

Social Security way to poverty reduction

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Abstract

This review article analyses reduction of poverty by social security. Social security, or social protection, is defined as the set of policies and programmes designed to reduce and prevent poverty and vulnerability across the life cycle. Social protection includes nine main areas: child and family benefits, maternity protection, unemployment support, employment injury benefits, sickness benefits, health protection, old-age benefits, disability benefits and survivors' benefits. Social protection systems address all these policy areas by a mix of contributory schemes and non-contributory tax-financed schemes.

Keywords: *social protection, poverty, wealth distribution, income distribution, zakat, unemployment benefits, subsidies, reforms.*

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Every year, 9 million children die before their fifth birthday.¹ A woman in sub-Saharan Africa has a one-in-thirty chance of dying while giving birth—in the developed world, the chance is one in 5,600. There are at least twenty-five countries, most of them in sub-Saharan Africa, where the average person is expected to live no more than fifty-five years. In India alone, more than 50 million school-going children cannot read a very simple text.²

While over the last few decades the international community has adopted the position that broad-based economic growth is necessary for stemming the effects of systemic poverty, a growing consensus has emerged that social safety nets and social protection are also essential elements of any comprehensive framework for poverty alleviation. Not only are provisions that provide basic services, such as healthcare and education, important in their own right, but they are also critical drivers for economic growth and development and an equitable distribution of income and wealth. An adequate social safety net is a central feature of the Islamic economic system and is even more imperative in countries that generate a significant percentage of their current revenues from society's depleting oil and gas reserves. A recent paper confirms that although growth has reduced poverty in Asia, it has been accompanied by increasing inequality (less inclusive than some suggest). The authors go on to suggest a number of policies to support more inclusive growth (reduce poverty more and decrease inequality):

In terms of fiscal policy, these include higher spending on health and education and enhanced social safety nets (e.g., increases in pension coverage and conditional cash transfers). Greater attention must also be paid to labor market reforms that would increase the voice of labor, hence boosting its share in total income (e.g., minimum wages and reducing duality in labor contracts). Finally, building a more inclusive financial system and improved governance should also be part of the policy package.³

In the early 1980s, the general prescriptions for growth in developing countries were economic reforms, focusing on developing a prudent combination of policies to enhance stabilization and adjustment while little attention was placed on the potential social costs of reforms. In time, however, more attention was afforded to relieving specific constraints that were binding, including specific provisions for social welfare and protection. Over the years, it has also been recognized that safety nets alone cannot effectively serve as an instrument for alleviating poverty without sound macroeconomic policies that enhance sustainable growth. Economic growth, income redistribution, and social safety nets are all needed in combination to alleviate poverty and afford everyone a fair chance to pursue their dreams. While restructuring efforts may create economic efficiency gains over the long term, they often also lead to social dislocation, particularly over the short term. As Muslim countries adopt much-needed economic reforms to promote fiscal discipline, build effective institutions, and promote economic justice in an effort to stimulate long-term growth, the development

¹ United Nations, Department of Economic and Social Affairs, The Millennium Development Goals Report (2010).

² http://scripts.mit.edu/~varun_ag/readinggroup/images/1/14/ASER.pdf.

³ Balakrishnan, Steinberg, and Syed (2013, p. 29).

of a comprehensive structure to protect the vulnerable from declining deeper into poverty and improving the income distribution becomes even more pressing.

In a recent and much-heralded piece of economic scholarship, Thomas Piketty has argued that income and wealth distribution have deteriorated globally because of a fundamental shift in economic and financial fundamentals.⁴ The rate of return to capital has exceeded economic growth. This shift has favored the owners of capital relative to labor, in turn widening the wealth and income distribution globally. He has called for heavy and progressive taxation of wealth to address this growing inequality because economic growth will not by itself address this growing chasm.

For social protection policies to be effective in Muslim countries, they should be complementary to the principles of economic justice as enunciated in Islam.

