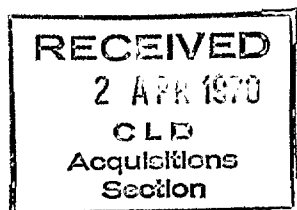


F + S will be published in 2-3 months
78.17.12/170

ILO

INTERNATIONAL LABOUR OFFICE



An Introduction to Social Security



GENEVA
1970



49727

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from the International Labour Office (Sales Section), 1211 Geneva 22, Switzerland. The catalogue and list of booksellers and local offices will be sent free of charge from the above address.

PRINTED BY KUNDIG, GENEVA, SWITZERLAND

Preface

The present volume is a new edition of an ILO manual first printed in 1958, revised to take account of the most recent developments in the all-important field of social security. It was prepared by the Social Security Branch of the ILO on the basis of the original edition, which was the work of Mr. Maurice Stack, a former chief of the Branch.

The course describes first the general development of the idea of social protection against contingencies such as sickness, accident, old age, unemployment, etc., and with the question of what sections of society are to be given protection. It then goes on to analyse the different types of benefit and the conditions on which they are provided. It explains the problems of financing social security schemes, the various methods which can be used for obtaining the necessary resources, and the systems and procedures used in different countries for managing social security, collecting contributions and paying benefits. It concludes with two important innovations: discussions of the social security of workers migrating from one country to another and of technical co-operation activities of the International Labour Organisation in the field of social security.

The course has been divided into twelve lessons. However, the subject-matter is so vast in comparison with the restricted space available in the manual that it cannot be expected that the dividing-lines chosen—or any kind of division, for that matter—will fully meet the practical requirements of all users. Consequently, whether it is used for direct teaching (lectures, adult education classes, etc.) or for teaching by correspondence, the contents will have to be adapted and divided up according to local needs and circumstances. In conjunction with the books listed at the end, the manual may also be used as part of a more thorough and specialised study of the subject. A few points for discussion have been inserted at the end of each lesson for use in recapitulating the material already taught and in provoking interest in further investigation of particular subjects.

Contents

	Page
PREFACE	III
FIRST LESSON: <i>A New Name for an Old Aspiration</i>	1
Origins of Social Security	3
Savings	4
Employers' Liability	4
Forms of Private Insurance	7
Social Insurance	10
Social Assistance	12
Family Benefits	13
Public Services	14
Provident Funds	15
Social Security and the ILO	15
SECOND LESSON: <i>Persons Protected</i>	21
Social Insurance of Employees	22
Scope as regards Undertakings	23
Scope as regards Employees	25
Social Insurance of the Self-employed and Non-employed	29
Protection of Dependants through Breadwinner's Insurance	31
Social Assistance	33
Public Services	34
THIRD LESSON: <i>Benefits</i>	37
General	38
Family Benefits	46
FOURTH LESSON: <i>Benefits (cont.)</i>	55
Medical, Sickness and Maternity Benefits	56
Medical Benefit	56
Sickness Benefit	64
Maternity Benefit	70
FIFTH LESSON: <i>Benefits (cont.)</i>	73
Pensions	74
Invalidity	75
Old Age	77
Death of Breadwinner	83
SIXTH LESSON: <i>Benefits (cont.)</i>	87
Pensions (concl.)	88
Qualifying Periods	88
Pension Formulas	90

Social security

	Page
SEVENTH LESSON: <i>Benefits</i> (concl.)	97
Employment Injury Benefits	98
Definition of Contingency	99
Medical Benefit	101
Benefit for Temporary Incapacity	102
Benefit for Permanent Incapacity	103
Survivors' Benefit	105
Unemployment Benefit	106
Definition of Contingency	107
Functions of an Employment Service	110
Rate of Benefit and Eligibility	110
EIGHTH LESSON: <i>The Financing of Social Security Schemes</i>	115
Frequency and Duration of Benefits	117
Family Benefits	117
Sickness Benefit	118
Maternity Benefit	119
Invalidity Pensions	120
Old Age Pensions	121
Widows' and Orphans' Pensions	124
Employment Injury Benefits	125
Unemployment Benefit	128
Medical Benefits	130
NINTH LESSON: <i>The Financing of Social Security Schemes</i> (concl.)	133
Periodical Distribution of Cost	134
Distribution of Cost among Population Sectors	144
Social Security and Economic Development	154
TENTH LESSON: <i>Administration of Social Security Schemes</i>	157
Routine Functions	158
Insurance Schemes	158
Assistance and Public Service or Universal Schemes	163
Powers and Disposition of Administrative Organs	164
Autonomous Administration	167
Right of Appeal	173
ELEVENTH LESSON: <i>Social Security of Migrant Workers</i>	177
Basic Principles of Social Security for Migrant Workers	179
Equality of Treatment	180
Determination of Applicable Legislation	181
Maintenance of Acquired Rights	183
Maintenance of Rights in Course of Acquisition	184
Payment of Benefits Abroad	186
Recent Developments in International and Multilateral Co-ordination in the Social Security Field	190
TWELFTH LESSON: <i>Technical Co-operation in Social Security</i>	197
Origin and Objectives of Technical Co-operation	198
Bilateral and Multilateral Co-operation	200

Contents

	Page
Technical Co-operation Activities of the ILO	201
Origin and Basic Principles	201
Methods of Operation	205
Fields of Technical Co-operation	206
Examples of Technical Co-operation	208
Difficulties Encountered	212
Direct Aid from the Organization of American States to Latin American Countries	214
APPENDIX: <i>Suggestions for Further Reading</i>	217

Tables

I. Specimen Progressive Rates of Family Allowances	51
II. Examples of Progressive Family Allowances Expressed as Percentages of Wages	52
III. Examples of Pension Rates as Percentages of Wages, 1965	94
IV. Frequency and Duration of Sickness Benefit in Selected Countries for Selected Years	119
V. Proportion of Invalids to Insured Population in Selected Countries in Selected Years	121
VI. Persons of Different Ages in Each 1,000 of the Population in Western Europe and North America	122
VII. Pensionable Age and Number of Pensioners: Hypothetical Example	123
VIII. Comparative Expectancy of Life for the Male Population in Countries in Different Regions of the World	123
IX. Rates of Accident Frequency in Employment: Number of Accidents per 1,000 Workers Exposed to Risk	126
X. Comparative Waiting Periods and Average Duration of Benefit in Cases Compensated for Temporary Incapacity in Selected Years in Selected Countries.	127
XI. Waiting Periods, Maximum Unemployment Benefit Periods and Average Numbers of Benefit Days in Selected Years in Selected Countries.	129
XII. Frequency and Duration of Medical Benefits in Selected Years in Selected Countries	130
XIII. Cost of Medical Benefit as Percentage of Basic Wage in Selected Countries	131
XIV. Receipts of Social Security Systems of Selected Countries in 1963 Distributed according to Origin and Expressed as Percentages of Gross National Product	153
XV. Technical Co-operation Missions Carried Out by ILO Social Security Experts, 1952-66	208

First Lesson

A NEW NAME FOR AN OLD ASPIRATION

Origins of social security: savings; employers' liability; private insurance.

Social insurance.

Social assistance.

Family benefits.

Public services.

Provident funds.

Social security and the ILO.

A NEW NAME FOR AN OLD ASPIRATION

Individuals and peoples find themselves drawn, at different times, either towards a more carefree and adventurous life or towards a more secure life. In the present epoch most of mankind appears to be opting for "safety first". The growing and ever-widening demand for social security measures bears witness to this tendency. The average man lives longer today than at any other time in history, and caution comes with years. Perhaps opportunities for profitable adventure have become so rare in recent years that they no longer fire the imagination, and adventure must hereafter be sought outside the economic sphere. However that may be, every worker nowadays wants to be certain not only of his next meal but also of his subsistence for the rest of his life and the subsistence of his dependants as well. This aspiration, though often unvoiced, has always existed, but only recently has it been seen by the masses to be within their reach as it has been reached by the more well-to-do. The mechanics of modern social security measures consist in counteracting the blind injustice of nature and economic activities by rational, planned justice with a touch of benevolence to temper it.

In this opening lesson we shall ascertain the currently accepted meaning of the term "social security" from a consideration of the historical circumstances in which the concept developed.

The student will find that this manual, and in particular the present lesson, contains numerous references to the broad currents of historical evolution, and a word of explanation about their development is desirable at this point. It was only over a period of many years that national opinion became convinced of the merits of the social security idea and of its practicability in an ever-growing sphere. Only occasionally has a far-sighted student been able to visualise the shape that social security will assume in the still distant future. In addition, a national scheme of social security is a tremendous organisation which it would be almost impossible to administer without prior experience by the country in the handling of smaller, more manageable machinery. Hence each nation tends in its own legislative history to go through various phases of development

A new name for an old aspiration

that in some more experienced countries have already been left far behind—although, as the path is now well marked, the process of development is likely to be faster and, under informed direction, to avoid excursions up blind alleys. Furthermore, even a slight acquaintance with the historical process reveals how, once the decision to reach a specific end has been taken, the means to attain it are really empirical, although they may be rendered more acceptable by the invocation of some plausible principle, preferably an old one. Lastly, a large and complex scheme, when it has been working for some years, opposes an enormous inertia to fundamental change, so that old-established schemes may remain, in some of the techniques which they use, backward in comparison with certain schemes of recent origin.

ORIGINS OF SOCIAL SECURITY

For our present purpose it will suffice to locate the origin of the social security movement at the beginning of the early nineteenth century in western Europe. In this region industrialisation had begun and the “proletariat” had made its appearance. Here was a large new class of factory workers, completely dependent on the regular payment of wages for their subsistence and therefore reduced to privation by a spell of sickness or unemployment. It is true that there existed in north-western Europe poor laws under which destitute persons could obtain relief (subject to loss of civil rights); but, as one might expect, and as was intended, no one would avail himself of relief if he could possibly avoid it. The poor laws, however, had at least the merit that they admitted public liability for the support of the destitute, allocated definite funds for this purpose and were potentially comprehensive in their scope, thereby foreshadowing fundamental principles underlying the national social security schemes of a hundred years later. But no relief was given until the person in need had exhausted all his resources and had failed to obtain help from his near relatives. It will be understood that poor relief, far from being designed to afford a modicum of social security, was conceived of as a police measure which, by preventing the despair of starvation, would diminish the potential danger of desperate action and the ensuing disturbance to society.

Social security

In the period up to about 1880 three methods had been devised and applied in order to protect the urban labouring class from destitution: small savings, employers' liability, and various forms of private insurance.

Savings

Government-operated savings banks that accepted very small deposits had a success which should not be underrated, for immense numbers of wage-earners maintained, and still maintain, accounts in these banks in numerous countries. The insufficiencies of this approach are obvious. The level of wages 50 or 100 years ago and the large families of those days simply left no margin for saving among unskilled workers; in fact only rare individuals in that class could bring themselves to save. Again, except as a means of providing sustenance in old age, saving is not by itself effective as a method of achieving social security. Illness, accident, unemployment and death may occur at any age in one's working life, though some of these risks are more likely at the higher ages.

Employers' Liability

The second method which was developed was that of placing liability for the maintenance of the worker in sickness, as in health, on the individual employer. The basis of this was the quasi-paternal authority of master over servant and the correlative responsibility of the former. Here we have echoes of the old feudal system, and of the old relationship between the craftsman and his apprentices living in his house. This second method was highly attractive to governments, which felt that they could solve the problem of social insecurity—or wished to give the impression that they had solved it—without being put to the trouble of setting up special machinery or of spending tax money. It is, as a rule, better than nothing. Sometimes employers feel a moral obligation to exercise paternal solicitude for the general welfare of their workpeople. In central Europe employers used formerly to be required to pay benefits in case of sickness, maternity, retirement and death; this system is still followed in parts of Africa, Asia, Latin America and the Middle East, through provisions embodied in labour codes or other labour laws.

A new name for an old aspiration

Employers' liability today is, however, mostly associated with compensation for injury caused by employment. In the last quarter of the nineteenth century the industrialised countries of western Europe were seeking a method of compensating the victims, ever more numerous, of factory and railway accidents. Of course, in virtue of a quite natural and generally accepted principle the civil law everywhere made a negligent employer liable to pay damages to his workmen in case of injury, but it was difficult for the workmen to prove the employer's negligence even when it did exist. In these circumstances jurists cast about for a new theory that would facilitate the recovery of damages. Several suggestions were made, each of them tending to create a right to damages regardless of whether proof could be produced of negligence on the part of the employer. The theory which won acceptance was known as the "principle of occupational risk" with its corollary of employers' liability. This theory is that the employer who sets up a factory creates an agency which, by its very nature, is likely to cause injuries to his workpeople, through no fault either of himself or of the employee; it is therefore just that the prejudice sustained by the victim should be compensated for by the employer and be included in the cost of production.

Upon this theory were founded the laws imposing on employers a liability to pay compensation to their workmen in case of injury accidentally received in the course of employment. The amount of the compensation was regulated by the law itself and was no longer, as were damages, assessed by a court. These workmen's compensation laws, as they were called, greatly improved the accident victim's chance of obtaining a benefit to replace—at least in part—his lost wages. Nevertheless, they still involved him in formal legal procedure for the assertion of his claim, and the procedure might embitter his relations with his employer. Employers' liability for employment injuries recommended itself not only as being morally just but also, and incidentally, as a means of providing an incentive to an employer to take positive measures to prevent accidents.

A general system of social security cannot be provided through use of the employers' liability method. It is true that public authorities and large private corporations possess the financial strength and administrative capacity to discharge the liability laid upon them and often take the

Social security

initiative by offering benefits to their staffs in the interest of good industrial relations; they can furnish medical care through their own dispensaries, pay sickness and maternity benefits and accumulate the reserves required to ensure the payment of pensions for long service. But not all wage-earners work in large undertakings. In most of the industrially developing countries the typical urban worker is employed in a workshop with a staff of perhaps a dozen. It is an observed fact that small employers in many cases find it difficult to obey statutory provisions requiring them to pay benefits to their workmen. If the liability is enforced and happens to be heavy the small employer will become insolvent, his business will be ruined and his workpeople will become unemployed. Moreover, a small employer will hesitate to employ any married woman if he is made liable by law for providing her with maternity benefits. The fruit of the legislators' good intention will thus be reserved for the employees of large firms, and this is clearly not an acceptable state of affairs.

In order to keep compensation liability within the capacity of the small or medium-sized firm the amounts prescribed to be paid were kept well below the real needs of the victims in cases of permanent total incapacity and death; in the absence of machinery for serving pensions the compensation was mostly paid in such cases in the form of a lump sum.

Even so, employers' liability could be relatively heavy in respect of an accident involving permanent incapacity or death, or of a person retiring on pension after many years of service, especially when several claims matured together.

To relieve the employer of his employment injury liability, insurance companies at an early date began to issue policies under which the insurer took over from the employer the liability in return for a premium proportional to the risk calculated for the undertaking. This permitted some pooling of the risk of industrial accidents. The more prudent employers whose businesses were not large enough to allow them to carry their own risk easily took out policies of this kind. In some countries such private insurance was eventually made compulsory.

Where insurance companies have taken over employers' liability for workmen's compensation they have often resisted claims as vigorously

A new name for an old aspiration

as possible or persuaded the claimant to accept merely token payments. Very likely these practices acquired a notoriety that was unfairly detrimental to insurance companies generally, but they have long since impressed governments in many countries with the desirability of seeking other arrangements for carrying the risk of employment injury.

Forms of Private Insurance

The third and last of the nineteenth-century methods of fending off destitution was private insurance in its various forms. For our immediate purpose we will make a distinction between insurance through mutual aid societies and insurance through insurance companies.

Mutual aid societies seem to have grown up spontaneously in Europe among urban workers at different times and in places as different as ancient Rome and seventeenth-century Madrid. With the disappearance of medieval civilisation and its guilds and the appearance of an unorganised mass of unskilled labourers in the towns, the need for mutual aid clubs made itself acutely felt. Their main objects were to help the member in time of sickness with simple medical care and to pay for his funeral in return for a regular periodical contribution. In a word, mutual aid societies were practising the method of insurance. At first their technique was, as one would expect, primitive in the extreme, and it would often happen that the promised benefits were not forthcoming. Gradually, however, they were brought under government supervision. Their rules had to be submitted for official approval. They were not allowed to insure the payment of benefits such as pensions, which involve accumulation of substantial reserves and require actuarial calculations; and their accounts had to be audited. By thus limiting their responsibilities the government could render it much more likely that the societies could keep their promises.

As soon, however, as a mutual aid society is managed in a business-like way, it becomes practically indistinguishable from a mutual-insurance company, whose clients are its shareholders. It becomes reluctant to admit individuals who are already old or not in good physical condition. Moreover, persons whose earnings are small or whose employment is irregular are not always able to pay the requisite contributions or to keep them up.

Social security

The trade unions, notably in Great Britain, often acted as mutual aid societies besides performing their main function of defending the interests of their members as employees. In this role their chief importance was in providing unemployment benefit, a field in which they were the pioneers. A trade union, especially before the introduction of public employment exchanges, was in the best position to know about vacancies in its trade as well as the personal and technical qualifications of its members. But the demand for benefit varied of course with the fortunes of the trade concerned and not with the general level of employment in industry at large. The latter is naturally much more stable than the level of employment in one trade and in one locality. Thus, depending as they did solely on their members' contributions, trade unions could afford to pay benefit only for comparatively brief spells and would, in bad times, exhaust their funds altogether.

Seeing that mutual aid societies run by the workers themselves could not safely undertake old age or life insurance, a number of European governments in the second half of the nineteenth century created insurance offices under the guarantee of the State. Such offices offered facilities for these two branches of insurance to persons of small means; premiums might be paid through the post offices, for example. Except in Japan, however, not much use was made of these facilities because they were not publicised and because the class of the population for which they were intended was either unable or unwilling to profit by them.

In these circumstances an English insurance company, in a spirit of vigorous enterprise, invented a special form of life insurance for the working-class population. An army of agents was employed to visit every household offering for sale policies that would about suffice to cover the funeral expenses of the person concerned and to collect each week the very small premiums required. Widely imitated, this "industrial insurance", as it was called, was immensely successful, first in England, then in the United States, and later in Europe. Many millions of policies were sold; sometimes all the members of a household would have individual life insurance policies or even more than one each. Indeed, a householder would often take out more policies than he could afford. Thus, a time would come when he would be unable to keep up the payment of premiums, and the policies would lapse.

A new name for an old aspiration

The commercial enterprise of life insurance and related branches of insurance has never been able to adapt itself satisfactorily—from the standpoint of the insured person—to the exigencies of social security operations. This is easy to understand. Life insurance is a business of great dignity, conforming to rigorous legal standards of solvency and resting on trustworthy actuarial calculations, but its purpose in most cases is to make a profit, and only incidentally to promote social security. Even if, as might sometimes occur, an insurance company were so efficiently managed in comparison with a social security scheme that, after taking its profit, it could contract to provide the same protection for a lower premium, one would still hesitate to use it for social security operations. Life insurance companies compete with one another for the favour of the customer, and each tries to offer him as good a bargain as it safely can. The best bargain will be obtained by the “best risk”, that is, the individual whose age, health and job render him least likely to claim a benefit. Indeed, insurance companies, whether of a profit-making or mutual aid character, try to keep clear of bad risks and to compose their clientele exclusively of select lives. Obviously social security cannot be organised along these lines.

Insurance companies, however, have a very important role to play in supplementing the protection afforded by social security schemes, the benefits of which often appear meagre to the more prosperous sections of the population. Recourse is had to their services today especially for the purpose of ensuring additional pensions—a technically complex function that they are eminently suited to perform. Indeed, in the past few decades insurance companies have taken over from employers pension schemes previously run by the latter, putting them on a sounder footing, and have sold, in the western world, group policies guaranteeing supplementary pensions to the staffs of thousands of medium-sized, or even small, but prosperous firms. There has been a growing trend, especially in the industrialised countries, towards expansion and proliferation of such private employer pension plans. They have now become an important element in the over-all protection workers have against major contingencies.

* * *

Social security

We have now reviewed the different methods that were tried up to about 1880 in order to ensure that the working-class family could continue to subsist, during times when wages were interrupted or ceased altogether, without recourse to poor-relief. Saving and insurance, whether mutual or commercial in character, broke down always for the same reasons. If a man is very poor he is entirely absorbed in keeping alive from one day to the next: he cannot visualise a distant eventuality and, even if he can, his immediate and certain needs will take precedence over merely possible ones when he is laying out his wages. The error of the nineteenth century was its naïve optimism respecting the effective power of the lower ranks of workers to cover their risks themselves. Nevertheless, saving and insurance through mutual aid societies were resorted to by a minority—to be numbered, however, in millions—constituted by the skilled wage-earners, whose experience of success in their own class had awakened a hope and expectation of better things to come, for their children if not for themselves.

SOCIAL INSURANCE

Towards the end of the century several countries on the European continent, convinced that the unskilled labourer could not provide his own social security, decided, some of them reluctantly, to spend public money on subsidies to voluntary insurance. These ventures have yielded useful results in a few countries but have been abandoned in most others. In Denmark and Switzerland a form of subsidised voluntary insurance still exists to some extent in the sickness branch, with benefits, mainly in kind, being provided for a large majority of the population. Again, in Denmark and Sweden the trade unions, heavily subsidised, still administer voluntary unemployment insurance. This variant of the insurance method is attractive in that it involves a genuine partnership between the individual and the State, each having part of the responsibility for the proper working of the scheme. In its simpler form it fails to attract the unskilled worker, because he either will not, or cannot, shoulder his share of the burden. But as practised in Denmark, for example, in a population that is relatively well-educated and well-paid, it succeeds in covering a substantial proportion of the wage-earning

A new name for an old aspiration

population at the cost of very large subsidies; the latter are carefully scaled so as to aid the less fortunate among the insured membership.

Between 1883 and 1889 the German Government, guided by Bismarck, created the first system of social insurance, which remained almost unique in its field for some thirty years. Why was it that Germany learned so quickly the lesson that neither employers' liability nor mutual aid societies can solve the problem of social insecurity? The answer is that Germany was not committed to the principles of economic liberalism and *laissez-faire* in the same degree as other countries of western Europe but remained influenced by the Prussian tradition of the authoritarian and paternalistic State. As far back as the 1850s several German states had assisted local governments to set up sickness funds to which workmen could be compelled to contribute: the principle of compulsory insurance was thus being applied, but the sole contributor was the insured person. The employer's contribution was first introduced into sickness insurance, not in virtue of some general principle but because sickness insurance had, for reasons of convenience, to cover the first three months of incapacity due to industrial accident, and this admittedly was properly a liability of the employer.

The German social insurance system was introduced in three stages: sickness insurance in 1883, employment injury insurance in 1884, and invalidity and old-age insurance in 1889, all of them applying compulsorily to wage-earners in industry. By thus introducing the system piece by piece, and by assigning the management of sickness insurance to existing mutual aid funds, that of employment injury insurance to employers' trade associations, and that of pension insurance to the provinces, the German Government appeased and minimised opposition.

It will be seen that the social insurance method, as invented in Germany, incorporates and sums up the features of each of the earlier methods. Thus the employee's contribution to his mutual aid fund, the employer's premium to his accident insurance company and the State's subsidy to voluntary thrift all had their place in the finances of the new German system. Moreover, pensions comprised a basic part which was of a strictly insurance character, and were granted to all who fulfilled the qualifying conditions, and a part which was proportional to the insured person's own contribution and could be regarded as savings.

Social security

Again, each of the parties concerned had a voice in the management of the system, and mutual aid societies—regimented but still recognisable—played their part. The application of compulsion to employees as a class, or at least to the urban wage earners, skilled and unskilled alike, young and elderly, male and female, vigorous or weakly of body, meant that those groups which had hitherto been likely clients of poor-relief were now covered by a social security system that would come to their help in bad times and save them from indigence. Of course, it was only thanks to the introduction of additional sources of revenue, amounting to two or three times the worker's contribution, that it was possible to extend this protection to the lower and weaker strata of the working class.

The example of Germany was soon followed by Austria and, at a distance of thirty or forty years, by the United Kingdom and the other countries of Europe, the USSR and Japan. After the great depression of the 1930s social insurance spread to Latin America as well as to the United States and Canada. On the mainland of Asia and in Africa and the Caribbean region social insurance came at different times after the end of the Second World War, following the achievement of national independence.

The invention of social insurance supplied the essential technique rendering possible the progressive realisation of social security. Other approaches or techniques are largely derivative or subsidiary, where they are not indeed obsolescent. To sum up the principal characteristics of modern social insurance, it is ordinarily financed from special employee, employer and state contributions. Benefits are paid from these contributions which are accumulated in special funds. The benefit rights of workers are based on their contributions to the scheme, and normally differ in amount according to their previous wages. No means test is applied. Finally, participation in the scheme is nearly always compulsory for all workers and employers in industries to which it is applied by law.

SOCIAL ASSISTANCE

A second approach to social security was developed at the turn of the century by Denmark, as part of a systematic programme to enable self-

A new name for an old aspiration

respecting citizens to avoid recourse to poor-relief and the consequent suspension of civil rights. Danish public opinion was gradually coming to accept the idea that it was wrong for old people to be exposed to this indignity after a long working life in the service of the country. Thus it was that a new form of service, which we call "social assistance", was invented: benefits were payable, as of legal right, from public funds in prescribed types of need deemed not to be due to the applicant's own fault. The system found favour chiefly in Scandinavia and the English-speaking world. The first contingency to be covered was that of old age, but gradually non-contributory benefits were introduced for invalids, survivors and unemployed persons as well. Finally, in New Zealand and Australia a complete social security system was constituted by amalgamating a series of such benefit schemes.

Payments under social assistance are generally intended for "needy" or low-income persons and the amount of assistance actually paid is scaled to each individual's means or income. The whole cost of social assistance is borne by the State and local units of government. Although social assistance is no longer the only or even the main form of social security in industrialised countries, having been replaced by social insurance in most, many countries still provide it, sometimes as a supplementary form of protection for groups of persons who are not yet otherwise protected or who are insufficiently provided for.

FAMILY BENEFITS

Soon after the First World War, on the initiative of French and Belgian employers, a new contingency was added to those previously covered by social insurance or social assistance, namely the additional, long-term charge imposed on the family budget by the arrival of a child. This new contingency was distinct from those already recognised in that procreation, at least among some sectors of the population, is to some extent voluntary, and it seemed strange at first to associate it with such misfortunes as sickness or unemployment. Family benefits—mainly in the form of weekly allowances for each child—were, however, introduced for different reasons: to encourage people to have children in countries where the birth-rate had fallen alarmingly, or to ward off a

Social security

demand for a general rise in wages by confining the rise to families with young children, or to improve the nurture of children in poor families and so promote equality of opportunity in the young generation. Despite their special characteristics family allowances have as a rule been incorporated in the social security system because they have to be co-ordinated with other cash benefits and because the machinery already existing is often used for financing and distributing them. The introduction of family allowances, perhaps more than any other innovation, marked the emergence of the social security movement from the principles and structure of the Bismarckian measures into a new phase.

PUBLIC SERVICES

One other important innovation has been added to the arsenal of social security resources in the past couple of decades, namely the direct provision by the State, wholly or largely from its general revenues, of benefits or services to every resident in a specified category. Such provision is not limited to workers covered under social insurance or to "needy" persons. This procedure is being followed in a number of countries for such different purposes as paying a pension to every aged, invalid, orphaned or widowed resident; a family benefit for every child; or a maternity grant to every mother. Likewise, a number of countries (such as Bulgaria, Czechoslovakia, Hungary, New Zealand, the USSR and the United Kingdom) have a national health service under which fairly complete free medical and dental care is provided by the State as a public service for everybody. Some other countries provide a considerable amount of free medical care directly to their inhabitants within the limits of available facilities and others provide such care subject to a means test.

The development of national health service schemes could be described as the result of the merging of the earlier medical benefit of sickness insurance with the free (or nearly so) hospital care provided by the public authorities. The first step in this extension consisted in the assumption by the public health authorities of responsibility for the organisation of all medical care services, though these were still available gratuitously only to the insured population and similar groups. The next step—already

A new name for an old aspiration

taken in a number of countries—is to provide complete medical care to the entire population, subject, in certain cases, to minimal charges to prevent abuse.

PROVIDENT FUNDS

Mention should also be made of another approach that has been followed by some countries in recent years to provide protection to their workers against various risks. This is known as the provident fund approach. A provident fund scheme is essentially a system of compulsory savings. Employees and their employers pay regular contributions to a central fund where they are credited to a separate account maintained for each worker, on which interest is paid. When defined contingencies occur, such as old age, invalidity or death, the worker or his survivors receive back generally in a single lump sum the amount in the account, including accrued interest. A part of the amount in the account may also be paid in case of sickness. It will be noted that there is no pooling of risk and no use of the insurance principle. Among countries now maintaining provident funds are Ceylon, Ghana, India, Kenya, Malaysia, Nigeria, Singapore, Tanzania, Uganda and Zambia. Iraq converted its provident fund to a social insurance system in 1964.

SOCIAL SECURITY AND THE ILO

At the beginning of this lesson we undertook to assign a meaning to that expression-to-conjure-with: "social security". We have already given some broad hints. Social security is the result achieved by a comprehensive and successful series of public measures for protecting the public (or a large sector of it) from the economic distress that, in the absence of such measures, would be caused by the stoppage of earnings in sickness, unemployment, invalidity or old age and after death; for making available to that same public medical care as needed; and for subsidising families bringing up young children. This in effect is the definition implicit in the Social Security (Minimum Standards) Convention, 1952, adopted by the International Labour Conference in that year.

How, one may ask, did the International Labour Organisation come to use the term "social security", and to endow it with the meaning we have just indicated? To answer this question we must briefly recall the

Social security

role of the ILO in creating international standards of social insurance. In the decade 1925-34 the International Labour Conference adopted Conventions regulating workmen's compensation, sickness insurance, pension insurance and unemployment insurance and thus gained doctrinal leadership for the ILO in this field. The International Labour Office exerted its influence to extend the range of the classes of persons protected and the list of contingencies covered and to improve the efficacy of the benefits assured. In 1935 the United States introduced, in its Social Security Act, schemes in the nature of social insurance covering the risks of old age, death and unemployment, and also federal subsidies to non-contributory pension schemes in the different states, that is to say, a combination of social insurance and social assistance. The felicitous expression used in the title of this Act proved popular and was used as the title of the 1938 New Zealand Act which assembled in a coherent statute a number of existing and new social assistance benefits and imposed a special universal income tax to finance them. The New Zealand scheme was promulgated on the eve of the Second World War and did not at once attract much notice abroad. The International Labour Office, however, was deeply impressed by its significance and gave it such publicity as it could. Also, the express reference to social security in the Atlantic Charter of 1941 gave a currency to the expression that extended over half the globe. It became indeed a slogan voicing one of the deepest and most widespread aspirations of mankind.

The Office was consulted by Lord Beveridge and its help was generously acknowledged by him in his famous report. Its idea of social security was derived from the policies that it saw as implicit in the trends of development in social insurance and social assistance:

(a) comprehensive and co-ordinated cover of all the contingencies which, without fault on his part, cause the wage-earner temporary or permanent loss of earnings; medical care and family allowances;

(b) extension of this protection to all adults in the measure of their need for it and to their dependants;

(c) assurance of benefits that, though moderate in amount, are sufficient to maintain a socially acceptable standard of living and are granted in virtue of a definite legal right;

A new name for an old aspiration

(d) financing by such methods as maintain in the mind of the person protected a fair notion of the cost of the benefits he receives but, at the same time, invoke a wide application of a principle of solidarity as between rich and poor, male and female, the working population and those too young or too old to work, the robust and the delicate.

These policies were embodied in the Recommendations on income security and medical care adopted by the International Labour Conference at its historic Philadelphia Session of 1944, when the States Members of the ILO gathered together to draft and agree upon their post-war programmes in the field of labour and social legislation.

Five years later the Governing Body of the International Labour Office decided that the time was ripe to convert the substance of the Philadelphia Recommendations into Conventions creating precise legal obligations. After a thorough consultation with governments and discussions at two of its annual sessions the Conference adopted the Social Security (Minimum Standards) Convention, 1952 (No. 102), to which we have already alluded. This represents the highest common factors of the policies to which all countries, developing as well as highly developed—poor, therefore, as well as rich—would commit themselves. While it is in many respects inferior in its standards to those now attained in the latter countries, it serves as a practical goal for the former.

Early in the 1960s the Governing Body of the ILO decided that the time had come to revise the early 1925-34 Conventions on social security since these no longer corresponded to the evolution that had taken place in many national social security schemes in countries having advanced legislation or to the current possibilities of countries that were beginning to carry out social security programmes, and that, alongside of Convention No. 102, special instruments for specific branches were desirable. It was influenced in this decision by the marked expansion of social security schemes that had occurred during preceding decades, the many new trends and techniques that had developed, and especially by the fact that the number of countries then having some form of social security had risen to over a hundred as a result of the many new nations emerging in the 1950s and 1960s. It was intended that the new standards should in general be more favourable and in no case less favourable

Social security

than Convention No. 102. During its 47th and 48th Sessions (1963 and 1964) the International Labour Conference discussed and adopted a revised Convention (No. 121) and Recommendation (No. 121) concerning benefits in the case of employment injury. During its 50th and 51st Sessions (1966 and 1967) it also considered and adopted a revised Convention (No. 128) and a Recommendation (No. 131) concerning invalidity, old age and survivors' benefits. At its 46th Session in 1962 the Conference adopted a new Convention (No. 118) concerning equality of treatment of nationals and non-nationals under social security. The revision of earlier Conventions on sickness insurance was completed at the 53rd Session of the Conference with the adoption of the Medical Care and Sickness Benefits Convention, 1969 (No. 130), supplemented by a Recommendation (No. 134).

In the succeeding lessons we shall examine each of the main features or aspects of social security laws and machinery, with frequent reference to the relevant provisions of the ILO Conventions and Recommendations. We shall see that each country has gone about the solution of its social security problems in its own way, finding its own compromise between the ideal and the possible, the theoretical and the practicable and the conflicting economic interests of the parties concerned, but tending, nevertheless, towards the application of the main principles laid down in the international instruments adopted by the ILO.

Points for Discussion

1. *Indicate briefly the deficiencies of—*
 - (a) *personal savings ;*
 - (b) *employers' liability ;*
 - (c) *private insurance ;**as methods of realising social security.*

2. *Mention the features of Bismarck's social insurance legislation that recall each of the above methods. respectively, and the new features that made it a success.*

A new name for an old aspiration

3. *Indicate the general standards implicit in the instruments on social security adopted by the International Labour Conference as regards—*

- (a) *contingencies to be covered ;*
 - (b) *persons to be protected ;*
 - (c) *benefit level ;*
 - (d) *financing.*
-

Second Lesson

PERSONS PROTECTED

Social insurance of employees: scope as regards undertakings;
scope as regards employees.

Social insurance of the self-employed and non-employed.

Protection of dependants through breadwinner's insurance.

Social assistance.

Public services.

PERSONS PROTECTED

We learned from the first lesson that towards the end of the nineteenth century Germany invented social insurance and Denmark non-contributory pensions (a species of social assistance). After the Second World War various countries began providing benefits and medical care as a universal public service. These are the three approaches to social security, the first evolved from private insurance, the second from the poor law, and the third from the first two. The first is designed to protect the employed class, the second the needy citizens, and the third the whole population. In this lesson we shall consider the principles and practical reasons that have determined what classes of persons are protected by social insurance or have led certain countries to prefer social assistance or universal social security services which cover the population in general without distinction of class.

The Social Security (Minimum Standards) Convention, 1952, recognises social insurance and social assistance as alternatives. The Convention is intended to be within the reach of developing countries, and this intention is nowhere more evident than in the clauses defining the minimum scope of each branch of social insurance. Developing countries experience great difficulty in applying social insurance outside the urban centres; the villages and small towns have only scanty medical facilities, and undertakings with more than a few employees are rare. So the Convention is complied with if the prescribed standard of benefits is reached for half the employed population, since social assistance and universal services, embracing as they potentially do the entire population, and financed as they necessarily are by taxation, are generally beyond the economic capacity of developing countries.

SOCIAL INSURANCE OF EMPLOYEES

Social insurance was conceived as a mechanism for protecting wage-earners, i.e. the class of persons who, on account of insecurity of employment, lack of property or savings and the uncertainty of being able to

fall back on other members of the family or on neighbours for help, are most exposed to destitution; the most vulnerable of these are factory workers. On the other side there was a small class of literate and reasonably well-to-do employers managing large undertakings and capable of carrying out some of the administrative and financial operations of a social insurance scheme.

There has been a steady expansion in the number of categories of employees insured, due to two causes. First, the range of undertakings whose workpeople are insurable has been extended. Second, the definition of "employee" has become more comprehensive.

Scope as regards Undertakings

Social insurance, in most countries where it is in force, does not apply to workers in undertakings in all branches of economic activity and of every size. The main reasons for excluding certain classes of undertaking are that it is not administratively or politically practicable to enforce compliance on the employers concerned, or that the employees concerned are already sufficiently protected by special machinery.

Early social insurance planners were influenced by the criteria already in use for defining the scope of the existing workmen's compensation laws. They therefore directed their attention primarily to factories, mines, railways and, more generally, to undertakings of substantial size or known to be comparatively dangerous to their workpeople. The "industrial undertaking" was indeed the nucleus of the sphere of economic activities embraced by the first social insurance laws, which might often cover only the contingencies of employment injury, sickness and maternity.

Small undertakings were commonly excluded because it was difficult to enforce compliance on the large numbers of employers concerned, who might oppose the introduction of social insurance by passive resistance. But, of course, a system under which an undertaking's participation in or exclusion from social insurance might depend on an increase in (or reduction of) its labour force by one individual, so that a slight change in its labour force might bring all its workers into or out of the scheme at once, was seen to be a nuisance which would have to be put a

Social security

stop to as soon as the scheme had established itself administratively and in the mind of the public.

The distinction between industry and commerce is not easy to draw in practice. The criterion of danger is not adequate by itself, since a wide range of commercial undertakings present an accident risk equal to, or greater than, some branches of manufacture. Not only all kinds of transport and dock work, but also the handling of heavy goods in shops, involve risk and so, for example, do butchering and window-cleaning. Thus the dangerous branches of commerce had soon to be brought under compulsory insurance. Accidents in offices are rare—rarer perhaps than at home—but, once the device of imposing on the employer the liability for accidents is accepted as a principle, it forces its way irresistibly into all employments, and with it goes social insurance against other risks.

For all that, there is often considerable hesitation over extending social insurance to cover agriculture, especially in countries where smallholdings predominate. The difficulty of enforcing compliance, already mentioned in connection with industrial undertakings, is aggravated in this case by the conservatism of farmers, by the fact that the same individual is by turns employer and employee, by the uncertain status of family members, by the seasonal character of much of the employment, by the substitution of goods or produce for cash as remuneration, and by the initial lack of medical facilities in rural regions. All these factors together have discouraged legislator and administrator alike. On the other hand, the permanent staff of a large agricultural undertaking can of course be brought within compulsory insurance with the same ease as the workpeople of an isolated factory, and a beginning is often made with such undertakings.

Numerous modifications of the law and practice of social insurance as designed for urban wage-earners must be resorted to in order to make it work in an agricultural community. Arbitrary wage scales may be prescribed for the principal types of labour, and employers' contributions may be based on the probable wage expenditure that the cultivation of their land will require. Extensive study has been devoted to problems of covering agricultural employees in recent years and a search has been made for new solutions to these problems. The social

insurance programmes of about twenty-five countries now cover all gainfully occupied workers, including agricultural employees. Another sizable group of countries covers all employees of every kind. Nearly all European countries cover agricultural employees along with others. Eighteen of the twenty-six countries of the Americas cover at least some of their agricultural workers. The proportion in Asia, in contrast, is very small. A number of the African schemes apply by law to all employees irrespective of industry, but wage-paid employment in rural areas is small in most of the nations concerned.

