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THE ROLE OF SOCIAL SECURITY IN DEVELOPING COUNTRIES

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THE ROLE OF SOCIAL SECURITY IN DEVELOPING COUNTRIES

Prepared by

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U. S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

for the

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FOREWORD

This report has been developed under a project to prepare technical guidelines and a manual on the subject "Social Security Administration in Developing Countries" and was written by Robert J. Myers, Chief Actuary, Social Security Administration, Department of Health, Education, and Welfare. The project has been carried out under an agreement between the Agency for International Development, Department of State and the Social Security Administration.

As the background for the project states, AID has in the past received many requests from less-developed countries for technical assistance in the social security field. However, compliance with these requests has been hampered by the absence in AID of a clear and comprehensive picture of the needs and of the most promising and economical approaches. The project, therefore, was to be developed through the use of visits by experienced social security technicians to selected countries. These visits, then, would serve as a basis to prepare technical guidelines and a manual.

The proposed document would cover, among other things, the following:

1. Methods to improve the operation of social security programs, particularly in the direction of establishing a more favorable ratio between administrative costs and benefit outgo.

2. Methods of eventually bringing social security programs into proper relationship with the capacity of the economies (expressed in terms of the ratio of social-benefit costs to national income).

3. The possible improvement of social security systems, including their administration, consistent with the accelerating rate of economic growth that can reasonably be expected in less-developed countries.

4. The utilization of accumulating trust funds under social security systems.

5. The participation of representatives of industry and labor in the administration of social security programs.

6. The relationship of contributory social insurance systems to general welfare programs.

In order to carry out the project in the manner described previously, three technical experts visited the following selected countries in three regions of the world:

1. Arthur J. Altmeyer (Member and Chairman of Social Security Board, 1937-46; Commissioner for Social Security, Social Security Administration, 1946-53)--Iran and Pakistan.

2. John R. Campbell (Regional Representative (New England), Social Security Administration)--Brazil, Chile, and Honduras.

3. Robert J. Myers (Chief Actuary, Social Security Administration)--Ceylon, Greece, Lebanon, Philippines, Turkey, and United Arab Republic.

In regard to 1. and 3., "country reports" were prepared by these individuals and are available upon request. Since this manual is intended to be of general applicability, reference is not made to specific conditions prevailing in the countries visited, but rather the experience gained thereby has been projected to be of general use.

It should also be mentioned that each of the three individuals who made the study trips had had extensive experience with foreign social security systems previously, and this added to their basic accumulated store of knowledge on the subject. Among the other countries that these officials had visited for the purpose of studying social security systems (including giving technical assistance in many instances) are the following: Bermuda, Canada, Columbia, Cyprus, Germany (Federal Republic), Great Britain, Indonesia, Japan, Liberia, Mexico, New Zealand, Panama, Peru, Sweden, Switzerland, and U.S.S.R.

Chapter I

INTRODUCTION

In order to present technical guidelines for a manual along the lines established in the description of the project (see Foreword), it is first necessary to give certain background information that will be helpful in orienting the reader to the problem. Accordingly, the two following chapters will deal with a general discussion of various important social security concepts and with a brief description of the general nature of a number of social security systems throughout the world (giving a discussion of similarities and differences, and then the broad bases of the programs in some 23 countries).

The next chapters will take up the several aspects of social security systems--coverage, risks protected against, and benefit levels. The two succeeding chapters then consider the financing aspects--namely, the methods of financing and the investment of assets. The following two chapters deal with administration of social security systems and with planning and legislative procedures for social security programs. The final chapter deals with the economic impact of social-benefit plans in general.

As a matter of terminology, "wages" and "earnings" are used interchangeably in this report. Both are intended to include "salaries" and "earned income of self-employed persons." Also, "workers" is used to mean any persons covered by the social security system--whether manual workers, salaried employees, self-employed persons (including independent and professional workers), domestic workers, or agricultural workers. The reader should be especially warned that terminology in this respect differs greatly as between countries (of course, due to a considerable extent, to translation from one language into another). For instance, in many countries, the word that is translated as "worker" really means "manual worker," while the word translated as "employee" relates to a salaried person. As another example, for some languages the word that is translated into English as "worker" really includes only salaried and wage workers in industry, commerce, and government, and excludes all workers in agricultural pursuits. Accordingly, in any consideration of a social security system, it is most important to be clear what the translation of the term "worker" really means.

In considering the effect and desirability of a social security system for a developing country, two widely divergent viewpoints are frequently heard. At the one extreme, it is sometimes claimed that if a developing country establishes a broad and comprehensive social security program, this will automatically and immediately solve all its social and political problems. At the other extreme is the view that any money put into a social security program by a developing country will automatically significantly hinder its long-range, economic development.

As is so often the case, both these extreme views are incorrect, and the real truth lies somewhere in between. Quite naturally, newly developing countries cannot expect to have the financial resources--and equally importantly, the administrative skills--to inaugurate immediately broad-scale social security programs such as have been developed over many years by the industrialized nations of the world. Just as true, however, is the fact that a developing country--unless its government is completely totalitarian--cannot, and should not, maximize its resources that are channeled into economic productivity if this is done at the expense of supplying any significant consumer goods and services to its population. In the short run, some persons might argue for the foregoing approach so as to maximize producer goods, but in a democratic society, it is necessary to give a significant amount of recognition to the economic and social hopes and aspirations of the population (i.e., the workers and their dependents). In the long run, it is certain that by attempting to satisfy the consumer needs--including the provision of a certain amount of social benefits--the working population will be not only of a more democratic nature, but also more productive and personally developed.

From an economic viewpoint, it may be argued that a developing country is well advised to establish a liberal, but deferred, pension plan for its labor force because of several additive reasons. First, this will provide incentives for the workers. Second, it will not result in increased current outlay for wages. Third, with increasing productivity in the future (which will be encouraged by the preceding two factors), there will be an adequate financing base for the pensions. Different economic results might occur depending upon the type of liberality involved (e.g., large benefits, low retirement ages, differential benefits by industry or geographical location, etc.). But again, there may be some conflict--although by no means irreconcilable--between economic and social goals.

It is hoped that this report will be helpful in pointing out, in general, the approaches that a developing country can take in order to have a social security program that will both meet the needs and desires of the populace, and yet not hold back economic development. There are many difficult problems to be faced in achieving this end, and this report attempts to indicate where these occur in the various areas involved in the provisions of the plan, in its financing, and in its administration.

It should be emphasized that this report is primarily, although not entirely, concerned with the social-insurance aspects of social security and does not deal in detail with social-assistance programs (or what, in the United States, is called public assistance). Distinction is made in the next chapter between these two types of programs, but the bulk of the following discussion relates primarily to the social insurances.

Another important--and closely related--subject that is not dealt with, but that should be kept in mind by the reader, is the relationship of both the social insurances and the social assistances to constructive social services. While it is true that social security programs considered broadly have always been concerned primarily with income maintenace (and, in some instances, medical care), it must be recognized that constructive measures to reduce the danger of inadequate income being available are of paramount importance. Perhaps the simplest and most obvious illustrations of this fact are accident prevention programs in connection with the risk of work-connected injury and disease (workmen's compensation being the "curative" measure), employment services to match jobs and workers (with unemployment insurance being the "curative" measure), and general public health measures and individual preventative health measures (with sickness insurance--both cash benefits and medical-care benefits--being the "curative" measures).

At times, the interesting view has been expressed that social insurance would steadily move away from private insurance in the direction of social assistance and that, at the same time, social assistance would move away from the concepts of poor relief in the direction of social assistance. If this view were to be completely correct, then eventually there would be a unified concept that did not undertake to distinguish between social insurance and social assistance. As a matter of fact, it seems that--with the exception of a few countries--this full transition has not occurred and is not likely to occur. There has, however, been a considerable and definite moving away of social insurance from the concepts of private insurance and likewise of social assistance from poor relief. Nonetheless, there generally seem now to be clear distinctions drawn between social-insurance principles and social-assistance ones, although there are necessarily many areas of close interrelationship.

Chapter II

SOCIAL SECURITY CONCEPTS

In the past 25 years a vibrant new phase has been introduced into the social and economic life of mankind--the magic words "social security." Although the types of programs generally described as social security have been in existence in some countries for many years, until 1935 their development was quite slow in the United States. In that year the Social Security Act was enacted, and the alliterative phrase came into being. Since then, many foreign countries in developing new programs or in modifying old ones have used these words.

Quest for Security

The very nature of man is to strive continually for material security of all types for himself, his family, his community, and his nation. But by his very human nature, man is destined to have, at best, incomplete success in this quest.

From the first dawning of history men faced serious physical dangers--from wild animals, from the cold, from famine and drought, and from his fellow men. Over the many centruies the frequency and severity of these threats to physical security have been lessened, and in some instances virtually eliminated, as man has developed mentally and spiritually. Despite this, even today in many countries of the world most of the people have very little real security as to basic human needs for food, shelter, and medical care. In the economically more developed countries material conditions are at a quite favorable level so that most of the population, especially those in families containing workers, are reasonably well off, at least as long as the worker is employed.

This great improvement in the material well-being of the population in economically well-developed countries has, without exception, been the result of rapid industrialization and a changeover from a rural economy to a highly urbanized one. Formerly, families produced or bartered for most of their needs and had only small supplementary cash income. Under the monetary economy resulting from industrialization, with its accompanying increasingly high standard of living, few people own any means of production, and many do not even own their own homes. Thus the loss of earning power to a family in an industrialized economy poses a problem completely in contrast with the situation in an agrarian economy. So although the industrial age has greatly aided man in his eternal quest for security by eliminating or diminishing many problems that have confronted him for centuries, at the same time certain new problems have arisen.

Methods of Attaining Security

In the earliest days of civilization man attempted to achieve security completely by his own efforts. Soon families banded together for both productive and protective efforts. This growth continued until there were villages, towns, cities, provinces, and nations.

In our industrial economy the first method of attaining security of all kinds naturally devolves on the individual concerned. But this is only the beginning. Group action of all types is necessary. For physical security we have the police forces, the military forces, the courts, and international agencies.

With reasonable assurance of physical security there is still the problem of security against various risks of stoppage of earnings. Again the primary responsibility rests with the individual, but our modern society and forms of government have prescribed certain responsibilities in this direction on the part of the employer and the government.

We may term the individual's responsibility for providing his own economic security as "private provisions." Cooperative arrangements involving both the individual and his employer (or, under certain circumstances, groups of employers) may be termed "group provisions." Finally, programs established by governments may be termed "social security."

Concept of Social Security

The phrase "social security" when considered as to its basic composition is so broad as to be virtually meaningless. The "security of the whole society" would encompass all activities of mankind--not only physical and mental, but even spiritual. As "social security" is commonly used, however, it connotes measures for economic security under governmental auspices.

Some individuals hold a very broad concept of "social security," considering it to include such diverse programs as public education, vacations with pay, community organization and planning, counseling services, school lunch programs, research in health problems, etc. Generally, however, "social security" is defined as including only a more restricted scope of programs, namely: (1) those providing cash payments to persons and families whose income from earnings has ceased or diminished, either temporarily or permanently; (2) those furnishing medical care to persons and families receiving benefits under (1) or, under certain circumstances, to all persons of a given category; and (3) those providing cash payments in respect to all children of a given category, regardless of the presence or absence of parents who could support such children and regardless of whether such support is being given or in what quantity.

In the United States, the term "social security" is widely (although incorrectly) used to refer to the old-age, survivors, and disability insurance system established by the Social Security Act (often called OASDI for short).

Types of Social Security Programs

Many different types of programs can fall within this latter, more restrictive definition of social security. It may be said, however, that there are really only nine distinct branches or types of programs -- as set forth in the International Labor Organization's Convention No. 102, Minimum Standards of Social Security.1/ These may be classified as either short-term or long-term risks, depending upon the length of payment for any individual case.

Three branches involve entirely long-term risks, namely, old-age benefits, survivor benefits, and disability benefits. Old-age benefits are payable for life after attainment of a certain age, often with certain requirements as to retirement. Survivor benefits are payable after the death of the breadwinner, often for life or else for a period of years -- until the orphans reach a certain age. Disability benefits (sometimes known as invalidity benefits) are payable generally during the continuance of permanent and total disablement. In the subsequent chapters, these three branches will be treated simultaneously since social security systems for one of these branches usually include one or both of the other two. A fourth branch, family allowances, is to some extent a long-term risk since payments are made during the years when there are young children.

The branches covering primarily short-term risks are unemployment benefits, sickness benefits, medical care, and maternity benefits. The first two may, but usually do not, provide for payments over an extended period. Unemployment benefits are usually paid after a short waiting period and for a limited number of weeks in the event of the wage earner being out of work. Medical care benefits are either cash reimbursement or services granted in varying degrees and for varying periods to the individual, and sometimes to his family, in the event of illness. Sickness benefits (sometimes referred to as temporary disability benefits) are payable after a short waiting period for a limited period of time, with benefits under the disability branch entering in when the disablement becomes permanent in nature. Maternity benefits consist of both medical care and periodic cash payments; in reality, this branch is a combination of the two branches, sickness benefits and medical care, for the special risk of maternity.

The ninth branch, industrial injury benefits, is a combination of short-term and long-term risks since it includes sickness benefits, disability

1/For details on this convention, see Robert J. Myers, "New International Convention on Social Security," Social Security Bulletin, October 1951.

benefits, and medical care for the individual who is injured at work and survivor benefits for his dependents if his death results from such injuries.

Social security programs can be subdivided according to their general nature, as well as according to the particular risk with which they deal. Perhaps, four broad categories may be distinguished--social-insurance systems, social-assistance systems, universal-benefit systems, and mandatory-employer plans. In some instances, classification is not clear cut.

Generally speaking, social-insurance systems, involve definite benefit amounts and qualification conditions prescribed by law, with the cost being met by contributions from the covered individual and/or his employer, and sometimes, in part from general government funds. Administration of social-insurance programs is always done by governmental organizations (but note the subsequent discussion). Coverage of such programs is compulsory, with certain minor exceptions, and applies to workers of a considerable number of employers. The old-age, survivors, and disability insurance system of the United States is an example of a social-insurance program, as are also the wage-related pension systems of many Latin American and Continental European countries and the unemployment insurance system of Canada.

Social-assistance systems have considerably more discretionary features than social-insurance systems, with the amounts of the payments being based on individually-determined need and being financed from general governmental funds. Just as in the case of social-insurance programs, social-assistance programs are always administered by governmental organizations. The several Federal-State public assistance programs in the United States are examples of social-assistance systems, as are also the similar programs in Canada and the national assistance program in Great Britain.

Universal-benefit systems generally cover the entire population of a country, rather than merely the employed population, and condition the payments on demographic elements (for this reason, such programs have sometimes been termed "demogrant" systems), such as age, residence, family status, etc. At times, the benefits provided by such systems involve an income and/or assets test that is mathematically administered and so is not a needs test on an individual basis (and, accordingly, the system may then properly be classified as different from a social-assistance program). In certain instances, these programs may be partially financed by direct earmarked contributions (such as a percentage of each resident's gross or net taxable income), but they are distinguished from social-insurance systems because there is no relationship between benefit receipt and contribution payment. Universal-benefit systems are always administered by governmental organizations. The Canadian old-age security program (flat benefits to persons aged 70 and over) is an example of a universal-benefit system, as are also the similar programs of Australia, New Zealand, and the Scandanavian countries.

The mandatory-employer plans are those that employers are required by law to establish certain types of benefits for their employees. These plans are administered either by the employer or are contracted out with a private insuring organization--at times with the alternative possibility of using a competing governmental organization. In many respects these plans are similar to social-insurance systems--especially if the exact form and amounts of the benefits are prescribed by law--but the distinguishing characteristic is the mandatory governmental administration under social-insurance systems. The Ontario Pension Benefits Act (requiring employers of 15 or more employees to establish pension plans with certain benefit standards) is an example of a mandatory-employer plan, as are also the State Workmen's Compensation systems in the United States (other than those that require the employers to purchase protection only from the "monopolistic" or "exclusive" State fund). Other examples include service-indemnity programs that provide benefits related to length of service upon separation from the service of the particular employer (prevalent in a number of developing countries, especially in Latin America) and provident funds that actually represent a savings account developing from employer and employee contributions and payable upon separation from service (prevalent in a number of developing countries, especially those under British influence).

Some authorities, however, classify some mandatory-employer plans (such as Workmen's Compensation in the United States) as social insurance since the benefits are prescribed by law and the administration is either performed by a Government agency or is under the close supervision of such an agency.

The ease with which mandatory-employer flaws can be established--and the subsequent ease of administration on the part of the Government agency involved--should not obscure the difficulties of overall administration and benefit availability, as against the situation under substantive social legislation administered by the Government.

Individual Equity and Social Adequacy

Whenever a social security system involves contributions from the potential beneficiaries, the question of individual equity versus social adequacy arises. Individual equity means that the contributor receives benefit protection directly related to the amount of his contributions, or in other words, actuarially equivalent thereto. Social adequacy means that the benefits paid will provide for all contributors a certain standard of living. The two concepts are thus generally in direct conflict, and social security systems usually have a benefit basis falling between complete individual equity and complete social adequacy. Usually, the tendency is more toward social adequacy than individual equity.

Individual private insurance policies are, of course, necessarily based on the individual equity concept. This does not mean that each individual will necessarily always get exactly his money back plus interest (as in the case of a savings bank account or some Government bonds). Rather, insurance company contracts have premium rates actuarially determined for the benefits provided, so that policyholders in the same risk class pay the same amount for the same benefit. Due to random chance, the relationship between premiums paid and benefits received under a private insurance company contract will vary considerably for a given selected group of presumably identical risks. But, in advance, no one can foretell which of the group will die early (and thus receive benefits far in excess of premiums) and which will die after many years of premium participation.

The concept of social adequacy must, of necessity, play a large part in group plans and in social security systems. If too much individual equity were to prevail when a system is started, the benefits paid would be relatively small. Thus, many years would elapse before the system would begin to meet the purposes for which it was established. Nonetheless it is quite common to maintain a certain degree of individual equity in group plans and social security systems, although more stress is placed on social adequacy.

Relative Cost of Social Security Versus Private Insurance

Statements are sometimes made by uniformed proponents of social security that such programs are much less expensive than private insurance. At times, when considering the experience in the early years of operation of a long-term benefit program, this seems to be strikingly so. The explanation, however, is largely that for those initially granted benefits, the social adequacy concept applies so much more importantly than the individua equity concept.

One argument of those who state, or imply, that social security systems can do the job so cheaply is the application of the so-called "magic of averages." Under this theory, presumably because social security systems are so large as to number of persons covered and amount of contributions collected, relatively low benefit costs are inevitably expected to result. This belief is, of course, fallacious. It seems to be a direct parallel to the classic economic fable of the storekeeper who pays 50 cents a dozen for eggs and sells them for 4 cents apiece, but claims that he can nevertheless make a profit if he sells enough.

Actually, a social security system is not a magical machine. We cannot put $1 of contributions into one end and continuously get $10 of benefits out from the other end. It is basic logic that the cost of a system is determined solely by the benefits and the administrative expenses paid.

Accordingly, if in the aggregate the relative benefit cost of a social security system is the same as that of a private individual insurance plan or a group insurance program, the only difference in total cost arises from any differences in administrative expenses. Generally, however, administrative expenses represent only a small fraction of benefit costs so that, cost-wise, any advantage that a social security system possesses because of its size arises primarily on this account. Large systems have one other advantage over smaller ones. Since fewer sizeable accidental and random fluctuations of experience are likely to occur in a large-coverage program, less need exists for providing margins for contingency reserves.

The real reason for having a social security system as against (or rather, in addition to) private insurance coverage is not primarily from a cost standpoint, but rather that social benefits on a social adequacy basis can only in this way be provided to a large sector of the population.

Social Insurance as "Insurance"

At times, the issue has been raised as to whether it is really proper to use the word "insurance" in connection with social security or social insurance. It would seem that this is justified because of the broad pooling mechanism utilized in social security systems, even though from a strictly legalistic standpoint proper usage of this word might also require that there be present a lawful and binding contract. Specifically, Webster's New Collegiate Dictionary, Second Edition, 1959 gives the following as the primary definition of "insurance": "Act of insuring a contract whereby one party undertakes to indemnify or guarantee another against loss by a contingent event." Social insurance seems to qualify under the first portion of this definition, since "insuring" is defined as "assuring against loss by a contingent event."

