
ISSUE BRIEF

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#12

Cluster 6: The future governance of work

Innovative approaches for ensuring universal social protection for the future of work

The establishment of the Global Commission on the Future of Work in August 2017 marked the start of the second phase of ILO's Future of Work Centenary initiative. The six thematic clusters provide a basis for further deliberations of the Global Commission. They focus on the main issues that need to be considered if the future of work is to be one that provides security, equality and prosperity. A series of Issue Briefs are prepared under each of the proposed clusters. These are intended to stimulate discussion on a select number of issues under the different themes. The thematic clusters are not necessarily related to the structure of the final report.

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Introduction

Social protection is a defining feature of contemporary economies and societies and an important part of their social fabric, acting as a key means to achieve equity and social justice. However, the growing diversification of working arrangements is likely to have major implications for its future. Some of these changes are associated with the ways in which labour markets and employment patterns are shaped by global trends such as digitalization, automation and globalization, and how they translate into changes in the structure of the labour market, labour market participation, employment relationships, wages, as well as job and employment security (ILO, 2017a). In many cases, new forms of work and employment have emerged, which do not enjoy the same level of social protection as others, namely the model of full-time, indefinite employment relationships (“standard employment relationships”). Many of these “new” forms of employment exist alongside the more traditional categories of workers with a low level of protection, often in non-standard forms of employment (NSE) or the informal economy (ILO, 2016a). More generally, the need for income security is growing in an uncertain world of work, and social protection is one of the policy areas that can help to contain growing inequality (ILO, 2017b).

Social protection systems are understood as being more than a set of fragmented (safety net) programmes. Social protection systems regularly come under attack, most recently in the wake of fiscal consolidation policies with calls for curtailments, stronger targeting to groups perceived as being the most vulnerable, and privatization (ibid.). However, despite such pressures, social protection systems tend to enjoy the broad support of the population and continue to be valued as an important part of the implicit social contract of modern societies (ILO, 2016b).

While social protection systems are well established in most high-income countries, many low- and middle-income countries have recently introduced or expanded social protection programmes and are progressively building up their systems, recognizing the importance of social protection policies as an integral component of their economic and social development strategies (ILO, 2017b). Despite these positive developments, only 45 per cent of the global population are covered in at least one area of social protection, and only 29 per cent enjoy access to comprehensive protection. The large majority of the global population enjoys no, or only limited, social protection (ILO, 2017a). Given these developments, there have been lively debates on the future of social protection.

This Issue Brief provides a review of the challenges and opportunities associated with social protection, in the light of research findings and current policy debates.

Key findings

What is the future of social protection?

The global discussion on the future of work includes much debate about the future of social protection. Some observers argue that significant reductions in the number of available jobs (see Issue Brief No. 6), together with changes in labour market and employment patterns and the ageing of the population, as well as increasing tax competition, will significantly erode current forms of social protection. Some others argue that social protection should be “decoupled” from employment, limited to safety nets for the poor, replaced by a universal basic income (see below) and/or by portable health and pension plans or other individualized arrangements (e.g. World Economic Forum, 2017) (see Issue Brief No. 4).

Still other observers argue that the “decoupling” of employment and social protection would not provide a viable alternative. Every contributory form of social protection (including private arrangements) requires a regular and adequate income stream. Weakening existing forms of coverage may lead to a stronger role for private arrangements, with their limited potential for risk pooling and redistribution – thus potentially exacerbating inequality, including gender gaps (ILO, 2016a). These observers argue that growing social protection needs require fair, inclusive and sustainable systems, including social protection floors, which provide adequate protection to the entire population, and allow for a sufficiently large degree of redistribution. These systems should also be financed in a sustainable and equitable way, usually by a combination of taxes and contributions (ILO, 2017b).

Despite divergent views on future developments and possible policy options, most observers would probably agree that the need for social protection is unlikely to decrease in the future; on the contrary, demands on social protection systems are likely to increase in the light of the disruptions in modern societies, increasing levels of inequality, and the changing role of work in people’s lives.

How can social protection systems adapt to changing work arrangements?

