Chapter V

Social protection, labour and work

In ensuring income security for workers, social protection plays an important role in the decent work for all agenda. A social protection system includes preventive and remedial schemes, informal networks and formal systems operated by Governments, local authorities, enterprises of employment and non-governmental organizations, ranging from religious institutions to single-issue charities and lobbying organizations.

Social security, as an important component of social protection, encompasses a narrower set of benefits and compensatory government schemes, such as social insurance and social assistance, dealing with compensation for illness, unemployment, maternity, disability and old age. In the developed countries of the world in the middle decades of the twentieth century, social security systems were the primary means of achieving social integration. They were also a means by which labour was made less dependent on, and less vulnerable to, market forces. The social security systems also had an efficiency function, facilitating employment with an objective of encouraging workers to acquire skills and to remain in the labour market so as to make use of them. In terms of the distribution of income between social groups, the welfare systems that emerged in developed countries were never very redistributive, in design or in effect.

In the post-1945 era, at the heart of the European social model which seemed to set the standard for emulation, was the central concept of social insurance. Within this scheme, contributions paid by employers or/and workers towards a collective fund, or funds, were matched by compensatory payments to workers adversely affected by contingency risks including involuntary unemployment, sickness, maternity, disability and old-age retirement. While there were universalistic elements (entitlements based solely on national citizenship), it was on the performance of labour or at least on the demonstrated willingness to perform labour that most income compensation schemes were largely based. In effect, they represented and supported industrial citizenship, that is to say, they were geared to a model of labour associated with industry, rather than with agriculture or services, a model in which full-time male employment was the overwhelming norm. It was thus what many observers have called a male breadwinner model that guided social protection policies. This type of social insurance system can work well only in a society with something close to full employment, in which contributions to insurance funds are roughly matched by the demands for benefits from them, and in which most of the demands for income transfers are short-term.

The labour-based schemes of State insurance were extended to developing countries while becoming steadily more extensive in scope and coverage in those industrialized countries where they had been the norm in the early post-1945 era. One result was that as benefits were extended, it was the men in stable full-time jobs and those closest to such forms of employment who benefited most, rather than those who were engaged in the most precarious and informal forms of labour and work.

In the era of globalization and social economic reform, social protection systems are under reconstruction across the world. Any strategy for promoting decent work must begin by considering the character of current systems of social support for work and training.

With liberalization, there has been a steady rollback in State systems of social security and a reduced expectation regarding the universality of State provision. Although these reversals have been observed almost everywhere, they have been strongest in some of the most developed "welfare state" countries, and evident as well in middle-income and developing countries, which were expected to be developing State-based social security systems.

Worldwide, there has been a shift to means-tested (targeted) schemes developed alongside a host of private savings-account schemes. Means-tested schemes target income transfers to those deemed to be in poverty, that is to say with an income less than some specified poverty level. Anybody who would fall into that situation would qualify for a benefit. Only a small percentage of the population would actually qualify at any one time, and only a percentage of that group would actually receive a benefit. Although few countries have come to rely almost entirely on means-testing, most countries have introduced a much greater degree of means-testing than used to be the case. This has happened for several reasons, including the fact that higher unemployment in the 1970s and 1980s put the contributory systems under fiscal pressure and the fact that more flexible labour markets and more informal working relationships meant that fewer people were covered by standard contributory schemes. Economic liberalization policies that ushered in commercialization of social policy also contributed to this trend. The main reason, however, seems to have been the desire of Governments to cut back on their public social spending.

Those pressures remain pervasive in developing countries where very few workers are in the types of employment that entitle them to standard social security transfers such as unemployment benefits or pensions. Yet, during the pre-globalization era, those countries had been expected to introduce or maintain such schemes. The result was that remarkably small percentages of the labour force came to have access to what were in fact rather privileged State benefits that merely reduced the economic vulnerability of relatively secure groups of workers, without reaching the most impoverished and the most economically insecure.

Meanwhile, in developed countries, from the 1970s onward as more people became dependent on intrinsically insecure labour markets, the overall need for State benefits increased; but it did so at a time when Governments everywhere were under pressure to cut public social spending as part of the macroeconomic strategy in the globalization era. Forms of social spending were depicted as unproductive, so that Governments were urged to shift to public investment that would facilitate private productive investment and to human capital spending. They were urged to shift to a greater degree towards active social policies, as opposed to passive policies, meaning those providing relatively unconditional benefits. Social benefits were seen as raising non-wage labour costs and as imposing a burden on employers, thereby impeding national competitiveness.

The claim that the systems of State social benefits have resulted in onerous non-wage labour costs, limiting job creation and eroding national competitiveness, has been influential, leading many Governments to introduce sharp cutbacks in social benefits and to shift more of the costs of providing social protection from the State and from enterprises onto workers and their informal private networks of support. In most parts of the world, for example, contribution rates have gone up for workers and have gone down for employers.