The inclusion of domestic servants, at least in urban households, is probably less difficult than that of agricultural employees, because the housewife can usually read and write and so comply with the simplified formalities that can be used for this class; because in a well-policed city every inhabitant can be accounted for; and because the promise of medical benefit can be made good.

The officials and the permanent wage-earning staff of the State and of local and other public authorities are often left out of social insurance on the ground that better benefits are already available to them. Employees of this kind can normally be expected to make smaller demands on a common fund than most other groups of workers, however, and their exclusion from the common scheme tends to weaken the national solidarity of the gainfully occupied population.

Some branches of publicly owned and privately owned industry are often excluded from the scope of pension insurance because special schemes for these branches had been set up before—in some cases many years before—the general scheme. These special schemes frequently offer relatively generous pensions, and their members prefer not to be merged with the mass of the insured population. However, since the numbers of persons employed in the industries in question (e.g. coal mines and railways) are decreasing, the beneficiaries represent an increasing burden for the active members, a fact which poses serious financial problems for the special schemes.

Scope as regards Employees

Just as the undertakings first brought within the scope of social insurance were those most accessible to the administrative techniques then avail-

Social security

able, so also protection in the included undertakings was restricted at the outset to those employees who were closely and regularly dependent on the employer and whose remuneration was deemed to leave little margin for saving. The liability of the employer for his employees, which expresses itself as an obligation to pay contributions for their protection, required for its initial recognition a substantial juridical foundation. Only later did wider considerations of social and economic expediency become predominant.

In the beginning, therefore, the persons connected with an undertaking were insured only if they worked under the direction and supervision of the employer or his agents, though such workers form the great majority of employees. They contracted to supply their labour, and the employer decided how it was to be utilised. Consequently if the employer ordered the worker to perform a dangerous task he was liable for the accident that might result. The existence of a contract of service was thus the original criterion for determining whether a worker was insurable not only against employment injury but also, by an easy extension, against other contingencies as well. Apprentices, even if they earned no cash remuneration, were as far as possible treated in the same way as wage-earners.

But a second factor in the relationship between the employer and his workers has gradually assumed greater importance. The wage-earner depends for his living on his employer. It is the employer who determines the prices of the goods he offers for sale, and he can—as far as his competitors and the public will allow—embody his insurance contribution in the price. The employer is the agent on whose obligatory co-operation the classical method of social insurance relies for the collection of its resources. These considerations lead to the extension of the notion of “employee” to any person who has bound himself to work regularly for another, such as a commercial traveller, an outworker, a share-farmer, or even a pupil in a technical school.

Evidently, everybody who sells services or goods is dependent for his living on the purchaser, but there is a practical, if not a logical, limit to the application of the principle of dependence. The classical system of social insurance requires that the purchasers of labour (i.e. the employers) should be a much smaller class, and an economically stronger commu-

nity, than the class to be protected. A few schemes, however, treat as employees workers who are less numerous than the purchasers of their services, for example charwomen, jobbing gardeners, music teachers and nurses, who visit a succession of private houses. It will be noticed, however, that these employees work regularly in their occupations, even for several employers, and that their earnings are not high. Workers who do not satisfy these two conditions have been, and still are to some extent, liable to be excluded from social insurance, as we shall explain.

Social insurance coverage of casual workers—workers who are employed irregularly for short periods—raises a difficult problem, particularly in developing countries whose national economy, depending largely on weather and the laws of supply and demand for primary agricultural products in the world market, makes it necessary to maintain a sizable labour force on a casual basis. From the social point of view there is no valid reason for the general exclusion of such workers from the scope of social insurance; to allow exclusion may give rise to the unfair practice of hiring individuals for a limited period only with the intention of re-engaging them immediately. Nevertheless, for various technical and administrative reasons, it is indeed difficult, if not impossible, to apply a social insurance scheme to casual workers. For example, the insurance contributions paid in respect of them will be wasted, because, in view of the nature of their employment, they will not be able to fulfil the qualifying conditions for benefit, while both the employer and worker, as well as the social insurance institution, will be obliged to carry out the formalities of registration and maintenance of contribution records.

Before the Second World War it was an accepted, but not universal, practice to exclude from the scope of compulsory insurance persons earning remuneration in excess of a prescribed monthly or annual rate; at the present time there are still a few countries in which this limitation is applied in one or more branches. The exclusion of higher-paid employees is a relic of the time when social insurance was regarded as a measure specifically for the protection of the lower classes and when clerical workers usually earned more than manual workers and deemed themselves to possess a higher social status.

Social security

Sometimes there is no wage limit for manual workers, but only for salaried employees. Moreover, in some regions of Europe and America the clerical and supervisory workers are insured by separate institutions or have the privilege, like civil servants, of continuing to draw full salary during sickness. In earlier times it was supposed that lower-middle-class clerical workers could afford to make their own private arrangements for protection against the contingencies covered by social insurance. They were expected to take out policies with life-insurance companies to save up against the cost of possible illness and pay directly the expenses of medical care. This assumption, if ever it was justified, ceased to be so as the result of the social and economic changes consequent upon the Second World War. Moreover, the remuneration limit unduly complicated the administration of the insurance system since individuals might have wages above and below the limit in consecutive months. It is being swept away in the name of the social solidarity that social security is coming to represent. On the other hand, there are almost everywhere limits for contributions and benefit amounts, as we shall see when we come to consider them.

The fact that the employer and employee are related by blood or marriage should not in principle affect the insurability of the employee. An employee, in this as in other cases, presumably receives wages on the continuity of which he relies for his subsistence. However, social insurance has hesitated to treat as insurable the employment of one near relative by another. An initial difficulty presents itself in those cases—the most frequent—where the family undertaking is a smallholding and the remuneration is paid wholly or mainly in kind, so that little cash is available for the payment of contributions. Collusion between employer and employee to defraud the insurance institution, not frequent in other situations, becomes a substantial danger where members of the same family are concerned. A person reported sick or unemployed continues to work; an invalid needing more contributions in order to qualify for benefit is still carried on the payroll; where the scheme makes the benefit proportional to a recent wage the latter may be suddenly increased, etc.

Each of these openings for fraud ought to be closed if near kinsmen are to be accepted as insured persons. Special adaptations of the scheme

are possible for this purpose, but they are apt to entail extra administrative work. However, the technical problems are less serious where it is a matter of pension insurance, and certain pension schemes for independent workers apply to family members working in association with the head of the family in his undertaking.

SOCIAL INSURANCE OF THE SELF-EMPLOYED AND NON-EMPLOYED

The extension of social insurance to classes of the population other than employees is mainly a development which has taken place since the Second World War. This can be done, broadly speaking, by extending the scope of the scheme either to all persons working on their own account or to cover adult citizens in general.

The problem of providing social security for these classes resides not only in the absence of an employer's contribution, but also in the fact that only a relatively narrow range of benefits can be provided for them. The economic loss in case of temporary incapacity is hard, though not impossible, to evaluate. On the other hand, individuals in these classes who do not have substantial private means need protection in case of expensive illness and in the three contingencies covered by pension insurance. In this connection it is coming to be understood that the housewife is an unpaid producer of national wealth and that when she is ill or becomes an invalid it is only fair and in the national interest that she be cared for and indemnified according to some valuation of her services. These classes also obviously need the same types of family benefits for the maintenance of their children as do employees working for an employer.

The problems of covering self-employed persons working in agriculture are especially difficult because of their typically low cash income, their frequent illiteracy, administrative difficulties and various other reasons. The problems are particularly acute in the developing countries, where the agricultural self-employed commonly constitute the major part of the population. Relatively little progress on the problem has yet been made in the case of these countries because of their generally low levels of income, but the problem is under constant study.

Social security

The opportunity of remaining voluntarily in an insurance scheme, which had been entered compulsorily earlier but to which the person concerned has ceased to be subject, has always been offered by general schemes of pension insurance, at least in Europe. For it would be intolerable that, after contributing for a number of years, such a person should lose the rights he was acquiring by reason of an increase of salary, entering non-insurable employment or taking up an independent occupation. Although such voluntary insurance involves payment of the employer's as well as the employee's contribution, it is subsidised by the State to the same extent as the compulsory insurance; and, especially if the subsidy is generous, a fair number of the individuals for whom it is intended have taken advantage of it.

A few countries have allowed independent workers of small means to insure themselves voluntarily against sickness (principally for medical care) and old age under state-subsidised schemes. Besides the preliminary income test there is usually a health examination, and a maximum age is fixed for admission; these are reasonable precautions. Where the state subsidy is very large, so that no private insurance scheme could offer anything comparable, this type of voluntary insurance has succeeded in attracting many members—perhaps the majority—of the class to which it is offered. Inevitably, however, there remain numerous improvident individuals who eventually become a charge on private or public charity.

Since the Second World War a number of countries, inspired perhaps by the Recommendations adopted by the International Labour Conference at its 26th Session (Philadelphia, 1944), have introduced compulsory pension insurance for independent workers. Aside from the countries with universal pension schemes referred to below, the scope of compulsory pension insurance extends to virtually all self-employed as well as non-employed persons in Israel, Japan, the Netherlands, Switzerland and the United Kingdom. About twenty other countries cover self-employed workers as well as employees. In some, as in the United States, this is accomplished through a single unitary scheme. In others, such as in Austria, Belgium, France, the Federal Republic of Germany and Italy, the broad scope is achieved through a series of separate schemes for different groups that operate side by side.

PROTECTION OF DEPENDANTS THROUGH BREADWINNER'S INSURANCE

In the case of death by employment injury social insurance has always protected the surviving dependants of an insured person; here the influence of the civil law is apparent. But the present century had well begun before survivors of workers who had died from other causes became pensionable, and another long interval elapsed before the dependants of a living worker were granted benefits in virtue of his insurance. These benefits comprised at first only medical and maternity care, but later (especially after the Second World War) many schemes of family benefits were established.

This time-lag may be explained by the force of the tradition that every man is entirely responsible for his family. Employers could not be easily convinced that they ought to contribute towards these responsibilities. The introduction of benefits for dependants marks a revolution, not always perceived at the time, in the notion of social insurance and in the justification of the employer's participation therein.

The remoteness of the employer's interest in the welfare of dependants no longer excused him from contributing, since his payment was beginning to be regarded in effect as a convenient tax the yield from which could be used for promoting the general welfare of the working class.

For the purpose of medical benefit the range of the dependants protected practically always includes the wife (if not herself insured) and the young children. Most schemes cover children up to school-leaving age and in a few countries protection extends also to almost every relative who is not insured and is living in the home of the insured breadwinner—a provision that is not only generous but also specifically recognises the function of social insurance as an organ of public health policy.

The recipients of social insurance pensions in an ever-growing number of countries are receiving medical benefit in their own right. Hence, as social insurance comes to embrace the economically active population generally it is only a matter of time before the only dependants for whom medical benefit in virtue of their breadwinner's insurance must be provided will be the housewife and children too young to work.

Social security

A wide variation is found also in the range of dependants protected in case of the breadwinner's death; but here, perhaps because the benefit has to be shared, the statutory provisions are usually more precisely worded and specify the order of priority of the various categories of dependants and relatives. As a rule employment injury insurance recognises a wider range of relatives than general survivors' insurance, no doubt because of the influence of the civil law. For that reason employment injury insurance has always been more generous, which it can afford to be because it has far fewer beneficiaries.

Whether the benefit takes the form of medical care or of a pension, the definition of "child" is usually very wide; it includes in many countries not only the children and stepchildren of the insured person but also illegitimate children of his wife and adopted children and, if they are in fact dependent on him, young brothers, sisters and grandchildren. The age limit is never lower than the legal school-leaving age, and is often higher where the child continues his formal education. It may be waived altogether if the child is an invalid, with the result that when his parents are dead and his brothers and sisters are grown up such a child will inherit the maximum orphan's pension possible under his parent's insurance. This will go far to provide for his subsistence, and a serious gap in the protection afforded by social insurance is practically filled.

Except for the wife, adult relatives are generally required to have been not only dependent in fact on the insured person, but to be also aged or invalids; these persons cease to be dependants when social insurance becomes comprehensive.

Schemes of family allowances which protect only the dependants of breadwinners belonging to a class in respect of which specific contributions are payable may be considered to be social insurance schemes. The great majority of them grant allowances only for dependent children in the insured person's home. A small and decreasing number of schemes protect only the second (or third) and subsequent children, the first child not being eligible for an allowance. On the other hand, there are a few schemes, such as that of France, which pay an allowance for the mother not engaged in remunerative work and, lastly, a few which pay allowances for all the dependent relatives in the household.

Family allowance schemes financed by special contributions, and not from general taxation, are usually confined to employees. In a few countries schemes have been extended to include independent workers as well, although it has sometimes proved impracticable to extract from these workers contributions sufficient to finance allowances on a useful scale.

Family benefit insurance schemes are generally co-ordinated with other branches of social insurance in order to secure the continued payment of the allowance during periods when the breadwinner ceases, temporarily or permanently, to be gainfully occupied, and on that account is receiving benefit for unemployment, sickness or invalidity. Where the allowance is continued after the parents' death it may, in fact, if high enough, render orphans' pensions unnecessary.

SOCIAL ASSISTANCE

Social assistance is an alternative method of providing social security. It evolved from the poor law as the result of the specialisation of services for different categories of needy citizens. Its heyday was the first quarter of the present century. It was the method preferred in certain comparatively rich countries which were reluctant to accept large-scale state intervention and were apprehensive of the bulky and complex machinery required for the operation of social insurance: their governments could not yet see their way clearly through the technical problems of social insurance administration and may have feared to commit themselves to the irreversible situation which would have been brought about by the creation of such machinery and of benefit rights acquired through contributions. In countries where independent workers form a large fraction of the active population social insurance as designed for employees could not be more than a partial solution of the problem of social insecurity. Furthermore, the largest and gravest sector of poverty was the needy aged population, and for this sector the classical method of social insurance afforded no immediate remedy. For these reasons a certain number of wealthy countries chose the social assistance approach.

Poor-relief is traditionally a local responsibility, and therefore its recipients must be confined to the residents of the locality. The social

Social security

assistance schemes with which these lessons are concerned are services financed and administered, wholly or in part, by the national government. Thus every single member of the population of the country concerned is a potential beneficiary of the scheme. Social assistance springs from the sentiment of national solidarity, but the equity of it is reinforced nowadays by the fact and the awareness that part of all earnings and other income finds its way into the public treasury, so that all residents somehow contribute to the cost of social assistance.

The Social Security (Minimum Standards) Convention, 1952, lays down that where the prescribed benefits are provided by a social assistance scheme that scheme must protect all residents, subject to a means test imposed when the benefit is claimed and while it is being paid; it allows special conditions to be prescribed where the claimant is a foreigner.

Social assistance with its means test is, however, growing out of date and few new schemes of this kind have been introduced in recent years. There is a tendency to consider that the means test discourages thrift and thus presents a major defect. Wage-earners (at least in the industrialised countries) are usually paid enough for them to be liable to income tax, and the technique of collecting that tax from them has been perfected. Hence the new schemes intended for the population at large generally take the form either of social insurance, to which we have referred above, or of public services available to all residents, such as universal pensions, national health services and family allowance schemes, which are discussed below.

PUBLIC SERVICES

There are no limitations on the scope of coverage under public service or "universal" schemes, as there are under social insurance. Nor is there a means test as in the case of social assistance. They thus avoid the social inequalities of limited coverage as well as various technical difficulties. On the other hand, they may prove very expensive to the nation undertaking to implement them.

As examples of countries providing universal old age pensions may be cited Canada, Denmark, Finland, Iceland, New Zealand, Norway

Persons protected

and Sweden. A pension is provided by these countries to all permanent residents above a designated age, without regard either to prior contributions or to need. The Scandinavian countries mentioned also pay similar pensions to every invalid and survivor in the country. Some countries pay a maternity grant to every mother on the birth of each child. Reference was made in the First Lesson to countries having a national health service under which medical care is available to the entire population. Finally, in more than a dozen countries family allowances are paid by the State in respect of every eligible child below defined ages. These include Australia, Canada, Denmark, Finland, the Federal Republic of Germany, Iceland, Ireland, the Netherlands, Norway, Sweden, the USSR and the United Kingdom.

Points for Discussion

1. *Enumerate the difficulties that hinder the inclusion of agricultural workers in the scope of social insurance schemes.*
 2. *Mention some abuses that are to be expected where the employee is a member of the employer's family.*
 3. *What is the fundamental difficulty to be overcome if independent workers are to be brought into social insurance?*
 4. *What characteristics distinguish social assistance from poor-relief on the one hand and from social insurance on the other?*
 5. *What are the characteristics of public service or universal social security schemes?*
-

BENEFITS

GENERAL

The benefits of social security schemes form the subject of this and the next four lessons. Such benefits represent, indeed, the end-purpose of such schemes, and the provisions concerning them usually constitute the most detailed chapter in the laws and regulations of a scheme. For it is necessary to define the contingencies for which the benefit is intended, the conditions which the claimant must have fulfilled in order to obtain the benefit and continue to receive it, and the form, amount and duration of the benefit.

Under primitive poor-relief schemes the fundamental attitude towards applicants was: are you in vital need, and are you incapable of satisfying it? If so, here is your subsistence; and here, if you are sick, is your medical care. The functions of social security schemes can still be described in the most general terms as the provision of subsistence and medical care. But for each main cause of need the social security system provides a benefit which is specially designed to cover that contingency, very often through an agency set up for that specific purpose.

The division of social security systems into branches, each covering one contingency or a group of closely related contingencies, is to be explained by the historical process with which we are becoming familiar. We have seen that mutual benefit societies were able to provide their members with medical care and short-term cash benefits, insurance companies could take over employers' liability for workmen's compensation, and trade unions could furnish benefit during unemployment (if not prolonged), but only large public institutions could make themselves responsible for pensions.

Co-ordination of all the different kinds of agencies in countries where they have been operating for a generation or more has progressed with difficulty, and the final step of unification is a recent and a somewhat infrequent achievement. In fact, the genuine desirability of unification is sometimes open to question.

The specialisation of benefits is, or rather should be, an advantage to the beneficiary as well as being rational and economical. But specialisation is accompanied by greater precision in definitions and so by a certain rigidity. This is a corollary of the principle that social security benefits should be granted in virtue of a legally enforceable right.

The Social Security (Minimum Standards) Convention, 1952, distinguishes nine types of benefit, enumerating them in an order which has little significance. The branches into which these benefits are commonly grouped for organisational purposes are the following:

- family benefits;
- medical, sickness and maternity benefits;
- invalidity, old age and survivors' pensions;
- employment injury benefits;
- unemployment benefit.

As this course is concerned with the social security organisation that the student is likely to find in his own country, and not with some ideal construction, we shall adhere to the above arrangement. Nevertheless, a preliminary discussion of the general characteristics of social security benefits and their mutual relations will be interesting.

It can be seen at once that all the contingencies in question are alike in that they cause the worker's earned income to be insufficient to meet certain proper claims upon it. All of them except unemployment are also of a biological nature: disease or injury; childbirth and the addition of a child to the family; old age; and death.

Most of these happenings result in the cessation of earnings. This is a temporary result where curable illness, maternity and unemployment are concerned. It is permanent in most cases of incurable disease, rare cases of injury, and in old age and death. Certain functional infirmities and mutilations, and likewise partial unemployment, cause only a reduction of earnings. Many illnesses are not incapacitating, but all normally involve expenditure on treatment. Lastly, there are contingencies in which the breadwinner has to bear a financial burden in respect of his dependants (medical expenses, funeral expenses and, above all, general maintenance).

Social security

A social security system cannot (or should not) pay more than one benefit at a time in respect of cessation of earnings. If, for example, an unemployed person becomes incapable of work he incurs no additional loss warranting payment of an additional benefit.¹ On the other hand, where a contingency has already led to a reduction of earnings a fresh contingency may produce a further reduction: for example a partially incapacitated person may become unfit for even the minor employment which he was able to perform, and in such a case the payment of additional benefit is called for. There will also be cases where a person whose earnings have ceased or been reduced incurs liabilities pertaining to medical care for himself and his dependants; or another child may be born into the family; or he may die, and his funeral must be paid for and his survivors provided for.

Cessation or reduction of earnings can, of course, occur only to gainfully occupied persons. Medical and funeral expenses, on the other hand, are charges that may be incurred for any person, and any adult may find himself legally responsible for maintaining a dependant.

The technique of social insurance was first developed for the protection of employees, and social insurance for independent workers has been an afterthought and usually something of a makeshift. Employment injury insurance and unemployment insurance were of course designed for employees only. But several countries have enabled, and even obliged, small employers and independent workers to take out insurance against their own injury in the course of their work; in a few cases such insurance is subsidised by the State.

In contradistinction to social insurance, social assistance is intended for the population at large, with the further difference that the effect of cessation or reduction of earnings on the total income of the claimant has often to be ascertained in each case individually before benefit is awarded.

Except for funerals (where no expenses arise in the case of a pauper's burial) and employment injuries and maternity (where the employer may be made liable for compensatory payments) the same contingencies can be and are covered by social insurance or social assistance. There

¹ Where the second benefit (e.g. for incapacity in this example) is at a higher rate than the benefit previously paid, it may be substituted for the first one.

are six contingencies for which social assistance has sometimes been preferred even when important schemes of social insurance are already operating in the country concerned, namely need for medical care; invalidity, old age and the death of a breadwinner; family responsibilities; and prolonged unemployment.

Social assistance in each of these contingencies except the last is tending to drop the means test and accordingly to develop into a public or universal social security service. Very few countries have ventured to use social assistance to cover short-term incapacity for work and short-term unemployment, which are contingencies where the danger of abuse of benefit is difficult to control.

The qualifying conditions for the right to benefit are, first, that the contingency has occurred and, with it, a cessation or reduction of earnings, or a need to incur certain expenses; and, second, that the claimant possesses the particular status prescribed by the scheme of social insurance or assistance concerned.

As regards the second condition, some schemes merely require a claimant to be engaged in employment within the scope of the scheme when the contingency occurs. In a large number of cases, however, it is not enough to be an "insured person" at the moment of the contingency, since more often than not a scheme does not confer protection on a person merely because he is "insured": it is further required that he shall have been engaged in an "insurable employment" for a minimum period varying in length with the type of benefit, and that a corresponding minimum number of contributions shall have been paid on his account. It will be readily understood that the duration of the qualifying period is likely to depend on the probability of persons arranging to enter employment simply because they have reason to fear, or already know, that a contingency giving rise to benefit is about to happen to them—in other words, when they are "bad risks". The more valuable the benefit in view the greater this probability is. But in a country where social insurance is almost universal most of the bad risks are already insured and the problem loses much of its significance.

Under the public service and social assistance schemes the conditions relating to status are somewhat different from those imposed by social insurance schemes. As a rule, in order to obtain a public service or social

Social security

assistance benefit the claimant must show that he is a national, or at least a regular resident, of the country under whose law he claims. If he is claiming a pension he will probably have to prove that he has resided in the country for at least a prescribed number of years.

The occurrence of the contingency and the fulfilment of the qualifying conditions having been ascertained, the form and amount of the appropriate benefit are then determined. In the case of medical care the doctors of the scheme must perforce be given discretion as regards the nature and duration of the care to be rendered, within the limits that the scheme specifies.

The rates of cash benefits payable under a social insurance scheme are usually proportional to the rate of the claimant's former earnings as averaged over a shorter or longer period—though they may sometimes be fixed on a subsistence basis. In public service and social assistance schemes the cash benefits are intended always to correspond to the cost of subsistence; in the case of social assistance, private income in excess of a prescribed level is deducted from the benefit.

In framing the Social Security (Minimum Standards) Convention, 1952, the International Labour Conference gave equal recognition to benefits proportionate to wages and to benefits based on the cost of subsistence. It went to considerable lengths to establish fair and reasonable rules for ascertaining and comparing the economic significance of benefit levels in different countries. Since benefits cannot in any case be higher than the income drawn by the claimant while at work, since wage rates are in their purchasing power roughly proportional to a country's effective wealth, and since, lastly, the Convention was concerned more with the social security effort of member countries in relation to their abilities than with the absolute content of their benefits, it was decided to use a typical wage for the country in question as the standard of comparison (parameter) for the rates of benefit current in that country. Where a scheme is intended to secure a subsistence benefit the parameter is the wage of a typical unskilled male worker. Where the benefit is proportional to the individual's wage the Convention specifies that it must attain a certain minimum percentage in the case of a skilled male manual worker. This was because schemes where benefits are a prescribed percentage of the individual's previous wage always fix a maxi-

imum for that wage, and that maximum is sometimes so low as hardly to exceed the wage of an unskilled worker, while the minimum benefit, if prescribed at all, may be well below the subsistence level. Precise methods are laid down in the Convention for defining typical unskilled and skilled workers. This is the first international labour Convention in which statistics rather than juridical phrases have been used for the purpose of defining standards of adequacy for social security benefits. This procedure has been followed in subsequent social security Conventions, such as the Employment Injury Benefits Convention, 1964, and the Invalidity, Old-age and Survivors' Benefits Convention, 1967.

The medical benefits prescribed in legislation display less variety from scheme to scheme than do the cash benefits, since the definition of the former is usually worded in rather general terms; these terms, of course, allow a fairly elastic interpretation according to the character of the medical facilities available in the country concerned. The range of medical care benefits provided by social security schemes may include all or some of the following: general practitioner care, specialist care, pharmaceutical supplies, hospitalisation, dental care, and medical rehabilitation services. The quality of medical care, which is an essential criterion of the benefit, almost inevitably eludes any attempt at definition. Medical resources in terms of available funds, personnel and facilities vary from one country to another and these have a considerable influence on the nature, the completeness and the quality of the care provided.

It is in their cash benefit provisions that social security schemes exhibit their greatest diversity. For these provisions are mostly couched in terms of amount and duration which are necessarily arithmetical, and every lawmaker has had his own idea of what is the proper quantity, namely that which is at once sufficient and yet not conducive to abuse, or is simply what the contributors can be expected to finance. Scientific evaluations are largely lacking in all that pertains to the determination of benefit conditions and rates.

There are limits, however, to the exercise of the legislator's discretion; a benefit for lost earnings will rarely be less than a quarter of a labourer's wage or more than 90 per cent of the individual's wage, and a table showing the frequency distribution of the percentages under all the different schemes would show a concentration around 50 per cent

Social security

of one or other of these parameters. Also, although the distinction between the wage-proportionate benefit and the subsistence benefit appears to be fundamental, the two notions are often partially applied in conjunction: for example, the benefit may consist of two elements, one varying with the individual's wage, and the other varying with the number of his dependants. Again, it is usual to fix minimum rates and an almost universal practice to fix maximum rates.

A possible way of explaining the difference in benefit rates from one scheme—or one national system—to another is by assuming a difference of aim as regards the function of social security benefits; are people expected to rely for protection entirely on the benefits of the compulsory scheme, or are they expected to supplement them by savings or private insurance? In countries where state socialism prevails it is natural that social insurance should aim at sufficiency, at least where hard-working and loyal employees are concerned. In some other countries, where social security coverage has been extended to include all or most gainfully occupied persons and the rates of benefit have increased as wages and standards of living have risen, supplementary forms of individual protection have become less and less necessary for the mass of workers. In another group of countries persons covered by social security schemes frequently participate in supplementary schemes, particularly pension schemes, of one sort or another.

A social security scheme which does not adapt its benefits to changes in the value of money is evidently not fulfilling its original purpose. Since the Second World War, and with the dissemination of the ideas of J. M. Keynes, most governments have not favoured any reduction in the nominal value of wages (or, if a new currency has been introduced, in their real value). The aim, however imperfectly attained, has been that wages should rise in proportion to productivity. In practice nominal wages show a tendency to outstrip productivity, and inflation results in a greater or smaller degree. Especially during the first few years following the Second World War inflation grew in some countries too rapidly for governments to be able to control it, and their currencies lost from one-half to nine-tenths, or even more, of their pre-war value. Persistent inflation still continues as a problem in numerous countries. A number of governments have carried out general revaluations of their social

security benefits only to find, a year or so later, that the new scales had already become inadequate. Hence, a growing number of social security schemes now incorporate permanent provisions for the automatic adjustment of their benefits to changes in the general level of prices or wages. Among nations that now do this in the case of their pensions are Belgium, Canada, Chile, Denmark, Ecuador, Finland, France, Ireland, Israel, Luxembourg, the Netherlands, Norway, Sweden, Uruguay and Yugoslavia.

The Income Security Recommendation, 1944, already foresaw this problem. The Social Security (Minimum Standards) Convention, 1952, the Employment Injury Benefits Convention, 1964, and the Invalidity, Old-age and Survivors' Benefits Convention, 1967, all confirm the principle then put forward, namely that the rates of benefit should be reviewed following substantial changes in the general level of earnings or in the cost of living.

In the case of short-term benefits calculated on the claimant's recent wages no great problem arises unless inflation is catastrophically rapid. But the position is different where pensions are concerned. These may suffer doubly, first from the fact that they are calculated on a depreciated basic wage according to the average remuneration received over a number of years, and secondly from the depreciation of the pension itself. Schemes which pay benefits purporting to secure subsistence must, of course, adjust their entire benefit schedule; such an adjustment is technically fairly simple in their case.

Owing to an absence of co-ordination between the various social security schemes comprised in a national system, discrepancies often appear in the rates of benefit payable in contingencies which, though different, appear to create the same needs. Intelligible explanations can sometimes be found, but frequently the differences seem to be accidental. For example, if the cessation of earnings is expected to be temporary it may be argued either that the person can draw upon his savings, so that a relatively low benefit will suffice, or, on the contrary, that he cannot suddenly reduce his usual expenditure, so that a relatively high benefit is indicated; and the converse of these arguments is applied as regards benefits for permanent cessation of earnings. Either line of argument is perhaps tenable, but doubts are inevitably awakened

Social security

when examples of both are found in the legislation of the same country.

The work of the International Labour Conference has helped governments to fix the level of their minimum benefits, especially through the influence of the Social Security (Minimum Standards) Convention, 1952, and the new Conventions for individual branches of social insurance. That definite figures could be embodied in these Conventions is evidence of a growing consensus of opinion in the different countries about what represents a tolerable benefit in a given contingency. It should be noted, however, that what occurred in the Conference is the same process as occurs in a national parliament: compromises between opposing interests, rather than scientific considerations, determine the result.

FAMILY BENEFITS

Wage rates themselves do not take account directly of the size of the family to be supported on the wage, though rough and practical notions of a standard of living, the average size of a family and the income needed to support the family's standard are undoubtedly present in the minds of employees and employers when wages are being settled. The regular wage of an adult male is surely sufficient at least for the basic subsistence of himself and, very likely, of his wife also, in every country according to a standard regarded there as tolerable. But the inelasticity of wages with respect to family size is the prime cause of undernourishment and other hardship among the families of able-bodied workers.

It is, however, a commonplace that large families and poverty often go hand in hand. This was for long considered the natural order of things, and governments, especially during the rapid growth of population in the nineteenth century, feared that they might weaken parental responsibility for the family if they subsidised persons who produced more children than they could support. But this attitude was reversed when, in parts of Europe, the sense of parental responsibility became so strong that the countries were menaced by an actual decrease of population. Meanwhile, in the first quarter of the present century the social reform movement was gathering speed, and increasing attention was

paid to the welfare of the younger generation; free education began to be supplemented by subsidised meals and medical care for schoolchildren. In the fiscal sphere abatements in taxable income were introduced in respect of children. Other minor advantages for families (especially for large ones) have since been introduced here and there. But all are dwarfed by the family allowance schemes which are now to be found in over sixty countries. They are universal in Europe, and nearly so among the twenty-two French-speaking nations of Africa.

Just before the end of the Second World War the International Labour Conference commended to its member States a family welfare programme in the following terms:

Society should normally co-operate with parents through general measures of assistance designed to secure the well-being of dependent children.

(1) Public subsidies in kind or in cash or in both should be established in order to assure the healthy nurture of children, help to maintain large families, and complete the provision made for children through social insurance.

(2) Where the purpose in view is to assure the healthy nurture of children, subsidies should take the form of such advantages as free or below-cost infants' food and school meals and below-cost dwellings for families with several children.

(3) Where the purpose in view is to help to maintain large families or to complete the provision made for children by subsidies in kind and through social insurance, subsidies should take the form of children's allowances.

(4) Such allowances should be payable, irrespective of the parents' income, according to a prescribed scale, which should represent a substantial contribution to the cost of maintaining a child, should allow for the higher cost of maintaining older children, and should, as a minimum, be granted to all children for whom no provision is made through social insurance.

(5) Society as a whole should accept responsibility for the maintenance of dependent children in so far as parental responsibility for maintaining them cannot be enforced.¹

In the above text can be discerned a preference for benefits in kind where the end in view is the healthy nurture of children, while family allowances appear essentially as an instrument of demographic policy. The course of child welfare during the 1950s and 1960s, however, has not confirmed this appraisal of the special role of family allowances,

¹ Income Security Recommendation, 1944, Annex (Guiding Principles Accompanied by Suggestions for Application), Part II (Social Assistance), Paragraph 28.

Social security

which have, on the contrary, become the basic instrument of such policies. Family allowances constitute a radical measure for diminishing the difference in the standard of living between homes with young children and those without. Doubtless one of their original purposes was to combat the downward trend in the birth-rate, but their share in the reversal of that trend which has occurred in the last decade has not been conclusively ascertained. Today it seems rather that their main object is to promote equality of opportunity in life among children.

Family allowances have become a part of every branch of social security as complements to its basic cash benefits. It is proper that they should be the first type of benefit to be described in this course of lessons, for in planning a social security system for the United Kingdom that should genuinely cover subsistence needs Beveridge found that family allowances were indispensable. Any rationally constructed benefit schedule must include them, and they must also be paid as an adjunct to earnings, otherwise a man with a large family qualifying for benefit might be entitled to a sum exceeding his income while at work.

Like most new developments in social security, family allowance schemes have evolved as two independent species, one inspired by the social insurance idea, the other by the public service idea.

Just after the First World War, when a general demand for higher wages was building up, a group of French industrialists decided to grant the increase instead in the form of allowances proportional to the number of children dependent on the employee. In order to prevent discrimination at the time of hiring against men with large families, the employers organised equalisation funds as a financial mechanism for ensuring that the charge per employee of each employer was equal. This device, repeated for each branch of economic activity, or extended to the field of employment as a whole, is evidently an application of the insurance principle. We could, indeed, speak of "family allowance insurance", since an equalisation fund closely resembles an employers' mutual fund for covering employment injury liability.

Under schemes based on the insurance principle the right to benefit is conditional on the claimant being an employee in an industry within the scope of the scheme. So, just as in sickness insurance, a minimum regularity of employment is insisted upon (e.g. eighteen days a month),

the full allowance being payable if this minimum is attained; alternatively, the allowance may be payable at so much per day of employment. The right derived from employment is maintained in case of sickness, unemployment, disablement so severe as to render resumption of regular employment unlikely, or old age; where there are no orphans' pensions the allowance is also continued after the death of the breadwinner (under some schemes at an increased rate). In a few countries, such as Austria, Belgium, France and the Netherlands, schemes have been set up for independent workers as well, and here almost the same comprehensiveness has been attained as under the universal schemes which we shall now describe.

Family allowance schemes of the public service type originated in 1926 in New Zealand, which was already a pioneer of the social security movement. At first the allowances were confined to low-income families, but after some years the means test was abolished. Numerous other countries including Australia, Canada, Denmark, Finland, the Federal Republic of Germany, Iceland, Ireland, Norway, Sweden, the USSR and the United Kingdom, subsequently set up a universal system of allowances. Financed as they are by taxation, these allowances are not only available to all parents irrespective of economic status but are also less likely to depress wages than those which are paid by employers. As the rates are comparatively low, the temptation to parents of large families to subsist on their children's allowances seems to be correspondingly small; in any case the governments concerned have not been led by experience to introduce any special check against such an abuse, and find their general powers to oblige parents to look after their children properly sufficient. In place of the condition that the parent must be an employee (or, in appropriate cases, an independent worker) these schemes simply require him to have established residence in the country, for example by having lived there continuously for twelve months immediately before claiming the allowance. To this condition the condition of nationality may be added or there may be a requirement that the child must have been born in the country concerned.

The recipient of the allowance under most universal schemes is the mother, since she is the parent more likely to spend the money for the child's benefit. In any event the allowance is paid only to the person (or

Social security

private charitable institution) who has the care of the child at the time. Where every child in the population is protected the actual relationship of the child to the recipient is, of course, a matter of little importance; the essential condition is that the child should in fact be dependent on the recipient and in the latter's care.

The arrangements for paying family allowances under insurance schemes are rather different. If the paying agent is the employer it is more convenient for the allowance to be paid to the parent who is the employee—in most cases the father; but if the paying agent is an equalisation fund it can choose between the parents. These schemes usually attach more importance than universal schemes to the connection between the recipient and the child, since they might otherwise find themselves paying allowances for children of parents outside the scheme; the existence of a legally recognised relationship affords a useful check. The range of relationships accepted may, however, be very wide: children of the employee or his wife, children formally adopted, orphan grandchildren, orphan brothers and sisters.

Most schemes provide that the allowance shall be paid at least until the child reaches a prescribed age, generally from 15 to 18, and shall be continued during apprenticeship or continuance of formal education after that age; this extension bears witness to the intention to promote equality of opportunity. Several insurance schemes continue payment for girls who stay at home to help to look after younger children, and some schemes waive all limits in the case of disabled children.

The majority of schemes of both types now grant allowances in respect of all the children in the family who are within the relevant age limit. The schemes of nearly fifteen countries, however, pay only from the second child, or even from the third or fourth, thereby reducing their expenditure very greatly.

A notable improvement in the effectiveness of family allowances has been introduced in a few insurance schemes, which pay a special allowance when a mother abstains from employment in order to look after her children properly. It should also be noted that a number of schemes provide for the payment of a lump-sum grant on the birth of each child. This has much the same purpose as maternity grants provided elsewhere under sickness insurance.

Benefits

The rates of family allowances do not vary with the wage of the recipient: either they are the same for every child or they progressively increase per child according to the number of children. The former is the rule followed by the majority of the universal schemes and by several of the insurance schemes. Progressive rates used in four schemes (the rate for the first child who qualifies for benefit being represented by 1) are shown in table I:

TABLE I. SPECIMEN PROGRESSIVE RATES OF FAMILY ALLOWANCES

Child	Rate			
First	1	0	0	1
Second	2	1	1	1.15
Third	3	2.4	1.5	3.6
Fourth	3.5	2.4	1.5	3.6
Fifth	4	2.8	1.5	3.6
Sixth	4.5	2.8	1.5	3.6
Seventh	5	2.8	1.5	3.6
Eighth	5.5	2.8	1.5	3.6
Ninth.	6	2.8	1.5	3.6

A progressive rate evidently encourages large families, but it also takes account of the fact that the larger the family the greater the need for the allowance to approach the cost for full maintenance.

Some schemes recognise that the cost of feeding, clothing and even housing a child rises with its age. As the child's age goes up, say when it reaches five, ten or fifteen years, the rate increases.

