Reinventing social security worldwide

Back to essentials

Vladimir Rys
REINVENTING SOCIAL SECURITY WORLDWIDE

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Vladimir Rys
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About the author

Born in 1928 in what was then Czechoslovakia, Vladimir Rys interrupted his studies at Charles University in Prague after the communist coup d’état in 1948 and came to England. After a period of manual work he was awarded a grant to study sociology at the London School of Economics and Political Science (LSE) and subsequently went to the Sorbonne to write a doctoral thesis comparing social security in France and in Great Britain. On returning to the LSE in 1958 he worked as senior research assistant to professor R.M. Titmuss. In 1960 he joined the staff of the International Social Security Association (ISSA) in Geneva and was responsible for the organisation of research and documentation activities of this worldwide body of social security administrations. In 1975 he was appointed ISSA secretary general.

On retirement in 1990 he returned to academic research devoted mainly to the sociological study of social security reforms in Central Europe. This activity included short-term teaching assignments at Charles University, co-direction of a study centre at the University of Geneva and presentation of papers to different professional organisations. His study on social security reform in the Czech Republic (La sécurité sociale dans une société en transition: l’expérience tchèque [Social Security in a Society in Transition: The Czech Experience]) was published in 1999 in Switzerland.

With the present book the author returns to his former preoccupations concerning social security developments worldwide and reacts to the challenge that is now facing the institution.
Foreword

In the late 1960s, as a doctoral student at Cornell University, I read Vladimir Rys’s pioneering seminal essay published in 1964 on the application of macro-sociological factor analysis to social security and it significantly influenced my future research and career. Under the auspices of the Social Science Research Council, in the summer of 1976, I took 20 doctoral students, half from the US and half from Latin America, to an Inter-American training seminar held in Mexico City on the application of social sciences techniques to social security. Rys’s analysis of internal and external variables influencing the inception and evolution of social security, which at the time had generated an international debate, was a central topic of stimulating discussions in the said seminar. My first book on social security published in the US was inspired by Rys. Relying on his analysis of pressure groups and the role of the state in social security inception, I developed a taxonomy for Latin America to show how multiple social insurance funds segmented along occupational lines had induced stratification, and used Rys’s factor analysis to measure the resulting social security inequality in the region (Mesa-Lago, 1978). And now we are members of the Editorial Consultant Board of the International Social Security Review. Four decades after our first virtual encounter, he continues to be a master in the field and it is an honour to write this foreword to his book Reinventing Social Security Worldwide: Back to Essentials.

The book is an excellent, sophisticated and well-integrated compendium of many important topics in the field, a useful review of the literature, an update of the author’s previous contribution on the application of macro-sociological factor analysis to social security, and a proposal for reinventing social security in order to save it. Rys’s main thesis and goal is to ‘preserve social insurance as the basic social security technique, conceived in its original form as a contract between the individual and society’ (p 2), by reinforcing this tool of social protection, adapting it to current needs and financial-political possibilities, and using it to confront the adverse social effects of the current global economic crisis.

This is a very timely book as the grave crisis is affecting social protection in developed and developing countries and there is already an ongoing effort by international organisations to find solutions. Furthermore, the crisis has made evident the policy error made in the last three decades by the neoliberal ideology imposed on many nations,
sharply reducing the role of the state and enlarging that of the market and the private sector, without appropriate regulation and supervision. According to Rys, ‘The neoliberal ideology … gave rise to a false confidence in the superiority of private individual arrangements for guaranteeing income security over collective provisions’ (p 6). In 1994, the World Bank proposed a new pension paradigm: a system of ‘pillars’ including a mandatory defined contribution, fully funded pillar based on individual accounts and managed by private for-profit firms to replace the conventional defined benefit, pay-as-you-go (or partial collective capitalisation), publicly managed schemes (World Bank, 1994). As Rys notes, the industrialised countries did not follow said paradigm but several developing and emerging countries did. Under the Pinochet government, Chile implemented a pioneering structural pension reform in 1981, followed in the 1990s and the first decade of the 21st century by nine other countries in Latin America and many new democracies in Eastern Europe, which totally or partially privatised their public pension programmes. The shortcomings of the new private systems (disregard of poverty prevention, accentuation of gender discrimination, lack of social solidarity and social participation), and the fact that the praxis showed opposite results to their presumed beneficial effects (decline in coverage, inadequate competition, high administrative costs, poor compliance, improper portfolio diversification), were ignored by international financial organisations and policy makers for two decades despite criticism from some scholars, including myself. In 2005, the World Bank published a book reassessing its policies in Latin America in the previous decade, which acknowledged some of the cited flaws (Gill et al, 2005).

Since 2007-08, a reversal trend has been taking place in that region where two countries have counter-reformed their privatised pension programmes, leading to divergent approaches: Chile’s comprehensive reform has improved the system, infusing it with universality, social solidarity and equity, whereas Argentina has shut down its private scheme and integrated it with the remaining public one. Other countries have followed or are considering one of the two approaches (Mesa-Lago, 2009). The current crisis is contributing to this re-reform process that hopefully will lead to a return of the key principles of social insurance although adapted to current realities. Rys pinpoints such reversal, and advocates it and the need to reinvigorate social insurance ‘tested by more than 100 years of experience’ (p 6).