The result of the pursuit of competitiveness has been the introduction of a wave of cuts in public social protection, which should be characterized as representing not a race to the bottom, but rather a global trend of convergence towards a model of social protection in which private and privatized provision of a growing range of income transfers and services are expected to play a much greater, if not a dominant role (Alber and Standing, 2000). Where social spending has remained reasonably high, there has tended to be a shift from social protection per se to human capital expenditure.

In effect, the average composition of social income is being restructured, and with State benefits as a share of the total income of workers being cut almost everywhere, and with more and more workers being expected to rely on a privatized system and on their families or local communities. In most developing countries, statutory (mandatory) benefits have been receding even before they reached more than a very small proportion of the population.

Several principles have had powerful effects on the global trends in social protection systems, although none of them have been very successfully implemented. The first is that there should be greater targeting of the needy and poor, on the grounds that there exist limited and shrinking public resources for social protection and that this is the most efficient way to achieve poverty alleviation. The second is that social protection needs to counter social exclusion and thus must induce those who for whatever reason, have been marginalized, to return to the mainstream of society through employment. The third principle is that private provision of benefits is more efficient and sustainable than State provision, which was long presumed to be the only means to provide universal and equitable social protection. Although some observers still maintain that State provision is essential, the strong trend in the globalization era, where market forces have been encouraged, has been towards the privatization and commercialization of social policy.

While there have been some counter-examples in a few countries that may be considered, it is the main tendencies in each of the main areas of social protection that are described briefly below. This will give us a picture of the emerging social underpinning of globalizing labour markets and thus a more complete understanding of the social context of emerging patterns of employment and work.

Health care: costs, access and "employability"

Health-care systems are experiencing strain in most countries, owing to demographic trends including ageing, rising costs of health care and the onslaught of communicable diseases such as HIV/AIDS, malaria and tuberculosis. The strain has also been linked to a shift in the emphasis of political rhetoric, from collective social solidarity to individual responsibility.

Worldwide, public provision based on universal entitlement and free or highly subsidized access has been on the retreat. Around the world, most people are dissatisfied with the health-care system in their country, and this is the case even in the richest countries (see, for example, Donelan and others, 1999). The crucial point of relevance to the effort to ensure decent work and employment is that a rising proportion of workers are not covered by protective measures in case of ill health, and more face rising costs. Almost everywhere, an accident or a long spell of serious ill health is likely to leave a person in financial difficulties.

In most developing countries, the absence of a functioning public-health system has long been a primary cause of social and economic insecurity (although the vast majority of workers and their families in developing countries do face much worse crises). Indeed, according to the World Health Organization (WHO) and some other observers, the situation of workers in low-income developing countries, which has deteriorated relative to that of workers in developed countries, has not been helped by enforced cutbacks in public social spending under the aegis of structural adjustment programmes.

Even in developed countries, the system is under strain. Increasingly, there is a reluctance to see health care as a collective responsibility, in which the more fortunate cross-subsidize the less fortunate.

A new trend in the United States of America is towards individualized health-savings accounts (HSAs), which, introduced in 2003, allow workers with high-deductible health insurance plans to set aside part of their wages, tax-free, to pay for their medical expenses. This move shifts the costs onto the workers and has tended to erode employer-sponsored health plans even further. This represents part of the financialization of enterprise benefits, and a group of major banks have established an HSA Council to assist in the spread of health-savings accounts.

This phenomenon deserves to be highlighted because it represents part of the global trend towards privatization. Financialization arises from a shift from direct provision to private, personal financial responsibility. One danger is that the relatively insurable, that is to say, healthy and young educated workers, would benefit relative to others like the sick and disabled, those on low incomes, and the elderly, who will end up paying higher premiums (precisely because they have a higher probability of illness) which lower their social incomes. As a result, income inequality would increase more than might have been the case if only earned incomes had been assessed. Many more may be unable or unwilling to pay those premiums and may thus lose protection altogether.

Another trend is for companies to transfer costs onto their workers by shifting to health insurance with high deductibles, in other words, to offer workers moderate premiums for health- care coverage, while obliging them to pay a high initial amount should they incur health-related expenses. This reform risks being inegalitarian in as much as those less likely to be ill, namely young and better-educated higher earners, will end up paying less. This is one way in which firms have been saving money, but at the cost of effective social protection.

The problems being faced in developed countries are still modest compared with the acute crisis in developing countries. Access to public health care in these countries has often been rudimentary and largely restricted to favoured urban industrial areas; for this and other reasons, people have had to rely more on private services, for which they had to pay. Cuts in social spending have tended to restrict growth in public provision, while health-care needs are rising.

Besides experiencing lack of access to affordable general medical care, many workers in developing countries work in dangerous and unsafe conditions, and surveys have shown that they are aware of this and fear the consequences (see box V1). Those performing agricultural labour are among the worst affected (International Labour Organization, 2003c).

Workers in countries in transition from State socialism to a market economy have also been severely affected by such conditions. In these countries, the dismantling of the former State-operated health-care systems has rarely been matched by the establishment of effective new systems. As a result, though, many millions of workers are at risk, the public-health systems in their countries are not capable of helping those who become ill or injured.

