

STRUCTURAL MUTATIONS INTERVENED IN THE SOCIAL INSURANCE SYSTEMS

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Social insurance doesn't stand much chance of survival to the wave of globalization. Principles, such as inter- and intragenerational solidarity or the redistribution of the national wealth are gradually replaced by completely different or even opposite ones, such as individualism and capitalism, which are closer to the mercantile spirit of the globalization movement. The principle of solidarity is dangerous to the promoters of globalization because it creates a sense of unity and empathy between people and this diminishes the effect of the "divide et impera" policy which needs to be applied even on the individual level. Actually we are witnessing a process of atomization of the society by the autization of the individuals. We can say that one of the tendencies of today's world manifesting itself in a striking manner in the social domain is represented by the convergence of social systems towards the North-Western social model which, in the absence of a credible alternative, expands rapidly to a planetary level.

social insurance, globalization, pensions

Introduction

The social domain doesn't stand a chance to the wave of globalization, its economic component having probably the greatest influence on the changes in the social policies of the states in the recent years. Social principles, such as generational solidarity and the redistribution of the national wealth were replaced in the last two decades by others which are totally different, for example individualism and saving, and these are closer to the mercantile spirit of the globalization movement. The main financial institutions leading this process, The World Bank and the IMF (International Monetary Fund), realized that the social sector, which handles an important part of the wealth of a country, can become a suitable domain to the involvement of the private capital in the purpose of gaining significant profit. On the other hand we also have to take into consideration the fact that imposing the laws of private economic competition in a sector which may represent the largest function of the nation-state at this moment, namely the protection of the citizens against some social risks, led to the considerable reduction of the role of the state.

We can say that one of the tendencies of today's world manifesting itself in a striking manner in the social domain is represented by the convergence of the social systems to the North-Western social model which, in the absence of a credible alternative, expands rapidly to a planetary level. It hasn't been implanted in all the regions of the planet yet because the local societies of some geographical regions are not "modern" enough to implant it. But when we talk about the modernization of regions like this, about rising their level of civilization, their living standards and the quality of the lives of their population, we take into consideration their advancement within the framework of the coordinates of the neo-liberal model⁹⁵. From this point of view the globalization consists of the "export" of this model from the "central" states to the ones on the outskirts, as well as the "import" of the model and eventually its adoption, implantation and adaptation to the local requirements⁹⁶.

1. The controversies of the involvement of the private sector in social insurance

The debates connected to the degree of involvement of the private sector in financing and handling the social services began when the first forms of social insurance appeared because this is, in fact, the main difference between the models of insurance: the degree of involvement from the state in protecting its own citizens and the social risks that the private firms should cover. This balance changed in time depending on several economic, social and especially political factors because the social insurance systems are organized in most states by central public institutions. If at the beginning of the operation of the systems the targeted

⁹⁵ Roth, A., *Modernity and social modernization*, Polirom Publishing House, Iaşi, 2002, p. 64.

⁹⁶ Maliţa, M., *Ten thousand cultures, a single civilization. Towards the geomodernity of the 21st century*, Nemira Publishing House, Bucureşti, 1998, p. 20.

risks were few and the degree of the population coverage was not important, involving only certain social categories, with the development of the society the complexity of social needs increased considerably because the state tried to protect the citizen during his whole life and the services were extended practically to the level of all social categories. This development of the social insurance systems led to the increase of financial resources handled by these systems and also to a growth in the interest of private investors in taking over the handling of some of their components.