Many observers contend that Islam played such a critical role in the development of the Arab societies that it allowed them to flourish and to have a transformative effect throughout the world.⁵

Although conventional economics addresses the issue of the allocation and distribution of resources, it lacks the spiritual or moral foundation to achieve social goals. The Quran assumes conventional economic principles, such as the laws of supply and demand, based on individual enterprise and reward but set within a moral framework to ensure equal opportunities and support for all.⁶ We begin by providing a brief description of the foundation of an Islamic social safety net system. To fully implement Islamic economics requires more than a simple paradigm shift away from classical economics. Rather, Islam conceptualizes human behavior with regard to the distribution of resources and the requisites for human welfare somewhat differently from what is done in Western economic theory. For example, classical economics assumes that

- (1) individuals are rational actors in the economy,
- (2) resources are scarce, and
- (3) personal demands or wants are unlimited.

However, the underlying actors determining the extent of poverty are unlimited wants, resource scarcity, and, to some degree, the distribution of output. Similar to classical economic theory, Islam recognizes that individuals are rational actors; however, in Islam, the underlying cause of poverty is seen differently. Scarcity is not afforded an overriding importance in explaining poverty in Islam. Islam asserts unambiguously that poverty is neither caused by scarcity and paucity of natural resources, nor is it due to the lack of proper synchronization between the mode of production and the relation of distribution, but as a result of waste, opulence, extravagance, and nonpayment of what rightfully belongs to the less able segments of the society. This position is illustrated by the prophetic saying “Nothing makes a poor man starve except that with which a rich person avails in luxury.” That is to say, the right to

⁴ Piketty (2014).

⁵ Chapra (1991).

⁶ Iqbal (1987, p. 79).

advance one's own personal utility cannot impinge on the rights of others. Corruption (the stealing of what belongs to society, such as oil), maldistribution of wealth and income, and the accompanying waste are seen as the root causes of poverty, deprivation, and need. Put somewhat differently, the principle is to protect against the eventual degeneration and disintegration of the community that result from placing narrow self-interests above ethical values. The Quran (28:58–59; 9:24) cautions individuals against allowing ephemeral worldly desires to subsume Allah's desires for humankind.

Thus, in sharp contrast to classical economics, resource constraints are in fact not seen as the binding constraints to prosperity and economic welfare in Islam. Rather, Allah (SWT) granted humankind enough to meet everyone's basic needs (the Almighty did not create the world haphazardly); however, as a result of an unjust social and economic order, there is an inequitable distribution of these resources between the artificial boundaries of the state and people within countries, with waste and poverty seen as the twin results. God's entrustment of these resources to humankind as a whole can be duly discharged only when everyone has enough to satisfy at least their basic needs.⁶ This point is particularly relevant to the major oil exporters, as the states' survival and ability to provide their people with basic services has been up to now dependent on revenues from oil—a depleting natural resource entrusted to all (current and future generations). Accordingly, poverty in rich oil-exporting countries is a result of corruption, misallocation of resources, and resultant waste (Quran 4:130–131; 15:19–20; 27:16; 16:71; 34:39). Islamic teachings limit humankind's material wants if they adversely affect society's well-being: No one should be denied their basic needs or sustenance and live in poverty and deprivation. While vulnerability (disability, sickness, etc.) is a product of the human condition and prevalent in all societies, its attendant impact, resulting in poverty, is fundamentally a consequence of people's deference to Allah's (SWT) guidance. In this regard, Islam calls on its believers to be content with their material lot in life while also giving to charity if the capacity exists and not engaging in wasteful consumption. Although Islam envisages an established safety net system, it is not meant to replace the essential element of hard work. The Prophet (SAW) repeatedly stressed Allah's (SWT) disapproval toward those who depended on

As of 2020, only 46.9 percent of the global population were effectively covered by at least one social protection benefit (Sustainable Development Goal (SDG) indicator 1.3.1, while the remaining 53.1 percent – as many as 4.1 billion people – were left wholly unprotected. Behind this global average, there are significant inequalities across and within regions, with coverage rates in Europe and Central Asia (83.9 percent) and the Americas (64.3 percent) above the global average, while Asia and the Pacific (44.1 percent), the Arab States (40.0 percent) and Africa (17.4 percent) have far more marked coverage gaps.

Only 30.6 percent of the working-age population are legally covered by comprehensive social security systems that include a full range of benefits, from child and family benefits to old-age pensions, with women's coverage lagging behind men's by a substantial 8 percentage points. This implies that the large majority of the working-age population – 69.4 percent, or 4 billion people – are only partially protected or not protected at all.

