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T20 POLICY BRIEF

Task Force 01

FIGHTING INEQUALITIES, POVERTY, AND HUNGER

Acting a New Social Contract with Decent jobs, Universal Social Protection and the Reform of Global Governance for Fiscal Space

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Abstract

This Policy Brief proposes a systemic perspective and reform proposals at the intersection of three interconnected policy areas, namely 1) decent job creation policies including through revisited industrial policy; 2) universal social protection for all working and non-working; and 3) a reform of the macro-economic frameworks for creating fiscal space and addressing policy (in)coherence among global governance institutions in the debt crisis management and financing for development. In the context of major technological and environmental transitions, we also highlight the importance of financing and managing "just transition" policies with a focus on closing the social divides through jobs, social protection, and fiscal policy. We emphasize the intersectionality of these policies for addressing inequalities (both of outcomes and of opportunities). A Global New Deal that is supportive of a new Social Contract needs to tackle both the rebalancing of representation and decision making in global governance

between the Global North and South, a significant increase in mobilization of domestic and international resources, a larger policy and fiscal space for tackling inequalities and enabling just transitions, and a major shift in rebalancing economic and social priorities. The G20 under the Brazilian Presidency can play a critical role in drawing on multiple competing narratives to build common understanding and promote much-needed policy shifts and coherence in key policy areas highlighted in this Policy Brief and across the G20 tracks, the Finance and the Sherpa Tracks.

Diagnosis

This call for a *New Social Contract* is based on three premises. The first premise is that **the “social” is in crisis**, regardless of the manifestations and indicators of economic and social insecurity and vulnerability that we choose to look at. In 2023, several economic and social indicators related to poverty, work (access and quality), inequalities (income, gender, and other non-income) or social protection were in the red and regressing. The SDG Progress Review Report, which draws on global institutions’ statistical reviews and analysis, depicted a stark picture of the SDG *non*-achievements of targets at the mid-point of the 2030 agenda. For example, the combined effects of recent crises have wiped out years of global progress on the first goal of eradicating extreme poverty. SDG10 on inequality has been the worst-performing goal. The dramatic widening of inequalities, both income as well as wealth inequalities, within countries and in between countries has reached new levels¹. The objectives of full employment and decent work as set in SDG8, have also suffered a major setback. The global “*jobs gap*” stood at 473 million people in 2022 and is particularly large for women, youth and developing countries. Of those working, an estimated 214 million workers were living in extreme poverty, and those working and producing in the “*informal economy*” today account for over 62 percent of the global workforce or around 2 billion people.² Overall,

¹ World Bank. 2022. Chancel and al. 2022.

² ILO. *Global Employment and Social Outlook*. Various editions.

4 billion people, working and non-working, do not have access to any type of social protection³.

Across the above indicators, the fault lines of gender, race, ethnicity, education, age at both extremes, young and old, show large inequalities in the world of work. Overall, for a large number of people, work is not playing- *as it did and as it should*- its inclusionary and redistributive function, and the promise of social upward mobility within and across generations.

Situations of protracted armed conflicts, forced displacements of populations, major disruptive technological and environmental transitions are clearly compounding the social crisis and adding to anxieties. These grievances and disappointment, are impacting the political systems, weakening democracies and are instrumentalized by populist discourse.

In this stark global picture, there are variations in form and severity of the deficits and of the "social crisis," explained partially by historical and geographic structural factors but, more importantly, by policies, institutions, social systems, and public funding.

The second premise is that the “social crisis” is systemic. There is compelling evidence and broad consensus that globalization policies of the last three decades, by and large, have not delivered on jobs, social protections, and social cohesion and have failed to generate and distribute the prosperity long promised. A most critical indicator, the “*labour income share in total income*”, has been on a declining trend everywhere over the last decades in spite of major labor productivity gains accrued in the same period.⁴

³ ILO, 2021.

⁴ ILO. *The Global Labour Income Share and Distribution*.2019

Targeted policies and programmes designed for vulnerable groups, where they exist, fall short of redressing the broad scale of social and economic insecurities, that are continuously and systemically generated by mainstream economic and financial policies and multiple transitions (environment, technology, conflict, demographic) underway.

The third premise is that clearly there is a need for a new transformative and structural approach to the social question and to fighting poverty and hunger that puts **economic, financial, innovation and social goals at the same level of priority and action.** Only the intersectionality of four key policy areas consisting of a) massive investment in quality job creation; 2) a general drive towards universal social protection; 3) design of a governance framework for just environmental and technological (in particular, digital) transitions; and 4) the reform of the management of the global sovereign debt crisis and re-engineered fiscal policy, can be effective in curbing multi-dimensional inequalities.⁵ These policy areas and in particular their mutually reinforcing impact are relevant to multiple priorities under the Brazilian Presidency of the G20. There is a real opportunity for G20 to lead by national action(s) as well as by promoting consensus for paradigm change and policy coherence in the reform of global governance, including in the forthcoming negotiations for the Summit of the Future (2024) and the Social Summit (2025).

