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# **Globalisation: The Eight Crises of Social Protection**

**By**

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### 1. Introduction

Like size, definitions matter. Around the world, there is widespread unease about the growth of social and economic insecurity and inequality. Whatever the causes, people look to systems of social protection to overcome the worst effects, whether the system is the informal network of family relationships or a complex web of state policies. They look to institutions to enhance the security of themselves and their families and communities. But in thinking about globalisation and changes in socio-economic inequality, we need to be clear about changing patterns of social protection, social security and socio-economic security.

*Social security* is best defined as a combination of social insurance and social assistance ('state charity'), the system by which state transfers are provided, usually but not always in cash form, supposedly related to specific *contingency risks*, such as sickness, invalidity, old age, unemployment and motherhood. Defining what is a risk, and specifying which risks should be covered and which not, are among the difficulties of social security.

*Social protection* covers not just state-based schemes of income transfers, based on social insurance or means-testing or other conditionality tests, or universal or citizenship rights, but also social *services*, community initiatives, private commercial or voluntary schemes, and self-help arrangements, such as "friendly societies". If social security is about "social risk management by or for the individual", then social protection, which includes social security, may be said to be also about "protection of the social" – civility, fraternity, and social solidarity.

*Socio-economic security* is broader still. It is also about "economic protection of the social" – embedding the economy in society through structures of systems of regulation, protection and distribution that limit social and economic insecurity, reduce inequalities and provide patterns of opportunity. It is this concept that we are trying to develop in the ILO, and to which we will return at the end of this paper.

The paper is an attempt to put the development of social protection policy in the context of recent economic and political changes, arguing that they have induced eight crises in social protection, which can only be resolved by a profound but eminently feasible change in direction.

### 2. Two Questions and A Vision

Let us start with two fundamental questions, to keep at the back of our minds. What sort of society would we want to leave for our children or for your children,

behind a veil of ignorance? What is it that should be equalized in the Good Society of the 21<sup>st</sup> century? Too rarely do we take the time to ask these familiar, grand questions. It seems singularly appropriate at this time to pose them afresh. As far as the second question is concerned, I merely note at this stage that adherents of all theories of distributive justice believe in the equality of something.

As a way of giving a partial answer to both questions, let me give a vision of a 21<sup>st</sup> century Good Society. It is one in which we celebrate a diversity of lifestyles, in which a growing majority of people work primarily on their enthusiasms. More and more people are able to pursue their own sense of *occupation* – combining their competencies as they see fit, varying their work status, and possessing the means by which to act responsibly towards their family, neighbours and wider community. They live in an environment in which individual action and reflection is backed by collective agency, in what we might call **collective, or cooperative, individualism**. This is a vision of the Good Society based on real freedom, and based on equal basic security, or what might be called **complex egalitarianism**.

A difficulty is that the way social security and social protection systems have been evolving around the world is not compatible with anything close to this vision. Before considering this proposition, let us highlight the most relevant stylized facts on the emerging economic system and patterns of distribution associated with it.

### 3. Ironies of Globalisation

We are in the midst of a transition era. Drawing on the pioneering framework that one can derive from Karl Polanyi (and with indecent brevity), we may argue that each socio-economic structure relies on three systems to *embed* the economy in society. It depends on a **regulatory system**, consisting of a mix of statutory (legal), market and voice regulations of certain types; a **social protection system**, consisting of state and other policies and institutions to moderate personal, social and economic insecurities to prevent the threat of social and political instability, to facilitate opportunities for some groups, to underpin some risks and to exclude some groups from protection; and a **redistributive system**, consisting of mechanisms to reduce economic and status-based inequalities to tolerable levels.

An era of stability is when these systems are compatible with the underlying economic and technological system. As argued elsewhere, much of the 20<sup>th</sup> century was dominated by competition between two development models intended to promote labour-based security – *state socialism* and *welfare state capitalism*.<sup>1</sup> For a few decades, these had some success on their own terms, but in the last two decades of the century broke down and gave way to the era of market regulation and the Washington Consensus. This ushered in the era of globalisation.