It is recognized that the use of the term "social insurance" may result in some misunderstanding of the basic nature of a social security program by the general public, who will tend to think of it in terms of their acquaintance and knowledge of private insurance, or even Government insurance involving a contractual relationship (such as the National Service Life Insurance program, group insurance, and parcel post insurance). Nonetheless, the term "social insurance" is a very popular one in all countries, and by usage and dictionary meaning seems proper.

Regardless of the conflict over the applicability of the term "insurance" to social insurance programs, it is clear that social insurance and private insurance (including governmental insurance plans on a contractual basis) have certain elements in common and certain elements that are distinctly different. This is not to say that, because of any such differences, one form is good and the other form is bad. Rather, both forms have important--and complementary--roles to play in our economic and social life.

Among the areas in which social insurance and private insurance are similar are the following: a widespread pooling of the risks against which protection is provided; specific, and generally complete, descriptions of all conditions pertaining to coverage, benefits, and financing; precise mathematical calculations of benefit eligibility and amounts; and specific contribution (or premium) rates that are computed to meet the estimated costs of the system. On the other hand, the areas in which social insurance and private insurance are, to some extent or other, dissimilar are the following:

1. Private insurance must be based on individual equity; social insurance, although possibly having certain individual-equity features, must generally contain a considerable degree of emphasis on social-adequacy principles.

2. Private insurance is on a voluntary basis as to participation (under some employee-benefit plans, the employee must participate, but the employer's action in establishing the plan is voluntary--even under collective bargaining); social insurance almost invariably is based on compulsory participation.

3. Private insurance involves complete contractual rights between the two parties (the insurer always has the right to terminate the contract on nonpayment of premiums, but usually it must continue the contract in force for the period specified--but note the cancelable type of health insurance and the variable-rate provisions in some noncancelable health insurance); social insurance does not involve a strictly contractual relationship, although the benefits involve a statutory right (but the statutory provisions can be changed from time to time by the legislature).

4. Private individual insurance must be fully funded so that the rights of the insureds are protected, and this is a desired goal of private pension plans (but note that, under the latter, full funding is often not present, especially with regard to prior-service benefits); social insurance, because of its compulsory and statutory nature--need not be fully funded--in fact, it is generally thought that, from an economic standpoint, full funding is undesirable.

Chapter III

SOCIAL SECURITY SYSTEMS AROUND THE WORLD

The previous chapter has attempted to describe the general concepts of social security. To round out the picture, it may be worthwhile to give a brief description of social security systems of various countries. First, there will be general discussion of similarities and differences, and then the general bases of the programs in several selected nations will be described (in order, by continents), with major emphasis on social insurance and demogrant programs. Quite naturally, it would be impossible (within any reasonable space) to give a full discussion of all plans in all countries. An excellent summary of specific major provisions by country (and by branch of social security is "Social Security Programs Throughout the World, 1961," Division of Program Research, Social Security Administration, Department of Health, Education, and Welfare, 1961.

Strangely enough, many people in the United States believe that social security was an American invention and that most other countries do not have similar programs. Actually, although the phrase "social security" was invented here and now has worldwide usage, the general basis of social security has been present in European and other economically well-developed countries for far longer and to a much greater extent than in the United States.

Insofar as social insurance is concerned, the beginning development was in Germany in the 1880's. It is said that Bismarck pushed this concept to combat the Socialists, by taking away one of their most potent points arguing for a change in the economic system. By the early 1900's, most of the leading European countries had some types of social insurance programs.

And, by the time the United States had enacted old-age insurance and unemployment insurance in 1935, the European systems were quite broad and inclusive of many types of benefits, while programs were being prepared even in some economically underdeveloped countries. In the Americas, Chile led the field with an extensive system that began under legislation of 1924, and Brazil, Ecuador, Peru, and Uruguay also inaugurated programs before the United States did (or at about the same time). By now, all American nations have programs. Most developing countries throughout the world have social security systems, even if only on the legislative books or in the planning stage (to some extent, the possession of such programs is a status symbol).

In many countries, mandatory-employer plans were established before social insurance was introduced. Generally, the social insurance system eventually replaced the mandatory-employer plans. Currently, in many developing countries, the first stage is in the direction of establishing mandatory-employer plans.

What is a proper and adequate social security system for one country is obviously, not necessarily satisfactory for another country. Much depends on economic, demographic, social, and even philosophical conditions.

A country with low earnings levels (with most people at bare subsistence levels) and with little personal savings will more likely have to have a benefit level that is relatively higher (in relation to wages) than an economically well-developed nation. This is so because otherwise the benefits, being so far below the subsistence level, will possess little economic significance. Likewise, in such an economically poor country, waiting periods for short-term benefits will likely be short because people will not have the resources to tide them over longer periods (that may be desirable from an administrative-efficiency standpoint).

The provision of medical care under social security systems, too, may be much more necessary in economically poor countries. These nations may not have any other way of getting medical services to the populace in the immediate future than through governmental measures financed by social insurance contributions. On the other hand, in economically well-developed countries, much (if not all) of the needed medical care is often readily available to the vast majority of the population. This has been accomplished over the years, through a wide variety of means such as prevalent individual resources, cooperative and commercial insurance carriers, voluntary organizations (that have developed hospitals, clinics, research facilities, etc.), and social insurance--all complemented by governmental action in certain broad areas such as public health services. In many such countries, some or all of the medical care has been provided through governmental social security programs that have combined, coordinated, and expanded the previously-existing private measures.

It is common for an economically underdeveloped country, which will be largely agricultural, to have a considerable amount of unemployment (especially underemployment). From a political standpoint, there is often great pressure to establish an unemployment insurance system in such nations--in the mistaken belief that this will solve the unemployment problem.

Nothing would be done for those who had little or no employment previously because unemployment insurance benefits customarily require a past earnings record. As a matter of fact, this might even make the problem worse, by resulting in less partial employment--or in other words, freezing the work force into two groups, those with continuous full employment and those with no employment. Many employers would refuse to hire workers on a temporary basis if this would increase their unemployment insurance costs. Furthermore, the successful operation of an unemployment insurance system requires the existence of an effective employment service to provide jobs for unemployed workers.

The demography of a country also can have a significant effect on the character of its social security system. When high mortality is present, it is only natural that retirement ages for old-age pensions should be low. But those responsible for the planning and development of the system should bear in mind that mortality improvements are likely to come. The general populace, however, will likely be influenced in this respect by what had been the case in the past (as "evidenced" by the current age structure) and so will be difficult to convince about higher retirement ages.

In many economically underdeveloped countries, the family system still plays an important role. There, the aged and the infirm are taken care of by the younger, active members of the family. Any social benefits provided in such nations are often, because of the apparent desire of those concerned, large lump-sum payments rather than periodic ones (which may have a much larger actuarial value). However, with growing industrialization and urbanization, such countries may have more need of the usual types of social security programs.

Social and philosophical views can also play an important role in defining the categories of dependents. The position of women in the social structure is especially significant. Thus, where women are relatively little in the labor force, widow's pensions may be payable regardless of age at widowhood (and whether children are present). As to the upper age at which children are considered to be dependent, this may be relatively low for boys, but there may be no such limit for girls who do not marry. In many systems, the categories of dependents are quite extensive, including not only spouses, children, and parents, but also grandchildren, grandparents, and brothers and sisters incapable of self-support.

COVERAGE

Great differences exist as to the categories of persons protected under the social security systems of various countries. It is the usual practice to have a separate system for government employees (and some of these have been in operation, in one form or other, for centuries), but in some countries these workers are covered by the general program (either with or without a supplementary plan of their own).

Some economically well-developed nations have "demogrant" programs, which cover all citizens (and in some instances, even all residents, but generally then with short residence requirements for short-term benefits and longer residence requirements for pensions). In other such countries, where there are social insurance systems, coverage extends to all (or virtually all) the employed labor force. In some of these programs, self-employed persons and high-salaried employees are excluded. Also, in some cases, there are separate systems for white-collar employees and for manual workers (and often, too, for self-employed persons, miners, railroad workers, seamen, and farm workers). At times, coverage is restricted, for practical or policy reasons, by not requiring contributions from very young workers or from workers beyond retirement age.

In economically-developing countries, coverage is usually limited in one or more of several ways. Such restrictions are based on such factors as: occupation, size of firm, permanency of employment, geographical location, etc. Frequently, the law provides for extensive coverage, but permits the administrative agency to put it into effect gradually by regulation. Moreover, in many instances actual effective coverage is well below what is called for by the legislation and its implementation by administrative regulation. (It should not be forgotten that under OASDI there are still certain difficulties in obtaining full coverage compliance, especially in the agricultural and domestic employment areas.) This incompleteness of coverage arises because of lack of knowledge of the requirements on the part of the employers and workers and because of inadequate enforcement efforts by the authorities. In fact, in some cases there is the attitude that the program is really just like private insurance so that if those who are supposed to be compulsorily covered do not wish to be covered, this is perfectly proper!

TYPES OF BENEFITS

In most countries, the first form of social security was workmen's compensation (because of the employer's legal responsibility in many such cases). Now, all the economically well-developed countries and many of the other countries have systems that provide more branches of social security than is so in the United States. This is especially the case in regard to medical-care benefits, cash-sickness and maternity benefits, and family allowances. On the other hand unemployment insurance is not widespread outside of the economically well-developed nations. This is also true as to social assistance programs providing cash payments to needy persons--whether or not supplementing social insurance systems.

Medical-care benefits are provided in a diverse number of ways. In some countries, medical care is provided on a "demogrant" basis under a national health service. Generally, the social insurance institution or the responsible government agency provides financially for the services (sometimes with the covered person paying certain charges for services rendered, especially for medicines and appliances). In some cases, the doctors are on salary, while in other systems, they are paid on a capitation basis (an annual amount for each person to whom the doctor furnishes general-practitioner services) or a fee-for-service basis. Similarly, in some systems the hospitals are owned by the social security organization or the government, while in others the services are purchased from hospitals operated by other organizations. A few systems provide only certain cash payments for medical costs, with the individual having to make up the balance of the charges (but with some control of fees).

Usually, the same care is provided for dependents as for covered persons, but a few systems exclude dependents. Most systems furnish more or less complete medical care, but a few restrict the benefits to such items as hospitalization.

Systems that provide benefits for work-connected accidents almost always provide similar protection for industrial diseases (either all such diseases or certain specified ones).

BENEFIT LEVELS

In most countries, the level of benefits in relation to the wage level is higher than in the old-age, survivors, and disability insurance system of the United States (OASDI). In large part, this is to be expected because, from a social adequacy standpoint, there necessarily must be relatively high benefits in nations where wages are often only sufficient to provide a minimum standard of subsistence (or little more).

In the United States, unlike many other countries, the social security benefits need be only the basic floor of protection on which additional protection is built by voluntary means (private pension plans, individual savings, home ownership, etc). The foregoing statement should not be taken to imply that the social security benefits carry out the entire job of social protection in all other countries, because in many nations much is done by private voluntary action. Generally, however, this portion of the benefit protection afforded is at a relatively lower level than in the United States.

In a few developing countries, the current benefit level under pension provisions of social insurance is relatively low. This occurs because such systems (rather unwisely from social adequacy standpoint) are patterned after private insurance in that the benefits are proportional to contributions paid or length of covered employment, and the systems are still in their early years of operation. Eventually, the benefits called for under such plans will be relatively large, but this is not so now.

In most systems, benefits are increased when dependents are present. In a few systems, which are generally based to a considerable extent on individual equity principles, this practice is not followed. Sometimes, problems exist in defining dependents in countries where marriage and living arrangements are not very much formalized for a large sector of the population. In certain countries (particularly those where the family system is very strong and where women generally do not engage in paid employment), the definition of "dependent" may be very broad--including unmarried daughters regardless of age, parents, grandparents, brothers, sisters, and grandchildren.

PENSIONABLE AGES

A wide spread occurs in the minimum pensionable ages under the old-age pension provisions of social security programs. Some countries go as low as age 50 (primarily those with high mortality, especially when it was very high in the recent past). On the other hand, a few countries (those with relatively low mortality) have such a minimum age above 65. Most countries set this age at between 60 and 65 (both inclusive). A few follow the OASDI practice of permitting earlier retirement with permanently reduced benefits. Some countries have the same retirement age for both men and women, whereas others have a lower age for women (usually, by 5 years).

In some systems, old-age pensions are payable automatically upon claim (without a retirement requirement) upon attainment of the minimum pensionable age. Frequently, this results in a general practice by employers of compulsory retirement; in some instances, the wages that a pensioner may receive may be lowered because he may change jobs or work only part time. Other systems require retirement as a condition of benefit payment; under such circumstances, the treatment differs as to whether or not the amount paid subsequently will be increased to reflect the deferment of retirement. In some instances, as in the OASDI system, the two procedures are merged--in that payment regardless of retirement is made a certain number of years after the minimum age.

Treatment also varies as to what is done when pensioners have earnings. Some systems (at least, in theory) do not pay any benefit if this is so, or at least if this is so in connection with earnings from covered employment. Other systems permit a certain amount of earnings to be exempt, and further may have a graded-benefits basis for higher amounts of earnings (as does OASDI).

Some systems pay pensions to widows regardless of age at widowhood. Other programs pay only while children are in the widow's care and then after a certain age or if disabled. Sometimes payment is continued to a widow regardless of her age if she had been paid a pension because eligible children had been present. In some systems, when pensions (for life or until remarriage) are not payable to a widow, a temporary pension is paid.

Generally speaking, the amount of the invalidity pension is the same as the old-age pension. Disability pensions of reduced amount are paid under a few systems in cases of partial invalidity or in cases of disability preventing the following of the usual occupation. Some systems pay supplements for pensioners so disabled as to require an attendent.

FINANCING

The vast majority of social insurance programs are financed by contributions from workers and employers that are determined as a percentage of the earnings of the covered individuals (usually with some prescribed maximum earnings); in most such plans, the government is responsible for a certain proportion of the costs (or of the combined employer-employee contributions) or for any residual cost. A few social insurance systems have uniform contributions (in monetary terms) from all covered persons, possible varying by sex and age (i.e. different for youth and adults); these generally also have flat benefits.

Social assistance programs are financed from general revenues, although at times there are specially earmarked taxes involved. This is also true of many "demogrant" programs, although many of these at least in part financed by direct contributions (of either flat amounts or percentages of income or earnings) on the participants and their employers. Such direct contributions are often waived for low-income persons.

In most countries, social insurance systems are financed by contributions (not necessarily equal) from three parties--the worker, the employer, and the government. A few systems have only worker and employer contributions, as under OASDI. Most Communist nations have only employer and government contributions. In other plans, the employer contribution, as compared with the employee contribution, generally is within the range of being equal or to being twice as large. The government contribution (when present) ranges from 10 percent to 50 percent of the combined employer-employee contribution when it is expressed as a percentage of payroll. In some countries, the social security system often has difficulty in getting the government to pay its "required" contribution.

Contributions related to earnings are determined either by applying by the applicable percentage to the actual wages or from wage classes. They are collected (and the earnings record is developed) by either payroll-listing or stamp-book methods. In some systems, a single combined contribution rate applies for all branches together (generally so for pensions at least).

The combined level of contributions in systems with a broad span of benefits at high levels runs up to as much as 30-35 percent of payroll. Although this, in itself, is a heavy economic burden, there should be borne in mind the fact that, because of this high charge on production, the wages paid (or take-home pay) may be correspondingly lower. For example, the net economic effect on production costs of gross pay of 100 units, employee contribution of 15 units, and employer contribution of 20 units is no different than if there were no social security system, and the worker were paid 120 units. Under the foregoing circumstances, the worker would have to provide his own social-benefit protection from the additional 35 units in his take-home pay. Likewise, when no contributions are collected from the worker, this does not necessarily mean that he is better off financially; in the foregoing example, with the same social security benefits, there would be no economic effect on any party concerned if the employee did not contribute, but his take-home was 85 units, and the employer contributed 35 units.

Also, it should be noted that the high cost of some social security systems results, to an appreciable extent, from the cost of the family allowance payments. In essence, this benefit may be viewed as a redistribution of current wages among workers with children and other workers.

When funds accumulate in a social security system, various investment procedures are followed. The pension systems of most countries that have had them for a long period are, more or less, on a pay-as-you-go basis and so have little accumulation of funds. This, of course, is also the case for programs providing short-range benefits. Some systems follow the OASDI practice of investing only in government securities. The more general practice, however, is to have provision in the law for a wide variety of investment areas, including private bonds and stocks, home mortgage loans (often only to covered workers), commercial mortgages, hospitals and clinics for the system, ownership and operation of commercial enterprises, etc. Of course, not all systems go into all such areas.

ADMINISTRATION

In some countries, the social security programs are administered by government departments, as is OASDI. Most social insurance systems, however, are administered by separate agencies that are established by law and have varying degrees of autonomy, although usually being subject to a certain degree of government supervision. Such institutions are governed by boards that are frequently composed of representatives of employers, employees, and government. Because of their autonomous nature, these institutions often wield great financial power when large funds are accumulated, and then their role in economic development can be significant.

Some countries have a unified social security program administered by one agency. Generally, however, several institutions administer different programs--either by type of employment covered and/or by type of risk (although generally old-age, survivor, and disability pensions are administered as a unit).

Bilateral and multilateral conventions or treaties exist between many countries, particularly in Europe. These have the effect of guaranteeing equal treatment of aliens with citizens, payment of benefits outside the country, and pooling of service records or periods of residence to meet qualifying periods. The International Labor Organization has several conventions in the field of social security, under which ratifying nations agree to meet certain standards in their systems. The United States has not ratified any of these social security conventions, in part because of constitutional reasons (in connection with programs operated in whole or in part by the States).

BRIEF DESCRIPTIONS OF VARIOUS SYSTEMS

There will now be given relatively brief descriptions of the general characteristics of the social security programs in a number of countries throughout the world. These have been selected either because of their importance or to indicate some of the different bases prevalent. The countries are taken up, hereafter, by geographical position.

United States

Several social insurance programs provide wage-related benefits--a Federally-administered one for old-age, disability, and survivor pensions (OASDI) and State-administered ones for unemployment insurance (all States), cash-sickness benefits (4 States), and cash-maternity benefits (2 of the 4 States with cash-sickness benefits). In addition, railroad workers have a national social insurance program that provides wage-related benefits--old-age, disability, and survivors pensions; unemployment insurance; and cash sickness and maternity benefits. (Governmental employees--Federal, State, and local--have a multitude of retirement systems and sick-leave plans.) Work-connected injury benefits--both cash and medical care--are provided by separate systems in each State; most of these are operated on the basis of requiring the employer to purchase protection through private insurance companies, but in some States there are competitive State funds, while in others, the State fund is the exclusive insurer.

The OASDI system applies to virtually all employed persons in the country, including self-employed ones (major exclusions being most Federal Government employees, self-employed physicians, railroad workers, and irregularly employed farm and domestic workers). The old-age pensions, payable on retirement at age 65 (reduced amounts for retirement at age 62) and with supplements for a wife aged 62 and for children (widow's pension payable while having eligible children or at age 62), follow the "social adequacy" basis of requiring relatively short qualifying periods and of being related only to average wage, but with relatively larger benefits for lower paid persons (rather than being related to length of contributory service). The earnings-related contributions are shared equally by employers and employees, with no general contribution from the Government.

Five categories of public assistance programs--for the aged (65 and over), the blind, the dependent children, and the disabled, and for heavy medical costs for persons aged 65 and over--are administered by the States with Federal financial help. In addition, many States have a general assistance program to handle residual cases.

Canada

Flat-rate pensions on a "demogrant" basis (for residents of 10 years or more) are paid to all persons aged 70 or over (no supplement is payable for a wife under age 70); these pensions are financed by earmarked taxes and by grants from general revenues, if necessary. Family allowances of flat amounts per child for all children under age 16 and in school (larger for those aged 10-15 than for those under age 10) are financed from general revenues. Government employees have separate pension plans and receive benefits thereunder in addition to those under the general system. Unemployment insurance on a wage-related basis is operated by the Federal Government and is financed by equal employer and employee contributions, plus a Government contribution equal to (a) 20 percent of the combined employer-employee contributions, and (b) the administrative expenses of the system.

