

## ***Developments and Trends in Social Security, 1990-1992: Overview of Principal Trends***

*by Dalmer D. Hoskins\**

The article that follows is a reprint of Part I of a report presented by Dalmer D. Hoskins, Secretary General of the International Social Security Association (ISSA), to the organization's XXIVth General Assembly (November 1992, Acapulco). It identifies and interprets the major trends currently influencing the evolution of social security programs around the world, and analyzes these developments against the backdrop of the current economic, demographic, and social environment in which these programs operate. (Part II of the report analyzes the changes according to each major branch of social security; an annex to the report provides more detailed information and source citations in reference to these changes.)

The ISSA is a nongovernmental international organization headquartered in Geneva, Switzerland. It is made up of 321 social security-related institutions, including the U.S. Social Security Administration, in 122 countries. The Association's aim is to protect, promote, and develop social security worldwide.

---

\*Mr. Hoskins was an official of the U.S. Social Security Administration before assuming the position of Secretary General of the ISSA in 1990. Requests for copies of the full report (*Developments and Trends in Social Security, 1990-1992*) should be addressed to the ISSA General Secretariat at Case postale 1, CH-1211 Geneva 22, Switzerland, or through telefax at (41-22) 798-63-85.

### ***Introduction***

The triennial General Assembly provides the member organizations of the [International Social Security] Association [(ISSA)] with the opportunity to come together and to assess the state of social security in the world. It is a daunting task, since assessing the evolution of social security at the national level is in most cases quite difficult; an assessment of the principal trends at the worldwide level therefore becomes immeasurably more challenging.

On the other hand, it is a task which the General Assembly cannot and should not avoid. As frequently pointed out by historians, any society or nation which is not interested in understanding its past is clearly not interested in where it is going in the future. Similarly, if the ISSA is to fulfill its purpose by meeting the needs and concerns of its member organizations, it must be in a position to identify and interpret the major trends which are currently influencing the evolution of social security around the world.

Without minimizing the difficulty of this task, the ISSA is in a unique position to carry out this task, because one of its principal functions is to serve as a clearinghouse for international social security information, with one of the most important sources being information received from its member organizations regarding the important changes taking place in their programmes. These changes are summarized in the new ISSA publication, *Trends in Social Security*.

The primary purpose of this report is to bring to the attention of the General Assembly information regarding the most significant changes which have taken place during the period 1990-1992. An analysis of these changes, presented according to each major branch of social security (i.e., old-age, invalidity and survivors, sickness, work injury, unemployment and family benefits) is given in Part II of this report; an annex to the report, organized according to country and region, provides more detailed information regarding these changes. The role of Part I is to provide a basis for discussion by raising the question: What are some of the most important discernible

trends which serve to explain the current state of social security around the world and which indicate the direction social security policies are likely to take in the near future?

### ***The Current Environment of Social Security Developments***

---

Before identifying these significant worldwide trends, it is useful to devote some preliminary attention to understanding the general environment in which social security developments have been taking place during the period under consideration. If there is any lesson to be learned from the past three years, it is the reminder that economic and employment conditions cannot be placed to one side when identifying or interpreting social security trends. It is clear to everyone that during this three-year period the economies of most of the highly industrialized countries, which provide the impetus for economic developments around the world, either stagnated or slipped further into a recession, characterized by rising unemployment, growing slack in production capacity, and in certain countries dramatic uncertainty regarding monetary policies. The negative repercussions for the economies of most of the developing countries were severe, prompting national governments to undertake, with varying degrees of reluctance, structural adjustment policies aimed at alleviating their budgetary difficulties and putting their national development policies back on track.

Given this general economic and political environment, the social security agenda of most countries during the past three years has been one of trying to maintain the existing levels of protection rather than to innovate or to expand protection. As indicated in Part II, however, there is cause for some optimism and satisfaction in a number of countries where important new social security benefits or reforms were adopted. In certain cases, these important innovations were planned for several years and carried out in spite of current economic considerations. In other countries, notably in Central and Eastern

Europe, the profound political and economic changes underway left social security policy makers and administrators with no choice except to innovate and to adapt their programmes to radically new circumstances.

