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**Social security priorities and  
patterns: A global perspective**

Dharam Ghai

P.O. Box 6  
CH-1211 Geneva 22  
Tel. 00 41 22 / 799 6128  
Fax. 00 41 22 / 799 8542  
E-mail: [INST@ilo.org](mailto:INST@ilo.org)  
<http://www.ilo.org/inst>

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Dharam Ghai

International Institute for Labour Studies Geneva

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# ***Social security priorities and patterns: A global perspective\****

## ***Introduction***

From time immemorial societies have attempted in various ways to shelter people against social and economic adversities. These efforts have mostly tried to meet urgent needs for subsistence and to provide against contingencies. The definition of “needs” and “contingencies”, and the exact nature of arrangements to address them have differed from one society to another and have evolved over time. These arrangements reflect not only the values, beliefs and customs of a people but also their economic systems, social structures and political institutions. The arrangements a society makes to meet the essential subsistence needs and contingencies of its members constitute its social security system.

Historically people have looked to their families, clans, tribes, communities, religious groups and authorities – lords, chiefs and kings – to meet their needs for social security. But the processes of industrialization and urbanization that have swept the world over the past two hundred years have profoundly affected social security arrangements everywhere. The origins of the modern system of social security go back to the late nineteenth century in Europe but it was only in the three decades following the Second World War that it developed its characteristic features. This system, which is prevalent in the industrial market economies, is referred to here as the classical model of social security.

The establishment of communist regimes, first in the Soviet Union and then, after the Second World War, in other countries in Eastern and Central Europe, brought in its wake a radically different political and economic system. Political power was monopolized by the communist party while most of the productive assets and property were taken over by the state. The communist countries developed their own distinctive system of social security referred to here as the socialist model. The collapse of the communist regimes in Europe after 1989 led to various attempts to transform the political and economic system in these countries into a democratic and capitalist system modeled on the Western countries. These changes required parallel changes in social security systems. Most of the erstwhile communist countries are still in a transitional phase: the emergent social security systems of these countries may thus be described as the transition model.

The developing countries display a vastly greater diversity in their political systems and economic structures than is found in the two groups discussed above. There is perhaps even greater diversity in their social security systems. The economic differences among developing countries are recognized in various classifications employed by international agencies such as middle-income (upper and lower), low-income and least-developed countries. Despite these differences, the great majority of these countries share the characteristics of widespread absolute poverty, extensive under- or unemployment, limited industrialization and dualistic economic

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structures. For these reasons and in conformity with current parlance, these countries are referred to as developing countries and their social security system as the developing model.

The classical model countries have relatively high per capita incomes and most of their labour force is in wage employment. Government expenditure and public social security expenditure form a relatively high proportion of GDP, although there are significant inter-country variations (table I). The transition countries have relatively low per capita incomes but a high proportion of their labour force work as wage employees. Government expenditure accounts for a high proportion of GDP, not very different from that in the industrial countries. In comparison with per capita income, social security expenditure constitutes a relatively high proportion of GDP (table II). These features are essentially a legacy of their communist past.

As noted above, the situation in developing countries shows far greater diversity. In general, the middle-income countries have a higher proportion of the labour force in wage employment and they allocate a higher proportion of GDP to public social security expenditure than the low-income countries. With regard to social security expenditure, however, the Latin American and Asian middle-income countries present contrasting patterns (table III).

The main purpose of this paper is to discuss the central features of the four models of social security referred to above. The focus is on the meaning of social security, the coverage provided and the institutions and financing of social security in different contexts. In the light of this analysis, the paper first explores different approaches to providing a modicum of social security to the entire population in developing countries. The next section discusses the evolution and key characteristics of the classical model of social security. This is followed by a similar analysis of the communist and transitional models of social security. The following section turns to the situation in developing countries, emphasizing some of the more successful experiences. The paper concludes with a discussion on ways of meeting the priority social security needs of the excluded majority in poor countries. Given the vast scope of the themes covered in the paper, the emphasis is on the big picture – the essentials of different models of social security – with the inevitable omission of supporting arguments, qualifications and details.

## **1. *The classical model of social security***

This section traces the evolution of social security arrangements in countries with an industrial market economy. It then examines the key features of the contemporary system, and considers the main influences which will affect their future.

### ***i) Evolution of social security in industrial countries***

Before state-sponsored social insurance schemes were established in the late nineteenth century, social welfare was provided mainly by the family, the church authorities and local communities. In most countries the state assumed a residual responsibility for the relief of orphans, widows and the disabled – the deserving poor, as they were called. The British Poor Law system exemplified this approach to social security. Dating back to the fourteenth century, the Poor Law went through a series of changes over a period of five hundred years, culminating in the 1834 Reform of the Poor Laws (Quigley, 1999). Under the 1834 Act relief for the poor was financed from a compulsory tax on property-owners. The able-bodied poor were expected to work and were not entitled to benefits under the scheme. These benefits, in terms of food and shelter were extremely meager; the beneficiaries were stigmatized and subjected to harsh treatment. Those without possessions or means of support were placed in workhouses where their basic needs were met in return for compulsory work.

The emerging industrialization in the late eighteenth and nineteenth centuries exposed a much larger number of workers to new risks and insecurities. Driven from the countryside by the enclosure movement and rapid growth in population, the migrants sought employment in factories and services in burgeoning urban areas. Deprived of traditional sources of support from the extended family, the local community and religious institutions, and faced with the risks and insecurities of wage employment in the new industrial system, the workers turned to mutual aid societies for assistance in times of sickness, injury and unemployment. Working on the basis of risk pooling, these societies provided a range of benefits to their members in return for regular contributions. The Friendly Societies in the United Kingdom illustrate the functioning of such mutual assistance groups (box I). The social insurance schemes that form the basis of much of the modern social security system owe their origin to mutual aid societies of this type.

#### Box I: The Friendly Societies

Dating back to Roman times, the Friendly Societies found a new role during the early stages of industrialization in the United Kingdom. A group of workers would come together to form a mutual assistance association. In return for regular contributions to the society, members would receive help during sickness, old age and unemployment. The societies also served as savings and credit agencies. They sprang up all over the villages and towns in UK. In the late 19th century, there were nearly 27,000 registered Friendly Societies. By 1940, they had a membership of around 14 million people. They were recognized by the government, which legislated for their registration and auditing.

