The Relevance of Social Security for Economic Development

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1. Introduction

The right to social security is a human right. According to Articles 22 and 25 of the 'Universal Declaration of Human Rights' enacted by the United Nations, access to social security is a basic right. The 'Social Security (Minimum Standards) Convention 102' adopted by the International Labor Organization (ILO) in 1952 also prescribes minimum standards for benefits in the important areas of social security. To date, most OECD countries have ratified the agreement, some countries in Latin America and Africa, but just one country in Asia. Furthermore, the World Summit for Social Development in Copenhagen in 1995 emphasized the establishment and expansion of a social security system as an essential component of widespread social development and the fight against poverty. The political declaration of the summit contains the undertaking 'to develop and implement policies which ensure that all persons enjoy adequate economic and social protection in the event of unemployment, sickness, during motherhood and child-rearing, in the event of widowhood, disability and in old age.' These are, of course, only a few stages in the efforts to strengthen or establish social security systems in developing countries.

The range (degree of cover), degrees of intensity (what, for example, is covered by health insurance in the event of sickness?), and efficiency of social security systems in developing countries differ widely (Jäger *et al*. 2001). While, for instance, statutory social security coverage in sub-Saharan Africa and South Asia lies between 5% and 10% and in Latin America lies roughly between 10% and 80%, coverage in Southeast and East Asia varies between 10% and 100%. The goal cannot be to develop a universal or uniform concept of social security. Rather, each country must develop its own system of social security aligned with the economic, social and cultural conditions of the country.

Since the early 1980s, the topic of social security has been gaining in importance in discussions and collaboration in the field of development policy. Since the end of the 1980s, national and international development organizations have also been increasingly involved in the reform and further development of social security systems. There are many reasons for this trend. Particularly important are the economic and demographic structural changes which have led to changed conditions in many developing countries: e.g. increasing expectations of the working population in economically expanding sectors, a decline in poverty in the informal sector, changes in the age structure of the population as a result of longer life expectancy, the adjustment of social security systems in the process of transformation from a planned to a market economy and improvement or expansion of existing social security systems that are often inconsistent or inefficient.

In summary, different risk factors in a country may include financial / economic crises, structural adjustment processes, an ageing population, high unemployment, and the transition to market economies. An efficient and effective social protection system will support both social stability and social justice as well as economic development. These relationships will be looked at in more detail and explained in the following sections.

2. The Functions of Social Security

Every person is faced with social problems and risks, whether he or she lives in a highly developed or an economically less developed country. The typical problems and risks are sickness, accident, unemployment, need for nursing care in old age, poverty and other forms of social plight. As a rule such problems require material and non-material help from society, and measures and expenditures for social security are intended to mitigate or provide cover for these problems and risks. Such provisions thus have a lasting influence on the situation in life of the vast majority of the populations of industrial countries.

While most developing countries claim to provide broad coverage of social risks, their social security systems are scarcely sufficient. This also applies to the ASEAN states. Social security systems are especially found in the formal sector, where they exist in the form of social welfare insurance, state payments into welfare schemes and labor market policies. In the informal sector and the subsistence economy, in contrast, there is generally no protection against social risks, whether as social welfare insurance or state payments into welfare schemes. In the informal sector and the subsistence economy, traditional and other forms of social security frequently exist, providing existential security for many people. However, they are increasingly being pushed aside by advancing modern social and economic structures. The problem of providing existential security for the people concerned is thus one that is presenting itself with increasing frequency and urgency.

The forms of social security that exist in the formal sectors of the various developing countries differ qualitatively and quantitatively. The following questions are therefore particularly relevant:

- which risks are covered;
- are the risks covered adequately, i.e. is the pension large enough to live on;
- do the individual types of social security and schemes harmonize with each other;
- what distribution or redistribution effects are triggered by social security schemes?

One crucial issue when establishing and extending social security systems in developing countries is how the function of social security is defined. On this point, Leliveld arrives at the following definition: ”Social security is firstly the protection, by society, of individuals or social groups against a fall in their standards of living as a result of temporary adversities, and secondly, the amelioration, by society, of those standards of living of individuals or social groups which are below an acceptable minimum level" (Leliveld 1991, p. 210). This definition underlines the significance of social security's dual function. On the one hand, it is concerned with preventing a deterioration in certain social groups' living conditions and, on the other hand, with improving the living conditions of social groups if these do not satisfy the minimum basic criteria. In the end, this signifies that the functions of social security are extended to include those described below.

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The function of social security is to guarantee people in developing countries an effective contribution to the sustained satisfaction of their basic needs by improving their standard of living which does not conform to an acceptable minimum level. This is the only way to make it possible for those affected to be relieved of the threat to their existence.

Social security also has the function of guaranteeing protection against a worsening of their living conditions, which is brought on by life contingencies and which cannot be overcome by the individuals themselves (von Hauff and de Haan, 1997, p. 61).

In this section, I have shown that the critical task of establishing and designing a system of social security is the responsibility of the state. This system has to protect the population against social risks and to ensure an adequate standard of living. However, it is often forgotten in this context that social security can also make a positive contribution to the economic development of an industrialized or developing nation, as the following section shows. Social security should therefore always be a central component of economic development policy.

