COVID-19: Addressing the social crisis through fiscal stimulus plans

Summary: The unfolding health crisis poses unprecedented challenges to individuals, families, Governments and to the international community. While containing the pandemic is the most urgent priority, countries are quickly acting to counter its negative impact on employment and poverty, including through fiscal stimulus plans. Whether these plans will protect the most disadvantaged people and households over the long-term depends on their size, duration and on how measures are implemented.

The pandemic caused by SARS-CoV-2 is spreading quickly, with 738,000 cases confirmed across the globe and over 35,000 deaths registered as of 30 March 2020 (Johns Hopkins University, Center for Systems Science and Engineering). The number of cases has almost doubled in the last week (from 418,000 cases on 23 March). Many countries have restricted activity and an increasing number are on lockdown.

The health crisis is already evolving into a global financial and economic crisis, with sweeping consequences for economic growth, employment and wages. Preliminary estimates by the ILO suggest significant rises in unemployment—on the order of 13 million, with a high scenario of almost 25 million—losses of labour income of as much as $3,400 billion and increases in the number of people in working poverty (ILO, 2020).[1] For young people, entering the labour market during the crisis can have damaging ("scarring") effects on their working careers and long-term wellbeing (see, for instance, European Commission, 2014).

In response to this social and economic crisis, and given the limited space for monetary policy actions, many countries in both developed and developing regions have announced or put in place fiscal stimulus packages.[2] The amount of allocated spending is modest in many cases, but it exceeds 2 per cent of gross domestic product (GDP) in countries such as Australia, Canada, Chile, Germany, New Zealand, Portugal, the Republic of Korea, Spain, Sweden, the United Kingdom and the United States. Even though details of most stimulus plans are still unclear, the majority contain measures to support businesses, particularly small and medium enterprises, as well as measures to protect individuals and households, with a focus on vulnerable or otherwise disadvantaged groups. Most emergency measures to facilitate access to healthcare fall outside the scope of stimulus plans, but a few of them include measures to address public health gaps.

In the aftermath of the 2008 financial and economic crisis, Governments spent about 25 per cent of fiscal stimulus package funds, on average, on discretionary social protection schemes and other labour market and income support measures (Zhang, Thelen and Rao, 2010; Ortiz and others, 2015). In general, countries with larger stimulus packages enjoyed a stronger recovery, both in terms of income and of employment (ILO, 2010; Furceri, 2009). Although the current crisis differs from the 2008 crisis in both its determinants and transmission channels, its projected massive impacts on employment, income, health (including mental health) and overall well-being call for even greater social expenditure.

The measures implemented or announced so far are encouraging. Namely, actions to support businesses include provisions to help them secure employment and wages by, for instance, providing income support to workers who may be temporarily laid off or those whose working hours have been reduced (see Table 1). Regarding measures to protect people, most fiscal stimulus plans offer income support to sick workers and their families by, for instance, extending paid sick leave to self-employed workers or expanding its duration. There is some support for workers who cannot work from home, including help

1 Estimates should be interpreted with caution, as the incidence and prevalence of the pandemic are spreading rapidly; their negative economic impacts are quickly surpassing early predictions.

2 As of 27 March 2020, 100 countries had announced or adopted fiscal stimulus plans.

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Table 1

Social protection and other income support measures in announced fiscal stimulus packages

Type of measure	Concrete actions
Measures to support businesses, with a focus on small and medium enterprises	Securing workers' jobs and incomes by introducing or expanding support to laid-off workers or those whose wages are cut; training programmes.
Measures to protect individuals and households	Expanding income support to sick workers and their families; extending or easing access to unemployment benefits; supporting workers who cannot work from home, including through offering care options; easing access to targeted benefits or providing a one-off universal income transfer.
Measures to strengthen public health systems	Increasing health spending.[a]

Source: News outlets, Government websites and IMF Policy Responses to COVID-19 tracker, available from https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19.

[a] Most emergency health care measures fall outside the scope of stimulus plans; only a few include measures to address public health gaps.

with caring responsibilities. Many plans extend access to unemployment benefits to workers who are not covered, ease access to benefits or help to ensure that families can stay in their homes (by suspending evictions, for instance).

Responses are different depending on context. Countries like Brazil, China, Colombia, Indonesia and Malaysia are planning to increase payments or facilitate access to their social assistance programmes. Overall, more than 50 new social assistance programmes have been put in place in response to this crisis (Gentilini and others, 2020). A few countries and areas are considering a one-time universal income transfer: Hong Kong, SAR of China, is planning to give every adult resident about $1,200. A universal transfer is also being discussed in Canada, Singapore, the United Kingdom and the United States.

The effectiveness of these measures will depend on how fast they are put in place and on their implementation. In order to help reduce poverty and inequality, they must consider groups that are not included in contributory or other tax-funded protection schemes, including workers in informal employment and many migrants. Excessive administrative requirements and lack of information can hinder access, particularly by those people who are most in need. At the same time, aid to businesses may not be directed to protecting jobs, wages or working conditions unless strict, rules-based accountability measures are put in place to ensure that they do.

While these ad hoc measures will address short-term needs, 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 durable role in protecting workers and in reducing the prevalence of poverty, since they act as automatic stabilizers. That is, they provide basic income security at all times, thereby enhancing people's capacity to manage and overcome shocks. Scaling up existing systems is easier and faster than setting up new programmes. Investments in building and expanding social protection systems across Latin America and the Caribbean since 2000, for instance, cushioned the fallout from the 2008 crisis in the region, allowing households to cope and compensate for the contraction (World Bank, 2010). The current crisis should be used as an opportunity to address the inadequacy of social protection systems, establish social protection floors and scale up existing programmes.

The duration of stimulus efforts matters. If discretionary measures put in place at the onset of the crisis are suddenly withdrawn before a broad-based recovery in economic and employment growth, their primary beneficiaries can fall back into joblessness and poverty. In the aftermath of the 2008 crisis, many Governments in developed countries phased out fiscal stimulus measures and moved to fiscal austerity while unemployment was still growing, in 2010. Several countries reduced social spending, pursued reductions in health budgets that had started decades earlier, cut or capped public sector wages and increased taxation (mostly indirect taxes), as rising public debt generated political and financial stress. Many developing countries moved towards fiscal tightening as well. In a study of low-income countries, two thirds of them cut social expenditure, with social protection and education suffering the most (Kyrili and Martin, 2010). This move towards fiscal austerity, which in many cases became protracted, is estimated to have affected GDP growth and employment negatively(Ortiz and others, 2015). Clearly, ad-hoc stimulus measures are fiscally unsustainable in the long term. However, swinging the spending pendulum towards fiscal tightening too soon undermines the recovery.

Even maintaining social expenditure at pre-crisis levels may not be enough. More people will need social protection and may use public rather than private social services as a result of the crisis. A study of six developing countries shows that, in the face of the setbacks caused by the 2008 crisis, Governments had to increase social spending by 0.5 to 1.5 per cent of GDP per year between 2010 and 2015 in order to meet goals related to education, health and basic services by 2015 (United Nations, 2011).

In many countries, social protection programmes will be overwhelmed by the size of the necessary response. Some developing countries have maintained solid financial footing in recent years, avoiding large current-account deficits and improving debt ratios, and should therefore be able to adopt mitigation measures and increase social spending. In other countries, including most low-income countries, a combination of low commodity prices and climbing debt challenge the ability to mobilize sufficient domestic resources. These countries will require support from the international community to scale up social protection systems and increase social expenditure.

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