Source: <http://www.friendlysocieties.co.uk>

A number of forces worked together to compel the state to assume direct responsibility for some elements of social security. As the process of industrialization and urbanization gathered pace, a growing proportion of the labour force came to depend upon wage employment for their subsistence needs. The workers sought to achieve greater economic security by forming trade unions, mutual aid societies and producer cooperatives. This was accompanied by political action on the part of working class organizations, radical groups and political parties dedicated to strengthening civil and political rights, and improving living standards and economic security. Their activities contributed to the gradual consolidation of democracy, improvements in working conditions for children, women and male workers and the beginnings of a system of social security (Briggs, 2000; Polanyi, 1957).

The initial emphasis in most countries was on occupational accidents, sickness and pensions. Enterprises were increasingly required to pay compensation to employees who were injured at work. The social insurance scheme introduced in Germany by Bismarck in 1883 covered sickness and pensions. The first unemployment insurance scheme was introduced in France in 1906. Maternity benefits were also included in many social insurance schemes. Initially there were separate schemes for different occupations and industries. Civil servants were among the first beneficiaries of social security schemes.

Coverage was gradually expanded to new categories of employee. The two world wars, especially the Second World War, greatly boosted the scope and coverage of social security benefits. High levels of unemployment, particularly during the inter-war period, stimulated the growth of unemployment insurance schemes. The Social Security Act of the Roosevelt Administration in the United States and the Beveridge Report in the United Kingdom were milestones in the development of social security systems in industrial countries in the post-war period. At the international level, the Universal Declaration of Human Rights adopted by the General Assembly of the United Nations in 1948 enshrined social security as one of the

fundamental human rights. This was further elaborated in the UN Covenants on Civil and Political and Economic, Social and Cultural Rights.

After the Second World War, social security systems expanded to include the great majority of workers and retired people in industrial countries. The systems became more comprehensive and generous, protecting the population against poverty, unemployment, sickness and injuries, and providing health care, maternity benefits, family allowances, housing subsidies and old age pensions. Nevertheless, the coverage and the range and level of benefits showed considerable country variation (Dixon, 1999; ILO, 2000).

## **ii) Key features of the classical social security system**

Despite some common features, there are significant differences among the industrial countries with respect to the objectives, scope, coverage, benefits and role of the public and private sectors in providing social security. The systems which developed in the industrial countries were designed to promote three objectives: reducing destitution; providing for social contingencies; and promoting greater income and consumption equality. However, the relative priority accorded to these objectives varies a great deal between countries. Figure 1 shows the incidence of income poverty in selected OECD countries (defined as the percentage of people with an income less than half the median income). The incidence ranges from 5-7 per cent in Scandinavian countries to nearly 22 per cent or more in the United Kingdom and United States, and 15-18 per cent in Germany, Canada, Spain, Australia and France.

This picture generally reflects the redistributive impact of a country's social security system. In the European Union, for instance, there are no big differences in the gini coefficient of incomes before transfers through the social security system: the highest ratio in the mid-1990s was for the United Kingdom at 0.56 and the lowest for Germany at 0.49. The picture, however, changes quite significantly when transfers are taken into account: the highest figure is for Portugal at 0.41 and the lowest for Denmark at 0.25, with Germany at 0.29, United Kingdom at 0.36 and Greece at 0.37. The narrowing of disparities is greatest in Belgium, Denmark, France, Italy and Ireland and least in Portugal, Greece and the United Kingdom (European Union, 1997).

A rough index of the extent of coverage and level of benefits provided by the social security system is given by public social security expenditure as a proportion of GDP.<sup>1</sup> The Scandinavian countries, France and Germany allocate more than 28 per cent of their GDP to public social expenditure, while New Zealand, Portugal, Ireland, Canada, Australia, the United States and Japan devote less than 20 per cent. The proportions in Australia, Japan and the United States are about half those in Sweden, Denmark and Finland.

There are also significant differences in the way that social security is financed in different countries. The two principal financing methods are social insurance and general tax revenue. While social insurance is used in most countries to finance pensions and unemployment and sickness benefits, a few countries such as Australia and New Zealand have tended to rely largely on general taxation to finance some of these programmes. On the other hand, various types of family allowance and social assistance programmes that provide income and benefits in kind to poorer households and vulnerable groups are financed through general tax revenue in all countries (Eardley et al., 1996).

Several attempts have been made to group the social security systems in industrial countries into distinct analytical categories. Perhaps the best known of these typologies classifies them into three categories: the liberal welfare system (exemplified by countries such

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<sup>1</sup> This is only a rough index because it does not take into account the effectiveness of public expenditure in terms of efficiency, equity and allocation of resources among different programmes.

as the United States, Australia and Canada), the corporatist model (Austria, France and Germany) and the social democratic system developed by Scandinavian countries (Esping-Andersen, 1990). According to Esping-Andersen, the liberal welfare system emphasizes means-tested assistance, modest universal transfers or modest social insurance plans. The corporatist model emphasizes class and status in access to social security benefits and is influenced by family and church traditions. The social democratic model seeks to achieve equality of highest standards, not of minimal needs, and to maximize individual independence. While this typology captures some interesting features of social security systems, the reality is more complex. Most countries combine elements of different models and the past two decades have seen a tendency towards dilution of some contrasting elements.

### ***iii) Social security in a state of flux***

Social security in the industrial countries reached its apogee in the 1970s. In Western Europe, by 1975, total social expenditure accounted for nearly 25 per cent of national income, having grown almost twice as fast as GDP since the early 1950s (ILO, 1995). Starting in the late 1970s, however, the welfare state came under increasing pressure from powerful forces and interests. The resistance to expanding social public expenditure was led by the conservative revolution unleashed by Thatcher and Reagan. It was aided by a marked slowdown in economic growth in the Western countries since 1974 and by rising unemployment, inflation and budget deficits. The conservative parties, as well as business and financial circles, attacked the inefficiency of public expenditure and the negative effects of high taxes and some elements of the welfare state on incentives to work, save, invest and take risks.

The neo-liberal policies that gained ascendancy in the 1980s spurred a strong wave of economic liberalization, privatization of state enterprises and services and deregulation of the economy. The intensification of globalization, technological change and competition led to further pressures for containing public expenditure and reducing tax rates. Over the past two decades this has resulted in many countries dismantling key social programmes and reducing the scope, level and range of benefits. There is also a trend towards privatizing social security – replacing or supplementing government schemes by private schemes or contracting private agencies to manage existing schemes. In some countries the universal, rights-based programmes are being converted into targeted schemes with beneficiaries subjected to a means test (Esping-Andersen, 1996; Hoskins et al., 2001).

Despite these measures, the ratio of public social expenditure to GDP rose slightly or stayed constant in most countries between 1985 and 1996 (ILO, 2000). Nor has there been convergence towards similar systems in the OECD countries. Social security systems are deeply embedded in national economic, social and political structures. Except during periods of serious crisis, they adapt only gradually to changing circumstances.

