EXPERT GROUP MEETING "NAVIGATING AN INSECURE FUTURE"

Virtual meeting, 3-4 December 2020

Organized by the Division for Inclusive Social Development (DISD)

Department of Economic and Social Affairs (DESA), United Nations

Summary Report

Introduction

As the United Nations Secretariat think tank on social and economic issues, DESA generates data and analysis on emerging issues. The expert meeting "Navigating an insecure future" served to gather inputs from experts on an evolving and very current challenge: economic insecurity.

Over the last decades, changes in the world of work, globalization and technological breakthroughs have benefitted many people but have also created disruption and put many others at a disadvantage. These long-standing trends are compounded by evolving threats, including those brought about by climate change and pandemics. These threats expose the precarity of many people's lives and reveal the large degree of risk and uncertainty embedded in today's society. With inequalities high or on the rise, growing job insecurity and stagnant social mobility, many people have come to fear that progress has bypassed them and see the future as increasingly uncertain.

While concerns over economic insecurity are not new, fear and uncertainty have gripped the world during the COVID-19 pandemic. The measures adopted to contain the pandemic have caused unprecedented disruptions in economies and labour markets.

All the while public institutions, services and social protection systems are struggling to adapt to rapidly changing needs. Societal changes beyond one's control may be increasing exposure to shocks while the ability to cope and recover has not improved accordingly.

From its inception, the United Nations has recognized the fundamental importance of economic security.[1] Yet the issue is not addressed in the 2030 Agenda for Sustainable Development,

[1] Article 25, Universal Declaration of Human Rights (1948).

although insecurity and the mistrust it generates are major obstacles to collective efforts to achieve the Sustainable Development Goals.

The meeting provided an opportunity for experts to present recent research on insecurity and discuss its drivers and impacts, with a focus on helping DISD outline issues that its normative and analytical work should cover and promote. The discussion allowed for robust exchange of ideas and lessons learned, including on policies that have helped promote economic security amidst growing uncertainty as well as on those that have been harmful to security.

The state of economic insecurity

Different definitions, multiple measures

Giving a precise meaning to economic insecurity is challenging. The feeling of insecurity often draws on past experience, but it also has a prospective dimension related to risk—the risk of downside economic shocks, specifically. Risks can be actual or perceived. Many scholars put emphasis on the perceived or psychological aspects. Anxiety—e.g. the anxiety that arises from the anticipation of adverse events and from the fear of difficulties to recover from them—is central to their definitions. Two elements are common to all definitions: (1) exposure to (or anticipation of) adverse events and (2) (in)ability to cope and recover.

Accordingly, the empirical literature offers indicators of observed economic insecurity and indicators of perceived insecurity; measures based on past experience and prospective measures. Regarding past experience, Conchita D'Ambrosio presented data on fluctuations in personal wealth. Past losses would lead to greater insecurity and gains to lower insecurity, as compared with wealth stability. Other measures focus only on losses and take into account major expenditures—e.g. health-related expenses and debt payments. All these indicators can be transformed into prospective measures by modelling probabilities of big drops occurring in the future. In general, there is little agreement between different indicators.

As regards perceived insecurity, subjective measures cover aspects of insecurity that objective measures alone cannot (such as "worry") and they allow people to decide what matters and what does not, according to Andrew Clark. Even though perceptions of insecurity do not correlate with objective measures in all cases, a mere focus on income, for example, may miss important aspects of financial insecurity. In addition, subjective measures can provide information on several objective indicators in real time. In cross-country analyses, the use of subjective measures raises questions of fairness—since perceptions are relative, in general.

Whether economic insecurity is better assessed using subjective indicators or objective data is an ongoing debate. There seems to be a general preference, however, for assessing insecurity through multiple measures rather than by relying on one single indicator. There is also agreement on the need to tailor measurement to the purpose of study and thus use domain-specific measures (e.g. of insecurity at work, or in income). There is clear consensus on the need of panel data, which are still scarce in developing countries.

Risks are shifting and policies are drifting

Based on a measure of observed economic insecurity (the probability of a 25 per cent drop in income from one year to the next), Jacob Hacker showed that low- and middle-income households in the United States are particularly insecure, if compared to households in other developed countries. Insecurity has increased since the 1990s, as the responsibility for shouldering risk has gradually shifted from employers and the State to workers and families.

Growing employment instability and the rise of poorly paid, precarious work, together with persistent joblessness, have contributed to shifting risk in other developed countries as well. In developing countries, informal risk-pooling mechanisms have weakened while formal social protection systems leave many people uncovered, under persistently high levels of informal employment.

While the Covid-19 crisis has made health, economic and other forms of insecurity more apparent, Lars Osberg noted that many of the trends driving insecurity—high inequality, slowing productivity growth, unwinding global integration and so on—were present before the crisis.