Social assistance programs, administered by the Provinces and municipalities, are provided for (1) persons aged 65-69, (2) the blind, (3) the totally and permanently disabled, and (4) needy mothers who are deprived of the support of the breadwinner and who require assistance to maintain their children. Except for the last category, the Federal Government pays for about half of the costs involved.

Hospitalization benefits, including diagnostic services (on a service basis), generally for the entire population, are provided under Provincial systems that are "encouraged" by Federal financial participation. One Province provides complete medical care under a social security system. In some Provinces, the plans are financed partially by general revenues (including sales taxes) and partially by flat contributions from the persons protected or by cost-sharing provisions. In other Provinces, the entire cost is met from general revenues.

Work-connected-injury benefits are financed entirely by employers, with administration by monopolistic Provincial funds.

Mexico

A social insurance program provides wage-related benefits--old-age, disability, and survivor pensions; cash-sickness and maternity benefits; and work-connected-injury benefits in a single coordinated system--and medical-care benefits on a service basis for both workers and dependents. The old-age pensions, payable on retirement at age 65 (reduced amounts for retirement at age 60) without supplement for a wife (widow's pension payable regardless of age), follow the "individual-equity" basis of requiring long qualifying periods and of being related to length of contributory service. The system applies only to regularly-employed industrial and commercial workers (in most geographical areas and to agricultural workers in large-scale operations in a few areas. The earnings-related contributions are paid by employers (all the cost of the work-connected benefits, varying by risk, plus 50 percent of remainder), employees (25 percent of cost other than work-connected benefits), and Government (same as employees).

Panama

A social insurance program furnishes wage-related benefits--old-age and disability pensions; and cash-sickness and maternity benefits--and medical-care benefits on a service basis for both workers and dependents. The old-age pensions, payable on retirement at age 60 for men and 55 for women without supplement for a wife (widow's pension payable regardless of age), are along "individual equity" bases. The system covers government workers in all parts of the country and industrial and commercial workers in selected areas. The earnings-related contributions are paid by employers, employees (somewhat lower rate than employers), and Government (less than 10 percent of employer-employee rate). Work-connected-injury benefits are provided through private insurance companies.

Peru

Two separate systems for private workers are present--for salaried employees and for manual workers. Both systems provide old-age, survivor, and disability pensions; cash-sickness and maternity benefits; and medical-care benefits, primarily only for worker (on service basis generally, although salaried employees can elect indemnity benefits). Old-age pensions are on "individual equity" basis for manual workers (payable at age 60 without retirement being required) and on a "social adequacy" basis for salaried employees (payable at age 60 for men and age 55 for women, with a retirement test). A small supplement for the wife (any age) of an old-age pensioner is paid under the manual-worker system; both systems pay widow's pensions regardless of age, but for the manual-workers system this is only done with respect to widows of old-age pensioners.

Chile

There are two large general systems for private workers--for manual workers and low-earnings self-employed workers and for salaried employees--and a number of smaller ones for special groups such as railroad workers, seamen, etc. Almost all types of benefits are provided--old-age, disability, and survivor pensions; cash-sickness and maternity benefits; medical-care benefits for worker and dependents, on a service basis (only limited benefits for salaried employees); work-connected-injury benefits (with private carrier or state fund); unemployment insurance (manual workers receive severance grants from employer); and family allowances (for all children under age 18, or under 23 if in school or disabled). Pension benefits are on "individual equity" basis with long qualifying periods and are automatically adjusted to changes in wage level (but this provision has been suspended); pensions are subject to a retirement test and are payable at age 65 without supplement for a wife (widow's pension payable regardless of age), (in salaried-employee plan, also after 35 years of contribution). Contributions are earnings related. Employers pay the entire cost of work-connected-injury benefits; virtually all the cost of family allowances; and, for other benefits, about 70 percent of cost for salaried employees (who pay remainder of cost) and about 50 percent of cost for manual workers (remainder of cost shared equally by workers and Government).

Great Britain

"Demogrant" programs for all residents (almost entirely financed from general revenues) are present for medical-care benefits (small amount of cost sharing) and for flat-payment family allowances (for each child present, under age 15--or under age 18 if in school or if an apprentice--except for the first such child, with lower payments for the second child than for the third and higher ones).

Flat-rate benefits, with eligibility based on the contribution record, are provided with respect to old-age and survivor pensions (amount is increased for deferred retirement--beyond 65 for men and 60 for women; a widow receives pension if she has an eligible child in her care or if she is aged 50 or over at widowhood or when last child becomes ineligible); cash-sickness and maternity benefits (disability pensions are provided, in essence, by paying cash-sickness benefits without restriction as to duration); unemployment benefits; and work-connected-injury benefits. Supplements are paid with respect to wives and children. The benefit amount is reduced for an incomplete contribution record. Old-age pensions are subject to a retirement test until age 70 for men and age 65 for women. Government employees have a separate pension plan and receive benefits both thereunder and from the general flat-rate system (but for those entering employment after the establishment of the latter system, there is a partial offset of the general benefits against what is payable under the special system).

Periodic cash-sickness and maternity benefits apply only to employees and self-employed. Periodic work-connected-injury benefits (administered by Government) and unemployment benefits apply only to employees. Flat-rate lump-sum death grants for insured persons and their dependents and flat-rate lump-sum maternity grants for insured persons and their wives are available for all categories of insured persons.

With respect to the entire package of flat-rate benefits, there are flat-rate contributions; the financing of the program, in combination with the graduated pension scheme described later, is on a pay-as-you go basis. With respect to employees, there are approximately equal employer and employee contributions, plus a Government contribution of about one-fourth of the combined employer-employee contribution. The self-employed pay a contribution that is about three-fourths of the combined employer-employee rate, while nonemployed persons pay at a rate that is about half of the combined employer-employee rate; in each instance, very-low-income persons need not contribute, and the Government makes a matching contribution of about one-third. Within each category, women (and, where applicable, their employers) pay about 15-20 percent lower contributions than men. These differentials by employment category and by sex reflect the different scopes of protection furnished. Married women (and certain widows receiving pensions) may elect not to contribute--either as employed persons (although their employer must contribute regardless) or as self-employed or nonemployed persons.

For employees, there are additional old-age retirement and aged-widow survivor pensions on an earnings-related basis, with the amounts being computed roughly on an "individual equity" basis (with "contracting-out" of private plans permitted; the plan for government employees is one of these contracted-out plans), with a combined employer-employee contribution rate (shared equally) on a band of earnings in excess of a certain amount. There is also a general public assistance program.

France

A large number of systems cover different risks and different categories of workers and self-employed persons; there is, however, a general system covering most nonagricultural workers. All systems provide a wide variety of benefits--old-age, survivor, and disability pensions; cash-sickness and maternity benefits; medical-care benefits (on a reimbursement basis, with cost-sharing); work-connected-injury benefits (administered by a governmental agency); unemployment benefits (on an assistance basis; but large-scale collective agreements provide benefits as a right for many workers in industry and commerce); and family allowances (relatively large payments for second and higher children present--under age 15, or under age 20 if in school or disabled--with amount related to geographical area and to a standard average wage and with lower amount for second-order children and higher amount for third-order children aged 10 or more).

Old-age pensions are payable without a retirement test from age 60, but the amount is significantly increased for deferment of claim (by 100 percent for claim at age 65 and by 200 percent at age 70); a supplement to the old-age pension is payable for the wife regardless of age, but widow's pension is payable only at age 65, or at age 60 if disabled and if the husband dies after age 60. Pension amounts are related to earnings but are automatically adjusted annually to reflect changes in general wage level. None of the cost is borne by the Government, except for unemployment benefits, which are financed completely by the Government. Employers bear the entire cost for work-connected-injury benefits (on an experience-rating basis) and for family allowances, and about 70 percent of the cost for the other benefits.

Netherlands

A system of old-age and survivor pensions covers all residents and provides flat pensions payable without a retirement test at age 65 (wife regardless of age; for widow alone, at age 50 at husband's death or if disabled then) that are automatically adjusted for changes in the general wage level. The pensions are financed by a percentage contribution on net income of individuals up to a certain limit (also automatically adjusted), with the Government making payments for low-income persons and making up any deficit. Wage-related pensions for employees in industry and commerce earning less than a certain amount are provided by flat contributions (per employee) from employers.

Cash-sickness and maternity benefits (of an earnings-related nature) and medical-care benefits for workers and dependents (on a service basis, by doctors and facilities under contract with the institution); the system covers all but high-paid workers and is financed by employer and employee wage-related contributions (employer rate varying by industry and being somewhat higher than employee rate). Employment-injury benefits follow the pattern in the United States (the cash benefits being earnings-related, the financing being entirely by the employers, and the administration being either through insurance companies or self-administration). Unemployment benefits (of a wage-related nature), varying by industry but with a basic national minimum plan, are financed by equal employer and employee wage-related contributions and by a small Government contribution.

Family allowances of a flat amount per child are provided for children under age 16 or under age 27 if in school or disabled (the amount increasing by child order). These benefits are automatically adjusted for changes in the cost of living. They are payable with respect to all children of employees, pensioners, and low-income self-employed persons. Medium-income self-employed persons can receive family-allowance benefits for second and higher-order children (nonemployed persons for third and higher-order children). After a certain income is reached, the benefit is not payable (except as a transitional "notch" provision). These benefits are financed by employer percentage-of-payroll contributions, by percentage-of-income contributions (on same income as for pensions) for the self-employed and nonemployed, and by the Government for the benefits for the low-income self-employed.

Germany (West)

There are two large old-age, survivor, and disability pension systems--one for manual workers and the other for salaried employees earning under a certain amount--and several smaller ones (for miners, farmers, various nonfarm self-employed, and government employees). The principal provisions of these two large systems are now the same, although for over 50 years they were different (the plan for salaried employees being more liberal).

The pensions are directly related to length of coverage and average lifetime earnings, but these earnings are automatically adjusted for changes in the general earnings level in the past; pensions in course of payment are similarly adjusted for current changes in the earnings level (not automatically, but rather by ad hoc legislation). The pensions are payable at age 65 without a retirement test (at age 60 if unemployed for 1 year, or if a woman with substantial recent employment) and do not have supplements for dependents, other than children (widow's pension payable regardless of age, but with smaller amount for healthy young widows with no children). The pension system is financed by equal employer-employee earnings-related contributions, with a Government contribution of about half of the employer-employee contributions for the manual-worker system and about one-quarter for the salaried-employee system.

There is a single unemployment insurance system covering most workers, with earnings-related benefits; it is financed by equal employer-employee earnings-related contributions (the Government finances an unemployment assistance program). Earnings-related cash sickness and maternity benefits and medical-care benefits for workers and dependents (on a service basis, by private doctors and facilities under contract, with small cost sharing for some prescriptions) are provided, on a compulsory-coverage basis, by over 2,000 separate sickness funds; these benefits are financed by equal employer-employee earnings-related contributions. Employment-injury benefits are provided in somewhat the same manner as in the United States for all workers (and also for some categories of self-employed persons), with the administration being through semipublic carriers.

Family allowances of a flat amount per child are provided for second and higher children present, under age 18 or under age 25 if in school or disabled for all workers except domestic servants and for some self-employed persons. The amount payable for the second child is lower than that for other children. These are administered by a sizeable number of separate funds (by industry or region) and are financed by employer (and self-employed) contributions, except for the allowance for the second child, which the Federal Government pays from general revenues.

Switzerland

An old-age, survivors, and disability pension system, patterned to some extent after OASDI, covers all residents. Pension amounts are related to average income on which contributions were paid (and not to length of coverage, although related to the proportion of the potential period of contributions that contributions were actually paid), under a weighted benefit formula. Pensions are paid without a retirement test at age 65 for men and age 63 for women (for wife's supplement, age 60 or disabled; for widow alone, age 40). Employees, employers, and self-employed persons contribute on the entire earned income, without maximum limit. Nonemployed persons, other than wives and widows, contribute on their income (up to a maximum limit). Pensions are financed by equal employer-employee earnings-related contributions (self-employed and nonemployed pay full combined rate on their income, with no maximum taxable-earnings limit, and by a flat annual lump-sum Government contribution for old-age and survivor pensions and by a Government contribution of one-half of disability-pension cost (payable two-thirds by the Federal Government and one-third by the Cantons).

Unemployment benefits are paid through about 200 separate funds (by region or industry). Membership in these funds is compulsory for non-agricultural and nongovernmental employees who have less than a prescribed amount of earnings in most Cantons. Benefits are earnings-related and are financed primarily by employee contributions (but with Government contributions in some cases).

Medical-care benefits (on a service basis, with coinsurance, provided by doctors and facilities on contract) are provided through more than 1,000 separate funds, with membership being compulsory for all residents (other than those with large incomes) in some Cantons and optional in others (about 80-90 percent of the population being members). A few of these funds provide cash sickness and maternity benefits. The medical-care benefits are financed primarily by contributions of the members (with small Government contributions and, in some cases, employer contributions under collective-bargaining agreements).

Employment-injury benefits for all workers are provided in a manner similar to that in the United States, except that the carrier is a Government agency. Associated with this system is a program for nonoccupational accidents, which is financed largely by employee contributions (with one-eighth of the cost paid by the Federal Government).

Family allowances (flat amounts) are paid under two types of public-law programs (many workers receive family allowances under collective-bargaining agreements). One, on a nationwide basis, pays a flat amount per child (under 15, or under 20 if in school or disabled) for all children of farmworkers and of farmers in mountain regions with low incomes; it is financed by percentage-of-payroll contributions from employers of farm-workers and by Government contribution. The other, on a Cantonal basis (in most Cantons) applies to other workers, including Government employees, with varying provisions as to children payable and amount of allowance; the financing is entirely by employers.

Norway

The general old-age, disability, and survivor pension system is on a "demogrant" basis, with residence qualifications. Special supplementary systems apply for Government employees, nurses, seamen, fishermen, forestry workers, and railroad workers. The old-age pensions are payable as flat amounts at age 70, with supplements for wives aged 60 or over. Widow's pension is payable only on the death of the pensioner and if the widow is aged 60 or over or is disabled. The general pensions are financed by income-related or wage-related contributions from all residents. Self-employed persons and nonemployed persons contribute on their total income, while employed persons contribute only on their wage income. The Government (national and local together) contributes an amount equal to 43 percent of the total contributions of individuals, and employers contribute an amount equal to what their employees contribute.

An unemployment insurance system covers almost all private employees, with wage-related benefits. The program is financed by equal employer-employee wage-related contributions and by Government contributions.

Cash-sickness and maternity benefits on a wage-related basis are provided on a compulsory basis for all employees, and medical-care benefits (on an indemnity basis with coinsurance, generally) are provided on a compulsory basis for almost all residents; the financing is accomplished by income-related contributions from all insured residents. Dependent spouses and children under age 18 do not pay contributions. Additional contributions are paid by employers with respect to their employees (at a rate of 75 percent of the employee contribution) and by the Government (in an amount equivalent to 45 percent of the employee contributions).

Employment-injury benefits on a wage-related basis are available for all employees through a Government-operated system. Employers pay the entire cost, by flat (average) contributions per employee that vary only by the risk involved in any one occupation.

Family allowances are payable on a "demogrant" basis to second and higher children present, under age 16. The payments are in the form of a flat amount per child and are financed entirely by the national Government.

Sweden

"Demogrant" programs provide old-age, disability, and survivor pensions for all citizens and family allowances for all residents (a flat payment for each child under age 16, with a larger payment for orphans under age 19, financed entirely by the Government). The pensions are flat amounts that vary automatically with the cost of living and that contain an element payable as a matter of right and an element that depends on an income test. The old-age pension is payable at age 67 (with a supplement for the wife aged 60-66, with an income test) with no retirement test. Widow's pension is payable while caring for a child under age 19 or after age 50 (or from age 35-49 at reduced rate). The pensions are financed by a 4 percent contribution on income (up to a certain limit) for all citizens and the remaining 70 percent of the cost by the Government (national and local).

There is also a supplementary earnings-related pension plan that is optional for the self-employed and compulsory for employees earning more than a certain amount unless they are in a contracted-out pension plan. The pensionable age is 67, with no retirement test. Disability and survivor pensions are provided. The pension amounts are related to long term average of the earnings above a certain amount and below an upper limit, but with automatic adjustment of past earnings to reflect changes in the price level (both before and after award of pension). The pensionable age is 67 (earlier retirement with actuarially-reduced benefit is possible at ages 63-66), with no retirement test and with no wife's supplement. Disability pensions (both total and partial) and survivor pensions are available.

Unemployment benefits are available through a number of voluntary union funds (usually compulsory for union members), with financing by employees and with subsidies from Government. Cash sickness and maternity benefits (on an income-related basis) and medical-care benefits (hospitalization on a service basis; physicians' services on a coinsurance indemnity basis) are provided on a compulsory basis to all residents. These health benefits are financed by contributions of protected persons of a percentage of their income, by a percentage payroll tax on employers, and by Government subsidies. Work-connected injury benefits (coordinated with general sickness benefits although more extensive) are provided on a compulsory basis through a government agency, a few authorized insurance companies, and are financed entirely by employer risk-related contributions.

Soviet Union

Medical care (on a service basis by government doctors and facilities, with the person paying for out-of-hospital medicines) and family allowances are provided on a "demogrant" basis, financed entirely by the Government. The family allowances are lump-sum payments for the birth of third and higher orders of children (size of payment increasing with order) and monthly payments with respect to fourth and higher orders of children while at ages 1-4 (note that eligibility depends on birth order, and not on number of children present at time of payment), with size of payment increasing with birth order.

Old-age, disability, and survivor pensions and cash sickness and maternity benefits are provided, on an earnings-related basis for all workers in industry, commerce, government, and State farms (but not for the 40 percent of the work force on collective farms, whose protection in this field depends on mutual benefit societies at each farm). The pension amounts are determined from formulas that are weighted in favor of those with low earnings and also vary, to some extent, with length of service, type of work (as to its danger), number of dependents, and place of residence (lower for rural). The pensionable age is 60 for men and 55 for women (lower for dangerous occupations), and there is a retirement test. Survivor pensions are payable to widows at age 55, or if disabled, or with child under age 8 (children are eligible until age 15). Both total and partial disability pensions are payable. Cash-sickness and maternity benefits are directly wage related, but vary by length of continuous service with same employing organization. The pensions and cash-sickness and maternity benefits are financed by employer percentage-of-payroll contributions (varying by industry, generally according to its occupational risk), with the Government making up the balance of the cost.

No unemployment benefits are available (it being claimed that there is no unemployment--not even seasonal or frictional). No separate system of employment-injury benefits exists since this risk is covered by the general medical-care, cash-sickness, and disability-pension systems (with higher cash benefits under such circumstances).

Greece

A general system provides old-age, disability, and survivor pensions; benefits for work-connected injuries; cash-sickness and maternity benefits; medical-care benefits (on a service basis, with some coinsurance, furnished by doctors and facilities of institution); unemployment benefits and family allowances that apply to all employees (and self-employed persons as to pensions, medical-care and cash-sickness benefits), except those in rural areas and in certain isolated regions. However, there are about 75 contracted-out plans for different occupations in various areas--primarily, providing pensions, cash-sickness and maternity benefits, and medical-care benefits. Included is a flat-benefit system for the farm population.

The pension benefits are earnings related, with weighting to produce relatively higher amounts for those with lower earnings and are only indirectly related to length of service. The pensionable age is 65 for men and 60 for women, with reduced benefits available 5 years earlier and with a retirement test. Widow's pension is payable regardless of age.

The cash-sickness and maternity benefits, the unemployment benefits, and the employment-injury benefits are earnings related. On the other hand, the family allowance benefits are flat amounts per child for each of the first two children present aged 1-13 (a higher amount for the first child than the second one).

The entire package of benefits is financed by earnings-related contributions (with the employer paying about twice what the employee does), with a maximum earnings limit for contributions. Government contributions to meet balancing costs are authorized (but nothing in this respect is currently payable). Many of the separate, contracted-out systems are partially financed by third-party taxes (sales taxes on certain commodities, etc.).