The strong need for social protection does not imply that the current system is optimal. The rise in NSE – and the accompanying lower levels of social protection for many workers in these types of employment, particularly women – has been identified as one of the core challenges for social protection systems. While many countries cover a significant share of such workers in their existing social protection systems, coverage gaps remain. These require a coordinated policy response to ensure that protection mechanisms are better adapted to the circumstances and needs of this growing category of workers. In addition, stubbornly high levels of informal employment persist in many countries (and in some, there has even been an increase in informality). This remains an important challenge for social protection systems, and has led to calls for greater attempts to close coverage gaps and build social protection floors.

In order to address these challenges, some recent policy innovations, in both developing and developed countries, demonstrate the capacity of social protection systems to adapt to changing circumstances. For example, a number of countries have started to introduce adapted mechanisms to ensure social protection for self-employed workers. These include: simplified tax and contribution collection mechanisms;¹ measures to prevent misclassification and curb disguised employment (designed to avoid social insurance contributions), with a view to ensuring the protection of all workers and fair competition for enterprises;² the adjustment of registration, contribution collection and benefit payment mechanisms to the circumstances and needs of specific categories of workers;³ adapted solutions for workers with multiple employers;⁴ and measures to take into account the specific situation of workers on digital platforms, many of whom combine that work with a regular job in which they may enjoy some social protection coverage (Berg, 2016; Forde et al., 2017).⁵

Efforts to improve the design of social protection systems with a view to better responding to the particular circumstances and needs of specific types of workers in NSE or informal employment, not only enhance social protection coverage for those workers but also help to create a level playing field for workers and employers, and support transitions from the informal to the formal economy (see Issue Brief No. 4). The adaption of social protection systems to the requirements of the evolving world of work, as well as to demographic challenges, can also benefit from technological improvements, such as digital communication and automated procedures, in order to ensure that administrative procedures are more effective and efficient.⁶

How will we finance social protection systems in the future?

In view of the expected decline of employment contracts with a clear employment relationship, some observers foresee that there will be an erosion of the social insurance contribution base; at the same time, higher demands will be made on social insurance, on account of the ageing of the population and higher levels of unemployment. Efforts to create a more level playing field between different types of employment, while adapting contributory mechanisms to facilitate coverage of NSE, as discussed above, may assist in halting this erosion, but further measures will be necessary to build up the contribution base in order to meet future needs.

Many observers agree that a greater emphasis on tax financing is necessary to close financing and coverage gaps – yet there is less agreement on how this might be achieved. Some observers argue that taxing robots and other technologies, or capital in general, could provide additional revenue for social protection systems, which would help to share productivity gains more widely among the population. What is less clear, however, is how to enhance the capacity of national governments to tax the highly mobile owners of robots, or capital in general, in a globalized economy with significant tax competition, in a way that it would provide a reliable source of revenue for national social protection systems.

¹ This is for example the case in Argentina, Brazil, France and Uruguay.

² Such measures have been taken, for example, by Germany and Italy (Eichhorst et al., 2013; ILO, 2016a).

³ For instance, Brazil and the Republic of Korea use proxy income measures for the assessment of earned income, while Cabo Verde allows self-employed workers to classify themselves in broad income brackets for the purpose of the calculation of contributions.

⁴ Such measures may include the use of intermediary bodies (such as cooperatives) that assume some of the responsibilities of employers, particularly with respect to aggregating information and contributions across multiple employers and facilitating interactions with social insurance institutions (Degryse, 2016; Hill, 2015).

⁵ For example, Uruguay recently introduced mechanisms to ensure that Uber drivers and others working through digital platforms are covered by social insurance, requiring the registration and payment of social insurance contributions by means of an easy-to-use online application.

⁶ In this respect, the protection of personal data and privacy plays a key role.