3. Social Security and Economic Development

From the beginning of the 1980s, existing welfare states came in for even stronger criticism, especially in Europe. This criticism was in many instances aimed at the extension of social security systems, which was felt to be hampering the economic performance and competitiveness of developed economies. This frequently led to the conclusion that social security and economic performance/positive economic development fundamentally contradicted each other, even though this contention withstood neither theoretical nor empirical examination (Lampert and Althammer, 2001, p. 435 ff. and Jaufmann, Mezger and Pfaff, 1995).

In this context, a distinction has to be made between the reasons for its economic utility on the one hand and the effectiveness or efficiency of welfare states on the other. Undoubtedly, the effectiveness and efficiency of both welfare states and social security systems has to be proven. If welfare states or social security systems do not satisfy effectiveness or efficiency criteria, reforms will be necessary (von Hauff and Sauer, 2001). The following comments are only concerned with the fundamental critique of the welfare state and social security systems outlined briefly above.

Critics often forget that, in many advanced economies and developing countries in the past, government social security policy

- made an important contribution to achieving ideals and goals such as social justice and individual freedom, and thus promoted social peace and social security;
- prevented or compensated for the negative effects of privately-owned means of production (national economic utility of social security); and
- via an active family and education policy to create human capital, created a precondition for strengthening micro- and macro-economic productivity, thus contributed to long-term economic performance (Kaufmann, 1997, p. 35 f).

Many critics have thus misjudged or neglected the historically significant achievements of state-run social security in structuring and realizing a humane society, in which the level of social welfare is high (Lampert and Althammer, 2001, p. 436 ff.). Abramovitz makes these achievements more precise when he writes: ”The enlargement of the government’s economic role, including its support of income minima, health care, social insurance, and the other elements of the welfare state, was, up to a point, a part of the productivity process itself” (Abramovitz, 1981, p. 2). The following comments will focus on substantiating the economic significance of government-sponsored social security for the economic development of developing countries.

Justification in economic framework theory and policy: the establishment and increasing complexity of social security legislation and its implementation in truly useful material rights and opportunities is a crucial precondition for the creation of welfare states, based on individual freedom, whose aims are those already mentioned above: personal freedom, social justice and social security for a great majority of the population. The principles on which it is based are generally ideal types, and to this extent reality always requires and is capable of improvement. Lampert and Althammer deduce the following positive economic effects from this (Lampert and Althammer, 2001, p. 437 ff.):

- Avoidance of social costs and safeguarding of labor potential: labor protection laws, health and pension insurance policy and education and training policy play a quite significant role in avoiding social costs and safeguarding efficient labor potential.
- Stabilization of social and economic order: Special emphasis must be given to the significance of institutionalizing the labor market and in-company and cross-company relationships between employers and employees. This plays an important role in social peace and thus in stabilizing the social and economic order.

Macro-economic justification: Social security policy plays a role in stabilizing economic development, because it stabilizes demand for consumer goods by making it constant (Vobruba, 1998, p. 37 ff.). In this connection, we speak of in-built stabilizers that function under certain conditions. Beveridge drew attention to this connection as early as 1942, when he wrote: "If unemployment benefits are made as high as is at all compatible with the preservation of a fluid labor market and the incentive for the individual to find work rather than enjoy himself, then the purchasing power of the working classes will be protected when a crisis begins, and the violence of depression will be reduced" (Beveridge, 1943, p. 252). Pfaff has empirically confirmed this connection for certain European countries (Pfaff, 1989, p. 131 ff.).

Finally, protection from and promotion of economic and social structural change should be mentioned. Here, legislation like the revised German Employment Promotion Law can play a major role in cushioning and reducing imbalances in the labor market. This allows adjustment costs to be reduced, for example by retraining schemes for private households and companies. Social security benefits become socially acceptable in this way, and reduce resistance to structural change (Lampert and Althammer, 2001, p. 438). Whether and to what extent these economically positive effects of social security are felt will mainly depend on the way the schemes are structured.

4. Conclusion: The Increasing Relevance of Social Security for Developing Countries

Since the beginning of the 1980s, the topic of social security has increasingly been a subject of development policy debate. Guhan, one of the outstanding experts in social security in the context of developing countries, gives three reasons for this (Guhan, 1994, p. 35 ff):

- The crass dichotomy between the social security systems of developing and developed countries has increasingly been regarded as unsatisfactory. In addition, there has been increasing awareness within developing countries of the difference in the way in which those employed in the formal sector and those who are self-employed in the informal sector have access to social security.
- It has increasingly been recognized that schemes to combat poverty cannot guarantee any adequate or prompt protection from various forms of impoverishment.
- The most obvious reason was the increasingly critical appraisal of the role of social safety nets. The aim of social safety nets had been to cushion the negative effects of World Bank structural adjustment programs. However, these did not result in any sustained social security, particularly for those living in poverty.

There is no doubt that the extreme heterogeneity of developing countries calls for a wide variety of concepts and schemes. This is particularly important for the ASEAN countries. Among other things, this heterogeneity is determined by

- the level of economic development;
- socio-culturally conditioned social structures;
- the qualification and efficiency of government institutions; and by
- the networks and power structure of lobby organizations and interest groups.

For the following discussion and assessment it is important to realize that most developing countries have only incomplete social security systems. They are to be found above all in the formal sector, in the form of social insurance, state social benefits and employment policies. In the informal sector and subsistence economy, in contrast, there is normally no state insurance against social risks (von Hauff and de Haan, 1996, p. 72 ff.).

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