Since the allowances are not proportional to wages, but are specified amounts of money, it is not possible to make direct international comparisons of their value. However, when working on the preliminary draft of the Social Security (Minimum Standards) Convention, 1952, the International Labour Office was able to calculate, for countries which publish detailed statistics of wages, the ratio which the family allowance bears to the wage of a typical unskilled worker. It found at that time that the allowance for the first child varied from 3.3 per cent to 11 per cent of that wage. If the allowance for the homekeeping mother is included the rates under three schemes which grant such an allowance

Social security

for the mother were found to be the following percentages of the standard wages (in the case of a family of four children):

TABLE II. EXAMPLES OF PROGRESSIVE FAMILY ALLOWANCES
EXPRESSED AS PERCENTAGES OF WAGES

Child	Belgium	Poland	France
First	11.7	20.7	15.5
Second	10.3	13.9	31.0
Third.	13.5	16.1	31.0
Fourth	16.1	16.1	23.3
Total . . .	51.6	66.8	100.8

These allowances, which are exceptionally high, must offer a substantial encouragement to parents who want large families.

The International Labour Conference, in deciding on a minimum standard of family benefits, was faced with a delicate problem. It had to bear in mind particularly the low economic capacity of developing countries, which are characterised by high birth-rates and a high proportion of illiteracy. For such countries a universal scheme is out of the question, while an insurance scheme can scarcely be applied outside urban areas. In these circumstances it appeared to the Conference that benefits in kind, such as food and housing, might be quite as appropriate in some countries as family allowances, and that the fairest way of formulating a minimum standard was to fix a minimum level of national expenditure on family benefits, whether in kind or in cash. The Conference decided on a minimum of 3 per cent of an unskilled worker's wage per child in the population where the scheme covers half or less of the employed population, or 1.5 per cent of the same where the scheme extends to the whole population.

Points for Discussion

1. *Classify the contingencies that are covered by social security schemes according as their effects are—*

(a) *temporary ;*

(b) *permanent ;*

and according as they entail—

(a) *reduced income ;*

(b) *increased expenses.*

2. *Give examples of cases in which a contingency may occur while benefit is already being paid for another contingency.*

3. *Do you think that social security benefits should aim at maintaining a standard of living comparable with that to which the individual has been hitherto accustomed or should guarantee simply a minimum of subsistence, leaving him to make his own arrangements for extra protection?*

4. *Do you think that, in developing countries, it is better to spend money on family allowances or to spend it on services that supply children's food or cheap dwellings for families ?*

BENEFITS (*cont.*)

MEDICAL, SICKNESS AND MATERNITY BENEFITS

On both historical and logical grounds sickness insurance may be considered as from a certain viewpoint the primary branch of social insurance. In its simplest form it is easy to organise in any locality where a few hundred persons can be grouped together in a society and the services of a medical practitioner can be engaged. Illness enters into everyone's experience, and the apprehension of it is felt at all ages. Medical care in infancy, childhood, youth and middle age preserves health and delays the onset of invalidity, premature old age and death itself. A person who falls sick is threatened with two stages of unemployment, at first because he cannot work, and later because he will have lost his job.

A typical sickness insurance scheme provides medical and maternity services either through personnel and facilities directly managed by the scheme, or by means of contracts with private medical practitioners and public as well as private hospitals. It pays cash benefits to the insured person during sickness and during maternity leave and possibly also a funeral benefit on the death of the insured person or—though this is rare—of a dependant. In some countries, for example the USSR and the other countries of Eastern Europe, or Ireland or New Zealand, responsibility for providing medical benefit within the framework of social security is assumed by the public health administration with which an insurance or assistance scheme is co-ordinated for the supply of cash benefits.

Medical Benefit

A description of medical benefit cannot in practice be given without referring to some fundamental aspects of the medical care service. Indeed, the most delicate and perplexing problems in the whole field of social security are surely those that arise in connection with medical care. They are essentially human problems and, as such, incapable of permanent solution. Major difficulties in the organisation of medical care ser-

vices include shortages of financial, personnel and material resources. In some countries these may be complicated by tension between the bodies administering the scheme and the medical profession. Nevertheless compromises are always reached, and, with the adjustments that are effected from time to time, there has been gradual progress towards more rational policies.

The contingency in which medical benefit is granted is simply the need for it: the health of the person protected should be safeguarded and he should have access to a doctor. Preventive health services provided on a community basis are, as a rule, the responsibility of the public health authorities, but personal preventive medical care is frequently provided by medical care schemes.

Numerous insurance schemes still require the applicant for medical benefit to satisfy a qualifying period of contribution or employment in order to prove that he belongs to the category of persons for whom protection is intended. A variety of formulas for the qualifying period are in use, for example sixty hours' employment in the last three months; one contribution month in the last four months; or six contribution months in the last twelve months. There seems to be no clear principle governing the length of the qualifying period, but evidently the desire is everywhere to make medical benefit very easily accessible to the insured person and his dependants in view of its importance to the person protected and the health of the community. Faced with such a variety of practices the Social Security (Minimum Standards) Convention, 1952, approved any "such qualifying period as may be considered necessary to preclude abuse".

Public medical care services, in contrast, impose no qualifying period. In addition, a steadily growing number of social insurance systems also require no qualifying period and grant benefit to any person who is actually in insurable employment when the illness is diagnosed. If strictly interpreted this would mean, however, that a person could not claim the benefit if the contingency occurred immediately after he left his job; these schemes therefore provide for a "free insurance period". For example, persons who have been in insurable employment for twenty-six weeks in the last twelve months before becoming unemployed may be treated, for the first three weeks of unemployment, as though they were

Social security

still employed, and so are entitled to medical benefit—and, for that matter, sickness benefit—for any condition that begins in that period.

The ideal medical service towards which all member countries of the International Labour Organisation should strive was delineated in great detail in the Medical Care Recommendation, 1944. But in the eight years that intervened before the adoption of the Social Security (Minimum Standards) Convention, 1952, only a small minority of countries had come near to that ideal, and, since the Convention gives especial consideration to the capacity of the poorer countries, its provisions are simpler and the standards less high than those of the Recommendation. Most countries which possess sickness insurance schemes reach the required standard as regards the benefit itself, but in many countries the schemes often fail to protect a sufficient proportion of the population.

A medical care service may provide (though in different degrees of availability, specialisation and liberality) the following types of care:

- (a) general practitioner care, including visits to the home;
- (b) diagnostic examinations;
- (c) care by medical specialists;
- (d) pharmaceutical supplies;
- (e) maternity care by midwives and doctors;
- (f) nursing and maintenance in hospital; and
- (g) dental care.

To these may be added such items as various forms of special treatment, rehabilitation services and artificial limbs, convalescent care, home nursing and ambulance services.

A medical care service that approaches completeness is costly. Although there are natural limits to the demand for the attention of doctors and for medicines, these limits leave room for tremendous extravagance. Therefore every medical care service must endeavour to achieve a maximum of economy, i.e. a maximum of efficacy in return for a given outlay. To interpret this notion properly in relation to medical care we should seek a criterion for determining the outlay. We cannot here attempt the economic analysis—necessarily theoretical and schema-

tic—which might yield the rule for obtaining the optimum figure; but at all events it is highly probable that an increasing outlay results in increasing returns of efficacy up to some point and thereafter in decreasing returns. We can perhaps affirm that “a maximum of economy” in the present context means reducing the average frequency and duration of incapacity to a minimum by a policy which aims at preventing disease and prolonging active life. It is safe to say that very few scientific evaluations of the economy of one service in comparison with another have ever been made; but this has been done frequently for particular methods of treatment, and the results suggest that it would be profitable to extend the scope of such investigations.

The medical man is sometimes irritated by the budgetary aspects of economy and will regard efficacy as his main concern. Efficacy evidently depends on the simultaneous fulfilment of several conditions: not only must the physician be ready to practise good medicine, but the patient, the attendants and external circumstances must conduce to the cure. First of all, then, it requires a skilful and conscientious practitioner in whom the patient has confidence. Skill and conscientiousness can be secured by the education of native ability, by the inculcation of a sense of social responsibility in the medical student and by the payment of remuneration which most doctors will judge to be fair. Medicine, like other scientific techniques nowadays, is in constant evolution, and the doctor ought to have opportunities to keep abreast of advances; this will not be possible unless his remuneration allows him to take time off for it and facilities for postgraduate study are furnished.

The conditions that are necessary to establish confidence are not so easy to define. In some countries patients as well as doctors are said to set great store by the rigid observance of the secrecy enjoined, among other principles, by the Hippocratic oath; as long as medical information is retained within an insurance institution this secrecy does not seem to give rise to too much administrative inconvenience. Again, it is widely held, especially in countries where wage-earners have experience of medicine as practised privately, that to have confidence in his family doctor the patient must be able to choose him and to change to another if he is dissatisfied. It is, however, unusual for a patient to wish to choose his own specialist or surgeon, whose merits he is unlikely to be able to

Social security

judge. In countries where the mass of the insured population could never afford to pay a doctor out of their own pockets it seems that there is no marked desire to choose one's general practitioner. But there is another aspect to this question of free choice; it is held that clients, through the exercise of their power of choice, can reward a doctor by enlarging his practice and so render effective the normal process of economic competition. In this context, however, competition is not always salutary, since the patient too often gives his preference to a doctor who is complaisant rather than conscientious.

The efficacy of treatment depends not only on personal factors, but also on the material facilities at the practitioner's disposal and the organisation of the medical care service; in principle, correct treatment, including the prescription of rest, is impossible without correct diagnosis, and a conscientious doctor would like to avail himself to the full of the elaborate diagnostic techniques that exist today. The general practitioner has then to decide on the treatment to be applied, and whether his patient should be referred to a specialist or sent to hospital. A wide range of new—and often costly—pharmaceutical preparations are brought to his attention by the manufacturers; how shall he choose between them? The general practitioner has to decide whether to order the patient to stop work or not, whether or not to prescribe some form of special therapy, whether to transfer the patient to a specialist or to hospital or to retain him in his sole care; all these are matters of the greatest consequence for the finances of the medical care service.

Sickness insurance schemes are commonly managed by non-medical men. They may approach the question of economy from a different angle; their gaze is apt to be fixed on the avoidance of expenditure, and they are inclined to be sceptical about the efficacy of remedies that are certainly expensive in the short run but may perhaps be economical in the long run. A doctor's time may be economised by installing him in a health centre or polyclinic. Medical supervisors may be employed to scrutinise, and question the justification for, the different items of care given or ordered by the doctor in attendance. Supervision may restrict the exercise of the doctor's professional judgment, and unless it is applied with the utmost tact his self-respect will suffer and the quality of his work will be affected.

The principle of economy thus concerns all phases of the process of supplying medical care, from the training of the student to the selection and conduct of the treatment. But the degree to which it can be applied varies according to the method of organising the service.

There are, broadly speaking, three methods of enabling insured persons to receive medical care, namely—

- (a) limited refund of medical expenses incurred by the person protected;
- (b) direct provision of care by a salaried staff in establishments operated by the medical care service;
- (c) direct payment to providers of medical care for the person protected.

In every scheme one of these methods, or a variant thereof, predominates as regards the care given by general practitioners, but the other methods are often used to some extent in the provision of other types of care.

The "limited refund" method, which is the one normally used in commercial sickness insurance, is applied in social insurance only in a minority of countries. Among these may be cited as examples Algeria, Belgium, Finland, France, Norway and Sweden. In principle the insurance institution or government department administering the scheme does not interfere at all in the arrangements that the patient makes with the doctor or pharmacist of his choice. But it must necessarily keep its liabilities within certain limits. It therefore establishes, after consultation with the medical profession, a scale of fees for each kind of service that a doctor can render, and refunds to the insured person a major fraction (75 to 80 per cent) of the fee mentioned in the scale. The refund method safeguards perfectly the traditional relationship between doctor and patient, but is not conducive to the creation of a rational medical care organisation. It bears hardly on the poorer patient, who not only lacks the ready money to pay the bill but must also pay a substantial part of it himself; it may thus prevent him from obtaining needed care. These severities, however, can be, and sometimes are, mitigated by refunding the whole cost in certain lengthy illnesses.

The second method is the total opposite of the first. All categories of medical personnel are employed on a salaried (often part-time) basis by the insurance institution or public health authority which owns the

Social security

medical facilities in which they work. The staff are recruited on the basis of their qualifications. Each clinic or polyclinic has, according to its size and range of services, a staff of general practitioners, specialists, auxiliaries and dispensing chemists; and the hospitals similarly vary in size and the range of specialities they provide. The staff works as a team and, if the need arises, there is no difficulty in transferring the patient to the appropriate specialist. Insured persons living at a distance from a clinic are served either by mobile dispensaries or by small first-aid posts, and are transported to hospital if necessary. Methods of treatment are supervised by consultants or senior physicians, and a special pharmacopoeia, drawn up with an eye to economy, is used. This highly rational organisation affords little opportunity for free choice of doctor. On the other hand, excellent medical histories can be maintained and the battery of impressive equipment and the hygienic consulting room may inspire more confidence in the patient than the more modest premises of the private practitioner. This method is widely used in Latin American countries, including Bolivia, Chile, Colombia, Costa Rica, Ecuador, Mexico and Peru. It is also used in Burma, Greece, Iran and Turkey, as well as in the USSR and other countries of Eastern Europe. Unless it is properly organised, it might have specific disadvantages, namely bureaucracy, which in time dries up individual responsibility and results in the loss of the real but intangible quality that resides in the personal relationship with the doctor.

The third method could be described as somewhere between the first and the second—perhaps as a step on the way to the latter. Here the insurance institution or government department administering the scheme pays the doctor, pharmacist and hospital directly, the patient as a rule paying no part of the charges. This method is utilised in Austria, Denmark, the Federal Republic of Germany, Italy, Japan, the Netherlands, Switzerland and the United Kingdom. Economy is sought, not by limiting the payment, but by avoiding wasteful methods of treatment. This is done by means of detailed collective agreements with the professions and establishments concerned. These prohibit the practitioner, for example, from prescribing advertised pharmaceutical preparations for which substitutes can easily be made up; and costly modes of diagnosis and treatment may require the authorisation of a medical supervisor. Prac-

titioners who prescribe extravagantly or are unduly liberal in certifying incapacity for work may be penalised. Choice of doctor is allowed within limits, and in general the restrictions on the free exercise of the practitioner's discretion are not such as would hinder him if he were treating privately a patient of moderate means.

Under the third method alternative systems of remuneration are in use: the fee-for-service system and the capitation fee system.

The fee-for-service system approximates to that which prevails in private practice. In agreement with the profession, a list of all the services that a doctor can render is compiled and an appropriate fee is assigned to each item. This system presents the advantage that the doctor is remunerated according to the volume and importance of his work and the obvious disadvantage that he may become too prodigal with his services. However, the latter can be offset by assigning to the medical association the yield from insurance contributions earmarked for practitioner care and letting the association distribute it according to its own standards of fairness. As under the refund method, the person protected can change his doctor at any time.

The capitation fee system is simpler and is also applied by agreement with the profession. The general practitioner receives a uniform annual fee for each person protected who has formally chosen him as medical attendant in the eventuality of illness; change of doctor is allowed only periodically or subject to a formality. The doctor's interest clearly lies in keeping his patient well by preventive care and in giving him no more attention than he needs. On the other hand, the general practitioner may be disposed too readily to transfer responsibility for an illness to a specialist or hospital. The capitation fee, of course, is never adopted for the remuneration of specialists, who are paid on either a fee-for-service or a salary basis.

All care provided under schemes applying the second or third method is, as a rule, free of charge to the patient. Nevertheless, some of these schemes require him to pay, for example, a nominal sum on the occasion of a first consultation, or a small share of the cost of a prescription or denture; these slight reminders of the importance of economy seem justifiable where the insured population enjoys a standard of living well above the subsistence level. However, under schemes applying the third

Social security

method it is not infrequent to oblige the protected person to bear a substantial part of the cost of the care given to his dependants, and this, of course, can only be justified by inadequacy of financial resources.

The majority of sickness insurance schemes set some limit on the duration of medical care, although there is a growing tendency to remove such limits. The Social Security (Minimum Standards) Convention, 1952, allows treatment to be discontinued after twenty-six weeks. Such a limit is still usual as regards hospital care. In the case of care given outside hospital the limit tends to be more elastic: treatment continues as long as the patient remains in insurable employment or receives sickness benefit. Public medical care services, on the other hand, go on treating the patient without limit of time until he is cured or the infirmity is recognised as permanent.

To conclude this all-too-brief sketch of the different means by which social security agencies provide medical care, let us refer once more to the Medical Care Recommendation, 1944. That extremely detailed text envisages a series of methods appropriate to the successive stages in the development of medical care services for the masses, but it certainly looks forward to the final establishment of public services for the care of the population generally. Such services would preferably be staffed by a salaried personnel and be organised according to the second of the three methods described above but taking over from the third method the policy of limited choice of doctor and the institution of the family doctor. It is interesting to note in this connection that in certain countries where the second method has been applied fairly strictly for some years provision has recently been made for a limited choice of doctor.

Sickness Benefit

The contingency in which cash sickness benefit becomes payable can be defined in practical terms as suspension of earnings owing to some disease or injury which cannot be cured without the patient stopping work. When certifying that the patient must abstain from work the doctor must of course consider the patient's condition and the prognosis in relation to the demands made on him by his occupation: an ailment which incapacitates a miner might not incapacitate a clerk. The

assumption is that the treatment will be limited in duration and that the patient will sooner or later resume his occupation.

But in some cases the doctor is sure from the outset that his patient will never recover entirely or that the case will have a fatal termination. These cases also fall within the definition of sickness, and when they occur sickness benefit will eventually be succeeded by invalidity or survivor's benefit.

The right to cash sickness benefit is, under almost all schemes, conditional on the completion of a qualifying period. In many instances this is the same as that imposed in connection with medical benefit. It is sometimes more strict, however, though it rarely exceeds six contribution months in the twelve months preceding the beginning of the illness. The Social Security (Minimum Standards) Convention, 1952, gives the same indication for both benefits.

Under most schemes sickness benefit is not payable if the incapacity for work lasts only a few days. The waiting period is now commonly three days, and this is the duration allowed by the Social Security (Minimum Standards) Convention, 1952. The principal reason for imposing a waiting period is, of course, to save expense. Brief indispositions account for something like half of all cases of sickness, and occur on the average once a year for each individual. The cost of processing a claim for benefit is independent of the duration of the sickness, and the ratio of the administrative expenditure to the benefit paid is therefore extremely high when the duration of benefit is very short. Also it is impossible to check the validity of the certificate of incapacity in these cases, and frequent abuse is likely.

No appreciable hardship is caused to the insured person if, say, once a year, he goes without wages for a few days; but suppose he suffers a succession of such short spells of incapacity? The more advanced schemes take care of this possibility: it may be provided, for example, that there shall be no second waiting period in the event of the recurrence of the same disease in a period of twelve months, or if during the thirteen weeks preceding the illness in question as many as twelve days have already been lost through sickness or unemployment.

The rate of the cash sickness benefit may be calculated in any of three ways:

Social security

- (a) as a percentage of the previous wage;
- (b) the above plus general family allowances or special supplements for dependants;
- (c) a uniform basic allowance plus general family allowances or special supplements for dependants.

The wage taken as the basis for formulas (a) and (b) is usually a recent one, for instance the average daily amount earned during the three months before the illness began. There is always a maximum basic wage for the calculation of benefit, and usually the same maximum applies to the wage on which contributions are levied. It follows that the ratio of the benefit to the actual wage is reduced in so far as the latter exceeds the maximum. If the level of nominal wages is rising, as is often the case today, the maximum needs frequent adjustment.

The benefits granted under schemes applying formula (c) are not geared by the law itself to any particular wage, but in practice they are intended to represent a fraction of the unskilled worker's wage. They too, therefore require adjustment when the level of nominal wages rises.

Schemes applying formula (a) are rare nowadays in Europe, where most countries have introduced family allowances or at least dependants' supplements to benefits, but form the majority in Latin America. The ratio of benefit to the basic wage under these schemes varies from 50 to 75 per cent, or even 90 per cent.

A similar range of percentages is found in the schemes—mainly European—where formula (b) has been preferred. Since family allowances are always fixed at amounts that are independent of wages, the addition of the same allowance to the benefit as to the wage produces for the low-wage earner a total benefit which is higher in proportion to his previous income than it does for a high-wage earner.

The few schemes which apply formula (c) operate in countries where the wage differential for skill is small and the unskilled worker's earnings are well above the subsistence level. They include the social assistance schemes of Australia and New Zealand.

The problem of fixing the rate of sickness benefit illustrates the difficulty of designing a fair and rational scale of benefits when there is no experimental knowledge of what would be the behaviour and con-

dition of recipients if different benefit formulas were applied. In this case trustworthy statistics showing the relation between morbidity rates and benefit rates would be instructive, but they are rarely to be found within the experience of a single scheme. It was for this reason among others that the International Labour Conference recommended the standardisation of social security statistics, but as yet not much has been accomplished in this highly technical field. The International Labour Office has, however, a Minimum Programme of Social Security Statistics, which is gradually being implemented in the light of the recommendations of a meeting of the Actuarial Subcommittee of the Committee of Social Security Experts in 1960.

Formula (*a*) is evidently not the most efficient way of using the scheme's resources, whatever the rate of benefit. To pay the same amount irrespective of the size of the family to be maintained is justifiable only if—(1) there is an equitable right to equal benefit rates in return for equal contribution rates, an argument which presupposes that the contribution of the employer cannot be utilised for adapting benefits to the differing circumstances of families; and (2) as is the case in certain countries, there are difficulties in the way of ascertaining the current composition of the family. Formulas (*b*) and (*c*) on the other hand do take account of the needs of the family.

The Social Security (Minimum Standards) Convention, 1952, judges the adequacy of a benefit schedule by the fraction of the previous income (wages plus any family allowance) payable where the beneficiary has a dependent wife and two children. It supports, therefore, the underlying principle of formulas (*b*) and (*c*), but it is satisfied with a benefit of only 45 per cent of the previous income. This, it will be agreed, is a rather small rate of benefit for most wage-earners; but there is a twofold explanation for this low figure. First, it has to be remembered that the Convention is concerned with minimum standards, mainly those which the poorer countries can afford. Second, the figure of 45 per cent relates, under schemes applying formulas (*a*) or (*b*), to the wage of a skilled employee, and does not imply that the same low percentage should be payable to persons with smaller earnings; under schemes applying formula (*c*) the figure relates, it is true, to the wage of an unskilled worker, but these schemes in fact exist only in countries where facilities

Social security

for, and the habit of, personal thrift are well developed. Even so, we should not allow ourselves to believe that 45 per cent of a workman's previous income is enough to support him as well as his wife and children. In practice almost all existing schemes pay a higher percentage than this to workers receiving wages below those of the skilled category.

Admittedly the benefit should be less than the income the insured person was drawing while at work, since he should have some incentive to return to work and not to malingering. Moreover, he does not have to pay insurance contributions and is relieved of the cost of fares and meals away from home, which may have amounted to 10 per cent or more of his wage. After making allowance for this factor, however, the considerations to be weighed in fixing the rate are contradictory. On the one hand there is the pressure that patients exert on their doctor to certify them as sick beyond the date when they are physically fit to return to work. It is safe to assume that many workers are engaged in occupations which are dull or arduous and would like to prolong their absence from work; and if the benefit were very close to the previous income the temptation for a person to exaggerate his symptoms would be very strong. On the other hand the sickness benefit should ideally be equal to the net previous income so that the sick person will be as well nourished as before and free from anxiety about falling into debt.

It is possible to bridge these contradictions by a formula derived from (b). The benefit should be sufficient for the subsistence of the worker and his dependants. It should also reflect the fact that the beneficiary has to meet certain standing economic commitments, such as rent, which vary according to the level of his income and cannot be suddenly reduced in the emergency of sickness; but the benefit should not aim at covering this differential charge fully. The higher the wage, we may suppose, the wider the margin for the personal thrift which the insured person can be expected to exercise and on which he may be called upon to draw to a limited extent in case of sickness or other emergency. It would therefore seem reasonable to pay, as benefit, a percentage of the wage which decreases as the wage increases. Such a scaling of benefit practically necessitates the grouping of insured persons in wage classes. It is rarely applied in sickness insurance, but this effect is produced by the inclusion of family allowances in wage and benefit, as we have already noted.

The possibility of simulating or exaggerating symptoms is greatest in short illnesses the duration of which exceeds the waiting period but is not long enough to permit careful checking of the diagnosis. In really serious illnesses this possibility is minimised, and in consequence the need to keep the rate of benefit low as a safeguard disappears. It is also in lengthy illnesses that the drain on savings becomes excessive. Therefore where the sickness has lasted for a month or two it appears practicable, as well as desirable, to raise the benefit rate. The sickness insurance scheme of Czechoslovakia formerly embodied all these refinements: family allowances, rates varying inversely with wages, and increased rates in case of long sickness.

Most schemes reduce the rate of sickness benefit while the patient is being maintained in hospital at the expense of the scheme. Family allowances, of course, are not affected. But, as regards the amount of the basic benefit and persons who are to receive it, there is a surprising diversity of policy. For instance, the schemes of some countries pay nothing to the patient and half the benefit to any dependants while he is in hospital. Others pay half to the former and half to the latter. The Social Security (Minimum Standards) Convention, 1952, lays down a precise and rational rule: any portion of the deduction in excess of the value of the maintenance of the patient must be granted to his dependants.

Sickness, in the terminology of social security, is a temporary condition that ends in cure, a permanent disability, or death. The main reason why, under insurance schemes but not under assistance schemes, a limit is set to the duration of sickness benefit is that, where the insurance institution is the traditional local or occupational sickness fund, its financial system is unsuited to carry a burden of cases which, lasting indefinitely, would accumulate year by year. Furthermore, it is felt, if not always specifically argued, that a member of such a fund ought not to draw more than some limited amount out of the common pool of resources. Such limitation of the sickness benefit period is not usually a catastrophe for the insured person since, if he is still unable to work when he has exhausted his right to sickness benefit, he can obtain an invalidity pension. This is normally lower than the sickness benefit but it is payable indefinitely by an institution financed for the purpose. Such was the traditional solution, and such it remains in the great majority

Social security

of countries, even where the finances of sickness insurance are centralised.

The maximum duration of sickness benefit per case was only thirteen weeks under the original German scheme. Later, twenty-six weeks per case became standard practice in many countries. (In a few schemes a less favourable formulation of the rule prescribes "twenty-six weeks in any period of fifty-two weeks".) This was a convenient interim solution because most illnesses that last so long are likely to continue indefinitely; it is the figure accepted by the Social Security (Minimum Standards) Convention, 1952. But social insurance began to take a more constructive view of its functions as medicine grew able to promise recovery from diseases previously regarded as incurable. So in one scheme after another a provision has been introduced enabling the insurance administration to extend medical and sickness benefit beyond twenty-six weeks where there is a likelihood of cure or improvement. This tendency continues today. However, the prolongation of benefit is still, in most schemes, subject to an arbitrary limit of an additional twenty-six weeks. The total of one year is often insufficient for the cure of tuberculosis and some other diseases, and so, in the most advanced countries, we now find that the limit for the duration of benefit is set at two or three years. Finally, there are three or four schemes, backed by national financial resources, that have abolished the limit altogether.

Most sickness insurance schemes provide a funeral benefit on the death of a person who was entitled to sickness benefit (though some countries provide a comparable benefit only under their pension branch). The majority of schemes pay one month's basic wage; some prefer a moderate fixed amount. A few schemes grant a funeral benefit for dependants also.

Maternity Benefit

One of the very first Conventions adopted by the International Labour Conference was the Maternity Protection Convention, 1919. The purposes of this instrument, which was revised in various details in 1952, were to—

- (a) enable a female employee to abstain from work during the six weeks preceding the expected date of her confinement;

Benefits (cont.)

- (b) oblige her to abstain from work during the six weeks following her confinement;
- (c) provide her with pre-natal, confinement and post-natal care by a doctor or certified midwife;
- (d) provide her, out of public funds or by means of insurance, with a cash benefit sufficient for the full and healthy maintenance of herself and her child during the said periods of abstention from work;
- (e) prohibit her dismissal during the said periods or a subsequent period of sickness;
- (f) enable her to nurse her baby twice a day during working hours.

Most of the ILO member countries which have ratified the Convention provide maternity benefits in cash and in kind by means of insurance, incorporating them in their sickness insurance schemes. Moreover, maternity benefits are a feature of the sickness insurance schemes of a number of countries which have not ratified the Convention. Maternity care is also provided for the wife of an insured person under several schemes which do not provide medical benefit for dependants generally.

The qualifying period for the right to maternity benefit is, as a rule, longer than that imposed as a condition for sickness benefit. It is often laid down that the woman must have been registered as an insured person for at least ten months before the expected date of her confinement.

The rate of the maternity benefit is usually the same as that of the sickness benefit but is sometimes higher (perhaps in order to comply with the terms of the Convention requiring it to be sufficient for "full and healthy maintenance"). The Maternity Protection Convention (Revised), 1952, calls for a benefit equal to two-thirds of the previous wage, but the Social Security (Minimum Standards) Convention, 1952, less ambitious, is satisfied with 45 per cent.

The majority of countries have deemed it sufficient to pay benefit, in respect of normal pregnancies and confinements, for the twelve weeks prescribed by both the Maternity Protection Convention and the Social Security (Minimum Standards) Convention, 1952. Some schemes, however, allow as long as fourteen, eighteen or even twenty weeks. On

Social security

the other hand, in several Latin American countries the total periods of maternity benefit are shorter: seven, eight, nine or ten weeks. But, whatever the minimum duration of maternity benefit, a woman who is sick on its expiry will be entitled to sickness benefit.

Both in Europe and in Latin America (but less so under the numerous maternity insurance schemes in French-speaking African countries), it is common for a nursing benefit to be paid to a mother who feeds her child at the breast: for example 20 per cent of her wage for six months. In addition, some schemes grant a small sum for the purchase of a layette. In a few countries we find a highly desirable improvement, namely the provision of domestic help while the woman is confined to bed.

Points for Discussion

1. *State which of the following methods of providing medical benefit you prefer, giving your reasons :*

- (a) *the refund, up to a certain limit of the medical expenses incurred by the patient who uses any facilities he chooses ; or*
- (b) *the rendering of medical care by a salaried staff employed by the social security scheme.*

2. *A high rate of sickness benefit frees the patient from anxiety and allows him to be properly nourished, but it tempts him to try to prolong his absence from work. How would you regulate the benefit rate in order to obtain a maximum of adequacy with economy ?*

3. *Can you justify limiting the duration of sickness and medical benefits to, say, twenty-six weeks ?*

BENEFITS (*cont.*)

PENSIONS

“Pension” is the generic name of the long-term periodical cash benefits that social security systems pay in case of invalidity, in old age and on the death of the breadwinner. Whether the method of affording protection is social insurance, public service or social assistance, logic requires that the three kinds of pension should be co-ordinated.

The provident breadwinner desires to have his savings available in any of the events which may deprive him and his dependants of their livelihood. It is therefore fortunate for him that social insurance, like private insurance, finds it mathematically convenient to group old age and death together, covering them as alternative possibilities, i.e. survival beyond a given age or decease before that age. In social insurance planning invalidity has traditionally been treated as premature old age, and the invalidity pension has been the basis for the computation of the old age and survivors’ pensions. On the other hand, a few systems such as those of Ireland and the United Kingdom provide the invalidity benefits under the sickness insurance scheme, considering invalidity to be essentially a prolongation of sickness.

In the context of social assistance or of a public service there is, of course, no question of the right to a pension being based on personal savings, and state policy alone settles whether one, two or all three types of pension shall be introduced. Old age pensions come first because of the large numbers of needy persons concerned and the shame that indigent old age reflects on the community, and because they are comparatively simple to administer. But when invalidity pensions are added the provisions concerning them will certainly be designed to join up smoothly with old age pension regulations. Widows’ pensions will similarly be harmonised with old age pensions.

The Social Security (Minimum Standards) Convention, 1952, and the Invalidity, Old-age and Survivors’ Benefits Convention, 1967, both admit either social insurance, public service or social assistance as

methods of realising their standards. Although the three contingencies are treated in separate chapters of these Conventions, there is a maximum of uniformity in their provisions, so as to facilitate ratification by member countries in which all three risks are covered by a single scheme.

Consequently, after the contingencies have been defined separately in the next three sections, it will be possible to analyse the rules for granting and computing pensions of all three types together.

Invalidity

Invalidity is nearly always linked to sickness or old age, but there are, of course, cases of congenital infirmity. It could be described as an incurable, but stabilised, sickness involving permanent incapacity for work, and having therefore economic consequences for the insured person similar to those of advanced old age. Invalidity may be either of sudden onset or it may develop gradually over a period of time. A common type of invalidity originates in diseases that are associated with late middle age, for example ailments of the heart and lungs. The disease progresses gradually until the patient can no longer hold an ordinary regular employment and for practical purposes becomes unemployable, though theoretically he might now and then find some light work that he could do. Under many schemes invalidity is not covered where it begins after the age at which an old age pension may be claimed.

In connection with this condition early German legislation gave a definition of "invalid" which has been taken over by numerous subsequent invalidity schemes, partly because of the prestige of the German legislation, and partly in order to take advantage of German experience in the preparation of actuarial estimates. According to this definition an insured person is an invalid if he can no longer earn, in any employment suited to his strength and ability which can reasonably be assigned to him in view of his training and previous occupation, as much as one-third of what a fit person of similar training usually earns. It is important to note that the wording safeguards the status of the skilled employee, who cannot be denied a pension on the ground that he could earn a regular wage in some unskilled employment, or even that he is earning such a wage. Most individuals afflicted with grave constitutional diseases,

Social security

however, are not able to do any regular work at all. On the other hand, there are a substantial number of disability cases that result from minor or major mutilations, but invalidity insurance, unlike employment injury insurance, does not cover cases of permanent incapacity of less than the high degree just mentioned save in a minority of countries (among which the Federal Republic of Germany is now to be numbered) where the following three degrees are often recognised: inability to resume one's former occupation; inability to follow any occupation; the condition of helplessness which demands constant attendance.

The classical definition was formulated before unemployment insurance existed or was even thought of, and invalidity insurance disclaimed liability for unemployment among partially disabled persons resulting from lack of demand for their labour or the hiring practices of employers.

In order to remedy this defect the International Labour Conference, in the Income Security Recommendation, 1944, laid down the principle that invalidity benefit should be related to the individual's situation in the employment market; if the employment service could not offer a disabled person a regular employment suited to his disability he should be deemed to be an invalid, or, if it were likely that a course of physical and vocational rehabilitation would fit him for an occupation in which employment is plentiful, he should receive a maintenance benefit during the process.

Experience, and therewith improved techniques, in the rehabilitation of war victims and the prevalence of full employment after the Second World War gave a new impetus to the rehabilitation projects conceived after the First World War. In the United Kingdom, for example, a programme corresponding to that recommended by the International Labour Conference was included in the Beveridge Plan. The extension of the maximum duration of medical and sickness benefits to which we referred in the previous lesson shows the same insistence on achieving maximum recovery.

In addition, a few governments have ensured employment opportunities for partially disabled persons by requiring employers to reserve a certain proportion of jobs for them. Nevertheless, it must always be remembered that rehabilitation is not applicable to the main body of the

clients of invalidity schemes, namely elderly persons afflicted with constitutional diseases.

The Invalidity, Old-age and Survivors' Benefits Convention, 1967, defines invalidity as "incapacity to engage in any gainful activity, to an extent prescribed, which incapacity is likely to be permanent or persists after the termination of a prescribed period of temporary or initial incapacity". This wording implies that invalidity may be something less than total disablement.

Old Age

The contingency which entails the award of an old age pension is defined in terms that are simple enough: under most schemes all that is stated is the minimum age at which the pension may be claimed ("pensionable age"), and whether the pensioner need retire from his work. But the pensionable age varies from one scheme to another, and the very differences indicate that the concept of "old age" is not simple.

Two main ideas are always involved. The first is that old age is the kind of invalidity which supervenes inevitably if the person lives long enough. The second is that every person who has worked for many years in the service of an undertaking or industry has earned the reward of a retirement pension. Both ideas find expression in old age security schemes, where the predominance of one or other helps to explain differences in pensionable age, other qualifying conditions, and the scale of pensions.

All pension schemes fix an age at which pensions are granted whether or not the claimant is still capable of work. It is this that distinguishes old age security from the security afforded to invalids. The fact that the retirement age is known in advance is not only an advantage to the employee but also to the employer, who needs to know at what age he can decently discharge an old employee. In fixing the pensionable age consideration is of course always given, however vaguely, to the gradual decline of working efficiency and the growing frequency of invalidity which accompany advancing age. Obviously the ability of an elderly person to continue in his job depends as much on the demands made by it as on his physique. Hence a rational policy would relate the pen-

Social security

sionable age to the arduousness of the occupation and the number of years served in it. This was recommended by the International Labour Conference in the Invalidity, Old Age and Survivors' Recommendation, 1933, and repeated in the Income Security Recommendation, 1944.

In reality most pension schemes for employees generally, and all universal schemes, ignore the occupational factors which may accelerate the onset of senile invalidity, mainly perhaps in order to avoid the complications arising in careers comprising a series of occupations. But partial solutions for this problem are often found by establishing special pension schemes for certain occupations that provide a pension at an earlier age than does the principal scheme.

The criterion for fixing the proper pensionable age under a general scheme of pension insurance was comprehensively but succinctly defined in the Income Security Recommendation as follows: "[The prescribed age] should be that at which persons commonly become incapable of efficient work, the incidence of sickness and invalidity becomes heavy, and unemployment, if present, is likely to be permanent."

Naturally, this is not a condition that people look forward to. They do not want to wait until they are worn out and have one foot in the grave; they hope for "a final holiday with pay". Fortunately, however, the decline of energy which prevents an elderly person from keeping up with the work tempo of modern industry does not connote inability to enjoy the chosen activities of leisure.

Just how soon workers should be entitled to rest from their labours is settled by a compromise in which the above considerations are practically reconciled, along with a series of secondary factors, including the ratio of the aged to other sectors of the population, the expectation of life at a given pensionable age, the general level of employment, and, of course, the magnitude of the financial liability involved and the distribution of this burden.

The existence of a surplus of manpower may affect the choice of the pensionable age, not only for the obvious reason that elderly persons experience difficulty in procuring employment but also for the opposite reason, namely that the minority of older persons who do succeed in retaining their jobs reduce thereby the opportunities for younger, more efficient men, who very likely have families to support. Hence it was

that the International Labour Conference in 1933, which was a time of world-wide depression, recommended the reduction of the pensionable age as a measure for relieving unemployment.

As with all other social security benefits, a balance has to be struck, for financial reasons, between liberality in the definition of the contingency, on the one hand, and liberality in the scale of benefit on the other. Before the pensionable age can be fixed it is necessary to ascertain how much money can be made available to finance pensions on a given scale. In the case of schemes for employees generally and of universal schemes there is a limit, soon reached, to what the contributor or taxpayer is willing to pay currently for the right to enjoy, in his turn, an old age pension, besides the charges he must bear for all the other social security benefits. As regards special schemes for comparatively small groups of workers, the financial problems are often less compelling. A special scheme may be established for an industry whose workpeople ought, in the interest of the national economy, to be rewarded by the grant of privileges in the matter of pensions, or whose workpeople are represented by a trade union which is in a position to apply strong pressure on the legislature. In either case the essence of the privilege consists in transferring much more of the pension cost to taxpayers or to other workers as consumers than is possible where a scheme for employees generally is concerned.

A survey of the pensionable ages prescribed under pension insurance schemes for employees generally or for industrial employees, and under universal pension and social assistance schemes, in eighty-four countries in 1967, reveals the following distribution:

Age ¹	Number of countries	Age	Number of countries
70	2	63-60	1
68	1	62-57	2
67	2	60	15
67-62.	1	60-55	19
65	15	55	8
65-62.	1	55-50	3
65-60.	13	50	1

¹ Where two ages are shown, the first is for men and the second for women.