Globally, the drive to expand production, to accelerate economic growth and to maintain or improve cost competitiveness has led to a disregard for basic preventive measures. This, in turn, has contributed to lackadaisical labour inspection and led to the closure or erosion of health and safety departments in enterprises, as firms cut costs and downsized, decentralized or normalized their employment structures.

An important factor is the trend away from statutory regulation to self-regulation as part of the liberalization that has accompanied globalization. Self-regulation may endanger greater work insecurity. To appreciate this, one must comprehend the rationale for self-regulation as a result of liberalization, whereby policymakers have been encouraged to curb reliance on complex safety codes, cut back "generous" compensation for work-related ill health and cut health programmes for workers.

The argument is, partly, that high health costs make firms less competitive with firms in other countries that do not have to bear such costs and eventually drive employers to informalize their labour. Second, it is claimed that complex regulations make workers and employers more careless and that imposing the costs on employers would introduce the factor of moral hazard as regards workers: not having to bear those costs, they would become more reckless. Third, it is claimed that, if employers have to pay the costs when workers are injured or fall ill, they will turn to indirect forms of labour through casualization and outsourcing.

These arguments are controversial. Old-style statutory regulation of working conditions may indeed be paternalistic; but the self-regulation model encourages opportunism on the part of some employers and induces cost-cutting that puts many workers at risk of impoverishment through an accident or ill health. It must be appreciated that workers rarely know the health hazards or

Box V.1

The missing statistics on work insecurity

Workplace accidents are chronically underreported, and the illnesses associated with labour or employment are hard to monitor even in well-regulated labour markets, in part because many of them emerge some time after the events that caused them. Employers are, understandably, reluctant to link incidents of ill health or accidents to their workplace or procedures and prefer to attribute responsibility to the workers or to social factors outside the workplace

Fearing the costs of health care, they may distance themselves from responsibility by making workers accept a "self-employment" or "contract work" status, they may oblige them to take out private health insurance as a condition of employment, or they may use short-term employment contracts so that if a worker becomes prone to illness or is injured, employment termination will be relatively inexpensive.

Through these various means, the linkages between workplaces and work insecurity can be hidden.

the probabilities of ill health, and that in the absence of such knowledge, they are likely to opt for an income that assures them current consumption, rather than pay an insurance premium for possible income at some future date.

Without formal regulations and institutional mechanisms to prohibit the requirement to work long hours and to prevent exposure to dangerous working conditions, hard-pressed workers may take excessive risks — or find they cannot refuse to do so — because they have family members in need, perhaps because of illness, or schooling costs to cover (International Labour Organization, 2004a). Risks and hazards result in adverse outcomes for some workers. If they are in that vulnerable near-poor category, the result could be impoverishment and an inability to cope, leading to longer-term illness, loss of productivity or demoralization resulting in labour-force detachment within a cycle of despair.

Disability benefits

An important form of social protection comprises benefits for those experiencing one or more forms of disability, be it physical or mental. Several million people are in this situation, but many of them have little or no hope of State support, although disability or incapacity benefits have been integral to the social schemes of welfare States from their inception.

Two issues are crucial. First, do disability benefits reach those in need of help, and do they take the form that is most appropriate? Second, do disability benefits help those with disabilities play a full and productive role in society or do such benefits hinder them?

In regard to the first question, there has been considerable concern that the criteria used to determine eligibility are often complex and stigmatizing, resulting in a situation where many persons with disabilities do not apply for benefits or where many apply without success.

In regard to the second question, a primary concern has been that disability benefits could push people into both a poverty trap and a disability trap. If a person receives an income transfer because he or she is deemed disabled, that person will have less of an incentive to rectify the situation or prove that he or she can do some work. So goes the conventional argument.

In part because of ageing, the number of people receiving disability benefits in developed countries has risen very substantially in recent years. This has caused policymakers to review State policy and, in some countries, has resulted in reforms that have tightened eligibility in order to encourage or induce many persons with disabilities to enter the labour market and take jobs. In the process, there has been a sharpening of the always-subjective distinction between "abled" and "disabled".

The introduction of activity requirements has put an increased burden on the person with impairments to prove eligibility, which affects the propensity to claim. This may drive persons with disabilities into the open labour market, and more of them into unemployment. And it may discourage some of them from being economically active. What is clear is that workers with disabilities tend to be heavily disadvantaged in the labour market. The best way to ease their difficulties is to ensure that employers provide reasonable accommodation so as to make it possible for such workers to overcome their impediments in the workplace. A rights-based approach, as embedded in the Convention on the Rights of Persons with Disabilities (United Nations, 2006g),[1] is a good move in that direction. In article 27 of the Convention:

> States Parties recognize the right of persons with disabilities to work, on an equal basis with others; this includes the right to the opportunity to gain a living by work freely chosen or accepted in a labour market and work environment that is open, inclusive and accessible to persons with disabilities. States Parties shall safeguard and promote the realization of the right to work, including for those who acquire a disability during the course of employment.