The involvement of the private capital in the social sector is not based on social reasons, its purpose is, like in any investment, the profit. This is an almost certain profit because the targeted problems (health, old age) affect every inhabitant of the planet, no matter their living standards or geographical region, so they become certain customers of the offered services. The private capital undoubtedly produces an evolution in the quality of “the social products” because the competition between the supplying firms is beneficial and they have to innovate and develop continuously the offer they promote. In this way innovations appear in medicine, new treatment methods and medicine for diseases which were previously untreatable are discovered, the private hospitals provide better conditions for treatment and recovery, in the domain of pensions a better income is promised at an old age and the concept so dear to the western society of individual property over the contributions to the private system is promoted (unlike the public one where the funds were distributed on the level of the whole society). All these aspects may seem as a positive evolution of the human civilization and up to a point they are. But the problem that such an evolution implies is that it eliminates exactly the notion “social” from the system, the beneficiaries of all these innovations are only those who can afford to pay the asked price and those with a difficult financial situation and in the biggest need of this type of services are left out of the system.

The more and more significant intrusion of the private capital in the domain of social insurance in the recent years is due to the phenomenon of economic globalization, to the increase of the role of transnational firms to manage financial flood on the world market and their need to identify new directions of investing the enormous capital they hold. The clear intention of acquiring the social domain is illustrated by Bill Gates’ statements at the beginning of 2007 in which he says that “the private money is going to make the policy of the industrialized states more effective in the direction of assistance for development” and there is a need for “the planning of charitable actions according to strict managerial criteria”. It is to be seen how the economic efficiency can be applied in the social domain in which we do not deal with merchandise or production units any more but with people and their needs which have to be met because some of them are elementary and not artificially created.

One of the effects of the increased involvement of the private capital is the diminished importance of the public institutions in managing some social aspects, the role of the state becoming a residual one, of solving the problems of the lower stratum of the population which doesn’t have enough income to be able to contribute to the privately managed funds and to be attractive to the private firms. The exclusion of this population category (which in some cases adds up to a considerable percentage) is realized by imposing some minimal limits to the contribution to the private pension funds or determining prices for the medical services which are inaccessible to this category. So the efficiency of the private system is not so much due to the efficient methods used but more to the fact that the system doesn’t take over the population percentage with difficult financial situation and it doesn’t make transfers between population categories, from those with higher income and financial capability to those with very low income or without any income because this would reduce a part of the benefits enjoyed by the former and also the efficiency of the system.

The privatization of social services also has an important political consequence: it reduces the dependence of the population on national governments. One of the most attractive features of public social systems, as far as full coverage within the pension systems is concerned, is the dependence of the majority of the population on the system. Thus those who politically control the system can manipulate the electorate to reelect them by promising the elderly a stable annual income which could increase the value of the pensions. But as in the case of economic monopoly, the phrase according to which “competition destroys power” is valid also in the public sector.⁹⁷

The decentralization of the system by privatization leads to the existence of more systems which are in competition, to different products and policies which determine the redistribution of the power centres

⁹⁷ Biedenkopf, K., *The Privatization of Social Security*, in *The Geneva Papers on Risk and Insurance*, vol. 24 nr. 3 (July 1999).

within the social security systems. The effect is the substantial reduction of the state monopoly and its power and the appearance of new players on the market of social services (the transnational firms), some of them even more powerful than the state. The positive results should be felt at the moment of the payment of the social benefits where the efficiency of the private capital constitutes a premise for the superior results than with the public methods. But this efficiency comes from the elimination of the unpredictable and unquantifiable factors which can affect the operation of financial transactions so that the mechanism can work without obstructions. And one of these factors is the social, human factor. The results achieved by the private pension systems (if they prove to be viable) will be beneficial only to those with high income during their active life, while the taxpayers who paid less, because of different objective or subjective reasons, will have a less quiet old age. The private capital will try to take over everything that can become a source of income, that can be exploited from the social sector leaving the latter the residual role of managing the difficult, unprofitable situations which consume financial and human resources.

2. The multipillar model of pensions proposed by the World Bank

The most important change in the social insurance systems in the last decades occurred in the domain of pensions and it was the implementation in the whole world, in a relatively short period of time (approximately 20 years), of the multipillar model of pensions proposed by the World Bank.