In terms of policy, there has been a general failure to update policies in the face of ongoing transformations—including in the world of work and in family structures. As a result, there is a growing disconnect (or drift) between policy and people's needs. New and intensified risks meet population ageing and eroding forms of social protection.

The Covid-19 crisis offers a window of opportunity to shift policy focus from promoting economic growth as the main priority to providing safety and security. The costs of persistent insecurity are too high.

Insecurity and changes in the world of work

Changes in the world of work are weakening the fundamental security-enhancing role of employment. There is a growing gap between workers' needs and the institutions in place. These changes are not affecting all sectors of the labour force equally.

The effects of Covid-19 on labour market outcomes are not shared equally

Developing countries have experienced higher unemployment growth than developed countries as a result of the Covid-19 crisis. Employment losses are particularly large in middle-income countries, although they range widely—from 1.5 per cent in Thailand to 57.1 per cent in Peru. Many more workers have experienced a reduction in working hours.

Haroon Bhorat observed that job losses affected semi-skilled workers the most in South Africa and probably in other developing countries, especially in urban areas and among workers in informal employment. That is, employment contractions can be non-linear—in the sense that those in the middle, who in principle should be more economically secure than those in low-skilled occupations, are more vulnerable to shocks. The ability to work from home and the degree of physical interaction required determine which jobs are "pandemic-secure". Jobs in the middle of the wage distribution, including in education, construction, hotels and restaurants, must be performed in-person and are more sensitive to lockdowns. These findings call into question policies that only target the lowest-skilled/income segments.

Subjective employment insecurity is shaped by institutions

Public institutions, economic conditions and worker as well as workplace characteristics affect subjective employment insecurity—defined as worry not only about job loss, but also about how quickly one can be reemployed. Cross-country data presented by Heejung Chung show that, in Europe, labour market policies and generous welfare reduce the negative impact of employment insecurity on life satisfaction significantly, with implications for well-being, productivity and the legitimacy of the welfare state. They also affect the distribution of insecurity: the reduction of negative impacts is larger among workers under non-standard (e.g. temporary) contracts and among low-skilled workers. While economic conditions matter more in times of crisis (i.e. in 2008-2009), labour market and social policies matter the most in periods of economic stability.

Addressing insecurity requires adapting and expanding social protection

Covid-19 has exposed the disconnect between social protection systems and people's needs. In countries with solid social protection systems, these have acted as automatic stabilizers. But most countries have had to make significant efforts to close gaps, at least temporarily, as part of the crisis response.

Labour market transformations have shifted risk to workers and eroded workers' rights. There have been recommendations to decouple social protection from employment in order to repair the "fractured" social contract. Christine Behrendt noted, however, that many current social protection programmes are not linked to a contract with a specific employer (not only tax-financed schemes but also many social insurance programmes linked to employment, such as many types of health and disability insurance or pensions). Rather than separating social protection from employment completely, the goal should be to reach non-covered groups through tax-financed programmes and make social insurance more inclusive. Key principles to consider, in expanding and adapting social protection systems, are universality (including effective access for workers in all types of employment), portability, adequacy, transparency, gender equality and good governance.

Impacts of economic insecurity

Economic insecurity has negative economic, social, political and psychological effects. While a comprehensive assessment of why insecurity matters was beyond the scope of the meeting, presentations illustrated what insecurity does to people by focusing on its health effects and drew attention to what it does to societies by discussing its political consequences.

The risk of economic loss has significant health impacts

Stress drives obesity. While the increase in obesity has been attributed to economic growth and improved access to high-calorie foods, Lars Osberg explained that, in the United States and the United Kingdom, the onset of the obesity "epidemic" coincided with cuts in welfare spending. Differences in public spending also explain about half of the obesity gap across developed countries. The evidence suggests that it is mostly the prospect of losses in relative status, rather than the risk of absolute material deprivation, that matters for physical and mental health. Prospects of potential job losses affect even the next generation, as evidence from China during a period of massive layoffs illustrates. In general, the risk of unemployment has impacts on health among the least educated while the risk of income loss affects everyone except the most affluent.

Political realignments resulting from insecurity have led to low support for redistribution

The political outcomes of economic insecurity are not straight-forward. One the one hand, economic insecurity should translate into demand for high redistribution and strong social protection systems. This has traditionally been the case. Historically, economic insecurity has also led to greater solidarity among members of the working class. On the other hand, there is growing status insecurity, particularly among those people who are the most economically insecure and economically disadvantaged. Status insecurity leads to mistrust or outward rejection of "out"-groups (including migrants and members from ethnic minorities) and support for conservative, authoritarian parties that stress in-group/out-group distinctions. In some countries, these opposing forces have led to a political realignment of the insecure, as reflected by their voting behaviour.

