Towards a new global social contract

The protection of the weak and the vulnerable, the old, the very young and pregnant women, has been an ethical (and frequently religious) mandate in all human societies throughout history, without which the species would not have survived.

In the 19th century, industrialization and urbanization dramatically changed the composition of families and communities and shattered the traditional forms of organizing that protection. At the same time, industrialization resulted in both an unprecedented generation of wealth and dramatic inequality and poverty, which led to social struggles.

In 1881 conservative German chancellor Otto von Bismarck informed the Reichstag (parliament) of his conviction that "the healing of social wrongs must be sought not solely through the repression of social democratic excesses but just as much by positively advancing the well-being of the workers." Subsequently a law on health insurance for workers was passed in Germany in 1883, providing for the introduction of national compulsory insurance for most manual and white-collar workers, and a law on Old Age Insurance for Workers, Journeymen and Apprentices was passed in 1889.

It was an idea whose time had come, and not just a clever political manoeuvre by a conservative statesman to outwit his political opponents. The formula spread fast across geographical and ideological borders.

In 1885 Norway had passed a decree on coverage of work accidents and a state pool of money was created to assist the sick and to provide for funeral benefits. Ebbe Hertzberg, professor of state economics, used the term 'welfare state' for the first time in 1884. Denmark passed an old age pensions law in 1891 and Sweden developed the first universal national pension scheme shortly afterwards. In Latin America, Argentina, Chile and Uruguay established welfare systems in the early 1920s. In the United States, faced with the dramatic impoverishment brought by the 'Great Depression' of 1929, President Franklin Roosevelt set up a Committee on Economic Security and signed its recommendations into the Social Security Act of 1935. When it came into force in 1940, after a further deep recession in 1937, more than half of the country's workers were covered for benefits.

The notion of universal social services and state-guaranteed protection against social risks achieved unparalleled consensus among workers and their unions, employers, politicians from left to right and religious leaders. Even private insurance companies supported it, since they could not profitably insure the poor or the workers against the multiple risks they faced. In 1948 the "right to social security" and to an "adequate" standard of living were included in the Universal Declaration of Human Rights (Articles 22 and 25); these same rights were subsequently enshrined in other key UN instruments.

The rights to social security and an adequate standard of living

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

Source: United Nations.

The International Labour Organization (ILO) defines social security as being "a set of institutions, measures, rights, obligations and transfers whose primary goal is to guarantee access to health and social services; and to provide income security to help to cope with important risks of life (inter alia, loss of income due to invalidity, old age or unemployment) and prevent or alleviate poverty."

In each country, the social protection thus described is a certain mix of two opposite modalities. The first links the benefits received by individuals to the contributions they have made, so that their lifelong savings generate a return in the form of individual risk insurance or a pension scheme based on individual capitalization. The second modality is based on collective solidarity and social justice. This is the case of universal social services or social assistance, where individual contributions in the form of taxes have no direct relation with the benefits received and, in fact, most of the beneficiaries are persons living in poverty who have therefore contributed less. Universal services and social assistance are distribution mechanisms that channel resources from those who have more to those who need more. The use of progressive taxes, whether the income tax or inheritance and capital gain taxes, has been an essential component of community-wide redistributive policies.

The analysis of the experience of developed countries usually groups them in three broad categories:

- The 'liberal' or 'residual' model (so called because the state only intervenes as a last resort) of the United States and the United Kingdom, with the lowest taxpayer contributions, but comparatively higher levels of poverty.
- The 'corporatist' model of Germany, Austria and – originally – most of the Catholic world, with emphasis on social cohesion, three-party agreements between workers, employers and the state, and benefits deriving from carefully regulated programmes corresponding to different activity sectors (therefore called 'corporatist').
- The 'Nordic' or 'social democratic' model, originated in Scandinavia, based on solidarity, universal services and social rights to which each citizen is entitled as such, and not as a member of a particular group.

After the Second World War social security expenditure grew rapidly in all three groups of industrialized countries and reached at least 10% of GDP in most member countries of the Organisation for Economic Co-operation and Development (OECD), even surpassing 20% in some of them.[1]

In developing countries the situation is rather different. Most low-income countries commit less than 5% of GDP in total to public social services and benefits, and some of them less than 1% or 2% of GDP. In Kenya and Zambia the total allocation is barely 0.3%. Thus, while France's per capita income is 30 times greater than Zambia's, per capita public expenditure in Zambia is below USD 5 a year, **a thousand times less** than in France.

