Chapter 3
Approach to a Comprehensive Social Security Provisioning

3.1 Introduction

The two-fold nature of the South African economy means that a comprehensive social security system has to deal with two different sets of needs. The first relates to the needs of the poor, excluded largely from the productive capacity and rewards of the formal economy. The second relates to the security needs of the informally employed. Without some protection against the contingencies of death, disability, ill-health and retirement, even the comparatively wealthy beneficiaries of the formal economy can be reduced to destitution. The brief of the Committee covers both areas.

Tackling poverty and deprivation, and its effects, is thus a critical challenge facing South Africa. The Reconstruction and Development Programme (RDP) states that:

> *No political democracy can survive and flourish if the mass of our people remains in poverty, without land, without tangible prospects for a better life. Attacking poverty and deprivation must therefore be the first priority of our democratic Government.*

This challenge, in its general sense, is of course not a new one, having been with South Africa throughout its past. However, the coming into being of a democratic dispensation in 1994, followed by a new Constitution (with a Bill of Socio-economic Rights) in 1996, has presented the nation with a unique opportunity to find a path away from this legacy.

The task of addressing, in the final instance, the reality of poverty and deprivation is generally regarded as a central feature of a country's social security system. In South Africa, however, up to 60 per cent of the poor are not getting any social security transfers at all. Further, the current social security system, principally for reasons of inherited design, is archaic, lacks integration, and has many gaps.

Economic globalisation is posing further challenges through changing labour markets and technological challenges. These changes are displacing full-time regular employment and changing the nature of work. Most new jobs being created are in the "informal sector", or of a part-time, casual, temporary, or home-based nature. There is thus a growing army of unemployed, underemployed and working poor subsisting alongside an increasingly threatened permanent workforce. The socio-economic challenge facing South Africa is made more ominous by the danger that the dynamics of globalisation may further fasten (at least in the short to medium term) onto these existing relations of vulnerability and exploitation, and exert pressure to intensify them. The consequences would be growing poverty, inequality, social polarisation, job insecurity, and crime – and a fraying social fabric.

With this scenario in mind, the 1998 Presidential Job Summit – comprising Government, labour, business, and community – agreed to "implement an effective comprehensive social security system, aimed especially at those living in poverty and the unemployed". This agreement aligns well with

the needs articulated in the *White Paper for Social Welfare* (1997) and the South African Constitution's Bill of Rights (especially S27 (1)(c)).

In short, South Africa faces two sets of imperatives. The first is the constitutional and democratic imperative, centred on a human rights approach. The Constitution gives socio-economic rights exactly the same status as civil and political rights. In particular, the following aspects are relevant:

- Ensure promotion of values of dignity, equality and freedom
- Build participation and voice of the excluded
- Support citizenship claims through equality of administrative justice, access to information, application procedures, adjudication of rights, monitoring of compliance and non-compliance.

The second is the socio-economic imperative, encapsulated in the RDP, to fundamentally improve the living standards of all people in the country. The socio-economic imperative stresses the following:

- Reduction in poverty, deprivation and social inequality
- Increased access to adequate basic services
- Create an environment for sustainable social and economic advancement of all people, and especially the poor and unemployed.

Both these sets of imperatives are inter-related and mutually reinforcing. The Constitutional Court, in the matter of *The Government of the Republic of South Africa et al* v. *Grootboom et al*, stated:

> *There can be no doubt that human dignity, freedom and equality, the foundational values of our society, are denied to those who have no food, clothing or shelter. Affording socio-economic rights to all people therefore enables them to enjoy the other rights enshrined in [the Constitution].*[7]

Thus there is a clear need to develop a new, comprehensive social security system that supports the achievement of socio-economic rights, and in so doing the overriding values of South African society. In this regard, this chapter of the Committee's report begins to outline the conceptual framework for such a system.

In developing a conceptual framework for South Africa, the Committee considered, amongst other things, the question of whether there is an international convergence of social security reform, and the potential implications of such for South Africa.

3.2 International trends in social security provisioning

The term "social security" has, internationally, attracted a wide range of meanings, and needs to be clarified at this point. In developed countries, where the term first originated, social security refers mainly to the following:

- ***Social assistance*** –This refers to state provided basic minimum protection to relieve poverty, essentially subject to qualifying criteria on a non-contributory basis.
- ***Social insurance*** – This refers to a mandatory contributory system of one kind or another, or regulated private sector provision, concerned with the spreading of income over the life cycle or the pooling of risks.

Social security, as defined by its European origins, developed as a complement to the formal employment relationship.

3.2.1 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 erode 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. 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. Where 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 desire to create a private market in social services in place of a state function.

3.2.2 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. 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 healthcare, for example. Social polarisation and exclusion is extensive.

3.2.3 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. This has motivated the development of unemployment insurance in these countries that, until recently, had achieved close to full employment.

3.2.4 Developing countries

In developing country contexts, such as Latin America and Africa, the problem is usually poverty, chronic inequality and exclusion from 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. 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.

Further, the contributory-social insurance bias inherent in unemployment benefit schemes will have limited effect in the context of high and persistent levels of unemployment and growing informal work. In such an environment, there would be little possibility of insuring oneself against the "contingency risk" of unemployment – rather the entire environment would be one of uncertainty, in which insurance would be impossible. Further, attempts to get the all of the working poor and socially excluded to contribute to such systems invariably fall short.

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.

3.3 Implications for 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 in such markets the tendency is to create profits rather than 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, and evaluated against their ability to support 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.*[8]

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

- Increased *selectivity* of state transfers
- *Multi-tierism* 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 Giddens[9] 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. Standing 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 disentitlement 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".

3.3.1 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

Common pitfalls for countries' mix of SP interventions

In many countries the mix of social protection (SP) interventions have suffered several generic pitfalls. The World Bank has highlighted the following pitfalls[10]

- 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.

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.

3.3.2 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.

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 2 million to about 13 million.

Allegedly due to the rising cost of the programme, conservatives began to advocate a variety of measures such as "... work