The World Social Protection Report 2020-22: Social protection at the crossroads – in pursuit of a better future gives a global overview of recent developments in social protection systems, including social protection floors, and covers the impact of the COVID-19 pandemic. The report identifies protection gaps and sets out key policy recommendations, including in relation to the targets of the 2030 Agenda for Sustainable Development.

Currently, only 47 percent of the global population are effectively covered by at least one social protection benefit, while 4.1 billion people (53 percent) obtain no income security at all from their national social protection system.

Social protection, or social security, is defined as the set of policies and programmes designed to reduce and prevent poverty and vulnerability across the life cycle. Social protection includes nine main areas: child and family benefits, maternity protection, unemployment support, employment injury benefits, sickness benefits, health protection, old-age benefits, disability benefits and survivors' benefits. Social protection systems address all these policy areas by a mix of contributory schemes (mainly social insurance) and non-contributory tax-financed schemes (universal/categorical schemes and social assistance).

There are significant regional inequalities in social protection. Europe and Central Asia have the highest rates of coverage, with 84 percent of people being covered by at least one benefit. The Americas are also above the global average, with 64.3 percent. Asia and the Pacific (44 percent), the Arab States (40 percent) and Africa (17.4 percent) have marked coverage gaps.

Worldwide, the vast majority of children still have no effective social protection coverage – only one in four children (26.4 percent) receives a social protection benefit. Only 45 percent of women with newborns worldwide receive a cash maternity benefit. Only one in three persons with severe disabilities (33.5 percent) worldwide receive a disability benefit. Coverage of unemployment benefits is even lower; only 18.6 percent of unemployed workers worldwide are effectively covered. And while 77.5 percent of people above retirement age receive some form of old-age pension, major disparities remain across regions, between rural and urban areas, and between women and men.

Government spending on social protection also varies significantly. On average, countries spend 12.8 percent of their gross domestic product (GDP) on social protection (excluding health), however high-income countries spend 16.4 percent and low-income countries only 1.1 percent of their GDP on social protection.

Figure 1. Social protection in the 2030 Agenda: Relevant goals and targets



The report says that the financing gap (the additional spending required to ensure at least minimum social protection for all) has increased by approximately 30 percent since the start of the COVID-19 crisis.

To guarantee at least basic social protection coverage, low-income countries would need to invest an additional US\$77.9 billion per year, lower-middle-income countries an additional US\$362.9 billion per year and upper-middle-income countries a further US\$750.8 billion per year. That’s equivalent to 15.9, 5.1 and 3.1 percent of their GDP, respectively.

Social security is not charity, but a fundamental human right. The challenges that individuals and

societies face today are manifold, including ever more rapidly changing labour markets in the context of ecological, technological and demographic transformations, requiring constant upskilling. Universal social protection is both an indispensable safeguard and a lever, enabling people to live dignified lives and to embrace change with confidence, and as such is a precondition for a human-centred future of work. Crises, whether related to health, economic shocks, climate change, or disasters and conflicts, have always underlined the need to expand social protection as a key tool to combat poverty and inequalities and strengthen social cohesion. Crises also demonstrate that societies with solid social protection systems in place can more effectively and rapidly protect their populations against the adverse impacts of such events. Universal social protection, indeed, lies at the core of societies' social contract and sustainable development. It guarantees that all members of society are well protected, be they children or older persons, or those affected by ill health, unemployment or disability, on a basis of social solidarity and collective financing. By ensuring access to healthcare and income security, it prevents or at least alleviates poverty and reduces vulnerability, social exclusion and inequality, while supporting growth and prosperity.

During economic recessions, it stimulates aggregate demand, thereby serving as an economic stabilizer. It can facilitate structural transformations, for example supporting workers in changing jobs and occupations. Universal social protection also contributes to gender equality, by empowering both women and men to invest in their capabilities, seize economic opportunities and nurture their capacity to aspire to different kinds of lives (Appadurai 2004). The status of social security as a human right is enshrined in the Universal Declaration of Human Rights (1948, Arts 22 and 25), the International Covenant on Economic, Social and Cultural Rights (1966, Arts 9 and 11) and other human rights instruments.⁷ The enjoyment of this right by all requires that States assume their overall and primary responsibility for building and maintaining social protection systems. Realizing the right to social security also helps realize other economic, social and cultural rights, including the right to adequate food, clothing and housing, and those rights that pertain to education and health, all of which are essential to the realization of human dignity (Morlachetti 2016; Sepúlveda and Nyst 2012).

