ISSUES IN SOCIAL PROTECTION

Discussion Paper 18

The Right to Social Security and National Development: Lessons from OECD experience for low-income countries

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Foreword

This discussion paper series was conceived as a market place of ideas where social protection professionals could air and exchange views on specific issues in their field. Topics may range from highly technical aspects of quantitative analysis to aspects of social protection planning, governance and politics. Authors may be staff of the ILO or independent experts; principally, they have something to say on the subject of social protection and are not afraid to speak their minds. All of them contribute to this series in a personal capacity, not as representatives of the organizations they belong to. The views expressed here are thus entirely personal, and do not necessarily reflect the views of the ILO or other organizations. The only quality requirements are that the papers either fill a gap in our understanding of the functioning of national social protection or add an interesting aspect to the policy debates.

The ILO believes that a worldwide search for a better design and management of social protection is a permanent process that can only be advanced by a frank exchange of ideas. It is hoped that this series may be a contribution to that process and to the publicizing of new ideas or new objectives. It thus contributes to the promotion of social security which is a core mandate of the International Labour Organization.

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Executive summary

Mounting acceptance throughout the world of human rights puts pressure on all countries to re-cast development policies and eliminate poverty. Human Rights have come to play a central part in discussions about economic and social development, and the great majority of governments in the world have ratified the various instruments. This report traces the divergent historical experience in "developed" and "developing" countries of putting into practice the fundamental rights to social security, including social insurance, and an "adequate" standard of living. The rights are enshrined in Articles 22 and 25 of the Universal Declaration of Human Rights; 9 and 11 of the International Covenant on Economic, Social and Cultural Rights; and 26 and 27 of the Convention on the Rights of the Child.

The impact of social security systems in the OECD countries over more than a hundred years best illustrates the gathering importance of these rights.

The two rights to social security and an adequate standard of living that are specified in various Conventions and Charters have not been routinely investigated during a long period of intensifying world concern about the persistence of large-scale extreme poverty. Thus, they were not regarded as a necessary element of the discussions of structural adjustment policies and then the Social Fund in the 1980s and 1990s, in the fraught regions of Sub-Saharan Africa, Latin America, South Asia and Eastern Europe, nor later at the time of the introduction by the UN of the Millennium Development Goals. The international financial agencies focussed attention on targeting and short-term means-tested benefits at least expense rather than also, or instead of, minimal living standards for all. This mistake was compounded by an over-generalised, ambiguous and undirected international anti-poverty strategy — concerned in the broadest and most indirect terms with economic growth, overseas aid, debt relief and fairer trade. Whether there was "trickle down" or even proportionate benefits derived by the poorest sections of population was not precisely investigated and monitored.

In more than three decades economic development policies advocated by the international financial agencies and leading governments have not incorporated sufficient information and direction about the course of corresponding, not to say consequential, social development. Policies designed to establish and invigorate universal public social services and social security payments came to be treated as aberrations of the past rather than as institutions as necessary to the future as to the past. Attempts to restrain and roll back social security were made with too little understanding of the accumulating historical impetus in all OECD countries of its elaborate institutions and multiple functions. This report reviews that history.

Since 2000 the strengths of comprehensive or universal public social services and social protection or security payments have begun to be recognised, partly at the instigation of international organisations such as the ILO and UNICEF. Recognition of the strengths in particular of (i) contributory social insurance and (ii) tax-financed group benefits on behalf of children, disabled people and the elderly, may follow. These two types of benefit — long-established in OECD countries — are "universalistic" measures; they are not "selective" or discriminatory on test of means. Once these two can be recognised cross-nationally the urgent re-formulation of development policies to reduce poverty may be welcomed — and bring tangible success.

The strength of a universalistic, human rights, approach to social security, is in turning to future advantage what, after extraordinary struggle, proved to be a highly successful strategy in the past. Working people responded to extreme individual need by combining in collective interest to contribute creatively to economic development and the alleviation of the poverty of others in their midst, and contributory social insurance and group benefit schemes turned out to be favoured instruments. Collective protest and action led to the social good — often by the extension of the ideas of representative democracy and citizen participation.

Human rights to social security and an adequate standard of living have today put these ideas on the international stage. Poverty can be reduced more emphatically by universalistic measures that also improve social relationships. For example, social security systems help coalitions to be built between groups in society of a more varied kind, say, than those representing familiar ethnic or religious divisions. Again, social security systems have created and continue to create crosscutting and three generational social identities and have moderated multiple forms of discrimination and social inequality. Nationalism re-interpreted as universalism re-enforces good multi-cultural and multi-generational values that promote stability.

The lessons of the review of social security in OECD countries in this report can be summarised here for the convenience of readers:

- In aiming to reduce poverty, establish basic social services and meet individual adversity, OECD countries have come to spend an average of one eighth (12.6 per cent) of their GDP on public social security cash benefits, and altogether more than a fifth (20.9 per cent) on public social services and social security, excluding education. This has been, and remains, an emphatic endorsement of redistribution of national income in the social good;
- All member countries of the OECD have substantially lower rates of poverty as a consequence, whatever type of system or level of redistribution individual governments, including the US and the UK, have introduced;
- Member countries with higher levels of spending have lower rates of poverty and inequality than those with lower levels of spending;
- Some member countries industrialised first and, during their "development" to their present conditions of prosperity, they steadily increased the percentage of national income invested annually in universal social services and social security;
- With fluctuations their economies have continued to grow;
- Evidence that lower spending by OECD governments on social services and social security promotes higher economic growth is not conclusive. For selected groups of high- and low-spending member countries, and for selected recent historical periods of ten years or more, the reverse can be demonstrated;
- The evidence from the OECD countries shows that substantial social security spending, i.e., more than a sixth of GDP, is often consistent with above-average economic growth;
- Despite pressures to reduce social spending and fluctuations among certain members the proportion of national income, that is percent of GDP, devoted to public social expenditure, and social protection or social security in particular has continued to increase in the OECD as a whole in recent years, though more slowly;
- Such historically constructed investments in redistribution dwarf the percentages of national income committed by the developing countries to the public social services and to social security and pose critical questions about discrimination between countries as well as within countries. The international agencies and the richest governments are today part of the cause of mass poverty in the world — as surely as they also possess the means of providing most of the answer;
- Every country has exceptional features. Nonetheless there is support on grounds of economic and social performance for a classification into three models, represented in this report by Norway ("Nordic" or "Social Democratic"); Germany ("Corporatist") and the United States and the United Kingdom ("Liberal" or "Residual");
- Poverty and inequality rates are smallest in the first of these three models and largest in the third. The evidence about economic performance is less conclusive. In all three models comprehensive social insurance and tax-financed group schemes covering everyone in certain population categories (such as elderly, disabled, children) account for much more than half the expenditure, and means-tested social assistance for the smaller part of expenditure in nearly all OECD countries;
- Comprehensive social insurance and tax-financed benefit schemes for entire social groups account for between three-fifths and two-thirds of the costs of schemes in the OECD to redistribute income to reduce poverty. And for the three principal social groups who benefit — children, disabled and elderly — these can therefore be regarded as the "bedrock" measures in social security systems everywhere.

- Means-tested social assistance and tax credit schemes account for around one-third of OECD social security costs and have well-testified social and administrative disadvantages. Social scientists have shown that the more conditional and even punitive forms of selective social assistance are counter-productive for social cohesion, well-being and productivity;
- Therefore social security schemes involving entire populations and categories of the population like young children and disabled people in developing countries, i.e. social insurance and tax-financed "universal" group schemes, deserve priority, even if for reasons of limited resources they have to be phased in by stages;
- Developing countries experience conditions very different from those that applied in the 19^{th} and 20^{th} centuries to the original OECD members. Countries like Germany, England and the United States were not subject to the domination of much more powerful external governments, agencies and corporations. International taxation and not just national taxation to finance social security in developing countries is therefore at issue;
- If developing countries are to adopt a contribution-based or group tax-based system of social security two new facts have to be recognised: (1) that because of population movements and interchanges the systems will have to be brought step by step into greater conformity with systems in the industrialised countries, and this includes social insurance, tax-financed benefits and social assistance; (2) that the current influence of the TNCs and big powers over local economies and populations in the global market has to be matched by international tax-revenue and employer contributions raised for particular groups in those countries. Sources of international revenue will have to augment the meagre resources from national revenues available to the governments of developing countries in today's global market. International social security is coming to stay.

The main recommendations of the report are:

(1) Turning research into action: To cross-national research to identify social insurance and group tax-financed schemes in the OECD countries that have worked best in relation to their economic and social development. This can show how their key principles and mechanisms might be applied by stages to the emerging institutions of developing countries, with tax contributions from industrialised countries, to reduce poverty quickly. Also research is needed with the developing countries themselves to review how their own schemes for social protection can be most quickly extended;

(2) Universal coverage: To extend agreements by governments to give greatest weight to "universal" contributory social insurance and tax-financed group benefits in constructing social security systems to defeat poverty. Contribution-based social insurance depends on revenue willingly provided from wages by employers and employees to earn entitlement to individual and family benefits in adversity, including unemployment, sickness, disability, bereavement and retirement benefits. Tax-financed group schemes will be crucial for some groups unable to work, such as children, the severely disabled and the elderly of advanced age. Trans-national companies should play their part on behalf of sub-contracted labour in countries with which they trade. Similarly, Governments trading extensively with low-income countries must accept greater responsibility for the establishment and growth of social security in those countries. The need for a catching-up exercise and for more coherent international development has become urgent.

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1. Introduction

The introduction and confirmation of successive United Nations Charters and Conventions in the last half-century demonstrates the increasing acceptance of human rights as a basis for re-casting development policies. Human Rights have come to play a central part in discussions about economic and social development, and have been ratified by the great majority of governments in the world. This report traces events of recent decades in relation to the fundamental rights to social security, including social insurance, and an "adequate" standard of living (Articles 22 and 25 of the Universal Declaration of Human Rights; 9 and 11 of the International Covenant on Economic, Social and Cultural Rights; and 26 and 27 of the Convention on the Rights of the Child).

These rights have not been widely invoked during a long period of intensifying concern about the persistence of large-scale extreme poverty in the world and the formulation of the Millennium Development Goals. Thus, they were not regarded as a necessary element of the discussions around the structural adjustment policies and then the Social Fund in the 1980s and 1990s, in the fraught regions of Sub-Saharan Africa, Latin America, South Asia and Eastern Europe [1]. Attention was focussed by the international financial agencies on targeting and short-term means-tested benefits at least expense rather than also, or instead of, minimal living standards for all. This mistake was compounded by an over-generalised, ambiguous and undirected international anti-poverty strategy — concerned in the broadest and most indirect terms with economic growth, overseas aid, debt relief and fairer trade. Whether there was "trickle down" or even proportionate benefits derived by the poorest sections of population was not precisely investigated and monitored.

In their reports of the late 1990s and early 2000s the international agencies have begun to recognise the strengths of comprehensive or universal public social services and benefits, partly at the instigation of international organisations such as the ILO and UNICEF. Recognition of the strengths of social security for all, including social insurance, may follow. The urgent re-formulation of development policies to reduce poverty may then be welcomed — and may bring tangible success.

Attempts to restrain and roll back social security in the last three decades have been made with too little understanding of the accumulating historical impetus in all OECD countries of its elaborate institutions and multiple functions. This report has sought to review that history because of the critical contemporary need to establish an economic and social as well as political consensus about strategy. It is part of the answer to a wider question, expressed sharply by one writer: "How did the rich countries *really* become rich?" (Chang, 2003, p. 2). In looking back at the policies and institutions created and used it may be that egg shells have to be broken in this process.

The task is not just to re-introduce a successful historical model. It is to re-shape that model to meet new problems as well as problems that have been familiar for generations. The strength of a universalistic approach in social security, coincident with human rights, is in building coalitions between groups in society of a more varied kind, say, than those representing familiar ethnic or religious divisions. Social security systems have created cross-cutting and three generational social identities and have moderated multiple forms of discrimination. Shrewdly interpreted, universalism can encompass rights by gender, race, ethnicity, age and disability and give nationalism a stronger edge both in negotiating with outside powers and withstanding international shocks.

[1] See the extended discussion in Townsend and Gordon, 2002, chapters 1 and 17 but especially 8 and 9. "The structural adjustment policies pursued in most developing countries have often contributed to a decline in the small percentage of the working population in the formal sector. The successive waves of structural adjustment programmes have also led to wage cuts in the public and private sectors, thereby eroding the financial base of statutory social insurance schemes. ... [The programmes have] often resulted in severe cuts in social budgets" (ILO, 2001, p. 34).

Although the case for rolling back social security is far weaker than believed by many mainstream contemporary economists, the promotion of their case for cuts, particularly in contributory social insurance, has faltered, largely because of persisting severe world poverty and growing social inequalities; and disturbing evidence of the inconclusive, at best, and negative, at worst, outcomes of the current international anti-poverty policies. The restoration of the social contract is becoming urgent. That contract must take a new form, but one that invokes the institutions that have served many countries so well in the past. Plans for the future of social security have to be compatible with cost controls and economic efficiency in a multi-national world. The human rights and social identity of social security has to be extended at the same time.

The momentum of international agencies, trans-national corporations and the global market compels modernisation and a realistic extension of social security, including social insurance. Movement of labour and population between countries, delegating work from a headquarters country to sub-contracted labour in 50 or 100 countries, brokering new social relations and healing divisions, demands corresponding flexibility in those institutions that embody universal values of non-discriminatory support and security.

It is now widely accepted that the MDGs adopted with world acclaim in 2000 have small likelihood of being fulfilled by the intended year 2015. At current rates of progress, some of the goals are not going to be met for more than 100, or 150, years (Wolfensohn and Brown, 2004). Table 1 provides one, conventional, illustration of trends, drawing on World Bank data. According to these figures there has been progress in reducing poverty, though better proportionately than in reducing absolute population numbers. In the 14 years to 2001 numbers in “dollar-a-day” poverty declined by less than 100 million. On previously published data from the World Bank absolute numbers, excluding China, had increased by more than 100 millions between 1987 and 1998 (Townsend and Gordon, 2002, p. 363).

Table 1: Population living below $1.08 per day at 1993 PPP (World Bank)

Region	Percentage of population in households consuming less than the poverty line		Number of poor (in millions)	
	1987	2001	1987	2001
East Asia	26.6	14.9	418	271
Eastern Europe and Central Asia	0.2	3.5	1	16
Latin America and Caribbean	15.3	10.0	64	52
Middle East and North Africa	4.3	2.4	9	7
South Asia	44.9	31.9	474	439
Sub-Saharan Africa	46.6	46.4	217	312
Total	28.3	21.3	1183	1098

Source: For 1987, Townsend and Gordon, 2002, p. 363, drawing on Chen and Ravallion, World Bank Development Research Group, 2001, Table 2; and for 2001 Kakwani and Son, 2006, Table 2.

However, World Bank data showing progress are no longer acceptable. There has been swelling criticism of the Bank’s measurement of poverty, casting doubt on the estimates reproduced in Table 1 (Pogge and Reddy, 2003; Reddy and Pogge, 2001; Wade, 2004; Townsend and Gordon, 2002).

There are two major scientific issues in reaching a conclusion about trends. One is the technical issue of updating the poverty line from year to year, *and* translating that poverty line into the equivalent purchasing power (or cost of consumable goods and services) in the currency of each particular country. A new research study on the updating of the poverty line has brought a number of the cogent criticisms of the last two decades into sharp focus, arguing that the World Bank’s poverty line was lowered from 1993, when the former roughly devised 1985 poverty line of $1.00 per person per day was pitched questionably at $1.08 per person per day, instead of a more representative and much higher figure, estimated at UNDP’s International Poverty Centre recently to be $1.50 (Kakwani and Son, 2006). For 2001 Table 2 shows what a big increase there is in world poverty when \$1.50 rather than \$1.08 is treated as the correct baseline for 1993 and subsequent years [2]. Absolute poverty in the world becomes 36% and not 21% in 2001 — raising the population numbers by 800 millions to little short of 2 billions.

Table 2: Population living below \$1.08 per day and \$1.50 per day at 1993 PPP in 2001

Regions	Percentage of poor		Number of poor (millions)	
	World Bank (\$1.08))	IPC (\$1.50)	World Bank (\$1.08)	IPC \$1.50)
East Asia	14.9	28.5	271	520
Eastern Europe and Central Asia	3.5	8.6	16	41
Latin America and Caribbean	10.0	15.7	52	82
Middle East and North Africa	2.4	9.0	7	27
South Asia	31.9	56.6	439	779
Sub-Saharan Africa	46.4	61.8	312	417
Total	21.3	36.1	1098	1865

Source: Kakwani and Son, 2006, Table 2. They reproduced World Bank estimates based on \$1.08 per person per day, and then calculated estimates based on a poverty line of \$1.50 per person per day, i.e. the median of the poverty lines of 19 low-income countries in Africa and Asia in the 1990s.

