Social protection: What workers and trade unions should know

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Editorial

Social protection has been at the centre of debates, at times heated ones, in many countries over the last few years. Where it is hardly existent, discussions have focused on what level of protection should be granted, who should benefit, who should pay and who should manage it. Where social protection has been anchored for generations the debate has centred on whether present schemes are sustainable in the long term and what reform, if any, should be introduced to secure sustainability. There is no secret that for millions of workers in the developing countries, deprived of any sort of social protection, the security "enjoyed" by workers in the "North" is regarded with hope. Yet this "security" is the result of long-lasting struggle and social dialogue in which trade unions played a significant role. And this "security" remains fragile as reforms at times become a recipe for dismantlement or disguised attacks on fundamental rights.

Everywhere social protection is on the agenda. And, most appropriately, it is on the agenda of this year's International Labour Conference in June where it will be the subject of a general discussion. On the eve of such an important debate, the first at international level, *Labour Education* decided to take stock of the situation and explore ways forward both to extend social protection to all and to examine experiences in different parts of the world.

Much has been said about social security, and misconception, exaggeration, preconceived ideas and peremptory judgements are not absent in the talks. *Labour Education* attempts in this issue to examine the question with sobriety. Social security is too vital an area for millions of people to substitute ideology or profit for experience or common sense.

First, social security is not a luxury. It is a fundamental human right, included in the International Covenant on Economic, Social and Cultural Rights. And, as one of our contributors rightly stresses, it remains one of the key mandates of the International Labour Organization (ILO).

Secondly, too many people are still deprived of this basic right; in fact half of the world's population remains without access to social protection. The Social Security (Minimum Standards) Convention, 1952 (No. 102), has only been ratified so far by 40 countries.

Thirdly, the growth of the informal sector, the lessons of the Asian crisis, the rapid transformation of the economies of transition countries and the experience of structural adjustment all point to the need, in these times of globalization, for making efficient social security accessible to as many workers as possible, not for its dismantling.

And fourthly, there can be no doubt that social security has contributed to major economic and social progress where it has been best implemented.

All of these points have to be borne in mind when discussing the future of social protection. And the aim of the debate should be to examine ways and means of ensuring that as many workers as possible are brought within the scope of social security schemes based on solidarity principles, and of ensuring the coverage of new needs, in particular those aimed at establishing equality and abolishing discrimination still affecting women workers in many places.

Although privatization is sometimes presented as a panacea, there is no evidence that privatized social security schemes would fare better than pay-as-you-go systems. In fact, most of the contributors to this issue are questioning the reliability of private schemes (without minimizing the problems facing the long-term future of public systems). Most warn of the real dangers of making social protection subject to the vagaries of the financial markets.

Whether publicly or privately organized, the very purpose of social security remains solidarity. Indeed, solidarity between the young and the older generation, between the healthy and the sick, between workers in employment and those deprived of it remains the best bet for the future of protection and for economic and social progress.

There is yet another reason for trade unions, employers and governments to be concerned with the future of social protection: avoiding exclusion and alienation, a recognized role of social protection, also ensures that participation in the political process, the heart of democracy, is not undermined. A caring and solidarity-based society needs to be a priority for this new century as it is central to economic and social justice and to the spreading and strengthening of democracy.

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Globalization and social protection: Myths, utopias and realities

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"and yet it moves"
Copernicus

As fate would have it, the start of the millennium was marked by three meetings of the utmost importance for economic and social development. The first two were the world forums held in January 2001. The Economic Forum in Davos, Switzerland and the Social Forum in Porto Alegre, Brazil. The third meeting was the Thirty-ninth Session of the Social Development Commission of the United Nations Economic and Social Council held in February 2001 in New York and whose priority theme was "Enhancing social protection and reducing vulnerability in a globalizing world".

The effective and efficient incorporation of protection into the present process of globalization poses major challenges to all, in particular, to the multilateral system to which it falls to promote initiatives with integrated approaches at both the economic and social levels. Obviously, the real difficulty resides not in the setting of objectives but in attaining them. For that reason, these initiatives must surely include concrete and efficient means of inter-institutional coordination, that is, the elaboration of analytical frameworks in which to devise international and national policies that do not imply hegemony of the one over the other, but which represent channels for reinforcing development at both levels.

The question may nevertheless be legitimately asked as to how to consider and make concrete proposals when the matter of economic globalization and its implications and linkages with the "social sphere" is surrounded by a mixture of myths, utopias and realities that come in such rapid succession and in such quantity that it is frequently difficult to distinguish between one thing and another. In that regard, this document aims to examine some of the many myths, utopias and realities marking the third millennium.

I shall deal first of all with the myths. One of the first myths is the claim that the globalization process is something extremely "modern" and inevitable and that it maintains all of humanity in a state of expectation.

As for "modernity", it is interesting to examine the following advertisement by a leading computer firm, stating: "We have doubtless embarked on a new era, a post-industrial stage where the capacity to use information has become decisive. This new era is known as the 'information age'." The advert dates back to 1977 and was already proclaiming the start of a new era.

The myth of the information age crosses paths with that of the age of globalization and that of the new economy. Whatever the name we give it, conservative estimates are that this new era has been with us for two decades now, which makes it inappropriate to keep on describing it as "new". Consequently, in making a provisional evaluation, the analysis cannot be confined to the promises of what will happen in the future; instead, we must look at what has already taken place, at the orientation we are able to discern and at how necessary and possible it may be to do something about that orientation.

The subject of self-orientation and self-projection towards the future or of evolutionary and participatory development also raises the issue of the "inevitability" of globalization, of the current globalization, or of any globalization whatsoever.

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The law of gravity

In an article recently published in Spain,[1] Mario Vargas Llosa makes a somewhat "Malinchean" reference[2] and, as a Latin American, blushes at what to his mind is a characteristic that has been a constant in the history of Latin America: the rejection of the real and the possible in favour of the imaginary and the fantastic, and of the risks being run by those who, in the social domain, bet against "reality". Vargas Llosa draws an elegant parallel between the absurdity of resisting the force of gravity and resisting the globalization process, and deplores the role of the self-styled opponents of globalization, whom he calls "modern-day luddites".[3]

The not-so-novel character of the globalization process, the outcomes to date, the equally worldwide questioning it has elicited, as well as Vargas Llosa's reference to the law of gravity "inevitably" reminded me of Copernicus and "his" contemporary cosmic reality. Copernicus argued that the planets and the Earth revolved in orbit around the Sun, a theory that was deemed unacceptable by most of his contemporaries, who were all of the view that the entire universe revolved around the Earth.[4]

Other famous and anonymous scientists followed in the wake of Copernicus,[5] all of whom were sometimes right and sometimes wrong concerning the gravity to which Vargas Llosa refers. They all espoused a different vision and interpretation of the "reality" of the universe. I do not doubt that each in his day was most likely called a "luddite" because of his continuous search for "another reality". The "silence of the lambs", in other words, the rejection of the very dynamics of reality in flux, has never served as a driver of development. Einstein, for example, was so aware of his mistakes and of the need to admit them and work ceaselessly to correct them, that in December 1915 he said of himself: "My friend Einstein always manages to retract what he wrote the year before". It was a long way since Copernicus, but Einstein arrived at his definitive version of general relativity, though inevitably, it is now fortunately being reviewed and improved upon.

Should we not recognize that globalization is in its infancy and that its present form and our perception of it can and must change over time, based on its successes and its inevitable errors and shortcomings? The questions being raised about the structure, outlook and interim achievements of globalization are part of reality and must be considered when shaping a globalization process that is acceptable and accepted by the majorities, through dialogue and democratic participation.

The North-South myth

A second myth, that of the war between North and South, can also be regarded as a modern-day one. In both North and South, advocates of different types of globalization are perceived by those with a different vision as opponents of it or as unconditional supporters of just about "any" kind of globalization. The "global village" does not exist at present; what does exist is a series of archipelagos with global identities and interests.

Most of the legal and illegal enterprises and activities that are successful in the new global economy in one way or another have ramifications, as much in the North as in the South, that are creating a web of interdependencies, also legal and illegal, as regards both strategic goods and superfluous and even harmful articles such as drugs.

Who represents the North and who represents the South when in both camps there are advocates of different kinds of globalization? The democratic manoeuvres of the various countries in the North and South will inevitably influence the constant quest for the new globalization for today and tomorrow. National and international statements for or against the various types of globalization are but part and parcel of that quest and of natural evolution. This search must none the less mature and intensify over time, as criticism, however constructive, cannot continue indefinitely. It is essential to formulate concrete, viable and democratically accepted proposals. These do exist and I shall subsequently be outlining the essence of the proposals from the International Labour Organization, but it is first necessary to complete the analysis of the myths and consider the utopias.

The myth to which we must now turn is in fact a double reflection of one and the same image: the guarantee. One is the image of the "guarantee of success", of "assured success", whilst the other is the image of the guarantee of failure, "the announced failure".

In tackling the two-fold myth of the guarantee of success and of failure, I cannot resist the temptation to refer to the Olympic Games. Whenever I watch the Olympic Games on television I cannot help reflecting on the fact that the first three who reach the finish line, who jump the highest, or who are the strongest, receive all the laurels and … eternal glory? It matters little whether the winner's abilities had been detected early, whether she or he had a generous scholarship, specialized trainers, facilities equipped with the latest advances, a proper diet and the best of encouragement. The starting point and the finish line is the same for the participant who probably trained secretly in a run-down building, alone and poorly nourished. What matters is success, winning the prize. In contrast, the Olympic Games always leave aside a majority who, despite having given their all, end up losing. Often the losers' only consolation is the satisfaction of having tried and of having participated.

When I watch the Olympic Games on television, I also cannot help thinking of the millions of spectators, and of the non-spectators. The spectators have a "manipulated" vision of the reality; the non-spectators may well have no vision of reality for lack of means. There are millions and millions of people in the world who may be "involuntary luddites" because they have no contact with the mass media. Others may be "involuntary lambs" because they are unable to make a distinction between seeing and understanding the manipulated reality.

The inevitable competition that is attendant on globalization and the different perceptions of reality have found the various countries at different starting points but with similar finish lines. Nevertheless, the laurels and the eternal glory seem to evade them all. No optimism or pessimism lasts forever. One day's good news and successes are wiped out by the next day's bad news; solid efforts can be cancelled out by the lack of adequate expectations: a black Tuesday can be relegated to oblivion by a glorious Friday and vice versa.

Even as the world boasts of the present resilience of the global economy and the absence of crisis, the economic expectations of practically all its economies are being reviewed downwards. More and more questions are legitimately being asked in the light of the facts and expectations. Can the present globalization yield results? Are the years of solid and sustained growth of the leading world economies now a thing of the past? Are the good years now just memories? How will the future be, soft or harsh? What will be the impact on the standards of living of those who benefited from the boom years? And worse still, what will be the situation of all those who even then reaped no benefits? What are in fact the best and worst expectations? What is the expectation of a "better" reality? What about the risk and consequences of a "worse" reality?

There is no doubt that the future is no longer what it used to be. It would seem at present that the only certainty is uncertainty. There are no guarantees that what succeeded yesterday will succeed tomorrow. What worked for some may not work for others. For some time the less developed countries believed that by following in the footsteps of the more developed countries they were assured of economic success and development. Development was perceived as an imaginary line in which some were lagging behind others, but all in one and the same comparable line. The less developed countries are forced to seek their own path, though, above all, without following the one that led to the development of the countries that achieved success. As Antonio Machado would say, "Traveller, there is no path, the path is made as you walk" (but do not follow the path that I have walked).

The development of today's most advanced countries came about by means of a combination of economic and social processes, including economic stimulation policies with a dose of prudent and selective protection and trade liberalization, a clear role for the State, the encouragement of democratic participation by economic and social players, and the development of systems of social protection. The argument most commonly wielded by the developed countries, which are currently recommending that the less developed countries do not follow the policies and strategies that brought them success, is that formerly the economy did not operate according to the dialectics of globalization. The most popular argument amongst the developed countries which are nowadays failing to comply with certain general recommendations geared towards the less developed countries, in particular those related specifically to the opening of markets, is indeed that they have already attained high levels of development that could be needlessly jeopardized.

In seeking their own path to success, some less developed countries could run into a democratic-mathematical paradox as well as renewed competition with new and gigantic players. It is well known in systems theory that the optimization of the parts does not necessarily mean the optimization of the whole. Just as there are "degrees of freedom" to seek solutions in mathematical systems, one may well wonder what are the degrees of freedom available to non-viable world enterprises, or even, what are the chances of democracy for those countries where it may not be viable or where it would be outdated in terms of a global logic. Is there a globalization alternative in which all are winners or will there be a perpetual combination of winning and losing countries and enterprises? Is inclusive globalization where everyone wins a utopia, an oxymoron[6] or a possibility?

Globalization: Advantages and shortcomings

It does not seem to me to need too many arguments to confirm that globalization in which everyone wins is still an oxymoron. It is clear that in the present globalization not all are winners and that it is neither acceptable nor accepted by all. Exclusive globalization is an oxymoron and must of necessity evolve to become at least a utopia or a possibility.

The defenders of globalization at all costs would seem to favour a certain "e-utopia" in which the present routes to globalization are acceptable for attaining higher levels of development. The categorical opponents of globalization would seem, for their part, to support an "anti-e-utopia", whereby no element of the present globalization should be retained in order to achieve higher levels of development.

By virtue of the contemporary reality of globalization with its advantages and shortcomings, and considering the very real influence and power of its promoters, and the need to make it acceptable and accepted by the majorities in a democratic setting, it is necessary to do away with the new bipolarity of seemingly irreconcilable utopias and to devise new concepts and strategies that will lead to economically dynamic, comprehensive, efficient globalization based on social equity and environmental sustainability.

The progression from Copernicus to Einstein necessarily entailed many mistakes, many successes, much hard work and much imagination. To best understand and explain the macro- and micro-spatial balances and imbalances, it was necessary to find a constant to serve as a reference, the speed of light. Similarly, globalization needs a set of constant factors and values that will make for progress in seeking and achieving results that will enable all parties to advance and develop.

After the so-called "luddites" and "lambs" at either end of the spectrum of globalization, an effectively realistic generation must now emerge or re-emerge forcefully and energetically – one that regards dialogue as a cornerstone of economic and social stability. However, the opening up of markets, as well as social development must be preceded by an opening up of mentalities and wills so that the differences of approach and interests can be accepted and alternatives proposed on the basis of interests shared by all, without exclusions. There is growing evidence that the "present" globalization is helping to create greater inequality between the more advanced and the less developed countries. Similarly, inequality is becoming accentuated both within the developed and the less developed countries themselves. Exclusion is a poor companion to democracy and surely the worst enemy of efficient and integral globalization.

Beyond all doubt, one of the most telling impacts of the present form of globalization has been the rapid transformation of the world of work. Informal work is extremely dynamic worldwide. Its dynamism seems to rival and perhaps outstrip only that of the criminal economy comprised of robberies, assaults, kidnappings, crimes of greater or lesser dimension and sophistication, money laundering, drug trafficking and corruption in all its forms. The heightened sense of insecurity should therefore come as a surprise to no one.

As pertains to "formal" work, greater worldwide competition has caused numerous job losses and the creation of new forms of work, and measures to counteract or offset the effects and lend support have lagged far behind. The present globalization has brought sharply into focus the grave consequences of neglecting the aspect of social protection.

Fundamental ingredients

There is an undeniable correlation between insecurity on the one hand, and the quantity and quality of work that is "available" and within the reach of the majorities on the other. Less work means lower labour costs and less spending on social protection, but also fewer consumers. Who will consume the national or international products of this or any other globalization? Who will have the capacity to save and hence foster future financing and development? How will people resist the fast-yielding criminal economy, when all the other forms of economic activity do not manage to satisfy even the basic necessities?

Undoubtedly, effective democracy and constructive dialogue are fundamental ingredients of tomorrow's globalization. Work is the constant, the connecting element that will facilitate the transition from the present globalization to a new, more mature and sustainable globalization. Clearly, if this unifying objective is to be attained, it is not just any form of work that must be promoted, as the results could be disastrous. It is not merely a matter of creating jobs, they must also be of acceptable quality. The amount of employment cannot be dissociated from its quality. Work must be able to yield resources for housing, food, education, social protection and sufficient income, under conditions of freedom, fairness, security and human dignity.

The work called for by current and future globalization must strive towards the universal observance of fundamental principles and rights at work, creating more and better job opportunities and income for women and men, improving the quality and extending the coverage of social protection systems, and towards furthering the social dialogue. Such work has been encapsulated by the ILO in the concept of "decent work" and constitutes the underpinning and integrator of its programme and strategic objectives.

It is clear that imagination is a process that precedes creation and that the transition from the idea to the act calls for great commitment above all. Besides, there is no favourable wind for those who do not know where they are going. The leaders of the ILO, the organizations of employers and workers and the governments have given their full support to promoting decent work as a development strategy.

Social protection is a fundamental component of the concept of decent work and is linked with the objectives of social dialogue, the promotion of employment and the respect of the fundamental rights of workers. To confirm the foregoing, it suffices to consider that more than half the Conventions adopted by the ILO address social protection. Adequate social protection is therefore a key element of the viability and acceptability of economic globalization. Besides, the capacity to offer suitable social protection to most of the population calls for a successful world economy.

In spite of its accomplishments and its limitations in the economic sphere proper, any globalization that prides itself on being successful and accepted needs to correct the tremendous underdevelopment of social protection.

The bulk of the world's population lacks adequate social protection. National, regional and international strategies ought to incorporate the need to improve and extend the coverage of all dimensions of social protection systems, namely security of income, health and safety at work, working conditions and environment, the health of the family, retirements and pensions. Priority must be given to effective equality of opportunities between the sexes and new processes and emerging challenges such as international migration and the AIDS pandemic must be tackled appropriately.

The solutions pertaining to decent work and its social protection component are not all to hand. So far, the list of questions is still longer than that of answers, but there is no doubt that efforts must continue to study, raise questions and put forward creative alternatives at all levels: the individual, family, community, local, national, with the national and international private sector, organizations of workers, civil society and the international community. The new alternatives and proposals could include elements and combinations of reforms, ways of strengthening social protection systems, microinsurance, social reinsurance, social protection networks, security and living conditions in the new labour environment, together with efficient and democratic management of all these new and changing social risks.

Like the Aztecs who sacrificed maidens to satisfy the gods, the defenders of the emerging globalization thought that its viability called for a sacrifice in the social domain, and of social protection in particular. In the same way, the defenders of the social aspect believed that by sacrificing globalization they would meet social aspirations.

The reality of the start of the millennium is that the social and economic domains need each other and are mutually supportive, and are joined together like Siamese twins in an "Ilonian" judgement on survival, development and mutual viability, which states:

"*If you want globalization, promote decent work and social protection for all. If you want decent work and protection for all, promote globalization*".

Notes

[1] *El País*, Saturday, 3 February 2001, No. 1737, Spain.

[2] In reference to Malinche, partner, translator and adviser of Hernán Cortés.

[3] In reference to the violent uprising by the so-called "quiebraquilos" in Brazil who, at the end of the nineteenth century, were opposed to the introduction of the decimal metric system.

[4] It should be stressed that Copernicus was indeed right about the orbits but wrong about their shapes as he saw them circular while in fact they are elliptic.

[5] Among others, Galileo, Euler, Newton, Lagrange, Hamilton, Jacobi, Maxwell, Lorenz, Poincaré, Grossmann, Planck and Einstein.

[6] "In an oxymoron, one applies an adjective to a substantive in such a way that it contradicts it, hence gnostics spoke of an obscure light and alchemists of a black sun". Jorge Luis Borges. Title of the speech delivered by sub-commander Marcos at the World Social Forum, Porto Alegre, Brazil, 25-30 January 2001.

Social dialogue on pensions: The experience of industrialized countries

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Pensions are currently at the centre of public debate throughout the industrialized world and all the countries concerned have been making adjustments to their pension schemes for roughly the last 20 years. In spite of the wide diversity between countries in terms of the design and organization of pension systems, the problems experienced are fairly similar. Over and above very strong national particularities, there are a number of common points, of which two should be highlighted. First of all, the existing systems were established at the same time, for the most part in the wake of the Second World War, and have now reached maturity. During the first decades of their existence, they went through a maturing process, that is, conditions were particularly favourable for their management since there were then relatively few benefits to pay out in relation to contributions paid. That period is now past and the pension system could now be considered as being in a stable state. Secondly, in all industrialized countries, pension systems have, for several years, had to adapt to a context that is entirely different from the one which existed when they were first introduced. This complete change of circumstances is due to several factors, in particular changes in the labour market, the organization of the economy, demography, life expectancy, family structure and relations between men and women. Furthermore, by their very existence these systems have created new prospects for life after retirement and raised expectations among workers in that regard.