Typically, social security in developing countries is limited to the 'modern' sector of the economy and to urban formal sector workers, thus excluding the rural population and the informal sector, i.e. the majority of the population. Traditional and informal arrangements of social protection consequently play a vital role. However, on the one hand, families and communities are affected by the same risks as individuals – for instance, in cases of prolonged drought, conflict or pandemics like HIV/AIDS – and thus they cannot supply insurance and socioeconomic protection when it is most needed. On the other hand, traditional forms of family and communal arrangements are disappearing as a consequence of socioeconomic changes and increasing urbanization. With no other form of social organization replacing the old one, women are additionally burdened with expanded responsibilities.

Publicly provided social protection policies are a natural solution. The state can provide the appropriate incentives and exert the necessary pressure for the provision of public goods and, moreover, the state has the legal obligation of protecting and promoting social, economic and political rights. Financial limitations may make this task quite difficult. However, the state does not have to rely solely on income transfers and traditional forms of social security. Policies that promote livelihoods and reinforce informal systems of social protection are equally fundamental in the establishment of efficient forms of social security in developing countries.

The question then is how much the state is willing to intervene in order to provide social protection to vulnerable members of society. Most developing countries have established some form of distributional systems over time, governed by an array of fiscal policies.

1 Townsend, P. (2007). "The right to social security and national development: Lessons from OECD experience for low-income countries". Issues in Social Protection, Discussion Paper 18, January. Geneva: ILO.

However, beginning in the mid-1970s, social expenditure in developing countries came under attack by the structural adjustment policies promoted by the World Bank and the International Monetary Fund (IMF). Social security was portrayed as an enemy of growth, foreign investment and entrepreneurship. As a result, benefits were reduced, pension systems were privatized, and subsidies that functioned as redistribution mechanisms – particularly in rural areas not reached by conventional social security or state-provided essential services– were dismantled. This Report presents numerous examples of these phenomena.

In a recent ILO discussion paper,[2] Peter Townsend, professor of International Social Policy at the London School of Economics, wrote that "the alleged incompatibility between social expenditure and economic growth is not congruent with experience. The influential idea of the last 30 years (…) that high investment in public social services and social security deters growth, and that economic growth alone will automatically lead to a reduction in poverty, has not attracted convincing supporting research evidence. There is more support for the alternative idea, that high public social expenditure has positive effects on growth."

Similarly, research on India undertaken by Patricia Justino for the Poverty Research Unit at the University of Sussex[3] reveals that "expenditure on social services can have a positive effect on both the reduction of poverty and the economic growth of a poor economy. (…) These results question thus previous understandings that social security/protection policies may pose unsustainable financial burdens on poor economies. In the case of India, expenditure on social services has not only contributed towards the decrease of poverty but has also created important conditions for the promotion of economic growth."

Nevertheless, dramatic changes in the governance structure of social security, including total or partial privatization and a reduction of its benefits, have taken place over the last two decades in many developing and transition countries, as the present Social Watch Report demonstrates.

The debate around social security took place worldwide, yet a study by Carlos Ochando Claramunt from the Department of Applied Economics of the University of Valencia (Spain) finds that "so far no [Western] European country has dismantled the welfare state in the search for new ways to fund and manage it with more equity and efficiency."[4]

Analyzing the introduction of public-private partnerships and market-oriented management in the Spanish health system, the study concludes that "it has not been demonstrated so far, either theoretically or empirically, that the introduction of new management systems has improved the efficiency of health services."

The determination of which rights are guaranteed, and to what extent, implies a major debate in each society to determine which risks become a collective responsibility and for which public goods the state is responsible, independently of their provision by public or private institutions.

The provision of services by the state and their funding by the people via taxes are the basic elements in the relationship between a government and its citizens. A broad base of taxpayers supporting universal public services has been found to correlate very highly with functioning democracies, reduced inequalities and poverty eradication.[5] On the other hand, the inverse is also true, and regimes that are authoritarian, non-accountable and prone to corruption are more likely to be found in countries with limited public services and a narrow taxpayer base (when government income derives from other sources, like extractive industries or even aid inflows, for which recipient governments are accountable to donors, but not to their citizens).

It is not by coincidence that the dramatic downsizing of social security benefits has been difficult or impossible in countries with working democracies. In the case of Uruguay, for example, World Bank-induced reforms were defeated in referendums and only watered-down versions of the new model were eventually introduced. This helps explain Uruguay's present status as the country with the lowest levels of poverty and inequality in Latin America – the most inegalitarian region in the world.

By the end of the 20th century there was overwhelming evidence that several decades of development policies oriented almost exclusively to economic growth had not reduced the gap between poor and rich countries, while the process of trade liberalization and financial deregulation known as 'globalization' was actually increasing the inequalities between and within countries.

2 *Ibid.*

3 Justino, P. (2003). "Social security in developing countries: Myth or necessity? Evidence from India". PRUS Working paper No. 20, September. Sussex: University of Sussex.