Finally, by investing in inclusive and sustainable growth, social cohesion, justice and peace, and being accountable to rights-holders, States can revitalize their strained social contracts (Global Commission on the Future of Work 2019; Razavi et al. 2020).⁸ The normative framework provided by international labour standards takes a rights-based approach to giving the human right to social security concrete form.⁹

International social security standards are often primarily associated with contributory schemes, but in fact have a much wider scope. They cover a wide range of benefits and schemes that can form part of social protection systems, including means-tested non-contributory mechanisms, tax-financed public schemes offering flat benefit rates, statutory minimum benefit schemes and, subject to the fulfilment of

⁷ See in particular the Convention on the Elimination of all Forms of Discrimination against Women (1979), Arts 11 and 14; the Convention on the Rights of the Child (1989), Arts 26 and 27; and the Convention on the Rights of Persons with Disabilities (2006), Art. 28. See also UN (2008).

⁸ A social contract can be defined as an implicit agreement between all members of a society – whether defined in terms of government and citizens, labour and capital, or different population groups – to cooperate for their mutual benefit and respect each other's rights and obligations (ILO 2016e).

⁹ Relevant instruments are compiled in ILO (2019f).

certain conditions, voluntary schemes as well. International social security standards therefore offer an excellent reference framework for administrations undertaking and assessing reforms. The Social Security (Minimum Standards) Convention, 1952 (No. 102), and the Social Protection Floors Recommendation, 2012 (No. 202), are the two most prominent instruments in this area.¹⁰ Convention No. 102 is the first and to date the only international treaty that addresses social security, referring to nine social security contingencies that all human beings may face over their life course: the need for medical care, and the need for benefits in the event of sickness, unemployment, old age, employment injury, family responsibilities, maternity, invalidity and survivorship (where a dependant outlives an earner). While not yet universally ratified, this instrument has established the basis for the development of social security throughout the world.

Promulgated 60 years later, and taking stock of the remaining gaps in protection and contemporary challenges, Recommendation No. 202 provides a normative policy vision of how universal social protection can be achieved in the twenty-first century. This entails, first, the establishment of national social protection floors for all persons in need of protection as a matter of priority; and, second, ensuring higher levels of protection for as many persons as possible, and as soon as possible. Introduced into international law, national social protection floors comprise a set of basic social security guarantees that ensure effective access to essential healthcare and basic income security at a level that allows people to live in dignity throughout their lives. These guarantees should include at least:

access to essential healthcare, including maternity care;

basic income security for children, ensuring access to nutrition, education, care, and other necessary goods and services;

basic income security for persons of working age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability;

basic income security for older persons.

In addition to establishing the core principles that constitute the backbone of rights-based universal social protection systems, Recommendation No. 202 invites Member States to formulate, through inclusive social dialogue and broad-based consultation, a strategic approach in the form of national social protection policies and strategies aimed at closing coverage and adequacy gaps, ensuring policy coherence by enhancing coordination and avoiding overlaps, and developing synergies with other economic and social policies. It also contains guidance on monitoring to help countries assess their progress in improving the performance of national social security systems. It defines the minimum levels of protection to be ensured, the strategy for achieving such levels of protection and the core principles for building comprehensive and sustainable social protection systems. In the holistic vision laid out in international social security standards by the world's governments, employers and workers, universal social protection encompasses three core outcomes (ILO 2019j):

1. universal coverage in terms of persons protected: all in need should have effective access to social protection throughout the life cycle;

2. comprehensive protection with regard to the social risks and contingencies that are covered: this

¹⁰ To date, Convention No. 102 has been ratified by 59 countries, most recently by Cabo Verde (2020), Benin (2019), Morocco (2019), the Russian Federation (2019), Argentina (2016), the Dominican Republic (2016), Ukraine (2016), Chad (2015), Saint Vincent and the Grenadines (2015) and Honduras (2012). ILO Recommendations are not open for ratification.

includes protection not only across the nine life contingencies, but also against other risks, such as the need for long-term care;

3. adequate protection: preventing or at least alleviating poverty, vulnerability and social exclusion, and allowing people to lead dignified lives.