Social security

It is interesting to find that the process of balancing the various considerations we have mentioned should have produced, in a group of countries differing widely in demographic constitution and in wealth, so dense a concentration at the ages of 60 and 65. This result is perhaps influenced by the fact that some countries with a small aged population happen to be too poor to afford a comparatively low pensionable age. It is indicative of the vagueness of the notion of old age and of the character of parliamentary discussions that all but eight of these eighty-four schemes fix the pensionable age at a multiple of five. Yet the quantum of five years has substantial financial implications: the same pension may cost the scheme 40 to 50 per cent more at 60 than at 65 because of the difference in the numbers of persons surviving beyond those ages. The reason which determined the choice of 67 and 70 happens to be known: the existence of an exceptionally numerous aged population in countries where a social assistance or universal scheme has to protect a large peasant class of limited taxable capacity.

Forty countries have established a lower age for women than for men (five years less in every case but two). Thus they take account of the well-known fact that elderly women experience great difficulty in obtaining employment in many of the occupations usually followed by women. Despite the greater longevity of women, which aggravates the cost of this advantage, it may be considered a fair provision that women are less likely to leave dependants to claim survivors' pensions.

The Income Security Recommendation, 1944, advocated a pensionable age of 65 for men and 60 for women. The Social Security (Minimum Standards) Convention, 1952, and the Invalidity, Old-age and Survivors' Benefits Convention, 1967, are more cautious, as befits instruments destined to remain in force for decades and adopted at a time of increasing awareness of the future growth of the aged population, more particularly considering that a pensionable age, once fixed, can be raised only with the greatest difficulty. Neither requires a lower pensionable age for women than for men and both admit even an age in excess of 65 under certain conditions.

We mentioned earlier in this lesson that in theory the pensionable age should to some extent depend on the particular demands made by the insured person's occupation. In numerous countries this differentia-

tion is effected by establishing special schemes of compulsory pension insurance for certain arduous or dangerous industries, or by employers who set up schemes for their workpeople. An occupation both arduous and dangerous is that of the coal-miner, for whom several European countries have created special schemes; most of these fix the pensionable age ten years lower than do schemes for employees generally, e.g. 50 as compared with 60, or 55 as compared with 65. Special schemes for seamen and railwaymen, instituted in a number of European and Latin American countries, also provide for a pensionable age lower than the common one. In the USSR and most of the other countries of Eastern Europe occupations are normally classified in three categories according to the difficulty or the health hazards involved, and the pensionable age is reduced in respect of heavy or unhealthy work. A similar provision has been built into the structure of general pension insurance schemes in a few other countries. The advantages of such an arrangement are considerable (comprehensiveness, adaptability and financial stability) as compared with a complex system of separate special schemes; but it is repugnant to the corporate traditions of ancient industries of distinctive character.

Whether the criterion which predominates in the fixing of the pensionable age is that of presumed invalidity or that of rest earned by long service, the supposition is that the award of a pension will, as a rule, coincide with retirement. Nevertheless, substantial numbers of aged persons continue to work, with or without a pension, after reaching the pensionable age.

In a number of general schemes of pension insurance—perhaps a third of the total number—there is no mention of retirement among the qualifying conditions for the old age pension. Illustrative of such schemes are those of Algeria, France, the Federal Republic of Germany, Iran, Ireland, the Netherlands, Norway, Panama, Paraguay, Sweden, Switzerland and Venezuela. There seem to be three reasons for leaving it open for the pensioner to continue his work, drawing his pension and wages together. The first and most important is that, especially before the Second World War, old age pensions were often insufficient for subsistence, so that it was impossible to insist on retirement. A second reason is that, where the pensionable age is high, only a few pensioners can

Social security

retain their employment beyond it, and the administrative expense of verifying that none of the others was working would not be worth while. Thirdly, a country may find itself temporarily so short of labour that pensioners must be tempted to return to employment.

The Social Security (Minimum Standards) Convention, 1952, and the Invalidity, Old-age and Survivors' Benefits Convention, 1967, accept suspension or reduction of benefits, under prescribed conditions, where the beneficiary is engaged in gainful activity or his earnings exceed a prescribed amount. Where the pension is financed mainly from sources other than the insured person's own contributions, there is clearly a case for withholding the pension from a person who continues to earn a normal wage. Of course this rule must be read in conjunction with the provisions of the Conventions which determine the minimum rate of the pension.

Retirement is usually obligatory under a scheme for a particular industry or occupation, since both the employers and the employees desire that room should be made for younger men; but the pension is likely to be fairly generous, and the pensioner is free to find work outside the industry or occupation covered by the scheme. Likewise, several general schemes of pension insurance in Latin America insist on retirement from insurable employment as a condition for the award of a pension, the consequence of this being that no one will remain at work after his earnings fall to the amount of the pension awaiting him. The minority of European general schemes of pension insurance which discourage the employment of pensioners do so by reducing, or even suspending, the pension, if earnings exceed a prescribed level.

In studies prepared for conferences in Europe and America the International Labour Office has argued for flexibility in the pensionable age because of the substantial differences between individuals as regards their ability and desire to remain at work. If a limit is set to the total of pension and earnings the resultant savings may enable the pensionable age to be reduced below the level at which most workers, for physical reasons, must give up work. The pension awarded at that lower age may well be of a very moderate amount, but the pensioner is still allowed to earn a useful wage. Alternatively, an insured person who remains at work and postpones making his claim for the pension

may thereby acquire the right to a pension increased in proportion to the delay. Policies on these lines were recommended by Beveridge and have been embodied in several general schemes of pension insurance.

Death of Breadwinner

In the second lesson we touched, but very briefly, on the categories of dependants who are protected by their breadwinner's pension insurance; here we shall look at the definitions of these categories more closely.

Survivors' pensions, under insurance schemes, represent the reversion to his survivors of the invalidity or old age pension which the deceased either did not live to claim or which he was receiving at the time of his death. The Social Security (Minimum Standards) Convention, 1952, provides that pensions shall be payable to widows presumed to be incapable of self-support and to children under a prescribed age. It is understood that incapacity for self-support includes not only invalidity and old age but also responsibility for the care of a child. The Invalidity, Old-age and Survivors' Benefits Convention, 1967, stipulates that one of these three conditions must be met. Though many present-day schemes are more favourable to the widow, the Conventions had to take account of the fact that survivors' pensions are often the last type of pensions to be introduced in developing countries. The relevant provisions of the Income Security Recommendation, 1944, are closer to the average practice in Europe, and comprise subsidiary improvements which are gradually finding their way into legislation. They are worth quoting in full ¹:

(1) Survivors' benefits should be paid: (a) to the widow of an insured man; (b) for the children, stepchildren, adopted children and, subject to their previous registration as dependants, illegitimate children of an insured man or of an insured woman who supported the children; and (c) under conditions to be defined by national laws, to an unmarried woman with whom the deceased cohabited.

(2) Widow's benefit should be paid to a widow who has in her care a child for whom child's benefit is payable or who, at her husband's death or later, is an invalid or has attained the minimum age at which old age benefit may be

¹ Annex, Part I, paragraph 13.

Social security

claimed; a widow who does not fulfil one of these conditions should be paid widow's benefit for a minimum period of several months, and thereafter if she is unemployed until suitable employment can be offered to her, after training if necessary.

(3) Child's benefit should be paid for a child who is under the school-leaving age, or who is under the age of 18 and is continuing his general or vocational education.

Countries fall into two groups with respect to their treatment of widows. A minority of them grant pensions to every widow whose husband fulfilled the qualifying conditions, except that some schemes safeguard themselves from abuses such as death-bed marriages. This favourable treatment is accorded by a minority of European schemes, and by a number in Latin America, where it conforms to a tradition that married women should not go out to work.

In the other group of countries, the age at which a childless widow is entitled to a pension varies from 40 to 65; in other words it is either the normal pensionable age for women or some ten years earlier. Most of the schemes in this group require the widow to have reached the age in question, or to have already been an invalid, at the date of the husband's death. This can be a harsh condition, since a widow who is under the prescribed age may nevertheless be too advanced in years to take up insurable employment and so earn a pension for her old age. Only a few of the schemes afford the permanent protection against invalidity and old age that the Income Security Recommendation, 1944, stipulates; where such protection is not provided the widow who is not unconditionally pensionable should be entitled to count as her own her husband's insurance period if she enters insurable employment. Again, a surprisingly small number of countries, in which a high proportion of couples are not legally married, give a *de facto* wife of long standing the same pension right as a *de jure* wife. On the other hand several schemes have taken up Beveridge's proposal of a temporary allowance for young childless widows, which gives them time to find work.

The minimum age up to which a pension is payable unconditionally for a child is generally 16 or 18. In cases where the child's education is continued beyond that age, the pension is prolonged for two, five or even nine years. Almost universal, likewise, is the waiving of the age limit if the child is an invalid.

Benefits (cont.)

As regards other relatives, a widower who, being an invalid or of pensionable age, was entirely supported by his wife is very frequently given the same pension as a widow. A small minority of schemes treat orphan brothers and sisters and orphan grandchildren in the same way as the offspring of the insured person or his wife. Finally, a parent who was dependent on the deceased is, in a certain number of countries, entitled to a pension if the maximum figure for the total of the survivors' pensions has not already been reached as a result of the awards to the widow and children; this provision finds its justification in countries where pension insurance has a comparatively narrow scope or the scheme did not grant non-contributory pensions to persons already aged at the time of its introduction.

[All the points for discussion relating to pensions will be found at the end of the Sixth Lesson.]

BENEFITS (*cont.*)

PENSIONS (*concl.*)

Qualifying Periods

Qualifying periods of contribution, employment or residence are an essential feature of pension schemes, for they ensure that the persons protected are those for whom the scheme was intended. Thus, for example, they prevent persons approaching the pensionable age from procuring a pension by obtaining some, perhaps nominal, employment within the scope of an insurance scheme, or, where an assistance or universal scheme is concerned, by migrating from a country without such a scheme. Although for each person protected attainment of the pensionable age steadily approaches and the likelihood of invalidity or death increases with increasing years, social insurance contributions do not vary with the individual's age; the contribution is set at a rate which is appropriate for the demographic structure of the insured population, present and future.

Whereas invalidity and death can occur at any age, even in youth, old age with consequent retirement can be foreseen by the individual as soon as he starts working; hence for this contingency the qualifying period prescribed is usually much longer than for the first two contingencies: in fact, long enough for the accumulated contributions to finance a small, but nevertheless useful, pension.

The financial plan of a pension insurance scheme supposes that most people who enter it will pay their contributions with fair regularity until one of the contingencies occurs. Therefore, it is not enough to fulfil a qualifying period of several years: contributions must be kept up or the pension may be refused or reduced.

If payment of contributions is interrupted because the insured person has voluntarily left the scope of the scheme it is equitable to continue his protection for a certain time, especially if he has completed the qualifying period; indeed, in so far as the purpose of the qualifying

period was simply the elimination of bad risks, the period of free protection should, *prima facie*, be equal to the qualifying period. Also, that person should be offered the opportunity of remaining in the scheme as a voluntary contributor. But if he does not avail himself of the opportunity, and the period of free protection has expired, then, should he re-enter insurance, it is equitable to require the fulfilment of the qualifying period afresh.

The interruption of payment of contributions, however, is more likely to be caused by sickness or unemployment, and protection should be maintained throughout the duration of these contingencies. But this refinement is practicable only where sickness or unemployment insurance exists and is co-ordinated with pension insurance.

In pension insurance schemes where the qualifying period is short this is counterbalanced by the requirement of greater regularity of contribution payment. Conversely, where the qualifying period is long (for example, fifteen years, as is usual where old age pensions are concerned) the mere completion of the period may be held sufficient to justify the eventual award of a small pension without further payment contributions.

Such, in general terms, is the reasoning behind the system of qualifying periods, as commonly prescribed in pension insurance schemes. It is natural that this pattern should be reflected in the relevant provisions of the Social Security (Minimum Standards) Convention, 1952, and the invalidity, old age and survivors' benefits Conventions.

The Conventions specify, as regards insurance schemes of limited scope, two maximum qualifying periods. Each comprises a shorter period for entitlement to a small pension of undefined amount, and a longer period for entitlement to a pension conforming to the minimum standard. It is with the shorter periods that we are immediately concerned, namely five years of contributions or five years of employment for invalidity and survivors' pensions; fifteen years of contributions or fifteen years of employment for old age pensions.

As regards assistance or universal schemes, all of which pay pensions on the subsistence level, the Conventions specify a single set of qualifying periods, namely ten years' residence for invalidity and survivors' pensions; twenty years' residence for old age pensions.

Social security

Almost all schemes of pension insurance for employees generally are satisfied with a qualifying period of five years of contributions or employment for invalidity and survivors' pensions, and periods of one to four years are frequent. After the Second World War a number of countries introduced, as regards invalidity and survivors' pensions, the device of a qualifying period of employment varying according to the age of the individual at the time of the contingency: for example, three years at age 25 and under, rising to seven years at age 40 and over.

The maximum qualifying period of fifteen years allowed by the Conventions for old age pensions under insurance schemes is exceeded in only a few countries. Periods of four, five or ten years are not exceptional.

An insurance scheme which imposes a qualifying period of fifteen years for an old age pension offers no protection to the generation which is approaching the pensionable age when the scheme comes into force. The Social Security (Minimum Standards) Convention, 1952, therefore enjoins governments to ease the qualifying condition for this generation. Various devices are used for this purpose. One is to graduate the qualifying period according to the individual's age when the scheme came into force, so that it increases from a minimum of two or three years for persons nearing the pensionable age to its normal figure for those who were then middle-aged. In the USSR and most of the countries of Eastern Europe the qualifying period is reckoned in terms of duration of employment, including employment before the inception of the insurance scheme; where the scope of the scheme is very wide this provision will afford the necessary protection to most of the elderly workers, though proof of employment many years ago may be difficult to adduce.

Pension Formulas

When we were considering sickness benefit we noted that there were two basic types, the one a percentage of the beneficiary's previous wage and the other an allowance deemed adequate for his subsistence; and that the former was sometimes and the latter was always supplemented in order to take account of his dependants. In the structure of pensions also we find the alternatives of the individual's wage and subsistence as bases, with or without dependants' supplements. But the computation

of pensions under insurance schemes always involves an additional factor: the number and rate of the contributions paid. If an insurance or universal scheme of family allowances exists the pensioner will continue to receive these, sometimes at a higher rate than before.

The formula adopted by the great majority of insurance schemes comprises two elements, to which dependants' supplements—usually for children only—may be added; a few schemes, in accord with the Income Security Recommendation, 1944, also provide a supplement for invalids who need constant attendance.

First there is a basic sum, the right to which is acquired if the contingency materialises at a time when the qualifying period has been fulfilled. This sum is, in most cases, a percentage of the average wage on which contributions have been paid; most commonly, only the wages received during the last five or ten years are taken into account, either for reasons of administrative simplicity or in order to make allowance for the generally rising trend of money wages. The percentage lies between 25 per cent and 66 per cent. The basic sum may also consist of an invariable amount, but this alternative is much less common.

The second element is the increment, namely a percentage (e.g. 1 per cent or 2 per cent) of the average yearly wage, which is added to the basic sum for each year of contribution, or, where the basic sum is large, for each year of contribution beyond the years comprised in the qualifying period.

The pension is computed by the same formula whether the contingency is invalidity or old age, so that an invalidity pension awarded just before the pensionable age will be very nearly the same as the old age pension would have been. The basic sum, to which increments may be added in respect of the qualifying period, constitutes the minimum pension.

The following is an example of such a pension formula:

A. Invalidity and old age pensions:

- (i) Basic sum : 25 per cent of basic earnings (viz. average earnings in last five years).
- (ii) Increments : 1 per cent of basic earnings for each 50 contribution weeks in excess of the first 150.

Social security

- (iii) Supplement of 10 per cent of total of (i) and (ii) for each child.

Maximum: 85 per cent of basic earnings.

B. Survivors' pensions:

- (i) Widow: 40 per cent of total of A (i) and (ii).
- (ii) Each child: 20 per cent of same.
- (iii) Each orphan (both parents dead): 30 per cent of same.

Maximum for all survivors' pensions: 100 per cent of same.

The schemes of old age insurance which extend to the entire gainfully occupied population established—fairly enough—an exact proportionality between the amount of the contributions paid and the rate of the pension, in the case of a person entering insurance on leaving school. For example, the pension may be 1 per cent of the year's wages for each year of contribution, or $1\frac{1}{2}$ per cent if the pensioner is a married man. Such an extensive scheme, although applying the insurance principle, can afford generous transitional pensions for members of the working population who were already adults when it came into force, since it can safely spread the cost of supporting the aged over the whole population of persons currently working.

Pensions under universal or assistance schemes are naturally of the subsistence type, being measured in relation to the actual or presumptive needs of the pensioner and his dependants. Husband and wife, of course, are each entitled to such pensions; but the pensioned husband may also be given a supplement for a wife still a few years below the age at which she can claim a pension independently of her husband. The more advanced schemes of this kind have introduced other supplements to meet particular needs, such as the maintenance of the wife of an invalid pensioner and his children, the higher cost of living in urban areas, and the provision of winter fuel.

Under both assistance and universal schemes some of these supplements are likely to be subject to a means test. On the other hand, if an assistance scheme is to comply with the Social Security (Minimum Standards) Convention, 1952, and the invalidity, old age and survivors' benefits Conventions, it must exempt from the means test a substantial

amount of savings, and in a few countries the old age pension is subject to the test only until a certain age is reached. Thus in reality there are few purely assistance or purely universal schemes, but each type, for some of its benefits, borrows the principle of the other. The trend, however, is towards the uniform basic pension, especially in the case of old age pensions. The discouragement of thrift which the means test inevitably involves is felt to be a grave objection, all the more because nowadays the cost of social assistance is widely distributed over the active population.

It is of interest to note that in recent years various countries that formerly provided only a uniform pension to all recipients have added a graduated contributory pension superimposed on top of the basic pension. Countries with universal pensions that have done this include Canada, Denmark, Norway and Sweden. The United Kingdom has also added such a graduated contributory pension on top of its previous flat pension which is also on a social insurance basis.

The touchstone by which a pension formula is to be assessed is the amount of the pension actually paid, not in extreme and comparatively rare cases but in the great majority of cases in which the contingency occurs. Hence the Social Security (Minimum Standards) Convention, 1952, and the invalidity, old age and survivors' benefits Conventions, have attempted to ensure that the pension will, much more often than not, suffice for subsistence, whatever the nature and scope of the scheme. They therefore prescribe the minimum rate that must be awarded—(1) for the old age pension, where the pensioner has a wife of pensionable age and has fulfilled a qualifying period of thirty years of contribution or employment or (under an assistance or universal scheme) twenty years of residence; (2) for the invalidity pension, where the pensioner has a wife and two children and has fulfilled a qualifying period of fifteen years of contribution or employment, or (under an assistance or universal scheme) ten years of residence; and (3) the survivors' pensions, where the survivors comprise the widow and two children and the breadwinner had fulfilled the same qualifying period as for an invalidity pension.

For the last-mentioned the Invalidity, Old-age and Survivors' Benefits Convention, 1967, requires the pension (taken together with any means

Social security

in excess of the amount exempted) to be at least 50 per cent of a standard wage in the case of invalidity, and 45 per cent in the case of old age and widowhood. Where the pension is computed solely or mainly on the individual's basic wage, it must attain the specified percentage of that wage for all workers whose wages are equal to or lower than the wage of a skilled manual employee in an industry which is typical of those within the scope of the scheme. Where, on the other hand, the pension is based on the cost of subsistence, the specified percentage is calculated on the wage of a typical unskilled employee.

The International Labour Office, in 1964, carried out a careful investigation of the adequacy of the pensions promised, in the situations specified in Convention No. 102, under the principal schemes of a score of countries in different regions of the world. The results are summarised in table III, which shows the number of countries in which the pensions attained a given percentage of the appropriate standard wage.

TABLE III. EXAMPLES OF PENSION RATES
AS PERCENTAGES OF WAGES, 1965¹

Percentage of standard wage	Number of countries where the percentage is reached		
	Old age pensions	Invalidity pensions	Survivors' pensions
Up to 40	2	3	8
40-49	3	4	2
50-59	5	4	3
60-69	4	3	4
70-79	2	2	1
More than 80	3	3	1

¹ See ILO: *Revision of Conventions Nos. 35, 36, 37, 38, 39 and 40 concerning Old-age, Invalidity and Survivors' Pensions*, Report V (1), International Labour Conference, 50th Session, Geneva, 1966 (Geneva, 1966), p. 104, for material and assumptions on which the table is based.

Many pension insurance schemes give the insured person an option of drawing a reduced pension up to five years below the normal pensionable age. It is a growing practice, on the other hand, to encourage persons who have reached the pensionable age to continue their insurance

and delay their claims, the incentive being an increase of pension by 2, 3 or 4 per cent of the basic wage for each year of postponement.

Finally, it is encouraging to observe that provision for the regular adjustment of pensions to movements in the cost of living has been embodied in numerous pension schemes of major importance introduced or reconstructed in recent years.

Points for Discussion

1. *Illustrate with reference to invalidity the desirability of co-ordination between different branches of the social security system.*

2. *In what circumstances is it justifiable to require old age pensioners to abstain from gainful work?*

3. *Which categories of widows do you consider should be pensionable?*

4. *What are the purposes of qualifying periods of contribution under pension insurance schemes of limited scope? Why should the period be shorter for invalidity and survivors' pensions than for old age pensions?*

5. *Of what parts are pensions usually constructed under pension insurance schemes of limited scope?*

6. *Give reasons why a certain flexibility, with a corresponding adjustment of the pension rate, is desirable in the pensionable age.*

Seventh Lesson

BENEFITS (concl.)

Employment injury benefits: definition of contingency;
medical benefit; benefit for temporary incapacity;
benefit for permanent incapacity; survivors' benefit.

Unemployment benefit: definition of a contingency;
functions of employment service; rate of benefit and eligibility.

BENEFITS (*concl.*)

EMPLOYMENT INJURY BENEFITS

Protection against employment injury is the oldest branch of social security, and is found today in almost every country in the world. Because of their age, employment injury schemes are solidly established not only as powerful administrative entities but also, and what is more important, as the practical application of a legal principle whereby such protection has come to be regarded as an unquestionable right of the employee as such.

An employment injury scheme is simply a means of providing special medical and sickness benefits, and special invalidity and survivors' benefits, in contingencies which represent only a small fraction of the total number of cases of sickness, invalidity and death; from a social standpoint these schemes are comparatively unimportant. Nowadays employment injury schemes, whether in the form of workmen's compensation or as a branch of social insurance, find themselves enveloped and confronted by the main system of social security, which covers contingencies involving the same social needs as employment injuries and distinguished from them only by the fact that the occurrence was not connected with a person's employment. Hence objective students of social security are beginning to question the continued existence of employment injury schemes and to ask whether they should not be absorbed into that main system. A few countries, such as the Netherlands, have already taken this action. In Switzerland employees have for a long time been insured compulsorily against all accidents, however occasioned—that is whether occupational or non-work-connected. In Guatemala, also, the compulsory accident insurance scheme covers all accidents.

There are several reasons why these schemes do in fact, and perhaps should, continue their separate existence. It is sufficient to mention here the decisive one: employment injury benefits are, as a rule, more generous than the corresponding benefits of sickness and pension insurance.

They can be higher chiefly because the number of cases requiring benefits is comparatively small, so that it is comparatively easy to finance them. However, the increasing liberalisation of the benefits of the main system, both as regards qualifying conditions and rates, may in the end equalise the two groups of benefits and thus remove the main obstacles to the unification and simplification of social insurance against the physical contingencies. In some countries this process seems already to be almost completed, but, generally speaking, employment injury schemes are setting a high standard—and in some countries it is still rising—beyond the reach of the national schemes of sickness and pension insurance.

The right to employment injury benefits, whether provided by the employer or by social insurance, is nowhere conditional on the completion of a qualifying period. It is sufficient for the victim to possess at the time of the injury the status of employee in the workplace where it occurred. The safeguards needed in sickness and pension insurance schemes to exclude bad risks can be dispensed with if the contingency covered is, in its origin, unaffected by the will of the victim, and the time and place of the occurrence are ascertainable.

Definition of Contingency

The primitive form of protection against employment injuries was that established by a workmen's compensation law, which simply rendered the employer individually liable to pay compensation on a prescribed scale in case of accidental injury incurred by one of his employees while working under his instructions. Later, certain occupational diseases were treated in the same way as accidents. In order to indicate the twofold nature of the contingency covered the International Labour Office invented the expression "employment injury", which is defined as follows in Paragraph 16 of the Income Security Recommendation, 1944: "... traumatic injury, or disease resulting from employment and not brought about deliberately or by the serious and wilful misconduct of the victim, which results in temporary or permanent incapacity or death".

Because, in that early phase, the employer was personally liable for the benefit, he (or, more often, his insurance company) fought hard to resist the wider interpretations of the notion of "accident" that were

Social security

urged by the claimants' lawyers, and there resulted a prodigious volume of litigation and case law, as well as a spate of legal disquisitions on the subject. But when the contingency came to be covered by social insurance, as it now is in many countries, litigation was reduced to a minimum, though it would probably in any case have diminished in the course of time, if only because every conceivable variety of case would have been encountered and rules found for deciding it. Certainly the story of workmen's compensation offers an object-lesson in this respect, as indeed in most respects, of the insufficiency of employers' liability as a substitute for social security.

The accidents that nineteenth-century legislators had in mind were, typically, those that workers in factories, mines and other dangerous undertakings were incurring in the usual course of their employment. They hired their labour to their employer, who supplied them with tools, and they worked on his premises, in human and material surroundings provided by him. In the circumstances of the time, when safety precautions were hardly thought of, the principle of employers' liability appeared to express an imperative of elementary justice.

Those legislators would surely have viewed as an exaggeration the subsequent extension of the principle, in most countries, to non-manual occupations that are safer than the home, the sports ground and, above all, the street. This trend was determined, if by no other consideration, by the practical difficulty of drawing the line between hazardous employments and others. It is also frequent nowadays to include travelling salesmen in the scope of employment injury schemes, and a further extension, which is associated with the recent aggravation of street hazards, has brought in accidents on the way to and from work; the spread of compulsory automobile insurance, however, should enable employment injury schemes to recover a substantial part of their expenditure for accidents of this kind.

It will be seen that the principle of employers' liability has come to be invoked for all accidents which occur in connection with the victim's employment, irrespective of the ability of the employer to prevent them. Furthermore, a German reform which granted compensation in case of injuries received in rescue work (surely a most commendable measure) is being imitated in one country after another.

Benefits (concl.)

A small but increasing number of countries are giving independent workers the opportunity of entering the scheme of employment injury insurance. For example, national laws in Austria, Denmark, the Federal Republic of Germany and Tunisia cover independent workers on a voluntary basis, and there is a special scheme in Czechoslovakia to protect self-employed persons, family workers and members of farmers' co-operatives.

The coverage of occupational diseases came later than that of accidents, partly because such diseases were less frequent, and partly because medical and statistical research had not yet disclosed their occupational origin. The usual plan has been to insert in the law a list of diseases which are, beyond dispute, of occupational origin in any case where the patient has been employed for some time in work involving contact with substances which can cause the disease in question. In 1925 the International Labour Conference was able to agree upon only three diseases as being definitely occupational in character and important enough to deserve compensation: poisoning by lead, poisoning by mercury, and anthrax infection. But the accelerating progress of industrial chemistry brings in its train many new hazards. The Employment Injury Benefits Convention, 1964, contains a list of fifteen occupational diseases.

Medical Benefit

The medical benefit provided by employment injury schemes is usually more liberal than that granted under sickness schemes. This difference is reflected in the special standards laid down regarding employment injury in the Social Security (Minimum Standards) Convention, 1952, which does not permit cost-sharing, requires every type of care that the case necessitates to be provided (including the supply and renewal of prosthetic appliances), and allows no absolute limit to the duration of the care.

However, the Employment Injury Benefits Convention, 1964, contains flexible provisions which take account of the situation in those countries where medical care is provided under a public health service or where the medical expenses of the persons protected are reimbursed.

Social security

In countries where employment injury insurance and sickness insurance (or a national health service) coexist within the framework of the social security system, it is usual for the former to utilise the medical service of the latter, which is available in every locality; but the employment injury scheme may assume direct responsibility for selected cases and treat the patients in its own specialised establishments.

There has been a marked tendency in recent years to include among employment injury benefits provision for medical and vocational rehabilitation. Medical rehabilitation is no more than an integral part of medical treatment, which may include occupational therapy and gymnastics. In many countries social security schemes play an active role in the provision of vocational rehabilitation, which may include expert vocational guidance, training (with maintenance) for a new occupation, and placement.

Benefit for Temporary Incapacity

In the terminology of employment injury schemes "temporary incapacity" corresponds exactly to the "sickness" for which the cash benefit of sickness insurance is payable. Consequently much of what has been said concerning sickness benefit in the fourth lesson¹ applies here also. Indeed, in a number of countries sickness insurance today has the same responsibility for the victims of employment injuries as it has for other sick persons, although, where the branches are separately financed, the employment injury scheme has to refund to the sickness scheme the latter's expenditure for employment injury cases in so far as the benefits are paid beyond a certain period.

A waiting period of a few days is imposed by a considerable number of employment injury schemes; the Social Security (Minimum Standards) Convention, 1952, fixes a maximum of three days, but the Employment Injury Benefits Convention, 1964, establishes the principle of no waiting period, with certain exceptions. A number of schemes, which include those of Belgium, Chile, Greece, Norway, the USSR and some of the other countries of Eastern Europe, provide for the payment of benefit from the first day of incapacity.

¹ See pp. 64-70.

Temporary incapacity benefit is, in all save half a dozen countries, proportional to the wage which the injured employee was receiving, averaged over a short period preceding the accident. A rate of 50, 66 $\frac{2}{3}$ or 75 per cent has been chosen by most of the schemes. In a number of countries the benefit for employment injury is often higher than that for sickness, e.g. 66 $\frac{2}{3}$ per cent as against 50 per cent. The Employment Injury Benefits Convention, 1964, specifies 60 per cent as the minimum, which is 10 per cent higher than the minimum under the Social Security (Minimum Standards) Convention, 1952.

The maximum duration of temporary incapacity benefit generally coincides with that of medical benefit: for example six months or one year. When the medical care terminates, any remaining incapacity is treated as permanent.

Benefit for Permanent Incapacity

The permanent incapacity benefit of employment injury schemes differs in essential respects from the invalidity benefit of pension schemes. It does not vary with the duration of insurable employment, it is closely adjusted to the presumed degree of incapacity, and is as a rule higher.

The most primitive schemes of the "workmen's compensation" type have retained the lump sum as the normal form of permanent incapacity benefit, the usual amount, where the incapacity is total, being three years' wages, from which the sums paid by way of temporary incapacity benefit are deducted. This form, which is that of common law damages, is preferred where no organisation exists for the payment of pensions and for periodical checks on the continuance of the incapacity.

From a social standpoint the system has very grave drawbacks where incapacity is high: the lump sum is generally too small for the recipient to be able to purchase an annuity, and experience shows that it is often frittered away in a year or so, after which the victim becomes a charge on public charity. On the other hand, where the degree of incapacity is nominal or slight, and the corresponding pension would consequently be a trifling amount, it is convenient for both parties that the pension should be replaced by a lump sum equal to its capital value: the commutation, under specified conditions, of a pension for a lump

Social security

sum is approved by the Social Security (Minimum Standards) Convention, 1952, and the Employment Injury Benefits Convention, 1964.

However, under the great majority of employment injury schemes nowadays, the normal form of the permanent incapacity benefit is a pension proportional to the reduction of earning capacity and to the average earnings of the victim during the year preceding the accident.

In theory the grounds for the award of the pension are broadly the same, whether it is payable under an invalidity scheme or an employment injury scheme, namely the inability of the victim to earn, in any suitable employment, as much as he did before the contingency occurred. But whereas most invalidity schemes recognise only one degree of reduced earning capacity, employment injury schemes are supposed to measure the loss (frequently by steps of 1 per cent) all the way from a minimum of 5, 10 or 15 per cent up to 100 per cent. In the USSR and several countries of Eastern Europe, however, there are only three degrees, whatever the cause of the incapacity.

In practice an attempt is rarely made to ascertain the actual reduction of earning capacity in the individual case: the imponderable psychological factors and the changing circumstances of the employment market render a true evaluation impossible. Recourse is usually had to tables, of an official or unofficial character, which simply prescribe what degree of incapacity is to attach to each of the main mutilations. Sometimes the degree can be varied a few points by the assessor in order to make allowance for the particular circumstances of the victim. The fact is that the legislator has been trying to accomplish two purposes at once, namely to offer a monetary solace for the physical impairment as such, and simultaneously to compensate for the reduced earnings of the future; naturally, the result is confusion. Finland and the United Kingdom have sought, in their legislation, to distinguish between these two purposes: in both countries the same monetary solace, constituting one part of the pension, is awarded whatever the economic effect of the injury, and a second part is added in order to take account of that effect in the particular case.

The pension in case of permanent total incapacity is, under the majority of schemes, 66 $\frac{2}{3}$ or 75 per cent of the victim's average earnings during the twelve months preceding the accident, but both lower and

higher rates are to be found. The full pension is most often about the same as the temporary incapacity benefit but sometimes differs, in one direction or the other, according to the varying judgment of the legislator. Family allowances which are intended in principle for employees only continue to be paid if the degree of incapacity is high enough to render the resumption of employment unlikely.

In the Workmen's Compensation (Accidents) Convention, 1925, the International Labour Conference included a provision requiring the payment of additional compensation to persons who are so severely injured that they need constant attendance; the Employment Injury Benefits Convention, 1964, contains a similar provision. Many countries have introduced this humane and inexpensive improvement. A few countries, as mentioned earlier, have introduced similar provisions in their invalidity schemes.

Survivors' Benefit

The survivors' benefit under employment injury schemes takes the same form, and is usually subject to the same maximum amount or rate, as the benefit for permanent total incapacity. Thus there are still a few schemes which award lump sums in case of death, while all the rest pay pensions. In addition to the pension a funeral benefit is frequently granted, a typical amount being one month's wages.

The influence of the civil code, which allows damages to dependants of any degree of relationship, is the probable explanation of the fact that the definition of the survivors who rank for a share of the benefit in cases of death from employment injury is often wider than that which, in the same country, is laid down in pension schemes in cases of death from other causes.

Generally the widow is entitled to a pension, irrespective of her age, ability to work or responsibility for children, but the widower only if he is an invalid. If the maximum total for the survivors' benefit is not exhausted by the widow's and children's claims, dependent parents are often eligible for small pensions; several schemes admit also grandchildren and brothers and sisters, if they are still too young to work. The age limits for the payment of pensions to children are, as a rule, the same under employment injury schemes as under pension schemes, e.g.

Social security

16 or 18 years, with prolongation during further education or if the child is an invalid.

Typical rates of pension are 30 per cent of the standard wage for the widow, 15 per cent for each child, and 20 per cent for each orphan, subject to a maximum total of 60 or 75 per cent. The Employment Injury Benefits Convention, 1964, fixes, for a widow with two children, the rate of 50 per cent as the same minimum percentage of the standard wage.

UNEMPLOYMENT BENEFIT

Schemes for the provision of benefit for the unemployed, whether of an insurance or assistance character, remained sporadic and tentative until after the First World War. Since then more than thirty unemployment insurance or related schemes have been introduced, mainly in highly industrialised countries. The USSR and most of the countries of Eastern Europe have not considered it necessary to introduce unemployment insurance.

Of all branches of social security, that which is responsible for the unemployed is the most difficult to organise and administer with tolerable efficiency. An unemployment benefit scheme cannot be set up until placement machinery is already operating and the placement staff have gained a certain amount of experience. The placement service can operate successfully only if jobs are available and the employers and persons who have lost their work make full use of it. Moreover, an unemployment benefit scheme is of little use if the mass of workers are unskilled, and is only workable in a country possessing a developed economy employing labour in which a variety of skills are represented.

The Second World War, unlike the First, was not followed by widespread and prolonged unemployment; on the contrary, a chronic shortage of manpower has tended to exist since then in the greater part of the industrial world. The maintenance of a high level of employment has certainly been the policy of every government; but that this policy, in countries whose economy is not entirely state-controlled, should have been so successful was perhaps not foreseen. In so far as this success depends (as it seems to do in a number of countries) upon continual inflation, it cannot be expected to persist indefinitely, and unemployment

may therefore reappear in substantial, though probably not catastrophic, volume.

Unemployment schemes call for two types of benefit: unemployment benefit, which is a periodical payment, and the benefits in kind of an employment service, which consist of placement and, where necessary, retraining. It will be seen that the cash benefit corresponds to sickness benefit, while the remedial activities of the employment service are analogous to those of a national health service. Whereas the employment service is available to all persons free of charge, the unemployment benefit is confined, save in a very few countries, to persons with a period of regular employment behind them.

Definition of Contingency

From the social and economic points of view unemployment may be divided into three principal types.

There is, first, the mass unemployment which has appeared from time to time in industrialised countries during the last hundred years. Its most recent recurrence was in the early 1930s, when it was global in its incidence. The chain of causes leading to mass unemployment, and the formulation of policies to counteract them, have preoccupied economists constantly, and the fruits of their studies have been made available to governments, either directly or through the International Labour Organisation and other international agencies, which have focused and reconciled the most authoritative doctrines. Suffice it to say here that the reduction in the aggregate demand for production, which is the immediate cause of mass unemployment, has to be remedied by government action which stimulates capital expenditure sufficiently and places more purchasing power in the hands of the consuming public; such action may take many forms, including the lowering of rates of interest and taxes, the increase of government expenditure and the distribution of unemployment benefit. There is a special case of mass unemployment which can occur in countries whose prosperity depends largely on foreign trade: the loss of export markets may be severe enough to affect the entire economy; in this case it may be that the only remedy is to conform to the competitive, world price level.

Social security

The second type of unemployment is that often described as "frictional". It is ordinarily the result of technological improvements in the methods of production or changes in demand. It sometimes necessitates, for the worker concerned, a change of occupation and possibly retraining. But, since aggregate demand is not affected, fresh openings are likely to occur fairly soon. This type is a normal and inevitable accompaniment of industrial invention and enterprise.

Seasonal unemployment, the third type, is inherent in certain branches of economic activity—not only in agriculture, but also, for example, in fishing and the hotel industry. Persons engaged in these activities are aware that their employment will not outlast the season. Either they are accustomed to seek other work for the rest of the year or they have other means of subsistence and are not seeking jobs.

Unemployment schemes that are financed by contributions and promise definite rates of benefit are equipped to handle frictional unemployment and the temporary slackening of production as a whole; they cannot take care of prolonged mass unemployment, which has been known to affect a quarter or even a third of the labour force. In such circumstances recourse must be had to emergency schemes of assistance and relief works financed by the State. It may probably be assumed that nowadays every government (and not only those which fully control their national economies) will exert itself to the utmost to prevent such a disaster.

The existence of extensive underemployment, a phenomenon found in many of the developing countries, may make difficult the successful operation of an unemployment benefit scheme. Furthermore, such a scheme is not well equipped itself to deal with the problems arising from underemployment.

The definition of unemployment for the purpose of entitlement to benefit and the eligibility conditions is complex. Its essential terms were incorporated in the Unemployment Provision Convention, 1934, the Income Security Recommendation, 1944, and the Social Security (Minimum Standards) Convention, 1952. Each of the components will readily be seen to be fair as well as practically expedient.

