood, storm, flood, drought, landslide)

**Slow onset events**
(Sea level rise, soil salinisation, decrease or increase in precipitation etc.).

**Loss of income or assets**

**Weather index insurance**
(social, private or micro)

**Social transfer schemes for risk coping**

**Loss of livelihoods and employment; migration**

**International transfers required**
Conclusion

- Shift somewhat from intergenerational to intertemporal redistribution
  - to master the **demographic change**
  - to cover **additional (mainly natural) risks**

- **Extend vertical redistribution through taxes and transfers**
  - to master the **demographic change**
  - to cover better **people in the informal sector**
    (“tax-financed social insurance” like in Scandinavian countries)
  - to be **prepared for micro- and macro-economic stabilisation after macro-shocks**
  - to provide for **sufficient and free basic health care everywhere during pandemics**
  - to extend **capacities of kindergartens and old people’s homes**, financed by taxes

- **International community:** provide **international transfers**
  covering the effects of **slow onset events that are related to climate change**
Literature

Aleksandrova, M. / C. Costella (2021): Reaching the poorest and most vulnerable: addressing loss and damage through social protection, in: Current Opinion in Environmental Sustainability (50)


Loewe, M. et al. (2020): Community effects of cash-for-work programmes in Jordan: supporting social cohesion, more equitable gender roles and local economic development in contexts of flight and migration. DIE Studies 103, Bonn: German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)


Thank you very much for your attention!

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