To achieve this vision, the ILO advocates a two-dimensional strategy to be pursued through national social protection policies anchored in corresponding legal frameworks. In this regard, the Social Protection Floors Recommendation, 2012 (No. 202), calls upon Members to

1. “establish and maintain, as applicable, social protection floors as a fundamental element of their national social security systems” – this is referred to as the horizontal dimension. Significantly, these are floors and not ceilings; hence Members should also

2. “progressively ensure higher levels of social security to as many people as possible” – this is referred to as the vertical dimension.

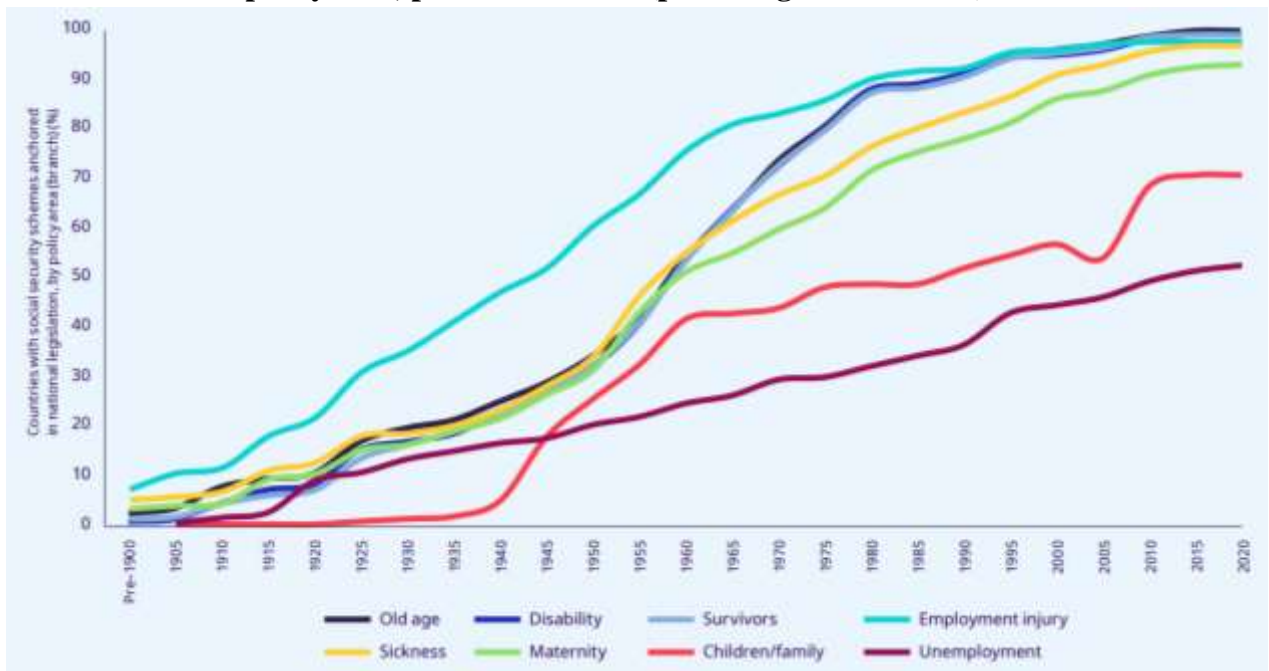
Recommendation No. 202 (Para. 3) outlines 19 core principles – including the responsibility of the State – underpinning the framework within which social protection systems should be built, extended, financed, implemented, monitored and evaluated in line with the human rights principles of equality and non-discrimination, participation, transparency and accountability (ILO 2019i; Behrendt et al. 2017). These principles do not prescribe a one-size-fits-all model; rather, they represent an optimal combination of means for achieving universal social protection in line with national circumstances, while striking a balance among universality, adequacy, solidarity and sustainability. This usually results in a country-specific mix of social insurance and tax-financed benefits to provide protection to all across the life cycle, so as to ensure both solidarity and financial, fiscal and economic sustainability.