Starting from a series of punctual data referring to the evolution of some pension systems in certain countries of the planet and from some estimates referring to the aging of the world's population in the period between 1990 and 2030, in 1994 the experts of the World Bank made up and published a report entitled "The prevention of the crisis of the third age" by which they wanted to draw attention to the potential danger represented by maintaining the existing systems and the necessity of the introduction of the privately administered component within these. Thus the World Bank proposed a system in which the function of the redistribution of the pension systems would be separated from the function of saving and more than that, the latter would pass over from the public administration to the private one. In other words this work was going to become the textbook with the promotion, the acquisition, the implementation and the usage instructions of a product which was presented as an aid to the social services but which had nothing to do with this domain.

The main causes⁹⁸ which (in the opinion of the WB experts) determined the reorientation in the conception of the social security system models in the case of the elderly were the following:

- the ageing of the population;
- the resources saved by the publicly administered funds are often wasted because of the bad management;
- governmental pensions are rarely increased in the rhythm of the inflation so the workers are poorly protected at an old age;
- due to the wide diffusion of medical knowledge and the decline of fertility, the developing countries age much faster than the industrialized countries did, so they will have old demographical profiles reported to the levels of individual income which is much lower than those in the developed countries;
- the demand for health services grows as the countries (nations) get older because the health problems and the expensive medical technologies appear within the ranks of the elderly. As the expenses on the health and the pensions grow together, they both burden the resources of a country and the governments' budgets can exponentially grow with the ageing of the population;
- the high taxes distort the labour markets and reduce the economic growth;
- the governmental expenses which are raised with the social security of the elderly reduce the resources given to other public goods and services;

⁹⁸ *Averting the Old Age Crisis*, A World Bank Policy Research Report, Oxford University Press, 1994

- in developed countries the workers who retired in the first 30 years of the existence of the public system were given important transfers, while those who will retire in the future will get less than they would get from other investments and they will get back less than they gave;

The key recommendation of the report is that a national social security programme of the elderly should focus on all the three functions of the system, namely the functions of saving, redistribution and insurance, but with a very different role of the government for each of them:

- *the saving* implies the uniformity of the income during a person's life: people postpone a part of their consumption when they are young and their income is higher to be able to consume more than they could afford with their reduced income when they are old;
- *the redistribution* implies the movement of a lifelong income from one person to the other, maybe because if the workers with low income saved enough money to afford to live normally when they are old, it would mean for them to live as poor people when they are young;
- *the insurance* implies protection against the possibility that recession or badly made investments could cancel the savings, that the inflation could erode the real value, that people could live more than they saved for or that the public programme could fail;

The report recommends the separation of the function of saving from the function of redistribution within a system and their placement in different financial and administrative arrangements, in two different obligatory components—a publicly administrated and tax financed one and another which is entirely financed and administrated by the private sector—supplemented with an optional component for those who want more. Thus the new model based on three pillars was built, with the following features:

A) the public component -compulsory- would have the limited task of diminishing the poverty of the elderly and of coinsuring against a multitude of risks. Supported by the power of taxation of the government, this has the only ability to grant services to those who get old a short time after the introduction of the plan, to redistribute the income to the poor and to coinsure against long periods of obtaining small profits from the investments made, the recession, the inflation and the fall of private markets.

The public component could assume three alternative forms in the opinion of the WB experts: a) a part of a functional income programme for the poor of all ages with criteria of eligibility which should take into consideration the diminished working ability of the elderly and with levels of services which should take into consideration the typical needs of this age; b) it could grant a minimal pension which is guaranteed by a compulsory component of saving; c) it could supply a uniform universal service or one connected to the employment of the labour force which could affect a larger group of people.

Whichever the chosen variant would be, the WB states that it should be of a modest size to leave place to the other components (the private ones) and to avoid the problems usually associated with the public administration of national supplying funds. A clear and limited objective for the public component would substantially reduce the rate of contribution to the system and the fraud, as well as the pressures to overspend and intra- and intergenerational transfers.