Moreover, some observers argue that the challenges that demographic change and weakening employment relationships present for the sustainability of social protection systems could be addressed by providing a larger role for private arrangements, such as private pensions or individual saving arrangements. Others point to the experience with the privatization of pension schemes in the 1980s and 1990s, which did not deliver the expected results in terms of reducing fiscal cost, expanding coverage and increasing efficiency; indeed, after 2008, a number of countries reversed attempts at privatization (ILO, 2017b).⁷ They argue that a strong role for public provision, financed through a combination of taxes and contributions, has a greater potential for ensuring adequate protection for all, in a way which reflects the principles of risk sharing, equity and solidarity – and which is fiscally, economically and socially sustainable.

Is universal basic income a feasible policy solution?

Across the globe, universal basic income (UBI) proposals are discussed as a possible solution to a rise in job and income insecurity associated with changing forms of work. Proponents of a UBI point to the pressing challenges arising not only as the result of the growing informality of employment, but also as the result of the emergence of new forms of employment made possible by digitalization and automation (see Issue Briefs Nos 4, 5 and 6).

Those in favour of a UBI argue that it provides a regular and predictable income as a universal and unconditional entitlement, thereby reducing poverty and inequality more effectively than means-tested schemes and buffering the possible displacement of jobs by technology (e.g. Van Parijs and Vanderborght, 2017). UBI would promote individuals' dignity and human rights by giving them the ability to engage in different forms of work that are not rewarded by the market, such as unpaid care work and volunteering. Moreover, some argue that UBI increases the incentive to work by reducing the risk of losing benefit entitlements upon entering paid employment, whilst reducing the administrative cost and complexity of existing social protection systems. Some proponents also state that a decent UBI strengthens the bargaining power of individual workers by providing an exit option and by increasing the reservation wage.

Critics of a UBI approach question its economic, political and social feasibility and its capacity to reduce poverty and inequality (e.g. OECD, 2017). They emphasize that it is too costly to provide everyone, including high-income earners, with a basic income at an adequate level (e.g. Piachaud, 2016). Moreover, its high cost might come at the expense of other protections. Furthermore, opponents consider that the potential of a UBI to provide a steady stream of income is less efficient in terms of macroeconomic stabilization than unemployment insurance (Vandenbroucke, 2017). They also fear that a UBI might introduce work disincentives by delinking income from labour market participation, and they stress that its potential links to broader employment and labour market policies remain vague. Some are concerned – particularly with regard to UBI proposals that aim at abolishing the welfare state – that employers might respond by reducing wages or disengaging from collective agreements. Critics also contend that a uniform amount of a basic income cannot adequately respond to specific needs, such as those of persons with disabilities and older persons.

⁷ Countries that reversed the privatization of pensions after 2008 include Argentina, Chile, the Czech Republic, Hungary, Kazakhstan and Poland.

This vibrant debate on UBI strikes a chord with many who are concerned about increased economic and social insecurity, growing inequalities and the huge gaps in social protection coverage for the majority of the world's population (ILO, 2014 and 2017b). The positive effects attributed to a UBI reflect some of the very principles of social security: providing at least a basic level of income security for all, in a way that protects and promotes human dignity and allows people the breathing space to engage in meaningful and decent work and to care for their families.

Existing universal benefit schemes for certain subgroups of the population, such as universal child benefits or pensions, in both developed and developing countries, already play a key role in filling coverage gaps and ensuring at least a basic level of income security for that population as a matter of right, based on clear and transparent eligibility criteria, and at a manageable cost (ILO, 2017b). Benefit levels are rather modest, but they provide a solid basis for adequate levels of protection if combined with other forms of protection, such as social insurance.

Some considerations

The trends described in this Issue Brief are likely to affect the social fabric – or social contract – on which the stability of societies is built, particularly with respect to higher levels of inequality, insecurity, instability and informality.

- What social protection policies are needed for the future? How can social protection systems adapt to the new challenges to deliver inclusive and adequate coverage? How can we ensure at least a basic level of social protection for all – that is, a social protection floor?
- How shall we finance these social protection policies? Is the taxation of gains from technology (e.g. robots, big data, etc.) a realistic option to finance social protection systems?
- Is the introduction of a universal basic income (UBI) a feasible policy solution?
- How do we renew the social contract for the future of work? What roles should the social partners play?
- What is the right balance between individual and collective responsibility? Are we shifting the responsibility too much to the individual?

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