Importantly, Recommendation No. 202 places overall and primarily responsibility for the implementation of the core principles with the State. The State is charged with progressively realizing universality of protection and embedding social protection systems in national legislation that defines rights and the corresponding obligations. This contributes to securing predictable and adequate benefits, strengthens institutional capacities, and promotes transparency and accountability by providing safeguards against misuse of power in the form of efficient and accessible complaint and appeal procedures. Finally, effective social dialogue and tripartite participation throughout the design and implementation of national social protection systems will ensure that policies and legal frameworks are transparent, consensual and balanced, and respect the rights and dignity of everyone without discrimination while responding to people’s particular needs (ILO 2018e, 2019i). Collectively, these principles act as the backbone holding up national social protection systems – failure to observe one of them potentially compromises the present and future solidity of the entire architecture. The added value of the ILO’s approach to social protection lies in its reliance on this unique set of principles agreed by the world’s governments, employers and workers to guide the development and implementation of rights-based national social protection systems in times of crisis and beyond. In 2019 and again in 2021, the governments, employers and workers of the ILO’s 187 Member States called for universal social protection in a human-centred approach to shaping a fair, inclusive and secure future of work and to the recovery from the COVID-19 pandemic.

The development of social protection systems over the past century or so has been remarkable. Today, most countries have schemes in place, anchored in national legislation, that cover all or most

areas of social protection, although in some cases these cover only a minority of their populations. Despite this laudable progress, however, large gaps remain, especially in Africa and Asia. Countries tend to build their systems sequentially, addressing different areas in varying order depending on their national circumstances and priorities.

Figure 2. Development of social protection programmes anchored in national legislation by policy area, pre-1900 to 2020 (percentage of countries)



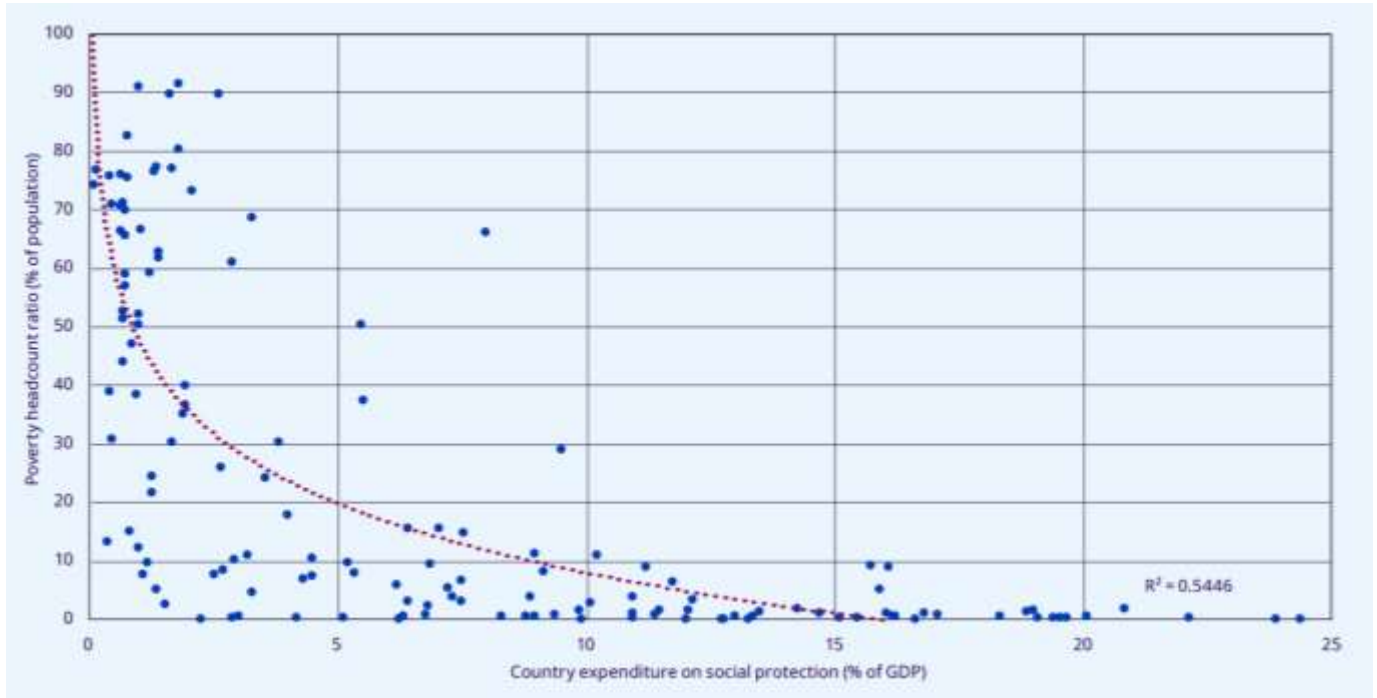
Notes: Based on the information available for 186 countries. The policy areas covered are those specified in Convention No. 102, excluding healthcare. The estimates include all programmes prescribed by law, including employers’ liability schemes.