What is most evident in most parts of the world is the concern of governments with their on-going budgetary problems, as the revenues of national budgets have grown more slowly or even declined as a result of the economic downturn. This has set the stage for a new round of deliberations and public debate about the future of social security. Can current benefits be maintained? Should future commitments to pay pensions and other benefits be pared down? Should there be a reordering of the responsibilities assumed by the state, by the private sector and by the individual to ensure social protection?

It would be a gross exaggeration to assert that in most countries social security protection has been either significantly reduced or discontinued. There have indeed been some major setbacks in certain areas which will be noted later, but this has not been the general rule in most countries. However, what is evident is a growing preoccupation and concern about the future financial viability of national social security systems. One very telling symptom of this concern about the future is to be seen in the striking number of national commissions, study groups and expert committees which were created during recent years to formulate suggestions and recommendations about social security policies. The frequent use by governments of such ad hoc advisory bodies on social security may also be an indication of the reluctance of political leaders to take unpopular decisions in the face of continuing and widespread public support for social security provisions. Moreover, the reliance on such advisory bodies may also be an indication that there is as yet no clear consensus in many countries about the future direction of national social security policies. The positive result is, of course, that a great deal of important information has been collected and analyzed by these advisory bodies and expert groups, which will hopefully now be utilized.

### ***Causes for Concern***

---

If indeed we are at the onset of a major worldwide deliberation about the role of social security in society, it is important to try to understand the principal causes which are prompting this re-examination of both the goals and the means. One possible explanation is that two highly significant separate but interrelated developments have served to intensify the debate about the future of social security, just at the point in time when we look to the close of this century and the beginning of the 21st century. These two developments may be summarized as: the impact of the economic recession and structural adjustment policies and, secondly, the collapse of the centrally planned economic systems.

#### ***The Impact of Economic Recession and Structural Adjustment Policies on Social Security***

As previously indicated, the slowdown in economic growth has no doubt constituted the most important immediate effect on social security policies at the national level. Despite average real growth rates of between 2 and 3 per cent in OECD [Organization for Economic Cooperation and Development] countries over the past decade, there is doubt about national social security systems being able to maintain long-term financial stability and undertake benefit improvements. The stagnant growth in the labour market, in particular, has direct implications for social security institutions, namely, higher numbers of unemployed and nonemployed persons, fewer contributors to social security programmes, and increased pressures on social security financing as larger numbers of previously employed persons seek to replace lost income by going on the social security rolls.

It is hardly surprising that in this environment, governments have been increasingly urged to think about solving their budgetary problems by off-loading public social security commitments on to the private sector and the individual. It is also not surprising that the more

vulnerable members of society—the poor elderly, single-parents and their children, unemployed persons, etc.—have become even more vulnerable. This fact is borne out by evidence that discretionary social protection measures, particularly means- and income-tested benefits, have been among the first benefits to be reduced, either by limiting the duration of benefit payment or tightening eligibility conditions.

Even the harshest critics of social security policies readily admit that the budget problems of many industrialized and developing countries are not to be attributed solely to social security, since public debt, and the interest payments on the public debt, are in many cases more important than social security expenditures. Nevertheless, the combined effects of social security expenditures, public debt, and the ongoing costs for education, defence, the environment and other governmental responsibilities have resulted in widespread fiscal constraints. These critics argue, however, that further increases in taxes and social security contributions would not only be unpopular, but would also lead to economic distortions, such as evasion of payment of taxes and social security contributions, discouragement of incentives to work, save and invest, and worst of all the undermining of the spirit of enterprise essential to a market-oriented economic system.

### ***The Collapse of the Centrally Planned Economic Systems***

A second profound and far-reaching event of the past three-year period has been the virtual disappearance of state socialism in Central and Eastern Europe. This model for economic and social development has been eclipsed by the market economy model. The political and socio-economic implications of this abrupt change are probably too numerous and significant to be fully assessed until the passage of time permits us to have more perspective and objectivity regarding the events which have transpired in the former centrally planned economies of Europe and elsewhere.