The second scientific issue is the practice since 1985 of limiting the measure of a "poverty line" to material needs and not also to social needs — and adjusting that line in subsequent years not for changing needs but only by applying a cost-of living index to a historically fixed list of consumables and services. In the 1990s the World Bank stated that two elements — material and social needs — had to be combined in the operational definition and measurement of poverty (See the discussion in Townsend and Gordon, 2002, pp. 358–367). Research to establish social needs was promised but not fulfilled (World Bank, 1990, p.26; and see also World Bank, 1993a, 1993b, 1996, 1997, 2000, and 2001). Subsequent measures were based only on fixed basic material needs. Therefore, according to the World Bank's own carefully chosen definition, the scale of world poverty must be under-estimated. By re-pricing only the cost of meeting the defined material needs of a base year rather than also calculating the changes in those needs, the trend from year to year in such scale of poverty must also be underestimated. Were orthodox measures of household and individual needs to be periodically up-dated to reflect changes in the customary norms of consumption and the roles and obligations being laid on citizens, workers and members of families, the scale of world poverty would be recognisably much more serious.

However, whether allegiance is paid to the orthodox World Bank estimates of the scale of poverty, or to the different, more dismaying, estimates based upon the material and social needs of populations swept along by contemporary market and other powerful social, economic and political forces, the slow progress in reducing the vast extent of poverty, and dealing with the remorseless increase in levels of world inequality, is now generally agreed to be unacceptable. The anti-poverty policies of the 1980s and 1990s have been unsuccessful. New national and international anti-poverty policies have to be substituted, or added, as a matter of urgency.

The biggest and most practicable contribution to a solution rests in social security. Social security developments in the context of growing commitments to human rights in the last 50 years deserve examination. Has the process of introduction and consolidation of systems of social security continued, among other effects, to substantially reduce poverty nationally? The public argument for and about social security has existed for many years but has been virtually dormant since 1980. The right to social security was expressly included in formal declarations of human rights by the great majority of countries from

[2] The choice of \$1.08 reflected the median of the 10 *lowest* poverty lines among a sample of 33 countries. In 2006, independent examination of the national poverty lines of 19 low-income countries (15 in Sub-Saharan Africa and 4 in Asia, including India) constructed in the mid-and late-1990s, produced a different median figure of \$1.50 (Kakwani and Son, 2006, p. 6).

1948 onwards. It formed part of the Universal Declaration of Human Rights in 1948. It was included in the International Covenant on Economic, Social and Cultural Rights in 1966 and the Convention on the Rights of the Child in 1989, coming into force respectively in 1976 and 1990. It became the documented spur for early statistical handbooks on development (e.g. Russett et al., 1964). It has also formed a basis of more enlightened appeals for action to reduce poverty.

Three steps in formulating a new approach might therefore be proposed: to (i) explain how human rights, and especially the right to social security, have been re-iterated and expanded in legal and quasi-legal form in the last 50 or 60 years; (ii) show broadly how social security systems of considerable scope and scale were established by the OECD countries and whether the history and structure of those systems, especially in relation to economic growth, hold any lessons for current development policies; and (iii) describe in what respects early attempts in the developing countries to institutionalise social security do or do not, and perhaps cannot, resemble the pathways to the reduction of poverty through the establishment of systems of social security taken in the history of the OECD countries.

2. The fundamental right to social security

International human rights instruments provide a legal framework for strategies to reduce poverty:

> "A rights-based approach allows links to be made between otherwise disparate issues and gives legal weight and content to many of the concepts that are traditionally seen and analysed in terms of development, management and welfare. It thus moves away from the instrumentalist and utilitarian language of development economists to that of the entitlements and obligations enshrined within the formal legal system, while retaining the moral authority which other approaches lack" (Chinkin, 2001, p. 564).

One corollary of this argument about entitlement and obligation is to move away from state-oriented international law to international law concerned equally with the rights of individuals and with "the responsibility of states and other international actors" (Chinkin, ibid, p. 564).

Social security systems were established in all OECD countries and the history of the process of establishing human rights has much to offer the framing of current and prospective anti-poverty policies in the developing countries. The rights were expressed first in the Universal Declaration of Human Rights but later repeated, with particular reference to social insurance as part of social security, in later instruments, such as the International Covenant on Economic, Social and Cultural Rights and the Convention on the Rights of the Child (see Figure 1). In the last two decades public discussion of world poverty has been increasingly related to violations of, and future fulfilment of, human rights (see for example, UN, 1995 and 1997; UNDP, 1998a; 1998b, 2000, 2004; UNICEF, 2004; Commonwealth Human Rights Initiative (CHRI), 2001, Townsend, 2004b).

The apparent correlation between a lack of progress on the MDGs and levels of spending on social security in the developing countries that have remained very low may not be coincidental. Substantial ongoing social security investments in the OECD countries contrast vividly with slow or non-existent progress in creating social security in poor countries. Eighty per cent of people worldwide still do not have access to adequate social security yet a small percentage of GDP (say 5–10 per cent for each population) would be sufficient in development programmes to provide everyone with a minimum standard of social security. Thus the right to social security was taken for granted in early formulations of development programmes (e.g. in modernisation theories of the 1950s and 1960s).

Figure 1: **The rights to social security and an adequate standard of living**

Authority	Social security	Adequate living standard
Universal Declaration of Human Rights (1948)	**Article 22** — Everyone, as a member of society, has the right to social security and is entitled to realisation, through national effort and international co-operation and in accordance with the organisation and resources of each state, of the economic, social and cultural rights indispensable for their dignity and the free development of their personality.	**Article 25(1)** — Everyone has the right to a standard of living adequate for the health and well-being of their family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond their control.
International Covenant on Economic, Social and Cultural Rights (1966- came into force 1976)	**Article 9 —** The States Parties to the present Covenant recognise the right of everyone to social security, **including social insurance**.	**Article 11 (1) —** The States Parties to the present Covenant recognise the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing and housing, and to the continuous improvement of living conditions.
Convention on the Rights of the Child (1989)	**Article 26(l)** — States parties shall recognise for every child the right to benefit from social security, **including social insurance**, and shall take the necessary measures to achieve the full realisation of this right in accordance with their national law.	**Article 27 (l)** — States parties recognise the right of every child to a standard of living adequate for the child's physical, mental, spiritual, moral and social development. **Article 27 (3)** — … and shall in case of need provide material assistance and support programmes, particularly with regard to nutrition, clothing and housing.

From the 1980s to the 2000s the objectives of the international financial agencies were to advise cuts in public expenditure and encourage privatisation, using low-cost targeted welfare sparingly in substitution of basic social security and services for all. In the middle of the first decade of the millennium there have been, as noted earlier, signs of change. The latest positive sign of a change of mood is the circulation of advanced drafts by the Committee on Economic, Social and Cultural Rights of its proposed General Comment No. 20 *The Right to Social Security (article 9)*, 16 February 2006. Among the listed obligations of States Parties to fulfil the right to social security are steps to legislate and adopt a social security strategy that include, for example, "establishing a contribution-based social security system or a legislative framework that will permit the incorporation of the informal sector" (Committee on Economic, Social and Cultural Rights 2006, para. 37). This re-enforces the value for development in the low-income countries of the earlier history of the establishment of social security systems in the industrialised countries.

3. Social insurance as a key component of social security

Long-established public social security systems generally have three components. Although many countries have developed a varied mix of the three, they have to be distinguished routinely to reach scientific conclusions about social functions and outcomes as well as desirability. The three are (i) Broadly universal social insurance programmes that collect flat-rate or percentage contributions on income from employment of all insured persons and their employers in a contractual exchange for benefits as of right for those insured and for their dependants (accounting for three-fifths or more of total social security expenditure in the member states of the European Union — see Table 8 below); (ii) Broadly universal tax-financed benefit schemes, usually flat-rate, for all residents of a particular social category determined by age, disability or other qualifying condition — such as benefits for all children, all disabled people, or all people of a particular age, for example above 70 or 75; and (iii) Social assistance schemes only for those qualifying on test of means, that provide minimum benefits or income, and now include tax-credit schemes directed at low-income households.

In general, social security in most if not all OECD countries began as fragmented, grudging means-tested social assistance and evolved, because of discriminatory selection of beneficiaries, meagre level of benefits and poor coverage of those theoretically entitled to assistance, into a predominantly social insurance based system. This provided protection to the unemployed, sick, disabled and elderly, and their dependants, and constituted a springboard back into paid employment. The reason for social insurance overtaking social assistance was mass protest against social assistance, and the fact that the working-class were taking initiatives to fill the holes. There were growing demands for more extended and sufficient coverage of benefits for those experiencing severe adversity beyond their control. For technical reasons (marginal rates of tax, difficulties in defining eligibility operationally, and lack of specific conformity to issues of legal residence and identity) as well as public hostility, social assistance remained in many member countries a relatively small component of "welfare," smaller indeed than 5 per cent in some countries, such as Germany. From being regarded as the norm for most of the 19th century it came to be regarded in many countries in the mid and late 20th century as a kind of adjustable "top up" for exceptional need [3].

Social insurance was a compromise to achieve "affordability" and "acceptability" — built on charitable scruple, private insurance precedents, and hard-headed deals between government and employers. Pooling of risk was not just a huge benefit to people in paid work, but also to government and employers in resolving prospective disputes and the costs of settling individual and collective claims and the daunting extent of administering work forces. From the viewpoint of the insured the prospective benefits were better guaranteed, more predictable, and more directly participatory than alternative benefits financed by taxation. Fees and management costs were much lower in public than private insurance.

From the viewpoint of employers the cost of making national insurance contributions towards claims for lay-offs, sickness, disability and injury were eventually accepted as some of the necessary costs of manufacturing and services. The private insurance companies acquiesced because the poor were not a source of profitability. They were not attractive clients because the long history of doorstep industrial assurance showed that profits would be very thin and weekly contributions were always hard to extract. The companies expressed relief when government intervened and worked out an acceptable division of labour. From the viewpoint of government, social insurance was easier and much cheaper to administer than selective social assistance or private insurance, more complaints-proof, and of longer-term economic advantage in using surpluses in good times to ride recession and even depression when times got bad [4].

The preceding paragraphs distinguish the three key components of social security systems. Two of these — social insurance and tax-financed group benefits — are relevant to guaranteeing defined individual benefit and therefore the fundamental right to social security. However, none of the three can be usefully discussed without also distinguishing the corresponding forms of funding. How the funding of particular schemes is shared between individual, employer and government, and is worked out and agreed nationally is integral to the evaluation of different schemes.

The source and character of the revenue is equal in importance to the design and structure of benefits. The two cannot be disconnected. The revenue from the three types of contributor have varied and continue to vary from time to time and country to country — just as the adequacy of defined benefits continue to be questioned and changed. Effectiveness in achieving social and political aims can also vary — as illustrated in

[3] By 1960 expert analysts in the United States had come to agree that social assistance must play a "subordinate role" in relation to social insurance (Hohaus 1960, p. 79 and more generally Haber and Cohen 1960; and see examples for different countries of numerous research studies: Deacon and Bradshaw 1983; Oorschot 2002; Braithwaite et al. 2000, Eardley et al 1996a and 1996b, Huber 1996).

[4] This has led to claims about the "political" misuse of social insurance investment funds, e.g, the UK National Insurance Fund (see Lynes, 2006).

UNICEF research into government measures to reduce “market” poverty rates (UNICEF, 2006b, p. 455) [5]. Even if social insurance is regarded as a tax, it is a general kind of hypothecated tax that each population is more inclined to accept and support — certainly than general taxation. And it leaves much less to chance in government policy on taxation and the possibilities of manipulation and fraud.

The particular virtues of social insurance in contrast to tax-financed group benefits are that individuals have an incentive to register, that parts of the informal economy are consequently formalised, that individuals acquire more tangible citizenship, that individuals belonging to particular groups and categories of the population come to find that they share similar rights and treatments, and therefore have common interests but also common responsibilities in registering and paying their way, and that the establishment of offices in different locations kick-starts administrative institutions of government and positively contributes to social cohesion.

The problem is that the OECD countries established social security institutions early in industrial history, and developing countries are much worse placed to do the same today. Some are at the bottom of the global heap. But inch by inch some of them can begin to build on the right to social security, “including social insurance,” by introducing laws and expecting international companies to bear a reasonable share of the costs of minimal benefits in adversity (as well as a minimum wage) — ensuring that this applies to sub-contracted labour forces. This would begin to reduce the problems posed by the informal economy — by providing incentives to both employees and employers to abide by the terms of contractual social insurance — and hence extend the range of the formal economy. It would be a mistake to assume that only tax-financed benefits have a part to play in new social security measures in developing countries. International organisations, and institutions, also have to make a necessary contribution.

In identifying the components of social security in history readers will find that the individual, the employer and the government each made a formal contribution to social insurance. In today’s conditions each of these three are differently placed. The individual is increasingly interested in his or her entitlement in another country (professional re-adjustment, migrant labour, remittances, asylum seeker, refugee, re-settlement, transfer of pension, family members in different country locations). The employer is increasingly a Trans National Company, with costs and responsibilities extending to many countries, and involving indirect, informal or sub-contracted labour. And the Government is increasingly dependent on international laws and agreements, including those affecting national tax revenue, and has an interest in harmonising taxation in different countries, and affording access to benefits and services cross-nationally and nationally. Later in this report the implications for the re-design of social security in both developing and industrialised countries will be assessed. In a global society there may have to be greater standardisation of social security and services, as well as a more prominent role in funding and designing national and regional schemes for the most powerful industrialised countries.

4. The history of systems of social security

How were the human rights to social security and an adequate standard of living in practice introduced in the OECD countries? In fact all member countries put in place the right to social security over many years — going back long before the 1939–45 war. As the reader will see, many of them were successful in achieving long-term sustainable economic growth at the same time as they substantially reduced poverty. Whether as cause or effect of economic growth all countries evolved extensive systems of social security. Table 3 summarises what has been happening in recent years.

[5] For example, Portugal and Finland were found to have roughly the same “market” child poverty rates but government action brought poverty down to under 3% in Finland while the rate in Portugal “shows almost no change” (UNICEF, 2006b, p. 457).

First, the table compares total public social expenditure with its largest component, social security, as percent of GDP, in OECD countries for the year 2001. As can be seen, with the exceptions of Mexico and Korea, between 8% and 19% of GDP was committed in that year to social security cash benefits. Most OECD countries are committing more than 20% of GDP to public services and cash benefits. Crucially, more than half of this is committed to cash benefits. This contrasts dramatically with the meagre levels of GDP committed both to services and to benefits in the developing countries.

Second, the table shows no marked fall in expenditure in the last 5 years. On the contrary, in 2005, 10 of the 17 countries for which expenditure on social security could be tracked up to and including 2005, including the US, increased expenditure as a percentage of GDP. In five countries such expenditure, expressed as percent of GDP, was reduced and in the remaining two countries expenditure in the two years remained approximately the same.

Table 3: Total Public Social Expenditure, and Total Public Social Security Expenditure (included), as percentage of GDP (countries ranked highest-lowest for 2001)

Country	Total public social expenditure as % GDP (2001)	Total public social security expenditure (cash benefits) as %GDP (2001)	Total public social security expenditure (cash benefits) as %GDP (new OECD series)				
			2001	2002	2003	2004	2005
Sweden	29.8	14.4	17.2	17.3	18.1	17.8	17.4
Denmark	29.2	15.2	16.3	16.4	17.0	16.8	16.2
France	28.5	17.9	17.1	17.3	17.5	17.6	17.9
Germany	27.4	15.6	18.6	19.5	19.8	19.4	19.2
Switzerland	26.4	18.2	11.0	11.4	12.1	..	..
Austria	26.0	18.9	18.6	19.0	19.2	18.8	18.6
Finland	24.8	15.4	15.9	16.3	16.7	16.8	16.4
Belgium	24.7	16.2	15.4	15.8	16.1	16.0	16.0
Italy	24.4	17.1	16.2	16.5	16.8	16.9	17.1
Greece	24.3	16.5	16.9	16.9	17.6	17.1	16.7
Norway	23.9	11.6	13.7	14.8	15.6	14.8	..
Poland	23.0	17.9	17.4	17.6	17.5	16.8	..
UK	21.8	14.2	13.7	13.2	13.3	13.3	13.4
Netherlands	21.4	13.3	11.1	11.2	11.5	11.5	11.1
Portugal	21.1	13.2	12.0	12.6	13.8	14.1	14.9
Luxembourg	20.8	14.5	13.9	14.6	15.0	15.0	14.7
Czech Republic	20.1	12.4	12.7	12.5	12.3	11.9	..
Hungary	20.1	13.0	12.8	13.5	14.0	14.1	14.8
Iceland	19.8	8.4	7.0	8.0	9.4	8.9	9.1
Spain	19.6	12.8	11.7	11.8	11.7	11.7	11.6
New Zealand	18.5	11.6	10.9	10.5	..	..	..
Australia	18.0	9.9	8.5	8.2	8.6	8.4	..
Slovak Republic	17.9	11.9	12.0	11.8	10.9	10.4	..
Canada	17.8	8.0	10.8	10.7	10.5	10.2	..
Japan	16.9	9.1	10.5	11.1	11.2	11.3	..
USA	14.7	7.9	11.4	12.0	12.1	12.0	12.0
Ireland	13.8	7.5	8.3	8.7	9.0	9.0	..
Turkey	13.2	..	..	..	..	..	..
Korea	6.1	2.3	2.0	1.9	2.3	2.5	..
Mexico	5.1	1.3	1.8	1.6	..	..	..
OECD 23	22.0	13.6					
OECD 25	—	—	13.2	13.5	13.8	13.7	(13.6)
OECD 30	20.9	12.6					

Note: See the upper part of the OECD chart reproduced on p. 13.

