SPOTLIGHT 1.5

On economic insecurity

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Economic security is a cornerstone of wellbeing. Economic stability and some degree of predictability enable people to plan and invest in their future and that of their children. They encourage innovation, reinforce social connections and build trust in others and in institutions.[1] Worry and anxiety about the future have negative health outcomes, ranging from mental health problems to heart disease and increased risk of obesity, including among children.[2] Pervasive economic insecurity generates popular discontent and imperils political stability.

Even before the Covid-19 pandemic, many people found themselves and their families on shaky economic ground. Growing employment instability and work that is increasingly precarious and poorly paid, together with persistent joblessness, are root causes of rising economic insecurity in high-income countries. In low- and middle-income countries high informal employment continues to affect income stability. People can no longer rely on stable, decent work to provide economic stability throughout their lives—a trend compounded by the Covid-19 pandemic and an emerging climate crisis.

Increased awareness of climate change and its many implications has injected growing uncertainty about the future and raised people's concerns about their wellbeing in the long run. Even though the effects are shaping anxieties worldwide, the impacts will be uneven. People in the poorest countries, particularly children and young people, stand to lose the most.

Indeed, people in poverty are more exposed to adverse events, from ill health to the growing impacts of systemic shocks such as climate change and pandemics, and have fewer resources to cope with and recover from their consequences. However, many people who are not poor by national or international standards are or feel economically insecure as well. In fact, while economic security and confidence in the future have traditionally been defining features of the middle class, this group is feeling increasingly insecure.[3] Workers in the informal economy and the growing number of people under nonstandard contractual arrangements are highly insecure, as are people with lower education levels, women, younger adults, members of racial and ethnic minorities and heads of single-parent households.[4]

Despite its significance, growing economic insecurity has stayed under the policy radar in many countries. Experts find fault in the fact that it is not adequately reflected in standard national statistics.[5] Indeed, many measurement issues related to insecurity are still unresolved, and empirical research on developing countries is scarce.

Whatever the method used to assess economic risks, the implications of these risks depend crucially on the buffers available. Catastrophic expenses and large debts drive falls into poverty when social protection systems do not help guard against risks or cover their effects. Even in developed countries with comprehensive social protection systems, comparative cross-country data suggest that public transfers protect only about 40 percent of adults against large drops in disposable income (drops of 25 percent of disposable income or above).[6]

Not only are risks growing, but policies are also not keeping up with current trends. Public institutions, policies and governance systems are struggling to adapt to rapidly changing needs across countries. Social protection coverage is often contingent on a traditional formal employer–employee relationship, and many schemes are not portable across jobs. Labour market institutions and regulations are also challenged by the growing diversification of working arrangements.

There are, however, policy innovations in both developed and developing countries that demonstrate the capacity of social protection systems, labour market institutions and public services to adapt to changing circumstances. These include new forms of social protection that adequately cover informal workers, migrant workers or those with nonstandard contracts.[7] There are also agile programmes that automatically scale up in response to systemic shocks, such as pandemics or climate-related emergencies. Some groups of informal workers have pursued new models of collective representation to protect their interests, namely through cooperatives, self-help groups and associations. Some of these new organizations have helped workers connect and undertake collective action, but many lack the legal capacity to negotiate working conditions. A key challenge for these organizations is that many informal workers are not considered workers under the law and therefore do not have bargaining rights. In some countries—Canada, Germany and Sweden, for instance—collective bargaining rights have been extended to some categories of self-employed workers.[8]

Providing economic security remains a key role of the state and its institutions and is a foundation of the social contract between government and citizens. Many governments spend a substantial share of GDP to safeguard against hardship-causing losses, through social protection systems, healthcare and other public services. This is a crucial moment to reflect on how to adapt past policies and institutions to a new socioeconomic reality.

Large-scale crises heighten risk and insecurity and have, at times, opened a path to renew the social contract. The unprecedented income support and health measures put in place by many governments as a response to the Covid-19 pandemic attest to the primary role that the state continues to play in confronting economic risk and insecurity. Policy responses to the crisis have ranged from direct payroll support to employers to covering income losses in informal employment to rent payments and eviction moratoriums, not to mention expanding healthcare coverage in traditionally underserved areas.[9]

However, many of these measures are temporary. Most of them leave beneficiaries just as vulnerable to future shocks once they are removed. Comprehensive, universal social protection systems, when in place, play a much more durable role in protecting workers and in reducing the prevalence of poverty than short-term, ad hoc measures, since they act as automatic stabilizers. They provide basic income security at all times and therefore enhance people's capacity to manage and overcome shocks.

Countries with social protection systems already in place were able to scale them up quickly during the Covid-19 pandemic. Investments in building and expanding social protection systems in some Latin American countries over the past decades have cushioned the fallout from the crisis, at least in the short term.[10] Many other low- and middle-income countries entered the crisis on weak financial footing, however. Their ability to expand social protection has been constrained by lack of fiscal space as well as by a lack of existing mechanisms on which to build. Overall, the financial support to individuals and families has varied dramatically across countries, as has access to vaccines and thus the speed of economic recovery. Without urgent corrective action from the international community, the current crisis is likely to widen disparities both within and between countries.[11]

Focusing on the challenges people face today—from increasingly precarious employment to inadequate healthcare and difficulty accessing social protection, housing and other public services—can narrow social, economic and political divides and guard against the next global crisis.

NOTES

1. For a broad assessment of economic insecurity and its measurement, see Stiglitz, Fitoussi and Durand (2018).
2. See Rohde and others (2017) and Watson and Osberg (2017).
3. Hacker 2018b.
4. Hacker 2018a.
5. Durand, Fitoussi and Stiglitz 2018; Stiglitz, Fitoussi and Durand 2018.
6. On average, although the percentage varies widely across countries. See Hacker (2018a).
7. See, for instance, ADB 2016.
8. For details of specific programmes in these countries, see OECD (2019b).
9. ILO 2020a.
10. Blofield, Giambruno and Pribble 2021; Lustig and others 2019.
11. Ferreira 2021.