Executive Summary

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Building decent societies: Rethinking the role of social security in development

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In the programme for recovery from the 2009 global financial and economic crisis, there must be a guarantee of a minimum level of social security for all. This book addresses the question of whether and how social protection systems in general, and social security in particular, should be nearer the top of the world's policy agenda. Today, despite international efforts to promote social security, huge sections of the world's population continue to be denied this right. Bringing together historical and contemporary developments in social protection in the Organisation for Economic Co-operation and Development (OECD) and developing countries, and especially considering the current financial and economic crisis, this book looks at new international strategies that can establish social security, reduce poverty and contribute to economic and social development. It concludes that to achieve this goal, low-income and middle-income countries require social security systems of a scale to match the systems operating in high-income countries.

The right to social security and national development

Up until the past decade, the right to social security and an adequate standard of living had not figured in the attempts to counter large-scale extreme poverty. Rather than urging the establishment of minimal living standards for all, major actors in international development have focused on targeting short-term means-tested benefits at lowest cost to reduce poverty. This shortsightedness was compounded by an ambiguous and unsuccessful international anti-poverty strategy – concerned in the broadest and most indirect terms with economic growth, overseas aid, debt relief and fairer trade – rather than with institutional systems serving the poor directly. Today the 30 OECD countries commit an average of more than 13 per cent of GDP directly to social security, in dramatic contrast to low-income countries that contribute an average of less than 2 per cent. Lessons have to be drawn from economic and social policies of both these groups of countries in order to remedy this discrepancy.

Issues for the global society of the 21st century

While social security is recognized as a human right and achieves demonstrable effects in reducing poverty, its effects on economic growth is debated. The three myths with regard to the relationship between social protection and economic performance are:

- The affordability myth: at each stage of development, societies can only afford a certain level of social expenditure.
- The trickle-down myth: economic growth will automatically reduce poverty.
- The trade-off myth: there is a trade-off between social expenditure and economic efficiency.

Upon investigation, all three myths lose their credibility. Non-affordability arguments are unfounded as conditions differ from country to country and there is considerable policy space with respect to social security expenditure. The poverty alleviating trickle-down effect is not reliable as economic growth does not automatically reduce poverty unless redistributive mechanisms such as social security systems are in place. As for the trade-off myth, investigation of many countries finds that high social expenditure per capita and high productivity can co-exist.

The lessons learned from these myths can be applied to explore social security options in low-income countries. The findings of an International Labour Organization (ILO) investigation in 2005 to extend social security in seven African and five Asian countries concluded that social security systems not only should, but could be established affordably. In situations of multi-dimensional poverty, social transfers – regular non-contributory payments of money provided by governments and non-governmental organizations (NGOs) to individuals or households – can alleviate conditions accompanying chronic poverty, soften the blow of sudden crisis and prevent the transmission of poverty to children. Children are at greater risk of poverty than adults and have no opportunity to contribute to their own social security. Collective resources mobilized at the global level can ensure that children receive social security coverage.

Social protection in Europe and the OECD

Social protection systems in Europe and the OECD countries have evolved over more than a century. In Europe, relief under the Poor Laws came to be rejected and, as a component of post-war reconstruction, "cradle-to-grave" universal benefits and compulsory contribution-based insurances developed. Today, high social expenditure levels are generally associated with low poverty levels, yet there are exceptions such as Estonia, Poland and Slovakia, where despite generous expenditure levels, poverty is still high. With the integration and development of the internal market, the European Union (EU) has come under increasing pressure to adapt a new social protection development model that is based on social justice and solidarity – an EU social policy financed at EU level.

The welfare systems in OECD countries can be classified into three models, represented by Norway ("Nordic" or "Social Democratic"), Germany ("Corporatist") and the United

States and the United Kingdom (“Liberal” or “Residual”). The Nordic welfare state model’s primary characteristics include a social entitlement principle that has been institutionalized and an universal social legislation system. The corporatist model features a sub-division of programmes into decentralized schemes, stress on cash benefits, centrality of social insurance and extensive labour legislation. The liberal model has, compared to the first two, low overall public spending and an increased role of the market. Tax-credit schemes and selective social assistance are emphasized in the countries that follow this system. Poverty and inequality rates are smallest in the countries in the first of these models and largest in the third.

When considering the three models of social security in OECD countries, the following conclusions emerge:

- All OECD countries accept social security as a means of modernization and sustainable growth and as a key factor in reducing domestic poverty.
- Social security in OECD countries is a mix of universal and selective measures.
- If the OECD models of social security were to be adopted by low-income countries, key changes would have to be made that take into consideration the global economy.

The question of whether such models can be imported to developing countries depends on the differences in political voice of the country. Rich democracies have relatively egalitarian programmes, some of which are universal and some of which are targeted at the poorest income ranks. On the other hand, in many developing countries, regressive or even elitist programmes still prevail. The European model of welfare, while it may never be fully emulated, still provides a useful reference for welfare state reformers in developing countries.

Experiences from low-income countries

In developing countries, social security systems are desperately under-resourced and very diverse. A century ago, colonial powers in Asia, Africa and the Caribbean introduced schemes poor in coverage that mainly benefited civil servants and employees of large enterprises for health care, maternity leave, disability allowances and pensions. The mass of the population, especially the rural poor, had no cash relief. Today, the key challenge is to extend coverage of social security to the population as a whole. There are numerous constraints such as underdevelopment, fragmented political and policy processes, poor revenue raising capacity, and deficiencies in operational capacity. Global partnerships between national governments, international donors and NGOs could work effectively to lift these constraints.

Despite long-standing doubts of governments and donors, research shows that there can be positive synergies between social protection and agricultural growth policies – the government of Ethiopia for example, is moving from a food-first to a successful cash-first approach. Research in Bangladesh, Ethiopia and Malawi generally supported a long-term build-up of social protection spending and the programmes had the positive effect of creating community assets, like soil and water conservation and roads, as well as household agricultural assets, including livestock.

South Africa, on the other hand, inherited a system of social assistance, which was racially equalized, expanded and in 1998 complemented by a cash benefit for young children. By 2010 there will be a new mandatory, contributory earnings-related fund which will be the vehicle for retirement savings, unemployment insurance and disability and death benefits – a major step towards a comprehensive system.

A major challenge in welfare development in South Africa and elsewhere is the lack of a coherent or comprehensive social assistance policy in the face of the HIV/AIDS epidemic. Related to this is the large-scale problem of ensuring a system of universal healthcare coverage. Of the 100 million people worldwide pushed into poverty by medical bills, the majority are in developing countries. An interesting exception is Thailand where universal coverage was achieved in a matter of only 27 years (compared to the 70 years it took developed countries) through the implementation of extensive pro-poor and pro-rural policies.

Conclusion

The prime strategies of the United Nations (UN) and all international bodies should consist of promoting a social security floor as a core element of poverty reduction policies and pursuing wider development policies that enable countries to grow with equity. There is an enormous potential for universal social security in low-income countries. As this potential has not yet been sufficiently explored, this book is a powerful case for the rapid expansion of social security in this part of the world.

Recognizing that economic and social development are inextricably intertwined across countries, new international strategies are required to design appropriate social security policies which would effectively help to reduce poverty and productively contribute to economic and social development. This is a strong message that has become particularly relevant to the global financial and economic crisis of 2008-09 and has started to find its way into the international and national debates on development policy.

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