First, unemployment must be involuntary: the worker must not have given up his job in order to look for a better position or have been

dismissed for misconduct; on the other hand he may have had reasonable grounds for leaving, such as the fact that his workplace has removed to an excessive distance from his home.

Second, the claimant must be a person whose normal way of earning a living is in paid employment; this condition is tested by the qualifying period, which we shall consider later. Persons who are not employed except on seasonal work will often find themselves excluded from benefit owing to inability to complete the qualifying period.

Third, the claimant must be capable of work, for if he were not he would claim sickness benefit or an invalidity pension instead of unemployment benefit. In some countries the rates for unemployment and sickness benefits are different, so that individuals whose health is precarious try to obtain whichever benefit is the higher. However, those who have a reduced working capacity but are nevertheless capable of working efficiently in some ordinary employment must not be refused unemployment benefit; refusal would be tantamount to the certification of total incapacity. Evidently a close co-ordination of unemployment schemes with sickness, invalidity and employment injury schemes is indispensable in this connection.

Fourth, the claimant must be available for whole-time employment; he must be not only in need of a job but also free to take it. He must not, for example, be currently occupied as an independent worker, or out of reach in some remote place, or have only a few hours a day to spare for employment.

Fifth, he must be willing to accept any "suitable employment". The question of what employment is suitable in particular cases is perhaps the most delicate problem in the administration of unemployment schemes. Generally speaking an employment is suitable if it corresponds to the individual's occupational qualifications and physical capacity and is remunerated at a wage that is not below what is usual for the job in question. Nevertheless, in a case where it becomes apparent that a vacancy in the claimant's previous occupation is not likely to occur in the near future, an employment of a different, or even inferior, kind may be deemed to be suitable.

Negatively defined, an employment is not suitable if the workplace is distant from the claimant's home and accommodation is not obtainable

Social security

in the new district, or the employment service will not assist in covering the cost of removal. Again, it is not suitable if the vacancy arises in consequence of an industrial dispute.

Functions of an Employment Service

An employment service, like a medical service, has to restore its clients' ability to be self-supporting. Before an unemployed person can draw his cash benefit he must report to the local employment office, giving details of his occupational history. The office compares his qualifications with the vacancies reported to it by employers, and, as soon as a vacancy that seems suitable occurs, it sends the claimant to the employer for an interview. The claimant must attend at the office at frequent intervals in order to learn whether a suitable job has become available, and incidentally to prove that he has not in the meantime found employment for himself. It is the office that certifies from time to time that the claimant is unemployed for the purpose of obtaining benefit or continuing to receive it.

A well-developed employment service enjoys the confidence of employers generally, who regularly inform it of their labour requirements. It keeps itself informed of the vacancies in different parts of the country and is able to advise claimants on their prospects of finding work in their usual or similar occupations. It may maintain special departments for juveniles, women, handicapped individuals and older workers, and for vocational guidance as well as placement. It needs to operate, or have access to, an organisation affording training to claimants who have no chance of finding work again in their previous occupation. Claimants have to be maintained during retraining, and for this purpose a cash benefit, which will usually be the unemployment benefit itself, must be provided. They may also need help if they have to change their place of residence.

Rate of Benefit and Eligibility

The cash benefit paid by unemployment schemes, the qualifying and waiting periods, and the maximum duration of the benefit, have much in common with their counterparts in sickness schemes. However, the

moral hazard represented by the propensity to prefer idleness to work is thought to be more serious and more difficult to control in unemployment than in sickness.

All unemployment schemes of an insurance character and all but a very few of the assistance schemes require the claimant to have completed a qualifying period of employment. Evidently, it is only an employee who can lose his employment; but it has also been found necessary, as a test of the will and capacity of the individual to work steadily, to insist that this employment shall have lasted for a substantial time. This requirement incidentally eliminates independent workers or shopkeepers who have ceased to earn their living and widows who are not pensionable, though these may, in many cases, need help and perhaps training in order to enable them to find a place in the labour force; such situations are covered only by the few assistance schemes that impose no qualifying period.

The length of the qualifying period is, typically, six months of employment in the course of the twelve months preceding the claim. A few schemes shorten this period for juveniles; a few also impose a longer period, such as fifty-two weeks in the previous 104.

Waiting periods are commonly longer for unemployment benefit than for sickness benefit. There are various reasons which may explain this difference. The moral hazard to which we have just alluded is perhaps the chief reason. There is also the fact that the processing of a claim to unemployment benefit is more elaborate and therefore more costly; if, therefore, as may often occur, a job is found for the claimant within a few days of his reporting to the employment office, this processing operation will be unnecessary.

On the other hand a longer waiting period may discourage a claimant from seeking a temporary engagement, on the termination of which the waiting period will have to be served again. Consequently, under most schemes which set the period at as much as seven days the condition is not reimposed if unemployment recurs within a few months or even in the course of a year. The Social Security (Minimum Standards) Convention, 1952, which permits a waiting period of seven days, provides that days before and after a short engagement shall be treated as part of the same spell of unemployment.

Social security

A review of the rates of unemployment benefit in the different countries which have unemployment schemes reveals that they vary in the great majority of cases according to the family responsibilities of the beneficiary. Under some schemes the general family allowance is replaced by dependants' supplements to the unemployment benefit, which are payable at a higher rate. Most schemes increase the benefit, not only on account of the children but also on account of the housewife. In about a third of the countries the rate of unemployment benefit is identical with that of sickness benefit. Several schemes provide a benefit proportional to the basic wage, but the proportion (leaving aside dependants' supplements) decreases as that wage increases; this arrangement, which necessitates the grouping of the insured persons into wage classes, represents a compromise between the uniform subsistence benefit and the benefit which is a uniform percentage of the individual's previous wage.

The nominal rates of unemployment benefit, i.e. the rates payable on the basis of wages, are in most cases 50 or 60 per cent subject to a ceiling for a person without dependants. But where provision is made for the percentage to decrease as the basic wage increases, the benefit for such a person may be as low as 35 per cent of the basic wage for the highest wage class. The Social Security (Minimum Standards) Convention, 1952, stipulates a total benefit equal to at least 45 per cent of the individual's previous income, including family allowances, or a similar proportion of the unskilled worker's wage where the benefit is uniform for all persons with given family responsibilities. As we noticed in connection with sickness benefit, this standard is decidedly low, particularly when applied to industrialised countries.

It is in the fixing of the maximum duration of unemployment benefit that we find the widest variations from one country to another. About one-half of the schemes will pay benefit up to a maximum of some six months in the course of twelve months. On the other hand a small number of schemes, including some of an insurance character, pay benefit without limit of time. Several countries, where the normal agency for providing unemployment benefit is an insurance scheme, possess also an assistance scheme which continues the payment of benefit subject to a means test after the insurance benefit is terminated.

Benefits (concl.)

The Social Security (Minimum Standards) Convention, 1952, sets, as the minimum standard, thirteen weeks of benefit in the course of a year for insurance schemes, or twenty-six weeks for assistance schemes. The Income Security Recommendation, 1944, however, laid down the principle that there should be no limitation on the duration of benefit even under insurance schemes, but it did allow benefit to be suspended if the beneficiary refused the offer of work of which he was capable at a wage lower than that which he previously received, though not less than the current rate for the employment in question.

Unemployment schemes, indeed, cannot be considered to be performing their function properly unless they guarantee maintenance to all persons able and willing to work. This seems to be a condition that social justice requires national economies of all types to fulfil. But a six months' period of benefit is ample for the great majority of cases unless a severe depression sets in. Moreover, we may be sure that in such an emergency the machinery by which unemployment insurance ascertains the genuineness of the individual's unemployment will be overwhelmed, and an assistance scheme, if not already in being, will have to be improvised.

Points for Discussion

1. *Do you think it desirable to pay higher rates of benefit where sickness, invalidity and death are caused by employment injury than in other cases?*

2. *Permanent incapacity pensions are supposed to correspond to the reduction in the pensioner's earning capacity. How, in reality, is the reduction assessed?*

3. *Characterise the different types of unemployment.*

4. *State, in a few words for each, the definition of unemployment for the purpose of claiming benefit and the eligibility conditions that must be fulfilled by the claimant.*

5. *Do you see any sufficient reason why the qualifying period, waiting period, benefit rate and maximum duration of benefit should not be the same for unemployment as for sickness?*

Eighth Lesson

THE FINANCING OF SOCIAL SECURITY SCHEMES

Frequency and duration of benefits: family benefits; sickness benefit;
maternity benefit; invalidity pensions; old age pensions;
widows' and orphans' pensions; employment injury benefits;
unemployment benefit; medical benefits.

THE FINANCING OF SOCIAL SECURITY SCHEMES

In this lesson we shall consider the frequency and duration of the benefits to which the respective contingencies give rise. In the following one, the different methods of distributing the resultant charge over periods and among different sectors of the population are examined.

This is the domain of the actuary, the statistician and the economist. The layman enters it at his peril, since it is full of pitfalls for the unskilled and unwary. Social security schemes (especially those providing pensions) which have been established without actuarial preparation or with deliberate disregard of actuarial exigencies, have, in the long run, disappointed their expectant beneficiaries. Moreover, even a scheme established on a sound actuarial basis may be rendered ineffective by an inflation which the actuary cannot foresee. For this reason the Social Security (Minimum Standards) Convention, 1952, requires governments to evaluate periodically the assets and liabilities of social security schemes in order to maintain their solvency and to fix benefits and contributions on the basis of actuarial estimates.

Nevertheless, the layman who finds himself responsibly implicated in the planning or reform of social security schemes or in their everyday administration should be able to appreciate the order of magnitude of the factors that determine the cost of social security and to understand the conditions that affect the distribution of that cost at present and in the future.

Benefits that are defined in similar terms in the schemes of different countries will not necessarily cost the same in proportion to the respective levels of wages. The reason for this is that their frequency and duration will be influenced by circumstances such as the morbidity and mortality conditions of the population and its age structure, the regularity of employment, the safety of workplaces and the liberality or strictness of the administration of the scheme.

Financing social security schemes

FREQUENCY AND DURATION OF BENEFITS

What do we mean by the "cost of social security"? The answer that occurs to us at once is: "the amount that is needed to pay for the benefits and the expenses of administration". This amount will vary from year to year. The expenditure on pensions will rise fairly regularly over a considerable period, while expenditure on most other benefits will move up and down within narrow limits, provided that there is no major change in benefit rates consequent upon changes in the value of money. In the next lesson we shall see how the income of social security schemes is calculated to cover the probable average expenditure over a series of years that may be short or long. In this lesson we shall consider the basic realities that underlie the different contingencies which give rise to benefits; we shall illustrate the frequency and duration of benefits by statistical examples.

. Family Benefits

The annual charge represented by family benefits can be calculated by multiplying the number of children or other individuals in each category of dependant for which allowances are payable by the annual rate of the allowance for each category. For the sake of simplicity, we shall consider here only the allowances paid to children under the age of 15.

The number and proportion of children in a given country in a given year depends on the birth-rate and death-rate among the children during that year and the preceding fourteen years. The number of children will, of course, tend to be smaller where the birth-rate is lower, and vice versa.

Recent statistics suggest that in the developed countries the ratio of children to the economically active population varies between 0.5 and 0.95. In developing countries, notably in Africa and Central America, the ratio of children to persons of working age is much higher—sometimes 100 per cent higher—than in developed nations. Moreover, it is reasonably certain that fewer women are gainfully occupied in developing countries, so that earners who can contribute to financing the scheme form a smaller proportion of the population of working age.

On the basis of data published in official statistical yearbooks as well as in annual reports of social security institutions in different countries,

Social security

we may calculate for recent years the following examples of the ratio of child beneficiaries (the normal age limit varies from 14 to 18 years) to the economically active population or the insured population, according to whether the scheme is of universal scope or limited to certain classes:

A. Universal schemes:

1. Allowances paid for all children:

Canada, 1965	0.94
New Zealand, 1965	0.94
Australia, 1965	0.81
Finland, 1964	0.64
Sweden, 1964	0.46.

2. Allowances paid for the second and following children:

Norway, 1964	0.33
United Kingdom, 1964	0.24.

B. Insurance schemes:

Allowances paid for all children:

Mali, 1965	2.19
Malagasy Republic, 1965	1.14
Yugoslavia, 1965	0.70.

Sickness Benefit

The frequency and average duration of compensated sickness depends, among other things, upon the waiting period and the maximum benefit period under the particular scheme being considered.

Most cases of sickness are by their very nature of short duration. The experience of a large English friendly society (The Independent Order of Oddfellows, Manchester Unity), on which the actuarial estimates of the United Kingdom sickness insurance scheme were founded at the end of the nineteenth century, showed that cases lasting up to thirteen weeks accounted for 81 per cent of all days of sickness (where the maximum duration of the benefit was twenty-six weeks). Cases that lasted beyond twenty-six weeks were likely to continue very much longer,

Financing social security schemes

and this was an important reason for transferring them from sickness insurance to invalidity insurance.

Considering the progress of medicine, one would have expected to find a very gradual fall in the frequency of sickness cases. This expectation has, however, not yet been fulfilled. People today are much more aware of the possibility that they may be suffering from illness than their fathers were and are more conscious of the fact that their health is an asset to be preserved. It is interesting to bear in mind in this connection that the notion of "sickness" is elastic and capable of administrative control.

From the national social security statistics and other sources we find the following examples of frequency and duration of sickness benefit, supplemented by indications of the waiting periods and the maximum benefit periods:

TABLE IV. FREQUENCY AND DURATION OF SICKNESS BENEFIT IN
SELECTED COUNTRIES FOR SELECTED YEARS

Year	Country	Waiting period (days)	Maximum benefit period	No. of cases per 100 insured persons per year	Average No. of days per case	No. of days per insured person per year
1964	Austria	3	26 weeks	79.6	19.3	15.3
1965	El Salvador . . .	3	26 weeks	20.7	15.4	3.2
1963	Germany (Federal Republic)	1	78 weeks			
1966/67	India	2	in 3 years	88.9	22.7	20.2
			56 days			
			in 365 days	87.6	8.8	7.7
1967	Italy	3	180 days	56.6	15.2	8.6
1967	Japan	3	26 weeks	15.4	26.0 ¹	4.0
1964	Norway	3	104 weeks	34.7	39.2	13.6
1963	Sweden	3	— ²	59.9	22.8	13.7
1967	Turkey	2	6-18 months	55.0	12.0	6.6

¹ Estimated. ² Until entitlement to invalidity or other national pension.

Maternity Benefit

The cash benefits of pregnancy and confinement and their consequences always include "maternity benefit", i.e. an allowance to the insured woman for periods before and after her confinement. But many schemes

Social security

provide in addition either a nursing allowance or a layette grant, or both. These grants are as a rule available to the wives of insured men as well as to insured women.

The cost of maternity benefit per insured person varies with the birth-rate among insured women and the proportion of women in the insured population.

It appears from the national sources that the annual number of births giving rise to the payment of maternity benefit represented the following percentages of insured population:

Year	Country	Percentage
1964	Austria	2.6
1963	Germany (Federal Republic)	2.1
1967	Japan	1.0
1967	Turkey	1.0

As regards nursing allowances, in France, for example, the allowance is payable to insured women, to the wives of insured men and to their dependent daughters. The extent of this nursing benefit or of milk coupons is determined by the statute of the funds.

Invalidity Pensions

The incidence of invalidity in a working population can be estimated, in advance of national experience, only within wide limits.

Invalidity pensions are granted as a rule not only to individuals who are certainly incurable, but also to those whose sickness has lasted beyond the maximum period for which sickness benefit is payable, and for whom invalidity insurance can provide extended curative treatment. For the former group the pension is, in principle, permanent, while nevertheless remaining subject to review until the age for the award of an old age pension is reached. For the latter group, however, the pension is in the nature of a provisional allowance, pending the medical verdict after the termination of the treatment or rehabilitation process.

The medical certifying authority has indeed a delicate task. It has to decide whether there is any suitable work which the claimant could perform and, if so, how much he could earn. In times when unemployment

Financing social security schemes

is severe in countries where unemployment schemes have not been established, the certifying authority may be tempted to apply its rules of assessment less strictly. On the other hand, in a prosperous period the proportion of physically handicapped persons who can be placed in employment will of course increase, and the criteria may be applied more strictly.

The probability of invalidity rises rapidly with age. It may treble between 16 and 40, and again between 40 and 60. Consequently, insured populations whose average age is high are likely to experience a larger rate of invalidity. Table V gives some figures regarding a few schemes that have been in operation for several decades. The figures given for the upper age limit indicate the age when the invalidity pension is converted into an old age pension; it should be mentioned that the Swedish scheme covers, as from age 16, invalidity contracted in childhood.

TABLE V. PROPORTION OF INVALIDS TO INSURED POPULATION IN SELECTED COUNTRIES IN SELECTED YEARS¹

Country	Year	Invalids as percentage of insured population	Upper age limit
Denmark	1964	3.0	67
France	1966	2.2	60
Japan	1967	1.0	— ²
Sweden	1964	2.9	67

¹ Calculated from figures published by national social security agencies. ² No upper age limit for conversion into old age pension.

Old Age Pensions

In the case of a general scheme for employees or a universal scheme, the demographic situation and prospects of the country determine the number of pensioners for a given pensionable age, and the number of persons of working age from whom the economically active population is drawn. In most industrialised countries the ratio of old people to those of working age has been growing for the past half-century. Indeed, the process is expected to continue for some decades at least. It is true that

Social security

simultaneously the proportion of children in the majority of these countries tends to decline. Accordingly, the ratio of the total number of dependants, old and young, shows little change. But of course an old age pensioner costs several times as much as a child to maintain. Table VI presents a few census figures and United Nations forecasts illustrating these trends.

TABLE VI. PERSONS OF DIFFERENT AGES IN EACH 1,000 OF THE POPULATION IN WESTERN EUROPE AND NORTH AMERICA

Age group	Western Europe		North America	
	1960	1980	1960	1980
Under 15 .	238	225	313	299
15-65 . . .	650	630	597	607
65 and over.	112	145	90	94

The raising or lowering of the pensionable age has a considerably greater effect on the cost of pensions schemes than the layman would perhaps expect. If the age limit is raised, not only will there be fewer old age pensioners, but the number of contributors will be larger, resulting simultaneously in a reduction in the expenditure on old age pensions and in an increase in the basis of the assessment of contributions (e.g. the annual wage bill); on the other hand, the number of invalidity pensioners and the expenditure on invalidity pensions will rise. If the age limit is lowered, converse effects will be produced. In the imaginary example given in table VII, we can see these effects in a body of 1,000 contributors and pensioners.

The concept of the expectancy of life is important in the context of pension schemes. The expectancy of life at a given age represents the average future lifetime of persons attaining this age, and depends on the rates of mortality at this age and at higher ages. The life expectancy at birth is often used as an indicator of the over-all mortality conditions, but it is not directly relevant when considering, for instance, the fixing of the pensionable age. It would be fallacious, for example, to argue that because the life expectancy at birth is much lower in a developing coun-

Financing social security schemes

TABLE VII. PENSIONABLE AGE AND NUMBER OF PENSIONERS:
HYPOTHETICAL EXAMPLE
(per 1,000 contributors and pensioners)

Pensionable age	Number of pensioners		Number of contributors	Total pensioners as percentage of contributors
	Old age	Invalidity (under pensionable age)		
50	333	15	652	53
55	255	23	722	39
60	183	35	782	28
65	121	56	823	22
70	70	80	850	18

try as compared to an industrialised country, the pensionable age should also be fixed in the former at a correspondingly lower level. In fact, the life expectancy at birth is affected to a considerable extent by the infant mortality rate, which happens to be very high in the developing countries; those who survive the initial period of heavy mortality in these countries approach closer and closer to the levels of mortality prevailing in the industrialised countries as they advance in age, so that if the life expectancy at age 60 or 65 is compared, the difference is much less significant. Table VIII may serve to illustrate this.

TABLE VIII. COMPARATIVE EXPECTANCY OF
LIFE FOR THE MALE POPULATION IN COUNTRIES
IN DIFFERENT REGIONS OF THE WORLD

Country and year	Birth	Age 20	Age 60	Age 65
India, 1951-60	41.89	36.99	11.77	9.81
England and Wales, 1950-52 .	66.42	49.64	14.79	11.69
Congo (Kinshasa), 1950-52 .	37.64	34.41	10.63	8.52
Chile, 1952	49.84	42.67	13.99	11.36

As regards the countries where pension schemes have been in operation for relatively long periods, although in the majority of these coun-

Social security

tries the income per head is increasing by a small percentage each year, their ability to lower the pensionable age is counterbalanced by the growth of the population surviving beyond that age. This is the consequence of the improved health services of recent decades, which have somewhat lengthened the expectancy of life. In these circumstances we do not now witness any appreciable tendency to lower the pensionable age. However, the longer expectancy of life—an extension of perhaps 20 per cent at 65 since the beginning of this century in the advanced countries—is equivalent to a reduction of the pensionable age by about three years in the course of that period. At the present time a person who takes his pension at age 60 has, in Europe and America, the probability of enjoying it for fourteen to nineteen years, or, if he is pensioned at 65, for eleven to fifteen years. Proportionately more women than men continue to live to the ages of 60 or 65, and their expectancy of life thereafter is usually two to three years longer.

Widows' and Orphans' Pensions

The sources of information for the estimation of the number of widows and orphans that will be left by insured persons are the data of births, marriages and deaths. In countries where formal marriage is not customary and concubinage takes its place, the number of surviving dependants is obviously very difficult to forecast.

The 1965 Federal German statistics yield a figure of 10.7 per cent of the insured population for widow pensioners. The corresponding figures for Austria and Belgium were 13.8 per cent and 12.8 per cent respectively. In the United Kingdom, in 1964, as regards the widows receiving pensions under the post-war Acts (but not those still receiving under earlier Acts), we find the following distribution of pensioned widows as percentages of the insured population:

	Percentage
Widows over 60	6.0
Widows under 60	1.4
	<hr/>
Total . . .	7.4
	<hr/>

Financing social security schemes

It would appear that the great majority of pensioned widows are comprised in the aged population.

For two countries, where the birth-rate happens to be low, we give the proportion of pensioned children having lost father or both parents as a percentage of the respective insured populations:

	Percentage
Germany (Federal Republic (1965)) .	1.7
Austria (1965)	2.5

Employment Injury Benefits

Employment injury insurance, as explained earlier, is really a special scheme of sickness, invalidity and survivors' insurance which deals with a very small volume of contingencies as compared with the general schemes but provides benefits which are usually on a more generous scale. These benefits, we may recall, are of four types: temporary incapacity allowance; permanent incapacity pension; survivors' pensions; and medical benefit.

The risk of employment injury varies enormously as between different occupations, and between different branches of economic activity, according to the extent to which dangerous occupations predominate in them. In Italy, for instance, the premium schedule some years ago contained 657 rates, ranging from 0.5 per cent to 23.1 per cent of the wages bill. Consequently, the frequency and severity of incapacity and the frequency of fatal cases vary from country to country, depending on the proportions in which the different branches of economic activity are represented in the insured population. They vary also from country to country for the same branch, according to the type of mechanical equipment and the safety precautions prevalent in that branch. Finally, they vary from country to country according to the quality of the medical care provided by the scheme and the strictness of medical supervision.

From statistical publications of national social security agencies and other sources it has been estimated that the average contribution rates for employment injury benefits (of all industries) expressed as percentages of insured wages in 1960-61 were as follows:

Social security

Country	Percentage
Belgium	2.4
Canada (Province of British Columbia).	1.4
France	3.4
Germany (Federal Republic). . . .	1.5
Israel	1.3
Italy	3.4
Japan	1.1
Luxembourg	4.1
Netherlands	1.5
Norway	1.0
Switzerland	1.6

From national sources, the rates of accident frequency in employment are shown in table IX.

TABLE IX. RATES OF ACCIDENT FREQUENCY IN EMPLOYMENT:
NUMBER OF ACCIDENTS PER 1,000 WORKERS EXPOSED TO RISK

Year	Country	Annual frequency per 1,000 insured persons		Percentage of fatal accidents to all accidents
		All accidents	Fatal	
1964	Austria	78.3	0.31	0.40
1965	El Salvador	95.6	0.27	0.28
1965	France	117.0	0.17	0.15
1960	Germany (Federal Republic).	N.A.	0.20	N.A.
1964/65	Israel	102.8	0.13	0.13
1967	Japan	49.5	0.38	0.77
1965	Malta	25.3	0.04	0.16
1967	Turkey	119.6	0.20	0.17

N.A.: not available.

The frequency of fatal cases per 1,000 insured persons varies from country to country to a surprising extent; for example, between 0.04 (one death among 25,000 insured persons) in Malta and 0.38 in Japan.

Financing social security schemes

As regards temporary incapacity benefit, the imposition of a waiting period would sharply reduce the number of cases in respect of which benefit is payable. The average duration of benefit of compensated cases, on the other hand, may increase with the imposition of a waiting period due to the exclusion of many cases of short duration.

The following table indicates the experience as regards duration of temporary incapacity benefit in certain countries:

TABLE X. COMPARATIVE WAITING PERIODS AND AVERAGE DURATION OF BENEFIT IN CASES COMPENSATED FOR TEMPORARY INCAPACITY IN SELECTED YEARS IN SELECTED COUNTRIES

Country	Year	Waiting period (days)	Average duration of benefit of compensated cases (days)
Chile	1963	0	13.4
India	1965-66	2	18.0
Italy	1966	3	17.2
Nicaragua	1964	0	21.1
Switzerland . . .	1962	2	18.8

The investigation of the comparative frequency and severity of permanent incapacity meets with a difficulty similar to that noted above in connection with temporary incapacity: there are usually a great many cases of slight, though permanent, injury, and practice varies from country to country with respect to the minimum degree of incapacity that entails the award of a pension or even of a lump sum. Also, the criteria applied in assessing the incapacity for the purpose of determination of the benefit may differ from country to country. In some countries, for example, the incapacity is assessed with reference to the ability of the person concerned to participate in gainful economic activity, whereas in others the assessment is made with reference to the actual bodily injury sustained by the victim; sometimes a combination of the two methods is used.

Finally, we must mention the medical benefit, which is an important item in the expenses of employment injury schemes. The following are

Social security

some examples of the percentage of total benefit expenditure absorbed by the medical care benefit in 1963:

	Percentage
Canada	30
France	15
Germany (Federal Republic).	20
Netherlands	18
Switzerland	22

Unemployment Benefit

Unemployment, unlike the biological contingencies, has not been characterised by a statistical regularity such that, with minor deviations, its incidence can be foreseen for years ahead. It is true that there might always exist some amount of frictional unemployment, but so long as the magnitude of such unemployment is not serious the setting-up of an unemployment insurance scheme need not be given high priority. In pre-war days unemployment was enormously swollen from time to time as the accompaniment of generalised economic depressions. But, just as plagues are no longer taken into account in planning sickness insurance because the public health authorities prevent them, so, perhaps, governments which do not manage production may learn to check the onset of depressions by remedies that the parties will accept.

Despite difficulties in forecasting the incidence of unemployment, unemployment insurance schemes have nevertheless come into existence, and their authors have had to commit themselves to at least a provisional working assumption about the volume of the risk to be covered. That such schemes should be fairly viable seems to be explained largely by the way in which the unemployment covered by a scheme of very wide scope is distributed among different branches of economic activity and individuals.

In this connection the detailed statistical investigation of experience in the United Kingdom in the inter-war years is instructive. When the depression was at its worst, 23 per cent of the insured population were unemployed. The rates of unemployment in the main branches of the economy were as follows: mining, 40 per cent; manufacturing, 30 per cent;

Financing social security schemes

transport, 20 per cent; shopkeeping, 10 per cent; other commerce and banking, 5 per cent.

The concentration of demand for unemployment benefit in certain branches meant that there were numerous cases in which the insured person exhausted his right to benefit and, being unable to requalify, ceased to be protected. In the more favoured branches, on the other hand, there were many individuals who remained in steady employment. Thus the insurance scheme eliminated from its scope the worst risks, retaining only those of moderate degree. The unevenness of the distribution of unemployment during a depression as between industry and commerce has been typical of the experience of industrialised countries. It is this phenomenon that helps to explain how unemployment insurance can remain solvent: by leaving the chronic cases to assistance schemes.

Table XI—which has been worked out from national sources—shows, for selected countries, the average number of benefit days per insured person for selected years.

**TABLE XI. WAITING PERIODS, MAXIMUM UNEMPLOYMENT
BENEFIT PERIODS AND AVERAGE NUMBER OF BENEFIT DAYS
IN SELECTED YEARS IN SELECTED COUNTRIES**

Country	Year	Waiting period (days)	Maximum benefit period	Average number of benefit days per insured person per year
Finland	1964	6	150 days in 12 months	2.0
Germany (Federal Republic)	1960	3	13-52 weeks ¹	5.0
Italy	1967	0	360 days	13.3 ³
Sweden	1964	5	150-200 days ² per year	2.3

¹ Depending on weeks of insured employment in last three years. ² Varies from one unemployment fund to another. ³ Non-agricultural sector only.

The figures illustrate the large variation from country to country in the incidence of unemployment. Even for the same country there may be considerable variation from year to year.

Social security

Medical Benefits

The frequency of medical benefit in the form of consultations with the doctor is to some extent dependent on the attitude of the individuals entitled to claim it. As a rule, every person protected may visit a doctor as often as he likes and other claims on his time allow. The doctor for his part is responsible to decide whether any treatment is needed, but it is natural that, in the great majority of cases, he will in the interest of his patient prescribe some form of medicine, even in the absence of any specific indication of disease. Hence the frequency of consultations with doctors and the frequency of prescriptions are closely correlated and are substantially affected by the manner in which the persons protected judge the state of their health in the country concerned. Once the diagnosis is made, however, the kind and duration of the treatment are determined mainly by the doctor. His decisions will be influenced by a variety of considerations. These include not only what the case ideally requires, but also other factors, such as what the scheme is materially able to supply, having regard to its financial resources and, in some cases, the availability of hospital accommodation.

The fragmentary statistics in table XII have been culled here and there in order to show the varied demands of different insured populations as regards medical benefits.

TABLE XII. FREQUENCY AND DURATION OF MEDICAL BENEFITS
IN SELECTED YEARS IN SELECTED COUNTRIES

Country	Year	No. of medical consultations per person protected	No. of cases of hospitalisation per 100 insured persons	Average duration of hospitalisation (in days)	No. of pharmaceutical prescriptions per person protected
Costa Rica .	1966	3.1	8.7	N.A.	8.2
India	1966-67	4.1	N.A.	N.A.	N.A.
Italy	1967	9.4	12.8	13.4	13.4
Mexico . . .	1964	3.9	6.9	N.A.	N.A.
United Kingdom .	1965	N.A.	N.A.	N.A.	5.1
Yugoslavia .	1966	N.A.	14.3	14.6	5.8

N.A.: Not available.

Financing social security schemes

The annual cost of medical benefits under social security schemes, and under sickness insurance in particular, can be found by calculating how much of the income of the scheme (insurance contributions and state subsidies) has been spent on the provision of benefit. But this disregards the fact that in many countries sickness insurance enjoys a concealed subsidy. It hospitalises its patients, not in establishments of its own, but in those of public authorities, paying only a fraction of the cost of building and operating them. Also, in a few European countries, part of the cost of certain services is charged to the recipient of benefit, in addition to the contribution he has paid as an insured person. In general, his total share is small, e.g. a portion of the cost of dentures, spectacles or artificial limbs, but in Belgium, France, the Federal Republic of Germany and the United Kingdom the patient participates in the cost of medicine (in the first two countries he also pays a fraction of the doctor's bill). Generally, there is no cost-sharing by the patient in the event of hospitalisation.

The accounts of sickness insurance schemes, of course, show only the expenditure out of their own revenue. From annual statistical reports of social security institutions and from other sources, we have calculated (table XIII) what proportion of the basic wages on which contributions were payable was applied to financing medical benefit under a number of schemes in recent years. Under all these schemes the dependants of the insured person are protected, though sometimes not quite so extensively as he is himself. The average number of dependants per insured person therefore affects the cost under the respective scheme.

TABLE XIII. COST OF MEDICAL BENEFIT¹ AS PERCENTAGE OF BASIC WAGE IN SELECTED COUNTRIES

Country	Cost per insured person	Cost per person protected (insured persons and dependants)
Austria	5.9	3.0
Germany (Federal Republic).	4.8	2.1
India	1.5	0.5
Japan.	4.8	1.1
Yugoslavia	10.1	3.5

¹ Including maternity care.

Social security

In the United Kingdom the cost of the national health service per head may be expressed as a percentage of the national income per head of the economically active population, which may be regarded as equivalent to the insured population in other countries. This percentage in 1965 was 4.6 and, since there was about one dependant per economically active person, this meant that the cost per person protected was about 2.3 per cent of that income.

Details of expenditure on the various items of medical benefit are not presented in comparable form in national statistics. But, for the purpose of illustration, the data on actual expenditure of the National Health Service of England and Wales (as given in the Annual Report of the Ministry of Health for the year 1967) was analysed according to the kinds of medical care specified in the Social Security (Minimum Standards) Convention, 1952. It was found that the distribution of expenditure among different items was roughly as follows:

	Percentage
General practitioner care	9
Hospital care (including specialist care outside hospitals)	71
Pharmaceutical supplies	13
Dental care	8
Total	<hr/> 100 <hr/>

Points for Discussion

1. *Recent life tables for countries A and B indicate life expectancy at birth of 70 years and 50 years respectively. The pensionable age in A is 60. B is considering the introduction of a pension scheme and it is argued that, on the basis of the above data, the pensionable age in B should be fixed at 40. Would you agree with this argument? Give reasons.*

2. *Explain clearly why the cost of benefits that are defined in similar terms in the schemes of different countries will not necessarily represent the same proportion of wages.*

3. *Why does the cost of old age pensions at a given rate rise so steeply when the pensionable age is lowered?*

Ninth Lesson

**THE FINANCING OF SOCIAL
SECURITY SCHEMES (concl.)**

Periodical distribution of cost.

Distribution of cost among population sectors.

Social security and economic development.

THE FINANCING OF SOCIAL SECURITY SCHEMES (*concl.*)

PERIODICAL DISTRIBUTION OF COST

A social security scheme will not deserve its name unless there is reasonable certainty that the benefits promised by it will be paid as they fall due. It is not enough for a government to declare that, whatever the cost may prove to be, it (or rather its successors) will guarantee the solvency of the scheme. There are practical limits to the sums that can be extracted from the economically active population in order to finance benefits for those who are inactive and, when the limit is reached, the benefits will be cut down either in nominal value or by inflation. Therefore the problem of financing a proposed benefit must always be thoroughly studied, and a viable solution found before the scheme is made law. As we mentioned in the previous lesson, the Social Security (Minimum Standards) Convention, 1952, is insistent on this point.

Whether insured persons, employers or taxpayers share in the contribution to the cost of the scheme, they want to know, at least approximately, how much of their income is to be taken up by obligatory charges for social security, because a sudden substantial rise in such charges will disturb the conduct of their affairs. Inevitably, when a social insurance scheme is put into force, this salutary operation occasions a shock to the contributors. But this can be, and often is, minimised by establishing the different branches one at a time. The financing of social insurance schemes ought, then, to be designed in such a way that the contribution rates will remain relatively stable. However, if expenditure is to rise in the future, as it will under a pension scheme, it is necessary to devise a financial mechanism that will provide relatively stable contribution rates at least for certain periods, though their levels may have to be adapted to the development of the country's economy.

A social security scheme which is financed wholly or mainly from general tax revenue faces technical and psychological problems substantially different from those which must be solved by one which relies largely on contributions from the sector covered. In the following

Financing social security schemes (concl.)

discussion we shall be concerned for the most part with the latter type.

Plans for maintaining a stable contribution rate encounter in all branches of social insurance the hard fact that neither income nor expenditure will turn out to be exactly as foreseen. There will always be deviations in one direction or the other. Every scheme must therefore build up a reserve against an unforeseeable rise of expenditure or fall of income. Normally, this reserve will be formed by setting aside a small portion of the regular contribution. When the reserve eventually becomes large enough, and while it remains so, this portion can be diverted to the improvement of benefits. Just because the deviations are unforeseeable, it is impossible in advance of experience to tell how large the reserve should be. A few months' contributions may suffice in sickness insurance, but an unemployment fund cannot feel secure without a much larger amount to fall back on.

Some of the contingencies covered by social security schemes are by nature highly regular in their incidence, though a slow change may become apparent over several years. These are the events recorded in vital statistics, namely births and deaths. Hence the actuary can forecast within relatively close limits the annual number of confinements, and the numbers of dependent children, persons of pensionable age, widows and orphans alive in successive years.

Similarly, sickness and invalidity, like death, possess a natural regularity of incidence, though this may be temporarily disturbed by epidemics such as the wave of influenza in the late 1950s. But the recognition of a particular case as justifying the award of benefit depends on the judgment of the medical certifying authority, whose criteria are to some extent elastic. Moreover, lengthening periods of insurance may cause invalidity and survivors' pensions to rise, even though the incidence of risk remains unchanged.

The incidence of sickness, invalidity and death due to employment injuries varies enormously from one occupation to another. Nevertheless, if the employment covered is relatively stable, the total result for the scheme as a whole may be fairly stable from one year to another.

Under an economic system where private capitalism predominates, or in any country (whatever the system) where foreign trade is important,

Social security

big fluctuations in the unemployment benefit load are possible. In the case of assistance schemes the full force of severe unemployment is felt, but insurance schemes shield themselves from the worst consequences by the built-in defence to which we referred in the previous lesson.

The cost of benefits will naturally depend in practice, not only on the number of persons in the insured population who are incapable of work, aged or unemployed, and their dependants, but also on the specific proportion of such persons who are awarded benefits as well as on the average rate of benefit.

A scheme that is universal in its scope will, by definition, grant benefits to all individuals affected by the contingency which it is intended to cover. In Sweden, for example, the family allowance scheme applied immediately to all existing children and the universal pensions became payable to all the existing invalids and aged as soon as the respective schemes came into force.

But where a scheme is of a social insurance character the imposition of a qualifying period, which is usual in all branches except employment injury insurance and to some extent medical care schemes, ordinarily keeps down the number of benefit recipients, at least at first. Thus normally a person who is sick or unemployed at the date when contributions begin to be collected will not obtain any benefit on account of that spell of absence from work. Similarly, no person who is already an invalid, a widow or an orphan on that date will receive benefit, though an aged person who can carry on his job for a few more years may be able to acquire a pension.

We shall now examine the possible trends in the growth of insured persons and beneficiaries for schemes which continue to retain their original scope of coverage, i.e. which do not expand geographically or by covering fresh categories of insured persons.

The effect of a qualifying period in delaying, and in some degree limiting, the growth of the number of benefit recipients varies of course according to its length. Short periods are connected with temporary allowances. Long periods are linked with pensions, except that most pension schemes contain transitional provisions that shorten the period very much for persons already elderly when the scheme is put into force. Once a scheme has been in force for the length of the qualifying period,

Financing social security schemes (concl.)

the initial entrants who thereafter are affected by the contingency can gradually obtain the benefit. Except as regards family allowance and pension insurance, the length of time that will then elapse before the number of benefit recipients from an insured population of constant size and composition attains its permanent level will depend on the maximum duration of the benefit.

Family allowance insurance pays benefits to insured persons having completed the qualifying period (usually very short) in respect of their dependent children. Accordingly, the number of benefit recipients and children may be expected to be stabilised relatively early.

In pension insurance the number of pensioners continues to grow for many years after the qualifying period has elapsed. Every year yields its new crop of pensioners, the majority of whom (orphans excepted) are likely to draw a pension for the rest of their lives.