## ***2. The communist model of social security***

Except for the Soviet Union, the socialist regimes in Europe lasted less than five decades. Prior to the communist take-over in Eastern and Central Europe, the social security systems in these countries resembled those of Western European countries. They were based on the concept of social insurance, but coverage was incomplete and fragmented into different occupational groups. After the communist revolution, these countries developed a distinctive system of social security characterized by universality, equality and comprehensiveness. In terms of the typology employed above, these systems were closer to those described as social democratic. But in some

respects they were even more universal and egalitarian. They were financed by state and enterprise revenues. Price subsidies and the provision of benefits in kind, especially through enterprises, played an important role in social security.

Practically the entire working population was employed in government, in state enterprises or on collective farms.<sup>2</sup> Since most of the property was owned by the state, social security benefits essentially reflected a decision by the authorities on the division of national product between consumption and investment, and on the distribution of consumption expenditure between wages, social security and welfare. By the same token, it was possible to ensure similar benefits across regions and income groups since corporate profits were treated as government revenue. The responsibility for managing social security programmes was shared between the state, the enterprises and the trade unions. The benefits included free education and health services, maternity leave, free kindergartens, disability allowances and old age pensions. Box 2 illustrates the situation in Bulgaria, which was quite typical of other socialist countries.

Full employment and compulsory work for all adults were an integral part of social policy, as was an extensive range of subsidies for goods and services of mass consumption. Before 1989, the centrally planned economies spent between 4 and 8 per cent of GDP on subsidizing consumer goods, housing, transport and other services, and on providing other benefits in cash and kind through enterprises. Overall social expenditure was in the range of 20 to 30 per cent of GDP, comparable in most cases to the lower limit of West European countries (ILO, 1995). The social security systems in these countries, however, did not provide the quality of services available in the industrial market economies. In the distribution of goods and benefits, the industrial, party and bureaucratic élites received favourable treatment. The composition and quality of services did not respond to the preferences of the people, as these were planned and delivered in a bureaucratic and hierarchical manner (Standing, 1996).

#### **Box 2: Social Security in Bulgaria**

Sickness and work injury benefits were paid to all employees at the rate of 90 per cent of earnings. Maternity benefits amounted to 100 per cent of earnings for the first four to six months and to the national minimum wage for two years. Family allowances were universal, the rate rising with the number of children. Everybody was entitled to old age pensions, which amounted to 55 per cent of average earnings during the best remunerated three consecutive years. The minimum old age pension was 75 per cent of the minimum wage. There were also invalidity and survivor's pensions. Education and health were provided free of charge. Child care facilities were widespread, as were a range of benefits such as holiday resorts and sports facilities provided through enterprises.

Source: International Social Security Review, 4/1991

The social security systems in these countries collapsed after the fall of the communist regimes, but they exerted some influence on the developing socialist countries and also on some other low-income countries. The successors of these regimes carry their birthmarks but the transition countries, as shown below, are also experimenting with radically different approaches to social security (ISSR, 1991 and 2001).

### **3. Social security in transition economies**

<sup>2</sup> Poland was an exception in having a significant proportion of the population as private farmers.

The transition from communism to capitalism was historically unprecedented. For a variety of reasons, most of the former centrally planned economies opted for an approach to transition that has been called variously “the big bang”, “shock therapy” or “one-leap.” This approach was strongly advocated by the Bretton Woods institutions, as well as Western advisory groups and economists (Blanchard et al, 1994; Sachs, 1995). It was also supported by some political parties and economists in the transition economies (Klaus, 1997; Balcerowicz, 1995).

The approach to transition essentially reflected the neo-liberal ideas associated with the “Washington Consensus” – the dominant ideology in the 1980s on economic policy and development strategies. It advocated rapid and simultaneous action on many fronts – freeing prices, removing subsidies, opening up the national economies to external trade and investment, removing exchange controls, achieving budgetary equilibrium, privatizing enterprises, closing unprofitable companies and reducing social expenditure. This approach was considered economically and politically superior to other alternatives. Economically, it consisted of a set of mutually supporting policies that would quickly put the national economies on a rapid growth path after an inevitable but short-lived recession. Politically, it would make reversal to communism virtually impossible by destroying its central pillars.

The social and economic consequences of these policies were catastrophic in the short- and medium term. Between 1989 and 1993, real GDP fell by 15 per cent in the five countries in Central Europe, 32 per cent in South East European states, 42 per cent in the Baltic states and 30 per cent in the ex-Soviet Union republics. Even by 1999, ten years into transition, only the Central European countries had exceeded their earlier GDP levels (by 9 per cent). In the Commonwealth of Independent States (CIS), output levels were 55 per cent below those in 1989, in South East European transition economies by 30 per cent and in the Baltic states by 35 per cent (Emmerij et al., 2001). Total employment in the former communist countries had fallen by 15 to 20 per cent. The number of people living in poverty rose from 14 to 119 million between 1988 and 1994, which raised the percentage of the population living below the poverty line (\$4 a day in 1990 PPP) from 4 to 32 per cent (Zimny, 1997). Health and education indices have deteriorated and inequalities have increased sharply in most countries, reflecting the collapse of the social security system.

The new social security systems in these countries are still in a transitional phase although their main contours are clear. The situation varies a good deal between different groups of transition countries: the Baltic and the Central European states on the one hand and the East and South East European states on the other. Conditions are much worse in the Caucasian and Asian states. This section focuses mainly on the first group, although illustrations are sometimes drawn from the experience of other states as well.

The emerging social security systems in these countries were shaped by several factors; the legacy of the inherited system, sharp declines in production, rapid deterioration in the employment and poverty situation, and an acute fiscal crisis. The international financial institutions and European regional organizations exerted a decisive influence on the formulation of new arrangements. The system that emerged incorporated elements of the continental and liberal welfare models. However, in its actual working, it also shared some features of the social security systems in developing countries.

After the collapse of communism, most of the explicit or implicit subsidies were eliminated. Education and health services continue to be provided free by the state in most countries, though the share of the private sector has risen. In the Czech Republic, Hungary and Slovenia, health care is being financed through insurance contributions. The state financing of pensions, maternity, sickness and invalidity benefits has been replaced by separate insurance funds with contributions from enterprises and employees. Unemployment benefits, which were practically non-existent under the previous system, are also being financed from the state budget or through social insurance contributions. In view of the sharp increase in poverty, all governments have

introduced social assistance schemes. Attempts are also being made to partially privatize some of the social security benefits such as pensions and health care (ILO, 1995; Standing, 1996).