Source: OECD(2004), Social expenditure database, SOCX via www.oecd.org/els/social/expenditure series 2001, 2nd and 3rd columns, and new National Accounts series, 4th–8th columns — showing total public social expenditure and total public social security/cash expenditure for 2001–2005.

Most low-income countries commit less than 5 percent of GDP in total to public social services and benefits, some of them less than 1 or 2 percent of GDP. Table 4 draws a few examples from high- and middle-spending OECD countries to compare with data for developing countries compiled by the ILO (ILO, 2001). The Table shows the gap in spending between countries such as France, Germany and the UK and developing countries like China, Mexico, India, Kenya, Ghana and Indonesia. In high-spending countries total public social security expenditure is between 14 per cent and 18 per cent of annual GDP. In low-spending countries it can be a fraction of 1 per cent to 4 or 5 per cent.

Table 4: Total public social security expenditure as percentage of GDP in selected high-, middle- and low-spending countries

Countries	Total
High-spending	
France	17.9
Germany	15.6
UK	14.2
Medium	
Australia	9.9
Japan	9.1
Chile	8.2
United States	7.9
Low	
Ghana	2.1
China	1.5
India	1.5
Indonesia	1.1
Mexico	1.1
Kenya	0.3
Zambia	0.3

Source: High- and middle-spending countries — see Table 3 above. Low-spending countries — data adapted from ILO (2001), *Social Security: A New Consensus*, Geneva, ILO, Statistical Annex. The data for the low-income countries apply to 1996 (1995, China) and exclude health care (then counted in "social security expenditure").

The key role of social security becomes striking when the distribution of income in "developed" countries before and after taxes and social transfers is considered. Table 5 gives a summary of the effects on the extent of poverty — by current definitions of poverty in European (and OECD) member countries. Some OECD countries reduce domestic poverty more than others but everywhere the combined effects on existing institutions of social security are very substantial. In the table it can be seen that there is strong evidence in support of the division of countries by theorists into different types of welfare state, especially in relation to social security, that were established in the 20th century (see, for example, Esping-Andersen, 1990).

Table 5 illustrates vividly the extent of redistribution through social transfers in OECD countries (total public expenditure, including public social security). A 2006 analysis, using the Luxembourg Income Study's micro-level database, concludes that "the most extensive overall fiscal redistribution occurs in Belgium, Sweden, the Netherlands and Finland, while households in Switzerland, the US, Canada and Australia experience the least state redistribution" (Mahler and Jesuit, 2006, p. 8 and Table 1). Another 2006 report from UNICEF's Innocenti Research Centre shows that child poverty in 17 of the 24 OECD countries for which there is information was rising proportionate to median household income during the 1990s — after government measures to redistribute income (UNICEF, 2006a, p. 239). The report also shows that if OECD governments did not intervene to effect transfers through social security "market poverty rates" would be more than 40 per cent (UNICEF 2006b, p. 455).

Table 5: Percentage of population no longer in poverty — post-social compared with pre-social transfers, by country and welfare regime (1999)

Welfare regime/ country	Percent of total population no longer in poverty	Percent of total population in poverty after transfers	Mean percent in poverty (grouped by regime)
Social Democratic/ Nordic			
Denmark	30.3	10.8	11.4
Sweden	35,5	10.2	
Finland	33.1	13.3	
Netherlands	31.2	11.4	
Corporatist			
Austria	35.6	14.2	13.8
Germany	29.6	11.8	
France	32.8	15.9	
Belgium	32.0	13.9	
Luxembourg	31.8	13.3	
Liberal/residual			
United Kingdom	25.0	18.7	18.3
Ireland	23.4	17.9	
South European			
Italy	27.5	18.5	19.6
Spain	28.9	17.3	
Greece	25.5	21.9	
Portugal	25.9	20.6	
EE12	28.6	16.5	
EE15	29.8	15.5	

Source: Derived from Papatheodorou and Petmesidou, 2004.

The correlation between high social transfer rates and low poverty rates prompts specific questions about cause and effect. One test is to investigate examples of unusual advances in social spending attributable to new or greatly extended schemes introduced by government. Traditionally these have not been closely tracked and the impact on poverty rates of different elements of multiple policies apportioned. But some exceptions of this kind have been documented. Thus, there was a marked decline in 1968, compared with the immediately preceding years of 1966 and 1967 and with years after 1968, of elderly poor in the United States. The direct cause was a 13 per cent increase in social security (Old Age and Survivors Insurance) effective from February 1968 — which was the only across-the-board social security benefit increase enacted between 1965 and late 1969 (Fisher, 1976, p. 59). The research covered the period 1959-1974 and showed that variations in the level of social security benefit, as well as access to benefit, largely accounted for variations in the proportion of aged persons in poverty. A linear least squares regression was run for 1959 and all years in the period 1966-74.

Support for the key role of social security for the elderly, as well as for other groups, in all OECD countries, is found in a number of the statistical surveys of the Luxembourg Income Study. Thus “without social security income, a large proportion of the older population would live in poverty in all developed countries” (Wu K., 2005).

Another LIS study found a strong correlation between social expenditures (non-elderly cash and near cash social expenditures) as a percentage of GDP, and relative poverty rates in 16 countries in the 1990s ($r^2 = 0.6183$), (Smeeding, Rainwater and Burtless, 2001; building on earlier LIS studies, e.g. Smeeding, O’Higgins and Rainwater, 1990, particularly pp. 72–74). The levels and changes in child poverty in 12 OECD countries since 1900 were traced in another study — uncovering the role of income transfers from the state as cause of reductions in poverty rates (Chen and Corak, 2005). More generally a positive correlation was found between social spending as a percentage of GDP and poverty reduction (Smeeding and Phillips, 2001).

Extensive evidence from the LIS questions conventional economic assumptions about measures to reduce poverty. Noting "the sizeable increases in market household inequality in most countries" of the OECD during the 1980s and 1990s, one pair of research analysts concluded: "In contrast to widespread rhetoric about the decline of the welfare state, redistribution increased in most countries during the period, as existing social welfare programmes compensated for the rise in market inequality" (Kenworthy and Pontusson, 2005). Another pair concluded: "Our results strongly suggest that more generous entitlements to key social insurance programmes are associated not only with lower *relative* poverty, but also lower *absolute* poverty. This supports the contention that promoting relative economic equality can improve the absolute material well-being of the poor" (Scruggs and Allan, 2005).

Before examining developments in more detail, two of the common features of the various OECD systems must be specified. One is that despite periodic levelling off, and sometimes reduction, of the annual sums included in the national budgets, relative investment by OECD countries in social security has, on average, continued to grow. Table 6 illustrates the rising cost of social security in six of the highest-profile countries, some of which have a history of reluctance on the part of government to tax substantially or extend the welfare state. The table shows that between 1960 and 1990 the United States more than doubled its share of national income transferred through social security although the percentage of GDP then levelled off during the next decade. In Germany there was also a levelling off in the 1980s but in the four other countries selected in the table — Japan, France, the UK and Italy — the GDP percentage continued to grow. The latest figures for 2004 show continued or restored growth in the U.S., Japan, Germany, Italy and the UK and a reduced share only in France. Compared with 1990 all these six powerful countries are devoting more national income to social security today.

Table 6: **Social Security Transfers as percent of GDP**

Year	United States	Japan	Germany	France	United Kingdom	Italy	OECD
1960	5.0	3.8	12.0	13.5	6.8	9.8	7.0
1970	7.6	4.6	12.7	14.8	8.8	12.4	8.8
1974	9.5	6.2	14.6	15.5	9.7	13.7	10.5
1990	11.1	7.4	15.2	16.9	11.8	15.5	12.2
2000	…	10.0	18.8	18.0	13.2	16.7	12.6*
2005	12.0	11.3	19.2	17.9	13.4	17.1	13.6*

Source: 1960 — OECD (1992), *Historical Statistics 1960-1990,* Paris, OECD, p.67; 1970-2000 — OECD (2001) *Historical Statistics 1970-2000*, and 2004 — OECD (2006), *National Accounts of OECD Countries*, Paris, OECD. The data for 2005 are provisional and also drawn from a new OECD series on cash benefits. In comparison with earlier decades, the admission of new members has slightly lowered average spending.

During the last half-century the percentage of GDP devoted to social security transfers on average by OECD countries has continued to grow, albeit more slowly in the last decade. One problem in generalizing trends is the inclusion of new members, including Mexico, that has reduced the average.

Total public social expenditure, which includes social security transfers, has followed suit. The steady trend indicates the extension of a network of organizations and administrative schemes approved, legislated and financed through government to underpin different forms of social integration, health and welfare systems, and greater stability in living standards, found to be required in all societies. In this case the OECD reports allow long-standing and more recent groups of member countries to be distinguished. The upward trend has persisted, among the new as well as long-standing member countries.

Despite cutbacks in some countries in periods of economic downturn (e.g. Japan in the late 1980s and Canada and Sweden in the mid- and late-1990s) — there has been evidence of recovery on the part of several countries and continuing, if slower, expansion. But during the 1990s the general OECD picture is one of a levelling off of expenditure rather than reduction, with decreases in some elements of spending in many member countries being counter-balanced by increases in others.

Table 7 demonstrates the trend for 1990-2001, and also illustrates exceptions to the trend, including periodic fluctuations, that mark national experience. During the decade as many as 18 OECD countries had increased, and 9 had reduced, the share of GDP committed to social transfers [6]. It can be seen also that during the decade three countries becoming OECD members only recently — Korea, Mexico and Turkey — had sharply increased social transfers relative to GDP.

Table 7: Total Public Social Expenditure (Social Transfers) as percent of GDP 1990–2000 — OECD — ranked by percentage change (+/-)

Country	Social transfers as percent of GDP 1990	Social transfers as percent of GDP 2000	Percentage of change
Switzerland	17.9	25.4	7.5
Poland	15.5	21.9	6.6
Portugal	13.9	20.5	6.4
Mexico	3.8	9.9	6.1
Turkey	7.6	13.2	5.6
Japan	11.2	16.1	4.9
Germany	22.8	27.2	4.4
Australia	14.2	18.6	4.4
Czech Republic	17.0	20.3	3.3
Iceland	16.4	19.7	3.3
Greece	20.9	23.6	2.7
Korea	3.1	5.6	2.5
Austria	24.1	26.0	1.9
UK	19.5	21.3	1.8
France	26.6	28.3	1.7
USA	13.4	14.2	0.8
Italy	24.8	25.6	0.8
Spain	19.5	19.9	0.4
Belgium	26.9	26.7	-0.2
Finland	24.8	24.5	-0.3
Denmark	29.3	28.9	-0.4
Canada	18.6	17.3	-1.3
Norway	24.7	23.0	-1.7
Luxembourg	21.9	20.0	-1.7
Sweden	30.8	28.6	-2.2
New Zealand	21.9	19.2	-2.7
Ireland	18.6	13.6	-5.0
Netherlands	27.6	21.8	-5.6
OECD-28	19.1	20.7	1.6

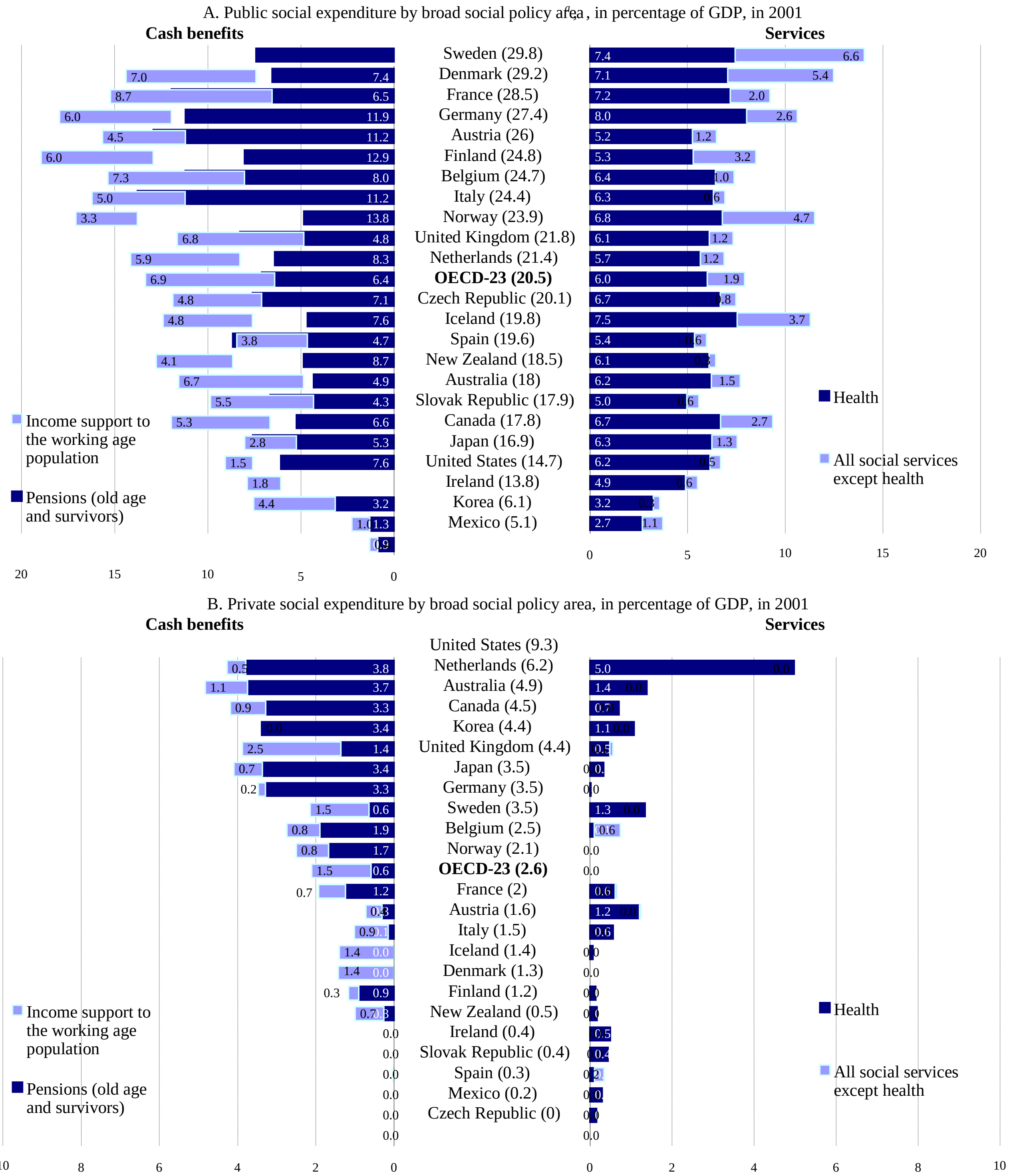
Source: OECD (2004) *Social Expenditure Database* (SOCX www.oecd.org/els/social/expenditure).

The accompanying chart from the OECD helps readers to understand better the scale of cash benefits in relation to services, and their major components, but also the meaning of the key terms: total public expenditure/social transfers; social security transfers/ social protection and basic social service expenditure (predominantly health services and

[6] All countries experience annual fluctuations in social security and public social expenditure, expressed as %GDP.

education) [7]. The chart gives a more detailed outline of the components of public and private social expenditure than the corresponding Table 3 above.