Another main topic of the book is the significant reduction in the role of the state in social security, transferring its responsibility to individual savings, family support, employer and occupational schemes, private
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insurance and social assistance, which have resulted in diminished social protection, increased inequality, weakening of social insurance and its replacement by social aid. The general trend towards the retrenchment of the welfare state has led to deterioration in its main programmes of pensions and healthcare. Rys calls for a turnaround of such a trend by strengthening and introducing changes in mandatory social security in order to guarantee minimum benefits to individuals against major social risks. Rys argues, however, that the initial goals of social insurance are no longer financially feasible, due to lower economic growth in industrialised economies, population ageing and maturity of pension schemes that increases costs to intolerable levels. Hence the need to ‘reinvent’ social insurance to guarantee minimum benefits to all the population, reduce its redistributive function, assure its transparency so that each person can assess the cost-benefit of their participation, rely on the principle of a social right, and leave to individuals and the private sector (under state regulation) the provision of supplementary benefits to maintain the desired level of living. He also establishes a difference in policy between developed countries (which should maintain social insurance) and developing countries (where social insurance has stagnated and been partly replaced by tax-financed basic programmes for large masses of rural and informal workers). He warns against the risk involved in implementing a global social security floor for all and tax-financed benefits.

The book is structured into three parts. Part One deals with the world evolution of social security. In Chapter One, Rys recounts the predecessors of social insurance, the latter evolution to social security, its zenith of world influence, and its retrenchment since the mid-1970s; this is the best summary I have read on the subject and includes new insights. Chapter Two deals with some essential issues of social protection: (1) argues that income redistribution is essentially an instrument of fiscal and not social policy, clarifies a common confusion between the social insurance and income-redistribution functions, and defends the need to separate both and return to the original goal of social insurance – to protect individuals against social risks – and leave to the taxation system the income-redistribution role; (2) stresses the need to fully integrate social security and economic policy as exemplified by the European Union; (3) conducts fascinating historical analyses of social security under diverse socio-politico-economic systems: communism (arguing that the debate on communist social ‘inventions’ is not dead), neoliberalism (contrasting the World Bank and the International Labour Organization approaches to social security), and democracy (in theory, social security fulfils its mission only in a democratic society but Rys...
questions whether that institution is properly used in practice). In Chapter Three, Rys contends that neoliberal approaches have lost momentum and social security is regaining respectability, hence there is a window of opportunity to reform it. He proposes to adapt social security to new societal conditions, but cautions against certain new trends and advocates a drastic reform with different approaches for developed and developing countries—he argues that to ensure the long-term development of social insurance it must be politically acceptable, economically affordable and transparent.

Part Two examines the methodology to understand social security in its societal milieu. Chapter Four is an interesting history of the evolution of the sociology of social security (various stages between the early 1960s and 2000) as well as the application of other social science approaches to social security. In Chapter Five, Rys applies macro-sociological factor analysis to social security, based on internal and external factors important in the inception and development of social security: internal factors belong to the internal environment of a society, such as demographic, economic, sociological and political, whereas external factors are international cultural transfers like ideas, laws and techniques of social protection, diffusion means, and the role of international organisations. Chapter Six examines the use of macro-sociological factor analysis in comparative studies in post-communist societies in the early years of the 21st century.

Part Three explains the ways to adapt social security to the new societal environment, particularly in the midst of the global economic crisis, and in pursuit of long-term financial sustainability. Rys proposes the creation of adequate reserves for the periods of crisis, provided directly from the economy and set independently from customary social security financing; he also asks for transparency of operations with information provided to each insured person in order to assess the cost and benefits of their participation, and thus recover the lost confidence on social insurance.

One important point that should stir debate is Rys’s quest for a complete separation of social insurance and social assistance and the preservation of the former as the basic social technique and conceived in its original form. In some of my works I have asked for administrative and financial separation of both instruments of social security in order to protect social insurance funds and force the state to take financial responsibility for social assistance. I do agree also that Rys’s pursuit is feasible in developed countries with a labour force essentially urban and formal. But I have doubts that such a goal is feasible in poor developing countries where most of the labour force
is informal and rural, and therefore excluded from social insurance or, at best, offered legal voluntary affiliation that is ineffective. In half of the countries in Latin America, social insurance covers a minority of the labour force and the population, usually in the middle-income strata, and often receives fiscal subsidies that are regressive as they come from consumer taxes paid by all the population including the excluded. This is also true in many poor countries in Africa and Asia. The possibility of rapidly expanding social insurance coverage in such nations is remote; for instance, the Latin American trend in the last 30 years showed increasing informality, except for the period 2004-07 due to the economic boom, now reversed by the world crisis. One could also argue that the employer’s contribution in some cases is transferred to consumers, hence accentuating the regressive impact of the system. Facing scarce resources, these countries should give priority to basic benefits for their poor and low-income people, starting with primary healthcare, nutrition and education. Rys is right that the state should be charged with the fundamental redistributing function, but the minority covered by social insurance in those countries should not receive fiscal subsidies that must be targeted on vulnerable groups. The International Social Security Association (ISSA) established in 2008 a Task Group for Extension of Coverage that I chair and is working on these controversial issues; we intend to elaborate guidelines for ISSA members that take into account significant socioeconomic differences among countries.