In practice, the new arrangements have not always worked as well as expected. In all countries pensions are the largest item in social expenditure. They are paid to people who are past working age, but also to the older unemployed and the disabled. At the end of 1993, for instance, 8.5 million out of a population of 38.4 million in Poland were receiving a pension of some sort. In the Russian Federation, out of a population of 148 million about 36 million were receiving a pension in 1994 (Standing, 1996). In most countries pensions are too low to ensure minimum subsistence. Several countries have adopted a two or three-tier pension system under which the state provides a basic pension to all, which has to be supplemented by mandated savings or insurance contributions and voluntary private schemes.

Although most countries had introduced unemployment benefits in the wake of sharp rises in joblessness, only a minority of the unemployed were receiving these benefits by 1994. Only about a third were receiving them in Slovakia, probably less than 13 per cent in Russia, less than 28 per cent in Bulgaria, about 45 per cent in the Czech Republic and 48 per cent in Poland. Furthermore, these benefits were nearly always below the subsistence level of the unemployed and their families. The most extreme case is Ukraine where unemployment benefits have been about 10 per cent of subsistence income ((Standing, 1996).

The net result of the various changes is as follows. A system that provided a comprehensive package of social security, albeit at modest levels, has been replaced by a highly selective and targeted system which excludes a significant proportion of the population. The tightening of conditions for unemployment benefits has left an important minority of jobless workers with no form of compensation. The social security institutions lack the capacity to collect contributions from a significant proportion of enterprises. The growing informalization of the economy is further intensifying the problem of collecting social insurance contributions. The result is that growing numbers of the working population are falling outside the framework of the social insurance system – a situation not unlike the one prevalent in developing countries.

#### **4. Social security systems in developing countries**

This section examines the evolution and diversity of social security in developing countries before discussing some relatively successful approaches which have been adopted in a number of countries. The section concludes with an analysis of appropriate policies to extend the benefits of basic social security to all segments of the population in developing countries.

The triple challenge facing social security in these countries is to reduce absolute poverty and provide basic services to the population; to meet contingency needs; and to assist the victims of natural disasters and social calamities. The first priority is to ensure adequate nutrition, basic health care, primary education, clean water, decent sanitation and shelter for all. The second category of needs relates to contingencies such as sickness, accident, death of the principal breadwinner, disability and old age, as well as assistance to vulnerable groups such as abandoned children and widows. The third task is disaster relief for the victims of floods, droughts and earthquakes that destroy property, livelihood and sources of support. Despite the increasing frequency of such calamities, very little attention has been given to ways and means of compensating people for loss of property and ensuring their livelihood (Rodgers, 1999).

##### **i) Diversity of the social security situation**

The social security systems in developing countries are more diverse than in the industrial countries, reflecting greater differences in historical background and economic, social and political structures. Prior to the introduction of modern social security systems, people relied upon their families, communities, religious authorities, employers and moneylenders to help them in an emergency. The majority of people had some independent means of production, which provided a measure of livelihood security. The modern systems of social security were introduced by colonial authorities in most of Asia, Africa and the Caribbean. Welfare provisions were extended in the first instance to civil servants and employees of large enterprises. The benefits included health care, maternity leave, disability allowances and pensions (Midgley, 1984; Ahmad et al., 1991).

Latin American countries that had been independent for a longer period began to adopt elements of the European social security system during the inter-war period. This was especially the case with Argentina, Brazil, Chile, Cuba and Uruguay. They adopted the social insurance method with coverage for health care, occupational injury and pensions. Another group of countries – Colombia, Costa Rica, Mexico, Paraguay, Peru and Venezuela – followed suit soon after the Second World War. Other countries adopted the social insurance method in the two decades after the war (Mesa-Lago, 1994; Huber, 1996).

Most of the systems developed in these countries shared certain characteristics – the contingencies covered were usually limited to injury, sickness, maternity and pensions; there were differential systems for different occupations and categories of workers, a multiplicity of institutions and most important, limited coverage of the population. Unemployment benefits, family allowances and social assistance existed in relatively few countries or had extremely limited coverage. In general, there was a certain correlation between the development of the national social security system and the degree of economic progress. Countries with a higher per capita income and a larger proportion of the working population in formal sector employment tended to have more extensive social security expenditure (table III). Since the state subsidized many social insurance schemes, the social security systems tended to drain resources from programmes targeted at poorer groups.

The state has sought in various ways to provide some basic services to people outside the formal social security system. Access to health care is perhaps their most important need. Most countries have government health services that attempt, with varying degrees of effectiveness, to reach those outside social insurance schemes (Cichon and Gillian, 1993). There are also small nutrition programmes for children and pregnant women, and cash grants for the indigent. But in most countries these are minuscule in relation to the need. Thus the greatest challenge facing the developing countries is to extend the coverage of social security to the excluded majority to enable them to cope with indigence and social contingencies. Before discussing how this might be done, it may be instructive to look at some approaches that have been relatively successful in meeting these objectives.

### ***ii) Some promising approaches to social security***

An examination of experience in the developing world reveals superior performance in social development by some groups of countries (Dréze and Sen, 1989; Ahmad et al., 1991; Mehrotra and Jolly, 1997; Ghai, 2000). Given the complexity of social security schemes and the lack of relevant data, it is not easy to construct indices to measure the effectiveness of country performance. Instead a variety of measures such as life expectancy, infant mortality, malnutrition, literacy, school enrolments and poverty have been used as proxies for social security effectiveness.

Countries performing well on these measures can be grouped into four clusters, each of which has one major distinguishing characteristic: broad-based growth, mineral-based growth, socialist orientation or social welfare approach. The first cluster is exemplified by the old and

new tiger economies of East and South East Asia; the second by Botswana and the oil-rich countries in the Gulf such as Saudi Arabia and Kuwait; the third by China, Cuba and Vietnam; and the fourth by Costa Rica, Sri Lanka, Mauritius, Chile, Jamaica and the state of Kerala in India. Despite their enormous diversity in terms of history, culture, religion, size, social structure, political regimes, stage of development and rate and pattern of economic growth, they share a common achievement in their rapid social progress as measured by human development indicators. It may be useful to provide a thumbnail sketch of the key features of their social policies.

*a) The old and the new tigers*

Singapore, Hong Kong and the Province of Taiwan, China and the Republic of Korea are among the most successful developing countries in terms of economic and social progress. Their economic and social indicators place them on a par with the industrial countries. They are among the handful of countries that have graduated from developing- to developed-country status. They all achieved extremely rapid rates of broad-based growth despite many differences in economic organization and policy on such matters as the role of foreign investment and multinational corporations, the size of enterprises, and the degree and pattern of government intervention in the economy. The key features of their economic performance were export-orientation and the rapid growth of employment and wages (World Bank, 1993).