⁵ For a more elaborate discussion of the proposals and their interconnectedness, see Berar Awad and Azita. 2024.

Policies for a New Social Contract

While all policies need a contextual understanding and adaptation, national institutions should consider alternative policies, and regional and global institutions should support such strategies.

1. Job creation through revival of industrial policy and public development banks (PDBs)

As income derived from labour is the main, if not the sole, source of income for most households in the world, what happens in labour markets matters a great deal for overall inequality. In view of the huge *global job gap*, higher levels of productive employment are essential to reducing inequality. Without employment-derived income, no distribution or redistribution is possible on a significant scale. Furthermore, numerous empirical analyses and country policy experiences show that availability and access to increased job opportunities and securing “*decent*” working conditions are inter-related. Without massive job creation to close the job gap, there will not be much progress in reducing the downward pressure on the quality of work and persistence of informality.

The “*neo-liberal*” promise that liberalization of trade and investments accompanied by lower regulations will alone lead to job creation has not been held⁶.

Conversely, a key area where policy taboos and dogmatism have been changing fast in recent years is with respect to *industrial policy* and the role of government interventions and public investments to spearhead the transformation and to crowd-in private

⁶ Lee, E. 2005, among others.

investment⁷. Whereas under the neo-liberal paradigm, industrial policy was decried for alleged distortionary effects of picking sectors, both disillusion with trade liberalization policies for creating quality jobs, as well as new research on industrial policy⁸ have shown its critical role in innovation and job creation in the Global North and South.

As an increasing number of both developed and developing countries are reconsidering their growth models, deliberate investment in job creation is deemed not only desirable but necessary. *There is a need for and a major opportunity for industrial policy in green, blue, digital, and care economies.* Quality education, training and public services are preconditions for successful outcomes and for promoting equal opportunities in employment, gender equality and social inclusion.

Investments in sectors characterized more often than not, by high incidence of informality, low pay and poor conditions of work, such as in care sectors , must be accompanied by a focused reform of labour and social protections.

With respect to financing, it is important to rebuild trust in public institutions and policies, including through the reinvigoration of public funding and of public development banks (PDBs). While leveraging private sector financing is a must for meeting job creation and social goals, a new approach to blended finance is needed. The experience with blended finance, to date, has not been convincing overall and should be reviewed.

⁷ Matzzucato, 2013.

⁸ Juhász and al., 2023. Mazzucato and Rodrik. 2023.

2. Towards Universal Social Protection

To include the four billion people who do not have access to any type of social protection, there is no alternative to Universal Social Protection systems. There is ample evidence and experience to show that policy approaches relying only on *targeted interventions*,

are insufficient in monetary terms and in outreach, leaving behind many segments of the population.⁹ Furthermore, the multiplication of types and sources of endogenous and exogenous shocks that cannot be all anticipated and planned for, including those induced by climate change or technological innovation, calls for universal and multi-purpose social protection.

In the current context of inflation and food and energy insecurity, significant differences in country responses to prevent hunger and poverty and to sustain the purchasing power of families are displayed. This is due to the gap in fiscal space as well as the availability of adequate institutions and mechanisms. The successive shocks in recent years have revealed a structural divide among countries in dealing with ordinary lifecycle contingencies and with the consequences of exogenous shocks and crises, in particular, concerning the limited availability of policy instruments and institutions such as “*social automatic stabilizers*” in many countries, especially in the Global South.

*A renewed Social Contract requires the institutionalization of **universal social protection systems**, for all working and non-working, by rethinking its mechanisms and upscaling significantly its financing through the mobilization of domestic resources and a more coherent global governance system.*

⁹ ILO, 2021.

3. Financing and managing "Just Transitions"

“*Just Transition*” implies the recognition of the significant redistributive impacts that both environmental degradation as well as environmental transition action have and the need for compensatory policies and programmes to bring out a more equitable outcome.

The concept embedded in the Paris Agreement in 2015, has been gaining momentum in international policy discussions on climate change and by extension in the context of technological shocks and transitions. However, action has been limited.

Climate change and environmental degradation, through their various manifestations, threaten jobs, businesses, livelihoods, and access to water and other resources, in particular for the poorest and most vulnerable. It is estimated that the jobs and livelihoods of more than 1.2 billion people and 40 per cent of total world employment depend directly on the ecosystem¹⁰. Environmental degradation is also adding to population displacement, internal and cross-border movements. It has increased the risk of conflict. Both climate change and environmental transition policies to low carbon economy exacerbate conflicts for access and distribution of resources amongst different population groups, - not only between the big business interests and the more vulnerable- but amongst the latter too.