B) the second component, also compulsory, should be *managed on private bases* and there are two alternative forms for this: *personal savings* or *occupational plans*. The explanation for the necessity of the presence of the private management in this component lies in the fact that the majority of the publicly supplied and managed schemes would produce poor results as public funds usually have to invest in governmental guarantees or the bonds of the quasi-governmental entities which frequently have levels of interest under the markets'. Because of this, public funds would produce less than on the open market and they would have to collect higher rates of contribution or grant lower services than they could do in other cases. On the opposite side would be the private schemes managed on principles of competition which are rarely in the situation of accepting reduced profit, under the level of the market. These are stimulated to invest in shares and bonds which offer less risky combinations and they can take advantage of the possibilities offered by international diversification and the competence in administration. Beside the higher profit brought to the taxpayers, the privately managed compulsory pension schemes can offer a series of advantages to the whole economy. They can constitute a part of a national policy of creating new financial institutions and intensifying the capital markets by the mobilization of economies on a long run

and their distribution to more productive ways of usage. For these reasons the WB report firmly recommends the private management of the compulsorily supplied component.

C) the third component could be represented by *the optional occupational plans* or *the personal savings* which could supply an additional protection to those who want higher income for when they are old.

3. Critical thoughts about the WB model

Although it was mentioned that a good combination of the components is not identical in every moment and every place, the WB recommendation is that “all the countries should start planning the reforms now” (the call was made in 1994). This planning must take into consideration the objectives of the country, its history and current conditions and most of all the importance given to the redistribution opposed to the economy, the financial markets and the regulatory and taxation capacity. When giving all these pieces of advice and recommendations *the WB takes no account of the possibility that some countries may not need such a model of pensions* and it states that this model has to be imposed on a world level, the necessary type of reform and the rhythm of introduction will vary from fast in the countries with high and medium income whose systems have serious problems to slow in countries with low income which should avoid making the same mistakes.

The social insurance systems are disintegrated and threatened with privatization, the pensions, the health and education are on their way to be transformed into merchandise. We consider that the model of pensions based on three pillars proposed and spread by the WB and which is seen as a product of the neo-liberal economic model is the best example to support this statement.

Firstly it is a “custom-made” luxury product for the world market in limited number (for the countries that implemented it or they are going to implement it in the following years). Like any luxury product, it has a high price, both on the financial and socio-economic level. In order to be able to purchase it, a government needs to bear a considerable sum which cannot be paid in one instalment so it needs to identify supplementary sources of income. The handiest and fastest of these is the international loan which is generously offered by the producer of the good, namely the World Bank.

Whether the countries need this product or not is not important because usually the luxury products are not strictly necessary, the need for their demand and consumption is artificially created, not pre-existing. The same phenomenon occurred in our case. *Starting from the 90s the bigger or smaller national governments were “convinced” that they needed this kind of model.* The reports of international financial institutions, the IMF experts and the WB “demonstrated” that the world was going through a severe demographical crisis and even if it wasn’t, this crisis would occur in the following 50 years and the governments were not ready to solve the socio-economic problems that would arise from it. The saving solution is “the acquisition” of the WB model which can be applied, with some modifications, to any social structure. The problem is that, once purchased, the product will start to show the first results only in 20-30 years without a guarantee that the expected results will be achieved and the economic, social and demographic situation predicted in the present will show the expected trend. But this aspect is less important because in case of a malfunction, there is a clause in “the selling contract” which states that the one who will bear the expenses of repair is the buyer (the national government).

Another problem raised by the promotion and spreading of this product is that, although it appeared as a “necessity” of the present difficult situation, it doesn’t solve in any way the present problems of the redistributive pension systems. Actually by promising welfare to those who will retire in 20-30 years, the implementation of the model financially burdens even more the systems which already face difficulties in balancing the financial resources of the budgets of the public social insurance. The persons who are pensioners today and those who will fall in this social category in the next 20-30 years will entirely stay in the state’s care, which, beside the huge costs of implementing the new model, will be forced to identify supplementary resources to grant at least satisfactory social services.