It has become clear everywhere that there is no easy solution to the problems facing pension systems. Whatever the organization style or the nature of the systems, the problems posed are similar. Whether pensions are flat-rate, as is the case in the United Kingdom, the Netherlands and Japan, or are earnings-related, as in the United States, Germany, France and Spain, or whether they are based on the amount of contributions paid, as in the new systems established by Italy and Sweden, they are all confronted with the same technical constraints. In the long run, it always comes down to balancing out resources and expenditure so as to ensure that commitments are honoured over time. All the countries concerned have resorted to a range of measures in order to guarantee this balance, which include increasing contributions, widening funding sources, changing the rules governing calculation and indexation of pensions, extending the retirement age and protracting the contribution period. This aspect of the reforms has been often described and is fairly well known (for a more comprehensive study of pension systems, see Gillion et al., 2000). However, issues relating to the decision-making process and the route leading up to the adoption of the reforms are still generally unclear (however, see the *Chronique internationale de l'IRES*, 1997; Reynaud, 1999; Brooks and James, 1999; Palier and Bonoli, 2000; Myles and Pierson, to be published). These are, none the less, fundamental aspects of the reform process.

In this respect, a preliminary observation could be made. The pensions-related measures introduced in industrialized countries over the last few years are seldom based on unilateral decisions by the legislator. For the most part, they have been adopted as a result of various kinds of consultation, negotiation and public debate. These consultation mechanisms, which are subject to different conditions depending on the country in question, have been crucial to the adjustment of pensions systems. In some countries, such as France, the Netherlands and Sweden, in addition to the statutory social security schemes, there is also negotiated management of pensions by social partners at national level within the framework of wide complementary schemes based on collective agreements (see Reynaud, 1997b for the French example).

Generally speaking, it has become evident that industrialized countries, each with their own unique institutional context and traditions, have established procedures and advisory bodies allowing for participation by various actors in the pension policy decision-making process. Three features of the reform process stand out from a comparative point of view. First of all, there is a clear intention in most countries to achieve consensus on pension reform. Secondly, there are two issues at the heart of the discussion: the design of systems with regard to equity and redistribution, and the length of the period of transition to a new system. Lastly, it appears to be essential to have follow-up mechanisms over and above the actual reforms themselves.

The search for consensus

There has been generally a marked desire among political and social players in most countries to arrive at consensus on the issue of pensions. In fact, pensions play a very specific role in contemporary democracies. First of all, they are a major aspect of the security which industrialized societies guarantee their citizens, but they also embody the notion of time. Pension commitments are carried over a large number of years – up to 60 or even 70 years or more – and their sustainability has to be guaranteed over the very long term. Consequently, some conflict may arise between this long-term aspect of pension systems and the relatively short-term political alternation which is a feature of parliamentary democracies.

As a result, a number of rather “exceptional” procedures and practices have been introduced in most countries. In many cases, the political majority and opposition have reached agreement on pension policy. Sweden is quite exemplary in this regard (see Wadensjö, 1999). In fact, in June 1998 it adopted sweeping reforms resulting from a lengthy process during which the main parties came to a common position. It was decided to form a commission made up of members of all the parties represented in the Parliament which, in March 1994, proposed a complete review of the system. The proposal was supported by the four parties comprising the ruling coalition and the main opposition party – the Social Democrat Party. On the basis of this proposal, the liberal conservative government formulated the basic principles of the reform which were subsequently adopted by Parliament in June 1994. A working group was then set up, consisting of parties represented in Parliament who were favourable to the reform, in order to translate these general principles into bills. In September 1994, following a change in the majority, the Social Democrat Party returned to power but this did not have any significant effect on the reform process. Moreover, the composition of the parliamentary working group responsible for drafting the bills remained unchanged. At the same time, an internal debate in the Social Democrat Party with some persons voicing their opposition to certain aspects of the project, led to the launching of fresh negotiations among the five parties supporting the reform. It was in the spring of 1998 that the proposal of a new system was finally tabled in the Parliament and later adopted in June of that same year.

In Spain, during the 1990s, there was a similar desire among the major political forces to achieve consensus (see Lagares Pérez, 1999). In the face of the worrying situation facing the pension system and in view of the obstacles to attempts at reform, the Spanish parliament decided, in February 1994, to set up a working group comprising representatives of all parliamentary groups. A year later, in February 1995, the group’s work led to the signing of a political agreement between all the major parties – the so-called “Toledo Pact”. The aim of the Pact was to consolidate the existing pension system and to prevent it becoming an issue and being used as a political pawn during electoral campaigns. The United States could also be cited where, in 1983, reform of the state pension scheme resulted from an extremely unusual agreement between Republicans and Democrats.

Germany provides a counter-example in this regard, notwithstanding a long tradition of consensus seeking, especially as far as pensions are concerned. Recently there has been a break with this tradition and the exception confirmed the rule, so to speak, demonstrating the difficulties which can arise from unilateral decisions. In 1997, the last Kohl government imposed a reform in spite of the opposition of the Social Democrats and trade unions. This imposition no doubt had an impact on the elections and very likely contributed to the Christian Democrats’ electoral defeat in 1998. Following the change in majority, the new government challenged the previously adopted legislation. Since then, the reform process has been restarted, firstly by an agreement between the Social Democrats and the Green Party and, secondly by the opening up of the discussion to include other political and social forces.

This desire for compromise and consensus is often evident in the deep involvement of social partners, especially trade unions, clearly exemplified in Spain. After the Toledo Pact was concluded between the parliamentary groups, the Spanish Government negotiated an agreement directly with the two largest trade union confederations – the Workers' Commissions (CCOO) and the General Workers' Union (UGT). Through this accord – the Consolidation Agreement – it was decided to extend the agreement reached between the political parties to the social level. Employers who were doubtful about the financial viability of the Toledo Pact dissociated themselves from the measure. The Government later tabled a bill in Parliament which reflected the general principles of both the Toledo Pact and the Consolidation Agreement. The bill became law in July 1997.

A similar situation occurred in Italy where, as happened in Sweden, a thorough reform of the pension system was made (see Antichi and Pizzuti, 1999; Reynaud and Hege, 1996). In 1994, after a first set of reforms had been introduced in 1992 by the Amato government against the backdrop of monetary crisis, the Berlusconi government sought parliamentary adoption of a number of measures despite trade union opposition. This caused a major social conflict in October and November 1994. After a number of strikes were declared in several towns, the trade unions called a general one-day strike, the most successful initiative of its kind for many years. There was growing opposition to the draft, in particular, with a major demonstration in Rome. Under the threat of another general strike, the Government finally signed an agreement with the trade unions which excluded the principal measures of the initial agreement. The next government, the Lamberto Dini government, chose to negotiate on the content of the reform directly with the three trade union confederations (the CGIL, the CISL and the UIL, respectively Confederazione generale italiana del lavoro, Confederazione italiana sindicati lavoratori and Unione italiana del lavoro). It subsequently tabled and had adopted by the Parliament a bill which reflected the terms of the agreement reached with the trade union organizations. Austria also provides a good example of trade union participation in the reform process. The 1997 reform resulted from extended negotiation between the Government and trade unions which, in the Austrian case, was until recentlycommon practice much beyond pension issues.

In this general context, characterized by a clear desire for consensus and continuity, one country runs against the grain – the United Kingdom. Alternation between Labour and Conservative governments since the end of the Second World War has regularly brought about marked changes in pension policy. On the whole, the desire for consensus on pension issues is very weak in the United Kingdom. The Government uses its parliamentary majority to push through its own proposals in Parliament. Therefore, since the 1960s there has been what could be called an "alternate pattern" (Davies, 1999, pp. 23 and 24) whereby bills proposed or introduced by a government are systematically challenged once there is a change in the parliamentary majority. Throughout this period, trade unions have usually backed Labour whereas employer organizations have often, but not always, put their weight behind Conservative proposals. The uncertainties and instability inherent in such an approach raises both the issue of confidence with respect to the continuity of commitments and the overall coherence of the state pension system.

Equity, redistribution and the transition period

Pension issues are closely linked to national contexts, especially in relation to the characteristics of existing systems which have their own form of inertia and which result from the choices made by the societies concerned. However, worldwide comparisons of the reform processes of the last few years have highlighted two basic points which are common to the different national systems: the design of systems with regard to redistribution and equity, and the gradual nature of the transition to a new system.

Italy is the only industrialized country, besides Sweden, to have introduced sweeping reform of the pension system, and its example clearly illustrates the substance of these two issues (see Reynaud, 1997a). One of the major aspects of the Italian reform has been the departure from a client-based approach and the attempts to make the pension system more equitable. This search for equity, which is shared by all the actors involved, has basically translated into harmonization of schemes with regard to different professional categories and the elimination of redistribution mechanisms which have favoured the more fortunate. The concept of equity underlying the reform consists of establishing strict proportionality between benefits and contributions. Limits are placed on the internal redistribution mechanisms of the system and an assistance programme, which is completely separate and apart from the insurance system, was set up to guaranteee a means-tested minimum pension depending on resources.

This notion of equity is applied in a similar way in the Swedish reform. However, the general tendency to establish a more direct link between benefits and contributions is common to most of the reforms introduced in industrialized countries, especially within the European Union. The central issue of the debate concerns the balance to be struck between benefits which strictly correspond to contributions paid in and those that do not. In other words, it is a question of drawing a distinction between what is based on contributions and what is based on the principle of solidarity. In that context, the question arises as to the periods or activities for which "free entitlements" should be granted: unemployment, maternity leave, difficult occupations, pursuit of studies, childcare, care for the elderly and the physically disabled, etc. This approach, which increases the transparency of transfers, calls for specific choices to be made on redistribution and justice. These are related both to the scope and forms of solidarity to be implemented and the respective participation of each of the players – workers, employers, the State – in the financing of such solidarity.

The other key element of the reform process is the period of transition from the old to the new system. Time is essential to the question of pensions. The time perspective for pension schemes is the very long term and reforms have to be gradually introduced, especially in systems which have reached maturity. The transition from an old to a new system poses problems for commitments made and rights acquired which, just for credibility alone, cannot be changed too abruptly. In Italy, for example, this was one of the main areas of negotiation between the Government and trade unions. The problem was solved by distinguishing between three groups of worker: new entrants on to the labour market, workers who had contributed for less than 18 years by the end of 1995 and workers who had contributed for 18 years or more at the same date. The first category is covered entirely by the new system; the second is based on the old system for rights acquired up to the end of 1995 and under the new system for rights gained as of 1996; the third is completely covered by the old system.

Similarly, under the Swedish reform, the new system was introduced gradually based on the birth date of contributors. Pensions for persons born in 1954 or after are based entirely on the new system; persons born between 1935 and 1953 fall under both systems: 19/20 under the old system and 1/20 under the new for persons born in 1935; 18/20 and 2/20 respectively for those born in 1936, and so on. Furthermore, a mechanism was designed for persons caught between both systems to ensure that rights acquired prior to 1995 under the new system do not result in pensions falling below a certain level (i.e. complementary pensions which they would have acquired under the old system).

Monitoring and managing the systems

The example of industrialized countries highlights the importance of follow-up mechanisms over and above the actual reforms themselves. In a domain as technical as pensions, it would seem to be essential, first of all, to have credible, reliable information that is acceptable to the different actors with regard to the financial status of pension systems and their prospects for development. Such information forms the basis for discussion and debate and allows for informed political choices to be made from among the possible options. The way in which this technical knowledge is used varies from country to country. In the United Kingdom, for example, it is provided through an independent institution within the government structure – the Government Actuary's Department. In the United States, financial monitoring is the responsibility of the Board of Trustees of the social security trust fund which must include the opposition party. In Germany, figures are produced by such reputable institutions as the Federation of Pensions Insurance Institutions, the Federal Statistical Office and the Federal Bank. Formulas vary in keeping with national contexts but the different examples show that technical information on pension schemes should be available and totally credible.

Most countries tend to set up advisory bodies or working groups, whether on a permanent or temporary basis, to participate in the decision-making process relating to pensions. In some countries, such as Germany, the United States and Japan, advisory boards have been part of the system's follow-up and periodic review procedures for a number of years. Japan is particularly systematic in this regard and the law provides for an obligatory review of the pension system at least once in five years. Advisory boards, although known by various names in different places – “Sozialbeirat” in Germany, “Advisory Board” in the United States, “Nenkin shingikai” in Japan, “Conseil d’orientation des retraites” in France and so on – are fairly similar in composition. They normally comprise representatives of employer and trade union organizations, academics and other competent persons. In a complex and highly technical field such as pensions, these advisory boards provide a forum for examining the system and elaborating compromise which contribute to the decision-making by legislators. In several countries, it has been the parliamentary working groups which have played a major role in the reform process, in order to achieve consensus on a potentially controversial topic. In Sweden, reform bills were drafted by the group set up in 1994 comprising representatives of the ruling four-party coalition and the main opposition party – the Social Democrat Party. Similarly, in Spain, the work was done by a group made up of representatives from all the parlimentary groups, leading to the signing of the Toledo Pact.

Generally speaking, experience shows that, apart from institutionalized mechanisms, the pensions issue is dealt with in a variety of ways, whether through the creation of ad hoc committees, the production of numerous reports and White Papers, or the organization of seminars and meetings by the political authorities. But on the whole, it would appear that the pensions debate tends to develop outside the regular institutional framework. It occupies a large part of the public domain and involves numerous actors, which points to the importance and complexity of the issue. However, this may lead us to question the very idea of a pensions reform. We often tend to speak about *the* reform of the pensions system as if *a* reform could solve the problem once and for all. In fact, the important issue is not so much the need for reform but the constant need to monitor and manage pension systems in accordance with the changes that affect them so as to guarantee their long-term viability.

The current adaptation process, which is generally seen as a “crisis”, is part and parcel of the functioning of pension schemes which have reached maturity. The salient feature of these schemes is precisely their adaptability which allows for the continuity of extremely long-term commitments. In industrialized democracies, pension systems are a good way of making agreed decisions on income distribution and post-retirement security. They are also key instruments for ensuring a new balance between work, leisure and lifelong training. What is important now is to provide the means for making these collective choices. Therefore, pension reform ultimately leads to a wider issue, namely democracy and how it functions concretely in contemporary industrialized societies.

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Social security: Towards a renewed commitment for universality

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It might be worth, in the highly controversial debate on social security, to recall that one of the key mandates of the International Labour Organization (ILO) remains to achieve "the extension of social security measures to provide a basic income to all in need of such protection and comprehensive medical care."[1]

Yet, there is no doubt that many of the existing systems of social protection are under pressure. There are questions about their viability in places where the social security regimes have performed so far, there is also in many places a crying need to establish much-needed but inexistent social safety nets and there are now attempts at reforms that call into question the public nature of certain schemes.

The general discussion that will take place at the International Labour Conference in June 2001 will hopefully provide for a renewed commitment by the ILO and its constituents to safeguard and further develop or extend the normative framework that is based on universal values and principles. The challenge is not so much about whether or not to "privatize" social security, as some may like to orient the debate. It is about modernizing and optimizing systems, enlarging and increasing benefits and above all extending protection to as many people as possible. This is the view of many trade union leaders and organizations as to the question on the future of social security. While examining calls for a redefinition of the State's welfare role, they also intend to assert their own role as key interlocutor in this debate.

Social protection and globalization

With the rampant growth of the informal economy, the lessons of the Asian crisis and the rapid transformation of the economies of the transition countries, globalization clearly calls for a strengthening of the social sector, not its undermining. Yet, more than half the world's population is deprived of any social security system. In sub-Saharan Africa and southern Asia, the level of protection is between 5 and 10 per cent of the working population and falling. In India, for example, no more than 10 per cent of the working population were in the formal economy or received social security cover in the mid 1990s, compared with over 13 per cent ten years earlier. In Latin America, the level of cover ranges from 10 per cent to 80 per cent and is stagnating.

In South-East Asia, the range is from 10 per cent to 100 per cent, depending on the country, and thanks to the lessons of the Asian crisis it is slowly rising. In the transition countries of eastern Europe, the rate varies from 50 per cent to 80 per cent, while in most industrialized countries the figure is close to 100 per cent. "Avoiding exclusion and alienation is important not only for obvious social and economic reasons but also to ensure that participation in the political process, which is at the heart of democracy, is not weakened" stresses a report published last year by the International Confederation of Free Trade Unions (ICFTU).[2]

With structural adjustment programmes having left whole sectors of the populations with no social security and with everywhere a danger of breakdown of traditional support mechanisms, trade unions increasingly see social security as part and parcel of social dialogue with a need for each of the partners to assume responsibility.

Breaking ground in Africa

"Since the Head of State agreed to leave the management of the social security system to the social partners, we have gone from a chronic deficit to a CFA 15 billion reserve (US$21 million)” Madia Diop, General Secretary of the National Workers’ Confederation of Senegal (CNTS) told fellow labour leaders meeting in Abidjan not so long ago for an Africa trade union conference on social protection. The meeting had been called by the ICFTU’s African regional organization AFRO, and brought together trade unionists from 20 French-speaking African countries and the ILO to discuss the future of social security on their continent. As Africa’s most senior trade union leader recalled the past, a feeling of *déjà vu* filled the meeting room: a cousin of the President appointed to take charge of social security funds, a minister who built a hospital for 7 billion CFA francs while the bills totalled barely half that sum, a dignitary from the regime who dipped into social security funds to finance a trip abroad …

The speech provoked an avalanche of anecdotes, each more colourful than the last, from the purchase of a jet by an African dignitary to the construction of an airport, in short all the perks that those entrusted with the responsible management of social security funds cheerfully allow themselves. None of those present challenged the analysis of a representative of the World Bank who stated bluntly that “in many countries social security systems have become the milk cow of States on a collision course to bankruptcy”.

But, while the trade unionists condemned the excesses of States in their management of social security funds, they remained fiercely opposed to plans promoted by the international financial institutions and aimed at privatizing the systems. On the contrary, African union leaders agreed that “the State must shoulder its responsibility as regulator of the social security system, while allowing the social partners to administer it.” In fact, any analysis of the crisis in French-speaking Africa’s social security system that would look solely at the dubious role played at times by governments would only give part of the picture.

As seen above, the social security system in French-speaking Africa today only covers on average 10 per cent of the working population. People without formal work are excluded and benefits are limited to family allowances and pensions.

“There are nine risks identified by the International Labour Organization’s Convention 102. Most French-speaking African countries at best cover six” according to Albertine Bankole, a Labour Administrator for Benin, and author of a report on the social security situation in Africa (see box).[3] “None of the systems provide unemployment benefit. Medical care and sick pay, with the exception of countries like Gabon or Algeria which have national sickness insurance systems, are usually left to the employers’ initiative, and their contribution is usually partial and temporary” said the specialist.

Even where systems exist, they fall desperately short of the mark. A leader of the national workers’ union of Congo recently explained that “a sick worker or peasant used to be able to get treatment at a state hospital at minimal cost. Today they just get a prescription and have to buy the medication themselves. Often it is either very expensive or not available.” Family allowances in French-speaking African countries range from 200 to 2,000 CFA francs per child per month, in other words a maximum of US$3. “The allowances have stayed the same for decades” deplored Felix Ibara, a trade union leader from Congo Brazzaville. A comparable situation exists in all the countries. And in most of Africa, the list of officially recognized occupational diseases is still based on those of the industrialized countries, and therefore fail to take into account diseases specific to the African continent.

For a long time traditional support networks centred on the family or the community made up for the institutional shortcomings: an employee could in some cases meet the needs of several generations of his family. But then structural adjustment came along. Many trade unionists believe it is responsible for the sharp rise in unemployment, exacerbated by a rural exodus that continues inexorably. In Cameroon, unemployment figures are as high as 29 per cent of the working population and in Guinea civil service staff have been cut back by 16 per cent.

In the Democratic Republic of the Congo, there are only one million employees, out of a

The Social Security (Minimum Standards) Convention (No.102), adopted in 1952 provides for minimum standards in nine distinct areas:

- Medical care
- Sickness
- Unemployment
- Old age
- Employment injury
- Family
- Maternity
- Invalidity
- Survivors’ benefits

population of 45 million. As a result, social security contributions are shrinking rapidly. In Côte d'Ivoire, the social security fund today receives fewer contributions than in 1990.