In relation to their per capita income, public social security expenditure accounted for a relatively small proportion of GDP.<sup>3</sup> Indeed a common feature of their social policy was a reluctance to build a comprehensive social security and welfare system modeled after the industrial countries. Instead, the core of their social security system was a policy of full employment with rapidly rising wages. Another important feature of their social policy was high priority to primary, secondary and tertiary education. Public assistance with housing was important in Hong Kong and Singapore.

Over time these countries developed different systems of health care and old age benefits. In Taiwan, China, this was done gradually through social insurance schemes. In Singapore, the Central Provident Fund, a compulsory savings plan for all workers, formed the basis of old age benefits and health coverage, while also serving other purposes such as housing loans. The Central Provident Fund has been the subject of much study as a model for other countries, rich and poor. The Republic of Korea only developed a comprehensive system of health insurance towards the end of the 1990s. Hong Kong has not established state-sponsored social insurance but has used tax revenues to provide a residual welfare system to cope with indigence and sickness. Hong Kong also has an active voluntary sector to meet the welfare needs of the most vulnerable groups. The bulk of the population relies on corporate and private schemes for help in sickness and old age (Goodman, White and Kwon, 1998).

Despite considerable differences, the social security systems of these countries share some common features. The role of the state in social insurance is more that of regulator than provider. Instead of state agencies, quasi-governmental bodies manage the various funds to which social welfare contributions are made. This method of finance has resulted in a fragmentation of schemes with little pooling of risk among them and a limited redistributive impact (Kwon, 1998). There is provision for relieving indigence and meeting the other critical social needs of the poorest segments of the population through social assistance funds, but the qualifying conditions are generally quite restrictive. All these countries place a strong emphasis on the role of the family and the community in meeting the needs of the sick, the infirm and the old. A

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<sup>3</sup> This is so, even allowing for the fact that in the Republic of Korea, Singapore and Taiwan, China, the mandatory contributions are channeled through semi-autonomous agencies and thus do not figure in the government budget.

remarkably high proportion of old people – over 70 per cent – continue to live with their children. This has, of course, enormous implications for social security, especially in rapidly ageing societies (MacPherson, 1992).

The new tigers – Malaysia, Indonesia and Thailand – have tried to follow the path charted by the countries discussed above. They pursued export-oriented policies, specializing in labour-intensive industries. For nearly three decades they were able to sustain extremely high rates of economic growth, employment generation and wage increases. The incidence of poverty was brought down sharply and open unemployment was virtually wiped out, creating labour shortages in Malaysia and Thailand. As with the old tigers, the core of their social security policy consisted of full employment and rapidly rising wages. There was also emphasis on primary and secondary education funded by the state. Likewise, there was stress on the role of the family as provider of security for the sick, the poor and the old.

The social insurance schemes cover a small proportion of the labour force in Indonesia (20 per cent) and Thailand (32 per cent) but they are important in Malaysia (50 per cent). As in other developing countries, informal-sector and rural workers, and farmers remain largely outside these schemes. Most people rely on government health services but the importance of private practice and health insurance is increasing (Ramesh and Asher, 2000). The economic crisis of 1997 and the subsequent political turmoil in Indonesia and Thailand broke the trend in growth, employment generation and poverty reduction. These countries have had to devise special measures such as employment promotion schemes and health and nutrition programmes to cope with sharp increases in poverty (Lee, 1998).

#### *b) Security through mineral wealth*

Some oil- and mineral-exporting countries have also been successful in providing adequate social security support for their citizens.<sup>4</sup> Gulf states such as Kuwait, the United Arab Emirates and Saudi Arabia have used part of their enormous oil wealth to provide free education, health services, family allowances and sometimes guaranteed employment to their nationals. Most of the oil-rich Gulf states have also introduced social insurance schemes that provide for injury compensation, maternity and sickness benefits and old age pensions for the majority of the workforce (Mallat, 1998). These benefits have not been extended to the immigrants who carry out most of the low-skilled work as well as occupying a significant proportion of skilled jobs. These countries are characterized by massive inequalities but public revenues are sufficient to provide basic services and protection from contingencies.

Through a judicious use of its revenues from diamonds and other minerals, Botswana has also been able to provide its citizens with universal free education and health services, and food and employment for the needy. The key to the success of some oil- and mineral-exporting countries in providing social services on a universal basis is the capture by the state of huge rents from exports. In that sense, there is a parallel with the former socialist countries where the state owned most of the property and received profits and rents therefrom. The crucial difference, however, is the highly unequal distribution of income and wealth, and to some extent of social services and welfare benefits, in most mineral-exporting countries.

#### *c) The socialist developing countries*

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<sup>4</sup> Needless to say not all oil and mineral exporting countries have succeeded in providing social security cover for their populations. Witness the situation, inter alia, in Venezuela, Congo (Zaire), Nigeria and Angola.

Cuba, China and Vietnam furnish another example of relatively successful provisioning of social security. Their per capita incomes were and are substantially lower than those of the former centrally planned economies of Central and Eastern Europe. These countries, particularly China and Vietnam, had a much higher proportion of their population in agriculture and a much smaller proportion of wage employees in the formal sector. Cuba created a social security system that was quite similar for urban and rural areas, while urban workers in state enterprises and government services in Vietnam and China enjoyed a separate and superior system of social security compared with their counterparts in the countryside. In urban areas, workers were entitled to the full range of social services and benefits that were available to workers in the communist countries in Europe, albeit at lower levels. These were financed by the state budget. In contrast, the social services and welfare benefits for rural workers were mostly financed by their own collectives. The state contribution was relatively modest.

Until the crisis triggered by the collapse of the Soviet bloc, the Cuban social security system consisted of full employment, free education and health services, nominal rents for housing, subsidies on goods and services of mass consumption, food rationing, maternity and disability allowances and old age pensions. These services and benefits were provided on a universal and relatively egalitarian basis. The severe crisis of the 1990s has led to a dilution of some of these benefits but the state has made enormous efforts to preserve free education and health, food subsidies and other essential allowances (Barraclough, 2000).

China and Vietnam sought to provide a modicum of social security at a much lower level of development. A distinguishing feature of their economies was the existence of a large peasant sector. Efforts were made to provide free elementary education and primary health services more or less on a universal basis. In urban areas, the state and the enterprises provided basic education and health services in addition to coverage for maternity, occupational injury and pensions. In the rural areas, cooperatives, production teams and brigades provided the institutional framework for financing and organizing health and education services and meeting the needs of the sick, the infirm and the old.