Chart 1. Total public and private social expenditure, OECD countries, as percent of GDP, showing breakdown between cash benefits and services [source: OECD, 2006).



Source: Adema W. and Ladaique M. 2005, "Net Social Expenditure, 2005 edition," Social, Employment and Migration Working Papers, No. 29, Paris, OECD.

[7] See Glossary.

Current trends are variable. Early in the new millennium public social expenditure in the OECD countries amounted on average to 21% of GDP. In Sweden, Denmark, France and Germany the figure for public social spending is close to 30%. In few countries is the figure less than 18%, although in one country, Korea, it is 6%.

Changes in gross public social expenditures over time are also variable. After having almost doubled in the 20 years to 1980, the expansion of gross public expenditure continued at a reduced rate with the OECD average peaking at 23% in 1993. Since then, the figure has settled back slightly, being 22 per cent for OECD-23 in 2001 or 21 per cent when seven new members are included for the current OECD-30.

Expenditures other than on health account for the slight decline. Within the total spending figure of 22 per cent the three largest categories are pensions (averaging 8% of GDP), health (6%) and income transfers to the working-age population (5%). Public spending on other social services only exceeds 5% of GDP in the Nordic countries, where the public role in providing services to the elderly, the disabled and families is the most extensive. Public support for families with children averages 2% of GDP and has increased in most countries since 1980. Family support exceeds 3% of GDP in the Nordic countries and Austria, as they have the most comprehensive public system of child allowances, paid leave arrangements and childcare. Moreover, governments also help families through the tax system; examples include the “quotient familial” in France and “income splitting” in Germany.

Social insurance spending related to work incapacity (disability, sickness and occupational injury benefits) has declined in as many countries as it has increased since 1980. Particularly large reductions were found in Belgium, the Netherlands and Portugal (*OECD Factbook*, 2005).

A feature of social security in nearly all countries is the greater investment in social insurance and non-selective group benefits than in means-tested social assistance. This structural feature suggests that a similar balance will work best for developing countries. Schemes that apply to all members of a population or group might predominate over schemes dependent on selecting those with the lowest incomes. This bears on the fact that social security, *including social insurance* (author’s emphasis), is one fundamental right that is included in several of the Human Rights instruments, to be routinely noted by States Parties. But this could also serve as a structural feature or model for international “pump-priming” and hold lessons for new or additional forms of international aid to eradicate poverty.

As Table 8 shows, around two-thirds of the funding of social security by European member countries is from social insurance contributions and a third from taxes. One noteworthy trend for the member countries during 1980–1996 was, as the table also shows, the relative decline in contributions from employers, partly made up by an increase in contributions from employees. Outside the EU contributions to social insurance remain considerable. In the US, for example, one of the largest member-countries of the OECD, employers contribute nearly half the cost.

Table 8: Trends in the Funding of Social Security (1980–1996)

Funding of social security	1980 (EU-12) %	1990 (EU-12) %	1996 (EU-15) %
All Contributions	67.4	65.6	62.9
(employers)	(45.4)	(41.8)	(39.2)
(employees etc.)	(22.0)	(23.8)	(23.7)
General taxes	27.9	27.8	31.9
Other receipts	4.7	6.5	5.2
Total	100	100	100

Source: Ministry of Social Affairs and Health, 1999, p. 213; Eurostat, 1999.

5. Economic growth and social security

Do large-scale social transfers handicap economic growth? What came first, growth or social security? National histories of both social security and economic growth, and of their interrelationships, are of course chequered. Here only a start can be made in identifying cause and effect. However, a sufficient statistical account allows the provisional conclusion to be reached that the institutionalisation of social security and economic growth has been mutually interdependent and is a major factor accounting for the relative prosperity and low poverty rates of OECD compared with developing countries.

Among the "developed" countries high and low levels of economic growth do not correlate uniformly with low and high levels of public expenditure. Countries experiencing relatively high economic growth are not simply those with relatively low social expenditure. The story is more mixed than sometimes revealed in economic disputes. Table 9 starts by illustrating the variability of economic growth in both high- and low-spending countries.

Table 9: Annual Economic Growth and Total Public Social Expenditure as percentage of GDP

Country	Economic growth (annual growth as percent of GDP)			Public social expenditure as percent of GDP	
	1991	2001	2005 (projection)	1991	2001
Germany	5.1	1.0	1.4	24.9	27.4
UK	-1.4	2.3	2.6	19.5	21.8
USA	-0.2	0.8	3.3	13.4	14.8
Norway	3.6	2.7	3.2	24.7	23.9
Sweden	-1.1	1.2	3.3	30.7	28.9
Japan	3.4	0.4	2.1	11.2	16.9
Italy	1.4	1.7	1.7	23.3	24.4
OECD total	1.3	1.1	2.9	23.2	22.0

Source: *OECD Factbook* , 2005.

A more acceptable procedure is to examine statistical indicator data over a succession of years. Based on OECD data Table 10 shows average growth for the 10 years 1996–2005, compared with average total public expenditure for the first five years (1996–2000) of the decade for relatively high- and low-spending OECD countries. There are clearly exceptions to the correlation presumed to exist by many economists between low spending and high growth. Against the apparently sustained higher growth of some low-spending countries there have been years of little or no growth, e.g. the US in 2001–02, Canada in 2001, and New Zealand in 1998. On balance, low-spending OECD countries achieved higher growth in the years just before and just after the turn of the millennium but this does not apply to some earlier periods and is also variable across countries.

Low-spending countries tend to have a more unequal distribution of gross or original incomes, before as well as after social transfers, and higher rates of poverty by EU and OECD standards, as Table 10 shows [8]. These are two conclusions, which yield valuable lessons for the necessary social as well as economic basis of future global society. Positive changes in the economy arise as a consequence of invention, initiative and hard work, but also at social expense. The best changes also depend on pre-existing, and deliberately

[8] The World Bank's latest report confirms the significant difference picked out in the last two columns of Table 9, showing corresponding data of the latest gini coefficients for these seven high- and seven low-spending countries. Five of the seven low-spending countries have higher coefficients (that is, are more unequal) than any of the high-spending countries (with an average of 0.33 for all seven, compared with 0.27). See World Bank (2006), *World Development Report, 2006*, Washington D.C., World Bank, pp. 280–281.

contrived, social strengths. Issues of their national identity and consequential extensive relationships, acknowledgement of their rights to participate in the conventions as well as obey the rules of work and society, matter to people in the satisfaction of their objective needs.

The kind of experience people have in general as members of society, and the conditions in which they work and live, cannot be separated from what they are capable of contributing to economic prosperity. The art of state (and multi-state) management lies in constructing growth at minimum social expense and maximum social development.

Table 10: Annual average economic growth rates and total public social expenditure, as percent of GDP, compared with inequality and poverty rates

Countries ranked by spending: relatively high and low spenders	Annual average total public expenditure as percent of GDP, 1996–2000	Annual average real economic growth, 1996–2005	Inequality: Richest 10% as a ratio of poorest 10%	Relative poverty-income below 50% of the median %
High:				
Sweden	30.5	2.8	6.2	6.5
Denmark	29.7	2.2	8.1	9.2
France	29.0	2.4	9.1	9.9
Germany	27.5	1.3	6.9	8.3
Belgium	27.5	2.2	7.8	8.0
Finland	27.3	3.5	3.8	5.4
Austria	26.1	2.2	7.6	8.0
Low:				
UK	21.8	2.8	13.8	12.5
New Zealand	19.9	3.2	12.5	—
Canada	18.0	3.4	10.1	12.8
Australia	17.9	3.8	12.5	14.3
Ireland	15.7	7.5	9.7	12.3
Japan	14.6	1.6	4.5	11.8
US	14.6	3.4	15.9	17.0
All OECD countries	22.5	2.7		

Source: OECD *Factbook* 2005; and for cols 4 and 5, UNDP, *Human Development Report for 2005*, Tables 15 and 4.

A generation of research has failed to demonstrate a clear relationship between economic growth and trends in the incomes of poor people. One of the most incisive reports was that of Newman and Thomson (1989) who assembled economic data from a large number of countries and cast doubt on "trickle down" to such effect that the reverse seemed to be the more correct interpretation (see also Foster and Szėkely, 2001). World Bank analysts continued to argue for "trickle-down." Thus Dollar and Kray purported to show that "incomes of the poor rise one-for-one with overall growth, namely that for every 1% increase in GDP the incomes of the poorest 20 per cent also increase by 1%. They concluded that public spending on health and education is of little benefit to the poor (Dollar and Kray, 2000). However, their findings turned out to be a statistical artefact from a flawed methodology. When applied to random numbers (instead of real data) their method produced the same result (Vandemoortele, 2002, especially pp. 385 and 394–5).

Following study of the concept of "pro-poor" economic growth and its application to particular countries at UNDPs International Poverty Centre (see for example Son and Kakwani, 2004, Kakwani, Khandker and Son, 2004 and Vandemoortele, 2004), a cross-country analysis of 80 countries was completed. In these countries a total of 237 spells of economic growth were examined. In 106 the average real per capita income actually declined. In 131, pro-poor growth, i.e. proportionately more of the average increase in income going to the poorest deciles, could be reliably confirmed for only 55 — or 23% of the total — while less of the average increase in income went to the poorest deciles in the remaining 76 countries (32% of the total). Growth in these countries was “anti-poor” (Son and Kakwani, 2006 forthcoming).

The influential idea of the last 30 years, therefore, that high investment in public social services and social security deters growth, and that economic growth alone will automatically lead to a reduction in poverty, has not attracted convincing supporting research evidence. There is more support for the alternative idea, that high public social expenditure has positive effects on growth. For example one research team completed an analysis of economic and social data accumulated from panel data over 10 years [9] for the United States, Germany and the Netherlands, representing the Neo-Liberal, Corporatist and Social Democratic (including Nordic) welfare regimes that came to be separately identified by social scientists in the 20th century. The welfare regimes of the three countries were compared in terms of their success in promoting efficiency (economic growth and prosperity), reducing poverty, and promoting equality, integration, stability and autonomy. The US did not turn out to be more efficient than the other two. Overall, the statistical data collected over time suggested that on both economic and social criteria the Social Democratic regime had advantages over the Corporatist, and both had advantages over the Neo-Liberal welfare regimes [10]. Altogether, there has been a large range of research studies refuting the argument that social security has had a negative impact on economic development (good examples are Koskela and Viren, 1983; Atkinson, 1995; Singh, 1996; Gramlich 1997; and the general review in Hall and Midgeley, 2004, Chapter 8).

> “Greater distributional equality provides a favourable ‘initial condition’ for rapid and sustainable growth; … Redistribution of current income and assets, or redistribution of a country’s growth increment, is the most effective form of poverty reduction for most countries; and … mechanisms to achieve the redistributions are feasible for most countries” (Dagdeviren et al, 2001, p. 23).

6. The growth and diversification of social protection

Europe is “the cradle of social protection” (Ministry of Social Affairs and Health (Finland), 1999, p. 1). Historically the modern welfare state “took off” in the late nineteenth century, “between the Italian and the German Unification and the First World War” (Flora, 1986, vol. 1, p. xiii). In the last 100 years systems of social protection have evolved from fragmentary beginnings to systems that are both complex and comprehensive. Although providing modest levels of old age pensions, sickness benefits and invalidity pensions for small minorities in society, conservative and liberal elites as well as more radical social

[9] Conventional compilations of economic and social statistics have traditionally depended on a succession of cross-sectional snapshots. But there are problems of sample variation and tracing the mechanisms of cause and not just discontinuities in the populations surveyed and analysed. Panel studies have however been pioneered and are now coming on stream for a large number of countries. In these studies the same individuals are re-interviewed time and again, over a protracted period. Experience in early work (for example, Duncan et al., 1984) showed that 10 years of continuous panel data were required for purposes of drawing conclusive results. The three countries chosen for comparison in the late 1990s were the only ones to have assembled 10 or more years continuous data (the three organisations being the University of Michigan’s Institute for Social Research, from 1968, the Deutsches Institut fũr Wirtschaftsforschung, Berlin, from 1984, and the Dutch Socio-economic Panel Survey, run by the Centraal Bureau voor de Statistiek, also from 1984 (see Goodin et al, 1999, pp. 2–3 and 9–12.

[10] “… It turns out that the social democratic welfare regime is ‘the best of all possible worlds.’ [Of the three alternative regimes it] turns out to be the best choice, regardless of what you want it to do. [It] is clearly best on its home ground of minimising inequality. But it also turns out to be better at reducing poverty than the liberal welfare regime, which targets its welfare policy on that to the exclusion of all else. The social democratic welfare regime is also at least as good in promoting stability (and arguably at least as good at promoting social integration) as is the corporatist welfare regime, which ostensibly attached most importance to those goals. The social democratic welfare regime is also best at promoting autonomy, something valued by all regimes if not necessarily prioritised by any. Thus, no matter which of those goals you set for your welfare regime, the social democratic model is at least as good as (and typically better than) any other for attaining it” (Goodin et al., p. 260).

reformers “in many European countries regarded social insurance programmes as the answer to the “social question” of how to integrate a growing industrial working class into the existing social and political order” (Clasen, p. 1, 1997).

The speed and scope of urbanization around the end of the 19th century led to new as well as larger social problems. Intensified by the new capital-driven economy hardship arose in the new factory towns as well as the depleted countryside. Protests about conditions easily turned into social conflict. Because the revenues of the state were growing, different social classes were aware of new found resources and called for state intervention to build the first social welfare institutions. Convincing explanation of the origins of the welfare state in Europe therefore lay in the distinguishing features of the Western European society of that time: fast-developing industrialization and consequently urbanisation, and democratization (Flora, 1986, vol. 1, p. xiii). The new European welfare systems shared much in common but also developed differently. First, the evolution of a capitalist market economy in conjunction with a democratic nation state produced “a specific type of liberal welfare state.” Second, historical pre-conditions and the new forms of urban employment allowed strong industrial working classes to emerge to influence how new welfare systems might develop. But, third, there were wide institutional variations that could be exploited differently by individual governments.

It is hard to be exact about the shape and nature of “the European welfare state.” Many analysts have preferred to argue about sub-categories of the welfare state in order to explain the path taken by one or two particular countries that attracted interest. But there was one widely agreed refrain: “The modern welfare state started in Europe as an attempt to tackle the problems common to this new social class (the industrial working class): loss of income through accident, sickness, invalidity, unemployment and in old age” (ibid, pp. xiv–xv). Long-established forms of grudging and punitive social assistance were not the answer. The solution to these problems lay in the institution of social insurance, which was taken up by one country after another. After more than 100 years the social security system as a whole still tends to dominate political discussion about the welfare state. European and American social policy are sometimes differentiated because the US is said to devote more energy to social citizenship through the development of education than to the expansion of social security (e.g. Flora, ibid) but the scale of US spending on social security has remained considerable in the last half-century. A review in 1999 concluded that “by the end of the 19th century, governments in the area now covered by the 29 member countries of the OECD typically spent 10% of GDP. One hundred years later, public sector spending in the OECD area averages 47%” (de Kam and Owens, 1999, p. 176). After 1960 the increase in public outlays “is mainly explained by higher government spending on public social protection. For 1960–97 social transfers, including subsidies, increased by 11.0 percent of GDP for the 29 countries to 21.1 percent of GDP (in a total of 46.6 per cent overall government expenditure (ibid, p. 177). The increase from 1980 to 1995 was 4.7 percent of GDP.

In 1996 all taxes accounted for 37.7 percent of GDP [11], of which 8.8 per cent were employer and employee social security contributions (ibid, p. 179). These social security contributions had steadily increased in almost every member country and ranged from 18.1 percent of GDP in France and 14.5 percent of GDP in Germany to 1.6 percent of GDP in Denmark.

After the Second World War social security expenditure grew rapidly and reached 10 per cent of GDP in member countries and in some of them topped 20 per cent. Expenditure was reined back in some member states in the later 1980s, and by others in the 1990s. One intention on the part of government was to save taxation by diverting funds from universal social insurance or tax-financed group schemes to social assistance and means-tested tax credits. The arguable effects have included loss of social cohesion and social reciprocation,

[11] In that year social security costs accounted for 25 per cent of all tax revenue, compared with 27 per cent personal income tax, 18 per cent general consumption taxes, 8 per cent corporate income tax, 5 per cent property taxes and 6 per cent other. (de Kam and Owens, op. cit., p. 183).

and greater instability in living standards and individual life course. However, the average total cost of social security for OECD countries has continued to rise, as percent of GDP, despite decline for some years before restoration in particular countries, and levelling off or continued growth in others (see earlier Table 5, p. 10).