Taking first the simplest case, that of old age pensioners, we may suppose that some members of each age cohort will die each year, the last one doing so after a period which may be as much as twenty or even thirty years. The following figures have been deliberately simplified for illustration but give some indication of the process. If there are 100 pensioners in the first year, there may be (say) 196 in the second, 288 in the third, 800 in the tenth, and 1,000 in the twentieth. In this rough illustration it can be seen that the number almost doubles annually at the start, and increases thereafter relatively more slowly, to reach after some twenty years a figure of ten times the initial figure.

The curve of the number of invalidity pensioners, beginning perhaps sooner after the introduction of a new scheme because of a shorter qualifying period, follows a similar course. The number of widows' pensions being paid grows in a like manner in so far as these pensions relate to elderly women or those incapable of working.

If the size of the insured population increases as the result of increases in the proportion of its younger age groups, the proportion of pensioners in the whole insured population will grow more slowly. Conversely, a reduction in the relative number of young recruits will accelerate the rise in the proportion of pensioners. This is an aspect of the aging of the population which is causing concern in some developed countries, and

Social security

the phenomenon also presents itself in schemes limited to certain sectors with a declining number of employees.

Employment injury benefits comprise both short-term allowances and pensions. The former tend to behave statistically very much like sickness benefits, the annual load of temporary incapacity cases showing little variation, and the latter resemble other long-term benefits (invalidity, old age and survivors' pensions) in their behaviour.

We pass now to the consideration of the effect of the benefit rate or formula on the volume of the benefit expenditure. This aspect of the question, as will be readily understood, is significant only in connection with pensions. All benefits of a temporary character are either uniform in amount or, as is most frequent, proportionate to the wage which the insured person has recently been earning. Thus, in their case the annual contribution rate can, in principle, be kept constant, with occasional deficits being covered by the reserve fund.

Evidently, if a pension is at a uniform rate for all pensioners, the pension load will grow at the same pace as the number of pensioners, and after a fairly long period, say thirty to fifty years depending on age structure and qualifying conditions, will attain a relatively stationary situation. But if, as is the case under most pension insurance schemes, the pension rate, apart from its minimum component, increases in proportion to the number and amount of the contributions paid for the individual, the average rate of the pensions being paid will rise from year to year. The period which will elapse before the pension load reaches a relatively stationary situation will be considerably longer than that in respect of pensioners. Indeed, if contributions begin to be paid at the age of 15 and the pensionable age is 65, fifty years will pass before the youngest members of the initially insured population claim their pensions (which we assume to be at the maximum rate). Another period of, say, twenty years will elapse before the last of them dies and is replaced by a successor with an equal pension. So only after seventy years will the pension load attain in theory its maximum and constant level.

No pension insurance scheme has existed unchanged for as long as seventy years, and it is unrealistic to suppose that any scheme could endure for a lifetime without being adapted to changed economic and

Financing social security schemes (concl.)

social conditions. This does not render vain or useless actuarial projections into so distant a future, for every scheme has to preserve a certain continuity, notably as regards the rights in course of acquisition by its older members.

The German scheme, which started in 1891, was substantially amended in 1911 and, after two reconstructions following the two World Wars, has retained a recognisable identity.

It is thus instructive to consider the following example of how a pension scheme might develop during seventy years in a stable environment. Starting from the figures of actual expenditure of the German scheme from 1891 to 1899, estimates of expenditure were made for the period 1900 to 1960. The insured population averaged about 12 million during the first nine years and was assumed to remain at 12,650,000 during the subsequent period; the level of wages was assumed to be constant throughout. There was a uniform state subsidy to each pension, and the remainder of the pension was proportionate to the total of the wages earned by the insured person. The former element was not included in the estimates of annual expenditure, reproduced below.

Year	Annual expenditure per insured person (in marks)	Year	Annual expenditure per insured person (in marks)
1891 . . .	0.8	1930 . . .	12.3
1900 . . .	5.0	1940 . . .	13.2
1910 . . .	8.8	1950 . . .	13.7
1920 . . .	11.0	1960 . . .	14.0

The above figures illustrate vividly the problem of regularising the contribution rate in pension insurance.

At the beginning of this lesson the reasons for endeavouring to keep the contribution rate stable were pointed out; the need to avoid too great a shock when a contribution is first levied was also noted. In financing pension insurance, it is necessary, therefore, to look for a method of regulating the contribution rate which reconciles these two

Social security

factors: a rate that is not necessarily constant but is never absurdly low or intolerably high.

As we have just seen in the above example, it would not be expedient to raise the contribution rates each year to meet such a rapid increase in current expenditure. A very low initial rate in the early years would create in the minds of the contributors a false idea of the financial implications of the scheme. At a certain point resistance would surely be offered to the very heavy contribution that would be called for, and the scheme would become unable to meet its commitments. Those who would suffer most would be the younger members of the initially insured population, who would have contributed for many years and paid for their elders' pensions—only to find themselves cheated of their rights when their turn arrived.

There are broadly two methods of financing pension insurance so as to secure an equilibrium between a constant or slowly rising income and a quickly rising expenditure. The essence of the first method consists in covering the whole future cost of each year's crop of pensions in the year of their award. The second method, which admits of several variants, relies on the accumulation of capital, the interest on which will cover the future deficit of contribution income.

The first method consists in equating each year's income to the capital value of the pensions awarded in that year. Thus supposing, for example, that the capital value of a pension is ten times its annual amount, the contributions needed in a given year will be the same multiple of the sum of the annual amounts of the pensions awarded in that year. Unless there is an increase in the number of new pensions awarded each year, the contribution rate will rise only if there is an increase in the average amount of the pensions awarded. If, for instance, the average pension amount doubles in fifty years, so also will the contribution rate. Such a slow increase in the charge need not be felt as intolerable since it may well be that the rise in the income per head of the population concerned will more than keep pace with it.

This method in its simplest form seems never to have been used for any general scheme of pension insurance. In employment injury insurance, on the other hand, it has been and still is the typical technique for covering pension liabilities. Here the rate of the pension is

Financing social security schemes (concl.)

not affected by the length of the individual's participation in the scheme. If the number of accidents and the general level of wages remained constant from year to year, so would the amount of the contribution, except that in some countries the cost of employment injury benefits is apportioned among employers according to the comparative dangerousness of the industries in which they are engaged. This approach assumes that industries thrive and decay and that they cannot be made to cover their respective liabilities, except by charging them immediately with the capital value of the pensions awarded to their workers.

So far as pension insurance (old age, survivors' and invalidity insurance) is concerned, the second method—namely that which accumulates capital, not to be expended, but for the sake of the interest it yields—has, at least until recently, been widely favoured. It makes use of the fact that a compulsory social insurance scheme is sure of recruiting every year a supply of young members to replace the annual crop of pensioners. Since such a scheme will never be liquidated, it need not accumulate—as must a private life insurance company—the capital value of the benefit rights which the insured persons, as individuals, have acquired and are in the process of acquiring. In practice, therefore, the scheme has only to arrange that contribution income plus interest will cover current expenditure at all times; and this is compatible with a contribution rate constant from the outset.

One of the advantages of this method is that it offers an acceptable solution to the problem of financing the concessions that are usually granted to the older members of the initially insured population, securing to them a minimum pension, not balanced by their contributions, after a short qualifying period. It would be inequitable to charge the cost of these privileges only to the younger members of the initial population. The method described distributes the charge over that population and the unlimited series of its successors as well. Under some schemes the State assumes, as its contribution, the liability arising from the grant of these privileges, paying for example to the pension fund the interest on the capital that would have been accumulated in respect of the older members if they had entered the scheme in their youth.

This method would generally require less accumulation of capital than the individual funding system described above, but the accumulation

Social security

would nevertheless be sizable and would require suitably designed investment policies in many developing countries. The autonomous institutions of pension insurance are often obliged, as trustees of their members' savings, to invest in bonds guaranteed by the State or in mortgages, that is, in securities yielding a fixed interest that can be relied upon to keep its nominal value.

A considerable portion of the capital of many social insurance institutions has been used in this way to finance programmes of public housing and other constructional work of public utility. A real addition has thereby been made to the national wealth, whether ultimately profitable to the institution or not. Too often, however, these big accumulations of capital have been misused and dissipated, for they offer extraordinary temptations.

The extension of pension insurance in the developed countries to embrace the great majority of the economically active population has caused the policy of accumulating capital to appear in a somewhat new perspective. When their schemes were of moderate size they could reasonably plan to buttress their future solvency by accumulating credits with the nation as a whole. But when their scope became practically coextensive with the nation's breadwinners, the contributors appeared to be lending to themselves, and being taxed to pay the interest on the loan. Also, in so far as the utilisation of the loan to improve the nation's productivity was not assured, the money might perhaps have been more profitably employed if it had remained at the disposal of its producers.

These, it seems, were the considerations that prompted the United Kingdom to decide, as long ago as 1925, to introduce a general scheme of pension insurance that operates without accumulating any large permanent capital. The contribution rate was maintained at a moderate level, and the annually increasing deficit was covered by taxation. Similar policies have been followed by certain countries which have seen the capital of their general schemes reduced to insignificance by the inflation that accompanied and followed a war. In these circumstances the finance of social security schemes tends to become a part of public finance.

Nevertheless, we must not conclude that the method of accumulating capital has been, or ought to be, abandoned. Especially where pensions

Financing social security schemes (concl.)

are provided through insurance schemes that cover only a relatively small part of the population, or where state subsidies are difficult to provide, recourse to this method of regularising contributions will still be desirable and expedient. These situations are now found in most developing countries. Here capital accumulation is an evident choice, not only for technical reasons, but also as being highly beneficial to the national economy. Moreover, some developed countries with schemes of broad scope nevertheless emphasise the necessity of a certain accumulation of funds either to compensate for reduced national savings resulting from a decrease of savings under private pension schemes (e.g. Norway and Sweden), or as a part of an anti-inflationary policy (e.g. Switzerland). The essential problem then passes from the hands of the actuary to those of the economist, for it involves finding outlets for investment that will yield dividends geared to the current level of prices. This should not prove difficult, since there are vast possibilities for public utility undertakings of various sorts, which are able to compensate for inflation by adjusting their prices.

The so-called scaled premium system, which is an intermediate approach between the system of funding described above and a pure assessment system, has much to commend it. Under this system, contribution rates are fixed so that there is an equilibrium between receipts and expenditure over a certain "period of equilibrium" such as ten or fifteen years. When contributions plus investment income are no longer sufficient to cover expenditures of the scheme, the contribution rate is raised to a level corresponding to another equilibrium period. This system does not as a rule provide for the use of the principal of the accumulated fund but only the interest on this principal. This makes it possible to seek long-term investments that are particularly advantageous. The accumulation of capital under this scaled premium approach is comparatively small, and it can be regulated in advance by selecting a more or less long "period of equilibrium". Also this system is comparatively more flexible in the sense that it is possible gradually to adapt the contribution rate to the development of the economy.

To conclude, it is now becoming widely understood that the ability of a country to pay for social security depends on the productivity of its inhabitants. If benefits outgrow production, they are likely sooner or

Social security

later to be reduced. On the other hand there is no insoluble financial problem if these two quantities keep pace with each other.

DISTRIBUTION OF COST AMONG POPULATION SECTORS

Social security schemes by their very nature lead to a transfer of income from the economically active or richer sectors of the population to the individuals affected by the contingencies covered. The transfer is performed by means of taxes or charges akin to them, namely contributions. Given a schedule of social security benefits and their estimated cost, it then has to be decided on which sectors of the population the charges are to be laid and in what respective proportions.

The amount of guesswork involved in forecasting the incidence of taxes, and of contributions in particular, seems at first to invest this decision with an air of make-believe. The juridical status of contributions—whether they are more in the nature of insurance premiums or in that of taxes—is usually left undefined in the law, perhaps deliberately, and this adds to the difficulty of rational discussion. The decision must nevertheless be taken. Since it is always hard to collect money, considerations of justice will often have to yield to those of practicability, although the appearance of justice is surely an advantage.

In the choice of a solution, attention should be given to its possible long-term effects on the national economy as well as to its immediate repercussions. Generally speaking, that solution is to be preferred which causes least disturbance to living habits and business, but nevertheless keeps actual and potential beneficiaries realistically aware of the cost of the scheme.

We said in the first of these lessons that Bismarck's social insurance programme was made possible by the invention of the joint contribution of insured person (in this case the employee) and employer, eked out by a state subsidy. This eminently practical arrangement acquired great prestige and has been adopted in many countries as the mechanism for financing the social insurance system. The International Labour Conference has repeatedly approved the policy of financing social insurance on a tripartite basis. Certain arguments which have become traditional are invoked in order to justify recourse to each of the three factors.

Financing social security schemes (concl.)

The insured person's contribution clearly represents the sum that he could be expected to save or pay to a mutual benefit society or insurance company for somewhat comparable protection against the risk or risks in question. Its psychological import is considerable. It sustains the sense of responsibility of the contributor and the dignity of the beneficiary. At the same time it supplies the visible and most convincing evidence of his right to benefit and perhaps to have a voice in the management of the scheme.

Employers as a class also derive advantages from social insurance. It is certain that, in industrialised countries and in developing countries also, social insurance helps to maintain industrial peace and the stability of the social order. Its medical benefits also conserve the employees' productive capacity. Industry thus would be less prosperous without social insurance. The fact that, in the absence of state action, enlightened employers who have the ability are accustomed to initiate and subsidise welfare measures of every kind for their workpeople seems to show their sense of social responsibility and their awareness that generosity on their part brings, as it should, a reward.

The citizen is interested in the general welfare of the population. Even if he is an individualist he believes that poor-relief is necessary as a police measure for his health and safety. If he has a social conscience he will understand the moral significance of social security programmes and be willing according to his ability to subsidise what is in effect a mutual benefit society on the national scale.

It is instructive to view the employee's and the employer's contributions in their aspects of alternative and complementary resources. It needs to be remembered that the employee's remuneration must suffice to cover his needs, not only while he is earning but also while he is unable to earn. Social insurance is the mechanism by which his remuneration is distributed in a positive and rational manner between these two alternative situations.

If the employee is indeed earning a fair share of what he produces he is already receiving his entire remuneration, and so there is no surplus at the employer's disposal from which to pay a contribution. It might be concluded from this that the employee should pay the whole cost of his protection, as he does when he joins a mutual benefit society or takes

Social security

out a private insurance policy. Starting when he is young and healthy, he will be able to spare from his earnings the premiums required to insure the payment of benefits that are substantial in relation to his wages in sickness and old age and at death. But social insurance is compulsory, embracing good and bad risks together, and particularly the old as well as the young. Are the good risks to take upon themselves the additional premium that the bad risks demand? Surely this is a charge to be distributed in the name of social solidarity as widely as possible according to taxable capacity. As compared to workers, employers are generally in a better position to bear the impact of this additional premium.

However, the assumption that the employee is receiving his fair and entire remuneration is a notional one that is made for the sake of argument; what that remuneration may be is a matter of opinion, not of fact. It is certain, nevertheless, that as the result of inflation or otherwise, businessmen may be able to obtain for a time exorbitant profits. If, in such a situation, a social insurance scheme is promptly introduced, it is feasible to place the whole charge on the employers.

In imposing a contribution, whether on employees or on employers, it is the initial step itself which is most difficult. It is an old saying that an old tax is no tax. Once the contribution has been introduced, the contributors will find ways of adapting themselves to it. Except in an economy that is entirely controlled by the government, however, it is virtually impossible to predict or keep track of the actual incidence of the contribution amid the welter of changing wages, profits and prices. The process continues indefinitely, spreading in ever-widening circles and occasionally reversing its direction. So, while liability for paying the contribution rests where the law placed it, the ultimate incidence of the contribution may be transferred back and forth between employees and employers as the result of collective bargaining on wages. The employees indeed have no other means of transferring their charge. The employers, on the other hand, have the possibility of including their contribution in the cost of production and thus, in so far as the customer will tolerate it, in prices. To the extent that the goods are bought, the higher prices will be paid by the consumers, including the participants in the scheme as well as the rest of the population, which is thus taxed on behalf of the insured class. It should also be noted that in some countries with a cor-

Financing social security schemes (concl.)

porate income tax the employer's contribution is usually a deductible expense under such tax, thus providing a partial offset to it depending on the rate of the corporate tax.

For an industry exposed to foreign competition, however, the employer's contribution may not be a matter of indifference in the short run (and runs are apt to be short in a dynamic economy) where the legal liability for the contribution is placed. This was neatly demonstrated in the following example taken from an ILO report on the financing of social security, submitted to the ILO European Regional Conference in 1955.

Let us take three instances in which the same social security system is financed in three different ways:

In industry A the gross wage is 100 units and the social security contribution (shared equally between the employer and the worker) 20;

In industry B the gross wage is 110 units and the contribution (paid entirely by the worker) 20;

In industry C the gross wage is 90 units and the contribution (paid entirely by the employer) 20.

Some of the economic aspects of social security in these three industries are identical; the net wages and labour costs are the same in all of them. But if for some reason social security contributions are increased from 20 to 30 units the situation will be completely changed. In industry A the net wage will be reduced by 5 units and labour costs will increase by 5; in industry B the net wage will decrease 10 units and labour costs will remain unchanged, while in industry C net wages will remain unchanged, but labour costs will increase 10 units. Thus the entire structure of wages and labour costs will be seriously distorted, and in particular the relative competitive strength of the three industries may be modified considerably.

The effect of the State's assumption of liability for subsidising a social security scheme of any kind is sometimes even more difficult to trace than the incidence of contributions. This is the case where the subsidy is paid out of general tax revenue. This does not apply, however, where the charge is covered by the yield of a special income tax, or, for instance, a tax on alcohol or tobacco.

From this part of our discussion we may conclude that each source of revenue has advantages and disadvantages, and the incidence of the charges cannot as a rule be determined. Prudence therefore suggests that misjudgments and shock will be minimised if, in the social security system as a whole, each of the sources is drawn upon in moderation.

Social security

The Social Security (Minimum Standards) Convention, 1952, laid down the following general principles:

The cost of the benefits provided in compliance with this Convention and the cost of the administration of such benefits shall be borne collectively by way of insurance contributions or taxation or both in a manner which avoids hardship to persons of small means and takes into account the economic situation of the Member and of the classes of persons protected.¹

The Convention has also set a maximum limit for the contributions of employees as a class:

The total of the insurance contributions borne by the employees protected shall not exceed 50 per cent of the total of the financial resources allocated to the protection of employees and their wives and children. For the purpose of ascertaining whether this condition is fulfilled, all the benefits provided by the Member in compliance with this Convention, except family benefit and, if provided by a special branch, employment injury benefit, may be taken together.²

It was not necessary to indicate limits for the employers' contributions or the state subsidy, since the cost of the minimum benefits specified in the Convention cannot exceed a moderate figure and, given the limit on the insured persons' contributions, the remainder must be met by their employers or the State.

The rule that the employees taken together shall not pay by way of insurance contributions more than 50 per cent of the total cost of sickness, pension and unemployment insurance is probably satisfied in all countries where these three branches are in operation. It is probably satisfied also, with very few exceptions, as regards each of these branches taken separately. For at least half, and usually more, of the cost is paid by the employers, or by the employers and the State together.

Family allowances are provided either under a universal scheme financed by taxation or under an insurance scheme to which the employers are, in almost all cases, the sole contributors. The cost of employment injury benefits is borne, in the great majority of countries, by the employers alone. The United Kingdom is one of the few countries which finance the cash benefits of employment injury insurance on a tripartite

¹ Art. 71, para. 1.

² *Ibid.*, para. 2.

Financing social security schemes (concl.)

basis. There are several countries, however, that charge the cost of the temporary incapacity and medical benefits wholly or partly to sickness insurance.

In the USSR and some of the other countries of Eastern Europe the employee pays no contribution. The entire cost of the social security system is borne by the employers and the State, at least so far as the workpeople in state-owned undertakings are concerned.

The juridical status of contributions and its implications for the insured person, and employees in particular, form an obscure but not unimportant subject. There are two main theories.

The earlier theory is that the joint contribution constitutes a premium paid on behalf of the insured individual, similar in its nature and effects to that payable to an insurance company, except that the insurance is compulsory and the terms of the policy are laid down by law. This opinion inspired the drafting of the older schemes, where the benefit was uniformly proportional to the contributions paid. For example, under the original United Kingdom sickness and invalidity insurance scheme the uniform joint contribution was calculated to finance the uniform benefit for an employee becoming insured at age 16. The additional liability incurred on behalf of the older members of the initial insured population was carried by the State. If the employer failed to pay the joint contribution, no benefit was due from the insurance fund, but the claimant could sue the employer for it. Under this theory no preferential treatment is, in principle, given to low-wage earners or breadwinners.

The later theory maintains that the contribution is a type of tax for a special purpose. The right to benefit does not rest on a reciprocal contract but simply on the fulfilment of the conditions specified in the law as currently in force. There is an obligation to contribute and a right to benefit but there is no necessary connection between them. This is especially the situation where the law defines the qualifying period in terms, not of contributions paid, but of the duration of insurable employment. The difference in the definition may be rather artificial, however, since in practice the insurance institution often looks at the claimant's contribution record in order to ascertain how long he has been insured. This doctrine finds expression in such leading social security laws as

Social security

those of France, the USSR and the United States. Under some universal pension schemes financed through general taxes (e.g. Australia) or special taxes (e.g. Denmark and Sweden), the right to benefit is based exclusively on residence, or residence and nationality.

The two theories are each of them ambivalent in their effects on the social security of the persons protected. The first is likely to be invoked in parliament and by constitutional lawyers to prevent a reduction of acquired rights to benefit. It is also an obstacle to any redistribution of the joint contribution in favour of the needier groups of the insured population. It could serve as a defence against the diversion of accumulated contributions by the government for purposes foreign to those for which they were originally intended.

The second theory emphasises the dependence of the insured person on the State. The claim of the individual may thereby be weakened, but the security of the insured population may be strengthened. The government need not scruple to modify the benefit schedule in favour of one group or another as the interest of society appears to recommend. The State's liability being entire, a deficiency of contribution revenue is not in itself an excuse for reducing benefits.

Everybody will have his own opinion on the net advantages of these two theories. Perhaps the best compromise consists in regarding the employee's contribution as being in the nature of a premium, and the employer's as in the nature of a tax. Nevertheless, benefit schedules based on either of these theories are likely to afford certain groups of the insured population supplementary advantages not warranted by the contributions paid on account of those groups, whether jointly by employee and employer or by the latter only.

The contributions under social insurance schemes are as a rule calculated on the same scale for all insured persons, although contributions for employment injury insurance are sometimes fixed according to risk. Where, as under most schemes, the benefit is at least in part proportional to the individual's basic wage, the contribution also is proportional to that wage; and where the benefit is on a flat-rate basis, the contribution is usually a uniform periodical amount. The benefit schedule, however, is not directly proportional to the contribution scale but is modified, often considerably, in order to fulfil the specifically

Financing social security schemes (concl.)

social functions of the scheme. Thus the cost of the important series of family and survivors' benefits is shared per head among insured persons without regard to their sex or marital or parental status. Again, the same medical benefit is available to all persons insured under a sickness insurance scheme, although the contribution is a uniform proportion of the wage. Sometimes also the cash benefit is a higher percentage of the basic wage for low-wage earners than for high-wage earners.

Even where the joint contribution is treated as being essentially a premium, these inequalities of benefit in return for equal contributions can be seen as intelligible and equitable. For social insurance should be regarded as what in fact it is, a whole-life policy which is adapted to the successive stages of an average life—celibacy, marriage, parenthood and the rest—and to the vicissitudes of wages, and takes account of the fair probability that an insured girl will marry an insured man. But such a viewpoint has nowadays a merely theoretical interest. The great extension of benefits for families and the replacement of the interest-income lost by inflation have been financed mainly by raising the employer's contribution or the state subsidy.

Whereas before the Second World War the typical relation between the employee's and the employer's contributions was that of equality, now it is not unusual for the employer to pay at a rate as much as double that of the employee. Such is the case notably in countries where the government finds it difficult to collect taxes. Since, as we have stated earlier, the basic wage for the calculation of contributions is, under most schemes, subject to a ceiling which approximates to the wage of a skilled manual worker, the excess earnings escape assessment for social security purposes. This introduces some degree of regressiveness in the financing, since low-income employees thus pay a higher percent of their total earnings than do higher-income workers.

A more equitable distribution of the charges that particularly interest the welfare of the nation can be obtained by recourse to state subsidies from revenue largely derived from income tax and luxury taxes. Hence governments that possess an efficient revenue department may prefer to leave the two contributions more or less equal and greatly increase the state subsidy. They will have considered that the employer's contribution should be kept at a moderate level since, after all, it is a tax

Social security

on employment and may be an impediment in competition on foreign markets.

The state subsidy takes different forms: for instance, a fixed sum to be included in each pension, an allocation proportional to the contributions paid by employers and employees, a fixed annuity, or simply what is needed to cover any deficit that occurs. The subsidy may also take an indirect form, as when sickness insurance schemes avail themselves of public hospitals and pay much less than the actual cost of the care given to their patients. The State in some countries also assumes all or the greater part of the charge for certain benefits which are considered peculiarly conducive to social welfare, such as family allowances or a national health service.

A word remains to be said regarding the resources of employment injury insurance, which are of an exceptional character. In the great majority of countries the whole cost is borne by the employer, reflecting the earlier tradition of employer liability described above. In a number of countries the employer pays premiums calculated according to the average risk of the class to which his undertaking belongs. As was noted in an earlier lesson, this average risk varies enormously, being determined by the nature of the operations involved in the activity concerned.

As the premium is incorporated in the cost of the product, the consumer has to pay higher prices for articles whose production involves more danger to the workpeople, and will tend to look for a cheaper substitute produced by safer methods. Some schemes offer a reduction in the premium to employers whose undertakings have been shown by experience to be less costly in benefits than the average undertaking in their class, or may be expected to be so by reason of the accident prevention measures introduced. In contrast to all of this, a certain number of schemes of employment injury insurance have been introduced in recent years, which provide for financing on a uniform scale.

To conclude this lesson, a brief analysis of the income of selected social security systems according to origin is given below in tabular form. The figures in table XIV are derived from statistics collected by the ILO in the course of its continuous study of the cost of social security

Financing social security schemes (concl.)

TABLE XIV. RECEIPTS OF SOCIAL SECURITY SYSTEMS OF SELECTED COUNTRIES IN 1963
DISTRIBUTED ACCORDING TO ORIGIN AND EXPRESSED AS PERCENTAGES OF GROSS NATIONAL PRODUCT

Country	Distribution of social security receipts according to origin (per 100 of total receipts)						Total receipts as percentages of gross national product	
	Contributions		Special taxes allocated to social security	State participation	Participation of other public authorities	Income from capital		Other receipts
	Insured persons	Employers						
Belgium	20.0	44.6	0.3	27.7	0	3.4	4.0	15.6
Chile	19.7	40.7	1.9	32.8	0.7	2.1	2.1	11.1
Czechoslovakia	1.8	32.6	—	65.1	—	—	0.5	16.7 ¹
Denmark	12.9	9.6	0.8	58.9	17.2	0.6	—	12.4
France	16.4	63.7	2.8	13.9	2.3	0.2	0.7	15.5
Germany (Federal Republic) ²	26.8	44.4	1.6	24.0	—	2.4	0.8	16.8
Guatemala	13.2	36.3	—	50.0	—	—	0.5	1.8
India	26.2	34.7	0.1	3.0	26.9	4.5	4.6	2.2
Italy	15.1	63.3	0.1	15.0	0.2	3.1	2.2	15.3
Ivory Coast	2.7	32.4	—	63.0	—	1.8	0.1	2.9
Japan	26.2	31.3	—	29.4	3.8	5.9	3.4	7.6
New Zealand	45.9	4.2	—	47.1	—	1.7	0.1	12.7
Nigeria	13.9	68.9	—	14.4	—	1.6	1.2	0.9 ³
Poland	—	62.8	—	36.4	—	—	0.8	9.7 ¹
Sweden	16.9	22.8	—	34.9	22.7	2.6	0.1	16.5
USSR	—	—	—	—	—	—	—	10.2 ¹
United Kingdom	21.9	20.3	—	47.6	6.8	1.9	1.5	11.9
United States	25.0	39.3	—	19.6	10.9	5.2	—	7.1

¹ Net material product. ² Including West Berlin. ³ Gross domestic product at factor cost.

Sources: (1) *The Cost of Social Security, 1961-1963*, (2) United Nations: *Yearbook of National Accounts Statistics, 1965*, and earlier issues.

Social security

systems. They include the income, not only of social insurance and family allowance schemes, but also of public health services, public assistance schemes and the benefit schemes for public servants and for war victims. Although data have been extracted for only eighteen countries, these are sufficient to show how widely different are the financial policies followed and how unimportant the income from accumulated capital has now become in certain countries. It seems quite clear that financial policies are governed much more by considerations of practicability than by any abstract principles.

SOCIAL SECURITY AND ECONOMIC DEVELOPMENT

Since a large number of developing countries now have social security schemes covering one or more branches, it is desirable to examine briefly the possible relationships between such schemes and the economic development of those countries. The financing of social security, involving as it does both large sums of money and income transfers between different groups of the population, is bound to exert some influence on national economic growth.

The processes of industrialisation and the resulting urbanisation in developing countries lead to a gradual breakdown in the traditional extended family and tribal relationships. Thus, an increasing proportion of the workers become entirely dependent on the wages they earn from their work. They thus become exposed to the same risks of cessation of income and sickness as workers everywhere, and therefore face the same need for social security protection. Social security measures lessen insecurity and ill-health among workers and their families, and thus contribute to the building-up of a more stable, healthy and productive labour force. The significance of such a labour force for the economic development of a country needs no elaboration.

The payment of social security benefits to persons whose income has stopped places purchasing power in the hands of those who would otherwise have no money to spend. Depending upon the sources from which revenues of the social security system may be derived, this process may result in a transfer or distribution of income between different income groups, and also as between actively engaged workers and those

Financing social security schemes (concl.)

without a regular income. The nature of the redistribution of income that results from social security differs from country to country but some degree of redistribution takes place under nearly all schemes. This has significant effects on the volume of consumption, the growth of a domestic as contrasted with a predominantly export market, and in turn on the rate of economic growth in the country.

The financial reserves that are customarily built up—especially under social security schemes providing long-term pensions and under provident fund plans of the savings type—may also have important economic influences. Such reserves represent a form of national savings that add to capital formation. This is particularly significant in developing countries, where domestic savings are insufficient to meet the requirements of capital for economic development. The ultimate effect of such savings will no doubt depend on the manner in which they are utilised. But, if appropriately invested, the reserves accumulated under social security schemes can help to an important degree in meeting the present acute shortage of capital in many developing countries. This in turn would represent a genuine contribution to the promotion of economic growth.

Points for Discussion

1. *Why is it that the expenditure of pension insurance schemes increases annually for many years ?*
2. *What is the method of financing frequently applied to finance the cost of pensions under employment injury insurance ?*
3. *Discuss the special advantages of the scaled premium system of financing pension schemes.*
4. *State the arguments in favour of—(a) employee's contributions, and (b) employer's contributions, and give your opinion on them.*
5. *Give the arguments for and against state subsidy for social security.*

Tenth Lesson

ADMINISTRATION OF SOCIAL SECURITY SCHEMES

Routine functions: insurance schemes;
assistance and public service or universal schemes;
powers and disposition of administrative organs.

Autonomous administration.

Right of appeal.

ADMINISTRATION OF SOCIAL SECURITY SCHEMES

A social security scheme creates an array of legal rights and obligations. The laws and regulations have to be drafted, and then sanctioned by the appropriate authorities or agencies, and administrative procedures must be worked out. Whether a benefit right or an obligation to contribute is concerned, procedures conforming to the legislation are necessary. But a procedure is a mechanism, and, like any other, must be kept going and watched and adjusted intelligently. Unforeseen situations will occur, and possibilities of improvement will become apparent. An administration is required not only to manage current business but also to study and formulate policies. Disputes will arise on the interpretation of the legislation and on the truth of assertions, so that independent adjudication must be provided.

ROUTINE FUNCTIONS

The routine functions involved in the administration of a social security scheme are more or less extensive according as the scheme is of an insurance, assistance or universal character. All schemes have to award and pay benefits, but only insurance schemes have the additional function of collecting contributions and recording them.

Insurance Schemes

Insurance schemes must identify all persons who are liable to pay contributions directly, that is employers and other persons who are not employees. They must do the same for employees also except in the case of many schemes covering employment injury only, because under such schemes the employer pays a global contribution proportional to his payroll, and the insurance institution often makes contact with the insured person only if an accident occurs.

The insurance institution can learn of the existence of undertakings whose owners are liable to contribute to social security by consulting

Administration of social security schemes

national and local taxing authorities and labour inspectorates, and by a variety of other inquiries. The identification particulars regarding each employer are obtained from the information which he supplies on his business. Identification data for employees are collected through their employer, and include not only name and signature, but also date and place of birth, to which may be added a photograph and, in some cases, fingerprints. Each contributor receives an identification number, which is used in all communications with the insurance institution; preferably some of the digits carry a meaning according to a code so that the numbers can be used for statistical purposes.

It is necessary to record all contributions paid by employers in respect of their workpeople. The maintenance of an individual contribution record for each employee, however, is not always indispensable. If entitlement is automatically conferred by the mere existence of a contract of employment at the time when the contingency occurs, or if there is a qualifying period but it is very short, and if the benefit rate is unaffected by the number of contributions paid, the insured person can, in some schemes, prove his right to benefit by presenting a certificate from his employer concerning his current employment and recent wages. These conditions are present, not only in very many employment injury schemes, but also in some sickness schemes. On the other hand, where a substantial qualifying period is imposed, as is the case in unemployment and pension schemes, or where evidence of regular employment is required for entitlement to family allowances, a contribution or employment record must be maintained for each employee.

There are two principal methods of collecting contributions: the payroll method and the stamp method. Each has its merits and defects.

In the payroll method the employer pays the total of the joint contributions due for a prescribed period, having withheld the contribution of the employee from his wages. He also simultaneously presents a copy of his payroll for the period in the prescribed form, showing the names of all persons employed at any time during the period, their respective earnings and the corresponding contributions. Then, if the scheme provides for a substantial qualifying period, the contribution or earnings credited in the payroll to each insured person must be credited likewise in his personal contribution account. This transfer operation is a time-

Social security

consuming task, since the personal accounts must be assembled and brought into line with the payroll. A large institution may, however, be able to afford and use electronic computers, which will perform the task expeditiously.

In the stamp method each insured person is issued with a card designed to receive adhesive stamps. This card bears his identification particulars and has a prescribed period of validity, such as twelve months. It is illegal to employ a person for whom no card has been obtained. The employer buys from a post office or the insurance institution, from time to time, a supply of special stamps for the cards of all his employees, corresponding to the various amounts of the joint contribution payable in respect of them. A stamp of the correct amount is affixed to the card and cancelled by the employer on each occasion when wages are paid. The card remains with the employer during its currency except when the insured person needs to present it to the insurance institution in order to obtain benefit (e.g. when sick). When it expires it is returned by the employer to the insurance institution, which issues a new one in exchange. The series of stamped cards is the basis for the contribution record of the insured person, and also the evidence that his employers have complied with their obligations. Sometimes the card itself constitutes the record.

The payroll method is much more convenient than the stamp method if the contribution is a prescribed percentage of the individual's actual earnings or if the insured persons are public servants or employees who remain for a long time in the service of the same undertaking. It is usually preferred by large employers. For his own accounting purposes, and also in some countries for the purpose of deducting tax payable by employees from their wages, an employer may need to have available the information required for operating a payroll system of collecting social security contributions. If the employer is liable to deduct and pay over to the authorities his employees' income tax, it should be possible to combine tax collection with the collection of social security contributions.

The stamp method, which was invented by the Germans when planning their general scheme of pension insurance, is still used by them in special cases. It was adopted in the United Kingdom in 1911 and still operates there, although, since the introduction of the graduated pensions

Administration of social security schemes

scheme in 1959, it has not been the sole method of collecting contributions and it is proposed that shortly the stamp method will be completely abolished in favour of collection in conjunction with income tax. It is less widely used than the payroll method, but is found today, for instance, in Canada (unemployment insurance), Chile (sickness and pension insurance) and India (sickness and injury insurance). This method is most effective where a scheme involves only a small number of different contribution values (say half a dozen). Indeed, the intention to use it is the main or sole reason for classifying insured persons in broad wage classes or in classes based on sex and age, neither of which classifications possesses intrinsic merits of importance. The stamp method also has certain advantages in cases where the insured person is not an employee, or where, being an employee, he often changes his employer, or in the case of small undertakings, where it can greatly simplify accounting.

Both methods may profitably be used by the same scheme, however, each in those cases for which it is the more appropriate. For instance, the payroll method can be used for large undertakings, while the stamp method is used for small ones and for independent workers.

Ancillary to the function of collecting contributions is that of inspecting undertakings. Every insurance institution carries out systematic visits—which may not, however, always take place at regular intervals—to the premises of each employer in order to examine wage books and other account books. The purpose of this is to verify that the contribution payments tally with the number and wage rates of the workpeople employed.

If the insured person's account has been duly credited with the contributions paid in respect of him it is a simple task to ascertain that he has completed the qualifying period, and to compute the benefit, when it has been established that a contingency covered by the scheme has occurred. Proof of such occurrence is furnished by the following types of official certificates, produced by the claimant or obtained by agents of the institution:

- certificate of sickness or temporary incapacity provided by an authorised medical attendant;

Social security

- ② certificate of invalidity or permanent incapacity, given by a medical officer or a special medical board;
- ③ certificates of birth, marriage and death, provided by the competent registrar;
- ④ certificate of unemployment, given by the employment service.

Recourse is had to statements from the employer concerning the duration of employment and recent wages in those cases where the insurance scheme does not possess, or cannot find, these data in its records. In claims for unemployment benefit the employer may be asked why the claimant left his job, as most unemployment benefit schemes disqualify for unemployment benefit persons who have left voluntarily or are dismissed for misconduct.

The payment of cash benefits is affected in various ways. Generally speaking, temporary allowances are paid by the institution to the beneficiary in person. This is certainly the rule as regards unemployment benefit, but sickness benefits must in many cases be paid to the beneficiary's representative, and, especially where the illness is likely to last a considerable time, are often paid through the mails. Sickness and unemployment benefits are paid weekly, subject to renewal of the certificates in question. There are alternative ways of effecting payment of family allowances. The older way is for the employer to pay them to the insured person together with his wages and to be reimbursed by the insurance institution to the extent that the total of his payments exceeds his contributions. The way followed by more developed schemes of family allowance insurance is that of monthly payment by postal order or by visiting agents, so that the allowance falls into what are probably the best possible hands, namely those of the mother.

Pensions also may be paid in different ways: by postal order, or on the pensioner's presentation at a post office or an office of the insurance institution of a book or orders for payment covering a certain number of pension instalments. The common practice is to effect payment monthly in arrear, but in the United Kingdom the use of the book of cheques permits the pensioner to draw his instalments at any interval from a week to three months in arrear.

Administration of social security schemes

All insurance institutions have to compile the statistics which the manager, the actuary and (if sickness insurance is concerned) the medical adviser need in order to keep the institution solvent and efficient. Such statistics are also needed to enable the insurance institution to inform the competent authority when amendments in the laws or regulations become advisable. The statistics, which are by-products of the operations of registration, contribution collection and benefit payment, not only serve the purposes of the insurance institution but are also unique sources of up-to-date information on the development of industries in the different regions, the numbers of persons employed and their distribution according to earnings.