On top of this are the demographic developments. "In 1972 Senegal had five active workers for every pensioner. Now the ratio is two to two", noted Madia Diop. The same trend can be seen in Tunisia where, according to the General Workers Federation of Tunisia (UGTT) there were eight active workers for each pensioner in 1960, and today there are four to one.

Economic issues are also among the factors, therefore, that have caused the trade unions to turn to the informal economy in order to enlarge the support structures for social security. Beyond the cliché, albeit a true one, of shoe shiners, street vendors and peddlers, the non-structured sector also harbours a tradition of tax evasion.

According to Célestin Nansis, a social security specialist in Benin, a national survey has shown that 59 per cent of the people who make their living through the informal economy would earn enough to contribute to a social security system.

It is generally acknowledged that a well-managed social security system can play a major role is reducing poverty, notably through the constraints it imposes on introducing or maintaining rights. This is particularly true in the area of family allowances where these constraints reduce maternal and infant mortality in childbirth (because there has to be medical supervision in order to receive benefit) and encourage sending children to school (because certificates must be produced proving attendance at school). For African trade unions, social security "must be based on the principles of equity and social justice, taking into account the fact that all workers need social security cover".

The lessons of the Asian crisis

Never was this need as obvious as at the time of the Asian crisis. "The years of spectacular growth led the leaders of the Asian countries to believe that growth in itself provided a social security safety net. We are seeing the damage caused by that belief," said the general secretary of APRO, the Asian and Pacific Regional Organisation of the ICFTU, Takashi Izumi. The APRO had consistently and firmly denounced the casino-style economy practised in the continent and the lack of any social protection worthy of the name. Events have regrettably proved the trade unions right.

Social security in Asia was usually limited to retirement funds, health care and workplace accident insurance, usually in the formal sector of the economy only. With a few rare exceptions, there was no unemployment insurance. "The social security safety net amounted to the savings of individuals and families and the role of the State is virtually non-existent" stated the ILO. Repeated devaluations and the collapse of Asia's financial institutions shrunk savings accounts to nothing. Worse still, the much-proclaimed fall in the level of poverty at the beginning of the 1990s has been reversed. With rapidly expanding informal economy and a large migrant workforce, also lacking any social protection, the risk of a social explosion did not escape the attention of trade union organizations or the ILO, which had been warning of the dangers since the crisis began. Events in countries such as Indonesia, Thailand, Malaysia and South Korea confirmed this analysis.

Today the importance of an effective social security system needs no further proof. It is now one of the top priorities for trade unions in the region as one can judge from the article by Anne Drouin in this issue.

To the East – painful changes

The challenge has been somewhat different in countries of the former Eastern bloc where the abandonment of state-based social security systems is confronting the new leaderships with a lot of problems.

How do you shift from a state system that, despite its defects, assured a minimum level of social cohesion, to another one which, while economically balanced, is in danger of adding to the sufferings of a population already sorely tested by the restructuring?

Henri Lourdelle, who was commissioned by the European Trade Union Confederation (ETUC) to write a White Paper [4] on the subject, explains that: "Even if in certain countries the social protection systems belonged to an older tradition – dating back to 1912 in Romania and 1918 in Bulgaria – the integration into the Soviet bloc led to an "assistance mentality" and a total loss of any sense of personal responsibility".

The same defects characterize today's badly-functioning systems: a lack of transparency between income and expenditure which means that spending is not properly controlled and a system totally funded from business enterprises which does not include contributions from the individuals concerned. Paradoxically the initial measures taken at the end of 1989 at the time of the political implosion of Communism did nothing to improve the situation. The headlong rush into "all-liberal" solutions as the remedy for the "all-state" system has only compounded the problems. (See also article by Elaine Fultz and Markus Ruck in this issue).

In all these countries, the State provides health care – except dental care – free of charge. In Poland, as in Bulgaria, Hungary and the Czech Republic, hospitalization is free of charge, but we are witnessing the development of private systems, or even, as in Poland, the creation of clinics financed by foundations within existing hospitals. One of the system's black spots remains the "bribes" often asked for by public doctors, who are still very poorly paid. Medicine, except in Bulgaria and the Czech Republic, remains free of charge. Poland and Hungary have none the less instituted a system of payment by the patients, even if they are reimbursed later.

In general, the numbers of medical practitioners, pharmacists and hospitals is deemed to be satisfactory, but they are badly distributed geographically. And here, as elsewhere in Europe, attempts to rationalize have run up against the hostility of practitioners and users.

While the health system is in difficulties, the situation as regards pensions is dramatic.

Pensions, which are proportional to occupation and age (with the exception of Latvia), are insufficient and mean a major drop in income. Faced with this situation, these countries have adopted a two-pronged strategy.

First of all, age criteria have been changed. For example, by the year 2006, men in the Czech Republic will have to reach age 62 before they can retire and women 61. Secondly, pension funds are being set up using fiscal incentives. Right now there are 44 pension funds in the Czech Republic, involving more than a million people. A path that Bulgaria is timidly trying to follow.

The biggest novelty in Central and Eastern Europe has been the introduction of insurance against unemployment – a phenomenon that was swept under the carpet in the former people's republics. And with everyone having to start from scratch, the solutions vary from one country to the next, even if the principles remain identical. There is an original experiment in Poland where unemployment pay depends on one's place of residence. A worker losing his / her job receives benefit for six months only if s / he lives in an area with a low unemployment rate, but this is extended to one year if s / he is in an area where work is harder to find.

So, this is the diagnosis, but what are the remedies? The trade unionists are anxious not to throw out the baby with the bath water and are militating to keep a system of universal social security. Their governments are somewhat more circumspect but, as a whole, their desire to join the European Union (EU) is seeking solutions that line up with the "European social model", even if attempts are being made to marginalize trade unions in the handling of social funds which too often are still perceived as a part of the state budget that can be used as governments decide.

This means that the Central and Eastern European countries will have to reconcile the law of the market and social cohesion. There is obviously a great temptation to "privatize" and, for example, to place the health system, as the Czech Republic has done, into the hands of private insurance. "Underlining this debate is the fundamental problem: is health a universal right? If it is, it cannot be privatised, because it should not enter entirely into the domain of the market economy, which would end up accepting only those that can pay", says Henri Lourdelle, adding that "if privatisation was a miracle solution, the recipe would already have been applied elsewhere".

Actually it has been. But the results have been mixed to say the least. In the homeland of neoliberalism, the United States, the private health care system is not only the most expensive in the world, it also excludes 44 million Americans who are deprived of any medical cover.

Latin America: Reform and privatization – good or bad?

It is in Latin America where social security has recently undergone massive privatization and reform, often closely linked to reforms in labour legislation. The process has entailed huge costs which have been justified on the grounds that it will "make the system work better". Yet, Argentine and Brazilian workers may soon discover that the only way to finance social security deficits, resulting from privatization, will be to pay more tax.

Furthermore, given that members of private pension schemes contribute in some cases up to 2 per cent of their monthly salaries to pay for the administrative costs of their pension funds, we need to ask why this contribution bears no relation to the amount of pension the worker receives upon retirement.

Luis Anderson, General Secretary of the ICFTU's Inter American regional organization, ORIT, believes private pension funds must not be exposed to high rates of risk, which happens if they are dependent on the performance of the economy in which they are invested (and the ups and downs of the economic cycle). "Over the last 20 years in Latin America, these swings have been very pronounced, and the profits of the funds have been affected. What is even more disturbing is that the pensions members receive may be too low for a decent standard of living in retirement" he notes.

There are limits to how well it is possible to evaluate the efficiency and effectiveness of private pension schemes, as most reforms are aimed at solving the problem of financing services and not at providing sufficient funds to be able to meet the commitment made to future generations of pensioners. The ORIT maintains that reforms are needed, but that these reforms must have the clear objective of "ensuring that schemes are sustainable in the long term and considerably improve the services to affiliates at the lowest possible cost".

Experience shows that social security reforms may solve the financing problems of pension schemes in the short term, but that they do not solve the fundamental problem of distribution and equality for the retirement of future generations of workers, or of the exclusion of the most vulnerable groups who, when they reach retirement age will swell the ranks of the very poor. Reforms have not guaranteed long-term sustainability, which should be the real goal of pension funds.

Anderson spoke of the need to find "an appropriate and viable formula for pension schemes in Latin America, which should include those hitherto excluded (workers in informal economy and rural workers), and be faithful to the principles of solidarity and universality, as the trade mark of social security."

Although much has been written about the future of pension systems, in its June 2000 report, the ICFTU recalls that 90 per cent of the people of working age are not currently covered by a pension scheme. "For all too many people, being too old to work but too young to die means becoming a burden on their family, who themselves may be in difficulty", it says.

The ICFTU also warns of the dangers of making pensions subject to the vagaries of the financial markets. In Chile, where pensions have been privatized, a dip in the stock market in June 1998, resulting from the Asian crisis, threatened to do lasting damage to the pension fund system. The effects would be ten times worse in the poorest countries, devoid of any solid financial institutions, notably in Africa where privatization is often presented as the answer to everything by institutions such as the World Bank and the International Monetary Fund.

Despite all the (expensive) publicity campaigns for private pensions, 88 per cent of benefits in Europe are still provided by public systems. And public pension schemes are not destined for ruin, as the advocates of private pensions plans would have you believe. While the problems facing the long-term future of such systems should not be minimized, the reality calls for a more sober approach. In the United States, where an overhaul of the public system is called for in some quarters, studies show that benefits are guaranteed for the next 37 years, or even the next 75 years if economic growth continues at its current pace. "Privatization by itself will do nothing to reduce the costs of supporting the baby boom generation in retirement," says an expert quoted in the ICFTU report.

Burden or investment?

"Social protection should not be seen as a burden, it should be considered an investment. It does need to be modernized, but the State must continue to play the essential role of regulator," argues the ICFTU. The trade unions hope to make that message clear when delegates of the International Labour Conference meet to discuss this issue. That only 40 countries have so far ratified the International Labour Organization's key Convention on social protection adopted in 1952 and that there is a perceived general trend of undermining this still very unequal protection, are in themselves sufficient reasons for the ILO to make universal social security one of its highest priorities.

Notes

[1] Philadelphia Declaration, art. III, para f.

[2] ICFTU: *A global priority – strengthening social protection in the 21st century,* Report published on the occasion of the Special Session of the General Assembly "The World Summit for Social Development and beyond: Achieving social development for all in a globalising world" (Geneva, June 2000).

[3] AFRO: *The social security situation in Africa: Principles, problems and outlook,* Abidjan, September 1998.

[4] European Trade Union Confederation: *Livre Blanc sur la protection sociale dans les pays d'Europe centrale et orientale,* coordinated and edited by Henri Lourdelle, Brussels, October 1999.

From humanitarian aid to sustainable protection

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In pre-colonial Africa, social protection for persons who were indigent or incapable of providing their own subsistence was provided either by the extended family or through community solidarity. The colonial period saw the development of a new system of social insurance related to economic development, the political system or the method of production. Alongside new forms of social protection organized by charitable, religious or ethnic associations in urban areas, more organized forms of social protection emerged. The colonial powers first extended the social security systems to their expatriate compatriots in the colonies. Extension to indigenous workers was concentrated on workers in urban and industrial areas for the primary purpose of stabilizing the workforce or to placate indigenous trade union organizations, which were then mobilizing to combat injustices. Yet the bulk of the population remain without social security cover: the system put in place was extremely limited both from the standpoint of the number of persons covered (personal sphere) and from that of the risks covered (risks sphere). In the English-speaking countries, apart from industrial accidents and benefits in the event of work-related invalidity, there was only a non-contributory pension benefit, before 1976 in Zimbabwe for instance, for non-Africans over 60 years of age. Even after independence in 1980, the benefits of that system were retained only for persons having effectively or potentially acquired rights during the preceding period. In the French-speaking countries, the risks covered were usually related to family benefits, industrial accidents and pensions. It took virtually another ten years in some places to bring about an improvement in the existing benefits (for instance, pensions granted in French-speaking Africa under the IPRAO). Since the advent of independence to the various countries, the inequalities have been practically maintained in the personal sphere and little has been done either to create new benefits or to extend the programmes to other population groups.

The operation of the systems

Almost everywhere, social protection cover is generally less than 10 per cent all told, both with respect to personal rights and derived rights, and distributed revenues amount to barely 1 per cent of GDP. There have been internal reasons for *deterioration* in the management of pension schemes:

- Generally speaking and virtually everywhere, life expectancy at birth has adversely affected pension systems. It has increased by an average of four years every ten years. Life expectancy at the retirement age of 55 was around 17 years in 1960. It reached 19 years in 1990. At present, whilst the rapid spread of HIV/AIDS is seriously undermining this increase in life expectancy, it is also hitting the world of work just as hard and is weighing on the finances of social protection systems.
- The operation of the systems has been handicapped, especially by unfavourable employment trends; the lack of good governance or of social dialogue to consolidate the participation of the social partners in the management of the systems.
- The *administrative functioning* and the *organization* of the institutions have been deficient in some cases. In several countries, the institutions have been generally incapable of making operational contact with contributors for lack of adequate filing systems. On

account of its sluggishness and its administrative complications, the system has penalized those it covers or has been incapable of effectively ensuring normal collection of contributions.

Almost everywhere, the *financial viability of the system* has not always been assured. The technical reserves that should have been built up to defray the cost of benefits were not possible at a technically ideal level. Neither have they been managed with all the requisite strictness. But over and above the aspect of financial management capacity, they have suffered from a lack of investment opportunities owing to the absence of regulatory machinery within the institutions and of an appropriate *legal framework* or a monitoring system. The investments actually made did not conform to the rules and were not capable of guaranteeing counterpart commitments towards those insured.

The administrative cost of managing the overall social security system is rather high. For example, in a Central African country, to pay out just under five dollars in benefits (pensions) an agent costs over $3,000. This is surely an extreme case, but there are similarities everywhere.

The social profitability of social protection systems

Against that backdrop, benefits are inadequate or even many years in arrears in many countries. Confidence in the system has been completely eroded.

A profound and predictable crisis

Yet the crisis besetting the social protection systems is also quite profound. Per capita income has been falling in the sub-Saharan African countries since 1986. Public investment has all but dried up. While population pressure is strong, the volume of employment has contracted and is still dwindling in both the public and private sectors. In some cases, especially in the civil service, wages have depreciated or have failed to keep pace with inflation. With mounting poverty, reduced national consumption has led to company failures. Workers have left the system of social protection, thereby losing their entitlement to social security benefits.

In less than a generation, the socio-economic divisions of the world of work have changed. At the close of the 1970s, all the leaders of countries and a good many theoreticians believed that the modern sector would continue to employ a large and no doubt growing part of the active population, so much so that no-one paid any attention to that population, which took refuge in a range of informal activities. Over the third development decade, 1980-1990, a phenomenon that everyone considered fleeting and expected quite simply to disappear, was buttressed by three factors: first, runaway population growth that each year threw up large numbers of first-time job-seekers; second, a serious economic crisis bordering on recession, or wars that affected or diminished the absorptive capacity of the modern sector; and last, the growing momentum of the rural exodus compelled many people to move to the cities and find odd jobs. The proportion of young people, and more particularly of first-time job seekers, is rising constantly. At the present rate, the level of occupation of wage-earners could be no more than 2 to 3 per cent at best in the coming 25 years. This being the only population group that benefits from an organized social security system, there is a foreseeable deterioration of the social profitability of the system of social security coverage.

Objectives for the years ahead: Extension of cover

Countries are undergoing a range of political changes (promotion of democracy), economic changes (promotion of a more liberal system and evolution towards a State with an essentially more regulatory role), social changes (an expanded role in national development for economic players and community groups), and cultural changes (making allowance for cultural factors in the development process). Together with these factors, population and employment trends would dictate that these systems should be extended.

The notion of extension is not new in the sphere of social protection. Indeed, many social security laws that were enacted just after independence contain two types of specific provisions for the extension of social security coverage. The first address the material sphere of application of the systems. Hence, alongside the area of occupational risks and pensions, the laws provide in most cases for the improvement of coverage by stipulating that: "… the system shall be responsible … […] for servicing all other social security benefits to be instituted subsequently for salaried workers …". Another series of provisions cover the personal field of application of the existing system. Indeed, under many current regulations it is possible for all natural persons to insure themselves for old age or against occupational risks at their request. Such are the provisions that are still present today in positive social security law, for instance, in Madagascar (CPS, art. 259), in Rwanda (Decree-Law of 22 August 1974, articles 1 and 3), in Benin (Ordinance of 17 January 1973, articles 1 and 5), in Djibouti (Law of 19 June 1989, article 4), etc. Yet the hoped-for evolution, that is, the extension of social coverage, has not materialized.

States have become aware of the links between social protection, the promotion of employment and social dialogue. That was one of the main lessons learned from the meetings held in Dakar (1994), Abidjan (1996) and in Yaoundé (1997). This latter occasion was used to formulate recommendations for the rehabilitation and reform of the system of social protection.

But the discussion on improvements to the social protection system has been limited to the *formal sector*, to restoring financial balance by raising the level of deduction from wages. Such deductions are becoming increasingly unbearable as their amount is dwindling relative to the population as a whole. The discussion has all but overlooked the fundamental question: the lack of coverage for the bulk of the populations, the capacity for communities to organize themselves and their input into the development of the system of social protection. Despite the limitations that have beset institutional systems of social protection, little attention has been paid to endeavours by populations to organize solidarity-based systems in their immediate proximity and evaluations of social protection programmes continue to ignore the efforts of communities.

The discussion should be taken beyond the original narrow framework to which it has always been restricted, that of replacement income, so as to open the way for addressing the totality of the new needs stemming simultaneously from mounting poverty, the expansion of the informal sector, the link between social protection and the promotion of employment both in this sector and in communities.

What should be done today to extend social protection? What we do know is that there is neither a recipe nor a solution that can be transposed from one country to another. On the other hand, guidelines could be used to orient the actions of decision-makers and administrators. At any rate, a regulatory approach could be followed so as to devise a strategy for extending social security coverage. This strategy could be based on the following principles:

(a) situating the matter of extended cover within a global vision of national social protection, drawing up a comprehensive, more flexible policy of social protection under which various options would be possible, enabling different categories of workers to choose amongst various types of social security contracts.

(b) entrusting the responsibility for extension to the communities by transferring to individuals the obligation to secure their own insurance. It would be a matter of making these communities responsible for protecting themselves against risks and for bearing the cost of some types of benefits.

(c) assigning the State a regulatory role – the State guarantor rather than the State manager – by strengthening institutional capacities for setting up regulatory machinery that favours private initiatives.

This approach should contemplate three levels of social protection.

(a) The first level: The safety net

This first level of social protection would consist, so to speak, of a safety net intended for the hardship categories of resident populations which can neither insure themselves nor take part in their own protection. The basis of the system would be national solidarity, of a distributive nature, and the responsibility for funding would rest both on communities and the State. The problems faced so far in realizing this level stem inter alia from the financial constraints affecting the State. Not enough attention has been paid to those constraints and it has been believed that it was enough to organize this level by resorting to taxation.

In the case of Benin, it has been shown that with an average poverty threshold estimated at US$240 per urban household and that with 31 per cent of the population being very poor (with an absolute poverty threshold estimated at around US$140 per annum), it would be difficult for the State to implement the safety net for the entire indigent population. Neither the national budget nor salary deductions can guarantee such benefits. As such, the safety net covering the entire population is an illusion and it is therefore understandable that it has been difficult to organize to date.

(b) The second level: Mandatory protection

The second level of social protection should essentially operate along the lines of insurance. The aim would be to provide social security cover for all population groups that are able to finance their own protection. Fully funded by contributions paid exclusively by the insured, such a mandatory and pay-as-you-go system would be intended to ensure horizontal redistribution from young people to the elderly, from single persons to heads of families, from the able-bodied to the sick, from working people to retirees.

(c) The third level: Complementary protection

Also along the lines of insurance, the aim would be to provide benefits additional to those distributed under the primary social security systems. This third level would therefore be intended for all population groups (wage-earners, self-employed people, etc.) who were able to participate fully in their own protection but would like to improve on the basic social security benefits.