Israel

A coordinated compulsory system covers all residents for old-age and survivor pensions; all employees and self-employed for cash maternity benefits and employment-injury benefits; and all residents for family allowances. Most persons are covered for medical-care benefits (and, in some cases, cash-sickness benefits) by a few voluntary funds.

The old-age pensions are payable at age 65 for men and 60 for women, subject to a retirement test for the first 5 years, with supplement for dependent wife regardless of age. Widow's pensions are payable when a child is present and when the widow is disabled or aged 50 or over (reduced pension if aged 40-49). The pension amounts are flat, varying to some extent with length of coverage and deferment of retirement. Pensions are automatically adjusted for changes in the cost of living.

The cash-maternity and the employment-injury benefits are earnings related. The family-allowance benefits are payable for the fourth and higher child present, under age 14 (or under age 18 if disabled) and are flat amounts per child, increasing with the number of the child.

The benefits are financed by earnings-related contributions (income-related contributions for the self-employed and the nonemployed). For pensions, the employer pays about 1 2/3 times what the employee pays (the self-employed and the nonemployed pay the combined employer-employee rate), with the Government contributing about 10 percent of the direct contributions. For sickness and maternity benefits, the emplcyer and employee share the cost equally, with no Government contribution, althoug one is planned eventually. The cost of employment-injury benefits is met entirely by the employer, with the rates varying to some extent so as to reflect the differences in risk. The family allowance benefits are financed by the employer (with the self-employed and the nonemployed paying the same rate of contribution), with the Government contributing two-thirds of the direct contributions.

United Arab Republic (Egypt)

Employees in industry and commerce have a unified program of old-age, disability, and survivor pensions and employment-injury benefits. Government employees have a separate system. Earnings-related benefits are payable, with the pension amounts being directly related to length of coverage. The pensionable age is 60 with a retirement test (no age requirement for widow's pensions). The system is financed by wage-related employer and employee contributions, with the employer paying about 75 percent of the cost (some variation in employer rates because of the employment-injury risk).

French-Oriented Countries in Africa

Before independence of many of these nations, there were employment-injury and family allowance systems for all employees. The cash benefits under the employment-injury programs were earnings related, and these programs were financed entirely by the employers and were administered either by autonomous semipublic bodies or through private insurance companies. The family allowance payments were made to all children, as flat amounts per child (usually under age 14, or a higher age if in school) and were usually financed by wage-related employer contributions (with the Government meeting any deficit). Since independence, these programs were retained, and some of these countries have started programs of other types such as pensions, cash-sickness benefits, and medical-care benefits.

India

The only social insurance protection covers employees of firms with 20 or more workers in manufacturing, mining, transportation, and government employment in certain areas of the country (which are being expanded--about 75 percent of States being included now). High-paid employees are completely excluded. Earnings-related cash-sickness and maternity benefits and medical-care benefits (on a service basis from public or private doctors and facilities; for workers and dependents, except that the latter cannot receive hospitalization benefits) are financed by wage-related contributions from employer and employee (latter pays about two-thirds of cost). Employment-injury protection is included in the foregoing system, with somewhat more liberal provisions for such cases.

A statutory provident-fund system (which may be contracted out of) provides refunds of combined equal employer-employee contributions accumulated with interest upon death, disability, or attainment of age 55 and retirement. This system applies only to certain industries at present, but is being extended to others.

Japan

Two separate national systems exist (in addition to plans for Government employees, seamen, teachers, and public utility employees). One system applies to workers in industrial and commercial firms with five or more employees (except for the employment-injury benefits, which are applicable irrespective of the size of firm), and the second applies to all residents who do not otherwise have social security protection.

For the employment-related plan, the benefits are earnings-related pensions (weighted so as to provide amounts not entirely related to length of coverage) for old-age, disability, and death; cash-sickness and maternity benefits on a wage-related basis; medical-care benefits (generally, on a service basis with coinsurance, from doctors and facilities of the roughly 1,000 affiliated health insurance societies); employment-injury benefits (coordinated with the cash-sickness and medical-care benefits); and unemployment benefits of a wage-related nature. The pensionable age is 60 for men and 55 for women (for widows--age 55, disabled, or with children), with a retirement test. These benefits are financed by wage-related employer-employee contributions of equal size (except for employment-injury benefits, which are financed entirely by employers through rate that vary by experience) and by a Government contribution related to actual benefit outgo (15 percent for pensions, 25 percent for unemployment benefits, etc.).

The system for other residents provides old-age, disability, and survivor pensions and medical-care benefits similar to those under the employment-related plan. The old-age pensions are payable at age 65 after 25 years of contributions (with lower requirements for those initially covered at ages 31-50), or at age 70 on a means test basis (for widows--at age 60 or with children). The pension amounts are based on length of contributions (the means-test amounts are uniform--and lower). The pensions are financed by flat contributions (lower up to age 35 than thereafter) from the covered persons (aged 20 or over) and by a Government contribution equal to half of the contributions of the covered persons. The medical-care benefits are financed by contributions levied by the various health insurance societies, which also receive a Government contribution of at least 20 percent of the member contributions.

Philippines

A general system applies to all employees in industry and commerce and to "permanent" farmworkers. (Government employees have a separate system.) The benefits provided are old-age pensions; lump-sum disability and survivor benefits; and cash-sickness benefits on a wage-related basis. The pensionable age is 60, with a retirement test. All benefits are earnings related, with the old-age pension amounts being heavily weighted in favor of those with low wages (no dependents' supplements). The system is financed by wage-related employer-employee contributions (about 40 percent from employee), with a small Government contribution to pay part of the administrative costs.

Cash maternity benefits are paid directly by the employer, under the provisions of the Labor Code.

Employment-injury benefits are provided in the same manner as in the United States.

Australia

Family allowances are provided on a "demogrant" basis to all permanent residents, with a flat amount per child (lower for the first child in a family) for all children under age 16, financed entirely by the Government. Old-age, disability, and survivor pensions of a flat amount are also provided on a "demogrant" basis to all citizens, but with a means test based on income and assets. The pensionable age is 65 for men and 60 for women (with supplement for wives under age 60). A widow's pension is payable while a child under age 16 (or under age 18 if in school) is present; after age 50; or after age 45 if there was a child present then. The pensions are financed completely by the Government.

Unemployment benefits of a flat amount are also payable on an income-test basis to all residents capable of work. These are financed entirely by the Government. The same is also the case for cash-sickness benefits, but lump-sum maternity grants are payable to all residents without a means test. Medical-care benefits are provided on a "demogrant" basis entirely paid for by the Government, in the form of hospitalization benefits of a flat amount toward such costs and as to medicines (but with a flat amount paid by individual for each prescription). Most of the population receives other medical-care benefits (additional payments toward hospitalization costs and partial--up to 90 percent--reimbursement of doctors' bills) through more than 100 nonprofit voluntary benefit organizations (established by friendly societies, insurance companies, doctors, etc.). The Government subsidizes up to half the benefit costs of these voluntary benefit societies.

Employment-injury benefits are provided in the same manner as in the United States, with competitive State funds (except in one State, where the State fund is monopolistic).

New Zealand

Family allowances are provided on a "demogrant" basis to all permanent residents, with a flat amount per child. Old-age, disability, and survivor pensions of a flat amount are also provided on a demogrant basis, involving certain residence requirements. In general, these pensions are subject to a means test based on income, including imputed income from certain assets, but with a specified, significant amount of income being exempt from consideration. A superannuation pension, payable as a right, is also available at age 65 (whereas the pensionable age for the income-test pension is 60, or 55 for unmarried women unable to work). A widow's pension is payable while a child under age 16 is present (or under age 18, if in school); after age 50 (with certain length-of-marriage requirements); or after all children have grown up, and the marriage had lasted 15 years. Also, flat-rate orphans benefits are available (in addition to the family allowances), with a larger amount for the first child. Supplementary assistance is also available on a needs-test basis.

Medical-care benefits are available for all permanent residents and are provided by doctors and druggists under contract with the Government; most hospitalization is in government hospitals. Full medical care is provided without any maximum time limits. There is cost sharing in that doctors may charge whatever they see fit to above the amount received from the Government, in that only part of the cost is paid for treatment in private hospitals, and in that dental care is available only for children.

Unemployment benefits of a flat amount, with a supplement for the wife (but with an income test, after exclusion of a certain amount of income) are payable after a 1-week waiting period and without any prescribed maximum duration. Cash-sickness and maternity benefits are available on a similar basis.

All the foregoing benefits are financed on a global basis by a gross income tax, a corporation net income tax, and payments from general governmental funds.

Employment-injury benefits are provided in the same general manner as in the United States, except that the medical-care benefits are provided through the general system described above. In other words, there are earnings-related benefits, which are financed entirely by the employer through either private insurance companies or self-insurance.

Chapter IV

COVERAGE

From many viewpoints, the most desirable goal of a social security program is that it should apply to as large a proportion of the total population of the country as is possible. Basically, this goal rests upon broad principles of social justice. In actual practice, however, this end cannot always be achieved--or, at least not in the early stages of the development of the program, especially in economically developing countries.

When social security systems were first developed, the underlying philosophy seemed to be to furnish social-benefit protection only to those who presumably needed it or would have need of it. In essence, the government involved took a rather paternalistic view of the situation. This approach contained certain definite elements of class distinction. Excluded from coverage frequently were such categories as salaried employees earning more than a certain amount (but manual workers regardless of the size of their wages were covered) and self-employed persons (or, at least all such individuals other than those with very low earnings). Thus, a distinction seems to have been made between persons who could not be expected to provide their own economic security and persons who could be expected to do so.

As a matter of fact, in a fluid, dynamic, democratic society, it is not possible to draw a line precisely dividing the population into these two groups. Many people may be especially well off from an economic standpoint at certain periods of their lifetime, but not at others. Moreover, it seems much more democratic to have all persons covered by a social security system, even though it may be desirable to establish a rational benefit level by excluding--for both contribution and benefit purposes--the upper amount of the earnings of the highest-paid individuals. Such a comprehensive basis for coverage not only is essential in providing a floor of protection against various risks to economic security for the entire population, but also it results in all groups of the society having a greater interest in the soundness and efficient administration of the social security program.

For these reasons, the modern trend has been toward universal coverage for social security programs of all types--at least in theory, if not in practice. Nonetheless, the concept of social security systems being only for the low-paid and middle-earnings individuals is still present in some social security systems and in the planning for others.

Barriers to Universal Coverage

Even though the goal of universal coverage is accepted as the guiding and underlying philosophy of a social security program, in actual practice this may not be able to be achieved. Obstacles to this end include the following: administrative difficulties, economic barriers, constitutional problems, and group opposition.

Undoubtedly, the greatest barrier to universal coverage is the magnitude of the administrative problems involved. Quite obviously, in any system involving the collection of contributions and the maintenance of individual earnings records, it is very difficult to cover employment for small employers (including domestic service in private homes) or in sparsely settled areas (including farm workers). Serious administrative problems also arise in connection with the potential coverage of self-employed persons--particularly those with relatively small businesses and no adequate records.

Such problems are especially difficult for developing countries since only a small fraction of their populations work for an employer. Furthermore, most of the self-employed are subsistence farmers or small traders or craftsmen, with little cash income on which to pay contributions or to base benefits.

Frequently, social security programs attempt to avoid or diminish the problem of administrative difficulties by restricting coverage in various ways--such as applying it (a) only to employers with at least a certain prescribed number of employees, (b) only in certain geographic areas such as the capital city and other major towns, or (c) only to certain types of employment (such as for bank employees, for commercial employees, or for railroad employees).

Despite the disadvantages of such coverage limitations (as discussed hereafter), it must be recognized that often in the early years of operation there is no alternative course of action in a developing country. If such a nation has few trained officials and administrative staff, little in the way of medical facilities, or limited financial resources, it may have little choice but to introduce social security programs gradually.

Although limitation of coverage to readily definable and accessible groups possesses certain attractions and advantages--at least initially--there is the possible drawback that the situation may become "frozen" and that the more difficult areas of coverage will never be undertaken. This, in turn, can result in great social injustice because the covered group will be favored as to benefit protection and since at least part of the cost--when considered from a broad economic analytical approach--will be borne indirectly by the remainder of the population of the country (who, in turn, have no benefit protection for themselves). Frequently, the limited group with social-benefit protection will be economically more favorably situated anyhow (from the standpoint of their salary level). It should be recognized, however, that frequently the favored group achieves the end of having social-benefit protection under a limited-coverage system because of the fact that it is well-organized and has far more political power than its mere numbers would justify.

The limitation of the extent of coverage according to the size of the firm possesses certain administrative advantages in that the social security organization then has to deal only with a relatively small number of large employers (including in their employ a quite sizeable proportion of the total labor force). On the other hand, there are serious supplementary administrative difficulties--namely, in dealing with firms that are close to the size limit. Many different methods of avoidance of coverage by employers are possible, including not only outright falsification of records so as to show fewer employees, but also through subdividing one establishment into several establishments, etc. From a social standpoint, it can well be argued that employees of small employers have just as much need for social-benefit protection as do employees of large employers.

Size-of-firm limitations for social security coverage conceivably can hinder general economic development. A small employer with a growing business who has just less than the number of employees required for coverage may well be quite hesitant about expanding his business further and hiring more employees. Then, he would have to pay what might be sizeable social security contributions for his entire staff, and this may well represent a significant part of his profit margin. For example, if employers with less than five employees are not covered, then in a system with a 10 percent employer contribution, the proprietor would surely hesitate before adding another employee and thus, in essence, increasing his wage bill by almost 40 percent.

The cost aspects of extending coverage widely are also of significance. Not only can this result in the administrative costs being significantly higher (because of contacting employers in wide areas or with relatively poor records), but also benefit costs themselves might be disproportionately high. For example, in a system that provides medical care, it may be quite feasible and relatively inexpensive to set up clinics and hospitals in large cities; however, if such coverage is extended to rural areas, it may be unduly costly on a per capita basis to establish the necessary facilities to provide the services promised or to furnish transportation to the towns where there are such facilities.

In a number of instances, it may not be feasible to extend coverage for certain types of social-benefit protection to all categories of persons. This is so because the particular protection might not be needed by the given group or else might not be feasibly provided. For example, it seems illogical and irrational to provide short-range unemployment benefits for self-employed persons (because of the difficulty--possible even impossibility--of measuring unemployment for this group). Likewise, there may be some question as to whether benefits for work-connected injury and disease can be provided for self-employed persons--particularly those whose place of business is their residence (because of the difficulty of determining whether an accident is work-connected or whether it would have occurred in the normal course of life); nonetheless, some countries do provide protection in this area.

Another barrier to universal coverage that exists in many types of systems is the economic status of some portions of the population. In a contributory system that has earnings-related benefits, it is difficult both to develop a rational benefit system and to collect contributions with respect to persons who have relatively little cash income (such as subsistence farmers and migrant farm workers). Similarly, difficulties can arise in programs with flat benefits that are financed by flat contributions; under these circumstances, an appropriate benefit and contribution level is difficult (or impossible) to establish since if a contribution is low enough that it can be afforded by the lowest income groups, then the benefit payable would probably be far too low for the middle-income and higher-income groups.

Still another barrier to universal coverage arises when certain groups (usually with significant political influence) do not wish to be covered--possibly for good reason, or possibly not. Under these circumstances, legislators will usually honor the request or demand of the group. In some instances, however, this action might be only the desire of the leadership and not of the majority of the group.

A further barrier to universal coverage may arise because of constitutional problems or because of principles of separation of Church and State. In certain countries, the central government does not have the authority to tax or otherwise legislate in regard to employment by provincial and local governments. Under these circumstances, it is necessary for voluntary agreements to be worked out between the various governmental levels, and this frequently is quite cumbersome and, accordingly, might hinder the extension of coverage. In some countries, customs and tradition require separation of Church and State so that any governmental social security system cannot compulsorily cover employees of religious organizations. Under such circumstances, coverage is possible only through voluntary agreements (either on an individual basis or on a group basis).

Voluntary Coverage

One solution to the problem of feasibly providing increased coverage under a social security system is to permit individuals to elect voluntarily to participate. Sometimes this is done only with respect to persons who have had a certain amount of compulsory coverage and thus is in the form of extended coverage. In other instances, coverage may be open to any individual who so elects. Such an approach is very appealing both from a political standpoint (in that those persons who want coverage can have it and those persons who do not want coverage are not "forced" to have it), and also to the population generally.

Such voluntary-coverage provisions are present in a number of systems, but almost without exception, they are not very successful since relatively few people make use of them. In fact, it is often the experience that those who do so participate take this action solely both because they have sufficient money and foresight to do so and because they have a high probability of collecting benefits. In other words, such voluntary-coverage provisions tend to be utilized only by the most knowledgeable people, who have little real social need for the protection, and not by those who have the greatest need for coverage.

On the whole, then, it seems that voluntary-coverage provisions will not generally produce any significant forward steps in achieving extended coverage (not including within the meaning of this term the group voluntary-coverage approaches).

Contracting-Out

When social security programs are developed or when they are expanded, the argument is frequently made that if employers already have similar benefit plans in operation, then they should be permitted to "contract out" of the compulsory governmental system and thus not participate in it. Of course, under such circumstances there could be various controls and legal assurances so that the benefit protection would be at least as great under the private plan as under the governmental social security program.

On the surface, and at first glance, there might appear to be much in favor of such an approach. In the case of short-range benefits, such as those payable for temporary disability or sickness, it may be quite feasible to permit contracting-out. For example, many employers might provide sick leave at full pay, and this would be preferable for the workers to a social insurance system that would have a benefit of only a fraction of the individual's wage. On the other hand, under such circumstances, it would nonetheless be possible, with a compulsory-coverage sickness benefit system, for the employer to make up the difference between the full wage and the benefit.

For long-range benefits, however, it would generally seem administratively and technically impossible for there to be contracting-out of a social insurance system because of the great likelihood of most persons changing employers several times during the course of a working lifetime. Great difficulties would be present in assuring that the contracted-out plan provided at least as good benefits under all circumstances as does the social insurance system and that these benefits would surely be paid to the eligible individuals, even though this might take place many years in the future. Further, any problems of coordination, interrelationship, and security of promises is greatly augmented when the dynamic nature of social insurance and social-benefit plans is considered. Changes of all types are likely to occur in the future, and these are largely unpredictable so that a plan that might be successfully and adequately contracted-out at one point of time might not be able to meet the necessary conditions at some later time.

Despite all the difficulties and objections to contracting-out--particularly, for long-term benefits--several countries have such arrangements in connection with their social insurance systems, but these have been in operation for only a short period of years. It is far too early at this time to be able to determine whether these will work out satisfactorily over the long run. In any event, private benefit plans can usually be successfully built on top of compulsory governmental social insurance systems, and on the whole, this approach seems to be more satisfactory than contracting-out. Of course, it is only logical to permit existing private plans to be modified when a compulsory governmental system is introduced, so as to take into account the presence of the latter. To do otherwise would be to penalize unduly those progressive employers who have established adequate plans before governmental action occurred in the social insurance field.

Chapter V

RISKS PROTECTED AGAINST

When an economically developing country first establishes a social security program--or when it is considering expansion thereof--there is a natural tendency to attempt to cover all risks. In large part, this stems from the desire of these countries to "catch up" with the economically well-developed countries as rapidly as possible. Thus, the most advanced systems are viewed and studied, and the goal of similar advanced protection is sought at once. Further, too, there are the pressures of the needs that are so apparent, and frequently these are strongly backed by the most well-organized labor unions.

But, there are difficulties that prevent the immediate attainment of this goal. Not only do social security programs cost considerable amounts of money--a commodity that is often scarce in developing countries, especially when there are so many other pressures on government finances for desirable economic and social projects--but also there may be crucial shortages of trained technicians and administrators and of necessary supplies, equipment, and facilities. It may well be that a country will have to make a choice of which areas of social benefit protection to begin with and which to defer until later when a broad array of benefit protection is more feasible from both a fiscal and administrative standpoint (but, nonetheless, planning activities should be continually in process).

As in so many other areas of human life--but especially here--what is correct in one country may not be so in another. For example, in the development of the social security program in the United States, it seemed best for initial action to be taken in the fields of pensions and unemployment insurance (recognizing, however, that industrial-injury benefits had been provided for a number of years in several different manners). Activity in the United States in connection with medical-care benefits was given a much lower order of priority because of the generally widespread availability of medical services that most people could afford and because of the presence of private insurance plans, including such nonprofit organizations as the Blue Cross.