However, the timing of these revolutionary changes in the former planned economies has the potential of influencing the development of social security in many other parts of the world as well, particularly the developing countries of Africa, Asia and the Americas. The universal social security approaches developed in the former planned economies are for the most part inappropriate in a market-oriented economy and will therefore have to be replaced. In addition, these countries have suddenly been faced with sharp increases in the numbers of their citizens living in poverty, due to rising unemployment on the one hand and on the other, the inability of social security and social assistance schemes to readjust benefits in line with sharp increases in the cost of living.

What forms of social security protection will be chosen to replace the old outmoded models in the former centrally planned economies? Many of the citizens who lived under the old models of state socialism have developed highly suspicious views of the role of the state. Private enterprise and individual responsibility thus have considerable appeal as national social security systems are reassessed and restructured. The options chosen and implemented in these countries will inevitably have repercussions on the future orientation of social security systems in the developing countries as well. While the countries of Africa, Asia and the Americas may never have seriously contemplated adopting the social security approaches entailed in the state socialist model, their range of policy options and alternatives may now be expanded through the processes adopted for rebuilding the social security systems in the countries of Central and Eastern Europe.

### ***Emerging Trends in Social Security***

---

The combination of worldwide economic difficulties and the widespread rejection, particularly in Central and Eastern Europe, of the centrally planned economic model have served to accelerate certain important trends in

social security policies. Three such trends are singled out here for closer examination, since each has the potential of significantly influencing the form and content of social security policies for many years to come.

### ***Re-examination of Social Security in Contemporary Societies***

The weight of social security financing in the total cost of production and services and, more generally, the percentage of the gross national product allocated to social expenditures, have become a major concern in many countries. Furthermore, in many of the industrialized countries of Europe, North America and Asia, there is considerable concern about the aging of the population structure and the prospect that in the first quarter of the next century the ratio of the active population will steadily worsen in relation to the dependent population. Moreover, within the context of the economic slowdown, governments have become increasingly interested in creating possibilities for economic growth by encouraging, whenever possible, higher rates of national savings and investment. All of these considerations have served to focus attention on the role of social security in contemporary societies and to call into question the principle of solidarity and the redistributive functions of national social security systems.

This re-examination has created renewed interest in two alternative approaches to solving the problems of income security in the event of old-age, disability and death. At the extreme end of the spectrum are those proponents who would simply dismantle social security systems and opt for private solutions, with the responsibility for making prudent planning to meet the vicissitudes of life resting primarily with the individual. It is perhaps not surprising that the strongest proponents of outright privatization are to be found in the developing countries, where the financial and administrative problems of social security are the most severe. In fact, two Latin American countries have already adopted legislation resulting in the scaling back of social security in

favour of compulsory private savings schemes.

The second and more subtle approach is to gradually transform social security into programmes providing a minimum "safety net" level of protection.

According to this approach, social security would be charged with providing as many members of the population as possible with minimum subsistence benefits, leaving to the employer and to the individual the task of ensuring adequate levels of income maintenance over and above the safety net level of protection. This second alternative is frequently espoused by proponents who assert that a more efficient and effective use of funds can be ensured by better "targeting" of social security benefits, namely, more use of means-testing and income-testing to fulfill eligibility requirements. Not only will a selective programme be more "target efficient," say the advocates, it is likely that more support will be available to those most in need, since available resources will be divided among the smaller number of "truly needy" people. Unfortunately this argument runs against the historical experience as well as the experience of the past three years, since means- and income-tested benefits have been strikingly vulnerable to reductions, probably because such benefits are, far more than social insurance benefits, dependent upon general political support.

Another variation on the targeting of benefits is of course the "claw back" of social security benefits through the income tax system. This approach has most notably appeared in the recent reforms of a number of universal family benefit programmes, which as a result more or less tax away the value of family benefits for middle- and upper-income families.