Organizing the harmonious and coordinated development of the system of social protection: A high authority

Making the system of social protection more responsive to economic developments and to community organization would call for measures to ensure harmonious development. Indeed, this raises the question as to how to harmonize the three levels and how to assess the progress made or the activities to be undertaken, how to ensure that the various players best discharge their functions at all times. It is from this standpoint that the creation of a high authority for social protection could be warranted. It would be a consultative structure representing all the stakeholders in the system (administrators, beneficiaries and providers of funds), who must play a threefold role:

- acting as a coordinative and information body for government authorities, issuing reasoned opinions on all matters pertaining to social protection in the country;
- acting as a regulatory body for verifying the overall goals assigned to the three levels of protection and whether the set targets have been attained. In essence, therefore, this would be a matter of globally regulating the system, though in no way interfering with the various functions of supervising administrative activities or human resources. The high authority would therefore be responsible for drawing up the nation's social budget;
- arbitrating any dispute arising within the various social security institutions.

How to effect the extension: novel approaches

Much is being attempted nowadays to support the activities undertaken by the informal sector or in rural communities for their own development.

Not only is the link between employment and social protection a real one, but it is also becoming increasingly relevant to the process of combating poverty. It is now conceptually possible to establish a bridge between micro-enterprise and micro health insurance. The micro-credit granted to individuals creates jobs, generates income and should therefore be protected by health insurance. In other words, micro-credit alone is not enough to rescue individuals from poverty.

Disease is one of the leading causes of default on loans. Identifying suitable candidates must constitute the first stage of a strategy to articulate and put into action the trilogy of micro-enterprise, micro-credit and micro-insurance from a community and mutualistic standpoint. The major challenge facing the structures involved in these three components is that of placing their actions on a long-term footing by associating social protection with an education programme.

Social security through mutual benefit health insurance companies is one way forward in that it is based on the principles of group solidarity and equity. The members of a mutual company are bound together by professional, cultural or geographical proximity. One guarantee of the success of this type of health insurance is the effective participation of members in the managing bodies democratically elected by them. The mutual company is therefore a place for learning good governance and, being a group, facilitates negotiation with health care providers and representation before higher bodies responsible for setting health policy.

The system could have the following features:

(a) Decentralization
Unlike the institutional system structured in a centralized manner, the model adopted would be decentralized and based on geographical proximity.

(b) Assigning responsibility on the basis of:
- participatory and democratic administration;
- benefits linked to the payment of contributions, hence not an aid scheme;
- elected administrators whose activities are directly monitored by members.

(c) Mandatory insurance.
Mandatory insurance for all, implemented on a phased basis: all those who are able to pay for their membership – wage-earners, urban or rural informal-sector workers who have joined or who join an income-generation programme. The extension of the system of social protection is thus linked to job creation and to an income-generating programme.

(d) But a system based on the free choice of the insured persons.
Insurance is compulsory but the insured person is free to chose:
- the mutual company
- the health centre

Depending on the insured person's real assessment of the quality of the benefits received, she or he may also change their mutual company or health centre if they so wish, according to prescribed procedures.

(e) Direct control by beneficiaries:
- The insured persons themselves appoint their administrator and are the administrator's employer.
- As administration is based on proximity and contributions are directly related to the cost of benefits, the insured persons will themselves directly control the right to benefits.
- Lastly, the freedom of the insured persons to choose their membership means that they exercise some control over the mutual companies and the health centre.

(f) Freedom to conclude a cooperation agreement between mutual company and health centre.
Insurers (the mutual companies) and health care providers (health centre) come within a system where they may freely negotiate the costs of benefits in line with market conditions. A duly signed agreement between the two parties would guarantee the content of benefits. As such, the principle adopted is not payment for each act but a lump-sum annual payment per insured person and for all the health care providers determined (consultations, cost of drugs …). Periodically, insurers and health care providers will analyse operating data and determine the cost per beneficiary based on the average cost per insured person.

(g) The role and place of the State: monitoring and guaranteeing operation.
While allowing the freedoms to operate, the State as supervisory authority would:
- organize the regulatory framework;
- grant or withdraw authorizations (mutual company, health centre …);
- monitor the proper provision of services (subsequent monitoring);
- arrange to guarantee the proper functioning of the system: state guarantor rather than state manager.

(h) Dovetailing the various levels of social protection.
Formal institutionalized system and decentralized system: cooperation, technical assistance amongst:
- mutual companies and social security institutions;
- hospitals and health centres.

Organized in this way, the system would help to promote employment and would foster the creation of:
- mutual companies;
- health centres;
- pharmacies.

Detection of new needs of countries in crisis or in conflict

Almost two-thirds of African countries are in crisis or are being affected by conflict. While priority attaches to adaptation and the quest for a new formula for social protection, above all health protection, so as to meet the demands of affected or vulnerable population groups, it none the less seems difficult to apply the classic scheme of social protection to all categories of the active population and in all situations, not least of all in crisis and post-conflict periods.

For example, in a crisis or post-conflict situation, humanitarian problems take priority. This raises the question of how to make common cause with this humanitarian aid, with the support of development cooperation systems, including that of the United Nations, so as to organize the funding of health care, prepare for the exit of humanitarian aid and establish a durable system of social protection for the populations concerned. In short, it is possible and desirable to establish the link between a humanitarian programme and a development programme. That link would make it possible to draw a distinction between a social assistance programme for which there is no “service rental contract” and a service rental contract for public-interest activities, which could be paid for either in cash or in kind. This correlation of the link between humanitarian work and humanitarian social protection would form part of an approach that assigns responsibility and excludes any form of permanent assistance and paves the way for overcoming the crisis by dovetailing the development of protection with emergency actions taken.

The aim is to become involved at the start of the humanitarian process so as to fashion possible long-term solutions through income-generating activities, by organizing mutual benefit health insurance companies.

Inventory of social protection in Portuguese-speaking African countries

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Although geographically remote from one another, the five countries generally referred to as the PALOP (Pays Africains de Langue Officielle Portugaise – Portuguese-speaking African countries), i.e. Angola, Cape Verde, Guinea-Bissau, Mozambique and Sao Tome and Principe, have common characteristics by virtue of their culture, language and history, which draw them together into a coherent sub-region. This coherence also applies to their social protection systems in general, and to social security in particular. The fact is that, having emerged from very similar situations, these countries have implemented comparable solutions or solutions which at least obey the same basic philosophy.

In the present context, the PALOP are not spared by the social security crisis which is plaguing the other African countries. In some of these countries the impact of the economic crisis on structural adjustment policies is compounded by political instability whose repercussions are seriously aggravating a situation already precarious in terms of employment development. A very large percentage of the working population is thus relegated to the fringe of the labour market and, in order to survive, is obliged to work as casual labour in what is commonly known as the informal sector, rather than practise an occupation. This sector is taking on impressive proportions in some of these countries, since the vast majority of those who work in it are above the poverty level. Furthermore, the wars which have marked several of these countries have left an aftermath of invalids, orphans, homeless and refugees, who have swelled the ranks of the unemployed in the cities, contributing to the paralysis of the aid structures – particularly health care – which the governments had struggled to set up.

It is not our purpose in this article to go back over either the exogenous causes of the social security crisis stemming from the national socio-economic contexts or its endogenous aspects, which normally fall within the field of competence of the bodies which are working to build the social security fabric, i.e. the supervisory bodies, the board of administration and the management board.[1] What we shall endeavour to do, on the other hand, is to briefly analyse the effort which these countries have been making to create efficient social security systems and to develop them and ensure that they meet the urgent needs of the vast majority of the population.

The genesis of social security in the PALOP

State social security systems are a relatively recent phenomenon in the PALOP which, without exception, turned to the international organizations, and in particular to the ILO, for support in their efforts to set up the schemes. This must be interpreted to mean that the various States want to share values, standards and procedures at the international level with a view to managing an essential sector of economic and social life. It is thus no coincidence that the legislation currently in force in each of the five countries is based largely on Convention No. 102 concerning minimum standards of social security.

But let us proceed chronologically. When they obtained independence, these countries inherited a structure which had been set up by the former colonial power and which consisted of multiple corporatist funds which paid essentially short-term benefits – sickness and occupational risks in Angola and Mozambique, complemented with old-age pensions and survivors' pensions in the case of Cape Verde, Guinea-Bissau, and Sao Tome and Principe. The protection provided by these funds was strengthened through the intervention of mutual benefit insurance companies (Montepíos), which paid supplementary benefits or social protection benefits in the broadest sense of the term (credit, death grants, etc.). With the introduction of the first general Social Security Act in the various countries these funds were abolished and their assets were transferred to the social security body specifically created for enforcing that Act. In return, that body had to fulfil the funds' obligations regarding complementary protection services, for example, except in Angola, where the funds were maintained pending their possible reconversion.

From the very outset, the concern of the legislator in each of these five countries was to rationalize the existing social protection measures. The choice of personal and / or substantial scope thus did not really arise, since it was a question of covering all income earners irrespective of their occupation by one single general law guaranteeing a range and level of uniform benefits which would ensure *income protection*. Public employees were not affected by this process, since their schemes were maintained, except in Angola and Sao Tome and Principe, which opted to include coverage for public personnel in the new general scheme with the exception of members of the armed forces and the police. Health protection was not taken into account, since it was considered to fall within the competence of the national public health services and had to be financed through taxation.

The table below outlines the situation of insurance cover in the five countries in terms of insurance areas covered and the date on which the legislation entered into force.

The countries opted to create specific bodies to run the basic schemes, since they considered that the previous institutions did not fulfil the necessary conditions for the modern and efficient management of the systems. The new bodies were set up progressively. Angola and Mozambique created theirs simultaneously with the promulgation of the Act; Cape Verde and Guinea-Bissau chose to concentrate the management of private insurances and the social security scheme in the same institute to begin with, and it was not until later that the institutes whose sole mission is to run the social security system were set up – in 1991 and 1997 respectively; Sao Tome and Principe entrusted a ministerial department provided for that purpose with the running of the scheme provided by the first Social Security Act, which was promulgated in 1979, pending the establishment of a management body vested with the necessary administrative and financial autonomy; that body was subsequently created in 1994.

The geographical field of application of the Social Security Act was gradually extended throughout the national territory, particularly in Angola and Mozambique, where, it will be recalled, the social security schemes were set up in the middle of a civil war. Mozambique decided to cover the capital and the surrounding province first of all, subsequently setting up regional delegations of the management body, giving precedence to provinces with the highest concentration of income earners until the entire national territory was eventually covered; Angola maintained a centralized system but has only been able to extend insurance cover to the provinces under government control.

By proceeding in this manner the countries demonstrated a remarkable degree of adaptability and pragmatism with regard to national conditions and needs.

Pragmatism thus prevailed in the establishment of the present social security systems in the PALOP, a process which required considerable effort due to the political and socio-economic conditions, which were often diffi-

Table 1. Areas covered by social security in PALOP

Country	Year	Benefits
Angola	1990	Sickness benefits (employer obligation, 1962); maternity; occupational risks; old age; survivors; death
Cape Verde	1982	Sickness benefits; maternity; occupational risks (employer obligation, 1978); old age; survivors; family allowances
Guinea-Bissau	1986	Sickness benefits; maternity; occupational risks (1980); old age; survivors; family allowances ; death
Mozambique	1990	Sickness benefits; maternity; occupational risks; old age; survivors
Sao Tome and Principe	1990	Sickness benefits; maternity; occupational risks (1979); old age; survivors; death

cult. This pragmatism also governed the legislators' choices regarding the substantive and personal scope of these social security schemes, which was normally limited to wage and salary earners (mainly in public enterprises) and public employees, for a limited number of insurance areas. For, on the one hand, the management bodies had to be given the opportunity to master the management techniques first of all in order to be able to envisage taking on other categories of workers and, on the other hand, the economies of the countries had to be given a chance to grow in strength so that new areas could be covered. However, perhaps with the exception of Cape Verde, which has been trying to move towards extending the scope of the Act, this has not been possible in the other countries, where the number of income earners in the modern sector has decreased and that of workers in the informal sector has risen. The cleavage between the formal and the informal sector constitutes the real limit of the social security systems in these countries at the present time.

Aware of these limits, the governments banked on measures to extend coverage to categories of workers not yet covered and on schemes for fighting poverty. To achieve this the five countries decided – two years ago – to launch an extensive programme for reforming or restructuring social protection comprising various components: social dialogue, action to develop employment, measures to develop social protection and action to combat social exclusion.

The terms of the on-going reform of social protection

The present article cannot purport to describe an on-going reform in detail before the process has been completed. However, it can be of interest to examine the trends and philosophy of that reform; furthermore, in order to better define the broader issue of reform, the features specific to each individual country will not be mentioned. Given the similarities which have been observed in the situations in the five countries, a certain degree of generalization is justified, although, inevitably, the general analysis may not always tally with local specificities.

It must be borne in mind that the PALOP have been undergoing a process of far-reaching economic transformation for some time, which is designed to allow them to move from a planned centralized economy to an economy based largely on the laws of the market. This process has led the public authorities to pull out of a number of activities. After operating as entrepreneurs and direct managers, the States have chosen to become facilitators and coordinators, while retaining the right to supervise activities of public benefit for all citizens. The public authorities in these countries have also decided to call in private-law corporations to manage specific economic and social activities for all or part of their populations according to the rules of the industrial and commercial sector.

From the economic point of view it must be underlined that financial sector dynamism is a constant priority objective in the efforts to develop a market economy. With this aim in mind, the public authorities have expressed their intention to achieve both quantitative and qualitative improvement in the level of financial savings, which have hitherto been virtually non-existent in most of these countries. Unfortunately, the succession of crises which have seriously affected the economies of these countries, such as frequent galloping inflation and stagnation of all productive activity, have cancelled out the efforts targeting small-scale economic agents on the one hand and all holders of long-term financial contracts specializing in the mobilization of contractual savings on the other. These efforts actually included plans for creating a function of investment of reserve funds released from the social security system, but most of the countries in question have not yet managed to do so.

As regards the social organization of these countries, the sources of law grant citizens a number of social rights, such as the right to health, protection of the family, state aid for needy citizens, etc. In the final analysis, all of these rights correspond to the primary objectives of social protection and constitute "obligations owed", rights held by individuals to receive performance by the State, claims which can only materialize by means of a programme of social protection based either on a system of assistance or on a system of insurance, or on both. Furthermore, the various States have all dictated a number of concepts designed to govern the social organization of their respective countries, such as the concept of transparency or of the participation of citizens in the running of their affairs. These concepts are appropriate for any form of organization of modern social security systems.

The overall strategy of reform is based essentially on the following ideas:

(a) The interlinking of social protection strategy and economic strategy.

Social protection strategy cannot be designed in isolation from the strategy developed by governments in the economic field. For these strategies are closely linked in that the scope and quality of social protection depend on the economic health of the countries. For social protection, even in the broad sense, is inconceivable in the absence of income-generating activities, even if that income does not suffice to cover protection costs in their entirety.

(b) The preservation of the joint liability mechanism as the main element of the permanent system.

It is known that the concept of extended joint liability, which is the foundation of social security, has worked well on the whole for the categories of persons protected. The necessary pooling of risks and resources has enabled the system to respond to the needs of the individuals concerned by this protection and, in particular, to the most disadvantaged of those persons. By virtue of the horizontal and vertical forms of joint liability and of the solidarity between successive generations, which form the core of the system, the categories of the populations falling within the scope of the system enjoy fairly extensive protection.

(c) The integration of private initiative into all of the components of the system.

The fact that the PALOP have agreed to open up to the market has become an important factor which the social protection system can no longer disregard. Private initiative must participate directly in the social cover of the populations by distributing a whole series of voluntary benefits in addition to the compulsory benefits. But it is above all the tried and tested techniques of the private industrial and commercial sector which are imperative as the most effective form of management for any social security institution.

When all is said and done, this strategy leads to the achievement of a system which is intrinsically more coherent, socially more equitable and economically more suited to an environment geared more to the market. It goes without saying that the process that has been implemented obeys both strict organizational and structural principles, which must be established, and criteria of caution in the realization of the systems and of efforts to match resources with the needs observed.

The *permanent structure* which has been established by the reform is based on three levels of protection according to the criteria set out in the previous article on social protection in Africa,[2] and it considers the world of the persons to be covered *according to their ability to participate in the financing of their protection or to cover the cost of that protection in its entirety*. Levels 2 and 3 of social protection are thus intended for the latter categories respectively, i.e. the general compulsory scheme, which corresponds to a logic of insurance and is based on joint liability, and the voluntary complementary scheme, which is designed to provide a better level of protection and is based on individual insurance. The extension of level 2 protection obviously requires creating schemes for the self-employed in the various economic sectors as well as special schemes for specific categories of workers with special needs. Workers who can only cover part of the cost of their own protection constitute a separate scenario, for which the reform has made provision for the application of techniques connected with micro-insurance through programmes for combating social exclusion, which use the support of structures in civil society and the development of vertical forms of joint liability which supplement these persons' inability to contribute. Where necessary, these workers could be allowed to enjoy level 1 protection, where benefits are normally intended for the indigent, i.e. for *persons totally unable to participate in their protection*. This protection, which is based on a pure logic of assistance, would be managed directly by the local authorities and would be financed through taxes.

Young persons who have been left to their own devices, a widespread phenomenon in the PALOP, constitute a specific example of persons who are devoid of means of participating in their protection. They are known in these countries as "street children" and constitute a particularly serious problem in some of them because of war or poverty. The possibility is currently being examined of developing vertical forms of joint liability in the national and international sector to cover these children.

The participation of workers' organizations

As has been seen, the task which the PALOP have undertaken to reform the social protection system with a view to extending coverage and achieving greater equity for their citizens is an ambitious one, and its implementation will necessarily be progressive. It is a task which requires tremendous effort involving the participation of all dynamic forces in the countries in question. The workers' organizations must be in the forefront of the reform process in order to defend the interests of income earners, as they already do, but also to defend those of other workers who are not union members, for the general benefit of the national community.

Notes

[1] Readers who are interested in these issues can easily consult the article by the same author entitled "The present situation of public social security schemes in French-speaking African countries south of the Sahara: an inventory", which was published in "Reflections on strategies for reforming social protection", ILO, Geneva, 2000.

[2] See the article entitled "Pensions and social protection in Africa" in the present issue, the objective for the years that lie ahead being to extend coverage.

Improving public financing of social protection in Asia: The cases of China, Thailand and Lao People's Democratic Republic

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When referring to social protection, the definition of the term must be carefully addressed. The meaning can be very broad indeed, bearing in mind that benefits can be provided in many different ways and through different channels. According to the ILO *World Labour Report 2000*, social protection is defined to include not only public social security programmes but also private or non-statutory schemes with a similar objective to social security schemes, including publicly financed social assistance programmes. Social security is in turn defined as the protection which society provides for its members through a series of public measures. These may include:

- programmes intended to offset the absence or substantial reduction of income from work resulting from various contingencies (notably those accounted for in the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102);
- wide-scope subsidized health care programmes; and
- measures aimed at providing benefits for families with children or dependants.

The financing of social protection is normally provided through the allocation of public taxation revenues, earmarked social security contributions, revenues from the investment of social security funds and sometimes through external funds donated by third parties, such as international financial institutions. Public social protection expenditures are normally disbursed through various channels of administration ranging from the central to the village-level institutions or their representatives.

In Asia, there is a vast diversity in the types of systems providing social security benefits, in the contingencies covered and also in the coverage of the populations. A few countries in the region have national provident funds. The main contingencies covered are employment injury, old age, invalidity and survivors' pensions. Few countries in the region have unemployment benefit programmes (other than severance pay legislation) but some form of short-term sickness and maternity benefit provisions exist in the majority of cases. In countries where new social security schemes are developing, such as in Thailand, Lao People's Democratic Republic and Viet Nam, the intentions of the law are oriented towards the eventual universal coverage of the population allowing alternative mechanisms of social insurance to be put in place. The objective in these countries is to provide a basis for improving the well-being of workers and their families by initially prioritizing provisions aimed at wage employees in the formal economy. It is felt that such a gradual approach should ensure a sound basis to develop national capacities to meet the needs for social protection of the population.

This paper focuses on the considerations surrounding the public financing of social protection in Asia with particular reference to three typical countries where on-going developments are taking place. The countries covered include China as a transition economy, Thailand as a middle-income economy and Lao PDR as a least developed country. The paper argues that the amount of public resources allocated to social protection is too limited in the region in general. It concludes that there are preconditions to be met so as to achieve an efficient allocation of resources for social protection which are closely linked to the development of existing capacities of institutions and human resources in charge of administering social protection programmes. The role of local administrations must be strengthened for enforcing the mandatory registration of workers under social security schemes – thus raising social security income – to assess the needs for social protection of the population and to administer social protection programmes. Finally the paper raises the issue of vulnerability and limitations of social protection programmes as a result of globalization. It argues in favour of an increased role of regional forums and institutions to arrange programmes that would collect resources at the regional level and redistribute resources across countries.