This should be the guiding principle observed by all State parties.

Pension reforms: are pensions dying?

Pension systems around the world have been in a state of turmoil with the advent of globalization, with numerous Governments trying out a wide variety of reforms and resorting to the establishment of numerous commissions or special inquiries in order to find an answer to the fiscal and labour-market challenges.

At the heart of the problem is global ageing, with the rising old-age dependency ratio making it difficult to develop or to sustain the classic State and enterprise-based defined-benefit pensions, which was the hallmark of welfare States throughout the twentieth century (United Nations, 2007). Companies around the world are rapidly phasing out such schemes, while Governments are cutting back on public commitments.

The new and popular approach to easing the burden of population ageing on the pension systems is to try to encourage more workers in their fifties and sixties — and even seventies — to stay in the labour force or to return to it. This represents a reversal of a trend started in the 1970s and 1980s when many Governments in developed countries responded to rising unemployment by introducing early retirement schemes, through which to ease older employees out of the labour force.

It is almost certain that one aspect of old-style defined-benefit schemes, namely the practice of linking pension levels to final salaries, adversely affected the employment of older workers. This means that older workers in such schemes are penalized if they take pay cuts, or slide into lower-level jobs in their pre-retirement years. In ageing societies, this makes no sense, since it discourages older workers from staying in the labour force, and also encourages firms to push out relatively expensive older workers. In the interest of enabling older workers to remain economically active if they so wish, the linkage of pensions to final salaries should be phased out.

Although it is mostly in developed parts of the world that, a "greying" working population has been linked to an impending pension crisis, the phenomenon has affected some developing countries as well. For example, China had 36 million old-age pensioners by 2000 and the old-age dependency ratio was rising continuously (Zheng, 2002). By then, pensioners from large and medium-sized State-owned enterprises constituted 37 per cent of their workforces, and various estimates suggest that on current trends, pensions will have risen from 7 per cent of the total wage bill in 1998 to 40 per cent by 2030 (Feng, 2001). The hitherto relatively high pension, which was nearly 90 per cent of average earnings in 1990, has begun to fall.

A crisis of non-entitlement to pensions is looming in China. Contribution rates have started to rise and the number of years of contributions required to gain entitlement to a pension has gone up. This is a familiar story elsewhere in the world; but with rural-urban and urban-urban migrants making up a rapidly growing proportion of the labour force, it is almost certain that a rising proportion of workers are being shut out of enterprise-based pension entitlement altogether. Many enterprises simply do not enrol migrant workers in social insurance, thereby avoiding contribution to a sizeable wedge in the wage bill (over 30 per cent).

In developed countries, where State pension systems became well-entrenched, the pattern of the changes that are taking place is clear, even if it varies a little from country to country. The average age of statutory pensionable retirement is rising. In European countries, over the past decade or so, it has risen by about half a year for men on average and by about one year for women. It is still lower on average for women, even though women tend to live longer and thus have more years of paid retirement than men. However, this tells only part of the story, since women still have a much lower probability of gaining entitlement to a decent pension or to any pension at all.

Unequal access to pensions is certainly not a feature just of developed countries. Surveys of the ILO (2004a) have found similarly unequal entitlement patterns within formal enterprises in various other countries. Differential entitlement to pensions is a very important source of income inequality among workers all over the world.

Indeed, in most developing countries, pensions have reached only a minority of workers, although Latin America has had a long tradition of social security schemes. Basically, leading Latin American countries have been moving towards a multi-pillar system, in which the mix of a basic pension with social insurance and individualized savings-account schemes has been encouraged. On the other hand, in much of Asia, only small minorities have had access to any sort of pension.

Worldwide, the average number of years of contributions required to obtain a State pension has been going up and the number of years of contributions required for entitlement to a full State pension has been going up even more (International Labour Organization, 2004a). There has been a virtual collapse of company-based defined-benefit pensions and a sharp shift towards defined-contribution schemes, with a decline in the share of workers in any company scheme. Public sector pensions, long a major source of privilege for civil servants, have tended to fall into line with other pensions.

Very significantly, contribution rates have tended to rise, but the rates for workers have risen more than for employers, thereby subtly altering the structure of social income. In a number of countries, including some developing countries in the 1990s, the average contribution rate for workers has risen to a level much higher than that for employers, which is contrary to the provisions of article 71 of International Labour Convention No. 102, concerning Minimum Standards of Social Security, 1952.

Finally, some countries have been trying to make their pension systems more flexible by linking pension levels or contribution rates to changes in life expectancy, so as to correct for the fact that past actuarial predictions had underestimated the increase in longevity and were therefore inaccurate.

Many major corporations are not only abandoning their defined-benefit pensions but capping health-care spending for their retired workers. In short, the economic security long associated with formal employment is withering away.