Sources: ILO, World Social Protection Database, based on the SSI; ISSA/SSA, Social Security Programs Throughout the World; ILOSTAT; <https://wspr.social-protection.org>.

Historically, countries have tended to begin by addressing the area of employment injury, then moving on to introduce old-age pensions and disability and survivors’ benefits, followed by sickness, health and maternity protection. Benefits for children and families, and unemployment benefits, typically come last. While the development of national legal frameworks is essential for a rights-based approach, the extension of legal coverage does not in itself ensure effective coverage of the population or the adequacy of benefits. The extension of effective coverage has lagged significantly behind that of legal coverage, owing to problems in implementation and enforcement, lack of policy coordination, insufficient financing, and weak institutional capacities for the effective delivery of benefits and services.

Only if legal coverage is translated into effective coverage and endowed with a solid financing framework can social protection systems function effectively and have positive impacts on people’s lives. The key role of social protection systems in improving people’s living standards and alleviating poverty is illustrated by the fact that higher social protection expenditure is associated with lower poverty levels. It can also be noted that countries with high levels of economic development and strong institutions have better-developed social protection systems, implying a path dependency (Barrientos 2010).

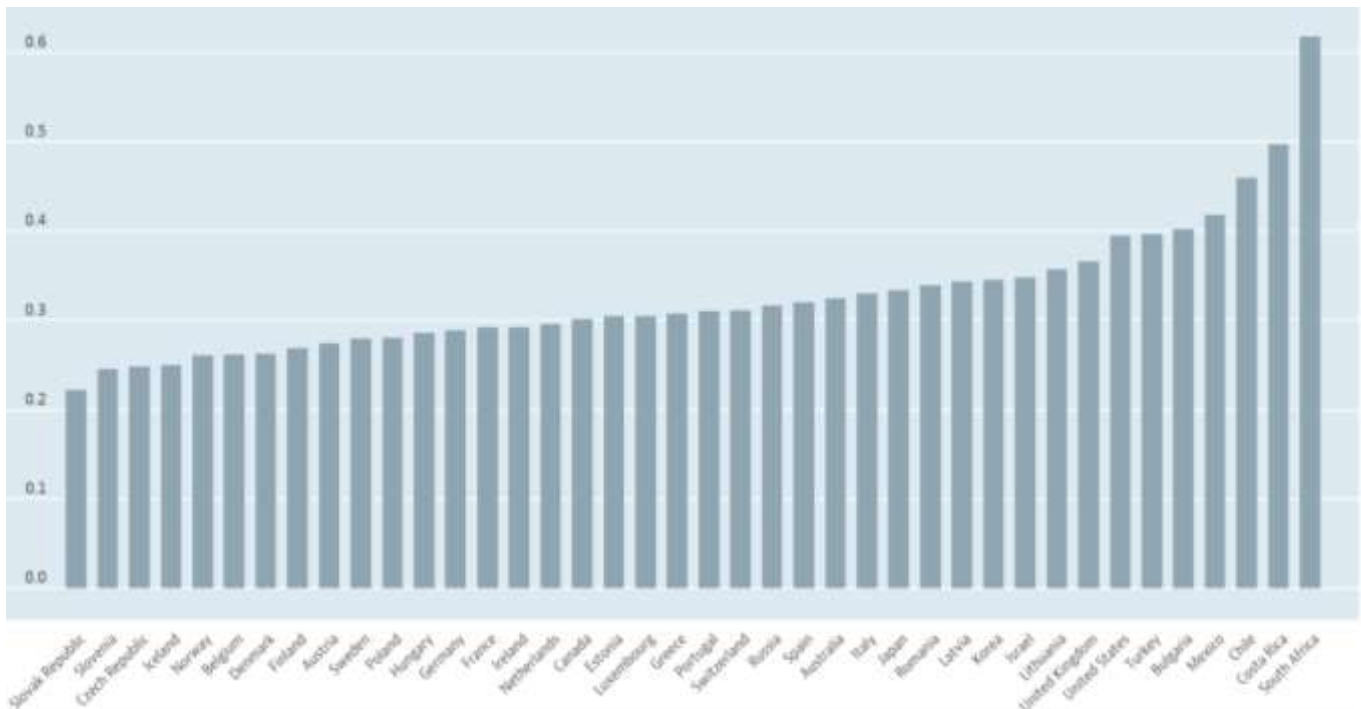
Figure 3. Public social protection expenditure (excluding health), percentage of GDP, and poverty rates, 2020 or latest available year