I. A balanced financing of social protection

There is an apparent necessity to raise additional resources or reallocate existing ones for the purpose of social protection. In the early 1990s, social security expenditure accounted on average for less than 1 per cent of GDP in about half of the countries of Asia, including Bangladesh, Fiji, India, Malaysia, Philippines and Thailand. Since then, the proportion of social expenditure to GDP has slightly increased but generally remains low, notably in relation to other regions of the world. Despite larger budget allocations towards social protection programmes, the relatively low share of GDP spent on social protection may be explained by the fact that real GDP growth was around 7 per cent annually until the Asian crisis whereas real social security expenditure grew by only 2.6 per cent annually. This implies a social development evolving at a slower pace than the economic development. This is especially relevant in the cases of the Republic of Korea, Malaysia and Thailand.

The limitations underlying the slower pace of social development are largely attributed to the lack of legislation provisions and public infrastructures.

The planning of the extension of social protection measures and capacities require careful consideration of the needs of the populations and the available mechanisms to meet such demands. The ILO normally prioritizes social insurance as the most viable approach to build up self-sustained long-term social protection. Such an approach should be complemented by state-financed social assistance, namely through "social safety nets", targeting the destitute and excluded groups. As long as social insurance measures are not available and applicable to the majority of the population, the burden on governments to deliver social assistance will remain very high, especially in times of economic crises. Also, the number of poor is growing in countries where national priorities strictly aim at providing transfers and support to the needy at the expense of providing safeguard measures to those who may not be in need but whose earning capacities face potentially precarious conditions. This has been the inevitable case of thousands of workers who became unemployed as a result of the crisis and who then became in need of social assistance as there was no available social insurance protection available in most cases.

Financing of social protection must be planned through carefully determined comprehensive national strategies that embrace the entire needs of the population. These must aim at both preventing poverty and assisting those already in poverty. An assessment of gaps between the needs and the available social protection should be based on a thorough knowledge of needs and existing mechanisms. A sound review of the current situation requires inputs from local-level administrations, enterprises, workers' representatives and other community groups that are likely to have a better knowledge of the specific realities faced by the population. National priorities for the provision of social security and social assistance can then be better designed in close coordination with national employment and economic policies. At all times, public consensus should be sought to adopt policies that reflect the desires and necessities of society, including what it can afford and need as a minimum through public programmes, and respect the roles played by existing individual and private initiatives (e.g. extended family support).

The recent experience in the aftermath of the Asian financial crisis of 1997 has shed much light on the deficiencies of the present systems in place. Policy and administrative reviews have concluded in many cases that the further development of social protection must be first based on a build-up of national and local capacities to deliver the social protection.

Financing social assistance

The sources of financing available for supporting social assistance include mainly state budget allocations. Some least developed countries benefit from significant amounts from the international donor community.

The scope of social assistance normally reflects political priorities and its effectiveness is de facto related to whether local governments are more active or able than others. The financing of social assistance is normally limited and hence universally provided social assistance is rarely found in developing countries. Programmes normally determine specific target groups whose needs are not addressed otherwise. In-kind and cash benefits are usually provided to those who have passed a means test. The cost of administration of such programmes is normally very high. The ILO normally favours the provision of "categorical" social assistance benefits whereby entitlements are determined in reference to objective sets of criteria that may be based on obvious physical, age or regional characteristics. The role of the State is determinant as social assistance programmes are dependent on the willingness of the politicians who are responsible to approve budgetary allocations on a yearly basis. The monitoring of social assistance programmes should be determined in reference to objective indicators that are readily available, such as the percentage of persons receiving protection in relation to the total number of persons in need. Benchmarks should be determined and public administrators made accountable for performances that do not meet the minimum standards set by such threshold. The actors concerned should involve those policy-makers as well as administrators. Due consideration must, however, be given to the provision of sufficient administrative capacities to meet such benchmarks.

Financing social insurance

The personal coverage of social security schemes in Asia normally refer to workers in wage employment first as their earnings capacity is more easy to track. Thailand, the Philippines and the Republic of Korea have been planning to extend the mandatory coverage of their schemes to self-employed groups of the populations. This is a tedious task as the cost of administration increases as soon as smaller size enterprises and self-employed workers are covered.

The financing of social insurance usually relates to the capacity to pay contributions by workers and by employers. Some national social security schemes in the region receive government subsidies, e.g. in Thailand the Government pays one-third of social security contributions on behalf of insured workers. The provision of such government subsidies to social security schemes is usually justified when the coverage is nearly universal. It is, however, discouraged in countries where the coverage is still less than maximal, as this implies a cross-subsidization by the non-covered groups of the population who contribute to some extent to the government revenues through different taxation, e.g. value-added taxes being paid by every consumer. Using state budget revenues for social security financing may be inappropriate, especially as most countries draw public income from sources other than personal income taxes, e.g. import duties and excise taxes, and business licence fees. Government contributions are, however, required in case of contributions representing the employer share for public workers.

The definition of benefit provisions ought to take into account actuarial considerations so as to ensure the long-term financial sustainability of social security. The role of the State should extend beyond the scope of policy-making to include the regulation and monitoring of the performance of social security schemes. The State should be the ultimate financial guarantor of social security schemes which makes it responsible for adopting benefit provisions that are financially sustainable. In countries where individualized approaches to social security exist, e.g. where provident funds are found, the State should be responsible for providing minimum benefit guarantees in case of a bad investment performance or bad management of the provident funds. Also, provisions should be made for some minimum form of income transfers towards the most vulnerable groups of workers, e.g. women in precarious employment situations with less than maximal working careers who may not have an opportunity to raise sufficient savings to obtain a decent benefit protection.

In view of the limitations of national social security programmes to cover the majority of the working population, community administrations should be encouraged to stimulate voluntary social insurance arrangements with a linkage to national social security, at least for the purpose of financial guarantee and for technical expertise.

The funding reserves of social security schemes should be handled according to regulated provisions encouraging the build-up of operational contingency reserves – e.g. at a maximum of two to three times annual expenditure during stable times – and of pensions funds. Such regulations should, however, discourage over-accumulations of reserves.

II. Limitations of income redistribution through social protection

Social assistance measures are useful means to channel resources towards those in need but their effectiveness directly depends on the availability of sufficient resources and effective delivery mechanisms. In Asia, redistribution of income through social assistance programmes has proven to be of limited effectiveness. This is partly explained by the relatively small amounts of resources made available as a result of the small size of government income as a percentage of GDP.

The provision of social insurance can be developed in gradual stages with a clear recognition that it should start on a sound basis with reasonable expectations, notably in terms of the effective coverage of the population. The public support for social insurance is crucial. Its financing provisions must give due recognition to the understanding of what can be afforded and what can be promised in relation to the delivery mechanisms.

Financing of social security is hardly possible for population groups whose earnings are difficult to determine and monitor. The involvement of locally based organizations and administrations should be instrumental in developing arrangements aimed at such population groups, including informal, agricultural and home-based workers.

There are prerequisites for the efficient use of financial resources for social protection. They refer to practical elements surrounding the environments of social protection schemes which can be summarized as follows:

- the collection of contributions should cover a large proportion of the income earnings base;
- endorsement by the public and the corporate sector should be secured through intensive public information campaigns and accessible social protection administrations;
- schemes should be operating free of political pressures through tripartite management that is accountable on the basis of clearly defined performance indicators and benchmarks;
- measures should be introduced against corruption, including lax corporate governance;
- the administration of social protection should rely on well-trained staff at all levels of administration;
- public reporting of performance; and
- an efficient legal system allowing timely responses to ensure an efficient administration and delivery of the social protection.

III. Decentralization of policy and financing of social assistance and social insurance

In China

The reform of the social security system for urban populations of China is a parallel necessity to achieve the successful restructuring of medium- and large-size state-owned enterprises (SOEs) within the next three years. The measures adopted and proposed are expected to increase social stability as a matter of priority. The reform of social security addresses mainly the needs of urban populations whilst it is expected at this stage that the Government should encourage self-help approaches for the rural populations. The situation of the main statutory social protection programmes can be summarized as follows:

Social insurance for the urban labour force

It is mandatorily provided to the urban labour force although the actual coverage only amounts to 44 per cent. Provisions include pensions in case of old age, invalidity, death, unemployment cash benefits (UI), medical insurance (MI) and maternity benefits. The Government is responsible for the enormous deficits of municipalities where the collected contributions do not suffice to meet the promised benefit, namely for the payment of old-age pensions to retired SOE officials who previously relied on their respective enterprises to look after their various social protection and housing needs throughout their active and retired lives. The municipal Labour and Social Bureaux (MOLSS) are responsible for the policy and administration of social insurance. The large pool of migrant workers are usually denied protection from the social insurance schemes.

Re-employment Centres' Support Programme for laid-off urban employees

This is an enterprise-based and temporary programme to provide support to workers laid-off for economic reasons. The labour contracts of laid-off workers remain valid for approximately three years during which compensation is paid and support is provided to find new employment. The UI system and the local government budgets are supposed to cover two-thirds of the associated costs. All Re-employment Centres should cease to operate by 2003. This implies a significant and difficult shift of the burden of unemployment to the municipally operated UI schemes. The administration is coordinated between the SOEs and the Municipal Labour and Social Bureaux (MOLSS).

Minimum Urban Living Standard Subsidies Scheme

Introduced in 1998, this social assistance programme is expected to provide financial assistance of last resort to urban residents living below the locally set poverty line. Cash benefits are modest and below flat-rate social insurance benefits whilst the provision of health care is not standardized. This scheme was expected to bridge the gap left by bankrupt enterprises whose workers and dependent retirees and families were left to account for their own social protection needs. The scheme is contested in various areas of China as it provides neither sufficient nor timely benefits to those in need. Adaptations of this scheme are found in some rural areas, notably where farmers are found demonstrating against the authorities because of low earnings and high local taxes. The municipal bureau of the Ministry of Civil Affairs is in charge of this scheme. The policy coordination with the MOLSS programmes could be improved.

Rural pensions, medical insurance and social assistance

The Ministry of Civil Affairs supervises social security provisions for the rural populations with the support of Village Councils. There are great variations across localities with some areas having no infrastructure. Benefits are voluntary and provided only on the basis of prior contributions paid by individual rural residents. Pensions cover around 85 million persons, i.e. 9.5 per cent of the rural population, and medical insurance is provided to 20 per cent of them. Rural Cooperative Medical Insurance was initiated in the 1970s at which time it experienced a good degree of success, covering most of the rural population. Later reforms have more or less banished such cooperatives. Social assistance is normally provided in the form of relief in case of natural disasters and is financed through ad hoc central and territorial budget allocations. Provisions for the poor also exist but their extent varies greatly and their application appears subjective in some cases.

Social security schemes are highly segmented, according to the allocation of governmental responsibilities. Their financing and management are highly decentralized and depend to a large extent on the economic conditions found at the local level. As a result, the recent economic progress has led to increasing income gaps between eastern coastal cities and rural areas and less developed regions of west China. The problems are exacerbated by the growing migration of the young labour force of rural areas to work in coastal cities, leaving large numbers of dependants behind. The municipal authorities of the western and rural areas have thus fewer sources of income from workers and a heavier burden to provide social security benefits to the dependants of workers who have gone to the east.

The role of the central State

The role of the central State is largely for the formulation of policies which serve as guidelines and set limits for developing specific regulations at the provincial level. These are intended mainly to maintain a certain degree of uniformity across the country. The overall redistribution of social protection resources across provinces and generations is very difficult to achieve because of the limited pooling of funds that takes place at local administration levels. It must resort to alternative sources of financing to cover deficits incurred by local social security schemes. The central Government supervises the financial and demographic developments throughout the provinces. There is limited cooperation between the policy-making and monitoring of social security schemes (under the supervision of the Ministry of Labour and Social Security) and social assistance programmes (under the supervision of the Ministry of Civil Affairs).

The role of provincial administrations

The provincial authorities decide on the definitive benefit design provisions within the boundaries set by the guidelines provided by the central State, including financing provisions. For example, the contribution rate for public pensions cannot be set above 20 per cent of earnings without prior approval by the central State.There is a limited pooling of social security resources. In some provinces, 5 per cent of the contribution income collected by the municipal Labour and Social Bureaux is transferred to the provincial administration for the purpose of redistributing income revenues towards municipalities where benefit expenditure is higher than the amount of contributions collected. The provincial authorities oversee the administration and reporting of financial situations and requests of cities for central allocations of "redistributed income".

The role of municipal administrations

They administer the actual social security schemes: register enterprises and their workers, inspect them, collect contributions, receive benefit claims, pay benefits, handle public information and appeals. This is where most of the administrative burden is found. The financial management of social security schemes is determined by Municipal Labour and Social Bureaux. They work in close cooperation with enterprises, as some social security schemes, notably for the provision of unemployment insurance benefits, must provide one-third of the resources needed to support enterprise-based social security initiatives, such as, for instance, re-employment centres although these are due to close down by 2003. Municipal bureaux must also work in close cooperation with local fiscal authorities that are the financial guarantors of social security schemes. They must also transfer taxation resources to social assistance programmes. When local finances cannot meet the local demands for social protection, requests for transfers from the provincial and central governments are presented. This represents a major drawback of the Chinese approach to social protection financing.

The role of rural administrations

They are mostly involved with voluntary social insurance schemes and social assistance programmes, notably in case of natural disasters. Only 10 per cent of the rural population are covered by some form of pension scheme and less than 20 per cent by medical insurance schemes. Recent experiences indicate that they lack financial resources to meet the needs of rural populations. Social security provides somewhat inadequate protection as there is no financial guarantee in case of bad investment experiences and it provides limited support for those not contributing or doing so at low levels. The provision of social protection largely depends on fiscal resources of the local governments that are in themselves very limited, due to the low incomes of their resident populations. Over time, this has led to the introduction by localities of a vast spectrum of ad hoc taxes charged to the few productive units, notably agricultural farmers. Where personal income levels are the lowest, the level of resources available for social protection is obviously the lowest, whilst social protection needs are the highest. Local governments incapable of meeting the basic social protection needs of their populations must present a request for subsidies by way of extraordinary budget allocations granted by provincial and central governments. Given the often limited provincial budgets and national state budget, needs for social assistance cannot all be met. At the national level, those allocations are usually determined in relation to priorities for maintaining social stability at the local level. The main purpose of social protection financing thus prioritizes allocations towards regions where social stability is not guaranteed.

Overall financing of social security follows a bottom-up approach in China. In addressing the query whether this is the best approach for a country as vast as China, one must understand the advantages and disadvantages of the current approach versus other options.

The current approach puts much of the burden of financing social protection on local administrations where the pooling of social security funds is done. If in deficit, the local fiscal resources should bridge the financial gap. This inevitably leads to the drainage of financial resources for other economic development at local level. This also implies inequitable and inadequate social assistance as localities where fiscal resources are relatively small cannot afford to meet social assistance needs. The localities where resources are most limited are likely to be the ones where the need for social transfers are greatest. For social insurance, the issues are relatively similar but slightly less critical in principle as there are some earmarked funds, although very small in size, channelled to the higher levels of administration for redistribution towards social security schemes in difficulties.

In Thailand

In Thailand, the scope of social protection is limited, as national social insurance measures have mainly been developed since the introduction of the Social Security Act of 1990. Public welfare programmes are numerous, but their actual outreach is as limited as the financial resources allocated. Subsidized public health care plays a significant role as official figures estimate that 70 per cent of the population benefit from some form of insured or subsidized health care. These figures are, however, not confirmed by socio-economic surveys that put health care coverage at 45-50 per cent of the population. The quality of the subsidized health care is sometime contested.

Recently, the efforts of the newly-elected government have been significant in planning to introduce a universal health care system whereby patients only pay 30 baht per medical visit (approximately US$0.70). Such a universal health care system is initially to be piloted for two years. There has been important scepticism raised in relation to the sustainability of public universal health care in the future. Several options are under consideration. For the initial years, the aim is to rationalize other government expenditures and to channel savings towards the universal health care system. Also, the current expensive medical insurance scheme for civil servants and retired public servants – operating on a purely pay-as-you-go basis – will be merged with the statutory national social security scheme. This should result in significant state budget savings that can also serve to finance partially the cost of universal health care.

Public financing of social security in Thailand is also provided through the payment of one-third of the contributions paid on behalf of insured workers under the social security scheme. The coverage of the latter is mandatory for all enterprise workers in firms of ten or more employees. However, the level of compliance to register is limited to 42 per cent (1999) in the medium-sized enterprises of 10-99 employees, whilst it is significantly higher at 91 per cent in large enterprises employing 100 or more workers.

The overall social expenditures of Thailand are characterized by a large proportion of social insurance benefits paid to public sector workers and private workers in large enterprises of 100 employees or more. Other public transfers are mainly for the purpose of education. To a large extent, child welfare is a priority in Thai society.

The central Government retains control of most of the decisions for the policy-setting and financing of social welfare programmes. The administration is controlled by the central governmental authorities that rely on the available support for benefit delivery at the local level that is sometimes found to be associated with political groups who are assumed to know better the local needs for social welfare where government infrastructures are weak. There is, however, a sign of important changes as the Parliament of Thailand adopted a legislation in 2000 that foresees the decentralization of up to 35 per cent of public budgets to local-level administrations. This is scheduled for implementation over a period of ten years so as to ensure that local capacities are able to administer such budgets for the purpose of social assistance.

Overall, the management of social expenditures is weak in Thailand because of a limited infrastructure for the delivery of social protection. For social welfare, this means that there is insufficient capacity to monitor, report on and administer the delivery of benefits. For social insurance, this means that there are too few local branch offices to ensure that the extension of the mandatory social security coverage of the population is enforced and supported by the public. The recently adopted reforms are, however, expected to remedy this over-centralization of the management of social protection. Care must be taken to ensure that local capacities exist before resources are channelled to the communities. There is evidence that it may be better not to provide resources to localities until capacities and mechanisms are in place to ensure appropriate governance. In this respect, reference is made to the recent experience observed in relation to occupational social welfare programmes providing pools of funds to local committees. Many localities targeted by these programmes, although providing limited funds, have had mixed experiences, due to a lack of understanding of the purpose of such funds, and entrenched, politically biased behaviours tended to distort their use. This limits the efficiency of decentralizing social protection financing.

In the Lao People's Democratic Republic

Lao is classified as a least developed country according to the World Bank. The capacity of the State to provide social protection is largely limited due to the lack of government resources, ethnic disparities, the non-monetarized economy outside of the capital Vientiane and other large cities. The current poor state of the economy is largely attributed to the consequences of the war that ended more than 25 years ago and to the policies of the centrally planned economy.

Most social protection funding is provided through international donor support, mainly for health and educational purposes. Priority is given to the development of institutional capacities through reinforced education.

Statutory social protection programmes are nearly non-existent, with the exception of the social security scheme for public servants. They contribute 6 per cent of their wages and the state budget covers the remaining costs of social security benefits. The scheme is expensive and the benefit protection provided is limited. In December 1999, the Prime Minister of Lao signed Decree 207 providing for the introduction of a mandatory and contributory social security scheme for enterprise workers of the private and state-owned sectors. Its operations are scheduled to begin in June 2001. Originally, pressure to introduce such a scheme came from the corporate sector, as they were threatened by the European Union of having their exports limited on the grounds that they did not provide decent working conditions to their workers. This represents the beginning of social insurance in Lao.

It may be difficult at this stage to foresee any more public financing of social protection in Lao in view of the limited public finances available and public infrastructures. The ILO's advice is that the development of social protection should follow a gradual approach closely linked to the development of the economy, namely outside of the capital city of Vientiane. Close cooperation with village administrations should be sought as they often have a better knowledge of the needs and realities of local populations and the potential capacities to provide them with social protection.

Conclusion: Public financing of social protection a necessity

The role of the State in financing social protection is often limited by practical considerations. In most East Asian economies, the development of institutional capacities for the assessment of social protection needs should be prioritized. This is necessary so as to raise additional resources for the purpose of social protection. In addition, it would be reasonable to reallocate larger proportions of government expenditures towards social protection programmes.