“*Just and timely transition*” policies are essential for large-scale adaptation measures to enable millions more people to overcome poverty and deliver improved livelihoods. Several proposals for the reform of the global financial architecture include tools for climate finance, primarily addressing “*climate justice*” between countries, such as the need for *loss and damage* and *adaptation* finance. As put forward in the

¹⁰ ILO, 2018.

*Bridgetown Agenda*¹¹, greater use of state-contingent clauses in MDB lending can also provide breathing room to countries hit by shocks by automatically suspending payments in the case of a disaster, economic or financial crisis, or other exogenous shocks.

To finance adaptation and just transitions, recourse to reformed Special Drawing Rights (SDRs), another proposal in the *Bridgetown Agenda*, would upscale funding without adding to the debt burden.

The huge policy, financing, and governance gaps for enabling *just transition* in the digital era are accentuating the present social divide¹² and discrimination and should be a priority concern for a renewed Social Contract. Digitalization is also giving rise to new challenges for the effective governance of labour, in digital labour platforms. Moreover, extreme market polarization is stifling space and creating opportunities for innovation for smaller entities.

The policies for just transition should involve a broader perspective than compensating workers and communities affected. Integrated strategies have a better chance of creating the desired coherence of objectives and a fairer level playing field and political buy-in. However, they face multiple challenges of political and institutional coherence, coordination and cooperation in planning and implementation.

Moving forward the needles of just transitions befits the Brazilian presidency of G20. The "Digital Compact" as an annex to the "Pact for the future", at the Summit of the Future (2024), can be an opportunity to begin addressing digital divides and governance gaps.

¹¹ Barbados Prime Minister's Office. *The Bridgetown Initiative*. 2022

¹² ITU, 2022.

4. Fiscal policy for crisis response: turning current conditionalities into positive conditionalities

Within the broad remit of the reform of financial and economic architecture, much has been said about the inadequacy of the current global practices for debt restructurings and financing for development¹³. Our proposal zooms on one aspect of the current toolbox that has received little attention. We propose to redesign the *conditionality* frameworks in the fiscal stabilization packages that are typically applied in the management of the country's debt crisis.

There is ample evidence that recurring cycles of financial crisis, debt management and fiscal consolidation or austerity weaken structurally the social institutions¹⁴, with long-lasting impact. This is in spite of statements about the increasing social sensitivity of conditionalities and targeted social safety nets promoted by institutions such as the IMF¹⁵.

We submit that it is possible to redesign “conditionalities” in a manner to include more, not less, fiscal policy into the social objectives by fencing off essential public expenditures and social services and making debt restructuring conditional on spending more on social infrastructure across the SDG goals. These policies are compatible with restoring financial balance, the costs of which can be shared more widely across the society instead of leaving undue burden of adjustment on the most vulnerable.

¹³ *Inter alia* in HLAB Report, 2022.

¹⁴ Ortiz and Cummings, 2021.

¹⁵ Biglaiser and McGauvran, 2022.

The Way Forward

In sum, in view of the level of inequalities, discontent and unrest, “*business as usual*” scenario is not an option for social policy. Whereas there is broad consensus amongst thinkers and policy practitioners, that the era of hyper-globalization and the economic paradigm sustaining it is over, and factually and morally bankrupt, a new paradigm that rallies different actors has not yet emerged.

The need for a renewal of social contracts based on different policy approaches and a major overhaul in the post-World War II global governance system is accepted by most parties. *There are, however, several competing and evolving narratives on the priorities for reform and the nature of reform.* New thinking and policy shifts in the areas highlighted above are emerging in “unorderly” manners from multiple actors at local, national, and global levels.

While no agreement has been reached so far, including in the context of the G20¹⁶The latter, which brings together a select group of countries in the Global North and Global South, is still best placed to build shared understanding and consensus in this era of geo-economic and political divides and fragmented multilateral cooperation. In particular, the Presidency of Brazil, which had a remarkable performance on the above policies under the first presidency of Lula Da Siva, should be a new opportunity to build larger coalitions for a Global New Deal that is supportive of a new Social Contract. It needs to

¹⁶ The global Debt Roundtable initiated by the G20 under the Indian presidency with the participation of finance ministers, the International Monetary Fund (IMF) and the WB met three times in 2023 without notable progress.



tackle both the rebalancing of representation and decision making in global governance between the Global North and South, a significant increase in mobilization of domestic and international resources and a major shift in economic and social priorities and policy coherence.

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