An aspect that we consider important to approach is that of *the marketing and advertisement that this product had.* Tested in the South-American laboratories, its successes were not as resounding as they were presented. The well-known and promoted Chilean model represented a relatively singular success in that part of the world as the other South-American countries which accepted the model obtained results much below the expectations or even disastrous ones and they had to reconsider a new system of social security. In these cases the responsible were identified within the given state and the national institutions and the persons who implemented the model were accused of lack of professionalism and corruption. Although

these factors may have caused the failure, *the reality proved that the WB model cannot work unless elementary conditions of the existence of a viable market economy are met, with a powerful and transparently controlled capital market.* Without local experts in the given domain and with consultants of international financial institutions who were not familiar with the economic, social and political facts in the given countries, the model was implemented with the same proportions even when the existing conditions were different. This situation may be compared with the acquisition of a TGV (a train of great speed) by a country with a railway infrastructure which is technologically exceeded (for example Romania). Nobody can deny how useful that means of transport would be and how many benefits it would offer to the passengers. But the TGV cannot run yet because the infrastructure existing at the moment of its acquisition doesn't allow it to do that. This aspect is not an inconvenience: the important thing is that it has to be purchased and there is plenty of time to build the necessary infrastructure until the fairly high price for this technological innovation is paid. Yet there are three problems: firstly the TGV doesn't have 3rd class seats and the people belonging to this category can travel by it only if someone (maybe the state) provides them, by different means, the necessary resources to purchase the travel fares for the superior classes; secondly if the infrastructure is not well built there is a chance that the train derails when it starts to gain speed and thirdly there is a chance that after 20-30 years from the acquisition, due to the evolution of the technology, the buying government will realize that the newly built infrastructure doesn't meet the demands of the society at the moment when it is put to use. In the case of the WB the risk doesn't come from the development of the economy but from its involution, because the possibility that a major crisis appears on the financial markets of the world in the next years is growing.

The model was accepted in Europe probably because of the pressures of the financial institutions and due to the need of making homogenous the multitude of social security systems which were extremely heterogenous within the European Union. Its successes were not resounding and the model underwent some significant changes, a series of concessions were made especially as far as the importance and the proportions of the public pillar was concerned. Unlike the developing countries which had a less evolved social security system, the European countries had more powerful and traditional social models and the experts in this domain did not accept the implantation of the WB model without a fight. This explains that, with a few exceptions, the introduction of the new model was realized but the importance of the public pillar was maintained and the role of the state remained much more significant than the WB would have expected. But this is just a temporary compromise, the direction of evolution has already been indicated: *we are heading toward a privatization of the social services and especially of the pension systems.*

Conclusions

It is to be seen how beneficial the replacement of the public systems with private ones will be in the next 20-30 years but we can already ask a question: what will happen if the private management of the social domain will fail in the countries which are implementing this component now? The guarantees offered by the state do not cover even the nominal value of the sums transferred by the population and there are no sanctions or payment obligations for the managing firms in these situations. This private construction is built on a less safe ground which is periodically shattered by powerful earthquakes (financial crises) and these can considerably affect the value of social services and the very existence of the system. There are not very many solutions to prevent such situations but we think that the internal legislations should force the private firms to guarantee for the managed sums (at least in the case of those obligatorily collected) at the value of the deposits, actualized with the percentages of the inflation, because these are not speculative investements that a person risks in order to obtain a large profit but the resources which will assure his living standards in the last period of his life.

The principle of solidarity which is at the base of social insurance is dangerous for the promoters of globalization because it creates a sense of unity and empathy between the people and that can lead at a given time to a sense of aversion, of rejection in a nation or a significant geographical region (for example Europe) towards some necessary elements of the process of globalization. *This aspect may lead to the diminution of the effect of the "divide et impera" policy which is promoted under the mask of global unity and this division needs to be applied even on the individual level via state-nation-society.* **Practically we witness a process of atomization of the society by the social autization of the individuals,** in other words their detachment from the problems of society and the inoculation of the concept of inequity of the solidarity and redistribution as modalities of solving these problems.

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