Alternatives should give due consideration to the delivery of self-financed social security through employer and employee contributions. The gradual phasing of social insurance measures should allow the development of sustainable infrastructures able to deliver social protection and redistribution of income to persons facing specified "social risks". In Asia, the limitations on social security programmes are largely explained by the poor management by governments in general and limited capacities of governmental human resources.

Given the low level of social protection expenditures in most countries of Asia, where less than 10 per cent of the Gross Domestic Product is spent on social protection, the ILO encourages the countries to carefully plan an increase in their resources for social protection. A typical strategy could pursue the following practical lines:

- a thorough assessment of social protection needs through the active participation of reinforced local administrations and public consultations;
- a review of existing social assistance and social insurance programmes and the causes of inefficiencies;
- where the basic structure of existing programmes is considered adequate, improvements should build on the further development of such programmes (as opposed to introducing costly new programmes);
- where there is a deficient basis for the provision of social protection, the national strategy should foresee the introduction of sustainable social programmes that meet the needs of the populations, both in the near future and in the long term, and that are in line with institutional capacities for benefit delivery;

- the strengthening of the human resources' capacities of local administrations;
- a concerted national approach should be monitored on a regular basis through the use of publicly accepted indicators of performance and clear accountability; and
- financing of social protection programmes should give priority to approaches that allow for some degree of income redistribution across regions, income groups and generations.

As a final comment in relation to the financing of social protection, reference is made to the impact of globalization on the provision of social protection. National governments are inevitably facing limited capacities to protect their populations in view of the movements of capital across borders and often linked to prospects of stability and the provision of low production costs. There is an apparent necessity to reinforce international and regional ties to develop mechanisms that could eventually foresee the financing of social protection through transfers of resources beyond national borders. This necessity was recently raised by Thai officials envisaging the introduction of a statutory unemployment insurance scheme.

Pension restructuring in Central and Eastern Europe: An analysis of recent trends

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The restructuring of national pension schemes has been a major and contentious issue in most Central and Eastern European (CEE) countries in recent years. The reforms being pursued involve both reducing pension scheme costs and making benefits more individualized and related to earnings, thereby departing from the universal and redistributive pension policies of the former socialist governments. In addition, some countries – i.e., Hungary and Poland – have adopted so-called radical reforms which partially replace public pension schemes with mandatory systems of commercially-managed individual savings accounts. The result of these changes is growing differentiation both within and between countries in the extent of old age protection provided.

This paper describes these reforms and identifies a set of early patterns in their implementation. The analysis has three parts. The first provides background, portraying the pension schemes which were inherited by CEE governments, the impact of the transition, and the expected role of demographic changes in coming decades. Part two describes the reforms undertaken across the region during the 1990s. These are discussed in two broad categories, restructuring of public schemes and privatization, and a set of early implementation patterns is identified. The third part draws conclusions and offers recommendations for strengthening pension policy deliberations.

I. The context for reform

A. *Pre-transition pension schemes*

One of the legacies of the socialist era in CEE countries was the State's large role in providing retirement benefits: pensions were a major responsibility of the government, and there were almost no private arrangements. Pensions were financed on a pay-as-you-go basis through transfers of funds from state-owned firms to a social insurance budget within the state budget. There was little transparency in the collection and allocation of resources.

Retirement ages in CEE countries were somewhat lower than those in OECD, as shown in Table 1. In many CEE countries, male work-

Table 1. Average retirement ages, 1950 and 1990

	1950	1990
OECD countries		
Male	68.5	62.2
Female	66.0	60.0
CEE countries		
Male	67.6	60.9
Female	62.5	57.6

Source: Latulippe, D., "Effective Retirement Age and Duration of Retirement in the Industrial Countries between 1950 and 1990". *Issues of Social Protection*, International Labour Office, Discussion Paper No. 2 (Geneva) 1996.

ers could retire at age 60 with 25 years of service, while women could often retire at 55 or, in some countries, at an age determined by the number of children raised.[1] There were also many avenues to early retirement, and young pensioners often continued to work while receiving benefits.

In general, the pre-reform schemes were designed to redistribute income, and the link between contributions and benefits was weak. However, there were many so-called privileges – i.e., lower retirement ages and higher benefit amounts for occupations favoured by the State. In many countries, privileges were extended not only to workers in risky and strategic occupations but also to entire industrial sectors (e.g., to mining management and administration as well as underground workers) but were financed through contributions paid on behalf of all workers, resulting in adverse redistribution. Benefit adjustments were generally not sufficient to take account of inflation or nominal wage increases.

B. The impact of transition

In most countries, the transition brought a sharp contraction in output and employment, with production levels declining by 20-50 per cent below 1989 levels.[2] The CEE countries generally resumed growth in 1993 and regained their pre-transition output levels in 1997.[3] They were followed by the Baltic countries where growth generally resumed in the second half of the decade. Growth in south-east Europe, while now underway, has been less decisive. In CEE countries, the percentage decline in employment was greater than that in output (with the exception of the Czech Republic), while in other countries the drop in unemployment was less, reflecting hidden unemployment in the form of shorter working hours or unpaid leave. While many transition countries have now had two to six years of output recovery, employment has continued to shrink or stagnate.[4]

High unemployment caused a drop in pension scheme contributions and an increase in benefit payments. The number of scheme contributors declined by 30 per cent in Bulgaria, 45 per cent in Latvia, and over 60 per cent in Albania, while less severe losses occurred in the Czech Republic, 7-8 per cent, and the Slovak Republic, 5 per cent.[5] In addition, many firms failed to make regular contributions on behalf of the workers they retained due to financial difficulties, leading to large accumulations of arrears. Those displaced workers who found employment in the region's expanding informal sector generally fell beyond the reach of social security collection agencies. In some countries, these workers now total a quarter or more of the national workforce: in Lithuania, the portion of unregistered workers is 22 per cent and, in Albania, 28 per cent.[6]

On the cost side of the pension financing ledger, many governments liberalized disability and early retirement provisions to deal with rising unemployment. This use of pension schemes as a cushion in absorbing excess labour substituted for welfare and unemployment schemes, which were still being developed in many countries. However, it was considerably more costly

Table 2. Ratio of young, working age, and elderly to total population (percentages)

Country	1998			2020		
	-19	20-59	60+	-19	20-59	60+
Albania	42	49	9	32	55	12
Bulgaria	26	53	21	14	58	28
Czech Republic	25	57	18	19	54	27
Estonia	27	54	19	18	56	25
Hungary	26	55	19	n.a.	n.a.	n.a.
Latvia	26	54	20	18	57	25
Lithuania	28	54	18	23	55	21
Poland	30	54	16	25	53	22
Romania	31	52	16	n.a.	n.a.	n.a.
Slovakia	30	55	15	19	58	22
Slovenia	24	57	18	22	52	26
FYR Macedonia	33	54	13	23	54	23

n.a. = not available
Source: Phare Consensus (1998), p. 63.

than direct provision of unemployment benefits and placed a strain on pension scheme financing that will continue for many years.

C. *Demographic projections*

Though demographic changes have not begun to be felt in most countries, projections indicate that they will raise future pension costs considerably. Over the next 20 years the proportion of elderly will increase by a third in many countries, while the young population will contract significantly. See table 2. How these projected rates of demographic dependency will translate into actual rates of dependency on national pension schemes depends heavily on economic and labour market factors as well as on policy decisions concerning the pension benefits provided. It appears that the process of ageing will pose major challenges for most countries.

II. Approaches to reform

In the mid and late 1990s, most CEE countries undertook major pension reforms; but the pace of decision-making and implementation has differed markedly from country to country. In some countries, legislation has been approved and is now being implemented (e.g., Hungary, Poland and Slovenia), while in others debate is still underway (e.g., Slovakia, Ukraine). The reforms aim not only at reducing system dependency ratios but also at adapting some of the pre-transition design features to new economic and political conditions. In many countries reform has also entailed a shift toward greater reliance on the private sector for pension provision. Table 3 shows the progress of pension reform across the region. The X mark shows at which stage of the process reforms are.

It is useful to consider the reform measures in two broad categories: adjustments in the basic

Table 3. Status of pension reform in selected CEE countries

Country	Major first tier of reform (mandatory)			Introduction of mandatory second tier (supplementary)			Additional voluntary arrangements		
	In preparation	Approved	Legislated	In preparation	Approved	Legislated	In preparation	Approved	Legislated
Albania			X						X
Bulgaria			X			X			X
Croatia			X			X postponed[1]			X
Czech Republic			X						X
Estonia			X		Withdrawn[2]				X
Hungary			X			X			X
Latvia			X			X, delayed to 1/7/01			X
Lithuania			X	X					X
Poland			X			X			X
Romania			X		X		X		
Slovakia		X		X					X
Slovenia			X			rejected			X
Ukraine		X			X, postponed[3]			X	
FYR Macedonia			X			X			X

[1] Implementation of the Croatian law has been postponed by the new government pending improvements in the economy. [2] The Ukrainian proposal calls for implementation only at the point when specified economic and political prerequisites are achieved. [3] The Estonian government withdrew a proposal for a mandatory pillar, citing concerns about high transitional costs.

Sources: Phare Consensus (1999), p. 55, *Pensions International* (2000 issues), and updating information provided by conference participants.

parameters of existing public schemes and establishment of new private arrangements. Virtually all countries are pursuing the first approach. The reforms underway include increasing national retirement ages, reducing redistribution and rates of wage replacement in benefit formulas, curtailing benefits to privileged categories of workers or providing separate sources of financing for them, and strengthening procedures for collecting contributions.

Retirement age increases are shown in table 4. As can be seen, increases have been enacted by most countries, in the range of two to three years for men and three to six years for women. Most of these new statutes are the result of political compromise, with larger increases having been proposed initially and reduced through negotiation with trade unions and, in some cases, employers. In some countries (e.g., the Czech Republic and Latvia), a sec-

Table 4. Retirement ages in selected countries

Country	Current law	Men	Women
Albania	1995	60 with 35 years of service; partial pension with 20-35 years.	55 with 35 years of service; 50 with 30 years of service and six children; partial pension with 20-35 years.
Croatia	1998	Increasing to 65 with 15 years of covered work by 2007. Anticipatory pension, increasing to age 60 with 35 years of covered work.	Increasing to 60 with 15 years of covered work by 2007. Anticipatory pension, increasing to age 55 with 30 years of covered work.
Czech Republic	1995	Increasing from 60 to 62 with 25 years of service, at a rate of 2 m. per year between 1996 and 2006.	53-57, depending on no. of children, increasing to 57-61 at a rate of 4 m. per year between 1996 and 2007.
Estonia	1998 (in force, 2000)	62.5, increasing to 63 in 2001.	57.5, increasing to 63 in 2016.
Hungary	1997	62	57, increasing to 62 in 2009.
Latvia	1998	60 with 10 years of insurance.	57 with 10 years of insurance, increasing to age 60 by increments of six months each year.
Lithuania	1994	61, increasing in increments of 2 m. per year to 62.5 in 2009.	57, increasing in steps of 4 m. per year to 60 in 2009.
Poland	1998	65 with 25 years of service. Early retirement being phased out.	60 with 20 years of service. Early retirement being phased out.
Romania	2000	Increasing from 62 (with early retirement at 60) to 65 by 2013.	Increasing from 57 (early retirement at 55) to 60 by 2013.
Slovakia	1988	Normal retirement age is 60; for selected professions, 55-58 with 25 years of service.	Normal retirement age is 53-56, depending on no. of children raised, with 25 years of service.
Slovenia	2000	Increasing from 61 to 63 for full retirement with 40 year qualifying period, minimum retirement age 58.	Increasing from 53-58 to 58-61 for full retirement with 38 year qualifying period, minimum retirement age 58.
FYR Macedonia	2000	Will become 64 (31/12/01) with 15 years of work. Transition period until 2005 during which workers can retire with 35 years of work (no min. age) if more beneficial.	Will become 62 (31/12/07) with 15 years of work. Transition period until 2005 during which workers can retire with 30 years of work (no minimum age) if more beneficial.

Sources: *Social Security Programs Throughout the World* (US Social Security Administration, 1999), International Social Security Association, *Databases – Social Security Worldwide* (www.issa.int), Phare Consensus (1999), p. 33-8; and updating information provided by participants to the conference.

ond round of increases is under discussion as a means of addressing the expected ageing of the population.

Countries have taken differing approaches to revising benefit formulas. Latvia and Poland have replaced traditional (defined) benefit formulas with so-called notional defined contribution systems, in which retirement benefit levels are based not on wages but on a worker's lifetime contributions and an estimate of the average life expectancy of the age cohort to which he or she belongs at the pensionable age. Other countries have retained traditional defined benefit systems but with lower pension accrual rates for each year of work. In Slovenia, for example, the accrual rate was reduced from 2.0 to 1.5 per cent of average wages for each year; and a larger number of years is being used in computing average wages, strengthening the relationship between a worker's lifetime earnings and his or her benefits.

Action to curtail pension privileges is also uneven. Some countries have eliminated such privileges or provided a separate source of financing for them (e.g., Hungary, the Czech Republic, Lithuania, Slovenia), while in other countries the issue remains on the national policy agenda (e.g., Poland, Slovakia and Ukraine).[7]

Some CEE countries are seeking to improve contribution collections through so-called unified collection systems. Here a single enforcement agency collects contributions to fund several schemes (e.g., pensions, health care, unemployment, sickness, employment injury) and may collect income taxes as well. While holding promise for improving collections in the formal sector, this approach is less useful in reaching self-employed workers and workers in the informal economy. Unified contribution systems are being developed in Latvia, Lithuania and Poland and are under active consideration in Slovakia and Ukraine.[8]

The second category of reforms, new private pension arrangements, differs from the approach to privatization taken in some Latin American countries where public schemes were fully replaced. Here the objective is to structure mixed pension systems under which future retirees will receive benefits from two sources, the public scheme and a second mandatory tier consisting of commercially-managed individual savings accounts. Workers are usually given a choice of pension management firms and the right to transfer from one firm to another. Mandatory second-tier schemes were launched in Hungary in 1998 and in Poland in 1999. As shown in table 3, several other countries are also planning such reforms or considering them.

Both approaches are necessarily long-term undertakings, due to the political difficulty of building consensus for changes, the time required to construct new systems for more individualized administration and regulation of private pension providers, and the need, recognized in most countries, to avoid abrupt losses for workers. While the recency of these reforms makes it difficult to reach definitive conclusions, several early patterns are discernible.

1. The transitional costs of moving to a mixed pension scheme are higher than projected in Hungary and Poland, due to the unexpected strength of worker preferences for private pensions. Countries incur transitional costs in moving from pay-as-you-go to mixed pension systems because they must build up reserves for the new pre-funded tier while continuing to meet existing pay-as-you-go benefit commitments. In CEE, this build-up involves specific problems, since most countries are operating under a constraint that prohibits increases in contributions. This constraint derives from the current rates, which are high in comparison with other parts of the world (see table 5). Governments striving for international competitiveness are under pressure to decrease these rates or at least stabilize them and thus must meet transitional costs in other ways.

The Polish Government redirected about one-fifth of contribution revenues from the public, pay-as-you-go scheme to fund the new private tier (7.3 per cent out of the 32.52 per cent contribution rate for each second-tier scheme member). It is planning to address the resulting deficit in the public scheme with increased borrowing, effectively issuing new bonds to retrieve contributions allocated to the new private system. In Hungary, the Government also reallocated about a fifth of contributions (6 per cent of the 30 per cent contribution rate for each second-tier scheme member) to the new funded second tier. It too will cover the resulting deficit in the public system by issuing more debt.[9]

The increase in transitional costs over earlier projections derives from the discretion, that both Hungary and Poland gave large segments of the current work force, to join the new scheme or not. In Poland, all workers between age 30 and 50, and in Hungary, all current workers, were given the option. In each case, the numbers which moved to the mixed system exceeded

Table 5. Worker and employer contribution rates in selected countries 1999 and 2000
(per cent of insured wages)

Country	Employers	Employees
Albania*	26	10
Bulgaria*	34.7	1
Croatia**	8.75	10.75
Czech Republic**	19.5	6.5
Estonia**	20	0
Hungary**	22	8[1]
Latvia*	23.58	9
Lithuania**	22.5	2.5
Poland**	16.26	16.26
Romania*	23[2]	5[3]
Slovenia*	15.5[4]	8.85 average[5]
Slovakia*	21.6	5.9
FYR Macedonia*	20	0

* Rates for 1999. ** Rates for 2000. [1] For workers in the mixed system, 6 percentage points go to the funded private tier, 2 to social insurance. [2] 23 per cent for normal working conditions; for arduous and very arduous working conditions, the contribution rates are 28 per cent and 33 per cent, respectively. [3] For supplementary pensions. [4] Varying contribution rates, in average 15.50 per cent of earnings (employee pays entire cost, employer reimburses employee for employer contribution.) [5] Varying contribution rates, in average 8.85 per cent of the payroll.

Note: These rates are not fully comparable as they may apply to different wage bases in some countries; in others, they apply only to wages up to a ceiling.

Sources: Phare Consensus (1999), p. 49 and SSA (1999), p. 286; for Croatia, the University of Zabreb, Faculty of Law; for the Czech Republic, Ministry of Labour and Social Affairs; for Estonia, Ministry of Social Affairs; for Hungary, Institute of Economics of the Hungarian Academy of Sciences; for Lithuania, Social Policy Unit (SPU) of Lithuania; and for Poland, Ministry of Labour.

official estimate significantly. In Poland, the Government estimated that 6 million workers would switch while 10.6 million did so. As a result, the Government had to increase the year 2000 state subsidy to the public scheme by zlotys 2.7 billion (US$650 million) over the 1999 level.[10] In Hungary it was estimated that 800,000 would switch in 1998, but 1.4 million actually did so and, since then, private scheme membership has grown to over 2 million. In its wake, the Fidesz Government repealed legislation redirecting two additional percentage points of the 30 per cent contribution rate to the private funds, leaving the second-tier rate at 6 per cent rather than 8 per cent.[11] Given this repeal, private fund assets are estimated to rise to 35 per cent of GDP over the next century compared to a previous projection of 47.6 per cent.[12] With significantly reduced revenues allocated to private savings, statutory guarantees of the second tier are more likely to be triggered in future years, further increasing the costs of reform.[13]

2. *The administrative costs of private commercial firms exceeded allocated resources last year, contributing to financial losses.* Pension privatization carried out in other parts of the world (e.g., Chile and the UK) suggests that private management will be costly.[14] This results in part from reduced economies of scale inherent in a system of multiple private management firms, in part from the need to allow workers to switch from one firm to another, and in part from advertising expenditures which private firms incur in competing for members. In Hungary, operational costs hovered around 8 per cent of contribution income during 1999, or more than four times the rate for the public pension scheme. However, these revenues turned out to be insufficient, requiring the parent companies of the new pension management firms (i.e., banks and insurance companies) to provide occasional, and in some cases, frequent subsidies.[15] In Poland, administrative costs fluctuated considerably over the short period of the private management firms' existence. In mid-1999, they were in the range of 13-15 per cent of contribution income but fell to 6.5-10 per cent as the result of firms' efforts to attract more clients by the end-of-year deadline for switching to a private fund.[16] At the close of 1999, all firms recorded substantial losses (zlotys 1.6 billion, or US$403 million). These resulted primarily from high promotional costs, agent commissions, and advertising, the latter of which exceeded zlotys 400 million (US$100 million).[17]

3. *Privatization laws are being implemented with key issues concerning benefit payments unresolved.* The Hungarian and Polish privatization laws contain little detail on benefit payments and, in implementing them, both governments have placed emphasis on getting the new systems for private management up and running, further deferring resolution of issues related to benefits. In Hungary, a major uncertainty relates to inflation adjustments, which by law must be based on annual wage and price changes in equal proportion. While government is in a position to guarantee such protection by virtue of its taxation authority, it is not clear how private firms can do so.[18] In Poland, the unresolved issues are broader, relating to: (i) the means of converting a worker's accumulated savings to an annuity at the time of retirement and the associated costs (will there be multiple, competing annuity companies or a single national company?); (ii) whether the differing life expectancies of men and women will be taken into account in calculating pensions (i.e., unisex or gender-specific life tables); (iii) how private benefits will be indexed; and (iv) whether there will be provision for lump-sum withdrawals at the time of retirement. With these major issues unresolved, workers who were given a one-time choice as to whether to join a private savings scheme lacked knowledge with which to make an informed decision. The absence of information on these matters also precludes an assessment of the reforms in terms of the key criterion of retirement security.

