



# Fiscal Space for Universal Health and Social Protection Post COVID-19 Pandemic: How to Prevent Austerity

Isabel Ortiz

Director Global Social Justice

Initiative for Policy Dialogue (IPD)

Virtual Annual Meetings 2020 IMF – World Bank

Civil Society Policy Forum, 2 October 2020



# Universal Health and Social Protection Post COVID-19 Pandemic

COVID19 is an unprecedented crisis. In 2019-20, governments have taken urgent and needed measures to cope with the coronavirus pandemic:

- Enforcing quarantines and increasing public health expenditures for emergency care
- Launching large fiscal stimulus plans to protect jobs and the economy
- Temporary social protection programs such as income/food support, subsidies to utilities and care services

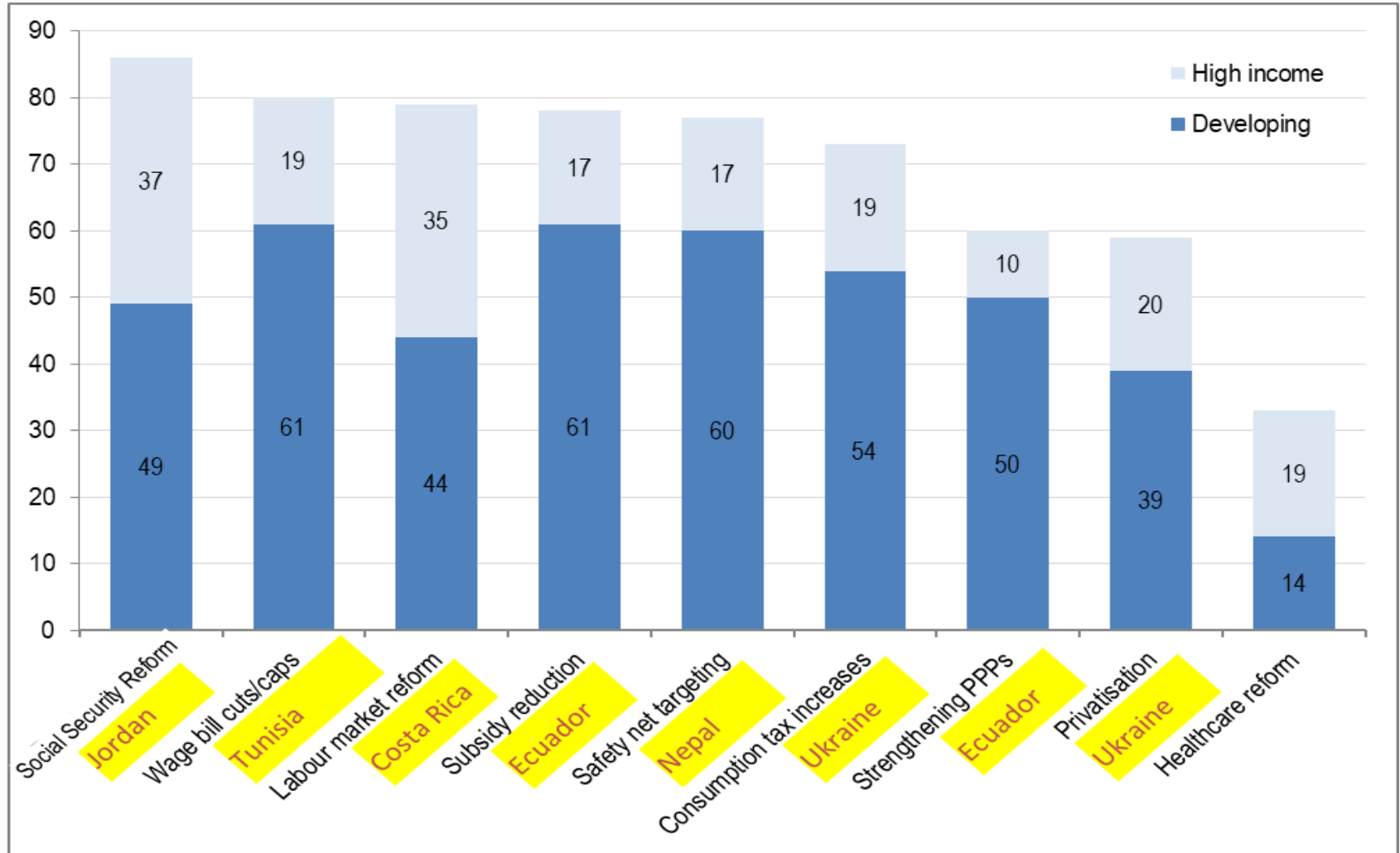
**This has resulted in increased debt and fiscal deficits. High risk of a new round of fiscal consolidation or austerity cuts.**

- Austerity cuts to social policies tend to have negative social impacts. The pandemic has revealed the weak state of public health systems – generally overburdened, underfunded and understaffed because of earlier austerity policies and privatizations.
- **Need to invest in universal public health, at stake is the survival of the planet.** Indeed, respirators and tests were necessary, but countries need more than just emergency care.
- Poverty and inequality have both increased during the pandemic. **Countries must support jobs and universal social protection systems/floors.**
- IMF Rapid financing does not include conditionality but reports generally reflect a commitment to fiscal consolidation as soon as the pandemic ends.