### *The Issue of Dependence and Incentives in Social Security Programmes*

Another major trend which continues to gain in importance is the preoccupation with the issue of dependence and the closely-related issue of programme incentives; that is, what

measures can be taken to actively encourage social security beneficiaries to leave the benefit rolls and return to paid employment. Clearly the financial constraints of social security programmes have fuelled the growing interest in these issues, but there are also deep-rooted philosophical and ideological considerations at work in this regard. Such considerations are, for example, abundantly evident in the following citation taken from a recent response of New Zealand's Department of Social Welfare to the ISSA survey on developments and trends:

The shift in government social and fiscal philosophy which found its fullest expression in the 1991 Budget had been building up for some years. As well as the fiscal objective of containing social expenditures, it involved a shift in emphasis away from the triple philosophy of tax funding, universal provision and a prominent role for the state as a direct provider. Instead the focus was on shifting significant costs back to families and individuals, a higher degree of targeting on the basis of the economic circumstances of the claimant, and contestability in the provision of services.

Behind this statement is a clear concern about whether social security provisions actually encourage too many claimants to leave, or never enter, the labour force and become dependent on social security benefits. One of the most obvious examples of this preoccupation is in disability protection, which has in a large number of countries experienced very rapid and very expensive increases in the number of beneficiaries in recent years. Other branches of social security have, however, also given rise to increased attention to the issues of dependence and incentives, namely, unemployment and family benefits. The concern is not only to control programme costs but also prevent, to the extent possible, the enormous loss of human potential, to the individual and to society, which may occur when persons no longer take an active role in society.

On the other hand, one of the most striking aspects of this issue is how very little is as yet known or understood about

what motivates individual human beings to continue to lead an active life in the labour market or to take up income-producing activities. Research on incentives and disincentives in social security programmes still remains at a very embryonic stage in most countries.

What is generally understood, however, is that more energy and more resources should be devoted to the rehabilitation of social security beneficiaries. Recent reforms and legislative changes provide ample proof that almost all countries are struggling to discover those rehabilitation procedures that produce the best results for the greatest numbers of the protected population, and of course at reasonable levels of expenditure. In trying to respond to this question, a number of pertinent questions are now beginning to receive more attention. For example, are there certain categories of the population that are more likely than others to become dependent on social security benefits? Which categories are most likely to be long-term beneficiaries? Are certain categories of the population better candidates for rehabilitation than others? What categories are the most susceptible to preventive measures, aimed at reducing the number of accidents or illnesses which require treatment, income replacement and eventually rehabilitation? The fact that such questions are being asked more frequently and that more steps are being taken to find out the answers is, undoubtedly, one of the most encouraging and potentially promising aspects of current social security developments.

### *Administrative Improvements and the Evolving Relationship with the Client*

Another striking and significant trend for the future is the worldwide interest in the improvement of the administration of social security programmes. In fact, it is precisely in this area that one may count some of the most positive changes during the period under review. Under pressure to perform better with less and less resources, the administrators have increasingly

invested their energy and their creativity in finding ways to deliver benefits and services at less cost and with more accuracy. The evidence is available that in a large number of countries administrative costs for operating social security programmes have over the years gradually decreased as a percentage of total programme costs. This is particularly true for pensions and other cash benefit programmes, which have clearly benefited from new EDP [Electronic Data Processing] technologies and administrative approaches. The statistical results have been so satisfactory in certain countries that the representatives of insured persons and other advocacy groups have begun to question whether the administrative expenditures are now so low as to raise doubts about whether the public is being truly served. Such doubts seem to many administrators a very unfair way of reacting to the considerable achievements they have made in reducing administrative costs.

Leaving aside such criticisms, the importance is that there is in fact a development well underway that will influence social security policies for the foreseeable future. This development concerns the very profound changes which are occurring in the relationship between the social security organizations and the insured persons. The fact that such a change is underway is evident in the changing terminology used by social security institutions. While in the past, it was common to refer to insured persons as claimants and beneficiaries, it is now becoming more frequent to use such words as "clients" and even "customers".