It has to be recognized that company-based defined-benefit pension schemes are anachronistic in a world economy in which average employment tenure is five or six years, even in developed countries. That system was developed on the basis of a presumed model of "lifetime" employment, with very few years of post-employment retirement, and at a time when average life expectancy for workers was actually less than the statutory retirement age.

In this era of labour flexibility, companies rarely expect, or even want, most of their workers to stay in their jobs for 25 years or more. Paternalistic employers and "loyal" workers are scarcely the norm for flexible labour markets, and companies are adjusting their benefits to behavioural expectations. Companies could assist workers in saving or improving their lifetime income security, but that may not be through twentieth century defined-benefit schemes based on the level of earnings received in the few years prior to retirement.

The future of pension systems is uncertain, but there should be a move towards increased flexibility, with more variability in the age of statutory retirement, so as to allow people to choose when to retire, and to retire with higher pensions if they do so later. This is already happening in some countries, such as Canada, where the State pension can be taken at any time between the ages of 60 and 70. Meanwhile, the trend towards earlier retirement, so notable in the 1970s and 1980s, has come to a halt, and with rising life expectancy and healthier later lives, may even go into reverse. That would be a historic reversal, with implications for pensions and for work that have yet to be adequately considered.

Unemployment insurance benefits

Traditionally, most workers had little protection against the risk of unemployment. However, during the twentieth century, two forms of protection spread: severance pay and unemployment insurance benefits. Severance pay has been a privilege of a minority of the employed across the world. By contrast, unemployment insurance was always regarded as a central pillar of welfare States, shielding workers from the worst effects of unemployment and also acting, with the onset of a recession, as a macroeconomic stabilizer by maintaining consumption so that aggregate demand would not fall by much.

Unfortunately, labour-market liberalization has been associated with the erosion of unemployment benefit systems as the number of unemployed in the world is apparently rising. In most countries, those becoming unemployed or remaining unemployed for any length of time are experiencing a higher level of economic insecurity than was the case with the onset of globalization.

As of 2007, only a minority of the unemployed in most of the developed countries are entitled to, and are receiving, unemployment insurance benefits — about a third in the United States, about 40 per cent in many of the European Union countries and a smaller proportion elsewhere. Moreover, the proportion receiving those benefits has been declining. One reason for the decline is that more workers are in labour statuses that do not entitle them to receive such benefits. Another is that more of the unemployed are in long-term unemployment, while Governments are tightening the conditions for and shortening the duration of such entitlement. A high proportion of the unemployed are young labour-force entrants and immigrants, who have not built up sufficiently long employment records to be eligible for benefits.

Two factors have contributed to the tightening of conditions for entitlement. Policymakers, set on reducing public spending, have seen the cutting of unemployment benefits as a relatively simple matter, since the unemployed are an easy target and unemployment has been much higher than when unemployment insurance benefits were at their peak in the 1950s and 1960s. Nowadays, the unemployed in developed countries are more likely to be depicted as "lazy" and "living off the dole" as public dissatisfaction with old-style welfare States has risen in most, if not all, countries. The average voter feels detached from their plight. Cutting unemployment benefits and cutting the duration of entitlement have been politically popular moves, or at least have been less unpopular than cutting benefits in other areas of social protection.

Even countries that have long provided adequate and long-lasting coverage have moved in the direction of cutting, or restricting access to, unemployment benefits. A recent example is Sweden, where in October 2006 the Government announced cuts in benefits as part of its initial programme, even stating that this was to facilitate income tax cuts for the better off. Moreover, the Government has said that it intends to require workers to pay more into unemployment benefit funds directed by the trade unions. It is likely that this will induce more low-earning workers to opt out of the unions and the funds. This could spell a difficult period for unionization in Sweden, which might encourage other countries to follow suit.

In the United States, unemployment insurance benefits, introduced in 1935, have always been short-duration transfers, although Congress can vote for a temporary increase in the time period over which they can be received during a recession. Paying for up to six months may have seemed reasonable enough when a large proportion of the unemployed were temporarily laid off, waiting for a recall to their jobs, as was formerly the case; but with more flexible labour relations, with the increased concern with being "competitive" and with many more structural job losses, the proportion of layoffs has gone down sharply (Groshen and Potter, 2003). As a result, more of the unemployed experience longer spells of unemployment and thus loss of access to unemployment benefits.

In continental Europe, Governments have been urged to curb the activity of their unemployment benefit systems in an effort to lower stubbornly high unemployment and many have done so. The results, however, have been mixed. In Germany, the Hartz IV reforms, which had been intended to cut unemployment, ran into immediate problems because they put an estimated 1 million workers in a position where they received benefits of a greater value than the incomes they would have earned in the jobs they had been expected to accept.

Another factor contributing to the tightening of entitlement conditions has been the tendency of unemployed workers to stay unemployed, rather than take jobs that would pay them less. Policymakers used this to justify cutting benefit levels, but such an approach was found to be incapable of inducing the unemployed to accept low-paid jobs, especially when many of those jobs were part-time, casual or unpromising in other respects.

