

4.3 Section 2: International trends and existing Social Security in South Africa

To what extent is there an international convergence of social security reform, and what are its implications for South Africa?

4.3.1 Western Europe

In many Western European countries, welfare systems are undergoing significant change. Three causes of the “welfare crisis” are often identified.

- The first is that welfare states stifle the market and erodes the incentive to work.
- The second is the demographic challenge in that long-term effects of ageing are undermining inter-generational based solidarity systems.
- The third is that the global economy punishes high government social expenditure and uncompetitive economies.

The Committee’s analysis of some Western European social security systems indicates that perceptions of a “welfare crisis” appear somewhat exaggerated.¹ Indeed most of the problems facing welfare states are exogenous—essentially driven by increasing costs due to badly performing economic policies and labour markets that produce an overload on existing social programmes. The social security system’s internal workings cannot respond to the new risks and needs of the socio-economic order, however, the causes of the crisis are endogenous. Additionally, important aspects of the reform debate may reflect an ideological shift or approach to the concept of social security -- for example, the need to create a private market in social services in place of a state function.

4.3.2 The United States

In the United States (US), the main focus in recent times has been to promote “back to work” schemes, through a combination of incentives and disincentives. However, inequality and polarisation have risen even with increased levels of job creation. While the incomes of 80 per cent of working families have stagnated, incomes for the top 20 per cent have risen sharply.² Under the competitive pressures of the global economy, employers increasingly seek to lower their fixed labour costs and thus exclude many categories of workers (mainly non-unionised, atypical and women) from social security benefits. Hence the US has a very large proportion of its population without health care, for example. Social polarisation and exclusion is extensive, and hence, contrary to popular perceptions, rates of social mobility in the US are also low.

4.3.3 South East Asia

In the “emerging” economies of South East Asia, the competitive wage cost advantage is evaporating (due to competition from even cheaper economies), forcing these countries to push towards new social programmes. Further the recent global economic crisis, which centred on South East Asia, has led to rapid job losses and expanding unemployment.³ This has motivated the

development of unemployment insurance in these countries that, until recently, had achieved close to full-employment.

4.3.4 Developing countries

In developing country contexts, such as Latin America and Africa, the problem is usually poverty, chronic inequality and exclusion because of the informal sector, and the extent of “atypical” employment (as it is understood in Europe) that comprise up to 50 per cent of all jobs.⁴ The majority of the population often stands outside formal systems of social security, being engaged in rural and self-employment. Therefore the European social security focus on the risk of formal sector job loss is generally less relevant here.

The implication of the above analysis is that there is no uniform system that is generally applicable across countries. Rather one can infer that a country’s social security system needs to address its own particular set of risks and challenges in a manner that best reflects its societal values and resource base.

4.3.5 South African context

In looking at international reforms, the Committee has considered the pressures that primarily motivate the reform dynamic. In the context of globalisation, there is increasing pressure to promote social security markets in healthcare, retirement, education, welfare and livelihood services. This pressure is premised on the understanding that private markets are able to achieve better efficiency gains than the public sector. The Committee’s research indicates that such markets are driven more by the need to create profit opportunities for global and domestic capital rather than to address underlying social needs. As a principally people-centred set of concerns motivates South Africa’s need for social security reform, any conflicting market-centred motivations need to be made explicit, supported by rational and valid argument. This is appropriately incorporated in a manner that supports the fundamental social objectives.

Referring to the “mischievous euphemisms” behind which reform has taken place, Standing notes that:

There has been ‘deregulation’ that has involved many new regulations, and there have been ‘safety nets’ without safety, as millions more people are pushed into poverty and as inequalities have grown.⁵

Underlying the mischievous euphemism of “social safety nets” are three principal changes. These he identifies as:

- Increased *selectivity* of state transfers
- *Multi-tourism* in modes of provision of social protection
- Partial *privatisation of social policy*.

Developing social security systems in a globalising era characterised by insecurity has led to significant debates on what type of approach or mix of interventions can best respond to the continuing crises of livelihoods and human security. ‘Third Way’ supporters such as Giddens⁶ are eloquent on the need for social democrats to find ways to deal with risks that welfare states are no longer able to address. Giddens refers to “technological change, social exclusion or the accelerating proportion of one-parent households” but says little about the increasing risks encountered in the labour market.¹ Standing² gives an indication of the need for coping mechanisms to be developed to respond to insecurity.

Labour security, previously the basis of welfare policy, has given way to insecurity along the following axes:

- **Labour market insecurity** has grown almost globally, with much higher unemployment, slower rates of employment growth (except in the US) and higher “labour slack”.
- **Employment insecurity** is high and rising, with growing proportions of those in the labour force having insecure employment statuses and more workers lacking employment protection.
- **Work insecurity** has become greater, due to more people being in work statuses without coverage by protective institutions and regulations.
- **Job insecurity** has worsened, with more workers having to switch jobs and learn new **ways** of working.
- **Skill reproduction insecurity** is considerable, in part because skills become obsolescent more quickly and because few workers are receiving career skills.
- **Income insecurity** is greater for those in employment, due to flexible wages and so on, and for those outside employment, due to explicit disentanglement to benefits.
- **Representation insecurity** is growing due to de-unionisation, erosion of “tripartite” institutions and the changing character of collective bargaining.

International experiences also reflect two trends that are central to the South African discussion. These concern the merits of a social security strategy focused on the unemployed, and the usefulness or otherwise of “workfare”.