Obviously, the shift in the terminology tends to render the services of social security institutions more comparable with private insurance companies and other private sector bodies. It may also indicate an increased recognition that the "client" and "customer" have certain rights and expectations regarding their treatment which are to be taken into account when providing them with benefits and services.

Technology also constitutes one of the driving forces behind this development, since on-line computers

and decentralized administrative procedures now permit clients to have information regarding their individual cases more quickly and in more detail than ever before. To an increasing degree, this information will be available by telephone or at "information kiosks" located in supermarkets and other public places. The paradox is that while the technology will permit easier information access by the protected persons, the opportunities for direct personal contact with a social security employee will become fewer and fewer.

In the developing countries, improvements in administrative techniques have permitted administrators to devote more attention to one of their principal preoccupations, that is, fraud and abuse of social security benefits. The enhanced use of EDP techniques, in particular, has allowed administrators to carry out controls and crosschecking of records, resulting in significant fraud reduction and cost savings. While improved service to the public is a goal with which these administrators would readily concur, they are for the time being far more interested in fraud reduction and more cost-efficient administrative procedures. They are, in this regard, keenly aware that the credibility of social security in many of the developing countries still depends to a great extent on efforts to achieve a better record of performance, by paying benefits on time, in the correct amounts and to the right persons.

### ***Affirmation of Basic Principles of Social Security Protection***

---

Generally speaking, it is a time of reflection and re-examination of social security policies in most countries of the world. The influence of critics of current arrangements has become stronger during recent years, in spite of the fact that the solutions they espouse—particularly targeted social assistance approaches and privatization of social security programmes—would in many respects represent a return to solutions which were rejected decades ago by the leaders and parliaments of most industrialized countries.

Whatever route is taken, the future will have to continue to involve transfers of resources from the working to the dependent population. The issue is therefore what role social security institutions will be expected to fulfill in making these transfers between the generations, between the healthy and the sick, and between the economically better off and poorer members of the population. As in the past, the solutions will vary widely from country to country, but the critical challenge remains the same, irrespective of the level of economic development or the vastly different cultural and political conditions. The challenge is that of forging a social contract among the citizens, which reflects the consensus of the population concerned about the issues of social solidarity and the redistribution of resources.

The re-examination and the renegotiation of this social contract must, for the sake of credibility, assume that social security provisions must be constantly adapted and modified to reflect the changing circumstances of society. The cause of social security will not be well served in the end if its proponents put too much emphasis on "insurance principles" or "acquired rights" to defend current arrangements. Social security programmes have survived to date by adapting to changing circumstances and further changes will most certainly be necessary to take into account such important developments as the ageing of the population, the increasing numbers of women entering the labour force, large-scale immigration and newly emerging family patterns. However, in view of the current financial difficulties of many social security schemes and the growing appeal of private and individual arrangements as alternative solutions, it is far from clear what the future will hold. It is consequently extremely important at this juncture to reflect on and to have a clear idea in mind as to what functions social security institutions perform best as well as those which should be better left to other public and private institutions.

The review of recent social security developments and trends raises, in this respect, a series of difficult questions

regarding the proper role of society security programmes.

- One of the most difficult issues raised by the current economic slowdown is to what extent social security programmes should be used to increase national savings and thereby to promote national development?
- To what extent should social security provisions reverse the historic trend away from the social assistance approach, by returning to greater use of means-tested “welfare benefits” rather than providing a replacement of former income for as broad a spectrum as possible of the population?
- To what extent should social security provisions be used to achieve labour market objectives, by encouraging for example the departure of workers from the labour force during times of economic recession?
- To what extent should social security arrangements take into account or even anticipate important changes in family arrangements, such as one-parent families, cohabiting couples, and other forms of non-traditional family patterns?
- What should be the role and function of social security institutions vis-a-vis the state? And, particularly in developing countries, what steps can be taken to ensure that the state honors its obligations as a contributor to social security and that it refrains from policies which result in the emptying of the funds intended to finance benefits?