4. *Private pension management firms are investing heavily in public, rather than private, assets.* Proponents of pension privatization offer as a key rationale the potential for workers to obtain the higher yields on private securities. However, in Poland, 68 per cent of worker savings was invested in Treasury and National Bank of Poland bonds at the end of 1999, with 28 per cent in shares.[19] In Hungary, the tendency toward public investment is more pronounced: approximately 85 per cent of funds were invested in government securities at the end of 1999 and about 9 per cent in corporate bonds. This particularly low level reflects the volatility of the Budapest Stock Market, where the main index lost two-thirds of its previous value following the Russian Crisis; and pension management firms reduced their private equity holdings by half, from about 14 to 7 per cent of investments. A market resurgence was predicted for early 2000, but this has not occurred; and pension funds have continued to invest cautiously.

5. *Frequent changes in CEE governments are resulting in mid-course revisions in pension policy.* Change of government has been a sustained phenomenon in many CEE countries: since 1990, Latvia has had five governments; Lithuania, Slovakia and Slovenia have had four; Estonia, the Czech Republic, Hungary and Poland have had three; and Croatia, two.[20] The impact on pension reform seems to vary according to its stage. When a reform proposal is still under consideration, a governmental change may result in a policy shift or reversal; but when it is legislated, the more likely effect is an incremental adjustment in implementation. The first phenomenon is observable in the Czech Republic and Slovakia: the current Czech Government abandoned the previous regime's plans for privatization in favour of reforms of the existing public system, and the current Slovak Government dropped the previous regime's plan to follow the Czech model for reform of the public system in favour of privatization. Variations on the second pattern are observable in Hungary, Croatia and Latvia. In Hungary, leaders of the Fidesz Government opposed pension privatization when they were in the minority and, upon returning to power, repealed a provision which would have increased the rate of contributions allocated to the new private savings pillar (subsection 1, above). In Croatia, the new government at first delayed a pension privatization law enacted by the Tudjman regime but in recent months has accelerated the preparation effort.[21] In Latvia, the 1997 pension reform has since been amended nine times and in late 1999 was subjected to a national referendum; these events slowed down privatization, but the most recent government has given it new momentum. Poland provides a noteworthy exception to this pattern: there a change of government in the midst of reform deliberations (late 1997) did not have a significant impact on pension restructuring. This is attributable in part to broad public support for the reform and, in particular, to a tripartite consensus in favour of the second- and third-tier proposals. In this environment, the political parties agreed tacitly to keep pension reform on track and avoid making it a campaign issue.

6. *In many countries, however, social dialogue on pension reform is limited; and tripartite consensus is not often achieved.* In Hungary, trade unions were divided with respect to radical pension reform, as were national experts. In Slovenia, consensus was achieved only at the

parliamentary level after a requirement for a mandatory private pillar was deleted from reform legislation. In Croatia and the FYR of Macedonia, radical reform proposals were enacted over strong trade union objections, which continue in the wake of parliamentary action. The failure to reach consensus is attributable in part to trade union objections to cuts in benefits which workers believe they have earned and have come to expect – a situation which is not unique to the region. However, CEE countries also have difficulties which stem from the lack of a tradition of consultation with the social partners, from some governments' failure to recognize the need for it, and from lack of experience on the part of workers and employers in fulfilling their roles. These difficulties are accentuated by the greater weight given to macroeconomic effects in pension reform debates in recent years – i.e., increasing national savings rates and investment levels – a shift which has overshadowed more basic issues of social protection and has tended to marginalize the role of the social partners. While this shift of focus has a greater impact on trade unions, it also affects the region's new employer's associations. Similar difficulties exist with respect to the tripartite boards of pension schemes in some countries, where workers and employer representatives are often unsure of their roles and unfamiliar with the operating principles of social security schemes. This lack of experience is reflected in dissatisfaction with the performance of pension boards in some countries.[22]

7. *The diversity of regional reforms is increasing, with momentum for privatization slowing in some countries and, in others, new efforts are underway to restructure existing public systems.* The adoption of radical reforms in Hungary and Poland led some observers to predict that most of Central and Eastern Europe would eventually follow their model.[23] As can be seen in table 3, several other governments have since adopted similar statutes or are at various stages of considering or planning this. However, this momentum slowed somewhat during 1999 and early 2000. In Romania, parliament approved legislation to restructure the public scheme in mid-2000 but has been debating pension privatization without a resolution for more than a year.[24] In Ukraine, the Government responded to widespread opposition to radical reform by amending its proposal to add explicit criteria which will delay implementation of a mandatory second tier until the economy and fiscal outlook improve.[25] In Estonia, the Government dropped a proposal to establish a mandatory private tier due to concerns about high transitional costs. Instead it is redrafting the legislation to establish an optional second tier with subsidies from the public scheme for those who participate.

In addition, some governments have adopted reform strategies which involve restructuring their public schemes without privatization. In December 1999, the Slovenian parliament deleted a proposal for a new mandatory savings scheme for all private sector workers from a comprehensive pension reform bill, approving those provisions which strengthen the financing of the existing public scheme.[26] In the Czech Republic, the prospect of high transition costs led the current government to reject the previous government's plans for privatization. While it is still in the process of deciding on additional public reforms, the two countries taken together suggest a second pattern of pension reform in CEE which serves to strengthen and restructure the existing public system.

III. Conclusion

These early patterns are not necessarily predictive of long-term outcomes, since some may disappear with time or be altered by events and conditions which are not yet obvious. They do, however, provide some surprises in relation to earlier projections and suggest a need to look again at claims and predictions based on these. What conclusions, if any, should be drawn at this stage? Recognizing a need for caution, the authors offer three observations.

First, early experience provides little indication that radical reforms are well suited to CEE political and economic environments. In Hungary and Poland, the high transitional expenditures required to build a private prefunded tier while continuing to meet pay-as-you-go benefit obligations are raising the cost of reform, above what would be required to restructure the existing system, in the neighbourhood of 0.5-1.3 per cent of GDP per year. Added to the high contribution rates already in effect, these costs are increasing the burden of pension financing considerably in both countries; and they will make it more difficult to comply with the fiscal limitations set by the European Union.[27] In addition, the prohibition against raising contributions which is created by high existing contribution rates creates a financial interdependence between the first and second tiers, making it possible to finance private benefits only by depriving the public pension system of needed revenues and vice versa. Both scenarios pose risks which threaten workers' future retirement security, though in different ways. Growing understanding of these burdens and risks is reflected in decisions by several CEE governments – i.e., the Czech Republic, Estonia and Slovenia – not to undertake radical pension restructuring.

In terms of investment patterns, the concentration of private savings in public, as opposed to private, securities may well be the most prudent strategy in CEE countries, given the small size and volatility of most private financial markets; but it also means that workers will have limited access to the higher yields which private investments can offer, be they more risky. Without higher earnings, the large administrative fees being charged by private management firms can be expected to erode savings and reduce the adequacy of future benefit payments. The pattern of mid-course policy corrections observed in several CEE countries also seems poorly suited to radical reforms, which require an extended implementation period. Though the results of shifting political priorities over this period are hard to predict – e.g., the Fidesz Government's repeal of an increase in second-tier revenues – they are likely to differ from those sought when radical reform was adopted.

Some observers have argued that, despite these difficulties, privatization is still the most viable approach to pension restructuring in CEE, since only radical change can overcome resistance from entrenched interests such as pensioner associations and trade unions. However, actual experience fails to confirm this notion. As described in section II, pension privileges have been curtailed in the Czech Republic, Lithuania and Slovenia without privatization, while the Government of Poland continues to struggle with this issue in the wake of enacting its privatization law. The same three countries have also succeeded in raising their national retirement ages, and Slovenia has enacted major reform legislation which will cause future pensioners to receive a full 25 per cent less than current retirees. Still other countries, e.g. Slovakia, are considering major privatization proposals without provisions to increase the retirement age or to deal with pension privileges. This early experience presents a mixed picture which fails to support the notion that privatization is the single viable route to pension restructuring.

Second, the focus of reform has been relatively narrow to date. While the restructuring of retirement benefits is a major concern across the region, few changes have occurred in disability pensions since the early years of the transition, when standards were lowered as a means of dealing with increased unemployment. As a result, there are significant numbers of disabled pensioners with some residual work capacity but few opportunities or incentives to find employment. Similarly, only limited consideration has been given to the gender aspect of reform in CEE economies where many women are affected disproportionately by increases in the retirement age and the elimination of redistributional elements in benefit formulas. A third unaddressed issue is growing exclusion from social protection due to expansion of informal work. Most CEE scheme officials recognize the need to find new ways to identify excluded workers and extend protection to them, but few experiments are underway. Action on all these issues can be encouraged through research which documents the situation and needs of the target groups and identifies best practices within the region, in Western Europe, and elsewhere to serve as models for reform. There is a pressing need for such studies to serve as a catalyst for a wider reform.

Finally, the fact that pension restructuring is proceeding without social consensus in many countries is a cause for serious concern. Few would argue that reforms can succeed in the long run without acceptance by key stakeholders, that this acceptance can be gained without giving them a role in shaping the content of the reform, or that they can participate effectively without a solid understanding of the roles they are expected to play and of the issues being debated. Yet social dialogue continues to stand out as a weak or missing element in the planning of pension reforms in many CEE countries, and many worker's and employer's organizations continue to search for ways to influence pension policy with only limited success. Training is among the measures needed to address this problem. It should be geared to support the social partners in formulating objectives which reflect both long-term and immediate concerns, as well as in developing concrete strategies for pursuing these objectives. It should also provide opportunities to learn from successful counterparts in the region and elsewhere, to analyse the technical aspects of pension financing and the pros and cons of various reform strategies, and to obtain empirical information on the early impacts of reforms implemented in other CEE countries. Such training could strengthen social dialogue on pension reform very signficantly across the region and, through it, help ensure that the pension policies adopted by governments can be implemented successfully and sustained.

Notes

[1] Hagemejer, Krzysztof. "The Transformation of Social Security in Central and Eastern Europe", in Katharina Muller, Andreas Ryll, and Hans-Jurgen Wagener (eds.), *Transformation of Social Security: Pensions in Central-Eastern Europe* (Heidelberg: Physica-Verlag, 1999), p. 49.

[2] It should be noted, however, that the base on which this comparison is drawn, 1989, renders it uncertain because of lack of reliable statistical data on GDP and employment for the pre-transition period.

[3] Hagemejer in Muller (1999), p. 35.

[4] Augusztinovics, Maria. "Pension Systems and Reforms in the Transition Countries", in *Economic Survey of Europe* (Economic Commission for Europe and United Nations, 1999, Vol. 3), p. 91.

[5] Palacious, R., M. Rutkowski; X. Yu. *Pension Reform in Transition Economies*, World Bank, Washington, D.C., June 1999. The decline in Albania was accentuated by the privatization of agriculture. Here low levels of collection were attributable in part to weaknesses in the collection system after privatization and in part to lack of cash income among small subsistence farmers.

[6] Phare Consensus Program, *Change and Choice in Social Protection: the Experience of Central and Eastern Europe* (Pantheron: The University of York, 1999), p. 52.

[7] In Slovakia, preferences were eliminated in the mid-1990s but are extended annually in response to strike threats.

[8] Poland has unified contributions for social security benefits and health care but not tax revenues.

[9] Simonovits, A. "The New Hungarian Pension System and its Problems," in Katharina Muller, Andreas Ryll, and Hang-Jurgen Wagener, (eds.), *Transformation of Social Security: Pensions in Central-Eastern Europe*, (Heidelberg: Physica-Verlag, 1999), p. 220.

[10] *Pensions International*, January 2000, p. 6.

[11] The legislation called for an increase to 7 per cent in January 1999 and 8 per cent in January 2000.

[12] Presentation by Tibor Parniczky, State Private Funds Supervision of Hungary, at the OECD Private Pension Conference, Prague, 3 April, 2000.

[13] Provided via a complex formula, the statutory guarantee essentially states that no worker will lose more than 7 per cent of the benefits he or she would have earned under the public system. Simonovits (1999), p. 222.

[14] Administrative costs are estimated to consume about 40 per cent of a worker's contributions over his or her life time in the UK and about 25 per cent in Latin America. Quiesser, Monika, "Towards more individual choice in social protection?" presented at a conference of the International Social Security Association, Luxembourg, 19-21 May, 1999.

[15] State Private Funds Supervision, *Report for the Third Quarter of 1999*, p. 16.

[16] *Pensions International*, November 1999, p. 6.

[17] *Pensions International*, June 2000, "Profits scare for Polish COPF operators so far", at www.pensionsinternational.co.uk.

[18] One approach would be for the Government to issue bonds whose yields are indexed for inflation and wage increases. A few developed countries offer inflation indexed bonds, but none to date has offered wage indexing; and the Hungarian government has not issued either form of security.

[19] This portion more than tripled between September and December 1999, as firms attempted to raise their yields to attract more customers in the final weeks of member registration.

[20] Economist Intelligence Unit, *Country Profiles for 2000,* at www.eiu.com / schedule. For the purpose of this comparison, changes of government are counted only if they were results of general elections or involved a change in political party. If one counts additionally changes within the ruling party or coalition between elections, the numbers would be higher still. For example, in Lithuania, the overall number of changes of government is 11 (see web site of the Lithuanian government at www.lrvk.lt), whereas the number of changes which involved a change in the ruling party or coalition was four.

[21] Under amendments passed in June 2000, the second mandatory tier will be initiated on 1 January 2002.

[22] In Hungary, the bipartite pension board was dissolved by the current Fidesz Government upon taking power amid allegations of corruption, though these were never pursued. In Lithuania, Government limited the powers of the national pension board (i.e., removed its authority to appoint the scheme director) due to what it regarded as a lack of assertiveness in scheme oversight. In Slovakia, the governing board of the national pension scheme has been relatively inactive, due in part to the limited powers granted to it by the government.

[23] For example, this prediction is made by World Bank officials advocating privatization in CEE. Bank officials often display a map with most of the region darkened in the year 2010, indicating the adoption of mandatory second-tier systems.

[24] A major question in this debate is whether Romanian capital markets are sufficiently developed and regulated to accommodate a mandatory second tier. Doubts were renewed in May 2000, when Romania's largest investment fund collapsed. Operated by members of the former Communist secret police, the fund had 300,000 investors and US$120 million under management. It had claimed falsely that the deposits were insured. The operators withdrew their investments before the collapse. *Financial Times*, "Romanian Anger At Fund Collapse," 31 October 2000, p. A-2.

[25] These include: (1) no deficit in the public pension scheme; (2) a state budget deficit no greater than 1 per cent of GDP; (3) two years of national economic growth; (4) development of the banking system and national financial markets (what is meant by development is not specified); (5) establishment of a system of individualized record keeping for pension contributors and launching of a unified system of collections; and (6) consideration of the experience of voluntary savings schemes.

[26] Described previously, these include a retirement age increase, a significant cut in future benefits (25 per cent), and a limit on the indexing of pensions in payment. Labour Ministry officials explain this action in part as a response to trade union opposition but also as reflecting views widely held in Slovenia that the proposed privatization was not consistent with the country's tradition or with Western European pension schemes.

[27] The Maastricht Treaty (protocols to Article 109) calls for annual budget deficits (including social security) of normally not higher than 3 per cent of GDP and accumulated debt of less than 60 per cent of GDP.

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Experiences in the Americas with social security pensions and their reform: Lessons for workers and unions

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I. Historical background

The history of social security in the American continent began in Latin America under the influence of the programmes founded in Germany in the late 1880s. Occupational hazard schemes appeared at the beginning of the 20th century and by 1920 eleven countries had them in place. Pension programmes (old-age, disability and survivors') for strategic sectors and powerful groups of civil servants and workers were introduced next in the so-called *pioneer* group: Uruguay (1919), Chile (1924), Brazil and Cuba (1920s), and Argentina (1930s); sickness or maternity insurance followed soon after. A second group of countries (*intermediates*) implemented social insurance mostly in the 1940s (under the influence of the Beveridge report), as well as in the 1950s: Costa Rica, Mexico, Peru, Colombia, Bolivia, Ecuador, Paraguay and Venezuela. Finally, a third group (*latecomers*) established their schemes in the 1960s and 1970s: Dominican Republic, Guatemala, El Salvador, Nicaragua, Honduras and Haiti. Only a few countries have unemployment compensation and family allowances schemes. The inception of social security was closely related to the level of development in the countries, hence, the most developed were first and the least developed last. But the power of pressure groups, including trade unions, played a significant role, together with the state, in the evolution of social security.

The Latin American pioneer group preceded the United States, whose Social Security Act was not enacted until 1935 and created unemployment compensation and a pension scheme only; at the beginning of the twenty-first century the United States still lacks a national health insurance programme. When they were part of the British Commonwealth, Canada and most of the non-Latin Caribbean (NLC) followed the social security programmes established in the United Kingdom, hence, they developed national health systems. The first pension schemes in the NLC did not appear until after they won their independence, starting with Jamaica (1966) and ending with Belize (1979); sickness-maternity schemes began in Barbados (1966) and the last was established in Grenada (1983).

In the same manner that Latin America played a vanguard role on social security, it was also the first to suffer financial crisis and introduce radical reforms. During the first 50 years of operation in the pioneer countries, social security was extended to their populations and delivered adequate benefits. But in the late 1960s and the 1970s these countries began to experience several problems, including financial imbalances, which forced "parametric" reforms (changes in entitlement conditions, contributions, and so forth) and state subsidies to cover the deficit. The causes of those problems were multiple: concession of new benefits without providing adequate financing; significant state debt, as well as evasion and payment delays in the private sector; poor investment management of the reserves; high administrative costs and inefficiencies; and excessive government intromission and use of the funds for purposes other than social security. In addition, the pioneer countries, being the oldest both in their pension programmes and population, began to confront a demographic problem: the number of insured contributing to social security relatively decreased vis-à-vis an increasing number of pensioners (a declining "active to passive ratio"). The severe, prolonged and widespread economic crisis of the 1980s inflicted another blow to social security because of hyperinflation, increasing non-compliance, cuts in state subsidies, and deterioration of benefits.

At the start of the 1980s, under the influence of the neoliberal ideology, the military government of Chile introduced radical reforms in both pensions and health care schemes which involved various degrees of "privatization". These reforms did not influence the rest of the region until the 1990s, largely because of the negative image of the Chilean regime, and also due to strong opposition from unions, insured workers, the social security bureaucracy, associations of pensioners and some political parties. In the 1990s two events changed that situation: democracy was restored in Chile and the new government endorsed the social security reforms making them politically acceptable; and the World Bank published two reports, on health care and pensions, which largely advocated the types of reforms introduced in Chile (through conditions attached to loans, the World Bank pushed for such reforms in Latin America and elsewhere). In 1993-2000 nine Latin American countries enacted radical pension reforms and five health care reforms; the latter, however, involve more multiplicity of administrators and providers, as well as a lower degree of privatization, than the former.

Although the Latin-American pension reforms have influenced similar changes in Eastern Europe (Czech Republic, Hungary, Poland) and even in Western Europe (Sweden), they have not yet prompted reforms in the rest of Europe. In Canada, in addition to the conventional pension plan that applies to the anglophone provinces, a Quebec Plan was created in 1966 for the francophone region and is managed as a private fund but with public administration. Non-Latin Caribbean countries continued with their conventional pension programmes and this is true of the United States also; in the latter, however, a debate on pension reform began in the 1990s and became accentuated during the presidential elections of 2000.

Because of the long and varied experience on pension reform in Latin America and the fact that it involves a deeper and wider privatization than health care reform, this article focuses on the former. It reviews the various models of pension reform in ten countries and their features, the role of the private sector and the State, the outcome of the reform and how it may affect the insured and future pensioners as well as the economy, and extract lessons for the workers and unions. In addition, the positions concerning pension reform in the United States are briefly examined.