On the other hand, in a newly developing country the most pressing problems might be entirely different--such as the provision of short-term cash benefits for sickness and maternity and the furnishing of medical care. Such a country might have considerable unemployment and underemployment, but frequently this problem cannot be solved by unemployment insurance since what is really needed is an extensive development of employment opportunities and then the availability of training facilities and an employment service to get jobs and skilled manpower together. As will be discussed later, mandatory-employer plans of severence pay or service indemnities sometimes substitute partially for unemployment insurance.

Unemployment insurance cannot eliminate unemployment, but rather it has the purpose of alleviating temporary spells of unemployment so that the worker has ample opportunity for finding other suitable work or for job retraining. Since the payment of unemployment insurance benefits depends on a past employment record, it can well happen in an economy of high unemployment that such a system would pay relatively little in the way of benefits because those with jobs might be steadily employed and thus have no problem of unemployment.

Medical Care Benefits

The provision of adequate medical care is perhaps the most pressing problem that faces many developing countries. A number of these countries have given medical care benefits a high priority in their social security systems. In many instances, it has been relatively easy to collect large sums through the devices of a contributory system--especially when relatively high contributions were collected for other risks as well (such as under a pension program involving long-deferred benefits, so that large excesses of income over outgo developed). With the large amount of money available under such circumstances, it has been possible to build the most modern of medical facilities. Sometimes, however, it was not possible at the same time to obtain a medical staff well trained in all the complex of skills that are needed to run such facilities. Accordingly, the best of results have not always been obtained, and this is one significant danger that must always be kept in mind when a medical-care program is being planned.

When medical care is provided under a contributory social insurance system, this necessarily means that only a certain group of the population (insured workers, and possibly their eligible dependents) will be able to benefit from the program. The remainder of the population may well have little in the way of medical care available to it, except possibly on a charity basis in general facilities operated by the government. Such facilities are frequently inadequate because of the unavailability of sufficient financing since most governments are usually hard-pressed for funds (in contrast with autonomous or semiautonomous social insurance institutions that may have large amounts of money available from the contribution income). It is thus possible that there may arise an undesirable stratification of the population into two groups--those covered by the social insurance system (who are generally the most well-off economically of those in the labor force) and the remainder of the population--consisting largely of rural workers and nonsteadily employed urban workers (plus, of course, a small residual of relatively high-income persons, who are able to obtain adequate medical care from their own resources).

The foregoing situation is quite a dilemma. On the one hand, it would seem preferable to provide medical services for as many of the population as could be feasibly reached on a general governmental or public health basis so as to prevent the social injustices involved in the separating of the population into two groups--those with practically no medical care and those with the most modern of facilities and services. On the other hand, the government may not have sufficient money to provide any reasonable sort of general health services, and so it is better for one group to have good health services than for all to have none. Moreover, the presence of these health services for some people might well lead to pressure to allocate more of the governmental resources to medical care for all. But, when such expansion occurs, if coordination and equalization of facilities and services is attempted, there may well be a conflict between the insured population with its fine facilities and the remainder of the population.

The medical-care benefits, dealing essentially with respect to a short-term risk, are usually available under social insurance systems after only a short qualifying period of contributions (generally only long enough to eliminate those with need for medical care who seek coverage only for this purpose). In many instances, medical care is available only for a limited period for each illness; this is done because of cost considerations (although, conversely, there is then failure to protect against the most catastrophic events). Also, it is sometimes customary, at the start of a system, to provide medical care only for the insured worker and not for his dependents; this is generally not a satisfactory procedure, from a social-justice standpoint, and should be changed as soon as sufficient medical facilities and funds can be made available. In the same way, the omission of pensioners from the medical-care protection--or the granting of lower benefits to them--may be necessary initially (because they are a high-utilization group), but they should be given such benefits as the active workers receive as soon as possible.

Cash Sickness and Maternity Benefits

One of the most immediately needed types of social benefits in developing countries is the payment of periodic cash benefits for sickness and maternity among workers. This can be accomplished directly through the employer (by having salary continuation, either by legal requirement or voluntary action) or through a social insurance system.

In order to ease the administrative load and to hold down costs, a waiting period (before benefits are payable) is usually provided. Here, there is a conflict with social necessity, which would prescribe that the waiting period should be short, since workers in developing countries usually have low wages and thus cannot readily bear the loss of several days' earnings (i.e., cannot "self-insure").

A maximum duration of benefits is usually provided--primarily for cost reasons, but also to prevent malingering. It will be recognized that extension of the maximum duration does not have a proportionate effect on costs. For example, a 26-week maximum will not involve costs that are double those of a 13-week maximum, but perhaps only 20-40 percent more. Maternity benefits are usually paid for a period of weeks before expected childbirth and for a period of weeks thereafter.

Qualifying conditions (as to length and recency of contribution payments) for cash sickness and maternity benefits should usually be more stringent than for medical-care benefits, so as to prevent abuse of the system by intermittent workers. This is especially the case in regard to maternity benefits, since otherwise some pregnant women may enter covered employment for a brief period solely to collect the benefits, which may be relatively sizeable in amount in comparison with the earnings actually involved.

Cash sickness benefits are often augmented by supplements for dependents. These serve an obvious social purpose, but they usually are not very large, since if they were, (and if the benefit for the single person were relatively large), the total family benefit would be so high as to encourage malingering or to produce excessive costs.

Just as with medical-care benefits, there can be the anomaly that in a developing country with a limited-coverage system, those who benefit from a cash sickness and maternity program may be the best-paid segment of the labor force, rather than the more needy ones.

Pension Benefits

Even though pensions may not be the most immediate need for developing countries, frequently this type of benefit is included in their social security systems. In large part, this is done to give active workers some feeling of long-term security when they look forward to the possibility of their being too old to work, or of becoming disabled (invalided), or of dying and leaving dependents. In many instances, these pension programs have been developed along the lines of strict individual equity by making the qualifying periods very long and the amounts of the benefits proportional to the length of covered contributory service. As a result, it takes many years before such programs can become truly effective in providing retiring workers with adequate income.

The reasons for the development of pension benefits along the foregoing lines are diverse. Some people may think that this is the proper procedure because it follows the sound lines adhered to by private insurance (which are, of course, not necessarily applicable to social security programs). Other persons may intentionally want the pensions to be of a long-deferred nature so that the system will generate a large amount of funds in its early years and decades of operations--such funds then being available for other purposes (either within the social insurance system such as building medical facilities or for economic development purposes outside of the system).

Just as in the case of short-range benefits, it is desirable to pay supplementary benefits to retirement or disability pensioners. In some developing countries, this may pose difficult administrative problems because marital and family structures are not always of a permanent nature which are clearly definable or set forth by law so as to include all real dependents. Also, there is the problem of whether the young or middle-aged nildless widow should be considered to be an eligible dependent; in many eveloping countries this may usually be the case, because of absence of uitable employment opportunities.

he definition of disability in regard to qualifying for a pension involves ifficult problems, both in theory and in administrative practice. The efinition--at least initially--should be of the "total and permanent" type, ather than a "usual occupation" one.

he choice of a suitable minimum retirement age is a most difficult matter n connection with a pension plan in a developing country. Frequently it s the case that such a nation has experienced high mortality in the past, nd so the thinking of the people is that "old age" occurs at a relatively oung age. In developing countries where there is substantial unemployment, here may be a desire to have a low retirement age so as to make available obs for younger workers (however, it is questionable if there should be an ttempt to solve unemployment problems through a pension system).

he setting of the minimum retirement age at a low figure will involve very igh costs--perhaps not initially, but certainly in the long run. This is specially the case because mortality in developing countries is currently t a relatively low level (or can reasonably be expected to be so in the ear future). One possible solution to the dilemma of a higher retirement ge (such as 60 or 65) being desirable from a cost standpoint--and also eing reasonable from a social and economic viewpoint in the long run--and et appearing unattractive currently to the covered persons concerned is to ave established a minimum retirement age that slowly advances over the ears.

nother problem in regard to retirement ages is the question of whether to ave the same requirements for women as for men (instead of a lower age or women, as is sometimes the practice). It is argued in favor of a ifferential that women have more difficulty in obtaining or retaining mployment when they are older. On the other hand, equality of treatment an logically be argued for on the basis that employment opportunities are apidly becoming equalized between the sexes and that otherwise heavy costs are involved (women have longer life expectancy than men of the same age, and so a lower retirement age for women merely augments this situation).

Closely associated with the problems involving the retirement-age provisions is whether benefits are to be automatically payable once the minimum retirement age has been reached, or whether there is to be a retirement test (related to earnings received, and not necessarily involving complete retirement from all gainful employment). Cost considerations argue strongly for some sort of a retirement test. In addition, from a social viewpoint, there seems little reason to have the costs involved in paying so-called retirement benefits to persons who are still in full-time employment. There is, of course, a "popular" demand for payment of benefits without a retirement test by persons who want the personal financial advantages arising, but ithout recognizing the cost aspects.

Admittedly, the presence of a retirement test makes for more administrative problems (and, under some circumstances, quite complex ones). Nonetheless, it seems advisable, in balance, to have such a provision, although in the initial stages it may have to be kept very simple (and thus perhaps quite restrictive). Later, as administrative experience is gained, the retirement-test provisions can be changed to be on a more "equitable" and "rational" basis, so as to encourage part-time work and gradual transition from full employment to full retirement.

As a compromise between payment of benefits without a retirement test and having such a test, some systems provide for special increases in benefits when retirement is deferred. When such increases are as large as 6-8 percent, the cost is about the same as if there were no retirement test. Not only can such increment provisions be criticized on the grounds of cost, but also the question can be raised as to the social necessity for paying larger benefits for a person who retires several years after the minimum retirement age (and who has had good earnings during that period) than to a person who retired at the minimum retirement age because of being out of employment then.

It should be recognized that it is difficult (at times, impossible) to distinguish between a plan with reduced benefits for early retirement and another plan with a lower minimum "normal" retirement and increased benefits for delayed retirement. Accordingly, it is not always easy to state precisely what a plan's "retirement age" really is.

Although in many ways it is desirable to make the pension system effective as soon as possible by having short qualifying periods (as to contributions) and relatively full-rate benefits being payable in the early years of operation, this is not always feasible in a program with limited coverage. Under these circumstances, there is the obvious unfairness of paying large benefits to a limited few who have contributed relatively little, whereas nothing is payable to the vast majority of the population of similar age who were not so fortunate as to be covered by the right kind of employment at the right time. Furthermore, in order to assure equitable treatment among those covered by the system, the financing should be such that younger employees, who will not retire until many years later, will not pay overly high employee contributions relative to potential benefit rights.

Work-Connected Injury Benefits

Industrial-injury (or workmen's compensation) benefit programs have frequently been the first ones established in various countries. The reason for this is that such programs are much more orderly and desirable than the procedure of legal action by the injured worker against the employer (often avoided on the argument of negligence). Under certain circumstances, an existing industrial-injury benefit system (which may, or may not, be providing adequate protection) may conflict with the development of a well-rounded social security program. Certainly, if adequate medical care is given for general causes of sickness and injury, then there is no need for a separate organization to provide medical care for industrial injury cases, but yet once the latter has been established it may be difficult to coordinate or eliminate it in favor of a unified system.

Similarly, it may be argued that a worker should receive the same cash benefits regardless of whether he is injured on the job or whether he is injured elsewhere or is ill from a disease since the need is the same. Following this theory through, once that adequate cash sickness benefits have been provided, there would be no need for a separate industrial-injury program. On the other hand, however, it can be argued that since "blame" is involved in industrial-injury cases, there should be some favorable differential in the benefits as a matter of "compensation" and also that since the injury arises out of the very nature of the employment, the benefit should more nearly approach the wage loss, and the cost of production in the particular industry should properly include these additional-benefit charges.

It is customary--because of the accidental nature of the risk and the "liability" of the employer--not to require any eligibility conditions as to length of contributions. At times, maximum limits on payment of benefits (less frequently as to the provision of medical care) are imposed; this is done from a cost standpoint, but it has less justification from a social viewpoint. As in the case of other cash benefits, supplements for dependents are often provided.

Provident-Fund Benefits

Some countries have developed provident-fund systems in lieu of pension plans. This type of program is merely one under which the employer and the employee contribute a certain portion of his salary into an individually earmarked savings fund. Under some plans, the employer contribution is not completely vested in the employee until he completes a certain length of service or reaches a certain age. Since these programs are based largely on individual-equity considerations (so that benefits available are relatively small in the early years of operation) and since the benefits are paid in a lump sum (that can readily be dissipated by an economically uniformed person), they usually will not come anywhere near to fulfilling the purposes of a pension plan.

Accordingly, it is sometimes argued that the establishment of a provident-fund will subsequently hinder the desirable goal of pension provision. Although this is a danger that must be recognized, it is technically feasible to convert a provident-fund into a pension plan at some later time, and certainly the administrative skills and experience that have been developed will be useful. Nonetheless, at the stage of initial development, a pension plan is clearly preferable to a provident-fund if this can be accomplished (however, under existing personal philosophies and social cultures in a number of countries, pensions are not well understood, but rather lump-sum benefits are desired).

Unemployment Benefits

Unemployment insurance benefits generally have the same characteristics as cash sickness benefits--i.e., a waiting period before benefits commence (usually somewhat longer than for sickness benefits), a maximum duration of benefit payments, and at times small supplementary benefits for dependents.

As indicated previously, unemployment insurance is generally not feasible in newly developing countries. Certain substitutes, therefore, have been developed in a number of those countries. These have generally been patterned around what may be termed service-indemnity benefits, which are lump-sum payments made at the time of termination of service. The amount of the benefit generally is proportional to the length of service (for example, 1 month's salary for each full year of service). Sometimes these benefits are limited solely to terminations because of involuntary action and are often referred to as severance pay (thus excluding voluntary quits, and possibly also deaths and retirements, which more rationally could be cared for by pension benefits). In other plans, the payment is made regardless of cause of termination.

Service-indemnity benefits can serve a certain useful function, particularly if it relates only to involuntary separation due to unemployment and if the benefit amount is limited. As a matter of fact--because of employee pressures and the difficulty of distinguishing between involuntary separations and others--these benefits are often provided for all types of separation (or else if granted initially only for involuntary separations due to unemployment, later there is expansion to apply to all types of separations).

The disadvantages--and even dangers--of unlimited service-indemnity benefits are the high cost involved (which may deter action toward providing such more desirable protection as unemployment benefits and pensions) and the consequent strangling effects on the economy. Thus, for example, there is a great difference between a limited plan that pays 1 month's salary for each year of service to persons who become involuntarily separated due to unemployment--with a maximum benefit of 6 month's salary--and an unlimited plan, which provides several years' salary for long-term employees whenever they terminate their services. For one thing, the availability of such a large amount might well serve as a great temptation to a worker to quit his job in order to get his hands on the money. By the same token, an employer who is having moderately unfavorable business experience may not be able to "afford" to lay off any of his employees because of the high immediate cash outlay. Accordingly, he may have to keep on his payroll a considerable number of excess employees so that his business operations will not be efficient.

The heavy cost of an unlimited service-indemnity program that primarily benefits long-service workers could much better be utilized for a more flexible and just pension program that would result in providing economic security when it was needed, rather than haphazard and fortuitous lump-sum payments that are likely to be dissipated without accomplishing any real good for the worker.

Family Allowances

Family-allowance benefits are provided in a number of social security systems of developing countries. This can be done either directly within the wage structure of each employer (or for groups of employers) as a matter of legal requirement, or else it can be done through a governmental social insurance organization. In large part, this benefit is merely a matter of salary redistribution to accomplish certain desired social ends, and thus it is in direct conflict with the principle of "equal pay for equal work."

Certain difficulties arise when individual employers or groups of employers are permitted to make direct family allowances. This will tend to result in an unequal distribution of the overall costs of the program (as between low-cost employers or groups and high-cost ones) and so may tend to cause it to break down or not be applied in the manner provided by law. From one standpoint, low-cost employers or groups of employers will have too low a share of the costs, and high-cost employers may not be able to bear their share and thus may have to pay lower benefits; this is especially the case when autonomous groups (such as by industry) are formed, with nonuniform benefits as between groups. There is also the danger that employers will discriminate in their hiring practices against workers with large families.

The only solutions to the financial antiselection problem when there is direct payment of benefits by employers or groups of employers are either to establish groups on a nonselective basis (such as geographically) or to prescribe a uniform contribution rate for all employers or to balance off the contribution required from the particular employer against what he has actually paid in benefits (any excess of contributions over benefits going to a central pool, and vice versa).

Family-allowance programs can have a very high cost even if the benefit amounts are relatively low. This is the case because of the extremely large number of beneficiaries that is likely to be involved. For this reason, many systems pay benefits only when there are at least two children in the family (and then with no payment for the first child). Limitations on the payment to the first (or even second) child have a far more significant cost effect than limitations on the maximum number of children to be benefited or on the maximum family payment.

It is often argued that such plans have a significant demographic effect (in regard to changing the birth rate). If so, the desirability (or undesirability) of increased fertility can be taken into account in the structure of the family allowance system by grading the payments in one way or another. For example, on the one hand, benefits might be paid only to large families or, on the other hand, only to the first few children in a family.

In the establishment of any such program, there should be clear recognition of the current-income redistributive nature of the program, and the administrative organization should be kept relatively simple so that as little of the resources as possible are utilized for its expenses. Quite obviously, there would be no real point in a family allowance system that did little but take a certain sum of money away from an individual and then give him back about the same amount, since the net result would only be the economic wastage of the administrative expenses.

Administration of Different Programs

If a country does establish benefit programs covering a number of different risks, it is generally desirable to have them all administered by a single agency. This should be done in order that there be the utmost administrative efficiency and likewise that there should be a rational structure of benefits and other provisions, with equitable and consistent treatment throughout. It frequently happens, however, that when different benefit systems are independently established, the vested interests involved (not only with respect to the insured persons, but also with respect to the administrators) effectively prevent, or at least limit, any subsequent coordination--however rational and efficient it might be. Accordingly, in the initial stages of development of programs, it is desirable to establish the principle of administration by a single agency as much as is possible.

Chapter VI

BENEFIT LEVELS

Many different shades of opinion exist as to the proper level of the benefits under social security systems. In general, however, it can be said that there are really only two views--with certain gradations in between (exclusive of the view of a relatively small minority of persons who might think that there should be no social security programs whatsoever).

On the one hand, there are those who believe that the relationship of social security benefits to wages and living costs should be such as to provide only a minimum floor of protection, upon which additional economic security can be built by nongovernmental efforts (by people individually and through joint employer-employee action, including the collective bargaining process). Within this floor-of-protection concept, there is naturally some range--from an absolute minimum subsistence standard to a moderate level of living.

On the other hand, some people believe that social security benefits should be at a level approaching full wages, or at least net take-home pay (after considering the reducing effects of social-benefit contributions, higher income taxes, and additional costs arising as a result of employment from such items as transportation, meals-away-from-home, clothing, etc.).

When we consider the situation in many economically developing countries, these two concepts may well tend to merge, or at least come very close to doing so. In such countries, the stage of economic development may be such that the existing wage level is generally barely enough to provide minimum subsistence, so that the size of the social benefits, in order to perform a significant function, must be close to wages. This does not necessarily mean that, over the long run, as the country develops economically, this same close relationship need continue to prevail.

Under such circumstances, if the floor-of-protection concept is desired, then this can be accomplished (or rather, maintained) by not keeping the system completely up to date as the wage level rises--due to changes in the general level of productivity and, possibly, also in the general level of prices. Thus, for example, maximum-benefit provisions can be introduced and can be changed less rapidly than the general wage level. A similar result can also be obtained when the benefit formula is of a weighted nature (a higher proportion of the first "x" monetary units of the wage and a lower proportion of wages in excess thereof), since then the "breaking point" can be left unchanged when wages rise--or else can be moved up less rapidly than the rise in wages.