Questions such as the above cannot be avoided in the discussions regarding the future of social security, either in the industrialized or the developing countries.

The current year, 1992, marks the anniversary of the publication of an important document in the history of

social security development: The Beveridge Report published 50 years ago by the British Government in the midst of the Second World War. This report marked a turning point, since it synthesized and articulated various currents of thought about the role of social security in modern society which had been developing in the United Kingdom and elsewhere in the world over the course of several preceding decades. While looking forward to the beginning of a new century within a few years, it is enlightening to recall some of the basic principles contained in the Beveridge Report which influenced the development of social security around the world in the succeeding years.

Three of Beveridge’s basic principles are particularly relevant to deliberations:

- **The principle of comprehensive protection:** The aim of national social security policies should be to extend comprehensive social security policies to the greatest possible number of the total population. It was understood that this extension of coverage worked best when it was rendered compulsory. It was also understood that comprehensive protection implied a comprehensive range of benefits, including protection against income loss, both temporary and long-term, as well as health care protection and family benefits.
- **The principle of benefit rights based on participation in the social security programme:** The historical evolution pointed in the direction of providing benefits as a right, in most cases based on the payment of social security contributions or taxes, rather than as a result of arbitrary and discretionary administrative decisions based on an evaluation of individual needs or assets. These earlier social security thinkers did not envisage the elimination of social assistance measures, but rather relegated such measures to a secondary and limited role, intended for those members of the

population who did not for one reason or another qualify for social security protection.

- **The principle of shared responsibility for social protection:** The Beveridge plan envisaged a system of social protection based on the shared responsibility of the state, private sector initiatives and individual savings. As the following citation from the Report reveals, Beveridge would have no doubt found much in common with the contemporary debate about the need to develop an appropriate mix of public and private approaches.

Social Security must be achieved by cooperation between the State and the individual. The State should offer security for service and contribution. The State in organizing security should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family.

### *The Role of the International Social Security Association*

---

Every generation of leaders has its own particular set of problems and responsibilities. The current generation of social security policy makers and administrators is faced both with the push toward re-ordering the divisions of responsibilities between the public and private sectors as well as the countervailing pressures to fulfill the expectations of the population for ever better and comprehensive social security protection.

The role of the International Social Security Association is to provide these administrators and policy makers with a forum to exchange their views and opinions regarding current problems and future orientations for social security. The emphasis in recent years has consistently been on the search for the “technical” solutions to social security issues. This emphasis will not change,

since the technical problems of social security require technical solutions.

There is, however, another role of the ISSA, stated in its Constitution, which is far more ambitious than the exchange of technical information on social security issues. "The aim of the Association is to co-operate, at the international level, in the defence, promotion and development of social security throughout the world . . . ."

Critical issues are at stake regarding the future of national social security programmes in various parts of the world. It is therefore not a time that the Association and its members can choose to remain on the sidelines. There are of course no ready-made blueprints which the ISSA, nor any other international

organization, can provide which would meet all the needs of those involved in those important debates at the national level. As in the past, each nation will necessarily have to find its own solutions and to formulate its own approaches to providing social security protection for its citizens.

What the ISSA can and should do, in addition to providing the forum for the exchange of technical information, is to facilitate deliberations on how social security may be adapted and improved to best meet the changing needs of society. In so doing, however, we should keep clearly in mind the historical development of social security institutions during the over 100 years of their existence and continue to

emphasize those basic principles which guided that development. In line with these objectives, the Leo Wildmann Symposium [on the Implications for Social Security of Structural Adjustment Policies], to be held on the occasion of the XXIVth General Assembly, will take up the critical policy issues of concern to social security in countries currently undergoing profound changes in their political and economic structures, both in Central and Eastern Europe as well as in the developing regions of the world. As the 50th anniversary of the Beveridge Report suggests, bold thinking can, under the right circumstances, play an important part in the development of new approaches to social security protection.