II. The features of the pension reform in Latin America

A. *Three models of structural reform*

"Parametric" or non-structural pension reforms were frequent in Latin America until the beginning of the 1980s, to improve and strengthen the social security system (hereafter called "public"). The new type of reform is called "structural" because it radically transforms the essence of a conventional public system, either replacing it or making it an alternative or integrating it with a new system that will be called "private" for simplicity purposes. The Chilean pension reform is usually presented as a single universal model but the countries that have enacted such reforms have actually followed *three diverse general models* and with significant differences among the ten countries based on their peculiarities and needs:

1. *Substitutive*, similar to Chile's and implemented in Bolivia (1997), Mexico (1997), El Salvador (1998) and Nicaragua (2000), which closed the public system by prohibiting new affiliations in it. The public system had the following characteristics: (a) pay-as-you-go (PAYG) collective financing (revenues were used to pay benefits with solidarity among income groups and generations), although some had partial funding (reserves); (b) wage contributions that tended to increase over time due to the ageing of both the scheme and the population (a declining active to passive ratio); and (c) "defined" benefit because the law set a minimum pension, a formula for calculation of benefits, and so forth, and the State guaranteed its payment (after the crisis, some of these features were not guaranteed, for instance, real pensions decreased due to inflation). The public system was *replaced or substituted* with a "private" system with the following features: (a) fully-funded and individual financing, that is, the contributions are deposited in the insured's own individual account and invested, adding the yield (capital return or interest) to such account; hence, there is no solidarity

among income groups or generations; (b) "defined" contribution because it is fixed through time (although may have to be raised in the long run due to rising life expectancy of the pensioners); (c) "undefined" benefit because the amount of the pension is uncertain, as it will depend on the insured's salary, density of contributions and the investment yield generated by the fund deposited in the individual account; and (d) administration by private corporations of exclusive dedication (can only manage pension funds), except in Mexico were management is "multiple" (private, public and mixed institutions).

2. *Parallel*, implemented in Peru (1993) and Colombia (1994), in which the public system is not closed but becomes an *alternative option* to a newly introduced private system. The public system continues with the same characteristics but it is reformed either partially or totally; while the private system has similar characteristics to the one in Chile, except that its administration is multiple in Colombia.

3. *Mixed*, implemented in Argentina (1994), Uruguay (1996) and Costa Rica (2000), in which the public system is not closed but becomes *one of two components of a mandatory integrated new system*: the public component guarantees a basic pension and the private component pays a supplementary pension. The public component keeps the same characteristic but is reformed, while the private component has the same characteristics of Chile's except that its administration is multiple.

B. "Privatization" and the role of the State

The new system has been labelled "private" for lack of a better word, but that term is vague, politically loaded and does not fully explain the nature of that system. For instance, only half of the ten pension reforms have exclusive administration by private corporations, all of them within the substitutive model: Chile, Bolivia, El Salvador and Nicaragua (also Peru in the parallel private system). Conversely, in the parallel models of Colombia and Peru the public system is administered by social insurance; in the three mixed systems (Argentina, Uruguay and Costa Rica) there is a combination of public administration in the basic component and multiple administrators in the supplementary component; and both Colombia's parallel "private" system and Mexico's substitutive system have multiple administrators. The percentage of insured in the "private" system or component varies significantly among the countries: 100 per cent in Bolivia and Mexico, 97-99 per cent in Chile and El Salvador, 78-79 per cent in Argentina and Peru, and 49-50 per cent in Uruguay and Colombia (no data are available yet on Costa Rica and Nicaragua). Note that, with one exception, parallel and mixed systems rely on multiple types of management.

Furthermore, state intervention has proven to be essential for a proper functioning and sustainability of the system: (a) it is mandatory instead of voluntary; (b) it is strongly regulated by the State, as well as controlled, monitored and sanctioned by a supervisory public institution which is state-financed in several countries; (c) investment instruments are regulated and ranked by a public institution; and (d) the State provides heavy fiscal subsidies and certain guarantees, as explained below.

Reforms of the substitutive and parallel models generate three heavy fiscal costs: (a) the deficit in the public system which occurs because it is left without contributors or a minority of them, but with the burden of all current pensions and those that will be eventually granted to the insured who stayed in that system, the State finances such deficit in all countries; (b) the value of the contributions paid to the public system by all the insured who move to the private system (often called "recognition bond"), such value is annually adjusted to inflation and two countries pay also an interest rate (Colombia and Chile), the State is responsible for this cost in all countries except in Mexico and Uruguay (Peru has granted relatively few recognition bonds); and (c) a guaranteed minimum pension for all insured in the private system whose accumulated sum in the individual account is insufficient to finance such pension, the state is responsible for the difference in five countries, neither Bolivia nor Peru effectively grants this benefit. Under the mixed model, the public component may generate a deficit or not, but there is need neither for a recognition bond nor for a guaranteed minimum pension in the private component, because the insured stays in the public component which pays a basic pension. Additional state guarantees and benefits are: (a) a social assistance pension to poor non-insured workers (in Argentina, Chile, Costa Rica and Uruguay); (b) adjustment of pensions to inflation including the minimum pension; (c) a minimum annual yield of the investment in case that the administrator's funds are insufficient to pay it; and (d) payment of pensions in case administrators go bankrupt and their insured and pensioners are left without protection (in Argentina, Chile, Colombia and Uruguay).

C. Freedom of choice

A key objective of the reform is to break the public system monopoly and grant freedom to the insured to select the system, choose administrators and change them; and yet those freedoms are occasionally denied altogether or significantly restricted. For instance, those insured at the time of the reform in Bolivia and Mexico did not have a choice to stay in the public system, but all of them were mandatorily moved to the private system. Furthermore, in Bolivia the Government divided the insured between the only two existing administrators, based on their domicile, and prohibited switching between the two except in the case of a change in domicile. With two exceptions, all new entrants into the labour force who are covered must join the "private" or mixed system. In three countries (El Salvador, Nicaragua and Uruguay) the insured at the time of the reform was divided by age and only the younger had an option to stay in the public system. Argentina and Colombia offer maximum freedom because both the insured at the time of the reform and the new entrants in the labour force can select between the public and private/mixed systems and change among them. Within the private system or component, the freedom to change administrators is limited to one or two per year in six countries. Finally, the insured cannot select investment instruments or the profile of his/her portfolio as these are decided by the administrators, and at the time of retirement the insured cannot withdraw the sum in his/her individual account but only choose among three options: an annuity, a programmed pension or a combination of both.

III. The outcome of the reform in Latin America

Reforms have been in operation for almost two decades in Chile and from three to seven years in another seven countries (they have just begun in two), therefore, it is important and feasible to evaluate their performance on the following crucial aspects: contributions, coverage of the labour force and gender discrimination, competition and administrative costs, capital accumulation and investment yields, and impact on capital markets and national savings.

A. Elimination of the employer contribution and increase in the insured contribution

Pension systems are financed mainly by payroll contributions imposed on employers and insured workers (prior to the reform, the employer share averaged three times the worker share), but there is an unsolved debate on whether employers actually pay their contributions or transfer them to their workers or to consumers. Chilean reformers and the World Bank allege that employers indeed pay their contributions and, to eliminate or reduce them, substitute capital for labour, hence, decreasing job creation; this argument was used in Chile, Bolivia and Peru to eliminate the employer contribution. And yet, if there is a transfer of contributions there should not be any adverse impact on employment; this argument, combined with constitutional principles and strong opposition from workers and unions, led four countries to leave the employer contribution untouched (Argentina, Costa Rica, El Salvador and Mexico) and one to slightly reduce it (Uruguay), while three increased it (Colombia, Costa Rica and Nicaragua). Conversely, the insured contribution was raised in six countries (Bolivia, Colombia, El Salvador, Nicaragua, Peru and Uruguay), and kept unchanged in three (Argentina, Costa Rica and Mexico). The financial burden of the reform, therefore, has been shifted in most countries from the employer to the insured, and the elimination of the employer contribution has led to an increase either of the insured contribution or the fiscal subsidy.

B. Decline in protection of the labour force and gender discrimination

Prior to the reform, the percentage of pension coverage of the labour force was positively correlated with the level of development, particularly with the size of the formal, salaried sector. The most developed countries had the largest formal sector and the highest coverage, while the least developed had the largest informal sector (self-employed, domestic servants, employees of micro-enterprises, unpaid family workers, temporary workers), as well as agricultural labour force and, because all these groups were excluded, their labour force coverage was the smallest. The ten countries with pension reform, divided into the three groups identified already, exhibited the following percentages of coverage: pioneers (Argentina, Chile and Uruguay, as well as Costa Rica) from 70 per cent to 80 per cent; intermediates (Colombia, Mexico and Peru) from 32 per cent to 44 per cent; and latecomers (Bolivia, El Salvador and Nicaragua) from 12 per cent to 23 per cent.

The percentage of the labour force covered after the reform has been estimated based on two different numbers: (a) *affiliates*, all those who have join the system at some point in their working lives, and (b) *active contributors*, the affiliates who contribute regularly to the system; the former is considerably higher than the latter. At the end of 1998, the resulting percentages based on the two estimates were: 72 per cent and 66 per cent in Uruguay; 109 per cent (statistically impossible)[1] and 59 per cent in Chile; 63 per cent and 30 per cent in Argentina; 44 per cent and 23 per cent in Colombia; 36 per cent and 23 per cent in Mexico; 29 per cent and 20 per cent in El Salvador; 26 per cent and 13 per cent in Peru; and 13 per cent in Bolivia (no data on active contributors). Estimates on affiliates before and after the reform indicate a decline in coverage in four countries; exceptions being Uruguay and El Salvador (no significant change) and Chile and Colombia (an increase, but of doubtful magnitude in the former). Estimates of coverage based on active insured cannot be compared with data prior to the reform but they are significantly lower than those based on affiliates; a main reason is that only an average of 55 per cent of the affiliates are active contributors (ranging from 46 per cent in Argentina to 65 per cent in Uruguay); the increase in insured contributions could be a contributing factor.

The decline in coverage of the formal labour force is probably an outcome of both the increasing trend of the informal sector in the region and "flexibilization" of the labor force as a result of globalization. This problem raises concern on four important issues: (a) social security must adapt to changes in the labour market to maintain current coverage of the formal sector and design new ways to cover the informal sector, part-time workers and other unprotected jobs; (b) the worsening protection of the poor in view of a rising poverty incidence and very few countries that provide social assistance pensions and, even in those, pensions being insufficient to cover basic needs; and (c) the very small proportion of social security expenditures and GDP which are allocated to social assistance pensions and subsidies for special low-income groups to join the system.

Female insured often receive lower pensions than their male counterparts, for three reasons: (a) women's salaries are usually lower than men's in the same job; (b) female insured density of contributions are also lower than male because of pregnancy and temporary absence from the labour force to child rearing; and (c) the age of retirement of female insured is often five years lower than male in Latin America, but the former tend to live an average of four years longer. Public systems may partly correct these problems due to internal solidarity and male-to-female transfers, but private pension systems leave that discrimination untouched.

C. Inadequate competition and high administrative costs

A fundamental objective of structural pension reform is to secure adequate competition among administrators of private systems, because it is essential to improve efficiency and reduce managerial costs. Theoretically, administrators compete for the insured and these have proper information to select the best, based on the payment of the highest investment yield and the lowest commissions charged for their services. Latin American data indicate, however, that competition is not working properly. The eight pension reforms demonstrate that the higher the number of insured, the higher the number of administrators, and vice versa, as follows: Mexico has 14 million of insured and 14 administrators; Argentina 8 million and 13; Chile 6 million and 8; Colombia 3 million and 6 (but it has multiple types of administrators, which facilitate entry); Peru 2 million and 5; El Salvador 670,000 and 2; and Bolivia 492,000 and 2 (recall that in Bolivia the insured was assigned by the Government between the two according to domicile and cannot choose between them, so there is no competition but a duopoly).

Furthermore, there is a significant concentration of insured in the biggest three administrators: 100 per cent in Bolivia and in El Salvador; 78-85 per cent in Chile[2] and Peru; 69-70 per cent in Uruguay and Colombia; 54 per cent in Argentina; and 45 per cent in Mexico, which sets a maximum of 17 per cent to each administrator. Concentration would not be bad if the biggest three administrators were also the best, but studies conducted in Chile and Colombia show that those three have not, systematically through time, charged the lowest commission and paid the highest investment yield. If they are not the best, then why do the insured select them? The reasons are: (a) the work of salesmen who earn a commission for every insured they switch to one of those administrators (in Chile there were 19,000 salesmen in 1998, a ratio of one for 160 active contributors); (b) gifts and other treats given to the insured as an incentive to move; (c) lack of insured information and / or skills to make educated decisions on the selection of the best administrators; and (d) huge advertisement which is essentially symbolic and does not provide data on performance.

If competition does not work properly then managerial costs should not decline – a conclusion supported by data from nine countries. The commission, exclusively paid by the insured and usually imposed on the salary is: 4.1 per cent in Mexico; 3.8-4.0 per cent in Peru, Colombia, Argentina, El Salvador and Nicaragua; and 2.6-3.5 per cent in Uruguay, Chile and Bolivia. The commission is divided into two components: the charge by the administrator for handling the old-age individual account, which is the major component and shows significant oscillation but little or no reduction; and the premium transferred by the administrator to a commercial insurance company to cover disability and survivors' risks, which is the minor component and exhibits a declining trend. The combination of the two trends results in a stagnant commission or very little reduction. The heavy administrative burden on the insured can be assessed by the percentages of wages that go to the commission over the total discount (commission plus deposit in the individual account): 32-39 per cent in Peru, Argentina, El Salvador and Mexico; 26-30 per cent in Colombia, Chile and Bolivia; and 17.5 per cent in Uruguay.

D. High capital accumulation and investment yield but with caveats

Supporters of the reform (including the World Bank) argue that it generates a virtuous cycle in the economy: increase in capital accumulation, which leads to a rise in investment in the capital market, which develops such market and promotes portfolio diversification, which boosts investment yields, which generates an increase in national saving and higher growth. Data from eight countries do support a few of those assumptions but reject most of them.

There has been significant capital accumulation in the pension funds; in US million dollars and percentages of GDP in 1998-1999 they respectively are: $33,616 and 52 per cent in Chile; $16,787 and 5.6 per cent in Argentina; $8,300 and 2.5 per cent in Mexico; $2,925 and 2.3 per cent in Colombia; $2,274 and 2.5 per cent in Peru; $472 and 4 per cent in Bolivia; $591 and 3.5 per cent in Uruguay; and $211 and 1.7 per cent in El Salvador. Variations among countries are not only the result of better investment but of other factors also: the time the reform has been in operation (almost 20 years in Chile but two years in El Salvador); the development of the capital market and the size of the insured market and GDP; and the salary level, the amount deposited in the individual accounts, and the investment yield.

Annual real average yields, from the start of the reform until the end of 1998 or 1999, have been fairly high also: 13 per cent in Argentina; 11 per cent in Chile; 10 per cent in Colombia; 8 per cent in Mexico; and 7.5 per cent in Bolivia, Peru and Uruguay. But those yields should be interpreted with some caveats: (a) they are gross and the high administrative costs should be deducted to obtain the net yields; (b) all systems, except Chile, began to operate in the 1990s when international markets generated very high yields; (c) the average yield prior to 1995 was considerably higher, the regional crises of 1995 and 1997-1998 reduced the yield considerably.[3] The latter means that the oscillations of the capital market can generate quite different pensions in times of boom or bust (the so-called "stock market roulette"), thus in Chile, an insured who entered the system in the 1980s will have a significantly higher pension that one who joined later.

E. No evidence of development of capital market and national saving

Two studies conducted on Chile, the country with the longest reform in operation, have tested the assumptions that the reform promotes both the development of the capital market and national saving, with negative or inconclusive results. The first study, commissioned and published by the IMF, concluded that: (a) the empirical evidence *coincided* with the claim that the pension reform had contributed to capital market development, but cautioned that such results did not establish watertight proof that the reform had been the decisive factor in that outcome (other factors might have played the key role); and (b) the assumed positive impact of the reform on national saving was doubtful at best, hence, the reigning optimism in Latin America and Eastern Europe, which view pension reform as an easy vehicle to boost national saving and growth, is unfounded. The second study, by a high official of the Ministry of Finance in Chile, demonstrated that the *net* effect of the pension reform on national saving was negative: in 1981-1996, the annual average saving in the individual accounts was 2.7 per cent of GDP, but the fiscal cost was -5.7 per cent, therefore resulting in a negative net outcome of -2.6 per cent of GDP.

IV. The debate on pension reform in the United States

The US social security pension scheme has undergone "parametric" reforms over the years (increasing the contribution percentage and the ceiling, as well as the retirement age from 65 to 67). These changes will keep the system in balance until 2037 when the surplus will turn into a deficit, projected to reach US$1.7 billion by 2050. A declining active to passive ratio will be a cause of that deficit: when the current generation of "baby boomers" (who have fewer children and will live longer than previous generations) retire, they will stop contributing and start collecting pensions for a longer period of time. During the 2000 presidential election, there was a heated debate in which George W. Bush advocated a drastic reform while Al Gore pledge to avoid it, but both promised not to raise further the contributions and retirement age.

Former Vice-President Gore proposed a modest and discriminated tax cut, as well as an allocation of US$3.5 billion of the projected budget surpluses over the next 12 years to pay the entire national debt, then put into the fund the resulting annual savings in interest payments, which would extend the fund solvency for 17 years. In addition, workers earning less than US$100,000 annually would be able to open voluntary savings accounts with a matching amount deductible from taxes to build a supplementary pension. Critics noted that, if budgetary surpluses do not materialize, the Government would have to pay the deficit and either increase income taxes or raise social security contributions or cut pensions, and that the plan would only postpone the impending deficit but not solve it (these problems, however, would be aggravated under the Bush proposal).

President Bush, partly inspired by the Latin American reforms, propose to allocate half of the social security fund surplus (US$1 billion) to give young workers the choice to divert one sixth of their contributions to private individual accounts and invest that money in stocks and bonds; if the capital market continues it historical rate of 7 per cent annually, future pensions should be higher that current ones. Critics of this proposal note three flaws in it: withdrawing half of the surplus from the fund will generate a deficit 14 years earlier than anticipated; the price of managing millions of individual accounts will be huge (recall the Latin American case); and workers who retire on recession years will have a much lower pension than those who retire in boom years.[4] Finally, the proposal would cut taxes by US$1.6 billion, increasing the national debt and reducing fiscal resources to cope with the deficit when it surges earlier. Mr. Bush was elected by a very small margin and losing the popular vote; furthermore, the Senate was split exactly half and half between Republicans and Democrats. Although in his first speech as president-elect Mr. Bush ratified his original reform proposal, some prominent Republicans have publicly expressed reservations on the feasibility of such a plan and suggested instead partial reforms that could count with bipartisan support in Congress.

According to actuaries, to achieve long run solvency of the pension programme, the retirement age will have to be gradually raised (from 67 to 70), as well as the contribution ceiling (which will have a more progressive impact on distribution than a raise in the percentage contribution); otherwise the benefits will have to be cut, through a tougher calculation formula, lower pensions or less generous adjustment to inflation. Some or all of these changes have been introduced in most Latin American reforms.

V. Lessons for workers and unions

1. Demography seems to be inexorable in the long run, although nations with younger schemes and populations have more time than those that are older in both. Parametric changes can prolong the period of equilibrium but not indefinitely.

2. Privatization is a vague term that needs precision and it is not a panacea; furthermore, it would require a crucial role of the State both in terms of regulation-supervision and paying the heavy triple costs of the reform. Alleged freedom of choice among insured does not exist or has been drastically reduced in some countries.

3. The Latin American reform experience shows that: the elimination of the employer contribution has resulted in either a heavier burden on workers or higher fiscal subsidies; labour force coverage has declined; the lack of solidarity leads to lower pensions for women;

competition is inadequate and administrative costs are very high and have not declined significantly. Conversely, capital accumulation and investment yields have been high, although both show significant variation among countries and the yield must be carefully interpreted with several caveats. There is no evidence that the reform has led in Chile to a development of the capital market, but there is proof that it has resulted in a negative impact on national saving.

4. There is no single universal model of reform; three general models have evolved in Latin America and the ten countries have adapted them to their peculiarities and needs. This experience and the debate in the United States indicate that some sacrifices must be made, either on the contribution or the benefit side or both, in order to achieve long-term equilibrium of the system.

Notes

[1] Besides being impossible to have more than 100 per cent covered, that figure does not include 3 per cent of the labour force covered by the public system and 3 per cent by the armed forces, plus 23 per cent uninsured.

[2] Concentration in Chile steadily increased from 59 per cent to 78 per cent in the period 1983-1999.

[3] The Chilean annual yield in 1981-94 was 13.8 per cent, but in the period 1995-99 it was 2.6 per cent due to negative yields in 1995 (-2.5 per cent) and in 1998 (-1.1 per cent), resulting in an average of 10.1 per cent for the entire period.

[4] To cope with the “stock market roulette”, the plan calls for a guaranteed minimum pension, but it will aggravate the deficit.

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