This book will have a long shelf life as it deals with historical issues and analytical tools that have resisted the passage of time. It will be useful for policy makers, staff of international and regional financial and social organisations and social security associations, as well as research scholars, teachers, graduate and undergraduate students, and social security professionals and administrators. It should serve as an excellent textbook on social welfare courses or a supplementary text in courses in economics, sociology, political science and history related to social policy, development and similar themes. It is my hope that Rys continues inspiring future generations of social security scholars and experts.

_Carmelo Mesa-Lago, Distinguished Service Professor Emeritus of Economics, University of Pittsburgh and Chair of the ISSA task force on the extension of social security coverage_
Introduction

The world economy is going through a serious crisis, which is having an impact on all types of societal institutions. Social security is in the front line, both on account of the volume of its financial flows and on account of its importance for the preservation of the minimum standard of living of every individual. This seems to be an opportune moment to review briefly the way the institution has developed since its beginnings, take note of the changes that have taken place in its societal environment and in the perception of its overall mission and bring home a few lessons to serve as guidelines for a necessary reorientation of its path.

The global trends in the evolution of the institution prior to the onset of the world financial crisis were already indicating the presence of some negative features representing risks for the continuation of its mission. In industrial societies, no new social protection mechanism has been invented to deal with new risks and socially precarious situations. What has happened has been a series of shifts in emphasis on different elements in the existing social security structures and in the roles assigned to specific actors. Thus, the state, while reducing its direct involvement in the actual running of social security schemes, has been greatly increasing its powers regarding the regulation of occupational and private arrangements. And there has been a shift of responsibility back to employers and different forms of occupational welfare, back to families and their supporting role and also back to individual citizens and their personal capacity to save. While some of these features may be considered as a step towards a more appropriate equilibration of respective responsibilities, the move towards the disengagement of the state is an obvious historical regression; it has gone too far and – as shown by the present evidence of the state’s decisive role in economic governance – its equivalent role in social matters needs to be reaffirmed.

Another important global trend points towards an increasing mix in the sources of finance of social welfare measures and in the benefits they provide often in a way unrelated to their principal mission. Thus, social insurance financing may have a frequent resort to ad hoc taxation while social insurance benefits may often be used for purposes suggesting an ongoing ‘instrumentalisation’ of social security for the achievement of other goals of public policy, be it with regard to employment or with regard to measures used to combat social exclusion.\(^1\) This development calls for extreme caution, since – reflecting a very short-term and purely economic approach to welfare measures – it could eventually lead to the replacement of social insurance with social aid. In the past, these
two institutions have always followed a different logic both with regard
to sources of finance and with regard to the destination and scope of
benefits and any attempt at blurring the frontiers between them for
reason of financial expediency is bound to be detrimental to the long-
term objective of preventing destitution in the midst of our societies.

This same trend can also be detected in the developing world,
although starting from a completely different premise. The economic
decline of the final decades of the 20th century has put an end to
the rapid expansion of social security and led even to its regression
in some regions of the world. Since economic perspectives are now
less favourable than in the past, there has been a change in public
expectations with regard to social protection measures. Worldwide
programmes for the fight against poverty, launched by leading
international organisations, have given impetus to a claim that, without
waiting for a gradual extension of social security coverage some
measures be taken instantly in favour of the vast masses of the rural
population. The outcome is a plan for the creation of tax-financed
programmes for what is described as basic social security.

Such an abrupt change in the orientation of social security policy
requires of course an extremely careful consideration. If the intention
is to proceed to some kind of nation-wide redistribution of available
income, that income has to be first created before it can be redistributed,
which also means that this plan can hardly be carried out without
competing for scarce resources with the existing social security
establishment. Moreover, as people working in the field already point
out, the logic of tax-financed social security directly undermines the
concept of social insurance based on the idea of self-help through the
financial contribution of the insured population. The problem hence
consists of how to achieve coordination in the build-up of these two
very distinct types of social protection measures, bearing in mind the
long-term objective.

In this book we defend the thesis for which the present world
economic crisis has provided new supporting evidence. Given the
prevailing economic order, it is imperative to preserve social insurance
as the basic social security technique, conceived in its original form as
a contract between the individual and society, so as to make it possible
to effectively guarantee an individual’s minimum living conditions. The
state must continue to provide the basic institutional framework for
obligatory social insurance requiring the financial participation of all
citizens in a scheme, which can protect them against the consequences
of the materialisation of major social risks. It would be irresponsible, in
the light of recent experience, to entrust this task to private arrangements.