As between the various types of benefits, it is customary to pay larger proportions of wage for the short-term risks than for the long-term ones. Thus, for example, in a cash-sickness benefit program, the benefit rate in economically well-developed countries may be as high as 60-70 percent of wage, while in economically developing countries, this ratio may go as high as 90 percent (or even full pay). On the other hand, for the long-term risks such as pensions, the benefits ultimately provided may run at 30-60 percent of pay in economically well-developed countries, and up to 80 percent or more of pay in economically developing countries.

The reason generally given for benefits being at a lower rate for the long-term risks than for the short-term ones is that there is less social and economic necessity for pensioners to maintain the same standard of living as they had during active employment, but that for those encountering the short-term risks, there is more need for maintaining about the same standard of living. To some extent, this may be true because persons on pensions can make certain economic adjustments without real hardship--and perhaps that may be desirable from other viewpoints. Also, retired persons have fewer expenses of certain types than do actively employed individuals and those who will once again soon be in this category. A more important reason, however, is probably the cost aspects of the matter, since pensions are, on the whole, far more costly than benefits for the short-term risks such as sickness and unemployment.

The height of the benefit level can also be significant in regard to the economic development of a country in other ways than the mere cost aspects of the benefit payments. Quite obviously, too high a benefit level can encourage, or even cause, malingering.

If the benefits are full pay (or even in excess of full pay, as can occasionally happen when there are overlapping benefits from different systems), then quite obviously, most individuals will not be desirous of working. In fact, this can, to a considerable extent, be the case if the benefit level closely approaches full wages. Under such circumstances, individuals receiving sickness benefits or unemployment benefits will tend to remain on the roll much longer than would be the case if the benefits were somewhat lower. There can, however, be no clear-cut, perfect solution to the problems arising from the interrelationship of the benefit level and the wage level. One cannot say, for example, just what is the most efficacious period for a sick worker to remain off the job and recuperate, and too low a benefit level might force a return to work that is premature and physically harmful to him.

There are many techical complexities in analyzing what the relative benefit level actually is. Mere percentages as to benefit rates, as stated in a law, are not necessarily indicative of the true situation. For one thing, benefit amounts should be compared with net take-home pay after deduction of any income-tax withholding and social-benefit contributions. For another thing, the effect of minimum-benefit and maximum-benefit provisions must be considered. Also, and perhaps most importantly, for the short-term risks it is essential to understand how the average wage is computed and for how many days in a week the benefits are actually payable. Thus, for example, the average wage might be computed by dividing weekly earnings by 7 (or monthly earnings by 30), or else by dividing weekly earnings by the number of working days in the week (such as by 6, $5\frac{1}{2}$, or 5, as the case may be). Quite obviously, these two different approaches will give significantly different results. Then, as regards the number of days in the week for which benefits are paid, sometimes the basis is to pay for all days in the week, whereas in other systems, only for working days.

As a specific illustration of the foregoing situation, let us consider three plans that pay cash-sickness benefits of 70 percent of average wage. On the surface, it would appear that these two systems have an identical benefit structure and thus identical cost effects (assuming that the morbidity experience is similar). Let us suppose, however, that System A determines the average weekly wage by dividing the weekly earnings by 7 and that Systems B and C determine the average weekly wage by dividing the weekly earnings by 5 (the number of working days per week). Further, let us suppose that Systems A and B pay benefits only for the 5 working days of the week, whereas System C pays benefits for all 7 days of the week. Then, if the individual has a weekly salary of 140 units, the benefit for a full week of sickness will be 70 units under System A, or 50 percent of wage (70 percent of average daily wage of 20 units, times 5 days of benefits), 98 units under System B (70 percent of average daily wage of 28 units, times 5 days of benefits), and 137.2 units under System C or 98 percent of wage (70 percent of average daily wage of 28 units, times 7 days of benefits). Although it might seem that the basis under System B would always be followed in such programs, this is by no means the case in existing social security systems throughout the world.

On the other hand, there are many instances where benefit rates may seem relatively high in comparsion with wages, but proper analysis will indicate otherwise. Frequently, benefits are based on only a part of the wages or salary received--as, for instances, only on base pay and not on various permanent and regular supplements, such as for changes in the cost of living (which are really permanent changes and not temporary ones), housing allowances, dependents' allowances, etc., that all really make up part of the basic wage structure. All these factors must carefully be considered when analyzing the financial impact and the economic relationships in social security programs, rather than merely looking at a benefit rate or percentage.

The benefit level under family allowance programs poses special problems. Here, the benefit amounts will naturally be only relatively low proportions of pay (if they are related thereto). In any event, whether the benefits are related to pay or whether they are flat amounts, the overall cost of what might appear to be a low individual benefit rate might be very high because of the large number of beneficiaries involved. Even a very modest benefit might result in an extremely heavy financial burden for a developing country.

In analyzing the relative level of the benefits of a social security system, due regard must also be given to the presence of other social-benefit programs that may provide similar or even overlapping protection. For example, if a system of benefits for work-connected injuries is operated side by side and independently of a general pension program, there may be considerable (and quite possibly undesirable) overlapping and duplication of benefits. A worker who has been disabled in an industrial accident might well be getting more income from the workmen's compensation system and the general pension system (that provides permanent and total disability pensions without regard to the cause of disablement) than he earned before the accident. Such a situation would, of course, be relatively costly for the economy, both as to the benefits paid and as to the effect on the individual of not being desirous of recovering or being rehabilitated (in those cases where this is possible). In the same way, there could be overlapping of survivor benefits in case of work-connected deaths, and although this might have no serious effect as to malingering, it does result in relatively heavy benefit costs that do not seem to be socially necessary.

Overlapping benefits can also arise between systems of somewhat the same type. For example, there may be a wide variety of pension plans established for different occupations or industries. Also, there may be combinations of pension plans, provident funds, and service-indemnity programs.

In any event, when a social-benefit system is being established or is being revised, then in considering its benefits level, one must also take into account what overlapping protection there may be--either within the same system or from other programs.

Chapter VII

METHODS OF FINANCING

The benefits provided under social security systems can be financed in a wide variety of methods. The financing of long-term pension benefits (including not only general systems, but also the portions of systems of work-connected injury and disease benefits that provide pensions) presents more problems and difficulties than is the case for short-term benefits, such as those with respect to medical care, unemployment, temporary sickness, maternity, family allowances, etc. Accordingly, this chapter will be primarily devoted to the financing aspects of pension plans--taking up in turn, their contributory basis, why funds develop, and the concept of actuarial soundness. The remainder of the chapter will deal with the financing aspects of short-term benefits and then with some general considerations about financing.

Contributory Basis of Pension Plans

Under virtually all programs providing pensions--whether social insurance systems or individual-employer plans (including within the meaning of this term, plans supported by a number of employers in the same industry or in the same geographical area)--the primary source of financing is contributions from one or more parties. Interest earnings on accumulated funds are, at most, a subsidiary (although important) element in the financing. In actual practice, the word "contributory" is used to designate a plan under which the financing is, in part, accomplished by direct payments from the individuals who have benefit protection under the system. Similarly, the word "noncontributory" is used to designate plans under which the contributions come solely from the employer or, in the case of social insurance systems, solely from employers and the government (in the form of payments from the general treasury, derived by general tax revenues).

Individual-employer pension plans are of both contributory and non-contributory types. In the contributory plans, it is generally the case that the employer contributes on the average at least as much as the employees, and quite frequently the ratio is 2 to 1. The United States old-age, survivors, and disability insurance system--and similarly the railroad retirement system--are and have always been contributory systems with equal employer and employee contributions and with no Government contributions (other than in respect to some military service that is credited toward benefits and in respect to Government employees who are covered under the program; both these types of contributions are properly considered as "employer contributions").

The financing basis for pensions under the social insurance systems of other countries varies considerably. In the great majority of countries, there are government contributions from general tax revenues of varying proportions. In some systems, the proportion is as little as one-tenth, and in others it is as much as one-third. In the latter instance, there is often equal employer and employee contributions, so that as a result there is equal tripartite financing.

Most social-insurance pension systems are contributory, with the employee contribution ranging from being equal to the employer contribution down to being only half as large. On the other hand, there are some countries (mostly the Communist ones) where there are no direct employee contributions, but rather there are only employer contributions and government contributions; in actual economic fact, under such plans, the employees are really contributing indirectly through the general taxes that they pay and through the recognition, when salary rates are determined, of the employing organization of the contribution that it has to pay. In other words, it is not that the workers are paying nothing toward the cost of their benefits because in these so-called "planned economies" what is really happening is that the wages are set at a lower figure so as to reflect the social insurance contributions that are made by the employing organization. Some general social security systems that provide pensions to the entire population on a residence or citizenship basis are financed solely or partly by general taxes, rather than by directly earmarked taxes on the prospective beneficiaries.

Why a Fund Develops Under Pension Systems

There may now be considered the reasons why a fund develops under pension plans. Sometimes, the word "reserve" is used to designate the developing fund under a pension plan. From a strictly accurate, technical standpoint, "reserve" should be used only to denote an actuarially calculated amount based on actual and estimated benefit and contribution obligations.

Under almost any pension system, the cost of the benefits will rise for many years after the program is inaugurated. There are many factors that produce this result, but not all the factors are present in every instance. Among such factors are (a) the increasing proportion of the aged in the population (almost invariably present as a result of the maturing population and the continual improvement in mortality at all ages in the past); (b) the greater proportion of younger persons than of older persons covered when the system is established (partly because of the omission of all or some of the current aged, who had already retired); and (c) the basing of benefits to a greater or lesser degree on the length of time that contributions are made (so that benefits in the early years of operation are smaller than those that will be paid ultimately).

If the rising benefit cost is to be met by a level contribution rate, contribution receipts in the early years of operation will exceed benefit disbursements, and thus a fund will be built up. After the early years (or perhaps decades) of operation, the reverse situation will occur. If the system is in "actuarial balance," with the level contribution rate properly and precisely determined, interest on the fund that is developed in the early years will meet the excess of benefit disbursements over contribution income in the later years.

As an alternative to financing a pension plan with a level contribution rate, a schedule providing for a lower rate in the early years and a series of increases thereafter can be used. The ultimate rate under such a schedule will, of course, have to be higher than the level rate mentioned previously. The size of the fund that develops will depend on the gradation of the contribution schedule. If there is very little gradation (that is, if the initial rates are only slightly below the level rate, and if the ultimate rate is attained in a short period and accordingly is very little above the level rate), then the developing fund would be almost as large as under the level-rate basis.

At the other extreme, if the contribution schedule starts out very low and rises very slowly ultimately to a fairly high level, virtually no fund might be developed, and yet the system would be in actuarial balance. In fact, this situation--in which the contributions are determined, to all intents and purposes, so that they equal the estimated benefit payments in each future year--is actually one form of "pay-as-you-go" financing. The term also applies to a situation that involves no definite benefit commitments, but instead the paying of whatever benefits would be possible with the prescribed contribution income, or conversely raising whatever money would be necessary to meet benefit obligations that are determined in advance.

There are, of course, an infinite number of variations possible in the contribution schedule that, under the assumptions made, would result in a self-supporting system.

As still another alternative, plans can be financed by having higher contribution rates in the early years and lower ones thereafter. This procedure, naturally, produces a larger fund than financing through the use of a level rate and is fairly common in financing private pension plans. The accrued liability for service performed before the inception of the plan and the additional cost arising from the fact that the initial group is older than future new entrants can both be financed by amortizing them over a period of years. In theory, these liabilities could be paid off in one initial lump sum, but in practice this procedure is not followed, if for no other reason than tax considerations. After this time, the contribution rate would be relatively low--at the level necessary for new entrants coming in at the younger ages. Furthermore, at such time the system would be fully funded and would meet the most rigid definition of actuarial soundness (to be discussed in some detail later). Thus, the assets on hand would be sufficient to meet all the benefit obligations that have accrued, even if the system were to be abandoned--both as to collection of contributions in the future and crediting of future service.

It may be noted further that if, by reason of the provisions of the plan, the cost of the benefits does not rise sharply in the future, the resulting fund, even with a level contribution rate, will be much smaller than under a plan that has a sharply rising benefit cost. In fact, if a plan is developed in which the benefit cost (related to payroll) would be the same for every future year, then obviously a level contribution rate would just meet the benefit disbursements each year, and no fund would develop.

One disadvantage of having an increasing contribution rate is that those who retire in the early years of operation do not pay as high a rate for the benefits which they receive as do those who retire in subsequent years. Even with a level contribution rate, those who retire in the early years usually receive far more in benefits than their contributions would have purchased on an actuarial basis. Through one method or another, they receive credit for service performed before the inception of the plan, and accordingly only a small portion of their benefit is "purchased" by their contributions. This procedure is customary under both private pension plans and social insurance. Otherwise, if benefits paid are related only to contributions made or to length of service after the plan began, inadequate pensions would be provided for the first few decades of the operation of the system. Accordingly, the program would not really be serving the purpose for which it was established.

Another problem arising with an increasing contribution rate is that ultimately the employee rate (particularly if the employer and employee rates are equal) may be higher than "individual equity" considerations would suggest--that is, the young entrant would be able to purchase more protection with his own contributions from an insurance company than is furnished under the social insurance system. If this situation were to arise, one possible solution would be to lower the ultimate contribution rates and make up the difference by a government subsidy to the system in the later years of operation. On this basis, there could be a graded contribution rate starting at a low level, with the employee rate not rising beyond the "individual equity" level; at the same time, a relatively small fund would be built up. This solution would involve the concept of an ultimate government contribution or subsidy.

Alternatively, if the employer contribution rate were significantly higher than the employee rate, it is likely that the latter would never rise beyond the "individual equity" level. Of course, if further, there is a government contribution to the system (especially if it is at least equal to half of the combined employer-employee rate, as is frequently the case in many systems), then it is even more unlikely that the ultimate employee contribution under a graded schedule would ever exceed the "individual equity" level.

Concept of Actuarial Soundness

In discussions of any type of long-range benefit program, the phrases "actuarial soundness" or "actuarially-sound" occur from time to time.

Essentially, this concept relates to the ability of the given plan to provide the benefits established. Many different definitions may be given in the absence of any strict legal requirements being applicable (as, for instance, in the case of reserve requirements for life insurance and annuity reserves of private insurance companies). When noninsured private pension plans are considered, there tends to be a somewhat broader range of definition. For social insurance plans, the range is even broader.

At perhaps one extreme for private pension plans might be the definition that a plan is an actuarially-sound one if the fund on hand is large enough to pay all future benefits for those currently on the roll. In other words, no allowance is made for the accrued benefit rights of those not yet retired. At the other extreme is a plan under which the existing fund is sufficient to pay for all benefit rights accrued to date. This basis would be somewhat difficult to attain for a newly organized plan that assumed considerable liabilities on account of past service.

Accordingly, some actuaries define an actuarially-sound plan as one where the employer is well-informed as to the future cost potential and arranges for meeting those costs under a scientific, orderly program of funding. On this basis, if the plan terminates at any time, the pensioners would be secure in their pensions, and the active employees at that time would find an equity in the assets of the fund reasonably commensurate with their accrued pensions for service from the plan's inception to its date of termination. This definition permits a long period before all the past-service credits are fully funded.

Other actuaries have a somewhat less stringent definition of an actuarially-sound system--namely, as one which sets forth a plan of benefits and of contributions to provide these benefits, such that the amount of the present and contingent liabilities, as actuarially computed to a particular date, will at least be balanced by the amount of the present and contingent assets, actuarially computed as of that date.

How do these concepts of actuarial soundness apply to a social insurance system? According to the more stringent definition, such programs will not generally be actuarially sound; according to the less stringent definition, they often will be. Acceptance of the basis of the former definition, however, does not mean that the converse is true--that the system is actuarially unsound and, therefore, by implication is bankrupt and should be liquidated. Rather, under this definition, there can be the view that there is no reason to rigorously apply actuarial-reserve techniques to a broad national system. Such a system, under this viewpoint, transcends actuarial-soundness criteria of the usual kind; no purpose would be served if reserve assets in the colossal actuarial amounts required were on hand since they would not be used because the system is not going to terminate and then call for a liquidation of the reserve to pay benefits.

Finally, the question may be examined as to whether a long-range social insurance system with "pay-as-you-go" financing (defined to mean that annual receipts and annual disbursements are approximately in balance) could ever be considered actuarially sound. It could not, of course, under the more stringent definition of actuarial soundness. Under the less stringent definition, however, it would be possible that such a program could be actuarially sound if there were a prescribed and announced contribution schedule, rising in the future, that was determined so as to approximate closely the estimated future benefit disbursements year by year.

Regardless of whether the concept of actuarial soundness in its usual meaning can be applied to the pension provisions of social insurance systems, there must be thorough actuarial analysis and cost estimates for these programs. These are essential factors in planning the long-range benefit structure of the program.

Contributory Basis of Plans Providing Benefits Other than Pensions

Many of the foregoing considerations in regard to the financing of pension plans also apply to systems that provide other types of benefits. In general, the cost of short-term benefits--at least when expressed relative to payroll--will not have any increasing trend over future years. Of course, there may well be cyclical trends depending upon economic conditions, but on the whole, these can be averaged out over periods of years. Of course, in the early years of operation, the program may show rising costs due to administrative lags or to lack of complete understanding of the benefits available by the insured population. However, any adequate cost analysis and estimating will have taken into account these situations of lag and will be made on the basis of the cost to be expected after the first few years of operation.

It is generally recognized that there is some need for a contingency fund to be built up under systems providing short-term benefits. Certainly, these are necessary both because of random fluctuations that are apt to occur in any benefit experience and because many types of risk have varying experience depending upon economic conditions. Any funds that will be so desired should not be too large because there is no necessity for this--possibly a desirable size is 1 or 2 years' benefits. Such a fund can readily be accumulated at the inception of the program because there is usually some lag between the collection of the initial contributions and the payment of benefits (due both to the usual provisions requiring certain periods of covered service before eligibility begins and to the several types of lag mentioned previously).

Many of the same considerations in regard to the subdivision of the contribution rates as between employers, employees, and the government apply for short-term benefits as was the case in the preceding discussion of financing pension benefits. In addition, the "blame" element and the "proper assignment of benefit costs as a cost of production" element often enter into the determination of the proper sharing of the cost of short-term benefits. This is especially so in the field of unemployment benefits and industrial-injury benefits, for which most systems assess the entire contribution rate against the employer (who, under this theory, is at fault when these risks occur). In any event, it is generally the case that the employee does not contribute for these benefits.

Some General Considerations in Regard to Contributions

The financing of social-assistance programs or of universal-benefit programs is accomplished by providing funds from general revenues. Under some circumstances, these funds come at least in part from earmarked taxes (such as sales taxes or a prescribed portion of income taxes). However, this earmarking does not imply the apparent definiteness that employer and employee contributions under social insurance systems seem to have. Accordingly, definite conclusions as to the advisability of various apparent methods of financing from general revenues cannot be drawn when one examines the subject from a social security approach; instead, this is a broader matter of fiscal impact and effort.

When we turn to social insurance plans, the applicability and subdivision of the contribution rate between the various parties concerned is possible of analytical consideration. As previously indicated, practices vary widely as to the allocation of the contribution rates between the several parties involved, and no single method can be said to be "correct."

Usually, there are certain limitations that are applicable in the determination of contributions. In other words, the contribution rate is generally not applied to the entire earnings and compensation of all covered individuals. One limitation that is frequently introduced is an earnings base (really a ceiling), such that contributions are not collected on earnings above it. Under some plans, individuals with earnings above the prescribed base are not covered at all; this is really a coverage matter, and its general undesirability has been discussed previously in chapter IV.

Turning back to the more common procedure of having an earnings base such that individuals with higher earnings contribute only on the amount that falls under the earnings base, this procedure has been adopted because it is desired that benefits should not exceed a certain maximum amount. Accordingly, it seems unfair--or at least inconsistent--to levy contributions on earnings above the base if they will not produce any additional benefit rights. Similarly, it is general practice that the employer contribution is limited to earnings that fall under the same base as is applicable for employees; in theory, this need not necessarily be the case because the "maximum credit for benefits" argument does not apply, but nonetheless this procedure may be desirable for the sake of consistency. It should be noted, however, that there are some social insurance systems that levy contributions--either on the worker, the employer, or both--without any maximum limit even though there are maximum-benefit provisions.