Using the risk of unemployment as indicator of economic insecurity, Philipp Rehm showed that, in developed countries, very few political parties support strong redistribution and authoritarianism. This political vacuum has resulted in low voter turnout and voting patterns that are very country-specific and difficult to predict. The grievances and political preferences of the most economically insecure sectors of society are not met. This has led to further resentment among these groups.

Policy: promoting security or furthering insecurity?

Policy choices can be a source of insecurity, rather than a solution. They can increase exposure to risks, particularly among the most vulnerable. Many have certainly failed to control such risks. Government responses to the Covid-19 crisis can point the way towards a policy framework to reduce economic insecurity in the long term.

Economic insecurity is not new - although Covid-19 is likely to exacerbate it

Economic insecurity is a very tangible concern for many people. Addressing insecurity has been a key concern of Governments for a long time. What compels a focus on economic insecurity now is that societies and economies are changing rapidly. The relationship between people, the State and the world of work is shifting, intensifying the risk of economic insecurity that many face. There are dangerous global trends—climate change and pandemics chief among them. These transformations, and people's perception that they have less and less control over their lives, is generating tensions and alienation.

The Covid-19 crisis is likely to exacerbate insecurity through rises in precarious employment and increasing pressure on people (especially women) to balance work, care responsibilities and well-being. The crisis will leave scars. Early evidence indicates, for instance, that women are leaving the labour market faster than men as a result of the crisis. Massive disruptions in education will have lasting impacts on children's employment and future economic security. All these effects are unequally distributed: workers in low- and middle-skilled occupations are most at risk. Education disruptions affect children in disadvantaged households the most. Overall, the crisis has laid existing inequalities bare, including in the distribution of economic insecurity.

This crisis is a deciding moment. It provides an opportunity to build back better but, badly managed, it can undermine trust even further and create instability. The immediate responses to the crisis are encouraging. Fiscal policies have provided more support to workers than those implemented after 2008. Governments have shown their willingness to act quickly and spend generously. The question is whether these emergency responses will trigger the policy changes needed to build back better. Beyond the generous short-term response, the rhetoric around macroeconomic policy does not seem to be changing.

Economic insecurity is costly

Economic insecurity hurts productivity and innovation, hinders investment and leads to bad politics and bad policies. It promotes bad decision-making, both at the individual and at the social levels. Insecurity is transferred from one generation to the next, since parents who feel economically insecure are less likely to invest in their children's education.

While some degree of economic insecurity may be necessary—an unavoidable cost of structural transformation and technological change, for instance-, the distribution of risk matters. Higher-income groups are better equipped to manage risk, but it is those with the least ability to cope and recover from shocks that are facing the greatest risks.

Decent jobs are a key driver of economic security

Redistribution through taxes and transfers does not address the underlying drivers of insecurity. Creating fairer outcomes and opportunities from the start (i.e. "pre-distributing") requires generating decent jobs—jobs that pay enough and give workers a voice, under safe and decent conditions. Countries must invest in job-rich growth, namely in the green and care economies. There should also be more support for security at work—particularly to upgrade skills and help workers find new jobs when they are laid off. Ultimately, economic insecurity is about disempowerment. Decent jobs, together with investments in education and health, are key to promote economic empowerment.

Renewing the social contract

Workers can no longer count on employers to deliver economic security and the State is not filling the gap. Current social protection deficits contribute to people's sense of insecurity and affect their political choices—including support for authoritarian leaders that do not favour greater redistribution. Some of these deficits are not due to lack of social protection programmes but to the fact that many of them are conditional or inadequately targeted. A universal basic income may bypass some of the limitations of traditional social protection programmes, particularly since anyone is at risk of economic insecurity. There may also be scope for an international agreement on risk-sharing to address the unequal distribution of risk, including across countries, and the ability of large corporations to bypass social protection responsibilities.

Beyond social protection, the State should play a larger role in building community and promoting civic and democratic engagement. It should also provide support to community-based solutions, including cooperatives, that strengthen resilience.

However, policies can be part of the problem rather than the solution. Not only are social policies not keeping up with shifting risks, but some institutional and policy changes increase insecurity. Labour market policies that protect workers with standard contracts, for instance, can shift risks to workers in less stable working relationships, increasing inequality. Policies that encourage labour-saving technologies increase joblessness and job insecurity.

Reinvigorating the social contract calls for promoting coalitions among groups (including workers) with diverse interests. Economic insecurity is a powerful, universal feeling that most people can relate to—it is more tangible than poverty, which most people think of as a remote risk and do not associate with. Promoting the need for economic security can help mobilize political coalitions for change.