As a result, Governments have resorted more and more to behavioural conditionality for determining entitlement to benefits, effectively trying thereby to coerce the unemployed into jobs. They have, inter alia, tightened job-seeking requirements and obliged the unemployed both to accept jobs not necessarily within the range of those corresponding to their skills and work experience and to be prepared to change location in search of employment.

Besides the Republic of Korea, there are few developing countries that have any kind of functional unemployment benefit systems. In most of those that do have some sort of scheme, only tiny minorities of the unemployed are entitled to participate in them. It is not much of an exaggeration to say that the prospects for comprehensive State-based unemployment protection in the global economy are very dim indeed.

In sum, globally, the reality is that a growing proportion of the unemployed either have no access to unemployment benefits of any kind or have to demonstrate that they are "deserving" of unemployment assistance, which increasingly is being given to them as a discretionary allowance contingent on the fulfilment of specified behavioural obligations. In such circumstances, entitlement to an unemployment benefit ceases to be a social right. So far, Governments have resisted the temptation to privatize unemployment insurance, but some economists have proposed this option (for example, Orszag and Snower, 2002). The danger is that this would not help the most insecure and disadvantaged, as the costs might be prohibitive for them owing to their high-risk status and low income.

Family and childcare benefits and care work compensation

In most countries, family benefits were among the last to spread as welfare States developed. These have been effective in reducing the incidence of poverty among children, which is critical for their satisfactory development and learning. Considerable applied research exists also to show that there is a negative impact on child development when mothers are obliged to work full-time in the first few months of the child's life (Brooks-Gunn, Han and Waldfogel, 2002; Waldfogel, Han and Brooks-Gunn, 2002).

There is also evidence of the positive role of organized group care during preschool age of 2 or 3, in preparing children for both social and academic success in school (Sylva, 2004). These pieces of evidence show that the work of childcare has considerable benefit in terms of externalities for children and society.

In light of the value of childcare and other forms of work that are often unpaid, Governments are being drawn to consider more ingenious ways of providing income security for those doing non-income earning work (see, for example., Daly, 2001; Lethbridge, 2006). The most popular proposal has been to provide regular "wage" payments to those doing care work, whether they are caring for their own children, elderly, frail parents, or for others who are not close kin.

The standard example of this type of policy is maternity leave, whereby a new mother is provided with a financial payment for a few months (or, in a few cases, up to two years) after the birth of a child. In recent years, some countries have extended this to include provision of paternity leave, or have provided new parents with the option of sharing a period of paid leave between them.

A more novel approach entails the payment of allowances to enable someone to focus on the care of children, relatives or even neighbours, often for a long period or even quasi-permanently. Among policies moving in that direction are childcare tax credits, as developed in Germany. The arguments in favour of such schemes are that they are universal, being given to all parents, and, potentially at least, non-labourist in design (that is to say they do not, require the prior performance of labour as a condition for entitlement), thereby providing support for all, regardless of whether or not they were previously in employment, and thus allowing coverage for those doing other forms of work. The criticisms are that they are very costly, tend to result in a fall in the female labour supply and are hard to legitimize among voters.

From social insurance to social assistance

It is time to take stock of the effect of the trends in social security on decent work and employment. The principle of social insurance has always been the cornerstone of social security systems. However, it is automatically weak in economies dominated by informal economic activities and it is surely being weakened further by the growth of more flexible labour relations. In such circumstances, it is unrealistic to envisage social security as the cornerstone of social protection in the future, given the growing informalization, labour casualization, offshoring and labour-market flexibility through which the economic liberalization that defines globalization is being pursued.

In developing countries, but also increasingly in developed ones where flexible and precarious forms of labour are spreading, only a small or declining proportion of workers are covered by social insurance. It also tends to be regressive in societies dominated by informal labour markets, since it benefits privileged minorities who are employed in the formal sector, rather than all those struggling to create meaningful livelihoods. Careful studies have shown that social insurance not only fails to reach the majority, but does not reach those most in need in developing countries (see, for example, Justino, 2005; and Evans and others, 2006, for a case study of Viet Nam).

If the employer's costs of complying are high, firms can take steps fairly easily to avoid making the contributions, primarily by informalizing their labour relations. That has led some Governments to shift the burden of contributions from employers to workers, which has led the latter to wonder whether it would not in fact be preferable to take the money in wages, rather than contribute to what is, at best, a forced savings scheme, from which they may or may not receive some return at some unknown time in the future. The result has been a predictable lack of interest in participating and consequently a loss of entitlement.

The other pillar of traditional social security systems in the twentieth century was social assistance, which aims to help people living in poverty secure a minimal standard of living and, ultimately, to enable them escape poverty. The argument is that the State should target its limited funds to relieving poverty, and to do this, it must identify the most poor by testing for their means of support, or, in effect, their income, financial savings and financially valuable assets. In the 1980s and 1990s, many countries, including most developed ones, extended their use of means-testing. They also added more behavioural testing to their armory of conditionalities. In other words, to gain entitlement, recipients were required to undertake work-related activities or demonstrate that they had lost their jobs involuntarily. A growing number of developing countries have moved in the same direction.