In the mid-20th century the member states of Europe came to insure the majority of their populations against the social risks of sickness, disability, old age and unemployment and of welfare deficiencies related to childhood, motherhood, housing and education. They shared a common historical legacy. Expansion of social protection in every member country and a move towards comprehensive coverage did not however lead to uniformity.

Despite the common economic and social problems, including poverty, that they faced, member countries continued to develop divergent responses adjusted to their own institutional (socio-political) and structural environments. This seems to have distracted many analysts into making too much of the differences between, or variations among, countries, instead of recognising that in the scale of resources being used and the protection coverage of entire populations they were following a common path; they were not just trying for domestic reasons to find programmes to deal with small minorities that were exceptional or unique. This will be explained below.

But, more significantly, social insurance contributions rather than taxes came to play the majority role in funding expansion. This was put in place by member countries of the EU. Rarely has this agreement across countries been identified as the key feature of the development of strategies to defeat poverty and simultaneously secure citizens against some of the worst risks to life and livelihood. Table 8 above shows that in 1980 social insurance contributions accounted for two-thirds of the financing of social protection. By 1996 there was only a small decline in the role of contributions: and they continued to account for 63 per cent of the finance of social protection. Countries that have chosen to give stronger weight in the 1990s and early 2000s to forms of social assistance, including tax credits, have stumbled in their attempts to contain poverty at the same time as maintaining social cohesion and work incentives. Thus comparative analysis of child poverty rates showed that in 16 of 24 OECD countries "the rate at the end of the 1990s was higher than at the beginning and in only three countries has it declined to a measurable degree" (Corak, 2005). There are major problems in prosperous but increasingly unequal countries of real rates of marginal tax becoming very high when means-tested assistance schemes begin to predominate, of more recognisable wasteful as well as inefficient administration, and of declining public acceptance and support.

It can be also be seen in Table 8 above that the (compulsory) contributions made by employers accounted for the larger part of the total contributions made. In only four of the 15 member states in 1996 (Denmark, Ireland, Luxembourg and the U.K.) were taxes more considerable than contributions (Eurostat, 1999; and Ministry of Health and Social Affairs, 1999, p. 213). The predominant trend between 1980 and 1996 was a reduction of employer contributions from 45 per cent of total social protection receipts in 1980 to 39 per cent in 1996. At the same time there was an increase in government taxes and in employees' contributions. One explanation is the growing strength in negotiating conditions of trade on the part of trans-national corporations.

European member states increased, on average, their expenditures on social protection as a whole. Trends are illustrated above in Tables 7 and 9. As a percentage of the GDP of EUR12 such expenditure grew from just over 24 in 1980 to more than 27 in the early 1990s. In fact, after a sharp rise in the early 1980s the figure levelled out in the remainder of that decade before rising sharply again after 1991 (Eurostat, 1996, p.17).

The sensitivity towards social security and social service institutions shown by OECD governments in the final decades of the 20th century had not been bought lightly. The depression years between the two European wars had taught uncomfortable lessons. In the post-war years the re-invention of government was a "call to arms in the revolt against bureaucratic malaise" and "systems of governance can be fundamentally reframed."

Entrepreneurial organisations had to be built round 10 principles, according to one historian, including “leveraging the market-place, rather than simply creating public programmes …” (Gilbert, 1966).

An underlying factor shared in common was the need to develop forms of protection against the risk of loss of income of industrial wage labourers in market economies. When social insurance was introduced in Britain in 1913, for example, unemployment insurance cover was limited to certain industrial sectors, and especially those experiencing trade fluctuations (Gilbert, 1966). Domestic workers, for example, were excluded. In other countries social insurance schemes were established for industrial workers long before schemes for agricultural workers. The histories for example of Hungary, Portugal and Greece confirm the “path dependency” of this development (Gilbert, 1966).

The purposes and priorities of social insurance have never been comprehensively agreed. The purposes have always been to reduce and prevent poverty through multiple policies; protect living standards; ensure intergenerational and life cycle transfers; promote income equality between different groups; promote social integration and ensure economic security for entry and re-entry into the labour force.

Throughout history social insurance has been vigorously contested. The institutions were established after bitter struggles on behalf of disparate social groups. After attempts to dismiss social insurance on grounds of loss of trade and cuts in profits the institution came to be seen by many elites of different political persuasions as demonstrating how to integrate the growing industrial working class into the existing social and political order — and as an acceptable condition and even incentive for employers. But at first many socialists and trades union activists opposed mandatory social insurance as undermining workers’ mutual support schemes and hence workers solidarity. Such opposition eventually bowed to the clear improvement in material living standards brought about by more comprehensive public measures and the fact that social insurance smoothed out shared risks and met the deficits of workers in trades most exposed to injury and sickness, as well as loss of employment. The ambiguities of “adequate” benefits, like those of the minimum wage, remain, and are subject to acute political debate (Atkinson, 1991). But in the course of more than 100 years social insurance has shown how civil rights can be extended and discrimination between factions reduced. Adoption of the system internationally in the 21st century may similarly show how human rights can be extended and racial and religious hostilities lessened.

7. Three models

7.1. The Nordic or Social Democratic model

There was never one standardised model of social security in the developed countries. From time to time systems of social security had common elements and certainly were influenced by schemes adopted by their neighbours. But there were also distinctive features shared with a minority of countries or that applied disproportionately or specially to one nation. The history of social security in four chosen countries/ regions, comprising three distinct forms, or models, of the welfare state, will be outlined in particular, to show the nature of the social security/ social insurance packages that were developed and why. The Nordic countries (especially Sweden), Germany, the UK and the US will be the countries. Tables 5 and 10 give illustrations of the scientific reasons for categorising these regimes. Table 5 in fact singles out a fourth type of regime — the South European model, also described by some authors as the “Catholic,” the “Latin” or the “Rudimentary” model (Leibfried, 1992). However, analysts like Peter Abrahamson argue that this is unnecessarily complex and that the model is “the discount edition of the Bismarck or Conservative model” (Abrahamson, 1999, p. 33).

In examining these “models” it is important to acknowledge the strength of academic work that questions whether they should be distinguished as separate models or sub-categories of the welfare state [12], and prefers instead to consider each welfare state as separate and having a relatively unique history. However, this preference for analytical fragmentation can, whether consciously or unconsciously, serve entrenched hierarchical power — in particular by ignoring questions of scale or proportion in assessing structure and cause in the distribution of income and other material conditions and opportunities among the population.

If greater priority is given worldwide to social protection/ security there will be inescapable implications for development planning. The OECD history and current practice of social security illustrates a fundamental problem of development theory. Analysis, planning and action are assumed to be universal. But for too long development has taken little or no account of anti-poverty practices and programmes in high-income countries, except as comparators and implicit models. Development involves convergence or progressively less inequality between nations and also between classes. It also demands identification of best, and worst, policy packages.

Any re-formulation of the part to be played in the next stages of economic and social development by social protection/ security means that countries with high and low GDP have to be compared, and recent trends in social security expenditure explained. Can national and international agencies find whether development practitioners, donor agencies and developing country governments can learn anything from the OECD experience with social security? [13] And taking into account the vast disparities in wealth and government finance that exist, does the experience of poverty reduction imply re-formulation of the dominant development paradigm in low-income countries?

The continuing success of the Nordic countries in maintaining their high ranking in measures of both economic and social development has attracted close scrutiny. Is there a Nordic model that others might emulate? The question has been explored intensively. There is first the question of financing public spending in general and social protection in particular. One analyst concluded that “there is no clear evidence of a unique Nordic model of overall public spending” (Kautto, p. 88). Although the Nordic countries were among the top spenders and reasonably similar to each other they “differed considerably” in the way financing was shared between government, employers and the insured (ibid, p. 88). A shift had occurred during the 1980s and 1990s, however. In Denmark, Finland and Sweden the share of the insured in financing social protection had increased while that of employers in these countries, with the addition of Norway, had fallen. Bismarckian elements in funding were “gaining ground” (ibid, p. 89).

In history “the early Nordic (pre-) welfare state shared many of the characteristics typical of successful examples of the later developmental state in the global South” (Kuhnle and Hort, 2004, p. 1). A strong social role for the State was not found to be “incommensurate with economic development … Economic growth and the institutionalisation of comprehensive social security could go hand in hand.” (ibid, p. iii). However, it was not until the emergence of the full employment policies of the 1950s and 1960s “that a thoroughly coherent developmental perspective on economic prosperity and social change became part and parcel of welfare state philosophy (ibid, p. 1; and see also Kuusi, 1964, and Therborn 1986). The relative success in the 1930s of the social democratic parties in

[12] Among influential analysts are Stephan Leibfried and Paul Pierson. See Pierson and Leibfried, 1995, p. 32. The diversity of welfare states is a major conclusion, together with what has been more lately described for European history as a whole as “institutional rigidities and high thresholds of consensus necessary to alter the status quo ... social policy evolution and harmonisation is likely, at first, to be more the result of mutual adjustment and incremental accommodation than of central guidance” (Obinger, Leibfried and Castles, 2005).

[13] Following a practice paper calling for the strengthening of “the evidence base on the potential role of social transfers as part of a wider poverty reduction strategy” and giving support to low-income countries to collect and use such data. DFID (2005), *Social transfers and chronic poverty: emerging evidence and the challenge ahead*, London, DFID.

establishing the welfare state was augmented when a multiparty political structure later emerged with peasant and agrarian representation confirming the early adherence to and support for the principle of universal social security and welfare programmes (Kuhnle and Hort, 2004; and Kangas, 1991).

In 1875 child labour was still very common in Norwegian industry. When this question was raised by the trade unions in the 1880s, opinion still concentrated on regulation rather than banning child labour. But as the trade unions gained ground in the 1880s, legislation governing the rights of adult workers also entered the agenda. It was commonly accepted that a law protecting workers was required, including legislation on working hours, overtime and overtime pay. The new arrangements also had to be properly administered and policed. By 1885 there was a decree on work accident cover, and a state pool of money for sick and funeral benefits. (Statistisk Sentralbyrå -Norwegian statistics office, 2005).

The earliest authority to use the term "welfare state" was arguably Ebbe Hertzberg, Professor of State Economics, in 1884. This suggests that Norway established a kind of welfare system to rival the Bismarckian model even before social democracy had really entered parliament in force. Although some believe that the Swedish welfare system originated with Bismarck's ideas, others, like Peter Flora, have argued that the German influence was more visible as a preliminary parliamentary initiative than in the actual content of policies devised and measures adopted. Denmark, which he thought had come at the time to be the Scandinavian welfare leader, was more greatly influenced than Sweden by foreign models. On the other hand the universal national pension scheme and the early employment programmes can be regarded as specific features of the Swedish system (Flora, 1986, p. 7).The liberal Sir (later Lord) William Beveridge is sometimes given credit for early welfare state theory, but arguably welfare systems were in place in Scandinavia even before the turn of the century. In Norway, for example, there was the concept of national security (*folkeforsikring*), while in Denmark, the old age pensions law of 1891 was probably not recognised as an element of social protection by its contemporaries (*Den norske velferdsstaten*, Hatland, Kuhnle, Romøren, Gyldendal, 2001).

The first major social insurance laws were passed in the course of just three years (1891–94) in Denmark, Norway and Sweden at about the same time as large-scale social insurance laws were introduced in the German Reich (Kuhnle and Hort, p. 5) [14]. In the next 50 years universal pension schemes, compulsory work injury insurance, employment programmes and unemployment benefit societies were among the institutions established. In 1891 state subsidies were introduced in Sweden for voluntary sickness benefit societies. In 1909 Norway became the first country in the world to introduce the principle in sickness insurance for the spouse, generally the wife, and children to be insured without the payment of an extra premium. This was universalism in practice. Corresponding schemes were only introduced by other European countries from the 1930s onwards. Thus, public social expenditure in Sweden increased from below 4% GDP in 1913 to over 10% GDP by 1950 (Flora, 1986, p. 5).

But poor relief continued to play a large part in the social security systems for many more years until the Welfare State model, in particular the Swedish Welfare State model, was consolidated after the second World War (Flora, 1986, pp. 4–6).

In the 1950s and early 1960s Nordic schemes were made truly universal, encompassing all citizens — Sweden, 1955, Norway, 1956, Iceland 1956, Denmark, 1960 and Finland, 1963. The exception for different benefits, apart from Norway, was unemployment insurance, which remained voluntary and was complementary to means-tested unemployment assistance. In the war and afterwards the world economist Keynes exerted

[14] In Denmark an old age pension law was introduced in 1891; a sickness insurance law in 1892 and an employers' liability act in 1898 (providing compensation to workers injured in industrial accidents). In Norway there was an accident insurance law in 1894, and in Sweden a sickness insurance law in 1891. In the first decade of the 20th century further laws were introduced, including unemployment insurance as well as sickness insurance and subsidies for various forms of voluntary insurance.

major influence by treating many of the problems and institutions of social security, especially those of unemployment and benefit support during unemployment as part and parcel of economic policy. (see Townsend, 2004) [15].

Post-war stages identified for Sweden in particular and the Nordic countries generally by some observers were (i) the immediate post-war period of "recovery", characterized by the institutionalisation of housing and employment programmes but also universal cover of the population (or relevant category of population) with flat-rate minimum benefits; (ii) protection from a drastic fall in the individual's standard of living by means of the introduction of earnings-related benefits in the second half of the 1950s; (iii) the expansion of public services in the 1960s and early 1970s; (iv) the extension of entitlement and improvement of cash benefit rates in the mid-1970s; and (v) containment and adjustment in the late 1970s and early 80s (see for example Flora, 1986, p. 8).

In the 1950s Sweden introduced earnings-related benefits for pensions but also for when adversity, like unemployment or disability, struck. At this time the "adequacy" of benefits in relation to established living standards at work attracted close attention, partly provoked by increasing public interest in universal human rights. By the 1960s the focus of attention turned from cash benefits to the expansion of public services, particularly health care and education. The county councils became the only health authority, and the final law on the implementation of nine-years' compulsory school attendance was passed in 1962 (ibid, p. 12). In the 1970s, family-friendly schemes, like paid parental leave, were introduced. These are now the most generous in the world. Special welfare boards and the independent tax-raising power of the three levels of representative government constitute an important part of the Swedish welfare system. This decentralized system is thought in the case at least of Sweden to have facilitated the rise and expansion of social welfare (ibid, p. 12).

In general, the Nordic countries were proud to have established "a universal model of social protection, where benefits and services based on residence are combined with earnings-related social insurance programmes … It has been a successful strategy in terms of combating poverty and social inequalities but also for promoting employment and participation, particularly among women" (Palme, 1999, p. 7). The decision to include the better off in the systems of social protection had been more successful in reducing social inequalities than strategies more exclusively oriented to the poor. But this had been buttressed by wider and less discriminating employment, promoted by improved incentives, resources and opportunities. At the turn of the millennium much attention was directed to meeting global changes. The strategy had to be over-hauled and modernised "without diluting the socio-political and moral content of the Nordic welfare state model … and … maintaining its universal and employment-oriented character" (Palme, 1999, pp. 10–11). Despite cutting back total public social expenditure in the 1990s and acknowledging global trends in orienting schemes to the new labour market, this has turned out for some of the member countries to be temporary. The resilience of Nordic institutions of shared social protection and equality as well as of shared risk and opportunity, established for more than half a century, seems to remain very strong.

The agreement developed between the Nordic countries was "a project of civilisation … that … states should redistribute resources so that the poorest persons can also enjoy the degree of civilisation which would otherwise be reserved only for the rich" (Palme, 1999, p. 96; and see also Ferge, 1997). In summary, the model continues to possess three features: "a comprehensive social policy; a social entitlement principle that has been institutionalised (social rights); and social legislation that is solidaristic and universalist in character" (Kuhnle and Hort, 2004, p. 2). All three of these have a bearing on the evolution of human rights in the last 60 years.

[15] Together with the social insurance system, measures to reduce unemployment had been the cornerstone of Swedish social policy from WWI onwards. However, the crisis in the economy in the 1930s caused Sweden to anticipate Keynes by reformulating unemployment as a problem for economic policy.

7.2. The Corporatist model

The central value of social cohesion helps to distinguish the Bismarckian or Corporatist model of the welfare state. The model has been dominant in Germany and Austria and across the Catholic world. The favoured meaning of social cohesion is not adequately represented by ideas of brotherhood or solidarity, for example. Catholics in central Europe were concerned with the individual's own community — to integrate the individual within his or her small community, especially the patriarchal family, but also to integrate that small group within larger groups or communities. Each of these nesting groups were "sovereign in their own realm." This pre-occupation provided an early example of the principle of subsidiarity. The dignity of labour was vital, emphasising the division of labour and specialisation, but not the accompanying competition advocated by many economists and regimes. There had to be cooperation between capital and labour. Broadly speaking, all major groups in society had to agree. Unanimity, rather than the merest voting majority, was the political rule. The basic goal was the preservation of the pre-existing social order.