The rural reforms in these countries led to the dismantling of collective agriculture and the consequent demise of the primary health care system. New systems are now being put in place for health and education financing but these lack the universality and coverage of the previous arrangements. In the urban areas as well, with privatization and the reform of state enterprises, new policies are based on social insurance for pensions and health (Ahmed and Hussain, 1991; Riskin, 2000; Moghadam, 2000; White, 1998).

#### *d) The social welfare approach*

The fourth category comprises a diverse range of countries that have succeeded in building most of the key elements of a comprehensive social security system, albeit at modest levels. One of their distinguishing features is that, except for Chile, they have maintained plural, democratic systems over long periods of time.<sup>5</sup> These countries have succeeded in providing universal primary education and health services, as well as food subsidies for the poor. In Sri Lanka and the Indian state of Kerala, these services have mostly been provided by the government (Gunatilleke, 2000; Ramachandran, 2000; Dréze and Sen, 1995).

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<sup>5</sup> The inclusion of Chile in this category may be questioned. Not only did it experience a long interregnum over 1973-89 of an authoritarian regime, but also its social and economic policies changed radically in neo-liberal directions (Martinez and Diaz, 1996). On the other hand, Chile has a long tradition of democracy and progressive social security policies, which go back to the 1930s. Its social development indicators have continued to be far above the levels normally associated with its per capita income.

In Chile and Costa Rica, health services are financed jointly by the state and by social insurance contributions. These two countries have been remarkable for extending the coverage of other elements of social insurance – maternity, injury, sickness, pensions – to practically the entire working population including the self-employed, informal sector workers and domestic employees (Mesa-Lago, 2000; Huber, 1996; Huber and Stephens, 2000). This has been done through a combination of social insurance and state contributions. In 1980, Chile launched a new pension scheme based solely on individual contributions which are then managed by private investment companies. But it continues state pensions at a modest level for those unable to participate in the main scheme. Even Sri Lanka and the state of Kerala, at much lower per capita incomes, have instituted schemes for state assistance to the disabled, elderly poor, widows and other needy persons.

*e) Some conclusions for social security*

The above outline of some country experiences with social security provisioning shows that it is possible to achieve many key objectives at relatively low-income levels. These objectives include universal primary education, basic health care and adequate nutrition, as well as maternity, sickness, injury and old age benefits for all workers and the most needy persons. It also shows that these social benefits have been achieved under a wide variety of political, social and economic systems. The institutional structures are diverse, with contributions from state and local authorities, the private sector and NGOs, religious groups and community organizations. The review brings out the crucial importance of policies such as full employment, rapid growth of wages and the provision of food subsidies in social security. It underlines the important role that families and communities can play even at high levels of income, in looking after the sick, the infirm and the old.

In the midst of enormous diversity, there are also some common features of national experience. A political leadership committed to extending vital social services and welfare programmes to the entire population has been important in all cases. A strong public sector played a crucial role in identifying needs, formulating strategies and policies and, in some cases, delivering services and benefits. Even when other agencies implemented programmes and policies, the coordinating role was played by the public sector. The importance of competence, integrity and independence for social security institutions cannot be over-stressed. The amount of resources devoted to welfare services and social security was not the determining factor, but rather their allocation to priority programmes such as primary health care, elementary education, sanitation, public health measures, nutrition programmes, employment schemes and assistance to needy groups (Ghai, 2000).

## **5. Extending social security to the excluded in the developing world**

Despite the achievements of a handful of countries, the majority of the population in the developing world remain bereft of even the most basic social security. This section looks at the constraints faced by governments and at the options available to them to extend a modicum of social security to the excluded majority. As argued above, the minimum needs comprise adequate nutrition, basic health care, primary education, clean water, decent sanitation and shelter for all. There is also a need to fashion an appropriate response to social contingencies and natural disasters.

*i) Providing basic services to all*

Many middle-income and a few low-income countries have made substantial progress, but even in these countries significant minorities suffer from hunger or malnutrition and lack of access to basic health, education, sanitation and shelter. In other countries, the deficit in these areas is much bigger. In the mid-1990s, at the global level, 1.2 billion people were without access to safe water, 842 million adults were illiterate, 158 million children under five were malnourished and 1.3 billion people lived below the income poverty line (UNDP, 1997).

The major obstacles to meeting these needs are political and administrative, not financial. Most countries, except for the poorest, have adequate resources to mount programmes that can eventually meet most of these needs. The problem is to shift government expenditure from current patterns to new priorities. This poses both political and administrative problems. The destitute in most countries are politically marginalized and have little say on the allocation of national resources.

Most poor countries also lack the administrative and technical capacity, within or outside the government, to implement health, nutrition, education and infrastructure projects to reach those in need. But as a number of poor countries have shown, these capacities can be built fairly quickly if such programmes are given adequate priority. There is no substitute for state leadership in this area. Even if programmes are implemented by different entities such as NGOs, religious groups, private sector agencies and local authorities, the government has to take responsibility for the overall planning of needs, strategies and programmes, and for coordinating and monitoring their implementation. Thus a key priority in many cases is the strengthening of government capacity to plan, organize, implement and monitor basic service programmes.

The international community can play a pivotal role in overcoming political and administrative barriers through financial and technical assistance. Indeed such programmes should be the first charge on development assistance. In recent years, a strong global consensus has emerged on the need to eliminate extreme poverty and to provide essential services to all as the highest priorities for international cooperation. The series of world conferences organized in the 1990s, the OECD Declaration of 1996 and most recently, the Millennium Summit Declaration, have committed world leaders to a set of social goals and targets relating to nutrition, health services, basic education, access to clean water, gender equality and reduction of absolute poverty (OECD, 1996; UN, 2000).

It has been shown that the resources needed to achieve these goals are quite modest (UNDP, 1994; UN, 2001). A range of multilateral and voluntary agencies have acquired considerable experience and expertise and achieved notable success in social security provisioning, particularly in the poorest countries which lack adequate national capacity (Deacon et al., 1997). There are few investments that the international community can make which will have a greater pay-off in moral, social, economic and political terms, than programmes to provide a modicum of social security on a universal basis.

## ***ii) Meeting social contingencies***

Social insurance is the classic way to meet needs in the second category. In countries where a significant proportion of the labour force, 60-70 per cent or more, is in the organized sector, these needs can be met through social insurance programmes with contributions from employers, workers and the state. The remaining workers can be brought into the formal schemes if the system is adapted and extended to suit the conditions of informal-sector and rural workers, the self-employed and domestic employees. Social assistance can provide benefits to the destitute and vulnerable groups that do not fit into the above categories. As seen above, several middle-income countries have been able to provide for the contingency needs of their population through such methods.