The arguments in favour of means-testing in social assistance in general claim, first, that it targets the poor and most needy; second, that it achieves legitimacy with voters; and, third, that it ensures the best use of limited public resources.

The criticisms are both theoretical and empirical. First, evidence shows conclusively that means-tested schemes have a low take-up rate. In other words, only a small proportion of the eligible people gain access to the benefits. This has been found to be the case in advanced welfare States such as

Sweden and Germany as well as in developing countries where the required administrative infrastructure and capacity may be lacking. There are many reasons for such an outcome. The poor and vulnerable tend to be unaware of the existence of such schemes, or unsure of whether they might qualify. They may fear the judgement of discovering that they are not abiding by the law in some way, or believe that the nature of their activity would disqualify them for benefits or think that their income is above the "poverty line" stipulated for entitlement, when in fact it is not.

Second, means-tested schemes are often flawed through their reliance on a poverty line, particularly as applied in developing countries characterized by extensive labour informality, seasonality and income insecurity. If the line is established as a specific income received over a specific short reference period, it becomes very hard to determine eligibility over any lengthy period, given the likelihood of income fluctuations.

A third criticism of means-tested social assistance schemes is that they tend to have a perverse distributional outcome, often not benefiting the poorest, but assisting the near-poor, who have greater knowledge of the social security system and less fear of its administrative requirements. Thus, means-testing risks giving to those who are not in need, and not giving to those who are in need.

Fourth, means-testing creates severe poverty traps, assets traps and unemployment traps. These traps arise from the fact that if a person receives a benefit only if his income is below a certain amount, at some point he will lose the benefit if he earns more. However, it is possible that the extra earning is less than the lost benefit, meaning that he is likely to be worse off as a result of earning more. If a person with any meaningful savings is disqualified for benefits such as food stamps and those provided by public health-care programmes for the poor and disabled, there will be an incentive for him or her to run down savings. This poverty trap creates a strong disincentive to save.

All forms of such traps create powerful moral hazards. A moral hazard arises if a person continues to rely on the benefit rather than take a job that is available, simply because he or she would be worse off or scarcely any better off as a result of accepting employment. Alternatively, an individual may not declare the employment for fear of being penalized through loss of the benefit, rationalizing the decision based on the fact that, in his or her particular case, the employment may pay less than the benefit.

Fifth, social assistance schemes typically impose a stigma on recipients and potential recipients. People do not like to beg or to rely on help that they perceive to be a sign of their own failure, or to be seen as exposing their plight through applying for benefits and thereby demonstrating their inadequacy for coping economically by themselves.

Finally, not only does the application of means tests involve high administrative costs, but ultimately their application is discretionary, with local bureaucrats having enough autonomy to be able to decide who receives benefits and who is denied them.

In sum, while traditional social insurance seems to be losing relevance as the cornerstone of social protection in the era of globalization and increasing labour-market flexibility, social assistance is also facing challenges. One of the challenges is a political one rooted in the public frustration over the perceived ineffectiveness of such programmes in helping people get off welfare. However, attempts to target the needy through means-testing and to introduce, through behavioural testing, incentives that encourage those receiving assistance to improve their situation, have created their own problems.

The spread of individualized savings accounts

In various areas of social protection, Governments are encouraging the spread of individualized savings accounts that are either mandatory or subsidized by means of tax incentives, notably in the areas of pensions and health care, but also in areas such as unemployment insurance. The debates centred around this trend have been highly charged and inconclusive.

On the positive side, as those individualized accounts that allow for individual choice are self-funding, they enable Governments to cut public social spending and help them spread “popular capitalism”. They are also depicted by advocates as replacing non-affordable pay-as-you-go defined-benefit schemes. Above all, individualized accounts are presented as giving individuals greater financial control over perceived risks.

The counter-arguments are considerable. Critics have presented evidence to show that such accounts are regressive and very costly to administer and usually depend on government subsidies for their development and survival. Critics also point out that the individualization of social security undermines the critical element of social insurance, namely, the promotion of social solidarity, whereby the more fortunate effectively subsidize the less fortunate. With individualized accounts, those who cannot afford to contribute to individualized savings, and those not in jobs enabling them to do so, are put at a big disadvantage, risking being left with no protection.

Finally, critics have worried that the privatized individualized savings schemes have given enormous financial power to a small number of major multinational "pension fund managers" and their equivalents in the sphere of health care insurance and other social services, which are outside easy regulation at the national level.

There is an evolving debate on the potential role of individualized savings accounts in employment insurance, as opposed to unemployment insurance. One proposal is to establish "temporary earnings replacement accounts" (Kling, 2006). All workers would be given such an account and encouraged to deposit part of their income in that account, from which they could make withdrawals at their discretion should they lose their jobs, up to an amount set by the government. Workers could even borrow from the account, replenishing it out of future earnings. There are obvious dangers inherent in such a scheme. Once again, the usual response to a crisis in the traditional social security instrument is to envisage an individualistic, non-solidaristic replacement scheme. Such proposals look as if they would benefit the relatively successful among the unemployed, that is to say, those who could earn enough to repay the borrowings.