Notes: Data available for 140 countries. The poverty threshold used is daily income of US\$3.20 (2011 PPP).

Sources: ILO, World Social Protection Database; World Bank World Development Indicators (data accessed Jan. 2021). <https://wspr.social-protection.org>.

Economic history suggests that social protection was critical in enabling today’s high-income countries – for example, the Nordic countries – to alleviate poverty, enhance social cohesion and facilitate economic development (Palme and Kangas 2005). Social protection constitutes an important mechanism for reducing income inequality and economic insecurity, and supporting both vertical and horizontal redistribution.



Source: <https://data.oecd.org/inequality/income-inequality.htm>

Income is defined as household disposable income in a particular year. It consists of earnings, self-employment and capital income and public cash transfers; income taxes and social security contributions paid by households are deducted. The income of the household is attributed to each of its members, with an adjustment to reflect differences in needs for households of different sizes. Income inequality among individuals is measured here by five indicators. The Gini coefficient is based on the comparison of cumulative proportions of the population against cumulative proportions of income they receive, and it ranges between 0 in the case of perfect equality and 1 in the case of perfect inequality. S80/S20 is the ratio of the average income of the 20% richest to the 20% poorest; P90/P10 is the ratio of the upper bound value of the ninth decile (i.e. the 10% of people with highest income) to that of the first decile; P90/P50 of the upper bound value of the ninth decile to the median income; and P50/P10 of median income to the upper bound value of the first decile. The Palma ratio is the share of all income received by the 10% people with highest disposable income divided by the share of all income received by the 40% people with the lowest disposable income. While many European countries reduce inequality by more than a third through the combined effects of taxes and transfers, middle-income countries with less well-developed social protection systems achieve a much smaller degree of redistribution, resulting in higher levels of inequality in disposable incomes (with some exceptions).

Conclusion

An effective, efficient, and equitable social safety net should include three main elements:

- (1) a well-targeted provision for health and education;
- (2) a self-funded social security system providing coverage for all workers; and
- (3) government-funded programs that protect the vulnerable and poor from facing excessive risk.

Individual reforms that develop better targeting mechanisms, reduce wasteful government expenditures on subsidies and employment guarantees, and improve education and human resources capacity are an indispensable basis for creating an Islamic safety net system. However, such reforms will have to be slow and progressive, given considerable political constraints. Moreover, reform must be compatible with preexisting economic conditions, social institutions, and cultural realities.

Policies in the Middle East and North African have not broadly reflected the social welfare principles enunciated in Islam. The Quran and the Sunnah provide both normative and ethical guidance on how to develop a fair economic order—with justice at the center of the paradigm. Islam clearly demands that basic needs be met, that equality of opportunity be achieved, and that depletable resources be used to benefit all members of current and future generations equitably.

While governments in the region, particularly those in the oil-exporting countries, may have designed safety net mechanisms that meet the basic needs of some of their population, such policies cannot be said to be fully Islamic for a number of reasons. Perhaps most crucially, state paternalism comes at enormous social and political costs. The combination of universalized, untargeted, and regressive subsidies and high expenditures and poor quality services results in a safety net system that is inefficient and wasteful. Finally, those institutional features of an Islamic economic system, such as zakat, that do exist are poorly administered. Many throughout the Muslim world have lost confidence in the ability of these institutions to alleviate poverty and distribute income equitably in order to establish societies that are just, as required by Islam.

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7. A social contract can be defined as an implicit agreement between all members of a society – whether defined in terms of government and citizens, labour and capital, or different population groups – to cooperate for their mutual benefit and respect each other’s rights and obligations (ILO 2016e).
 8. Relevant instruments are compiled in ILO (2019f).
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