Assistance and Public Service or Universal Schemes

Assistance schemes and public service or universal schemes are not concerned with employees or employers as such, nor do they involve the collection of contributions or the maintenance of any records except records of beneficiaries and benefit payments. Contact is made with members of the public only when they seek benefits. The cost is borne by the State or in some cases by local authorities and is provided out of taxation. Such schemes are sometimes referred to as state services to distinguish them from other forms of social security.

An assistance scheme, by definition, requires the claimant to declare his property and his income from all sources, and the accuracy of his declaration is verified by any investigations that seem called for in the circumstances. The right to pensions of an assistance character is generally conditional on the completion of a prescribed number of years of residence in the territory whose taxpayers finance the scheme. Unusually, in the United Kingdom assistance payments up to and in some cases above the rates of social security benefits are paid merely on the proof of need; similarly the National Health Service in the United Kingdom is available to all without any condition of nationality or period of residence. Assistance and public service schemes alike very often impose a nationality condition, which may, however, be replaced by a residence condition (see Eleventh Lesson: Social Security of Migrant Workers).

Social security

Powers and Disposition of Administrative Organs

The administrative functions in a social security scheme are distributed between central and local bodies having regard to the convenience of the persons protected and to economy.

Those branches of the system which frequently come into contact with recipients of benefit should have offices or agencies in all localities where the population protected attains a minimum density. These people prize simplicity and promptness. They also find it confusing and irritating to have to run from one office to another without intelligible cause. This is true of all sickness and unemployment schemes; in addition, all of the latter and most of the former must be able to communicate immediately with local employers. All medical services require a local and a regional organisation. Family allowance schemes which make the right to the allowance conditional on regularity of employment, or provide welfare services for families, need local offices likewise.

A pension scheme, on the other hand, may come into direct contact with the beneficiary only once in his life and thereafter pay his pension by post. It is therefore less necessary for it to establish local agencies; a central institution may be sufficient. An employment injury scheme is partly a sickness scheme and partly a pension scheme. Though personal contact with the recipients of temporary incapacity benefit is desirable, these are too thinly distributed for it to be economical to establish special local agencies except in cities.

While the organisation of each branch of social security is, in most countries, satisfactory enough from the points of view of convenience and economy, this is too often untrue of the over-all organisation. Great administrative advantages can follow from co-ordination of common services for the different branches, for a unified system covering all branches of benefit has not the same difficulties about its over-all organisation.

In countries where the social security system is composed of branches created at different times and on different principles there are often obstacles to a fully rational ordering of the system. The persons concerned in the administration of the separate branches have acquired,

Administration of social security schemes

individually or corporately, interests in maintaining their independence. Even supposing it is politically feasible to overcome this resistance, it may be prudent to hesitate before substituting a theoretically better, but untried, arrangement for one which, despite obvious defects, is acceptable. Rationalisation is likely to mean the establishment of a large bureaucratic administrative structure. There is the consequent danger of loss of personal initiative, though this danger may be of little moment where the operations to be rationalised ought to be performed in a uniform and mechanical manner.

Every comprehensive system of social security must provide services for cash benefits, medical benefits and placement respectively. If any benefit is of an insurance character, provision must be made for a fourth service which collects the contributions. In theory, all these services could be performed by a central institution and its local offices or agencies, but that would mean divorcing medical benefit from the national health department and placement from the labour department. However, the health department for financial or other reasons may have to abstain from furnishing medical care. In that situation the social security system must perforce accept the responsibility. But no instance is known of a labour department which abandoned its function of placement to an institution providing other social security benefits: on the contrary, where unemployment benefit is provided it is, in the majority of countries, paid through the placement service.

We shall not attempt to analyse methodically the numerous ways in which these services are combined or distributed with a view to achieving a more rational organisation. We shall only cite a few examples of social insurance systems in which this aim has been achieved entirely or in a substantial measure.

In a number of Latin American countries, for example Mexico, El Salvador and Venezuela, sickness, maternity, pension and employment injury insurance are entrusted to a central autonomous institution with local offices. There is a single, complete medical service which is largely independent of the national health department. In several other Latin American countries and in Iran sickness and pension insurance are dealt with by a single institution. The Federal Republic of Germany has entrusted administration of its family allowance scheme to the

Social security

Federal Placement and Unemployment Insurance Institute that administers unemployment insurance.

In the United Kingdom, by reason of the amalgamation of previously separate ministries, the entire social security system—including the health service, unemployment benefit and assistance payments—is now the responsibility of one single department. As agent of this department, the department responsible for the placement service carries out the payment of unemployment benefit. Other European countries have built up the tradition—followed in a number of countries elsewhere in the world—of having different schemes administered by self-governing institutions which are usually managed by governing bodies composed of representatives of insured persons, employers and the government. Naturally, universal schemes and assistance schemes are almost all administered by government departments, but in close co-operation with local authorities.

In the USSR and some of the other countries of Eastern Europe there are also three administrative services for the social insurance of the employees of state-owned undertakings, namely a pension service, which is administered centrally by the government; a national health service; and, in each undertaking, an agency for paying allowances in case of sickness, maternity and temporary incapacity resulting from employment injury as well as for supervising the due payment of contributions by the undertaking.

France has a general scheme covering all the contingencies, with the exception of unemployment, for most employees in industry and commerce. Furthermore, there are schemes for certain special categories of employees, agricultural workers and various categories of independent workers. Lastly, supplementary schemes have recently been set up to deal with unemployment benefits and pensions. The general scheme is characterised by the ramification of its bodies, which are autonomous.

There are, at the local level, two independent sets of bodies: on the one hand, primary sickness insurance funds, which pay benefits in case of sickness, maternity, invalidity, death and employment injury and which reimburse medical expenses; and, on the other hand, the family allowance funds, which provide family benefits. The contributions

Administration of social security schemes

for the whole of the general scheme are collected by the local organs of these two sets of bodies, the unions for the collection of social security and family allowances contributions. At the regional level a regional sickness insurance fund is responsible for the tasks of common interest to the primary funds of its district and has the task of developing and co-ordinating the prevention of industrial accidents and occupational diseases. Lastly, at the national level, there are three national funds competent respectively for—(1) sickness insurance, maternity, invalidity, death and employment injury benefits, (2) old age insurance, whose management is centralised for the whole territory, and (3) family benefits. With the exception of the National Old Age Insurance Fund, the national funds are responsible for the general supervision and the financial equilibrium of the regional and local funds. Furthermore, all the national funds are responsible for the establishment and implementation of a programme of health and social welfare. Finally, there is a fourth national body, the Central Agency for Social Security Bodies, whose duties are exclusively of a financial nature, notably to insure the common management of the treasury for the various risks.

Important gains in convenience and economy can be made, without amalgamating branches, by delegating or transferring certain of the functions of one branch to another. To some extent this has been done in Austria, Denmark, the Federal Republic of Germany, Norway and Sweden, where in case of employment injury the sickness insurance scheme provides temporary incapacity benefit and specified medical benefits for varying periods. In Austria the agencies of the sickness scheme collect the contributions for all the branches, and in several other countries the sickness scheme collects the contributions for the unemployment scheme. In Belgium, where the administration of the system is dispersed among a large number of independent bodies, there has been established a special national agency for collecting most of the different kinds of contributions.

AUTONOMOUS ADMINISTRATION

The Bismarckian social insurance legislation, inspired by the practice of the English mutual aid societies, provided that the bodies created

Social security

by it to administer the schemes of sickness and pension insurance should be managed by the representatives of the contributors. The same principle was followed in the social insurance schemes successively introduced in other countries of Europe, and the tradition so built up has been observed, with variations of detail, in a number of schemes of later origin elsewhere in the world. The exceptions are a few pension insurance schemes and the national insurance scheme of the United Kingdom. On the other hand, understandably enough, assistance schemes and universal schemes are almost all administered by government departments in co-operation with committees of local authorities.

It is in the administration of sickness insurance that representative bodies can be most active and useful, and are also most widespread. By membership of these bodies a multitude of enterprising individuals can obtain training in social responsibility, procedure and debate, which is especially valuable to wage-earners. The two international labour Conventions of 1927 on sickness insurance in industry and agriculture respectively reflected a general conviction in affirming the principle of self-government for this branch and insisting on the participation of insured persons in its management. In pension insurance, too, the German example has been influential in the majority of countries. But the management of big central institutions does not involve that frequent concern with personal and local problems or that flexibility and tact which are required of the smaller institutions that handle sickness insurance. The serious problems in the administration of pension insurance, once the main routines have been satisfactorily established, are those of long-range solvency and of the investment of reserves, on which expert guidance is clearly desirable and likely to predominate. Consequently the international labour Conventions of 1933 on old age, invalidity and survivors' pension insurance, being based on the existing experience of a few European countries, specifically mentioned government-managed institutions as an alternative to institutions run by representative bodies comprising insured persons and possibly employers and government delegates, but on condition that insurance funds are kept separate from public funds.

Under the majority of schemes in all branches of social insurance there are equal numbers of insured persons and employers on each

Administration of social security schemes

representative body, but a trend is observable in recent legislation towards greater representation for the former. The doctrine that representation should be proportional to the contribution has lost ground.

In most family allowance insurance schemes the insured persons have a voice in the management, though they do not contribute. The sickness insurance schemes of the USSR and some of the countries of Eastern Europe are administered by the trade unions but financed by the contributions of the state-owned undertakings. Mutual aid societies approved as carriers of compulsory sickness insurance continue to be managed by their members alone, even where, as in Belgium, they receive contributions from the employers.

The representatives on these bodies are either elected or nominated by the larger trade union and employers' organisations. The nomination method is especially preferred where central representative bodies are concerned.

Government delegates occupy about one-third of the seats on the representative bodies of most of the centralised institutions, and in fact the governments contribute to the cost of the schemes which these institutions administer. As a rule, the delegates are high officials—ministers, even—and one of them is *ex officio* chairman of the executive body. Not infrequently a place is found also for representatives of the medical profession, in local as well as in central institutions.

Social insurance institutions usually have two representative bodies: a deliberative assembly and a smaller executive committee elected by the assembly. Meeting perhaps only once a year, the assembly examines the annual report, discusses and decides broad questions of policy, and adopts the budget for the next year. Current operations and decisions are handled by the executive committee. Provision is sometimes made for a third body—a supervisory committee, with the duty of watching, on behalf of the assembly, the proceedings of the executive committee. It is interesting to note that the Austrian sickness funds, for instance, give the major representation on the supervisory committee to the employers and on the other bodies to the insured persons. The manager of the institution is appointed either by the government or else by the representative bodies; in either case it is the practice in many countries for

Social security

the conditions of recruitment and service of the staff to provide for appropriate qualifications and stability of employment.

An assessment of the part played by representative bodies in the administration of schemes of social insurance shows it to be a diminishing one, though there are outstanding exceptions. Governments are exercising ever closer control and accepting correspondingly heavier responsibility. This shift of emphasis has become apparent since the Second World War; it is confined to Europe, since in other regions governments have, in practice, always reserved for themselves a predominant influence in the institutions, which lack the tradition of autonomy peculiar to the mutual aid movement and are, in most cases, centralised. The Social Security (Minimum Standards) Convention, 1952, allows for this tendency. It lays down only two principles for all branches of social security, contributory and non-contributory. First, the government is ultimately responsible for proper administration, as it is also for solvency. Secondly, the persons protected certainly, and the employers and the government possibly, are to participate in the management, but only in schemes which are not directly administered by the government. In such cases there may be a consultative committee whose members include those specifically chosen to represent insured persons or employers. The extension of the scope of social insurance so as to embrace the mass of the population has led increasingly to a greater participation by government in the management of social security schemes either directly or by exercising closer supervision.

We have mentioned already that public service and assistance schemes are administered by departments of national and local government. This is reasonable, because the persons protected coincide with the parliamentary and local electorates. Where the scope of social insurance has come to include virtually the whole population, it appears admissible likewise to entrust the administration of the system to the government. Nevertheless, in Iceland the national insurance scheme is administered by a state social security institute which is managed by a board elected by parliament, and in this way two results are obtained: a specialised representative body attends to the interests of the citizen in his capacity of insured person and contributor, and the management of the scheme is shielded from political interference, while remaining at all times

Administration of social security schemes

amenable to the legislature. In Norway the committees which administer the local autonomous agencies of the national sickness insurance scheme are elected by the communes.

In the United Kingdom the only traces of the representative principle in the national insurance system are national and local advisory committees which include persons nominated by trade unions and employers' associations. It is an irony of history that in England, whose mutual aid movement a century ago enjoyed prestige throughout Europe and had supplied the administrative machinery of the compulsory sickness insurance scheme, this whole apparatus should have been swept away in 1946 when the Beveridge Plan was implemented. There are special reasons for this revolution. Among them is the contrast between the efficiency of the government-administered schemes of unemployment and pension insurance and the confusing medley of mutual aid societies which, lacking a territorial basis, had their members disseminated all over the country.

Elsewhere, with few exceptions, the lowest-level agencies of compulsory sickness insurance are of artificial origin, each with its exclusive area, and their individual autonomy (where it exists) extends no further than is compatible with rational administration. Even so, as we are about to explain, the autonomy that such organs may possess is strictly limited.

A corollary of autonomous administration is government supervision. The scheme is sponsored by the government by means of a national law. The benefits promised in return for contributions must be duly paid; the law assumes that if the autonomous institutions apply its provisions faithfully the bargain will be kept. The government is obliged to verify the conformity of the administrative acts with the law. Especially in sickness insurance, it is continually finding imperfections or deviations from the practices which it judges the best and is as continually correcting them and extending the sphere of its regulations. Some institutions are found to be more prosperous than others, not because they are better managed but because their members are predominantly engaged in healthy occupations, suffer less unemployment or earn higher wages. The government, representing the nation, reasons that this good fortune ought not to redound to those particular institutions alone but should

Social security

be redistributed among all. So contributions are fixed on the same scale for all insured persons and centralised, and a single scale of benefits is guaranteed to all, irrespective of the experience of the institution to which they happen to belong.

The Federal Republic of Germany is one of the few countries where the institutions of compulsory sickness insurance have retained a substantial measure of self-government, each being left to carry the risks that fall to it and adjusting (within limits) contribution rates and benefit schedules as its experience obliges or allows. In Denmark the system of state subsidies leaves the institutions with a useful margin for policy-making. In Yugoslavia, too, where the social insurance system was reorganised in 1962, there seem to be sufficient opportunities for the democratically elected Communal Communities of Social Insurance to exercise initiative.

The administrative organisation of social insurance in the USSR and other Eastern European countries is of an original character. While pension insurance is government-administered and centralised, the payment of short-term cash benefits and the administration of a variety of welfare services are entrusted to the trade unions, whose local organs operate in each undertaking and are managed by committees elected by the workpeople concerned. It is true that the provision of medical care is the responsibility of the national health services, but the trade union organs decide which individuals ought to undergo convalescent treatment at health resorts, and they have wide opportunities in connection with the provision of welfare services for families and with accident prevention. In this way exceptionally large numbers of insured persons are able to take part in the administration of social insurance and related activities.

The foregoing review brings out a familiar dilemma: the choice between regimentation on lines that are considered just and a limited freedom to make mistakes and abide by their consequences. There is surely a real danger that, once self-government is emptied of its interesting content, the representative bodies will cease to attract persons of ability. The mass of the insured population will become indifferent to the idea of autonomy and content to let the government take full responsibility.

Administration of social security schemes

RIGHT OF APPEAL

Disputes on a variety of questions and between a variety of pairs of parties arise in the administration of a social security system. There are questions of law and questions of fact. Where several institutions operate independently, conflicts of jurisdiction occur. Where the scope of an insurance scheme is less than universal, or there are different categories of insured persons and employers, decisions must be taken on borderline cases. Where medical benefit is furnished by means of contracts with medical practitioners, pharmacists and hospitals, allegations of failure to observe the contract must be investigated impartially and sanctions provided for. But the most frequent cause of disputes is the dissatisfaction of a claimant or beneficiary with the treatment of his claim or the amount of his benefit. On questions of law it is imperative to create a unified body of case-law and, therefore, to provide for the rulings to be made by a single authority, with a possibility of appeal to a higher instance of the ordinary judicial system. Questions of fact, on the other hand, are best settled by local arbitration committees or, where they exist, labour courts.

There can be no social security unless the claimant or beneficiary can appeal against an administrative decision denying him benefit, or awarding him benefit which does not correspond to what he thinks he is legally entitled to; and the appeal must be heard by a judicial body independent of the administrative body concerned. The International Labour Conference has consistently treated the right of appeal in benefit disputes as of vital importance and has included provision for it, in terms more or less insistent and precise, in the standards it has laid down for the different branches of social security, contributory and non-contributory. For example, the Invalidity, Old-age and Survivors' Benefit Convention, 1967, provides that every claimant shall have a right of appeal in case of refusal of benefit or complaint as to its quality or quantity. Procedures are to be prescribed that permit the claimant to be represented or assisted, where appropriate, by a qualified person of his choice or by a delegate of an organisation representative of persons protected.

It is important that the appeal body, whatever its composition, should be not only impartial and well acquainted with the legal and social

Social security

context in which the dispute arises but should also follow a procedure that is both expeditious and cheap, or even gratuitous, since these attributes are of the essence of practical justice in benefit disputes.

The commonest form of judicial body for a social insurance scheme, especially at the lowest level, is a tripartite one consisting of an independent chairman, an insured person and an employer. In Europe this body is usually outside the administrative hierarchy, but (especially in Latin America) it is sometimes the supreme administrative body of the scheme itself, since its tripartite character may be deemed to guarantee fair consideration. In the USSR and other countries of Eastern Europe appeal lies with the higher trade union organs. In the Federal Republic of Germany benefit disputes are handled by a three-level system of tripartite tribunals. In the United Kingdom the national insurance scheme is provided with local appeal tribunals which are tripartite in composition—an unusual refinement in schemes of this kind.

Probably the majority of benefit disputes arising in sickness, pension and employment injury insurance involve the question of the claimant's physical condition and his capacity for work. But though the first decision is made by a medical officer or medical board, the appeal lies, as a rule, to the judicial body dealing with benefit disputes generally. On the other hand, a highly expeditious procedure has much merit where a dispute relates to temporary incapacity for work; in France, for example, this question is settled by a medical arbitrator agreed upon by the doctor attending the claimant and the medical officer of the institution. Again, where the degree of permanent incapacity for the purpose of employment injury benefit depends solely on the physical consequences of the injury, medical opinion may properly be regarded as decisive, as is the case in the United Kingdom where a disputed medical question is decided by a medical board from which an appeal lies to a tribunal comprising a lawyer and two doctors.

Points for Discussion

1. *Indicate situations in which the stamp method of collecting contributions may be preferable to the payroll method.*

Administration of social security schemes

2. What functions do you think could usefully be performed in common by different branches of a social insurance system all of which have the same scope ?

3. Can you reconcile the State's guarantee of the payment of the benefits prescribed by law with the delegation of substantial autonomy to insurance institutions ?

4. What do you think of the principle that representation of different parties on the administrative bodies of social insurance institutions should depend on whether or not they are contributors ?

Eleventh Lesson

SOCIAL SECURITY OF MIGRANT WORKERS

Basic principles of social security for migrant workers:
equality of treatment; determination of applicable legislation;
maintenance of acquired rights;
maintenance of rights in course of acquisition;
payment of benefits abroad.

Recent developments in international and
multilateral co-ordination in the social security field.

SOCIAL SECURITY OF MIGRANT WORKERS

The social security protection of workers migrating between countries does not depend exclusively on the application of national laws. It requires also the solution at the international level of specific problems that arise either from those laws or from the particular situation of such workers.

As regards the laws, the provisions of purely national or territorial application may affect the interests of migrant workers. Apart from provisions which may discriminate against them, the strictly territorial character of some social security legislation raises serious difficulties, whether for the granting of short-term benefits to family members who do not reside where the workers do, or for the maintenance of rights acquired by the workers when they leave the country of their work and return to their country of origin at the end of their working life.

Moreover, the special position of migrant workers which involves their coverage under the social security laws of different countries exposes them to the risk of losing their benefit rights in course of acquisition, when these rights depend upon the completion of a fixed period of insurance, work or residence in the particular country. This last risk is all the more serious since long-term benefits are often subject to long qualifying periods, especially under social insurance systems. Such difficulties clearly justify, from the standpoints of both justice and equality of social protection, the taking of appropriate measures to safeguard the social security of migrant workers.

In order to deal with these problems and assure to migrant workers the benefit of social security laws, numerous countries have since the beginning of the twentieth century entered into bilateral and reciprocal agreements—first in regard to workmen's compensation and then in the larger field of social insurance generally. The International Labour Organisation has welcomed this development wholeheartedly, for it agrees that the protection of migrant workers requires international action. The original Constitution of the Organisation included among its provisions that all countries should seek to apply the principle that

Social security of migrant workers

rules laid down in each country regarding conditions of work should guarantee fair economic treatment to all workers legally resident in the country. Moreover, the Preamble to the Constitution as amended in 1946 recognises that it is urgent to improve working conditions in general and particularly those affecting the interests of foreign workers.

The great increase in national social security legislation, migration of workers and international relations since the Second World War has led to more attention being paid to problems of protecting migrant workers, and also to a marked increase in the agreements on this subject, both bilateral and multilateral, with the aid of the competent international organisations. At the same time, the scope of such agreements has been notably extended as regards persons protected, contingencies covered, and types of rights secured. The brief summary of this development that follows is devoted on the one hand to the common principles on which all of the instruments are based and, on the other, to Conventions of the International Labour Organisation and other multilateral Conventions in the social security field.

BASIC PRINCIPLES OF SOCIAL SECURITY FOR MIGRANT WORKERS

Social security agreements in general usually try to give effect to five basic principles in order to ensure the complete and equitable protection of migrant workers. These principles may be referred to, respectively, as equality of treatment, determination of the applicable legislation, maintenance of acquired rights, maintenance of rights in course of acquisition, and payment of benefits abroad.

The combination of methods used in order to put these principles into force involves the technical co-ordination of social security laws in such a way as to achieve a coherent approach that takes into account the legitimate interests of migrant workers and also peculiarities of their conditions of work and of their personal and family circumstances. For this purpose, the interests of migrant workers are in general evaluated by reference to the advantages enjoyed by national workers who remain in their own country, and by avoiding any unjustified duplication of benefits that might result from the independent application of the laws

Social security

concerned. In this sense, social security agreements observe a rule of equality. This can only be favourable in the long run to the persons concerned, by ensuring for their protection an unquestionable equality of rights among all workers irrespective of origin or nationality.

While not violating the essential concepts of particular laws, the principal objective of co-ordination thus consists of eliminating every obstacle to the application of these laws on the one hand, and on the other of modifying their effects in such a way as to guarantee to migrant workers complete and continuous protection on the basis of effective equality. Co-ordination of laws is to be distinguished from their harmonisation, to the extent that the former is wholly concerned with modifying and adjusting the effects of the laws without interfering directly with their contents. There is no doubt, however, that co-ordination in the long run has some indirect effects on the contents of laws, especially in view of the co-operation between national authorities which it sets in motion and which leads in turn to a better understanding of common problems of social protection.

Equality of Treatment

The first principle recognised in social security agreements relates to equality of treatment. The primacy accorded to this principle in the history of the protection of migrant workers underlines its importance as the essential basis for such protection. In effect, all measures for this purpose are based on the pre-condition that migrant workers should be insured under social security legislation and should receive benefits on the same terms as national workers in the country of immigration.

The importance of this elementary but fundamental principle has increased considerably with the development of social security systems. In accordance with the original concept of social insurance, which still bore the mark of private insurance techniques, discrimination on grounds of nationality was relatively uncommon because it was generally admitted that the rights to benefits flowed from the financial contribution of the workers. On the other hand, such discrimination has become more frequent in social security schemes where the relationship between contributions and benefit rights has tended to become blurred. This is

Social security of migrant workers

due most notably to new concepts favouring national systems of protection that have more complex financing, which often have recourse to general tax revenues. Accordingly, discriminatory measures have been introduced in certain systems as regards both the obligation to be insured and the right to benefits. This is true both within the national territory and outside of it, as well as regards possible participation in social security administrative and juridical bodies.

This unfavourable development, occurring at the same time as the progressive raising of the protection given by most national systems and the remarkable increase in migration of workers after the Second World War (including the widespread movements of population caused by the war itself) has led to a restating of the principle of equality of treatment which had been one of the main purposes and merits of the earlier social security agreements. The importance of this principle is such that its application has generally been extended, for social and practical reasons, not only to migrant workers properly so-called but also to all foreigners, as well as to refugees and stateless persons—although these do not fall exactly within the more narrow definition of migrant workers.

Determination of Applicable Legislation

The second principle of social security protection of migrant workers seeks to guarantee that in all cases they will be insured under a specific predetermined law. For this purpose the social security agreements contain provisions for deciding which specific legislation must be applied to migrant workers in each case. This is true in the ordinary case where they are normally employed within the jurisdiction of a single country, and likewise in the special cases of particular categories of workers, such as those detached for service abroad, workers who travel and carry out their work within the territory of two or more countries, and seafarers. These provisions, which are designed to secure the application of one determinable law to the persons concerned, are also intended to avoid positive or negative conflicts of law which could result from the diverging principles and conceptions of the laws of two or more countries. In the absence of clear and precise international rules, such diverging principles might lead either to the simultaneous application of two or more laws

Social security

—which would be a positive conflict—or to the lack of any applicable legislation—which would be a negative conflict.

Some kind of international regulation is necessary in the interests of migrant workers, therefore, to avoid anomalous results, prevent an unjustifiable duplication of obligations, and ensure complete protection in every case by one specific social security law. Except in regard to voluntary insurance, it is not usual in fact to permit partial application under different branches of different national laws, at least not in the agreements concluded between countries with highly developed systems of social security. Such a separation by branches would be contrary to the unified character of some of those systems and would be likely to cause greater administrative complications than the advantages would warrant.

As regards employees working for an employer, the test most often used for determining which national law should apply to a worker is the place where his work is performed. Accordingly, employees are normally subject only to the legislation of the country in whose territory they work—whatever may be the country of their residence or the country of the headquarters of the undertaking by which they are employed. According to this criterion, migrant workers are similarly subject to the legislation of the country to which they go to carry out their regular or seasonal work, even though they may continue to reside in their country of origin.

The legislation applicable to independent workers can be determined either in accordance with a similar test in regard to the place where they carry on their occupation, or in accordance with a test relating to their place of residence. Special rules need to be laid down for particular categories of migrant workers to whom the general rules cannot be applied.

Such special rules vary according to the country in question, and according to the type and working conditions of the categories concerned. In this connection it suffices to mention the problems of workers temporarily detached to a foreign country, who often have the privilege of remaining subject to the legislation of their own country during a certain period, in view of the temporary character of their absence; those workers who travel abroad and normally carry out their work in the territory

Social security of migrant workers

of two or more countries, such as international transport workers or travelling salesmen; and the special case of seamen. The general criterion establishing the bases of operations for such workers is the location of the headquarters of the employing undertaking or the residence of the persons concerned. In the case of seamen, however, it may be a question of the flag under which they sail or of the registration of their ship.

A review of existing social security agreements reveals that the methods of determining the legislation applicable in any given case are diverse and complex. The over-all objective remains the same, however, which is in general to assure protection to migrant workers by determining that only one specific social security law governing both obligations and benefit rights is applicable to each individual worker.

Maintenance of Acquired Rights

The third principle relating to the maintenance of acquired rights by migrant workers is also essential from the viewpoint of equity. Its importance is likewise linked with trends in the development of modern social security legislation. In place of the idea of "personality" as regards the right to benefit, numerous social security laws have substituted the idea of the "territoriality" of such right. This has the effect of restricting benefits to beneficiaries who reside in the territory of the country where the rights have been acquired. This development is the result of diverse reasons which are as much related to the basic concepts of the laws in question as to the bases of benefit rights and the financial organisation of protection. It reflects the fact that national solidarity takes precedence over individual contributions.

In any case, the new developments have given rise to appropriate measures in favour of migrant workers to protect them from the serious difficulties that would arise through strict application of the territorial rule to the right to benefits. These difficulties are most apparent in connection with the contingencies of invalidity or permanent occupational incapacity, old age, and death of the breadwinner. Short-term contingencies, where a worker can obtain benefits in the normal way in the country of immigration, and the long-term contingencies involve very

Social security

different consequences. In the case of invalidity the worker cannot continue with his normal work in the foreign country; at the approach of old age he may be encouraged to return to his country of origin and, if he dies, the dependent members of his family will be deprived of their means of subsistence.

In all of these contingencies, any territorial aspect of the right to benefits involves a limitation on the protection of beneficiaries. This is all the more serious since the right to long-term benefits is often acquired at the cost of long periods of payment of social security or other contributions, and of long periods of work or residence. This is precisely why the principle of maintenance of acquired rights is so important, since it seeks to remove any possible territorial conditions so as to ensure to the workers concerned the long-term benefits to which they have acquired rights during the course of their working lives, even when they cease to live in the country in which they have worked.

The social security agreements have generally incorporated this principle, especially in regard to invalidity, old age and survivors' pensions and disability pensions and death benefits arising from employment injuries. The precise methods of application vary in particular cases in accordance with the agreements entered into between the governments concerned.

The various methods tend to give effect in the same manner to the essential principle of the maintenance of acquired rights. This is a logical complement of the principle of equality of treatment, to the extent that it aims at ensuring for migrant workers not only a legal right to equal protection but an effective right—having regard to the position of workers who have remained in their own country.

Maintenance of Rights in Course of Acquisition

The fourth principle of protection of migrant workers under social security relates to the maintenance of benefit rights in course of acquisition. In order to put such workers on a completely equal footing with national workers who did not leave their own countries, it is not sufficient to guarantee the former only the maintenance of their acquired rights. It is also necessary to enable them to acquire rights to benefits not-

Social security of migrant workers

withstanding all the uprootings from one country to another that they may have experienced during the course of their working lives.

The problem that arises results from the fact that rights to benefits are rarely given instantaneously, on the basis solely of the fact that the persons concerned are compulsorily subject to the social security law. On the contrary, securing of these rights very often depends on the completion of qualifying periods in the form of periods of contribution or other methods of financial participation or in the form of periods of work or residence. Such periods could be relatively brief for short-term benefits or much longer for long-term benefits, but they are in any case a condition for securing protection.

These qualifying periods affect migrant workers unfavourably in two ways, both of them inequitable and damaging. On the one hand, when workers move from one country to another, they must complete new qualifying periods. Meanwhile they are without any protection, although they may already have completed in one or more other countries the whole or a part of the qualifying period required by the legislation to which they are now subject. On the other hand, as regards the long qualifying period, which may be fifteen years or more for an old age pension, it would be possible in an extreme case that a working life could be completed in two or more countries which have similar requirements without completion of the minimum period required in any one. Such a work history would not give the worker concerned any right to benefit, despite his being regularly compulsorily insured under the laws in question and despite the various forms of financial contribution which such compulsory insurance might have involved. Even where one considers a less extreme case, migrant workers none the less run the risk of being entitled only to reduced benefit rights from a working life that would have ensured them complete protection if it had been spent either in a single country or in a number of countries whose laws were less exacting as regards qualifying periods.

This situation also calls for appropriate remedies which social security agreements have generally provided by recourse to the technique of totalisation of qualifying periods both for the initial entitlement and the determination of the rights to benefit. The technique of totalisation consists of adding together, as necessary, all periods completed by the

Social security

worker concerned, no matter what the national social security law under which they were completed, and no matter what their nature. It is thus possible to totalise both insurance periods and residence periods completed in different countries, taking into account the nature of these periods, which depends upon the laws in question and the conversion rules fixed by agreement in the instruments involved. In any case, the essential objective remains to take into consideration, if needed, all periods effectively completed under any social security law, by an agreed reconstitution of the working life of the migrant worker, so as to avoid the unjustifiable loss of rights. In accordance with this objective, the totalisation technique serves on the one hand to help the worker to fulfil the conditions of the qualifying period required for initial entitlement, and on the other to fix the rate of his benefits, when this rate varies with the length of the qualifying period. A complete guarantee of rights in course of acquisition is thus achieved.

Finally, it remains to determine the law or laws to which reference must be made for purposes of benefit eligibility. Reference may be made either to one law only, that is to say, the law applicable at the time of the occurrence of the contingency or the law of the country of residence of the person concerned; or else to all of the laws involved in proportion to the periods during which the worker was covered under each law, for the purpose either of determining the rights or merely of dividing the cost of the benefits due. There are also various other technical methods which can be applied, having regard to administrative feasibility, to give effect to the fundamental principle of the maintenance of rights in course of acquisition; it is not, however, necessary to describe them in further detail in this general discussion.

Payment of Benefits Abroad

The fifth principle, regarding the payment of benefits abroad, is becoming increasingly important in international relations in the social security field. This tendency results largely from recognition of the fact that the effective protection of migrant workers and members of their families cannot be achieved merely by the maintenance of existing rights. Instead, such rights need to be guaranteed by the payment of appropriate benefits

Social security of migrant workers

in all cases where the special situation of the beneficiaries can reasonably be considered as a normal consequence of their being migrant workers. This tendency accordingly denotes a growing recognition of the need for real equality of treatment between migrant workers and other workers.

The need for payment of benefits abroad first became apparent in connection with long-term benefits, that is to say pensions and annuities, by reason of their social importance, as was stated in connection with the maintenance of acquired rights. More recently, coverage has been progressively extended to include short-term benefits—especially in the case of sickness, maternity, employment injury and unemployment—and family benefits.

The kind of protection mentioned, which consists of removing any territorial condition imposed by social security legislation, is of concern not only to the workers themselves but still more also to members of their families when they find themselves occasionally or normally living outside the country whose legislation applies to them. Furthermore, frontier workers, who by definition live in a country other than the country in which they work, may need protection in their country of residence and also must receive medical care benefits in that country. Similarly, a worker may become the victim of an employment injury outside the country under whose social security law he is insured, and he must then receive the protection provided in this case. More generally, if it is accepted that a migrant worker becoming unemployed in a country of immigration should return to his country of origin or go to another country where the employment market is more favourable to find new employment, it is nevertheless clear that in this situation he loses the help normally given to unemployed persons while he is seeking this new employment. Finally, it is frequently the case that a migrant worker leaves his family behind in his own country either because the move is a temporary one or because he must first find the necessary accommodation. In these circumstances, members of the family separated from the worker must receive family benefits and also the benefits in kind provided in cases of sickness and maternity. Other comparable situations call for special provisions, which are to be found in the more complete instruments; this is true, for example, in the case of sickness or accident of

Social security

workers on holiday outside their country of employment, or even of persons receiving pensions.

The various examples cited show clearly that the payment of short-term benefits abroad is of no less importance to the protection of migrant workers and members of their families than the maintenance of acquired rights as regards long-term benefits. This is the explanation of why social security agreements tend to assign such great importance to the general principle of payments abroad, as a corollary of the principle of the maintenance of acquired rights.

The methods of paying benefits abroad vary considerably depending upon the nature of the schemes involved, the situation of the workers concerned, and the particular branch of benefit. Moreover, the methods of payment must take account of technical problems of administrative and perhaps medical control of beneficiaries who are otherwise outside the scope of regulatory control of the institution paying the benefits. These considerations have led to the development of relations between social security institutions of different countries and to assignment of responsibility for control to the institution in the country where the worker is or where he resides since it is better placed for this purpose. There is a tendency also to leave to this institution the provision of benefits due, especially benefits in kind, on behalf of the foreign institution actually responsible for payment. This may be done under either the locally applicable legislation or else that applied by the institution of the country where the worker is or resides. Some countries have agreed that this institution should bear in this case the cost of the benefits paid according to its legislation, thereby accepting all the consequences of the principle of equality of treatment considered from the points of view both of the country of employment and of the country of residence.

These various procedures, which may follow from solutions accepted by mutual agreement between the States concerned, taking account especially of the size and direction of the migration of labour, can become the subject of very complicated technical provisions of an administrative and financial nature. But it is important to remember that these techniques all aim at the same objectives, which are to achieve protection of migrant workers, to improve and adapt that protection to the particular

Social security of migrant workers

needs of such workers, and in particular to take account of the needs of workers' families.

The application of the five fundamental principles of equality of treatment, determination of the legislation applicable, maintenance of acquired rights, maintenance of rights in course of acquisition, and the payment of benefits abroad, tends to ensure for migrant workers and the members of their family complete social security protection. These principles are not yet applied generally in all social security agreements, although they could be by means of diverse methods suiting the convenience and interests of the parties concerned. The development of international relations in the field of social security, however, shows a growing tendency to give more weight to these principles and to extend them, as appropriate, to all social security branches and all benefits.

One particularly important aspect of this tendency deserves to be noted: the extension of the principles to so-called non-contributory benefits, which are largely or entirely financed out of public funds. Such benefits, which traditionally had been outside the application of some of the principles of international co-ordination by reason of the special way in which they were financed, are tending progressively to be co-ordinated to some degree with the so-called contributory benefits. This development is inspired by ideals of social justice, which take account of the fact that the effective participation of migrant workers in the financing of their protection is not limited to the latter category of benefit.

Finally, it is appropriate also to indicate the enlargement of the scope of social security agreements that is to be seen in the most recently elaborated instruments, especially in regard to the scope of persons covered. In the past the co-ordination of social security laws has been principally concerned with employees, account being taken of modifications required for certain special categories such as frontier and seasonal workers or seafarers. The new problem of co-ordination of schemes applying to independent workers is now raised within the context of relations between countries where the free movement of persons and the extension of social security legislation to these categories is in practice justifiable. Thus, as is normal, the amount of international co-ordination in the field of social security is developing, and it is being expanded to the same degree as the idea of social security is being accepted by legisla-

Social security

tors themselves. This very desirable trend, which forms a part of the general development of international relations, reflects a clearer and greater awareness of the role social security can play in the solution of social and economic problems created by the migration of workers.

RECENT DEVELOPMENTS IN INTERNATIONAL AND MULTILATERAL CO-ORDINATION IN THE SOCIAL SECURITY FIELD

As early as 1919, when it adopted the Unemployment Convention at its First Session, the International Labour Conference provided that member States bound by the Convention who had established an unemployment insurance scheme must—under conditions to be laid down in a common agreement—make arrangements that would permit workers who were nationals of one State but working in the territory of another to receive benefits equal to those paid to workers who were nationals of the second State. Ever since that time the Conference has consistently adhered to this same principle, in conformity with the International Labour Organisation's policy of promoting equality of treatment in social security in the form either of special provisions in the Conventions dealing with the various individual branches of social insurance or of special Conventions designed exclusively for the protection of foreigners and migrant workers adopted before the Second World War.

Among the special Conventions it is appropriate to mention in particular the Equality of Treatment (Accident Compensation) Convention, 1925, and the Migration for Employment (Revised) Convention, 1949. In addition, the Maintenance of Migrants' Pension Rights Convention, 1935, laid down the basis for an international system for maintenance of acquired rights and rights in course of acquisition, in the case of invalidity, old age and survivors' insurance.

Following the Second World War, the International Labour Conference continued to follow this double approach. On the one hand it introduced provisions relating to equality of treatment in the Social Security (Minimum Standards) Convention, 1952, and the Employment Injury Benefits Convention, 1964. On the other hand, it adopted a new general Convention, the Equality of Treatment (Social Security) Convention, 1962.