Another general question is that of what earnings and compensation of covered individuals should be subject to contributions. Under some systems, any money received from the employer (or constructively received) is subject to contributions (although, possibly taking into account any maximum earnings base limitations). In other words, under these circumstances, there would be included not only cash wages and salary for regular work, but also overtime pay, holiday pay, Christmas and Easter bonuses, profit-sharing bonuses, and cost-of-living allowances. In other systems, however, there are excluded some or all of these "nonregular" cash compensation items. In general, it would seem desirable from both a policy standpoint and from administrative aspects to make as few such exclusions as is possible (for one thing, evasion of contributions by redesignating compensation items is quite possible).

The question of whether contributions should be levied on noncash remuneration presents many difficulties. Certainly, where these items represent a substantial proportion of the total remuneration, they should be included. On the other hand, relatively minor items such as free lunches, medical services, discounts on purchases, etc., should be ignored for the sake of administrative simplicity.

In summary, then the question might now well be asked as to what basis of contributions under a social insurance system is best for a particular country's system. In theory, there is no single "correct" answer to this question because the proper solution depends on the social, economic, and even political philosophy of the particular nation. What might be desirable for one country might not be suitable or acceptable for another.

In fact, from a broad economic view, over the long run, it really makes little difference what basis for the allocation of contributions as between the different parties involved is selected. In the aggregate, the cost of social security must be met in one way or another by the people of the country through their economic production. In the short range, the incidence of the contributions might vary, but over the long range, it is impossible from an economic standpoint to determine just who is really paying the contributions, regardless of their apparent sources. Thus, for example, it can just as readily be argued either that the employer contribution is paid completely by the employer out of what would otherwise be his profits, or conversely that the employer passes the entire cost of the contributions that he nominally pays along to the consumer (who, essentially, is the worker) through higher prices.

This then brings us to the conclusion that the answer to the question of how to distribute the contribution rates under a social insurance system among the employers, the workers, and the government is that this depends far more on a policy decision of what will seem suitable, logical and acceptable to the persons covered (and, in fact, to the population of the nation) than on purely actuarial or economic grounds.

The Economic Impact of Social Insurance Contributions

The preceding discussion has brought out that social insurance contributions may be divided in a number of different proportions as between employers, employees, and the government.

In some instances, the financial impact of the contributions is really not at all affected by the subdivision of the contributions as between employers and employees because this may merely be reflected in the wage structure by differences in take-home pay. Such a situation is particularly true in the communist countries where the wage structure is, in essence, determined by the government. It is also likely to be true over the long run in any other type of economy since the fluidity and flexibility of the wage structure (both direct and indirect payment items) will produce this result.

Accordingly, other than for relatively brief and momentary results, the subdivision of the contributions between employers and employees is not of economic significance, but rather over the long term it is of psychological importance. In other words, it may be stated that when the employee does not contribute at all, then the underlying intent (or at least result) is that the worker feels that the benefit is a gift given to him by the generosity of the government so he tends to feel gratitude and obligation to the government therefor. On the other hand, in democratic countries where political pressures can be generated and can have great effect, such a noncontributory basis can result in lack of adequate financial controls because the populace will demand larger benefits without feeling the impact of direct taxes therefor.

In a contributory system, if the employer and employee contributions are equal (or roughly so) then the feeling will be generated that the worker and his employer are sharing the load together, and this basis will frequently possess a certain amount of "reasonableness" insofar as the thinking of the workers is concerned. Often, the employer contribution is significantly larger than the employee contribution. It may be said that this is done to gain the support of the workers by showing them what a "bargain" the system is for them.

In any event, employee contributions serve a valuable function--not only to bring about an awareness of the costs involved to the covered persons, but also to stimulate their general interest in all features of the system. Moreover, in many instances, the presence of employee contributions has great value to the covered persons involved because frequently legislators will not pay as much attention to employee organizations and labor unions in amending legislation when the employer is "paying the entire cost of the program."

When there are both employer and employee contributions to the social security system, it is really impossible to state or determine exactly who really pays the contributions (i.e., what their economic impact is). A good argument can be presented for any of a number of positions, and there is no possible proof as to which is the sole correct one. On the one hand, it can be argued that the employer contribution is paid at least in part by the general taxpayer because, being a business expense, it results in the employer paying less income tax than he would otherwise pay. Viewed from another standpoint, it can be argued that the employer tax is mainly passed along to the general consumer in the form of higher prices, so that in essence, it is borne by the general populace of the country (which in a system with universal coverage means that the employer cost really falls on the covered workers, while in a system of only partial coverage much of the cost is thereby borne by the noncovered group). Still another way of viewing the impact of the employer contribution is that it is entirely borne by the covered workers since if it did not exist, then wages would be higher by that amount. None of the foregoing views of the financial impact of the employer contribution tell the entire story and are completely the case, but on the other hand, each of them possess a certain amount of validity.

In somewhat the same manner, it can be argued that the employee contribution comes from other persons than the worker himself. Thus, for example, it can be considered that when employee contributions are levied, the long-range effect is for wages to be raised sufficiently to offset such contribution deductions.

A classic example of the difficulty of determining who really pays social insurance contributions is the situation that occurred in the Netherlands shortly after World War II. At that time, a broad pension system was adopted, with the stated financing being entirely by employee contributions (expressed as a percentage of wage). However, at that time wages were tightly controlled by the Government and, simultaneously, it was decreed that all wages should be increased by a somewhat higher percentage than the social insurance contribution. Accordingly, it could just as well be argued that the system was entirely employer-financed. But looking at the legislation or considering the matter from the standpoint of a new entrant currently, the financing would appear to be entirely by the employee.

The economic impact of any contributions to the social security system by the government can be somewhat different than is the case for employer and employee contributions. Much depends upon the general taxation structure of the country and also how this affects both wage and price structures. In general, it would appear that the financing of the government contribution would primarily be by methods that would have relatively less financial impact on low-income persons than on high-income persons (so-called "progressive taxation").

In passing, it may be mentioned that the criticism is often raised against contributory systems under which there is a maximum earnings limit on which contributions are levied that they are financed by so-called "regressive taxation." When viewed only from the standpoint of contributions, this is true since the percentage contribution rate for those earning below the limit is higher than that obtained for persons earning above the limit when their contribution in monetary terms is related to their total earnings. However, when the situation is viewed as a whole by considering both contributions and benefits, the net overall result is "progressive" in nature since the benefits are usually graded in favor of those with lower income and there are minimum-benefit provisions. Accordingly, the relationship of potential benefits to contributions generally decreases as earnings increase.

At times, the criticism is often raised against systems that provide for government contributions that such contributions cannot be "afforded" since they are needed for economic development purposes. Under certain circumstances, this argument is not valid. For example, if the program is in its early stages of operation, it may be collecting considerably more money than it is paying out in benefits, and the residual funds are then available for investment (either directly or indirectly) in economic development projects. Such residual funds might well be in excess of the government contributions for a number of years in the future.

Accordingly, in one sense, the government contribution is not then "wasted" or "sterilized" since it really goes as much for economic development purposes as would be the situation if it were not made and a similar sum was appropriated directly for such purposes. This routing through the social security system has certain value--both in establishing the precedent of a government contribution and also in having contribution rates that are not deceptively low in the early years of operation (which, under such circumstances, might unwisely encourage benefit levels that would be too high to be soundly financed over the long run) and in accumulating interest-earning assets for the system that will help finance it in subsequent years.

When government contributions are provided in a social security system, one great danger is that the government may fail to make these payments. This can be especially the case--because of the relatively large amounts involved--in developing countries, whose budgetary situations might be in rather difficult positions. The failure to make such contributions, as required by law, can be quite disadvantageous to the social security system--not only because the funds are not available, but also because public confidence in the program can be weakened by such action. There are many examples throughout the world where such government contributions are provided for, but are not being made.

At the same time, it should be recognized that this same situation exists in the United States in connection with the old-age, survivors, and disability insurance program (although not to a relatively great significant extent)--namely, in connection with the reimbursement to the program of the additional cost involved for the benefits arising from "gratuitous military service wage credits" for the period beginning with World War II and ending in 1956. The Federal Government, however, is currently contributing in full for the "regular employer" contributions with respect to military service after 1956, and also with respect to such civilian employees as are covered by the program.

Chapter VIII

INVESTMENT OF ASSETS

The discussion of methods of financing in the previous chapter--insofar as it related to the accumulation of funds under social security systems and the desirability thereof--was, of course, predicated on the assumption that the money of the particular country would be relatively stable. Even if such monetary stability is not present, there would still be some point to accumulating funds if either (1) the Government guarantees the value of the invested assets (as, for example, by linking the interest payments and the principal to a cost-of-living index), or (2) investments can be made in private securities that will maintain their real value. There would obviously be no point in accumulating social security funds if there were to be continuous severe inflation that would wipe out substantially all of their value.

Existing Procedures in Various Countries

At one extreme, in some countries, such as the United States, the assets of social insurance systems are invested only in obligations of the Government. The theory underlying this procedure is that the control of Government expenditures--including investment in economic and social development--should rest solely in the hands of the people, through their elected representatives. In other words, the legislature should decide what the governmental expenditures should be used for, and any money that is to be borrowed to meet an excess of expenditures over direct tax income would be obtained, among other sources, from the social security funds.

At the other extreme, there are systems under which the social security institution is almost completely autonomous in its operations. Such an institution may then make investments in any manner that its officials deem proper. Accordingly, if it is desired to make expenditures for economic and social development, it may then be that the officials of the social security institution will make the decisions, rather than officials of the Government as a whole. Also, under these circumstances, investments of social insurance funds may be made in such sources as stocks and bonds of private corporations, ownership of both commercial and residential real estate used for rental purposes, mortgages of all types, and medical and other facilities used for beneficiaries of the social insurance program.

There are many instances of investment in other than governmental obligations that can be pointed to. In some countries, luxury hotels built for the tourist trade have been largely financed by the social security system. Also, there are instances of the financing of luxury apartment houses, on the one hand, and of low-cost housing, on the other hand. Frequently, social security funds furnish loans to the insured workers--often, although not always, for the purpose of financing home mortgages. Very frequently, the social security funds that are being accumulated as pension reserves are utilized to build the hospitals and other medical facilities needed for the medical-care branch.

Advantages and Disadvantages of Investment in Nongovernmental Sources

A major element that enters in when the investment of social security funds is being considered is the possibility of a significant amount of economic power being invested in the social security institution or in the government itself. Quite frequently, very sizeable amounts of money are available for investment, and with these it would be possible for the institution or the government, as the case may be, to purchase large blocks of stocks and thus obtain control of much of private industry. This could produce "socialism by the back-door method." Certainly, no country should follow this procedure without full realization of what can possibly occur.

From a political standpoint, the concentration of wealth--and, particularly, the steady inflow of available cash--might be dangerous under certain circumstances. It might well happen that the social security institution will be in a stronger financial position than the government itself. Under such circumstances, the control of the social security institution might be sought after the political and economic advantages and control, without sufficient regard to the true underlying purposes of the program.

Still another possible disadvantage of being able to invest social security funds in a wide variety of methods is the fact that great temptations may arise for those who are responsible for the financial operations of the institution. The relatively vast sums of cash available for current investments can easily cause dishonesty and graft to occur. For example, when buildings are constructed directly for the social security institution--whether for investment purposes or for program uses--or when other large capital investments are to be made, it can be very tempting to the officials to receive rebates or bribes from the successful contractor or bidder. As a result, the value of the investments made by the institution is really lessened.

The investment results can be poor when money is loaned to the insured population, or when low-cost housing for members of the system is constructed. Under these circumstances, the insured persons will often--illogically and incorrectly--feel that they have no need to repay the loans or to pay the rent for the low-cost housing because of their view that "after all, it's only our own money, so why repay it (or pay rent)." Quite obviously, this makes for bad investment experience and is, of course, most inequitable to the remainder of the covered population.

Despite all the possible disadvantages of investing social security funds in other than governmental obligations, there are significant advantages. These depend on the procedures followed and the controls instituted. Under proper guidance, the social security funds available for investment can serve as a significant source of funds for economic and social developmental projects.

Desirable Criteria for Investment of Social Security Funds

If the accumulating funds of social security systems are to be invested only in governmental obligations, there are relatively few problems. The most important thing, under these circumstances, is to assure that there will be equitable treatment as between the social security system and the government as a whole. In other words, the terms of the investments should, as much as possible, be nondiscriminatory--being neither overly favorable to the social security system (and thus unfavorable to the government as a whole) or vice versa. The interest rate on the governmental obligations should be approximately the same as that on marketable governmental obligations of similar character. Also, any guarantees as to maintenance of purchasing power of principal and of interest payments should be no more and no less favorable than is generally available for private investors in government obligations.

When the assets of the social security system are to be invested in other than governmental obligations, more planning and control is necessary. Quite obviously, all efforts should be made to assure the honesty of the officials concerned with making the investments. Beyond this, it is probably desirable that the investment practices should be controlled by the government itself and not solely by the officials of the social security institution. At the same time, this requires the government to follow sound investment practices in making the investments for the social security system and thus not to squander these funds in unwise and unproductive investments.

There may well be economic and social projects that have considerable "risk" element, but that nonetheless should be attempted. Under such circumstances, it does not seem desirable to make the social security system take the chances of capital loss. Rather, under such circumstances, the government could establish a separate agency to issue bonds to the social security system, which would be guaranteed by the government. Then, this agency could spend the money in the manner planned. For example, low-cost housing could be built by a separate housing agency that would obtain its funds from bonds issued to the social security institution, which are guaranteed by the government. Similarly, economic development projects could be fostered by an Economic Development Bank, which would obtain its money from bonds sold to the social security system (as well as to other investors).

In summary, the method of investing the funds of the social security systems can well follow whatever procedure seems most desirable to the policy and planning officials involved, as long as sufficient controls are maintained so that the investments will maintain their economic value. In fact, in a developing country, such social insurance funds may be of great and significant positive influence in promoting economic development if they are channeled in the proper direction.

Chapter IX

ADMINISTRATION

The best-constructed social security program--as to its coverage, benefit, and financing provisions--will nonetheless be a complete failure unless there is sound administration. This chapter will discuss briefly various aspects of the administration of social security systems, including the various types of agencies that can administer the programs, the participation of covered employers and employees in the Administration, and the essential reasons for sound and adequate administration.

Naturally, there can be no simple "do-it-yourself" book on how to administer a social security program. Much, of course, depends upon the underlying features of the program, and much also depends on social and economic conditions in the particular country. Sound administration can be obtained in a number of ways that, in balance, must be determined by the conditions prevailing.

Basic Administrative Procedures

In general, there are several distinct basic administrative procedures involved in social insurance plans. The employers and workers who will be covered by the system must be registered (and usually assigned an identifying number), and suitable central files of the registrants must be established and maintained. On the whole, these procedures are not too difficult. However, some problems may arise in obtaining the complete coverage prescribed by law, in issuing duplicate registration numbers when they have been lost, and in seeing that individuals use only one number, rather than having multiple ones.

The next basic administrative procedure is collecting the contributions. Again, this should present no serious problems and is usually quite easily accomplished, except for the great difficulties that may be involved in obtaining completeness of coverage. Many of the problems in the latter area can be greatly lessened if strict and thorough enforcement of the legislation is initiated at the very start of the system so that the covered employers and workers appreciate that it is a compulsory-coverage program and is not on a voluntary basis. Once that reliable coverage enforcement has gone into effect, it is not too difficult to maintain, because the covered workers will soon realize that one of the advantages of complete and accurate reporting is that they will receive the proper benefit amounts.

Perhaps the most difficult basic administrative procedure that faces a social insurance program in a developing country is the maintenance of the records of covered earnings or contributions. Frequently--in order to maintain good coverage compliance--the covered employers are required to submit their reports of covered earnings and contributions monthly (along with the money involved). Although this procedure has certain advantages from a coverage-compliance standpoint, it has the great disadvantage of producing a vast number of reports that must be processed (obviously 3 times as much as would be the case with quarterly reports and 12 times as much as for annual reports). Although, the posting of these monthly reports can be shown to be a simple and straightforward procedure on a "flow chart," in practice, a gigantic amount of work is involved--whether this be done manually or by machine methods, since there will frequently be a critical shortage of skilled, technical, and clerical help. The posting of earnings or contribution data can indeed be the "Achilles' heel" of the social insurance system, and careful advance planning is needed to prevent the system from being overwhelmed by these data, which can, of course, accumulatively "snow ball" on the administration of the system.

The next basic administrative procedure in a social insurance system is the processing of the claims. This involves the taking of the claim by a representative at the local level, its adjudication based on the earnings or contribution records, and finally the notification of action to the claimant. This particular area may not cause great difficulties in a newly-instituted social insurance system because frequently--particularly when long-range benefits are involved--there are relatively few claims in the early years of operation. However, if the records are not kept reasonably up to date (for the reasons discussed previously), the processing of claims may involve considerable difficulties and delays if there are problems in locating the underlying records.

The next basic administrative procedure in a social insurance program is the routine and continual payment of the benefits once they have been awarded (and then maintaining controls on the continuing eligibility of the beneficiaries). Once again, this is usually not too difficult an administrative procedure under most circumstances, although problems can arise in certain areas. For example, if there is a retirement test in an old-age pension system, there may be difficult problems of enforcing this provision--and if it is not enforced reasonably thoroughly, then the very purpose for which it is established will be negated.

If the social insurance system provides medical-care benefits, there will be basic administrative procedures necessary over and above those involved in the payment of cash benefits. These will be in the general area of providing adequate and efficient medical services that are readily available to a covered population which may be rather widely distributed geographically. Particular problems also arise in getting the skilled medical personnel necessary. For instance, when there is a shortage of doctors, it may be necessary to employ them on a part-time basis (in addition to their private practice), which is sometimes not as satisfactory as having a full-time staff.

Types of Agencies Administering Social Security Programs

The type of governmental agency that administers a broad social security program will depend, to a considerable extent, on the nature of the benefits provided. The situation can vary from complete administration by a governmental agency or department at the one extreme to only general governmental supervision of the administering organization or organizations at the other extreme.

Quite naturally, in social security systems that are of the mandatory-employer type, the governmental agency exercises only the functions of regulation, control, and inspection. One instance of this situation is where service-indemnity payments, representing lump-sum payments related to final wage and to years of service, are required by a Labor Code. Then, the authority for inspection and enforcement of the benefit provisions is usually given to the Ministry of Labor. As another instance, in some countries the program of benefits for work-connected injury and disease (workmen's compensation) is administered by private insurance companies or by so-called self-insurance. Under these circumstances, a separate governmental agency is usually established to see that the law is properly enforced (sometimes such agency is an integral part of the Ministry of Labor).

A universal-benefit system must have its administration completely in the hands of a governmental agency, since its scope is wider than merely covering only those who are employed persons. Such systems are generally administered by the Ministry of Social Welfare (or similar ministry) or by a separate and independent governmental agency. For the same reasons, social security programs that are established on a social-assistance basis are generally administered by the Ministry of Social Welfare or by a separate and independent governmental agency.

Social insurance systems can be administered in a number of different ways. In a few instances, they are basically administered by nongovernmental, autonomous institutions under the supervision of a governmental agency. This is the case in certain countries where mutual benefit societies have been established to provide sickness-benefit protection, with the minimum benefits being prescribed by law. Under such circumstances, the supervising and controlling governmental agency might be the Ministry of Health.

In most instances, however, social insurance programs are administered either directly by a government department or by a semiautonomous governmental agency, established especially for this purpose. As examples of the first method of procedure, in the United States the general pension system is administered by a department of the Federal Government (Department of Health, Education, and Welfare). The unemployment insurance system is administered by various State agencies--under the benefit and coverage provisions established by the State--but with general control and supervision by a department of the Federal Government (Department of Labor).

In many countries, a separate semiautonomous institution is established to administer the social security system. Frequently, this institution is under the general control and supervision of the Ministry of Labor. In other instances, there is a greater degree of autonomy, since the institution is responsible directly to the head of the government, although the Ministry of Labor is represented on the governing body of the institution. Other ministries such as the Ministries of Social Welfare, Health, and Finance are also represented on such body.

The administration of social security programs has been closely connected with Ministries of Labor, which have the interests of the working population as their basic responsibility and function. In many of the highly developed countries, the trend has been away from this type of organization because of the belief that social security programs have a broader scope of applicability than to merely the employed population. On the other hand, in the developing countries, where social security programs apply only to the urban working populations, the close connection that often exists between the administration of social security and the Ministry of Labor will undoubtedly continue--at least for some time.