The real difficulties arise in situations where formal sector employees are a small minority of the working population. This is the case in practically all low-income and many middle-income countries. If economic development leads to a progressive increase in the proportion of workers in the formal sector, the conventional social insurance schemes could eventually cover most of the labour force, as indeed happened in industrial countries. It was expected that a similar process would take place in developing countries. But apart from the fact that such a prospect is receding in a growing number of countries, it would be irresponsible to wait decades for the provision of security against social contingencies. There are basically two alternatives in such situations. The first is state action – directly or through intermediaries – to meet the most urgent of these needs, especially for the poorest groups. Many countries, including China and India, have launched such programmes covering health and pensions for some groups such as the elderly poor and widows, the disabled and the destitute (Ahmad and Hussain, 1991; Osmani, 1991; van Ginneken, 1998), but they reach only a minority of those in need.

The other approach is to encourage and assist informal sector, domestic and rural workers, farmers and the self-employed to devise their own social insurance schemes as a protection against sickness, accident, loss of livelihood, old age etc. Numerous schemes of this type have been launched in all developing countries (van Ginneken, 1999; Guhan, 1994; Dror and Jacquier, 1999). Some, built around existing organizations such as the Self-Employed Women's Association (SEWA) in India, the Grameen Bank in Bangladesh, mutual health organizations and village savings and credit societies in West and Central African countries, have been quite successful (see box 3).

### Box 3: Social security for informal workers: The case of SEWA

The Self-Employed Women's Association (SEWA) is a registered trade union working with women in the informal sector. Most of its members are vendors, hawkers, home-based workers and labourers. SEWA ensures that its members receive minimum wages and provides them with legal assistance and overall work security. It provides a voice and representation to the members at various levels. SEWA's Integrated Social Security Programme is the largest contributory social insurance scheme for workers in the informal economy in India. It insures over 32,000 members. The premium is financed by one-third contributions from foreign donations, one-third from Indian life insurance companies and one-third from members. The scheme covers health insurance (including a maternity grant), life insurance (death and disability) and asset insurance (loss or damage to dwelling or work equipment). The total insurance package is just over \$1.50 per year.

Source: ILO, 2000.

The first step is to promote the organization of specific categories of worker. Fortunately, a variety of such organizations already exist in most countries. They include unions, cooperatives, neighbourhood and community groups, savings and credit associations, income-generating groups, especially of women workers, and peasant associations. Social insurance schemes can be organized through such groups. Their chances of success are better if they are socially homogeneous and cohesive and if the social insurance function can be combined with other work-based activities. However, even if the success rate is high, such group schemes can only progress slowly and cover only a small part of the target population. Once again, this underlines the need for the state to provide social assistance to protect people against social contingencies.

### **iii) Natural disasters**

Natural disasters take their toll in human lives, destruction of property and infrastructure, and loss of livelihood for hundreds of millions of people. They often trap people in chronic poverty and do permanent damage to children. They have been increasing in numbers and intensity in recent times. In the 1950s there were 20 “great” catastrophes, in the 1970s there were 47, and by the 1990s there were 86 (Abramovitz, 2001). In the 1990s, over 750,000 people were killed by natural disasters, nearly all of them in developing countries, with Asia accounting for 80 per cent. The disasters affected over 2 billion people in the 1990s or an average of 210 million people annually with 90 per cent of them living in Asia (International Federation of Red Cross and Red Crescent Societies, 2001). The estimated economic damage from natural disasters amounted to nearly \$810 billion over the decade, almost 45 per cent of which occurred in developing countries – a staggering amount in relation to their assets and income.<sup>6</sup>

Thus natural disasters are a major and increasing source of economic and social insecurity for large numbers of people. Some regions and countries are particularly vulnerable to floods, hurricanes and droughts, including South, South-East and East Asia, Eastern and Southern Africa and Central America. Unfortunately, the victims of such disasters are disproportionately the poor people who have no savings or other resources to fall back on. They have no insurance policies to compensate them for death, disability and economic damage. Most disaster relief assistance is designated for immediate needs. Little is done to address longer-term needs for jobs and livelihood. Even less is done to compensate for loss of property, implements and working capital.

This is surely another area that calls for a concerted national and global effort to address the urgent needs of disaster victims. A more effective relief effort needs to be accompanied by better preventive, risk reduction and mitigation policies. Preventive measures include flood control dams and improved drainage, resettlement, better and more effective enforcement of building codes, strengthening of existing structures, environmental conservation and reforestation. There is also room for improving private and communal insurance coverage against the damage caused by natural disasters (World Bank, 2001).

## **6. Summary**

Modern social security systems evolved in the industrial market countries over a long period of time. They are the product of interactions between economic, political and social forces. The systems which developed in the post-war period were designed to meet social contingencies and to redistribute wealth and consumption in favour of lower-income groups. These systems were underpinned by high per capita incomes and adequate capacity to extract financial resources through taxation. They were built on an employment structure where the great majority of workers were wage employees. Although they share some common features, the social security arrangements in these countries also exhibit significant diversity with regard to the scope of coverage, the proportion of people protected, the level of benefits and the financial and institutional mechanisms.

A distinctive feature of the communist model of social security was its provision of fairly comprehensive, universal and egalitarian benefits at relatively low-income levels. This was possible because the state owned nearly all the productive assets and was free to dispose of the output between accumulation, wages and social security and welfare. The socialist countries also relied more than the market economies on indirect measures of social security and

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<sup>6</sup> The losses in developing countries are underestimated, as they do not measure indirect economic losses or destruction of natural resources.