Social security of migrant workers

The last-mentioned Convention applies to all branches of social security, following the model of Convention No. 102, and deals also with the payment abroad of invalidity, old age and survivors' pensions, employment injury benefits and death grants, while encouraging member States to co-ordinate their social security laws internationally. The Convention thus represents the culmination of a long series of efforts by the International Labour Organisation towards equality of treatment. At the same time it opens the way for the further development of international co-ordination of social security, in which the International Labour Conference has shown interest since 1935, when it set up the first international system for maintenance of migrants' pension rights. The undoubted interest which the Equality of Treatment (Social Security) Convention, 1962, has aroused is evident from the number of ratifications it has received (nineteen by March 1969) thanks to the extreme flexibility of its provisions, which are designed to take account of the great variety in the social security systems of member States. Its importance will be seen to be even greater when its beneficial effects on the network of protection for migrant workers generally begin to make themselves felt.

In addition to adopting Conventions, the International Labour Organisation has helped to strengthen the movement towards multi-lateral co-ordination of social security schemes at the regional level since the Second World War. It has done this especially in Europe, either directly by work done for its European Members or in conjunction with the competent European regional organisations. The scope of the first agreement thus adopted has been intentionally limited, as regards both categories of persons protected and the contingencies covered, having regard to the occupations concerned and the technical problems to be solved.

Thus the International Labour Office first undertook, in conjunction with the Central Navigation Committee of the Rhine, the preparation of a first Agreement concerning the social security of Rhine boatmen. This was successively adopted by a special Tripartite Conference on Rhine Boatmen on 14 December 1949, and then by an intergovernmental conference on 27 July 1950. The agreement binds the States bordering on the Rhine—France, the Federal Republic of Germany, the Netherlands and Switzerland—as well as Belgium, and it came

Social security

into force on 1 June 1953. Subsequently, the International Labour Office submitted, first to a preparatory tripartite meeting, then to an intergovernmental conference held for this purpose, a draft European Convention concerning the social security of workers engaged in international transport, which was adopted on 9 July 1956. It was open to ratification by European Members of the International Labour Organisation, and also by every other European country, and it came into force on 1 October 1958. At present, it is binding on Belgium, France, Italy, Luxembourg, the Netherlands, Poland and Turkey.

At the same time the International Labour Office made available its technical expertise for a project of the High Authority of the European Coal and Steel Community (ECSC) for putting into effect Article 69, paragraph 5, of the treaty setting up the Community. This imposed an obligation on member States to work out the necessary arrangements so that their national social security provisions would not be an obstacle to mobility of labour. The project resulted in the conclusion of a European Convention concerning social security for migrant workers, which was signed at Rome on 9 December 1957 by representatives of the six member States of the ECSC: Belgium, France, the Federal Republic of Germany, Italy, Luxembourg and the Netherlands.

After the setting up of the European Economic Community (EEC), the above Convention became, after certain formal modifications, Regulations (No. 3) of the EEC concerning social security for migrant workers, made by virtue of the provisions of Article 51 of the treaty setting up the EEC. In accordance with these provisions the Council of the EEC is empowered to adopt measures necessary in the social security field to ensure the free movement of workers. This may be done especially by setting up a system which ensures to migrant workers and their survivors the availability of a system of totalisation for the obtaining and maintenance of benefit rights, calculation of benefit amounts, and payment of benefits to persons residing in the territories of the member States. The main provisions of the Regulations came into force for the six member States from 1 January 1958.

Since that date the International Labour Office has continued its technical co-operation with the Commission of the EEC and its Administrative Commission for the social security of migrant workers, whose

Social security of migrant workers

main duty is to follow and facilitate the application of the Regulations. The ILO has also co-operated with the Commission of the EEC extending and revising the Regulations in agreement with the High Authority of the ECSC. The Regulations are at the present time the most complete multilateral instrument in the field of social security, because they extend to all employees in the six countries involved and to all branches of social security. A special result of the Regulations was to bring about a revision of the first Agreement concerning the social security of Rhine boatmen; this led to the adoption on 13 February 1961 of a revised agreement by an intergovernmental conference arranged by the International Labour Office. The new agreement covers the territories and nationals of the countries bound by the earlier agreement, and also those of Luxembourg.

To meet similar needs, the Secretariat of the Council of Europe entrusted its committee of social security experts with the preparation—with the technical assistance of the International Labour Office—of a European Convention on social security that would replace and complete the European Interim Agreements on Social Security of 11 December 1953. The purpose was to co-ordinate the social security laws of the eighteen States Members of the Council of Europe. The Interim Agreements, which came into force on 1 October 1954, and which at present bind all States of the Council except Austria, Cyprus, Malta, Switzerland and Turkey, have as their main object simply to ensure equality of treatment under social security among nationals of the contracting parties.

Finally, in the American region the Seventh and Eighth Conferences of the American States Members of the International Labour Organisation also showed their interest in the multilateral co-ordination of social security systems on the American continent. This interest, which is linked with efforts to liberalise trade among the countries of Latin America and with the economic integration of Central America, led the Organisation of Central American States to ask for the technical assistance of the International Labour Office in the working out of a social security convention. The text of a convention on this subject was agreed upon in 1967 by representatives of Costa Rica, Guatemala, Honduras, Nicaragua, Panama, and El Salvador; it has already been

Social security

ratified by Nicaragua and will enter into force sixty days after deposit of the second instrument of ratification.

In general, the International Labour Office has been closely associated, as regards the technical aspects, with the preparation of the administrative instruments necessary for bringing into effect these various regional social security agreements, conventions and regulations.

To make a fair evaluation of the remarkable development of international relations in the field of social security since the Second World War it is appropriate to recall that the multilateral instruments are themselves the result and the culmination of numerous bilateral agreements. While the origins of bilateral arrangements in the social security field date back to the beginning of the century, the multilateral arrangements, which have been established more recently first under the auspices of the International Labour Organisation and then at the regional level with the technical co-operation of the Organisation, have developed particularly rapidly since 1950. Many factors have contributed to this growth, among which one must mention the general acceptance of the idea of social security, the setting-up of regional economic and political structures, the volume of migration by workers, and in particular the organised migrations especially devoted to achieving economic integration.

In combination with the general movement towards integration, which first appeared at the regional level, the multilateral co-ordination of social security systems has certain advantages over other methods. On the one hand, it aims at achieving the equality of benefits which the persons concerned have the right to expect. On the other, it assists in the work of the agencies charged with applying the agreements and consequently reduces their costs, thanks to the considerable simplification of provisions and procedures that it permits. Finally, the multilateral method is more easily adapted to the economic and political policies of whole regions which are moving towards a common constitution. Thus there is achieved, in this new phase of international relations, a rational division of functions between the laying down of fundamental principles of migrants' social rights at the international level, and the application of the technical formulas required for the co-ordination of

Social security of migrant workers

social security systems in as complete a fashion as possible at the regional level. At the latter level there has grown up, especially in Europe, a very effective collaboration between the various organisations concerned.

In participating actively in both of these movements, the International Labour Organisation has remained faithful to its traditional objective of protecting migrant workers in the field of social security, and also to its objective of being an instrument of social progress and co-ordinated economic development. It has stressed both of these objectives since its beginning. Migrant workers are, in effect, exposed to particular vicissitudes as regards the economic and demographic aspects of their working conditions. Although social security cannot hope by itself to satisfy all their social needs, it is none the less an essential means of protection that must be fully granted as a fundamental right of man.

Points for Discussion

1. *Why is the protection of migrant workers of particular importance in the field of social security?*
 2. *What are the reasons why the unco-ordinated application of individual national laws is inadequate for achieving the social security of migrant workers?*
 3. *What are the fundamental principles of social security for migrant workers and the reasons for their importance?*
 4. *How have the international measures of protection required to achieve these principles been applied?*
-

Twelfth Lesson

TECHNICAL CO-OPERATION IN SOCIAL SECURITY

Origin and objectives of technical co-operation.

Bilateral and multilateral co-operation.

Technical co-operation activities of the ILO:
origin and basic principles; methods of operation;
fields of technical co-operation; examples of technical co-operation;
difficulties encountered.

Direct aid of the Organization of American States to
Latin American countries.

TECHNICAL CO-OPERATION IN SOCIAL SECURITY

ORIGIN AND OBJECTIVES OF TECHNICAL CO-OPERATION

The ideas about social security provided in preceding lessons enable us now to discuss some general considerations which make it easier to explain how technical co-operation in the social security field began and has developed. It may first of all be observed that each modern nation has available, *a priori*, a wide and complex range of methods for achieving its social security objectives. As a practical matter, however, it is necessary for the nation at different stages to select and employ some specific methods. These inevitably will be related to the historical development of the country, as well as to its social, economic and administrative patterns.

The fundamental problem facing those responsible for the welfare of the nation will consist, therefore, in first studying and then putting into force the social security programme considered to be the most efficient for satisfying the needs of its population. This must take into account the limits imposed by such factors as the demographic structure, the state of the labour market, economic conditions, the extent to which different social needs are to be met, etc. The second important observation is that solutions reached at different stages in the planning and application of social security measures cannot be purely pragmatic or based on financial improvisation. Otherwise, the population of the country will be subject to social legislation badly adapted to their real needs; or social security arrangements will be set up that are very imperfect or even unworkable for the community as a whole.

One cannot fail to recognise, therefore, the very technical nature of the studies and tasks that are required in order to set up a social security scheme. The same is true of the technical character of the administrative operations essential to the functioning of any social security scheme, functions which have been summarised briefly in the Tenth Lesson of this manual. The technical methods in question, whether they are applied in studies, research, administrative organisation, or the problems of

Technical co-operation in social security

financing social security, take very diverse forms. It is only necessary to think, for example, of the techniques required for setting up the accounting system of a social security agency, organising the operation of a network of clinics and hospitals, preparing actuarial estimates seeking to assure the financial equilibrium of a social security scheme, organising a statistical programme, or utilising modern data-processing methods for use in the administration of social security (punch-card machines, electronic computers, etc.).

The very organisation of a social security programme and its formulation in legislative terms and in regulations involve complex tasks of planning and drafting of texts which demand specialised knowledge in different areas. Social security has in fact become a discipline in itself. Its history, the evolution of doctrines and procedures applied in different countries to protect their populations against social risks, the relevant international standards, the special questions posed by social security in developing countries, and indeed the relationships between social security and the national economy—these are some of the subjects that all who are responsible for the planning and organisation of social security cannot ignore today.

It is apparent, therefore, that social security measures must take form and be progressively organised with the participation of numerous persons who have received appropriate higher or specialised education. The original training must thereafter be supplemented by practical experience. The specialist or technician actually completes his education only after a number of years of work.

Even though social security is an aspiration that knows no frontiers, there are numerous countries in the world today where its introduction is fairly recent and where for various reasons—related especially to the limited possibilities of education in the countries—there is a scarcity and sometimes even total lack of persons with sufficient experience or knowledge to carry out the work that the planning, legislative drafting and practical functioning of social security require. Technical co-operation was gradually organised as it became evident that many countries which wished to introduce or improve social security legislation or place the administrative and financial structure of social security on a solid basis lacked persons technically qualified for the tasks to be carried out.

Social security

The technical co-operation that seeks to respond to needs of this kind has therefore been envisaged as a contribution of knowledge, aside from any economic aid, that one country or a group of countries provide to another country. The aim is to enable the latter to carry out the work required in the formulation of social security programmes or to assure their functioning in the best possible technical conditions.

BILATERAL AND MULTILATERAL CO-OPERATION

The technical co-operation we are discussing here includes arrangements reciprocally established between two specific countries by means of agreements entered into between the two governments concerned, usually through diplomatic channels. This form of co-operation is called *bilateral* since it involves only two parties. Thus, some European countries, such as France, Belgium, Spain and the United Kingdom, from time to time place technical advisers in social security at the disposal of new countries in Africa, America or Asia. Possibilities for training citizens of the new countries are likewise offered through fellowships and traineeships provided within the framework of bilateral aid.

There also exists a form of bilateral co-operation between the social security agencies of two different countries. One agency may provide the other with the services of its own technicians directly through specific agreements, often without the formal intervention of the respective governments. The direct exchange of practical experience between agencies in this way can be particularly beneficial, especially in the search for solutions to problems of administration and in the training of supervisors and other staff members.

Technical co-operation in social security is considered, in contrast, to be *multilateral* when it is conceived collectively by a group of countries and is carried out through the intermediary of international or regional organisations that include the countries concerned. Among the principal multilateral programmes of technical co-operation in the social field may be mentioned those carried out by the International Labour Organisation and the Organization of American States. Because of its importance and its international scale, the technical co-operation undertaken by the ILO

Technical co-operation in social security

has occupied for some years an outstanding place. It is appropriate, therefore, to describe its nature, objectives and operating procedures.

TECHNICAL CO-OPERATION ACTIVITIES OF THE ILO

Origin and Basic Principles

For fifty years the International Labour Organisation, whose aim is to improve conditions of life and work in the world, has laboured unceasingly in order that its member States may develop adequate protection against the social risks that threaten workers and their families. The evolution of social insurance and social security from 1919 to the present day reflects the pioneer role that the ILO has played in this as in many other fields of social policy.

Parallel with the formulation of international standards, research, its analysis and distribution of information, the ILO has always furnished practical assistance and advice to member States wishing to introduce or expand schemes of social insurance or social security. Aside from its consultations by correspondence, the aid furnished by the ILO between 1919 and 1950 generally consisted of sending, at the request of governments, advisory missions or missions of inquiry. This form of activity was particularly important at the time of the introduction of social insurance in certain countries of Europe and Latin America, despite the fact that the financial resources at the disposal of the ILO for this purpose were relatively modest at that time.

After the Second World War the ILO endeavoured to enlarge its operational activities. The latter underwent a marked growth starting in 1950 when the technical co-operation programme of the United Nations and the specialised agencies was put into effect. On 15 August 1949, at Geneva, the Economic and Social Council of the United Nations adopted Resolution No. 222 (IX) entitled "Expanded Programme of Technical Assistance for Economic Development of Insufficiently Developed Countries". This Resolution still constitutes today the principal basis for the policy of multilateral technical co-operation undertaken by the United Nations and the specialised agencies. Even

Social security

if it is not specifically mentioned in the title of the Resolution, social development in the same way as economic development was a fundamental objective included in the programme of action envisaged by the Economic and Social Council. It is therefore the responsibility of the ILO, the specialised agency of the United Nations competent in the labour and social security field, to undertake the carrying out of technical co-operation projects formulated under the Expanded Programme of the United Nations.

It may also be noted, however, that following the creation of a supplementary programme of co-operation of the United Nations—the Special Fund—and the recent merging of this programme with the Expanded Programme, all technical co-operation activities carried out by the United Nations and its specialised agencies have since January 1966 been merged into the “United Nations Development Programme” (UNDP). Among the essential elements that characterise this programme, in which the ILO participates, the following may be noted:

- The principal objective is to help insufficiently developed countries to strengthen their national economies, in order to further their economic and political independence and to permit their whole population to achieve a higher level of economic and social welfare.
- Technical co-operation is to be furnished only by agreement with the governments concerned and after requests received from such governments; it will be undertaken only with governments or through their intermediary; the kind of services furnished must correspond to the needs of the country in question; these will be determined by the government concerned and the services will be furnished to the extent possible in the form desired by such government.
- A country that wishes to receive technical co-operation services must as a preliminary do all that is possible to define the nature and scope of the problems that are involved.
- Technical co-operation shall not constitute a pretext for economic or political interference by another country in the internal affairs of the country concerned, must not be accompanied by any considera-

Technical co-operation in social security

tion of a political character, and must avoid all distinctions based on the political scheme of the country or on the race or religion of its population.

- Experts must be chosen not only for their technical competence but also for their deep understanding of the culture and specific needs of the countries to which they are sent and their ability to make use of it; they must have a training appropriate to their tasks, and their functions must be strictly defined in each case through agreement with the country to which they are sent.
- All governments are invited to co-operate in the development and selection of qualified experts; universities, technical schools, foundations, research institutes and other non-governmental institutions should be encouraged to detach experts who can undertake missions under the Programme.
- Requesting governments must be ready, among other things, to facilitate the action requested by aiding the organisations to obtain necessary information on the problems with respect to which their help has been solicited, and to take into consideration rapidly and fully the technical advice that they receive.

The financing of the UNDP is provided through voluntary contributions by States Members of the United Nations. The funds obtained in this way are distributed on the basis of appropriate criteria among the various nations presenting requests for technical co-operation services. The total amount made available to each country is devoted to carrying out different technical co-operation projects, on the basis of priorities that are fixed by the governments of these countries. A detailed programme of operations is drawn up and approved. On the basis of the estimated cost of projects approved in the social security field, the ILO receives for each beneficiary country certain credits which enable it to carry out the projects approved. Financial and accounting procedures, which would require too much space to describe here, allow a service of the United Nations to keep track of the administrative expenses of each specialised agency participating in the Programme and also to require from countries involved in technical co-operation projects a

Social security

generally modest participation in the cost thereof through sharing a part of the expenses that can be paid for in local currency.

The total cost of the Expanded Programme during the period 1950-65 amounted to \$463.1 million. Of this amount, \$435.1 million, or 94 per cent, has been put at the disposal of the participating agencies; and \$28 million, or barely 6 per cent, has gone to cover administrative expenses. In addition to the central services of the United Nations at New York, an extensive network of UNDP representatives covers almost all developing countries and maintains contact with governments requesting and receiving technical co-operation services, the specialised agencies, and UNDP authorities at New York.

The share granted to the ILO out of the total of \$435 million available to all agencies has amounted to \$44.2 million, or about 10.2 per cent. In 1968 the cost of social security projects carried out by the ILO attained a total of some \$538,000.

The technical co-operation of the ILO is not limited, however, to projects carried out under the United Nations Development Programme. The annual budget of the Organisation derived from contributions of Member States provides some credits specifically related to technical co-operation. A part of these is naturally used to satisfy requests for co-operation in the social security field. The programme financed out of the regular budget of the ILO is to some extent complementary to that of the United Nations. It aims particularly to finance some missions of short duration, urgent projects not included for various reasons in the United Nations programmes, and similar projects. Credits available in the ILO budget have risen considerably during recent years. From \$140,700 in 1959 they have grown to \$2,339,000 in 1968. The part of this budget devoted to social security amounted in 1968 to about 7.5 per cent of the total, or an amount of some \$180,000.

There also exists a third method of financing ILO technical co-operation in the social security field. It consists of asking a government which requests such services from the ILO to assume the full cost of the project in question. The government in this case must first remit to the ILO the estimated sum necessary (Trust Fund). The ILO thereupon assumes entire responsibility for carrying out the project, just as if it were a project financed under its other programmes of technical co-operation. The

Technical co-operation in social security

setting-up of projects by means of a Trust Fund makes it possible for governments or social security agencies having financial resources to employ technical advisers to obtain the services of highly qualified international experts, and to profit from the experience of the International Labour Organisation.

In summary, the credits at the disposition of the ILO for the purpose of assisting different countries in the field of social security come from three sources:

- (a) the share allotted to the ILO under the UNDP;
- (b) the ordinary budget of the ILO;
- (c) the funds put at the disposal of the ILO by certain countries for the purpose of financing technical co-operation services that are furnished to them (Trust Fund).

Methods of Operation

The ILO makes use of four principal methods of assisting developing countries in the field of social security:

- (a) appointment of regional social security advisers;
- (b) the sending of experts on national assignments;
- (c) the organisation of regional seminars for the purpose of enabling participants coming from a specified group of countries, with the help of ILO grants, to study social security questions with the help of international experts;
- (d) the provision of training fellowships.

The duration of the missions of experts varies according to the kind of co-operation required, but they usually last between three months and two years. Some missions of quite short duration (less than three months) are also carried out in special cases. This might be done, for example, when a preliminary exploratory mission is sent before the commencement of a project of long duration, or when it is a matter of refining or following up on the application of recommendations formulated during a preceding mission.

Social security

The duration of fellowships varies between three and twelve months, depending on their nature. An exception is made for fellowships covering complete university courses in the field of actuarial science. The seminars generally last about a month, alternating among theoretical courses, round-table discussions and study visits to social security institutions in the host country.

The contacts established during technical co-operation missions or seminars between the Office and national authorities responsible for social security are frequently maintained through subsequent correspondence. The Social Security Branch of the ILO frequently studies draft legislation, organisational plans, financial estimates, etc., that are submitted to it. It formulates suggestions and advice on a wide range of technical problems, much the same as an expert might do on the spot. It is evident that the experience acquired directly in the field by the Office staff, who sometimes carry out technical co-operation missions themselves, is indispensable for the efficient provision of advice by correspondence and for supervising the carrying out of projects in different countries.

The assigning of experts as regional social security advisers and experts in various regions is a new development. In the field of social security a regional adviser and two regional experts are now assigned to Latin America, two regional advisers to Africa and one to Asia.

Fields of Technical Co-operation

The technical co-operation of the ILO in the area of social security can be classified as follows:

- (a) general surveys of the economic, social and administrative conditions of a country, and the drawing-up of a social security plan that corresponds to its present and probable future needs;
- (b) preparation of social security legislation: this phase includes the preparation of Bills and perhaps also detailed drafts of the implementing regulations; new laws may be introduced or existing ones revised or amended;

Technical co-operation in social security

- (c) study of problems of organisation and administration, for the purpose of improving the techniques and procedures of administrative agencies; three specialised sectors may be distinguished in the field of administrative organisation: (i) accounting; (ii) services responsible for the collection, analysis, and presentation of statistics; and (iii) data-processing;
- (d) study of problems connected with the organisation of medical care under social security: assisting governments or administrative agencies to organise in an efficient and rational manner social security medical services, studying the most effective methods of providing the care called for by legislation, drawing up necessary technical and administrative regulations, etc.;
- (e) study of the financial aspects of social security schemes: preparing the actuarial evaluations necessary before the introduction of a scheme, developing estimates of the financial consequences of changes proposed in existing schemes, or elaborating actuarial balance sheets and analyses that permit judgments and forecasts to be made concerning the financial equilibrium of one or another social security branch;
- (f) training of staff and supervisors at all levels and in all technical fields related to social security.

As a practical matter the above fields may not always be dealt with in isolation but may form an interdependent group. Thus the solution of problems relating to several of the fields in combination may be undertaken in a single mission by one or more experts.

Table XV provides a clearer picture of the amplitude of the operational activities of the ILO, in the form of advisory missions carried out since 1952 in different regions of the world.

It should be noted that some of the missions included in the category of "general survey and planning" also included some work in the actuarial and financial fields. In these cases it was the technical services of the ILO headquarters which carried out the work necessary to complete that which the expert had done. On the other hand, the tabulation does not include the missions of short duration carried out in different

Social security

TABLE XV. TECHNICAL CO-OPERATION MISSIONS CARRIED OUT
BY ILO SOCIAL SECURITY EXPERTS, 1952-66¹

Field of co-operation	Africa	Latin America	Asia	Near and Middle East	Total
General survey and planning	23	26	14	8	71
Legislation	11	3	7	2	23
Administration	29	14	10	14	67
Accounting	5	3	1	3	12
Financial organisation . .	14	19	6	9	48
Medical care	1	9	2	3	15
Total . . .	83	74	40	39	236

¹ Missions of experts participating in ILO regional seminars are not included. The Caribbean Region is included under Latin America. The tabulation includes missions carried out under the UNDP, the ordinary budget of the ILO and Trust Funds up to 31 December 1966, including missions in process on that date.

countries by four regional experts, of whom three were permanently assigned to Latin America and one to Africa at the end of 1966. These experts follow up on work done and recommendations formulated by previous advisory missions, and are available to assist governments and social security agencies of the region in the solution of technical questions not requiring the sending of an expert for a prolonged mission.

Examples of Technical Co-operation

It would not be possible in this lesson to review all of the principal technical co-operation projects carried out by the ILO in the past, or to describe in detail the circumstances under which the work was done or the results which were achieved. By way of illustration, there are presented below a few examples of social security projects that will permit a better understanding of the nature of the operational activities of the ILO.

The majority of the African nations that were previously connected with France or Belgium, for example, have asked the ILO to send experts to collaborate in the development of new social security programmes

Technical co-operation in social security

which are in harmony with the social, economic, and administrative context of the countries after their accession to independence. Thus, in the Congo (Kinshasa) ILO experts participated in the elaboration of new social security legislation adopted in 1961 and have co-operated since then with the Ministry of Labour and Social Affairs in the preparation of regulations and with the National Social Security Institute in the setting-up of services and introduction of techniques necessary for the administration of the social security scheme. In the same country the ILO has studied problems involved in improving the social protection of Congolese seamen working on board boats flying the Belgian flag.

In the Central African Republic, Gabon, Mauritania, Niger, Togo and other countries the introduction of national pension insurance schemes has been followed by reforms in the legislation and administration of social security, with the close co-operation of experts of the International Labour Office. A team of ILO experts in 1964 made a general survey of the existing state of social security schemes in Algeria, for the purpose of facilitating study of a complete reform of such schemes, and formulated suggestions regarding the orientation to be given to social security policy in the country.

The ILO has furnished similar services to some of the countries of Africa whose first foreign language is English. These include Ethiopia, Ghana, Nigeria, Sudan, Tanzania, etc. Various new legislative texts have been elaborated with the assistance of ILO experts. New administrative structures have been progressively developed. In order to build on solid bases, the countries concerned have obtained the services of other experts of the ILO.

The problems of administrative organisation are particularly thorny when social security legislation has to be applied in a community where the level of education of workers and employers often makes it difficult to complete the administrative formalities. The level of education of the staff and supervisors of social security agencies is also often very modest.

Experts of the ILO, working in close co-operation with the local officials responsible, are assisting numerous countries of Africa to resolve various problems of organisation such as—

Social security

- (i) identification and registration of insured persons;
- (ii) collection of contributions and checking of undertakings subject to the scheme;
- (iii) verification of rights to benefit;
- (iv) arrangement of premises and files;
- (v) mechanisation of accounting, administrative and statistical operations (data-processing).

At this stage, the training of local supervisors forms an integral part of the work of each expert, so that activities will be effectively carried on after his departure.

In Latin America social insurance had already made considerable progress before 1950. From then on, however, the process of extending its scope and the risks covered has been speeded up throughout the continent. Entirely new laws have been adopted in some countries (Bolivia, Cuba, El Salvador, Honduras, Nicaragua, etc.) further enriching the social security legislation of Latin America. The financial and economic implications of this growth have required, in numerous countries, the preparation of actuarial studies and financial projections. In addition, it has been necessary to formulate financial provisions to guarantee both the financial equilibrium of the insurance institutions and the timely adjustment of social benefits made necessary by the severe monetary depreciation suffered by certain countries of Latin America.

In the majority of Latin American countries the systematic teaching of actuarial techniques applicable to social insurance and pension funds was very limited twenty years ago. Because of this fact, the technical co-operation of the ILO in the actuarial and financial field has played a role of major importance in the region. It has likewise contributed to an understanding by responsible officials of the fact that all social programmes must have a solid financial basis and must correspond to the realities and actual potentialities of the national economy. In addition, the work of the ILO experts has aided in the spread of modern methods of actuarial analysis and concepts regarding the financial organisation of social security schemes. Some fellowships for the actuarial training of young officials from Latin America in European universities have also

Technical co-operation in social security

formed a part of the technical co-operation of the ILO in this region.

The evolution of social security in Latin America has recently entered a new phase. The public authorities there are realising more and more that, in addition to its positive aspects, social security suffers in various countries of the American continent from gaps and defects which prevent it from fulfilling its role fully from the social and economic standpoint. It is recognised also that social security programmes would gain from being integrated into the economic planning of the State, and that priority must be given to the extension of social security to rural communities. The latter necessitates a new orientation as well as methods of application that are appropriate to the special conditions of life and work of rural populations.¹

At this stage of development the ILO has provided useful technical advice to the countries concerned, based on its long experience of technical co-operation all over Latin America. It has likewise been co-operating with various countries in the Caribbean Region, including Barbados, Guyana, Jamaica, and Trinidad and Tobago.

In the Middle East the systems of social security of Iran and Iraq have been organised almost entirely on the basis of studies carried out by ILO experts. The same situation exists in Libya where, almost without interruption since 1952, advisory missions of the ILO have collaborated with the Libyan Government in all phases of planning, implementation and improvement of an entirely new system of social security that differs in a number of respects from the systems of neighbouring countries in North Africa.

In Asia similar technical co-operation projects have been undertaken. Although the entire list of countries is too long to enumerate them all here, Burma, Ceylon, Indonesia and Pakistan have especially benefited from the technical co-operation of the ILO.

As regards regional projects which are concerned primarily with the training of higher supervisors of social security, technical co-operation

¹ See Eighth Conference of American States Members of the International Labour Organisation (Ottawa, 1966): Resolution concerning the Role of Social Security in Social and Economic Development in the Americas (The Ottawa Programme of Social Security Reform), in *Official Bulletin* (Geneva, ILO), Vol. L, No. 1, Jan. 1967, pp. 78-81.

Social security

has made it possible to hold a number of seminars attended by numerous participants. After a series of seminars held for the countries of Latin America between 1950 and 1957 by the ILO in conjunction with other regional and international agencies, various study and training sessions have been organised in Europe, Africa and Asia for the benefit of developing countries. The subjects on the agenda of the study sessions are selected by the ILO on the basis of the special needs of the social security officials of the countries invited to participate. An intensification of this kind of activity has recently taken place for the French-speaking countries of Africa.

Among the numerous holders of fellowships who have had the opportunity through technical co-operation to study social security or to undergo training in countries with a long tradition of social programmes, many now occupy important executive posts in the new social security agencies of their home countries.

Difficulties Encountered

Like any relatively new enterprise, technical co-operation has had to experiment with fresh approaches to working methods, subjecting them systematically to revision in the light of the results achieved. If there are difficulties that can be overcome by improved methods, the success of a programme of operational activities in the social security field nevertheless depends to no small degree on other factors over which the ILO has no direct control.

It must be remembered first that the services of an expert are furnished by the International Labour Office only at the express and official request of a government. The functions of the expert are advisory. They consist in formulating recommendations and suggesting technical solutions to specific problems, sometimes down to the last detail. But the government alone is responsible for putting into force the recommendations of experts, even though the latter may in certain cases be closely connected with their implementation, such as in organising an administration, building up a staff, etc. The effectiveness of any advice depends not only on the wisdom of the adviser but also upon the willingness of those who receive the advice to put it into practice.

Technical co-operation in social security

Experience also shows that progress in the legislative, regulatory and administrative implementation of social security plans suffers from the ups and downs of the internal situation of a country. A change in the political structure of governments, or even a change of ministers, can have the result of delaying, and sometimes of deferring indefinitely, the execution of a social security plan carefully prepared by experts. The political stability and degree of dynamism of the legislative and executive power of a country which has requested technical co-operation services thus play a principal role in the success of a project. It has also been observed that a process of imitation and emulation is often at work in a given region, affecting the social security policy of the countries within it in a rather unforeseen manner.

An expert therefore finds himself engaged in both technically complex and psychologically delicate work. It is not enough for him to be able to formulate technically well-founded recommendations that correspond to the needs of the particular country. He must also know how to demonstrate the usefulness and timeliness of such recommendations in a persuasive manner. Aside from the professional competence of the expert, his personal qualities (his adaptability to his surroundings, his tact, the confidence he is able to win, etc.) are of much importance.

The selection and recruitment of highly qualified experts thus pose some serious problems. It is often difficult for the ILO to obtain the services of a person who has the necessary technical competence and personal qualities, and who at the same time possesses the required language skills and in addition is free to undertake the mission at the desired moment.

National technicians are usually recruited from among the personnel of agencies that plan, manage or supervise social security programmes, that is from a layer of officials or specialists who often cannot leave their regular posts without creating serious difficulties for national administrations. Moreover, the carrying out of a project requires a considerable effort from the expert and often involves some inconvenience due to the need for moving house, difficult climatic conditions and remoteness or inaccessibility of the place of his work; in addition, he must achieve concrete results in a relatively short time.

Social security

Some difficulty also arises in certain cases when an expert recruited to carry out a task in a specified field is asked by the government to give his opinion on questions that go beyond his own speciality. One cannot blame a government for wishing to profit from the presence of the expert, as one might do with a social security encyclopædia. But one cannot ask an actuary for advice on the organisation of medical care, or a lawyer for an opinion on financial organisation, without embarrassing the expert or obtaining doubtful results.

These few remarks illustrate the problems connected with a technical co-operation project, and give a better insight into the reasons for its success or failure. An effort must undoubtedly be made to work toward a satisfactory equilibrium between the supply and demand of social security experts, without weakening the high quality of the assistance furnished—an essential objective of international technical co-operation.

DIRECT AID FROM THE ORGANIZATION OF AMERICAN STATES TO LATIN AMERICAN COUNTRIES

A programme of regional technical co-operation was established in 1950 in accordance with a resolution adopted at Washington at the time of the first meeting of the Inter-American Economic and Social Committee of the Organization of American States (OAS). This programme began in 1951 and was at first oriented principally toward projects seeking to contribute to the technical education of young people in Latin American countries in the economic, social, scientific and cultural fields. Social security has been represented in this programme only in more recent years. Advisory missions have been carried out since 1960 at the request of social security agencies in countries of the region.

The OAS is likewise intensifying its activity through the awarding of fellowships and participation in the organisation of seminars for officials of social security institutions in the region. These activities are carried on in collaboration with the Ibero-American Social Security Association, whose headquarters are at Madrid, and the Inter-American Social Security Study Center established in Mexico City under the sponsorship of the Mexican Social Security Institute and the Inter-American Committee on Social Security.

Technical co-operation in social security

Appropriate co-ordination is constantly sought among the activities of the above-mentioned organisations and the technical co-operation programmes carried out in Latin American countries under the auspices of the ILO. This is done so that the American countries can derive the greatest benefit from the multilateral co-operation that is offered to them, and also to assure the social progress of their populations under the most favourable conditions.

Points for Discussion

1. *Describe briefly the nature, objectives and operating procedures of the technical co-operation projects in social security undertaken by the ILO.*
 2. *List the areas of social security in which the ILO gives technical advice.*
 3. *What are some of the difficulties encountered by the ILO in its technical co-operation programmes ?*
-

SUGGESTIONS FOR FURTHER READING

PUBLICATIONS OF THE INTERNATIONAL LABOUR OFFICE

- Unemployment Insurance Schemes.* Studies and Reports, New Series, No. 42. Geneva, 1955.
- Equality of Treatment of Nationals and Non-nationals in Social Security.* Report VIII (1), International Labour Conference, 45th Session (Geneva, 1961). Geneva, 1960.
- Social Security for Migrant and Non-national Workers.* Report II, Seventh Conference of American States Members of the International Labour Organisation (Buenos Aires, 1961). Mimeographed.
- Benefits in the Case of Industrial Accidents and Occupational Diseases.* Report VII (1), International Labour Conference, 47th Session (Geneva, 1963). Geneva, 1962.
- Revision of Conventions Nos. 35, 36, 37, 38, 39 and 40 concerning Old-age, Invalidity and Survivors' Pensions.* Report V (1), International Labour Conference, 50th Session (Geneva, 1966). Geneva, 1965.
- The Role of Social Security and Improved Living and Working Standards in Social and Economic Development.* Report III (Part I), Eighth Conference of American States Members of the International Labour Organisation (Ottawa, 1966). Offset.
- Revision of Conventions Nos. 24 and 25 concerning Sickness Insurance.* Report VI (1), International Labour Conference, 52nd Session (Geneva, 1968). Geneva, 1967.
- The Cost of Social Security: Sixth International Inquiry, 1961-1963.* Geneva, 1967.
- Social Security in Asia: Trends and Problems.* Report II, Sixth Asian Regional Conference (Tokyo, 1968). Geneva, 1968. Offset.
- Guy PERRIN: "Reflections on Fifty Years of Social Security", in *International Labour Review* (Geneva), Vol. 100, No. 3, Mar. 1969, pp. 249-292. Also available as an off-print.
- Milton I. ROEMER: *The Organisation of Medical Care under Social Security*, Studies and Reports, New Series, No. 73. Geneva, 1969.
- La sécurité des revenus face aux changements de structure*, Geneva, 1969.

Social security

PUBLICATIONS OF THE INTERNATIONAL SOCIAL SECURITY ASSOCIATION

- The Role of the Child in relation to Entitlement to Family Allowances.* Report VI, Thirteenth General Assembly (London, 1958). Offset.
- The Adjustment of Old Age Pensions to Fluctuations in Economic Conditions.* Report III, Fourteenth General Assembly (Istanbul, 1961). Published in *ISSA Bulletin* (Geneva), Year XV, Nos. 3-4, Mar.-April 1962.
- The Registration and Identification of Insured Persons and the Collection of Social Insurance Contributions.* Report X, Fourteenth General Assembly, (Istanbul, 1961). Published in *ibid.*, Nos. 10-12, Oct.-Nov.-Dec. 1962.
- Social Services Provided by Social Security Agencies Members of the ISSA.* Report IV, Fifteenth General Assembly (Washington, 1964). Offset.
- The Relationship between Family Allowances Schemes and Social Services.* Report V, Sixteenth General Assembly (Leningrad, 1967). Offset.
- Social Services Provided by Unemployment Insurance Institutes.* Report XI, Sixteenth General Assembly (Leningrad, 1967). Offset.
- Relations between Social Security Institutions and the Medical Profession.* Report XV, Sixteenth General Assembly (Leningrad, 1967). Geneva, 1968. Offset.

OTHER PUBLICATIONS

- ABEL-SMITH, Brian: *Paying for Health Services: A Study of the Costs and Sources of Finance in Six Countries.* Public Health Papers, No. 17. Geneva, World Health Organization, 1963.
- Idem: *An International Study of Health Expenditure and Its Relevance for Health Planning.* Public Health Papers, No. 32. Geneva, World Health Organization, 1967.
- BEVERIDGE, William: *Social Insurance and Allied Services.* London, H.M. Stationery Office, 1942.
- BURNS, Eveline M.: *Social Security and Public Policy.* New York, McGraw-Hill, 1956.
- CONDLIFFE, J. B.: *The Welfare State in New Zealand.* London, George Allen & Unwin, 1959.
- FIELD, Mark G.: *Soviet Socialized Medicine: An Introduction.* New York, The Free Press, London, Collier-Macmillan, 1967.
- GILLING-SMITH, G. D.: *The Complete Guide to Pensions and Superannuation.* Pelican Book A 844. London, Penguin Books, 1967.
- HOGARTH, James: *The Payment of the General Practitioner: Some European Comparisons.* Oxford, London, New York, Paris, Pergamon Press, 1963.

Suggestions for further reading

Inter-American Social Security Conference: *Reciprocity of Treatment on Social Security in the American States : Study of a Model of Instrument Adapted to the Characteristics of Social Security in the American Countries*. Report prepared by the International Labour Office for the Seventh Meeting. Geneva, 1963.

KEWLEY, T. H.: *Social Security in Australia*. Sydney, University Press, 1965.

KUUSI, Pekka: *Social Policy for the Sixties : A Plan for Finland*. Helsinki, Finnish Social Policy Association, 1964.

LYNES, Tony: *French Pensions*. Occasional Papers on Social Administration, No. 21. London, G. Bell & Sons, 1967.

MENDELSON, Ronald: *Social Security in the British Commonwealth : Great Britain, Canada, Australia, New Zealand*. University of London, The Athlone Press, 1954.

RICHARDSON, J. Henry: *Economic and Financial Aspects of Social Security : An International Survey*. London, George Allen & Unwin, 1960.

ROSENTHAL, Albert H.: *The Social Programs of Sweden : A Search for Security in a Free Society*. Minneapolis, University of Minnesota Press, 1967.

United States Department of Health, Education and Welfare, Social Security Administration, Office of Research and Statistics: *Social Security Programs throughout the World*, 1967. Washington, DC, United States Government Printing Office, 1968.

Idem: *The Role of Social Security in Economic Development*. Research Report No. 27. Washington, DC, United States Government Printing Office, 1968.