Participation in Administration by Employers and Employees

In many countries, organized labor and organized business participate in the administration of social insurance programs. This is particularly the case when the administration is accomplished through semiautonomous institutions, which are frequently governed by boards composed of representatives not only of the government, but also of labor unions and employers. The membership on such boards and the resulting effect on the maintenance and development of the system is highly prized by the labor unions in many countries.

On the other hand, in countries where the social insurance system is administered directly by a governmental agency, both labor unions and employers have little, if any, responsibility in the actual administration of the system. Moreover, in such cases neither the labor unions nor the employers seem to feel any necessity for getting into such administration, although they are usually desirous of participating in program planning and development through membership on advisory committees, consultation with government officials, and presentations to legislative bodies. Under these circumstances, it is not that the labor unions and the employers are uninterested in the administration of the program, but rather that it has been demonstrated to them that the administration will be good; this being the case, they believe that their efforts and energies can be devoted to more worthwhile activities than getting into the administrative details and complexities of the system.

Essential Reasons for Sound and Adequate Administration

It seems almost obvious to state that sound and adequate administration is essential in a social security system. This means that there should be good service furnished to the covered persons and beneficiaries at as low cost as possible. Maximum administrative efficiency is called for at all times and in all respects. After all, the social security system is no "magic machine," and so it can only pay out from what it collects. This means that the less money used for administration, the more will be available for benefits.

Sound administration requires, among other things, firm enforcement of coverage and contribution provisions, accurate maintenance of wage and contribution records, and prompt adjudication of claims and payment of benefits. At no time should conditions be such that claimants are treated as though they are being granted favors by the officials. Nor should there be political favoritism in the claims procedure--not even to expedite one particular claim, as against the general flow.

Although it is desirable to keep administrative costs low, this should not be done at the expense of accuracy and efficiency. For example, too little money spent on claims investigation can be costly if this results in fraudulent claims being approved.

In some instances, there is attempt to control administrative expenses by legal provisions prescribing a maximum limit on them, expressed as a percentage of contribution income or of total income of the system. Although on the surface this appears meritorious, in practice it may have no real effect because various methods of evasion can be practiced. For example, it is difficult in medical-care-benefit programs to determine whether many costs are for administration or whether they are for medical care. If the legal limit is being approached, the temptation arises to allocate such costs to "medical care." Likewise, too low a legal limit of this sort--if rigidly enforced--can unduly hamper sound administration.

In summary, then, sound administration is the key to public acceptance and support of a social security system (assuming that it is well planned to start with). Such result can be obtained only if the responsible authorities continuously and diligently strive therefor. In order to do so, they must not only have a sound theoretical basis and plan for administration, but also they must be steadily in touch with how it is actually operating.

Chapter X

PLANNING AND LEGISLATIVE PROCEDURES

Frequently--as in the United States--policy planning goes hand in hand with administration, and thus has the opportunity to draw extensively upon the operating experience of the administrative organization. Under such circumstances, althcugh the major rule for policy planning and research falls on the governmental agency, outside sources can also exercise a significant function. This can be accomplished both indirectly through efforts to inform and influence the top officials and legislators, and also directly through advisory groups to the administering organization or to the legislature that are created either by statute or by regulation. Such advisory bodies generally have representation from the trade unions, from employers, and from the general public (including university professors) There is also representation from all major political parties (or else the advisory groups are of a nonpartisan nature). These advisory bodies usually (and properly) have a considerable degree of independence. The effect of these advisory groups on legislation is often significant.

In some countries, legislation is not completely specific, and rules and regulations are needed to fill in certain significant details. Under such circumstances, advisory groups are often appointed to review and confirm actions proposed by the administrative agency. Representatives of workers and employers fill a worthwhile role on these groups.

Legislative Procedures

Where social security systems are administered by semiautonomous agencies established by statute, but under the general control and supervision of a government department, the function of policy planning may be divided between these two organizations. At times, the entire authority for policy planning may be delegated to the supervising department, which does not have practical operating and administrative experience. Although this arrangement may have significant political advantages--because of such department being closer to the chief executive of the nation and to the legislature--it may well prove disadvantageous because of failure to understand the actual operations of the program. Then, it becomes particularly essential that there be close liaison between the social insurance institution and the department of the government involved.

Under some parliamentary forms of government, once the legislation has been decided upon by the chief executive (as a result of the planning and work of the administrative agency and any other departments responsible for this type of action), it is then automatically passed--without any substantial changes--by the legislative body. This can be the result when the country has a totalitarian form of government or when the chief executive is the leader of the majority party, all members of which--by custom or by practice--always vote the party line.

In other countries, like the United States, the executive and legislative branches are independent of each other. The chief executive frequently proposes legislation, but the legislative body may accept it (in whole or in part), or may reject it, or may even initiate legislation at its own volition.

Each of these two methods of legislative procedure has its advantages and its disadvantages. The former tends to be productive of greater rapidity in legislative action and in enactments that are more adequate and well-planned technically. There is less likelihood of changes being made without proper technical guidance and understanding of the operations of the program. On the other hand, the latter method has the advantage of considerable public debate and consideration by the various groups involved (the two houses of the legislature, the executive branch, and the general public, who may well participate in public hearings held to determine the advisability of the proposed changes).

Under the form of procedure that envisages considerable development and modification of the proposals in the course of the legislative action, it is essential to have effective liaison between the legislature and the administering agency. This is necessary so that the broad policy decisions made by the legislature can be administered efficiently. This does not mean that the administrative machinery (including punchcard equipment and electronic data processing equipment) must "rule" the legislators and dictate to them what changes can and cannot be made. Rather, the conscientious administrator must give sound, technical guidance to the legislators, so that they can enact statutes that will carry out their broad policy considerations without overly complicating administration. In other words, it is the duty of the administrator to help the legislators put their proposals in such a form that sound administration is possible--rather than only stating that certain proposals (which he may oppose from a policy standpoint) cannot be administered, and being of no further assistance.

In the long run, such cooperation of the administrators with the legislators will have favorable results on the development of the social security program This relationship should be cultivated as much as possible, even though it may frequently put the administrator into the difficult position of playing a dual role. On the one hand, he is the advocate for the proposals of the executive branch of the government (which at some times may not be looked upon with complete favor by the legislators). On the other hand, he is the technical expert who is supposed to explain how the views of the legislators can be translated into practical operation. Under these circumstances, it would seem essential for the sound development of the social security program that the chief executive should permit the administrator (who is under his direction) to operate in this dual capacity.

Necessity for Policy Planning

Policy planning for a social security system in a developing country should proceed with care and with full deliberation. This is not to say that action should be indefinitely or overly-long postponed on the argument that "more facts and more study are needed." Rather, there should be very careful planning, with due regard to both the fiscal and administrative abilities of the nation. For example, a newly independent country should not immediately establish a full range of social security programs with relatively high benefit amounts. It would be more desirable to move somewhat slowly and, perhaps, to go into only a few branches or programs at a time.

It is also essential that the provisions of any program should lend themselves to efficient administration, or else the social security program and its future development will be seriously damaged. For example, a system involving complicated and detailed reporting from employers and complex recordkeeping by the organization should not be attempted in a country where administrative--and even clerical--skills are available only to a limited extent. As another example, in the early stages of development of a country there may be so much unemployment and underemployment (both intentional and unintentional on the part of the workers) that an unemployment insurance program would not be feasible. Another element of this problem is that an unemployment insurance program cannot feasibly precede a successfully operating national employment service.

The foregoing discussion has related to the necessity for careful planning when a new social security system is being instituted, so that too much should not be attempted too quickly. But when a situation exists where a country has already attempted to establish a far more comprehensive plan than it is able to administer or to support financially, the question is, what can be done about this difficult problem? Probably there is no completely satisfactory solution. Yet, something must be done. These circumstances call for a careful and thorough review of the benefit structure, the coverage provisions, the cost aspects (both current and long-range), and the administrative practices.

Although it is politically very difficult to make "deliberalizing" amendments, at times this may be necessary and can possibly be achieved by careful changes that will not treat any one class inequitably as against others. For instance, the retirement age can be raised gradually from an unrealistically low one to a more reasonable level consistent with general economic conditions and logical from a cost standpoint. Such a revision will frequently involve compromises with desirable principles, in order to produce a revised program that will be an improvement. In other words, at times the "least worst" choice will have to be made.

Most particularly, in such reviews it will be necessary to consider thoroughly the administrative practices, an area where social security systems often get into difficulties. Without reasonably good administration, the best social security program on the legislative books will have a questionable likelihood of success. The authorities responsible for the program must realize that there has to be efficient, honest, and conscientious administration, so that the coverage provided under the law is enforced, and the resulting contribution income is collected, while at the same time, benefits are correctly and promptly awarded and paid.

Sources of Technical Assistance

Developing countries can turn to several different sources to obtain technical assistance for planning their social security programs--whether in instituting a new system or revising an old one. Among the various sources of technical assistance are the following: the United States Government, the International Labor Office, and the International Social Security Association (Geneva). In addition, training opportunities to develop efficient personnel are available through the Inter-American Study Center for Social Security (Mexico City) and the Ibero-American Social Security Organization (Madrid).

The United States Government, through the Agency for International Development, provides a wide variety of technical assistance and training facilities. Experts in various aspects of social security, such as actuarial matters, general program planning, and administration, are recruited by AID from various governmental agencies such as the Social Security Administration in the Department of Health, Education, and Welfare, and the Bureau of Employment Security in the Department of Labor, as well as from nongovernmental sources. These experts can visit the particular countries which request their services to give advice and suggestions in their fields of competence. It is also possible for social security staff of other countries to come to the United States under the auspices of AID to receive technical training and observation experience.

Certain other governments provide technical assistance in the field of social security to developing countries on an *ad hoc* basis. Great Britain has, in a number of instances, sent missions to assist in social security planning in several of the Commonwealth nations. Also, some European nations have done likewise for their former Asian and African colonies.

The International Labor Office is the specialized agency of the United Nations dealing in this area. It provides for the services of visiting technical experts and for the training of personnel in social security organizations of developing countries. The visiting experts are either staff members of the ILO or else are recruited by the ILO from the personnel of social security institutions in economically advanced countries (on a temporary or loan basis).

Similarly, the training of personnel of social security organizations in developing countries is either conducted at seminars or training courses organized by the ILO, or by granting fellowships to visit social security institutions or education institutions in other countries.

In general, the ILO visiting experts operate on the basis that the ILO is the final authority. Rather than functioning as an independent individual the expert reports to the ILO (rather than to the country), which then makes the final recommendations. This procedure has the advantage of thorough review by the ILO staff. On the other hand, there are the disadvantages of the long time involved in the country getting the report and the inflexibility resulting from the fact that the visiting expert cannot freely discuss matters with the host country and cannot go outside his restricted terms of reference even though he may be well qualified to do so. In a few instances, the ILO has arranged for visiting experts who operate on a purely independent basis by merely making contact between the country and the visiting expert, although in certain instances it has also defrayed part of the expense of the project.

The International Social Security Association has restricted its role in the field of obtaining visiting experts to being a recruiting or contact agency. In the training field, the ISSA has conducted a number of seminars and conferences, which aid in spreading technical knowledge and experience.

The Inter-American Study Center for Social Security (Mexico City) has the sole aim of providing technical training in various fields of social security by means of short courses. Similarly, the Ibero-American Social Security Organization (Madrid) runs general training courses of 1 to 2 years' duration for Spanish-speaking persons who are interested in this field.

Desirable Features of Technical Assistance

Regardless of what organization provides technical assistance in the field of social security to developing countries, it should be recognized that a successful program will usually require continuing relationships. It would naturally be expected that any visiting experts will have sufficient interest in the subject so that they will be willing to furnish further advice and information (whether by correspondence or by subsequent visits). Often, however, this is not sufficient, and it is desirable to have a continuing advisory relationship over a period of years between a host country and the organization furnishing technical assistance. Thus, the services of different individual experts may be made available to a developing country as different skills are required. In this way, the country receiving assistance and the agency furnishing it can jointly provide the long-range continuity needed.

There are several different possibilities as to the interrelationship between the type of person chosen for a consultant assignment and the length of time involved in a particular mission. Actually, the proper choice depends both on the particular problem and on the availability of the right kind of personnel.

Under some circumstances, it may be best to obtain the services of the very highest calibre of expert (who holds such a high-ranking and important position in his own country that he cannot be spared very long) for a period ranging from as little as 2 weeks to possibly as much as 2 months. Such an individual, with his great abilities and vast background and experience, can frequently do a more adequate job (and more rapidly too) than a person of lesser ability and experience whose services would be available for a longer period, such as a year or two. On the other hand, one should not overlook the danger involved in getting the services of a "2-week wonder" who is completely unfamiliar with the problems of developing countries and their differing conditions as compared with his home country. Such a person may merely try to "export" completely the program with which he is familiar.

Under other circumstances, it is essential to have a visiting expert come for a period of a year or more in order to achieve fully the purposes of the assignment. This would particularly be the case when the mission involves the working with, and educating of, the officials and staff of the host country in matters of detailed administration.

Chapter XI

ECONOMIC IMPACT OF SOCIAL-BENEFIT PLANS

Quite naturally, there is widespread approval of, and demand for, various types of social-benefit plans by the general population, who both need and desire this protection. The category of social-benefit plans can be very wide, including not only the types of programs described earlier in this report, but also such other programs as social services to needy individuals (both on a curative or rehabilitation basis and on a preventive basis) and various educational services. The other side of the coin--and equally important--is the financing of these desired services.

At times, comparisons are made as to the proportion of the national governmental budget that is used for social benefits and services. Taken by themselves, such figures can be very misleading in comparisons between different countries. One country may have large defense expenditures, whereas another may have little or no outgo therefor. Comparisons of this type are further complicated by how much is done in the public sector (or through governmental programs) and how much is done in the private sector, both through employer-operated plans and through individual voluntary action.

Actually, the best comparison of the financial burden of social-benefit and welfare plans is with the national income or the gross national product, rather than with the governmental budget. Even here, many difficulties of comparison arise, and too much credence should not be given to the numerical results. In any instance, it is necessary to consider both governmental and private expenditures in the social-benefit and welfare area.

Still another comparison made frequently in the field of social insurance is fraught with dangers of misinterpretation--namely, contribution costs relative to the total national payroll on which they are based. For one thing, the contributions of some systems may be based on the entire payroll, whereas in other systems earnings above a certain amount may be exempt. Then, too, some systems may be significantly financed, in part, by contributions from the government, whereas others do not have any income from this source.

Also, the level of the current contribution rates may be significantly different as between countries that finance long-term pension benefits on different bases. At the one extreme, there is the pay-as-you-go basis (i.e., with income and outgo closely approximating each other over a short period of years), while in other instances there may be a moderate amount of advance funding (by having income be in excess of outgo in the early years of operation, so as equitably to provide and allow for the certain rising curve of outgo in future years). Although there may be arguments for the pay-as-you-go method of financing pension schemes--namely, because of the possible eroding effect of inflation on the invested assets--there are valid reasons for well-considered advance funding. This is particularly true for new systems, under which the pension outgo for many years will be relatively low because the pension roll is slow in building up.

The question might now well be asked as to what basis of contributions is best for a particular country's system. In theory, there is no single "correct" answer to this question because the proper solution depends on the social, economic, and even political philosophy of the particular nation. What might be desirable for one country might not be suitable or acceptable for another.

In fact, from a broad economic view, over the long run, it really makes little difference what basis is selected for the allocation of contributions as between the different parties involved. In the aggregate, the cost of a social security program must be met in one way or another by the people of the country through their economic production. In the short range, the incidence of the contributions might vary, but over the long range, it is impossible from an economic standpoint to determine just who is really paying the contributions, regardless of their apparent sources. Thus, for example, it can just as readily be argued either that the employer contributions are paid completely by the employer out of what would otherwise be his profits, or conversely that the employer passes the entire cost of the contributions that he nominally pays along to the consumer (who essentially is the worker) through higher prices.

This then brings us to the conclusion that the answer to the question of how to distribute the contribution rates among the employers, the workers, and the government is that this depends far more on a policy decision of what will seem suitable, logical, and acceptable to the persons covered (and in fact to the population of the nation) than on actuarial or economic grounds.

First, considering the employee contributions, it may logically be argued that in the long run there is no difference between a plan that provides for employee contributions and one that does not. This is particularly true in a planned or controlled economy, under which it makes absolutely no difference whether the employee has a basic salary of 100 units and does not contribute to the system, or whether he has a basic salary of 105 units and contributes 5 units (or roughly 5 percent) to the plan.

Then, too, it is difficult to determine exactly who really pays the cost of the employer contributions. This certainly is part of the cost of production and must be reflected in the price structure. It may be that, under certain economic circumstances, the ultimate consumer (who is generally also the covered worker) really pays the cost of the entire social insurance contributions. However, in certain industries, such as those producing raw goods and basic agricultural items (which is the case, of course, for much of the product of a developing country); this is not as readily possible--or in fact, often not at all possible--because world markets may control prices, rather than the producer doing so.

Under certain circumstances, there can be a very neat compromise between those who advocate extensive social security programs as a desirable thing for developing countries and those who are advocates of greater spending for economic development projects. At first glance, these two points of view would seem to be in direct conflict (and at times they are--with the desirable solution being a compromise between them). But, under certain conditions, both can be satisfied, or in other words, "one can eat one's cake and have it, too!"

At times, pension systems are established that have relatively little outgo in the early years of operation (which, in itself, may be undesirable if carried to the extreme, but nonetheless, may occur because of the age structure or other features of the population). Under such circumstances, purely from a social-security planning standpoint, it would be undesirable to have too low a contribution rate because this might give a false impression of low cost to the participating persons. Accordingly, there will be a considerable excess of income over outgo in these early years, and this will be available for investment in economic development projects (under procedures outlined in a previous chapter). Accordingly, the contributions made will not be money that is going "down an economic rathole," but rather will be largely available for developmental purposes.

In fact, under such a pension plan it may well be that the government itself is a contributor. Under these circumstances, certainly there need be no conflict between those who are primarily concerned with economic development and those who are concerned with social welfare. The government contribution to the social security system does, in fact, not necessarily represent a corresponding reduction in governmental funds available for economic-development purposes, but rather can serve both purposes.

What really happens is that the government contribution routes through the social security system to achieve the same economic-development purposes that the same amount of money would have achieved if it had been appropriated directly for such purposes. Thus, there is the same amount of money for economic-development purposes, and the social security system accumulates assets (bonds or other such securities) representing the loans made for economic-development purposes (such as through an Economic Development Bank or some similar agency). This procedure is by no means unfair to the contributors--although at first glance it might seem that the government contribution did not go to their benefit--because, in the long run, the investment income thereby resulting will help to finance the increasing benefit outgo and so will make eventual contribution rates lower than would otherwise be the case.

Still another point that must be considered in connection with any type of social-benefit program is that the cost thereof must be reflected in the distribution of the national product. This is particularly true in a developing country, which is often so dependent upon the export of agricultural products for which the price is set by the world market, rather than by the producing country. The total available income of the country can be divided in different proportions, but the share going to social benefits, if increased, will merely have to be taken from direct payments in the form of earnings and profits. In other words, if a country desires that take-home pay be as high as possible, the social benefits must be relatively limited. Conversely, if a large variety and amount of social benefits are desired, the take-home pay will be lower than otherwise. The decision as to the proper or desired subdivision between these two elements must be faced, and made, by the country.

Finally, it may be worthwhile to give some general indications of the cost impact of various types of social-insurance benefits. Naturally, a considerable range is present (depending on the size of the benefits, the eligibility requirements, etc.) so that the following figures should not be taken as indicating either the lowest or highest possible ones for the particular type of benefit (totals are not shown since they would be meaningless):

Type of Benefit	Cost as Percentage of Covered Payroll
Old-Age, Disability, and Survivor Pensions	5-15%
Unemployment	2-5 %
Cash Sickness and Maternity	1-3 %
Medical Care	3-10%
Work-Connected Injury and Disease	1-2 %
Family Allowances	1-10%
Provident-Fund	5-12%
Service-Indemnity	4-10%