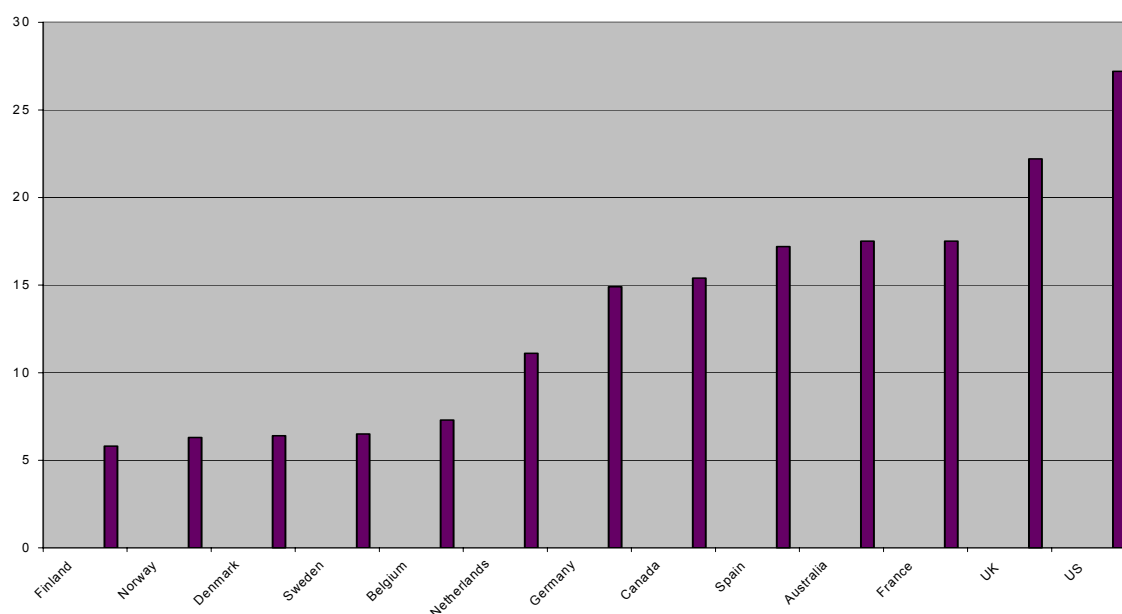
consumption redistribution. For example, the governments subsidized a variety of services and items of mass consumption, and fixed relatively high prices for non-essentials.

The transition countries have sought to restructure their social security systems in a difficult environment of falling production and incomes, accompanied by rising unemployment and poverty. In most Central and Eastern European countries, the state financing of pensions and maternity, sickness and invalidity benefits has been replaced by separate insurance funds with contributions by enterprises and employees. Efforts have been made to enhance the role of the private sector in health, education and pensions. The rapid increase in poverty, especially in the early years of transition, led to the expansion of targeted, means-tested social assistance schemes. Because of the increasing informalization of the economy and the restricted entitlement for unemployment, sickness and pension benefits, a significant minority of the working population in many countries fall outside the social security framework – a situation similar to that in many developing countries.

The social security systems in developing countries are extremely diverse, reflecting differences in the underlying economic, social and political conditions. A handful of countries have come close to covering the main social security needs of their people, some through broad-based growth, others through institutional reform and purposeful use of resources. But the great majority of the population in most developing countries remain unprotected even against the most elementary contingencies. The social security systems borrowed from the industrial countries cater to the needs of a small minority of the workforce in most developing countries. Often they divert scarce state funds away from broader programmes that could provide basic services for the mass of the population.

The central priority in these countries must be to meet essential needs such as primary health care, basic education, clean water, nutrition, sanitation and shelter. Priority should also be given to meeting the minimum subsistence needs of vulnerable groups such as the elderly, widows, orphans and the destitute. Except in the poorest countries, the real problem is not scarcity of resources but the political marginalization of the destitute and the lack of administrative and technical capacity on the part of the government to formulate strategies and programmes, and coordinate and monitor their implementation. The international agencies, bilateral donors and NGOs can play a vital role in overcoming these obstacles through financial and technical assistance.

The social contingencies of the working population can best be met by a gradual expansion of social insurance schemes in the formal sector and the establishment of parallel schemes for informal sector workers and the self-employed through such organizations as the unions, cooperatives, neighbourhood and community groups, savings and credit associations, income-generating groups, especially of women workers and peasant associations. State and foreign support can play an important role in launching social security schemes for informal-sector employees and the self-employed. Finally, in view of the increasing frequency and severity of natural disasters that destroy the assets and livelihood of hundreds of millions of people each year, there is a need for better relief programmes and for preventive, risk-reduction and mitigation strategies.

**Figure I: Poverty rates in selected OECD countries**

Source: ILO, 2000.

**Note:** Poverty is defined as the percentage of people with an income less than half the median income.

**Table I: GDP, government expenditure and employment  
Selected OECD countries: 1996**

Country	GDP (ppp) US\$	Total govt. exp. (% of GDP)	Govt. soc. sec. exp. (% of GDP)	Wage employment (% labour force)
USA	28023	23	16.5	91.6
Norway	23464	39	28.5	91.3
Japan	23158		14.1	82.1
Denmark	22695	44	33.0	90.6
France	21585	37	30.1	88.6
Australia	21434	29	15.7	84.6
Netherlands	20503	51	26.7	88.0
UK	19917	44	22.8	86.9
Ireland	18684	43	17.8	80.0
New Zealand	17758	36	19.2	78.8
Spain	15499	39	22.0	76.1
Portugal	13535	38	19.0	71.7

Source: GDP, government social security expenditure, wage employment (ILO, 2000)  
Total government expenditure (UNDP, 1998).

**Note:** Social security expenditure covers pensions, health care, employment, injury, sickness, family, housing and social assistance funds.

**Table II: GDP, government expenditure and employment  
Selected transition countries: 1996**

Country	GDP(ppp) US\$	Total govt. exp. (% of GDP)	Govt. soc. sec. exp. (% of GDP)	Wage employment (% labour force)
Czech Republic	11006	42	18.8	86.1
Hungary	6952	43 (1998)	22.3	85.3
Poland	6016	43	25.1	70.5
Romania	4632	32	12.4	62.4
Russian Federation	4269	27	10.4	90.0
Latvia	3649	30	19.2	84.8

**Source:** GDP, government social security expenditure, wage employment (ILO, 2000)  
Total government expenditure (UNDP, 1998).

**Note:** Social security expenditure covers pensions, health care, employment, injury, sickness, family, housing and social assistance funds.

**Table III: GDP, government expenditure and employment  
Selected developing countries: 1996**

Country	GDP (ppp)US\$	Total govt. exp. (% of GDP)	Govt. soc. sec. exp. (% of GDP)	Wage employment (% labour force)
Republic of Korea	13193	18	5.6	62.8
Chile	12013	20	11.3	70.1
Malaysia	10905	23	2.9	71.4 (93)
Mauritius	9109	23	6.0	80.9 (95)
Mexico	7983	14	3.7	58.9
Botswana	7663	38	2.7	62.5 (91)
Brazil	6491	39	12.2	62.3
Costa Rica	6479	28	13.0	71.2
Indonesia	3456	16	1.7	28.7 (92)
Egypt	2853	43	5.4	50.0 (92)
Sri Lanka	2324	29	4.7	59.9
India	1606	16	1.8	
Kenya	1162	27	2.0	20.8 (94)
Ethiopia	504		3.7	6.6 (94)

**Source:** GDP, government social security expenditure, wage employment (ILO, 2000)  
Total government expenditure (UNDP, 1998).

**Note:** Social security expenditure covers pensions, health care, employment, injury, sickness, family, housing and social assistance funds.

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