**Instead of austerity cuts, it is critical to create fiscal space and give governments the time, flexibility and support to achieve a sustainable, inclusive and just recovery.**

# Austerity Measures in IMF Country Reports

In Blue – Number of countries, 2018-19  
In Yellow – Coronavirus Rapid Financing 2020



Source: Ortiz and Cummins, 2019. *Austerity: The New Normal* (published by IPD, ITUC, PSI, EURODAD, BWP)

# Fiscal Consolidation/Austerity Cuts: Negative Social and Gender Impacts

- **Pension and social security reforms** in 86 countries, cutting hard-earned benefits, cutting employers contributions (the so called “labor taxes”) and eroding public systems.
- **Wage bill cuts or caps** in 80 countries, reducing or freezing the salaries and number of public-sector workers who provide essential services to the population, including education, health and social workers.
- **Labour flexibilization reforms** worsening workers conditions in 79 countries.
- **Eliminating subsidies** (fuel, food, agriculture) in 78 countries
- **Rationalizing and narrow-targeting welfare (“safety nets”)** in 77 countries, at a time when governments should be scaling up (not scaling down) social protection.
- **VAT increases** on basic goods and services that are consumed by families and which may further contract economic activity – in 73 countries
- **Strengthening public-private partnerships (PPPs)** in 60 countries
- **Privatizations** in 59 countries

➡ Austerity would only worsen poverty and inequality and undermine the achievement of the SDGs, economic and social rights.

# How to Prevent Austerity:

## Fiscal Space Options Exist even in the Poorest Countries

- There are at least eight options, supported by policy statements of the UN and the IFIs. Governments around the world have been applying these financing options for decades, showing a wide variety of revenue choices.
  - 1. Increasing tax revenues**, including income/wealth taxation and corporate taxes, also to the financial sector (eg. Mongolia/Zambia/Bolivia, Brazil FTT)
  - 2. Increasing social security coverage and contributory revenues** (eg Argentina, Brazil, Tunisia, Uruguay)
  - 3. Fighting illicit financial flows**
  - 4. Restructuring/managing debt** (eg Ecuador, Iceland, Iraq); given high sovereign debt levels, important to promote debt forgiveness/relief
  - 5. Aid and transfers** (e.g. the Global Fund for Social Protection Floors)
  - 6. Tapping into fiscal and foreign exchange reserves** (eg Chile, Norway)
  - 7. Adopting a more accommodative macroeconomic framework** (e.g. tolerance to some inflation, fiscal deficit)
  - 8. If re-allocating public expenditures** focus on replacing high-cost and low-social-impact expenditures (eg. defense - Costa Rica, Thailand)
  - 9. At international level, issuing new SDRs**
- **These different alternatives must be discussed openly in national dialogue**

# Fiscal Space Strategies for Universal Health and Social Protection: Country Examples

|  | Bolivia | Botswana | Brazil | Costa Rica | Lesotho | Iceland | Namibia | South Africa | Thailand |
|--|---------|----------|--------|------------|---------|---------|---------|--------------|----------|
| Re-allocating public expenditures          |         |          |        | X          | X       | X       |         | X            | X        |
| Increasing tax revenues                    | X       | X        | X      |            | X       | X       | X       |              | X        |
| Expanding social security contributions    |         |          | X      | X          | X       |         | X       | X            | X        |
| Reducing debt/debt service                 | X       | X        | X      | X          | X       | X       |         | X            | X        |
| Curtailing illicit financial flows         |         |          |        |            |         | X       |         |              |          |
| Increasing aid                             |         |          |        |            |         |         | X       |              |          |
| Tapping into fiscal reserves               | X       | X        | X      |            |         |         |         |              |          |
| More accommodative macroeconomic framework | X       |          | X      |            |         |         |         |              | X        |

Source: "[Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries](#)" (2017) ILO, UNICEF and UNWOMEN

# Preventing Austerity: Policy Options for Increased Fiscal Space Must Be Agreed in National Social Dialogue

- **Watch out that new debt and fiscal deficits created to respond to COVID-19 do not result in a new round of fiscal consolidation or austerity cuts** with negative social impacts that will undermine public health/education systems, jobs and social protection.
- Social policies have strong impacts on people, addressing households and families' daily concerns. But decisions affecting people's welfare are often taken behind closed doors, without adequate consideration of their distributional impacts.
- Ministers of Finance/Planning should have all possible fiscal scenarios and options, **assessment of social impacts (including gender and distributional impacts)**, risks and trade-offs, fully explored.
- A set of alternative policy options for inclusive development should be discussed in open **national social dialogue** with all relevant stakeholders, including trade unions, employers and civil society.



# Thank You

## Download:

[Handbook on Fiscal Space for Social Protection: Assessing Financing Options](#) (2019), Geneva and New York: ILO and UNWOMEN

[“Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries”](#) (2017) ILO, UNICEF and UNWOMEN