4.3.5.1 Focus primary social security interventions on formally unemployed?

With wages being the key source of income, there is clearly a need for a range of national policies to focus on increasing employment and reducing unemployment. In terms of social protection, however, there is a need to consider the *condition* of being unemployed within the overall context of poverty and social exclusion.

Social security in industrialised countries largely developed around formal sector unemployment. These countries traditionally saw unemployment as their big problem, and therefore focused on “contingency risk” involved in the loss of that employment. However, mass unemployment and long-term unemployment lasting for a year or more is returning to these countries. At the same time, more flexible and informal labour markets mean that full-time, regular and stable wage labour is no longer the overwhelming norm.

Therefore the concept of social security, as focused on the formal sector unemployed, is increasingly challenged. For this reason the Committee has had to consider whether, in this context, social security reforms should primarily focus on the unemployed. Is the person in chronic “under-employment” not just as “deserving” of income security? Why provide income support to someone with zero hours of work last week, and not to someone who did a few (two) hours?

In developing countries, where stable full-time waged formal sector labour was never the norm, it is increasingly unlikely that it will become the norm. Moreover unlike industrialised countries, large proportions of the formally employed are in poverty and are categorised as the “working poor”. In the context of a labour surplus economy, more and more people are being pushed into the informal economy. The Committee’s research into unemployment trends and workerless households reveals that those involved in informal work or in the “informal sector” also tend to fall into the category of the working poor.

In short, there is a growing need for a platform of general social protection that supports both the unemployed and the working poor.

In many countries the mix of social protection (SP) interventions have suffered several generic pitfalls:

Common pitfalls for countries' mix of SP interventions

- Trying to cure the ills caused by poor policy choices more generally (for example inappropriate macro structural policies).
- Lack of co-ordination of the many diverse policies, programs, and actors involved in SP interventions.
- Having so many interventions that few have adequate resources to operate efficiently, much less to accomplish their objectives.
- Missing the possible synergies and complementarities between programs (which leads to duplication or to missed economies of scale).
- Expanding the intervention's coverage or benefit level without dealing with the design or implementation issues that would make the interventions more effective.
- Focusing on the groups for which there is popular support but only a moderate correlation with poverty—for example, in some countries formal sector pensions may not reach the poor.
- Concentrating attention on the formal sector when poverty is largely in the informal sector; or on urban occupations when poverty is largely linked to agricultural activities or residence in rural areas.
- Failing to reach groups that may be highly correlated with poverty but outside the reach of traditional mechanisms or sympathies—for example refugees, internally displaced persons, and ethnic minorities.
- Not taking into account long run impact when designing initial interventions.

(Source: World Bank)⁷

4.3.6 Workfare?

Workfare originated in the US. Its philosophical underpinning is the ancient conservative distinction between the “deserving” and the “undeserving” poor. Its theoretical underpinning derives primarily from the orthodox economic perspective that attributes unemployment largely to the behaviour and expectations of workers. In a sense, the new orthodox economics regards unemployment as largely “voluntary”, due to behavioural and institutional rigidities.

Therefore one response to the persistence of high unemployment and the perceived behavioural rigidity has been to move social protection towards more active or regulatory systems. This typically links entitlement to benefits and the obligation to take a low-paying job or labour market training place.

The overall economic context in which workfare emerged in the US was the attempt to keep unemployment to a minimum (to maximise employment) by allowing wages at the bottom end of

the labour market to be set at market-clearing levels. These lower-end wages did decline, resulting in household incomes for the bottom 20 per cent falling from \$10 000 in 1977 to \$8 800 in 1999.⁸

A focal point of workfare activism in the US was against a piece of legislation called Aid to Families with Dependent Children. Known popularly as “Mother’s Pensions”, it originated in the period 1911-1920 as a form of social protection “for ‘worthy’, Protestant, white widows”. Increasingly claimed by African-Americans and other minorities such as the divorced; the separated; the deserted; and increasingly, the never married; the numbers on welfare rolls grew between the late 1950s until the early 1980s from two million to about 13 million.⁹

Allegedly due to the rising cost of the programme, conservatives began to advocate a variety of measures such as “... work requirements for all able-bodied parents over age 21, and adoption for children whose parents are unable to provide support through work, family or private charity ...” The real issue, research has shown, was not the increasing cost (which was actually relatively small) but that “welfare” has operated as a code-word for tensions over race, gender and ethnicity, focused overwhelmingly on young African-American women, allegedly breeding a criminal “underclass”.¹⁰

The result of workfare is that while welfare rolls have declined, it has resulted in little sustainable job creation. Analysis of the low-wage labour market into which nearly all of the workers from these families have been diverted reflects an abundance of part-time, temporary, contract or contingent work with no benefits, and for which there is often quite stiff competition. Despite the rising prosperity brought about by sustained economic growth, the proportion of the population below the poverty line continued to rise -- from 11,8 per cent in 1997 to 12,8 per cent in 1998. Of the 34 million poor, some 13,8 million survived on incomes less than one-half of the poverty line.¹¹

Despite this background, there have been suggestions that workfare is a viable concept for developing countries. However, workfare policies require the existence of jobs. In a context of structural unemployment, as is the case in South Africa, such policies are unlikely to have any positive impacts. Further the workfare experience in the US has shown itself to be very administrative-intensive and expensive system, with little sustainable job creation.

Apart from these more technical drawbacks, in the South African context a workfare scheme, generated on notion of a “undeserving poor”, or past apartheid State’s manipulations of the labour market, may counteract the democratic State’s efforts to rid society of its race-coded prejudices.