Those who are poor are not so much groups — because all groups are recognised to have a place at the bargaining table — as individuals. They are unlucky members of groups or have been left out or excluded. They have not been properly "inserted," or integrated, into the natural economic life of society. From this diagnosis flows the policy response — to integrate people better into groups and to engineer better mutual aid within those groups. Corporatist mutual aid is first and foremost a matter of pooling risks. The role of the state became one of underwriting and facilitating essentially private and self-governing schemes of insurance and assurance but, if needs be, underwriting risks of whole social groups who find themselves collectively in trouble. The basic goal of social policy therefore became one of security and stability. In the German tradition the term "social policy" was defined to embrace social insurance and labour legislation, broadly excluding education, health and housing. The role of the State was to supplement the market in the best possible allocation of productive resources. This limit to the state originated, as argued above, in the political philosophy of neo-liberalism and the social ethics of Catholicism but should also be understood as a reaction to the extreme bureaucratic control experienced during the Nazi period and the Communist collectivism in East Germany.

In Germany industrialisation was late and the challenge perceived by Bismarck was how to protect the emerging working class from its consequences at the same time as creating a strong central state. The Government gave serious consideration to social insurance measures in 1878 and by 1884 had created a workers' compensation and sickness insurance programme. The basic premise of his social insurance initiative was Soldaten der Arbeit, or social integration and mutual solidarity among employers and workers within the same workplace and ultimately the same industry. At first the older corporate groups, like the feudal Junkers and the guilds of miners, printers and others, defeated parliamentary proposals, as in the case of accident insurance in 1881, but then became strong advocates. The Kaiser led the attempt to persuade the dissidents by referring to the importance of sharing risks so that the weak and the strong each secured benefits as well as sharing new responsibilities. Health insurance was enacted in 1883, accident insurance in 1884, and old age and invalidity insurance in 1889.

The Prussian State had for a long time relied on repression as the best way to react against the mobilization of workers. But once Bismarck had opted for an interventionist economic policy, including high protection tariffs both for agriculture and quickly-evolving new industries, he realized that repressive measures would not, and could not, work. Successful fast industrialisation depended on the cooperation, not the opposition, of the workers. With the establishment of public social insurance programmes, his goal was to create a tight bond between the state and workers and to split the opposition of the Social Democratic Party and the liberals in Parliament, who were pressing for the creation of a parliamentary government (Flora, 1986, vol. II, pp. 5–6).

However, education never entered into Bismarck's plans for social reforms. By the 1880s state education was an established fact. The principle of compulsory education was introduced in Prussia as early as 1717, the Prussian state had gained effective control of the education system in 1872 and by 1875 nearly all workers' children attended public primary school. This fact may help to understand why education did not feature prominently as an element of social policy in Germany (Flora, 1986, vol. II, pp. 5–6). The consideration of multiple interests during the first parliamentary debates helps to explain the institutional longevity of the German social insurance schemes, whose principles still provide the basis of the modern social insurance scheme in: the distribution of administrative powers, the earnings-related character of benefits and the tri-partite character — the employer, the insured and the state — in financing benefits (Flora, ibid, p. 6).

In 1911 the three compulsory insurance laws (sickness, industrial accident and invalidity or old age) were consolidated in a single uniform National Insurance Code and another law established a pension insurance scheme for salaried employees. Although amended, this legislation is still in force today (Flora, ibid, p. 6). In addition to social insurance, the German Reich had a fairly developed public assistance scheme. In 1870 the Prussian laws were transformed into a consolidated Public Assistance Law, which had been extended to almost all regions after the unification. However, the federal structure and limited share of revenues accorded to the central government set strict limits to the government's further initiatives in social policy, especially in the public health sector.

After the 1939-45 war and the hardships experienced into the 1950s, corporatist impulses surfaced again in political debates about the future of welfare. Most of the existing social programmes remained intact and only child allowances and some other special schemes developed under Nazi rule were discontinued (Flora, 1986, p. 11). The subsequent re-establishment of a separate pension scheme for workers and employees signalled the persistence of the disjointed structure of the German social insurance system. Two 1955 laws confirmed the traditional structure of health care provision with its dominance of private suppliers and the limited powers of the public health services. Again, education remained within the authority and supervision of the single states (See Flora, ibid, p. 13).

The Adenauer pension reforms of 1957 may have been accelerated by knowledge of the work of a Labour Party team in the UK from 1955 before Labour was returned to office, but in scope and generosity the Adenauer scheme was as big and as influential as that of Bismarck in the 1880s. Both contributions and benefits became earnings-related, thus preserving income and status differentials. This maintained inequalities but also public support and cohesion. Pensioners with 50 years of contributions to their credit were entitled to 75 per cent of previous earnings (Esping-Andersen and Korpi, 1984, p. 198). Pensions were, almost unique to the OECD, linked to earnings in the previous three years and were accordingly regularly updated (Goodin et al, p. 75).

The mid-1960s marked the end of the expansion phase and the beginning of a period of transition. The rate of economic growth had declined considerably and the long period of polarization between the bourgeois and social democratic camps had come to an end, making all parties possible coalition partners. Indeed, when a sudden recession in 1966/67 led to conflict between FDP (the Federal Democratic Party) and Christian Democrats over the budget, a grand coalition of Christian Democrats and SPD was formed. For the first time educational issues were given priority: in particular a wider access to higher education was targeted as an investment in human capital; a federal ministry of education was established; education allowances were introduced for low-income families (Flora, 1986, p. 14). A new social policy was designed in 1969 when a SPD/FDP coalition was formed and the economic growth provided the federal state with new resources. Special attention was given to the improvement of working conditions, and social services were expanded, and education, housing and child allowances were increased and extended. This new social policy was halted by the recession of the mid-1970s, combined with deficits in the pension scheme and a cost explosion in the health sector. The government sought to bring the rate of social expenditure into better conformity with economic growth (Flora, 1986, p. 15).

In summary, from its early stages the German social policy system came to be characterized by four main features: (i) the *sub-division of programmes* into a large number of uncoordinated and decentralized schemes, both at the level of their design and administration; (ii) the stress on *cash benefits*: most benefits are income maintenance cash payments which leave consumption decisions to the recipient, thus stressing the importance of private provision of services, with the exception of education; (iii) the *centrality of social insurance*: individuals are entitled to income maintenance benefits (usually earnings-related) not as citizens but as members of social insurance programmes, generally financed by the insured and their employers rather than by state taxation; (iv) the insistence on extensive *labour legislation*: all social programmes must be seen in the context of a labour legislation with a high degree of regulation on working conditions, dismissals etc (Flora, 1986, pp. 4–5).

7.3. (*a*) The Liberal or Residual model — the UK

The third of the welfare regime models in OECD countries is perhaps the most extraordinary. For representative examples it is hard to choose between the United Kingdom — the first country to institutionalise a form of social security — and the United States — one of the last to do so among rich industrialised countries. Each country will therefore be described briefly.

The first statute placing responsibility on the government of England for the "relief" of poverty was enacted in 1536. This endured for three centuries. The population was fewer than three millions. Beforehand the aim of laws relating to the poor had been repressive with penalties being directed against vagrants (three days and three nights in the stocks) and wandering beggars. Exceptions to repression were gradually found. Punishment was withheld from "women great with child;" and men and women "in extreme sickness." In 1516 in his book Utopia Thomas More described the desperate conditions of dispossessed farmers — some deprived of husbandry by land enclosure — and the need of the working man for economic security. "For their daily wage is so little, that it will not suffice for the same day, much less it yieldeth any overplus, that may daily be laid up for the relief of old age" (see Nicholls, 1898, p. 15). By the end of the 16th century, despite the new Statute, starvation continued to lead to premature death. Thus, there were numerous contemporary municipal reports, an example of which was of the charges for "burying 16 poor folks who died for want in the streets" in Newcastle in October 1597.

Even by the start of the 19th century relief was grudging, parsimonious and coercive. Opposition to the poor laws had gathered momentum but for many years was unsuccessful. The system was held in place by an intransigent ruling class exploiting an imaginative capacity for local social organisation. The lives of all members of rural communities were intricately interwoven by custom, ritual and economic necessity. This has been described as "a tripartite system" of relationships dominated by the ruling elite (Armstrong, 1996, p. 92). The landed estate provided the focal point and during agricultural distress landlords exercised a paternalistic duty to dole out blankets and firewood while resisting encroachments on their property and wealth by itinerant destitute people as well as by those outside their local fiefdoms. In the early decades of the 19th century parish practices were beginning to vary and there were increasing examples of exceptions being made to relatively punitive practices. These applied to outdoor relief in particular. Thus by 1804, for example, "persons impotent and above the age of 60 years" came to be regarded as more deserving than the able-bodied for relief. In addition to the creeping changes to the Poor Laws, rapid urbanisation and industrialisation began to throw traditional practices into the melting pot.

Coercive social assistance was established more uniformly by the Poor Law Amendment Act of 1834. This particular year stands out as one of the most significant years in English economic and social history. It confirmed the ambivalent treatment of the poor and marked a new era of coercion. The place of the Amendment Act in the social history of poverty has had mixed historical interpretation, for example being treated by Beatrice and Sidney

Webb as a triumph of Benthamite utilitarian centralism over an inert system that had been controlled for generations by the gentry (Webb and Webb, 1929). The Webbs appear to have over-valued what to them seemed rational exercise of administrative and political power, in comparison with achievements in civil rights and in more equal human relationships. Thus within three years 13,264 parishes, 90 per cent of the total, were grouped into 568 unions, and the cost of public assistance cut by a third (de Schweinitz, pp. 129–130).

The commissioners took pride in expressing the principle that was to govern administration of relief for the poor in the next 75 years. The situation of the individual relieved was "not to be made really or apparently so eligible as the situation of the independent labourer of the lowest class." Every penny of relief additional to this equation with the poorest labourer's wage was "a bounty on indolence and vice" (quoted from the Commissioners' 1834 report in de Schweinitz, p. 123). This principle of less eligibility became famous throughout the world. The report placed the burden of destitution upon the individual and treated that individual's poverty as simply a question of his or her moral fault (ibid, p. 126). "The commissioners were determined to put an end to outdoor relief for the able-bodied, and to do away with, or to curb, parish administration of assistance through the substitution of larger local units combined with a national system of supervision" (ibid, pp. 126–127).

The deterrent workhouse system was the embodiment of the less eligibility principle. The workhouse remains the abiding social image of nineteenth century England (see for example, Clark, 1997, p. 1). Within three years of the passage of the Poor Law Amendment Act, 200 new workhouses and the extension of many existing workhouses was approved. Relief for the able-bodied poor outside the workhouse was ruled out. Admission to the workhouse, with its unremittingly strict discipline and enforced labour, was the test of need. In subsequent decades "the Poor Law became more and more callous in its application" (ibid, p. 139). Less eligibility and the offer of the workhouse became the core of a philosophy and a creed, against which, and for which, conservatives and progressives in the UK have fought repeatedly for generations.

The Act of 1834 and its aftermath led to bitter social divisions that were not resolved until after the reports of a Majority and a Minority of the Royal Commission on the Poor Law 1909, following its appointment in 1905. The Majority report of that commission referred reluctantly and with qualification to necessary structural changes but the Minority Report by Sidney and Beatrice Webb was unambiguous in calling for the abandonment of the Poor Law and for its replacement by public assistance [16]. The total effect "was to demonstrate that England had at last emancipated herself from the domination of the principles established by the earlier [1834] inquiry (ibid, p. 189).

The stream of enactments during 1905–1911 marked the first stage of the establishment of a welfare state — prompted earlier by riots against unemployment in the mid-1880s, widely publicised reports on poverty by Charles Booth and Seebohm Rowntree at the turn of the century, the organisation by miners and other working class groups of friendly societies to mitigate interruptions of wages because of need in sickness and disablement, and the poor physical quality of a large proportion of young men recruited to fight the Boer war. This last factor seems to have brought some members of the ruling class into grudging acceptance of reform. The culmination of a number of measures occurred in 1911. "In the [National Insurance] Act Britain took a step of profound significance in her efforts to secure social security. In adopting health and unemployment insurance she had applied an

[16] The 1834 Poor Law was directed to deterrent provision for an undefined pauperism. Paupers included individuals of any age and with every form of ailment and need. Poor Law guardians were responsible for "the education of pauper children, for the care of the sick and the aged, for the care of the feeble-minded and the insane, and for the employment of the able-bodied." For those not subject to the Poor Law "there was care for the sick in public hospitals, there was the Unemployed Workman Act of 1905, there were institutions for the mentally ill and also for the feeble-minded; and in 1908, while the commission was still at work, there had been enacted outside the Poor Law a system of pensions for the aged. Why, asked the Minority, should this duplication of activities and agencies continue?" (de Schweinitz, p. 193).

innovation only to be compared in importance with the legislation between 1536 and 1601 establishing the responsibility of the state for guaranteeing the individual a protection against starvation" (de Schweinitz, 1961, p. 208).

The second stage of enactments, consolidating the welfare state, had to wait until after the election of a Labour Government in 1945, when new schemes for national insurance (1946) and national assistance (1948) as well as a National Health Service (1946) were enacted, partly as a result of decisions taken by the war-time Coalition Government and the recommendations in the famous Beveridge Report of 1942. Conditional welfare for the few became minimum rights for all. Not until there were independent research investigations in the 1960s of the conditions among large families, low wage-earners, lone mothers, the disabled and the elderly did it become clear that the post-war instruments had not sufficiently disposed of poverty. Universal benefits were largely flat rate and relatively low since they had been restricted to ideas of "subsistence need." Partly as a consequence means-tested schemes that were severely administered remained a key feature of organised redistribution to support or provide low income. Decades of attempts to rescue the "deserving" from the "undeserving" poor had not turned out to be wholly successful. Successive governments took steps to re-name and re-organise the discriminatory and conditional payments that continued to be regarded as stigmatising (as well as inefficient in their coverage) — first national assistance, which was followed by supplementary benefit, then by income support and later by various tax credit schemes. The emphasis given to selective social assistance — together with the continued refusal to compare conditions of the poor with those of the rich and match their rights — reflected the distrust and lack of acquaintance of leading classes and administrators with the poor that had marked English class attitudes for generations.

Since the 1980s governments have made attempts to divert attention from the strengths of social insurance to those of entrepreneurial private business in an international market economy, and to reduce total public expenditure by decreasing universal benefits and increasing selective social assistance at smaller overall cost. National insurance was used more for funding the NHS than it was earlier and therefore the National Insurance scheme is less clearly a balance struck between individual/ employer contributions and guaranteed individual benefit. In the process, a huge under-utilised annual surplus has built up in the National Insurance Fund itself. According to one authority the working balance in the National Insurance Fund over and above the cost of meeting contingencies exceeded by £24.5 billions in 2006 the level recommended by the Government Actuary, and the excess is expected to rise to £48 billions by 2010 (Lynes, 2006, p. 1).

Writing at the end of the 20th century social scientists declared that increasing inequality in the labour market, family changes and an ageing population had not led to a decline in social insurance in other industrial countries. The UK was unique in the extent to which its social insurance scheme had "withered" in recent years (Clasen and Erskine, 1998, p. 4). In other EU countries, social protection was seen as relevant to everyone, not only the poor, public insurance contributions were not seen as a tax, but as paid for particular reasons; and social insurance was part of an acceptable notion of social responsibility and social solidarity (Hirsch, 1997).

A year after the Labour Government was elected in 1997, the Chancellor of the Exchequer, Gordon Brown, stated, "Of course, the British idea of National Insurance has changed over time. But no one can deny that by sharing risks among 58 million citizens and by the strong helping the weak it makes us all stronger" (Gordon Brown, *The Guardian*, 12 November 1998). That expression of support has not led to Government initiatives to compare the respective roles and potentialities of private and public insurance and promote public discussion. According to the government's own research there was strong public support for the contributory principle, for a widening of entitlement, and for a greater degree of risk-pooling to provide good national insurance benefits. The state scheme was preferred to private providers and opposition to means-testing was strong (Stafford, 1998; see also Social Security Committee, 1999). A war on child poverty was declared, which was widely approved, but which by 2006 had not yet reduced child poverty in the UK to average EU dimensions. And measures proposed in that year to restrict disability benefits, even for youngsters severely disabled, reflected the historical pre-occupation of the English establishment with the undeserving poor and for all rights and benefits to be conditional on a readiness to work.