4 Ochando Claramunt, C. (2005). "Estado del bienestar: Retos y opciones de Reforma", in QPE-Revista Electrónica, Departamento de Economía Aplicada, Universidad de Valencia, No. 9, Enero-Abril.

5 GOVNET (DAC Network on Governance) (2007). "Taxation and Governance". Version 1.2, August (draft).

The hopes for a 'peace dividend' after the end of the Cold War did not materialize, and in a series of world conferences the UN articulated a new social agenda. Gender equality and poverty eradication were set as goals for the international community in 1995 by the Beijing Conference on Women and the Social Summit in Copenhagen. In 2000 the Millennium Summit defined a time-bound set of measurable objectives for essential social services and poverty eradication, known as the Millennium Development Goals (MDGs).

Those goals targets express a commitment by poor and rich governments to attain a minimum level of provision of social services that would make "dignity for all" possible. Yet they are usually not formulated in terms of the rights or entitlements of workers or persons living in poverty.[6] In an attempt to revert the decline of aid flows, emphasis was placed on the achievement of immediately visible results and efficiency in the delivery of services and assistance to the "poorest of the poor."

'Targeted' policies directed to those most in need should allow for a progressive distribution of resources and concentrate efforts and public monies, domestic or internationally provided, on depressed geographic areas or specific groups of persons living in poverty.[7] Beneficiaries of social services who are not in those categories should largely self-finance their social services by paying for them or through individual insurance.

Targeting is essential in emergency situations, and in many cases assistance to the poor can rightly be conceived as an emergency situation. But the UN Economic Commission for Latin America and the Caribbean (ECLAC) argues that prolonged focalization as the predominant or even only social policy strengthens the dependency of beneficiaries on state aid. It creates a 'poverty trap' that erodes the motivation to work or build one's own capacities.[8] It also stimulates political clientelism or corruption and erodes the democratic principle of developing the capacities of citizens to become autonomous actors in society.

Services for the poor end up being poor services, as famously stated by Nobel Prize winner Amartya Sen. Universal service provision has in-built mechanisms through which the demands for quality made by middle-class taxpayers 'pull up' the poor. It also establishes a correlation between social protection and social inclusion, since in order to sustain high quality universal social protection policies, governments must promote employment to receive the taxes and social security contributions derived from it.

Yet it is not enough to simply say that developing countries should follow the same path of redistribution and social protection taken by the now-wealthy industrialized countries a century ago. Bismarck did not even think of capital flight, because capital could not move and he could protect his country's industrialization with tariffs. In the present globalized world, the domestic mobilization of resources for social policies requires an enabling international environment that stops the 'race to the bottom' of reducing taxes and social security contributions from transnational corporations in order to attract investments. Tax havens and offshore banking facilities that stimulate tax evasion and promote corruption must be curbed, and the volatility of financial markets – which forces poor countries to freeze enormous sums as reserves, instead of investing them in infrastructure or human capital – must be controlled. Moreover, international aid must be provided, as requested by the Universal Declaration of Human Rights, and this must be done in a predictable way that creates an entitlement, as opposed to repeating on an international scale the same poverty trap and clientelism of domestic focalized assistance.

The findings by citizens' organizations from around the world published in this Social Watch Report 2007 provide ample direct evidence of how the human right to social security is violated every day, as well as valuable suggestions on how to make it a reality.

A new social pact is badly needed at the national and global levels to balance individual rights and social rights, both of which are universally recognized, and to balance global rules and disciplines with the national 'policy space' in which democratic debate shapes each country's own priorities.

An absolute majority of humanity lives in poverty or is too young or too old or sick or disabled or a member of the 'wrong' gender identity or ethnic or cultural group and suffers a denial of universally acknowledged rights in a moment of history where wealth and knowledge have never been so abundant. Thus, the question is not whether social security is possible under globalization, but rather if global civilized existence is at all possible without implementing the universal human right to social security.

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6 Except, of course, the work of the UN High Commission on Human Rights around economic, social and cultural rights, of UNIFEM on women's rights and of the ILO on the right to social security, among other noteworthy exceptions that still have not been 'mainstreamed' by the UN system.

7 Mkandawire, T. (2007). "Targeting and Universalism in Poverty Reduction", in Ocampo, J.A., Jomo, K.S. and Khan, S. (eds.), *Policy Matters*. Penang/London: Third World Network and Zed in association with the United Nations.

8 Economic Commission for Latin America and the Caribbean (ECLAC) (2006). "La protección social de cara al futuro: Acceso, financiamiento y solidaridad". LC/G.2294(SES.31/3)/E, Febrero.