While individualized savings accounts in all forms of social protection do not benefit the most insecure and poorest groups, they are nevertheless almost certain to figure increasingly in twenty-first century systems of social protection. Governments and their policy advisers should try to ensure that those accounts do so within a context of adequate economic security for those who cannot benefit from social protection schemes.

The fiscalization of social security

While the drift towards means-testing and individualized accounts has been growing, the social security systems of developed countries have, rather quietly, been transformed by a growing reliance on fiscal policy as a means of providing social security. To put it bluntly, while many more jobs in developed countries are paying low wages and providing fewer benefits, Governments have been trying to use fiscal policy to reduce employers' non-wage labour costs.

Labour subsidies to employers have proliferated. A large aspect of fiscalization of social policy has been the spread of labour-related tax credits.

Such schemes have been adopted in many developed countries, particularly the United States and those in Western Europe. Although the tax credit goes to many workers in services such as catering and retail trade, it also subsidizes workers in tradable sectors such as garments and textiles. As such, it raises important questions about market distortion and trade subsidies, since it reduces the direct labour costs of enterprises competing against potential imports. This may become an issue in future World Trade Organization rounds of trade liberalization negotiations.

There are other potential drawbacks with tax credits, since they are essentially labour subsidies. Subsidies are by definition selective, and they also constitute a method of lowering costs. By lowering the cost of labour, they reduce the pressure on employers to allocate labour efficiently. They are more likely to favour labour-intensive technologies, but that may well be at the cost of longer-term dynamic efficiency.

Concluding remarks

Social protection should be an integral part of society and an integral part of decent work and employment. In sickness and in health, in employment and in unemployment, all people need social protection and basic economic security.

Although some observers have claimed that excessive social spending impedes economic growth, in that it crowds out private spending and investment, there is no statistical correlation to support that claim, at least not below about one third of gross domestic product (GDP), which is well above what most countries spend. Indeed, there is strong evidence that social spending assists growth when it increases from a very low level to about one quarter of GDP, since the social spending can boost aggregate demand, improve productivity and facilitate the emergence of a stable, committed labour force in productive employment.

Others have observed that countries that did spend a high share of GDP on social schemes have done best with globalization. It may be that countries that had already established strong welfare systems before globalization had in place mechanisms enabling them to survive better in the face of more open economies and the increased pressure to be internationally competitive. Yet even then, they have been forced to cut back on social security provision and entitlements as cost pressures have threatened to erode that competitiveness. Regardless, the fact remains that decent work requires a decent social protection system.

There are a range of services and benefits that could facilitate decent work. For example, the family has always provided the first form of social protection, but was expected to decline as the main provider in modern welfare States. As families are becoming more fragile and temporary, there are a greater number of negotiations on what conditions are to be applied in the provision of support. Meanwhile, with modernization, the State was expected to take over many of the protective functions of the family and neighbourhood. That has changed. Now the predominant position is that the market should prevail and commercial services and private insurance benefits should take up much of the slack being left by the retreat of social insurance. It is far from clear that this can be achieved. Gradually, a consensus seems to be emerging that, at the very least, the State should provide a universal floor of social protection, upon which social insurance, private insurance and other schemes can be built.

Two concerns have emerged within the context of the ongoing restructuring of social security. One is that a country's social protection system should actively promote economic growth, competitiveness and employment. In this regard, there is a popular phrase that has gained ground inside the Commission of the European Union, and more recently in ILO, namely, "social protection as a productive factor", encapsulating the view that social protection reforms should be geared towards the promotion of employment and evaluated according to that criterion. The challenge is to ensure that social and economic rights are not sacrificed to the interests of short-term allocative efficiency and the pursuit of cost-cutting to boost competitiveness. If priority is given to schemes that seem to offer the prospect of promoting labour productivity and "competitiveness", there may be a tendency to downgrade policies and schemes that protect the most insecure and impoverished in society.

The second concern, which is more worrisome for those concerned with social equity and decent work, relates to the increasing exertion of pressure on the poor, the economically insecure and the otherwise disadvantaged to behave in ways that the State determines to be socially desirable. Sometimes this is carried out using the language of reciprocity, according to which the poor must be prepared to meet certain work obligations if they are to be deemed deserving of benefits. However, this chapter has shown that social assistance schemes set up along these lines, albeit much favoured by reformers over the past two decades, have generated extensive poverty traps and unemployment traps.

The challenge that social protection systems face in the twenty-first century is a serious one. There is a dire need for creative and responsible approaches to promoting the agenda of decent work for all in a changing world.

Notes

1 Adopted by the General Assembly on 13 December 2006 at United Nations Headquarters in New York. It had 100 Signatories as of 11 July 2007.