7.3 *(b)* The Liberal or Residual model — the US

By contrast to England a comprehensive social security system arrived late, but more swiftly, in the United States. The delay was marked in comparison with the United Kingdom and the rest of Europe. Even countries in Latin America, including Chile, Argentina and Uruguay, had established social security systems in the early decades of the 20th century long before the United States (Hall and Midgeley, 2004, p. 234).

The catch-up years turned out to be 1935 and 1946. Before 1935 social insurance struggled for legitimacy in a political climate of distrust of centralised state authority and strong belief in private business and local management. The first large system of benefits was restricted to veterans of the Civil War. The next, around 1912, consisted of a variety of work-related compensation for working accidents and social insurance against such risks. Yet the individual states, and private insurance, were invested with responsibility to deliver the actual benefits. The same dependency on state, and even county, government continued with experimentation with survivors' benefits such as means-tested widows' pensions. In the 1920s means-tested old-age pensions were fragmentary and reached only a small minority in need (Berkowitz, 1997, p. 24).

In the early years of the 20th century Americans became aware of the neglect of poverty by politicians and scientists alike. Writing in 1904 Robert Hunter suggested that more than 10 million Americans were "underfed, under-clothed, and poorly housed". Meticulous studies had been carried out in Europe and especially England "but we have not made even a beginning in finding out the extent of poverty in America (Hunter, 1904, pp. v and 19). The figure of 10 millions, or over one in six of the population was "conservative" and built on fragmentary reports and accounts. Four million individuals received poor relief. This was "a seventeenth century system of relief which degrades all alike without discrimination" (ibid, p. 105). Over 2 million working men "are unemployed from four to six months in the year. About half a million male immigrants arrive yearly and seek work in the very districts where unemployment is greatest. … Over 1.7 million little children are forced to become wage-earners when they should still be in school. … Probably no less than 1 million workers are injured or killed each year … and about 10 million of those now living will die of … tuberculosis. … Many workers are overworked and underpaid … We know of the unsanitary evils of tenements and factories; we know of the neglect of the street child, the aged, the infirm, the crippled (ibid, p. 337). Two years earlier, Jacob Riis published a book full of graphic accounts and photographs of thousands of men, women and children living in New York in sheds in back alleys, starving children, prostitutes, queues outside lodging houses, and shelters erected with money from the city but unconnected to the sewers.

By the 1930s the alternative mechanisms of private life insurance and savings to achieve income security in old age were found wanting. Increasing attention was paid to the need for federal intervention. During the Great Depression more and more elderly were forced to rely on poor relief. The outlook for the younger generations, with mass unemployment, underemployment and the financial losses experienced by many on middle and low incomes seemed bleak. The introduction of a contributory social insurance scheme designed to spread the "burdens" of an elderly dependent population over a much larger workforce was a logical outcome that attracted growing support. Different generations could share the risks and returns inherent in a market-based economy. The Great Depression had shown how individuals through no fault of their own could experience drastic impoverishment through the economic disadvantages that can arise in the market — of failure and mismanagement of some financial institutions, hard-to-predict falls in the economy, too few assets to permit portfolio diversification, self-insurance rates that do not and cannot allow for a prematurely shortened work-life because of redundancy, disability and widespread unemployment. During the 1930s there were mass movements calling for change. “Social insurance … marked a response to involuntary unemployment. It was a means of harnessing industrial productivity to cushion some of its shocks” (Berkowitz, 1997, p. 23).

Resistance to unemployment insurance remained strong so help for the able-bodied continued to be sought in poor relief, and its extension into forms of what has become American “welfare.” By the mid-1930s economists had reached agreement that a valuable stimulus could be injected into the economy by social security payments to the elderly and disabled people. President Roosevelt set up a Committee on Economic Security in 1934. By January 1935 the Committee reported and the recommendations in its report were rushed into law by August 1935.

When signing the Social Security Act of 1935 Franklin Delano Roosevelt said:

“We can never insure 100 per cent of the population against 100 per cent of the hazards and vicissitudes of life, but we have tried to frame a law that gives some measure of protection … against poverty-ridden old age” (Cullinan, p. 193).

After the Act was passed, and before it took effect the need for it was given impetus by a further deep recession in 1937 and, ironically, the minimal provision of help for the immediate needs of the unemployed and aged poor. The Social Security Act came into force for the first wave of elderly beneficiaries in 1940. The programme quickly became a fixture in the American landscape. In that first year 55 per cent of the labour force was covered for benefit. By 1960 numbers reached 86 per cent and by 1990, 95 per cent. Benefits grew faster than either prices or wages. Legislative initiatives enhanced the adequacy of benefits, payroll taxes being levied equally on employers and employees at a rate of 5.7 per cent. As a share of GDP social security costs increased between 1960 and 1980 by 2.1 percentage points, and were expected to remain at GDP 4.5 per cent until numbers of elderly increased faster after 2010. But in the next 30 years, to 2040, the predicted increase needed of another GDP 2 per cent would represent less than the rate of growth 1960–1980, and about the same as the increase in defence spending in the 1980s. (Cullinan, pp. 198–203). Today over 40 million Americans receive benefits from Social Security and some 140 million pay taxes and contributions to qualify, in their turn, for disability and survivors’ insurance protection.

After the 1939–45 war, as in Europe, there was in the United States a determination not to repeat the mistakes of the 1930s and to consolidate social security as part of the new economic enlightenment. The right to social security was included in the Universal Declaration of Human Rights in 1946, and that decision symbolises the introduction and extension of schemes in different countries in that year and subsequently.

The interpretation of social security concentrated on old age and survivors’, and disability, insurance, and there have been tendencies in the US in defining social security to exclude selective or means-tested social assistance. There was political opposition to widening the scope of the legislation beyond elderly and disabled people. Early rates of benefit were low and until an amendment to the law was proposed in 1950 and passed in 1952 the battle between social security and “welfare” flared and subsided. The survival of social security seemed to be precarious. The delay in making social insurance effective led paradoxically to extension of social assistance measures, despite the variation of administration between states, the bad record of reaching even two-thirds of those eligible for assistance, and considerable waste of administrative costs and energy.

This reluctance to concede the logic of major federal involvement corresponded with a reluctance to accept the fact that the role of private insurance was necessarily restricted. It took much hard argument and accumulating research evidence to persuade opinion that the state had to have a major role in relation to the market. Examples arise in distinguishing the respective roles of market and state:

> "Another market failure addressed by a compulsory social insurance programme is the problem of adverse selection. Private or voluntary insurance arrangements face significant difficulties in annuity markets because purchasers are self-selected and they are likely to be those most likely to receive favourable treatment …Individuals most likely to purchase a life annuity are those who believe they are likely to be long-lived. An actuarially fair premium for the population at risk will attract these individuals, and those with shorter expected lifetimes will choose not to participate. … The suppliers of such annuities would always find these offerings unprofitable" (Cullinan, p. 197).

Between 1935 and 1950 adherents of the system fought for its survival against Old Age Assistance, a welfare programme that many states favoured and could implement and re-organise easily. But such assistance was deeply flawed, and manifestly unequal and unjust. In 1950 amendments to the 1935 Act were introduced in Congress and were debated for a year and a half (see Berkowitz, 1997). For the first time Democrats and Republicans agreed on the political desirability of an increase in social security. Substantial increases in contributions and benefits were introduced by the law of 1952. When, after being elected in that year, President Eisenhower gave his State of the Union message on 2 February 1953, he recommended that the "old age and survivors' insurance law should promptly be extended to cover millions of citizens who have been left out of the Social Security system." (Cohen, Ball and Myers, 1954, p. 16). There was steady incremental expansion of social security for the next two decades. Wilbur Cohen, an important figure in social security administration, described 1951 as a milestone year, because more people benefited in that year from Old-Age Insurance than Old-Age Assistance, and total payments for the former began to exceed those for the latter (Cohen, 1952).

Between 1954 and 1956 attention shifted to the creation of a disability insurance programme and then, from 1956 to 1965, health insurance. There were furious exchanges about health care costs and eventually a restricted insurance scheme for the elderly for hospital costs and supplementary medical costs was accommodated in the Medicare programme enacted in 1965. Substantial expansion of the entire programme continued, but after 1972 persistent efforts to contain growing costs were made. Today, total public expenditure payments are smaller than in other OECD countries, but they have remained as high proportionately, and even increased, in the US, compared with what they were in the 1970s.

The New Deal of the 1930s had created the social insurance scheme enacted in 1935. It also created the means-tested scheme Aid for Dependent Children in 1936. In its first year there were more than half-a-million recipients of relief, most of them white, female widows with children (Miller and Markle, 2002, p. 86). Later expanded and re-named Aid to Families with Dependent Children (AFDC) this scheme foreshadowed a second stage of "welfare" in the 1960s and then again another stage towards the end of the century. At its height, in 1994, the AFDC scheme had 14.2 million recipients, or 5.5 per cent of the population. But more and more people were led to believe that "public assistance without a work requirement promoted indolence as well as childbearing … Largely spurred by political response to public misperceptions, AFDC slowly began to move towards a work-emphasised approach" (ibid, pp. 87–8).

In quick succession there was an earned income disregard, a Work Incentive programme, and a Jobs Opportunities and Basic Skills Training programme. Ultimately AFDC was replaced by Temporary Assistance to Needy Families (TANF). A five-year limit was placed on the receipt of benefit. In addition to assistance the objectives were to reduce dependency by promoting work, reduce the number of out-of-wedlock births, and increase the number of stable two-parent families. The right to receive benefit was withdrawn. States were responsible for identifying needy families and providing them with benefits but no person had a right to receive such benefits. This legislative change in 1996 marked the famous shift in the United States from welfare to workfare.

Welfare rolls had already decreased between 1994 and 1996 but by 2000 they decreased by half.

> "The result is not so much increased self-sufficiency as increased financial need. The current welfare programme is simply not meeting the need of those eligible for assistance. In 1995, approximately 80% of poor families with children received welfare. The figure declined steadily following the 1996 reforms and reached approximately 50% in 1999. Similarly, in 1994, the percentage of poor children receiving AFDC assistance was down to 62% and by 1998 this figure was down to 43%" (Miller and Markle, 2002, p. 96, quoting Loprest, 1999).

More of the population entered work, but that was at a time of improvement in the economy as a whole. The Earned Income Tax Credit programme and increases in the 1990s in the minimum wage also accounted for part of the fall in the number of recipients of welfare. The cost of the change was in perpetuating poverty for many families, but in work rather than on benefit.

The conclusion reached by one research team is that "the liberal welfare regime succeeds in keeping costs down, but at the cost of allowing poverty to remain comparatively high." And, "contrary to liberal hopes, high incomes on average do not translate into adequate incomes for the poor" (Goodin et al., pp. 244–5).

8. Social security in developing countries

The history of social security in the OECD countries holds particular implications for anti-poverty action and social and economic stability in the developing countries. Before drawing these together one prior question requires an answer. How does the historical and current account of systems in the OECD countries in this report relate to the policies currently being followed in the developing countries?

One implication of the historical analysis above is the value to governments of using "direct" measures to reduce poverty. For example, contributory social insurance schemes for those of working age who may become sick, disabled, unemployed or bereaved, and non-contributory tax-based benefit schemes, especially for children, disabled people and the elderly, have been shown to have an early but also lasting impact.

Existing social security schemes in developing countries are desperately under-resourced, as Table 4 on p. 9 graphically illustrates. The schemes present a diverse picture (see, for example, ILO reports cited for 2001 and 2003). A semblance of a system had been introduced by colonial authorities in most of Asia, Africa and the Caribbean 100 or more years ago. They were extended in the first instance to civil servants and employees of large enterprises. There were benefits for relatively small percentages of population that included health care, maternity leave, disability allowances and pensions. In general they neglected the poor, and especially rural poor.

In the last decades there has been mounting concern about slow progress in developing social security in the poorest countries. In 2005 the ILO reported a modelling exercise — applying three models of very basic social protection packages. Costs turned out to be "within reasonable affordable limits" if countries were committed to reducing poverty [17]. But the "mobilisation of international resources will be needed in order to make this an achievable target." [18] In an early page of this report (p. 13) the extent of the gap in percentage of GDP redistribution that needs to be closed is illustrated.

Today there are a number of examples of new as well as previous initiatives taken in developing countries themselves to establish social protection schemes. For example, in India there are schemes in different states intended for large numbers as well as a range of schemes for small categories of population such as middle- and high-ranking civil servants. Cash allowance schemes for children, disabled and elderly are however few and far

[17] Pal et al, 2005, p. i.

[18] ibid, p. xii.

between. Allowances for children seem likely to develop only as a by-product of other social protection schemes. In 1995 the Government of India introduced an all-India social protection scheme — the National Social Assistance Programme (NSAP). Social assistance benefits are intended to become gradually available to poor households in the case of old age, death of the breadwinner and maternity. Thus there are three types of benefit: the National Old Age Pension Scheme, the National Family Benefit Scheme and the National Maternity Benefit Scheme. Along with expenditure on education, health, public health, labour welfare and family welfare, total "social security" expenditure per person grew very slowly at constant 1980–81 prices from 128 rupees in 1973 to 142 rupees in 1999, or by 11 per cent. "Although this increase is not large, it is nonetheless likely to have contributed towards the sharp decrease of poverty in India in recent years" (Justino, 2003, p. 16).

One current national initiative, also relevant to children, is the National Rural Employment Guarantee Act of 2005 (NEGRA), launched by the Prime Minister Manmohan Singh in February 2006. The Act seeks to guarantee employment for 100 days a year at the minimum wage to one person from every poor household to improve rural infrastructure — roads, school buildings and village water supply and to regenerate the land while reducing soil erosion (Mehrota, 2006, p. 13). A major problem in developing a social security system for those who cannot be employed, or are unlikely to be employed in the foreseeable future, and especially in considering child allowances, is that the Government collects only 8-9% of GDP in taxes, compared with 22% (2003) in China and 14% generally in low-income countries (1990–2001). And tax revenues from the richest sections of the population have actually fallen in the last two decades (ibid, p. 13).

In Latin America some countries introduced social insurance and other schemes before the 1939 war, and other countries followed suit after the war. In that continent there is already more of an established system of social security on which to build. However, benefits tend to be limited in range and coverage. In earlier decades they were not administered by one central government agency. There were multiple schemes for different occupational groups (Hall and Midgeley, 2004, p. 241). Social insurance had to be greatly extended. And in the informal sector of the economy non-contributory schemes, or schemes with minimal contributions were needed.

A good start has been made by individual governments in the 21st century, including Brazil, especially in schemes for children, for example, the *Bolsa Escola* programme. Relatively local "Conditional Cash Transfer" (CTT) schemes preceded this programme, which was launched in 2001. In less than a year 5 million households with children between 6 and 15 were receiving a cash benefit. Transfers were limited to US$ 15 a month per family, conditional on school attendance. In 2003 the programme was absorbed with other federal CCTs into *Bolsa Familia* (Britto, 2006a, p. 15). Early research showed positive effects on schooling and nutrition but longer-term effects on rates of poverty and child labour remained unclear (ibid, pp. 15–16) [19]. The enlarged Bolsa Familia programme now reaches 11 million households. Mexico was in fact the first country in Latin America to introduce a nation-wide CCT programme — *Progresa*, in 1997. This was expanded and re-named Oportunidades in 2002. This confers cash or in-kind allowances to the household (up to US$ 60 a month) on condition the children attend school and health check-ups are arranged for all members of the household (ibid, p. 15).

Less publicised than the Bolsa Familia programme in Brazil has been the "Continuous Cash Benefit Programme," or "Beneficio de Prestacao Continuada" in Portugese (BPC). Since 1993 people aged 65 and over and people with a severe disability whose household

[19] "Initial evaluations have shown positive effects of CCTs on schooling and nutrition. The evidence regarding the impact on child labour is not conclusive, since school attendance can be frequently combined with work and requires broader interventions. The impact on poverty is still not so clear … In the long run, the translation of higher educational attainment into higher earnings cannot be taken for granted. It depends on the quality of education, rates of employment, absorption of skilled labour in the economy and general rates of return to education" Britto T. (2006a), pp. 15–16. See also Britto T. (2006b).

per capita income is less than a quarter of the minimum wage (approximately US$ 1 a day in March 2006) are eligible for a transfer equivalent to the monthly minimum wage (approximately US$ 4 a month). In December 1996, after its first year of operation, as many as 346,000 benefited. At the end of 2005 2.1 million benefited, just over half being disabled and under 65 (Medeiros et al, 2006, p. 15). There are other cash transfer mechanisms, including one of invalid pensions, which is a contributory scheme for workers in the formal market and benefited 2.6 millions in 2005.

This illustration shows that programmes to gradually increase public expenditure so that categories of the extreme poor start to benefit offer a realistic, affordable and successful alternative. Under President Lula da Silva, the Brazilian Government's Zero Hunger Programme was planned to provide quantity, quality and regularity of food to all Brazilians in conjunction with accelerated Social Security reform [20]. The Zero Hunger Programme includes food banks, popular restaurants, food cards, distribution of emergency food baskets, strengthening of family agriculture and a variety of other measures to fight malnutrition. The Social Security reform programme includes social assistance for low-income 15–17 year-olds; assistance for 7–14 year-olds who are enabled to go to school and avoid the exacting toll of the worst conditions of child labour; minimum income and food scholarships for pregnant and nursing mothers with incomes less than half the minimum wage or who are HIV positive; benefits for elderly disabled with special needs; and a range of other transfer programmes for the elderly, widowed, sick and industrially injured and unemployed that are being enlarged year by year [21].

The social security programmes being developed in Mexico, Chile, Costa Rica and especially Brazil are useful models for poorer countries in Africa and South Asia. They provide a parallel set of evidence to that for social security in the OECD countries, and can help governments and international financial agencies from making mistakes in their plans to reduce poverty and improve social and economic wellbeing.

Africa presents a more varied picture of measures taken to counter poverty than often appreciated. In some countries new social insurance schemes have been introduced — for example a maternity and sickness scheme in Namibia. Mauritius and the Seychelles have universal benefit programmes (and relatively low poverty rates). Means-tested cash benefits are found in Botswana and Mozambique. Zambia has successfully piloted a social cash transfer scheme targeted to the poorest tenth of households (Gassmann and Behrendt, 2006). But social security expenditure in countries like Burundi, Cameroon, Ethiopia, Ghana, Kenya, Madagascar, Mauritania, Nigeria, has declined or remains at a tiny level compared with GDP (ILO, 2002).

South Africa has high rates of poverty, labour migration and unemployment, and the problem of HIV/AIDS has become acute. Nonetheless, since the fall of apartheid in 1994 strong attempts have been made to begin to introduce a comprehensive social security system. In 1998 a Child Support Grant was started, worth R100 for each child below the age of 7 whose carer had an income of less than R800–R1100, depending on composition of family and other factors. The 1998 figure of R100 has been increased regularly in line with inflation, reaching R180 in 2006. By early 2003 there were 2.5 million beneficiaries. By late 2005 the age limit had been increased gradually to 13, and the number of beneficiaries reached over 6 millions (and the number of adults 4 millions). There are criticisms of coverage. While there is good evidence that the grant reaches some of the poorest of children (Case et al, 2003) the increasingly large numbers of orphans, street children and child-headed households, in many cases the consequence of the spread of HIV/AIDS , remain largely ineligible (Barrientos and DeJong, 2004, and see the initiatives in measuring child poverty by Noble et al, 2005). Despite the difficulties many South Africans regard the development as the "road to universality" and give the example of the

[20] Suplicy E.M. (2003), "President Lula's Zero Hunger Programme and the Trend Toward a Citizen's Basic Income in Brazil," (publication forthcoming), London, LSE.

[21] Suplicy E.M. ibid.

Child Support Grant when illustrating the significance of the incorporation by South Africa of the principle of the “progressive realisation” of economic and social human rights into their common law jurisdiction. The idea of a staged programme towards comprehensive coverage was a feature of a major commissioned report (Committee of Inquiry into a Comprehensive System of Social Security for South Africa, 2002).

There is a new cash grant in South Africa. But everywhere wider non-contributory schemes for children are urgently needed, preferably schemes that are categorical and not means-tested.

China has the largest population in the world (though India is rapidly catching up.) Information about social security is improving rapidly and social surveys in particular are providing data about poverty and policy measures — particularly for urban areas — that were previously inaccessible. For example, one survey draws on 1998 urban household survey data covering 17,000 households in 31 provinces, conducted by the National Statistics Bureau (see Hussain, in Gordon and Townsend, 2002, chapter 12). The research team, made up of experts from China and from other countries, including the UK, decided to distinguish between a “food poverty line” — defined by the average cost in different provinces for people among the poorest 20% of just buying enough food to provide the minimum necessary average of 2,100 calories per person per day — and a (higher) poverty line. The cost of meeting the poverty line was the cost of meeting the “food poverty line” plus the cost of meeting other basic non-food needs. These were worked out using a regression exercise on the urban data and, just as food needs were calculated on the basis of an average of 2100 calories per person, non-food needs were calibrated for different households in accordance with basic non-food expenditure of households just satisfying the criterion of spending on food to ensure a minimum of 2100 calories.

The national average food poverty line of 1,392 yuan per month was estimated to be 32 per cent lower in the province of Qinghai, at one extreme among the 31 provinces, and 69 per cent higher in the province of Shanghai, at the other extreme. The general poverty line is lower than the purchasing power parity equivalent of the World Bank’s poverty standard of $1 per day. It produces an estimate for the whole of China of 4.7 per cent, or 15 millions in poverty, when income is the standard, and 11.9 per cent, or 37 millions in poverty, when expenditure is the standard. Where the exact poverty line is drawn matters in China because a large proportion of population have very low incomes. Thus, if the poverty line were drawn 50 per cent higher than the very stringent threshold in fact adopted, the figure of 4.7 per cent in poverty becomes 20% or nearly 90 millions in urban areas. It would be even higher if it measured the costs of subsistence, like that undertaken by the Institute of Forecasting of the Chinese Academy of Sciences and even by the National Statistics Bureau and the Ministry of Civil Affairs.

The key policies for the urban poor in China are the Minimum Living Standard Scheme (MLSS), a recent addition, and a longer-established social security package that includes social insurance. The MLSS began as a local initiative that was gradually extended to regions and then all urban areas. With the disappearance of the living allowance for laid-off employees by the end of 2003, the MLSS and unemployment insurance will be the “two last lines of defence against urban poverty.” By the end of the 1990s 3.3 million registered unemployed, or 55 per cent were receiving unemployment benefit; and 3 million of the 460 million urban population were recipients of the MLSS. Eligibility is restricted and special investigation of particular cities found that only about a quarter of those in poverty were receiving assistance.

For China to make improvements in anti-poverty policies many authorities seem to agree that publicly provided social assistance and social insurance need to be extended and benefits raised; the administrative infrastructure greatly strengthened; poverty monitored more successfully, and the methods of financing benefits overhauled. Certainly different models of social security in both rich and poor countries are being scrutinised closely.

According to the ILO "One of the key problems facing social security today is the fact that more than half of the world's population are excluded from any type of statutory social security protection" (van Ginneken, 2003, p. 1; see also Van Ginneken, 1999; Cichon and Scholz, 2004; Cichon et al, 2006; Midgeley, 1984; ILO, 1984; Rodgers, 1995; Reynaud, 2001). In South Asia and Sub-Saharan Africa approximately 90 per cent and in middle-income countries between 20 and 60 per cent lack such protection. "Social security has become more necessary than ever due to globalisation and structural adjustment policies. … The challenge for governments, social partners and civil societies is to create such conditions that the large majority of the population contributes to basic social insurance schemes" (ibid, p. 66).

The ILO Social Security (Minimum Standards) Convention (No. 102) 1952 laid down minimum income requirements per child, of either 3 per cent of the ordinary manual labourer's wage, for the economically active, or 1.5 per cent of that wage for all other families. In families with four children the benefit would amount to 12 per cent (or 6 per cent in the case of those not in work). The ILO Convention was signed by 40 countries — including Niger, Senegal and Mauritius. It became part of the European Code of Social Security and the blueprint for such instruments as the European Social Charter, the Treaty of Amsterdam of the European Union and regional agreements in Africa and Latin America (Kulke et al., 2006, p. 4.) If the World Bank had sought policies to enforce this Convention rather than extend its neo-liberal anti-poverty strategy there would have been a dramatic fall in world poverty.

A serious obstacle to the extension of social security schemes in developing countries to reduce poverty has been the difficulty of reaching agreements on trade (see, for example Watkins 2002; Offenheiser and Holcombe, 2003; Held 1995; Kanbur, 2000) and therefore the exact needs and rights to income of people to be employed directly and indirectly by trans-national corporations. Discussions about the nature, still less the legal enforceability, of "corporate social responsibility" (see ILO 1998; OECD 2001b) have not been resolved — in particular the question of employing TNCs making contributions to the extension of social security in developing countries in which they have a substantial interest and where many workers are employed on their behalf. Another serious obstacle has been the difficulty of re-building and/or strengthening tax administration. Taxation and contributory insurance systems can be introduced or strengthened to raise national revenue to match international tax or aid revenues both for the protection of children and families, but also to be fully answerable to representatives of national electorates as well as participating overseas governments, with independent powers to monitor policies and outcomes.

Because of mounting criticism of the insufficient powers and therefore the policies of nation states to resolve poverty in the global economy of the 21st century joint funding of social security between countries is likely to evolve (see, for example Townsend, 2004b for an illustration of joint funding of child benefit). Demands for joint action, including action to build and enforce tax and contribution revenues, will necessarily lead to the introduction of new forms of international taxation and accompanying independent international inspectorates.

9. Conclusion: Bringing social security into the 21st century: The lessons of the OECD models

The results of the study of the different OECD models holds special lessons for the governments of developing countries. But the latter have taken particular social security initiatives themselves, despite being relatively small in scale, from which lessons may also be derived by the governments of the OECD countries — for internal reflection and action applied to their own systems as well as for external collaborative support.

The rapid evolution of the global market compels bridging operations between systems of social security rather than increasing a risk of outright collision. The OECD countries are bound to be caught up in anxious internal reviews of their future international anti-poverty strategy. This will be explained. In sheer scale the commonalities of need, interest and practices at equivalent stages of wealth dwarf the differences noted in the pages above among "welfare" regimes or among individual countries in the prosperous North.

The principal anti-poverty strategy for developing countries advised by the North will have to be changed. Using various techniques and combinations of social groups the early-industrialised countries introduced social security systems of substantial scale in relation to GDP to alleviate the major part of poverty in their midst. But the instructive history of OECD countries' programmes to overcome their own domestic poverty in the late 19th and early 20th centuries has not been generally explored, even in rough terms, as a model to be followed by and for the poorest countries. The dominant Washington consensus has been to argue for a reduction in the size of the state — reducing public expenditure, extending private ownership and management and de-regulating rules about business, trade and labour conditions. This was to apply to rich and not only poor countries. But the starting-points have been poles apart, and have been getting wider.

It was assumed that social security, except in the form of safety nets or means-tested selective measures for the extreme poor, was neither affordable in very poor countries nor desirable. Social security, in any extensive form, many economists argued, was an albatross. As we have seen, this flies in the face of current as well as historical practice in the OECD countries — including, it must be emphasised, the United States [22]. But many of the policies recommended for developing countries in the last 30 years are becoming increasingly doubtful as bringing about lower rates of poverty and enhanced social, political and economic stability. Affordability seems to be the wrong criterion in the 21st century when set against *both* the current developments in low-income and middle-income countries, *and* the history of the high-income countries.

What are the principal recommendations, therefore, that emerge from our analysis? The conclusions of this investigation of early and late 20th century social security in OECD countries stand, in their context, as implied strategic recommendations or principles for all governments — whether developing or industrialised:

(1) Social security came to be accepted by *all* OECD member countries as one of the major paths to modernisation and sustainable growth as well as the principal means to reduce domestic poverty. That path continues to be actively pursued, by and on behalf of the new member states of both the OECD and the EU.

(2) The path to social security for Low-Income Countries today will necessarily be different, because of the existence and operation of a global economy, including powerful trans-national corporations, and modern international communications, but cannot be rejected.

(3) In all OECD countries a mix of universal (that is, social insurance and tax-financed group schemes) and selective measures (that is, benefits conditional on test of means) came to be developed. The range was from selectively coercive schemes with paltry resources to universally protective low-benefit schemes, and finally to universally positive development schemes, designed to achieve minimally adequate standards of living and social participation and minimally creative collective enterprise.

(4) Generally the greatest weight came to be placed on "universal" contributory social insurance and then tax-financed group benefits. When breaking social security into its three key components it becomes clear that if they are to be considered for adoption in the developing countries they have to be modernised along the following lines:

[22] After a long review of developments in the US after 1935 two analysts concluded in 1997: "Universal eligibility for Social Security remains sound policy and an essential feature of a public pension programme designed to provide widespread protection, especially to low- and moderate-income populations" (Kingson and Schulz, 1997, p. 59).

(a) contribution-based social insurance depends on revenue willingly provided from wages by employers and employees to earn entitlement to individual and family benefits in adversity, including unemployment, sickness, disability, bereavement and retirement benefits. As employers of huge numbers in their international labour forces Trans National Companies will be required to make contributions on behalf of sub-contracted labour in countries with which they trade. Individuals will need to be contractually and not informally employed — with beneficial results for the reduction of extensive violations of human rights — especially child labour and other labour violations. Individuals will also require rights when moving to, and/or employed in, other countries. Correspondingly, companies will acquire easier relationships with governments in whose countries they seek to establish production and services;

(b) Tax-financed group schemes will be crucial for some groups unable to work, such as children, the severely disabled and the elderly, say over 75. Children have had no opportunity to qualify for benefit through contributory social insurance. Very old people were in paid employment long before social security systems were established. The tax base can no longer be applied only to one country — because of the mobility of labour and the multi-country practices of employers;

(c) And, to be effective, selective social assistance will also depend on revenue from companies, and all, but especially rich, countries, employing relevant labour and making cross-national profit. In a supplementary report to follow this publication methods of finding the global revenue to meet social security rights, and bring current practices up-to-date are set out in some detail. The principal illustration is of a new application of the 1972 Tobin Tax, a Currency Transfer Tax, to raise quickly a sum much larger than current levels of Overseas Aid and Debt Relief for a UN Child Investment Fund to develop a system of child benefit in cash and kind in the poorest countries.

(5) The path to social security of similar scale and importance for developing countries as for already industrialised countries has effectively been obstructed or not actively supported, at the same time as social security in the industrialised countries has continued to grow, or has remained at a high level, proportionate to GDP. This has fostered a remorseless growth of inequalities between rich and poor countries, and of inequalities within low-income and middle-income countries, especially those of considerable size and growing economic importance globally, such as Brazil, India and China. The need for a catching-up exercise and for more coherent international development of social security systems has become urgent.

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Glossary (OECD)

Public social expenditure is the provision by public institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare, provided that the provision of the benefits and financial contributions constitutes neither a direct payment for a particular good or service nor an individual contract or transfer. Such benefits can be cash transfers, or can be the direct ('in-kind') provision of goods and services. Tax breaks with a social purpose are included. To be considered “social,” benefits have to address one or more social goals. Benefits may be targeted at low-income households, but they may also be for the elderly, disabled, sick, unemployed or young persons. Programmes can be regulated by redistribution of resources across households or by compulsory participation. Social benefits are regarded as public when general government (that is, central, state and local governments, including social security funds) controls relevant financial flows.

Social expenditure consists of public social expenditure (defined above) plus private social expenditure (as illustrated in Chart 1, p. 13). Thus, social expenditure can be provided by both public and private institutions, but transfers between households are not within the scope of social expenditure. It does not include “market transactions — that is, payments in return for the simultaneous provision of services of equivalent value.

Public social security comprises the funds made available at all levels of government by (1) *Social insurance* programmes covering the community as a whole or where large sections of the community are imposed and controlled by a government unit. They generally involve compulsory contributions by employees or employers or both, and the terms on which benefits are paid are determined by government; (2) *Social assistance* programmes generally arise from taxation and cover only those with low incomes. Benefits are transfers made by government units to households and intended to meet the same kinds of needs as social insurance benefits, but are provided outside social insurance schemes and are not conditional on the previous payment of contributions. They are generally conditional on test of means, but sometimes other conditions as well. *Tax credits* can be included in social assistance, since households with less income than is eligible for tax can have their incomes made up to levels imposed by government through direct benefit payments or the pay received from employers; (3) *Social benefits in kind* consist of social security including re-imbursements) in kind, and social assistance in kind (for example, food, fuel, clothing) excluding transfers of individual non-market goods and services (including gifts).

Social security comprises public social security, as defined above, plus social insurance benefits that are provided by privately funded schemes or by unfunded schemes managed by employers for the benefit of their existing or former employees without involving third parties in the form of insurance enterprises or pension funds.

Social transfers comprise total public and private expenditures as defined above.

Source: Adaptation of OECD Economic Factbook, 2005; An Interpretative Guide to the OECD Social Expenditure Database SOCX), OECD, p. 10.

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