There is no need here to reiterate what has been covered by the Washington Consensus, or repeat critiques of all that. It will suffice for our purposes to highlight a

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<sup>1</sup> G.Standing, Global Labour Flexibility: Seeking Distributive Justice (Harmondsworth, Macmillan, 1999).

number of ironies of globalisation, in order to set the context for considering the emerging crises of social protection around the world. Globalisation essentially means the increasing integration of the world economy based on open economies. Yet the discourse has thrown up some ironies that should not be underestimated. Consider a few of them, by no means all of them.

First, some countries have actually been *de-globalised* by globalisation, in that they have been forced back, typically having their export sectors decimated by competitive pressures and their 'state' enfeebled. Others have been made far more unstable – huge influxes of essentially short-term capital suddenly flowing out to leave an economic meltdown. In this, even so-called 'well managed' economies have been hit by instability as well as 'poorly managed' economies. The result is that masses of people have been pushed into collective misery and insecurity, as in east Asia in 1998.

Second, capital mobility has risen in absolute terms and relative to labour mobility. This – and the growth of technology mobility – is one of the big differences between the era of globalisation and the period before 1914, with which it is often compared. Paradoxically, while barriers to capital mobility have been dismantled with impressive zeal, barriers to labour mobility have typically gone up. The rights of capital have been strengthened relative to the rights of labour. These trends have contributed to the more unequal functional income distribution. And, by strengthening the bargaining position of firms, they have helped induce concessions by workers and their representatives, so as to make the *social income* distribution more unequal – thereby increasing the *need* for compensatory social protection.<sup>2</sup>

Third, the greater inequality due to the growing relative strength of capital perversely has encouraged fiscal policy to become more regressive, and therefore less capable of being the first line in giving social protection. The effective tax of capital has declined, and on foreign financial investment has virtually disappeared; since 1984, when the USA did so, more than 100 countries have abolished withholding tax on foreign financial investment income. Tax havens of various kinds have spread almost farcically. As tax on capital has declined, so the tax on labour has risen (along with taxes on consumption), partly to compensate and partly because a declining proportion of people are in jobs covered by tax and social security contributions.

Fourth, to make fiscal policy even more regressive, while subsidies on wage goods consumed largely by low-income groups have been cut on the grounds that they are "market distortions", subsidies for capital (including so-called employment subsidies) have multiplied on the grounds that there must be "incentives" and that mobile capital must be attracted and retained in the country concerned. Subsidy competition has yet to receive the attention it deserves.

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<sup>2</sup> Incidentally, one irony of current debates on social protection is that while analysts focus on the level of spending and refer to fiscal constraints and 'affordability', most take no account of the causes of the inequality that produces the increased *need* for social protection. This is a false way of considering the strategic options.

Fifth, while those who set themselves up as spokespersons for globalisation refer approvingly to the benefits of more choices available, politicians and many commentators claim governments have less choice of policy options. They claim policies must be ‘harmonised’ in order to avoid the risk of loss of ‘competitiveness’.

Sixth, there is evidence that the growing inequality associated with globalisation has actually been leading governments to make social policies less redistributive or more regressive. This probably has something to do with voting pressures of middle-income and upper-income groups, and the erosion of a sense of social solidarity.

Seventh, the model is meant to be one contributing to export-led economic growth, which traditionally means shifting more workers into formal “proletarianised” wage labour. Yet perversely, there has been a global informalisation of economic activity. The old assumption that underpinned the Lewis model, by which gradually those outside the regular wage labour force would be absorbed into it, has apparently gone into reverse. Not only has the informal economy grown because the absorptive capacity of sectors employing regular labour has lagged the growth of labour supply but the so-called formal enterprises have been informalising, in that there has been a global shift to more flexible labour practices, including greater use of sub-contracting, contract labour, casualisation and other forms of “numerical flexibility”.

Eighth, whereas the Washington Consensus included the objectives of shrinking the state and decentralizing state functions, on the grounds that this increased transparency, accountability and democracy, in practice what has been happening is what could be called *decentration* – an erosion of the centre. This is happening at all levels. Families are more likely to undergo serial deconstruction, forming, breaking up, reforming. Enterprises are tending to hollow out, contracting out their employment function and leaving tiny headquarters. Governments are trying to decentralize responsibilities, but are caught by a process by which more control is shifting to supra-national bodies. And shifting to more decentralized structures has meant giving enhanced powers to local elites and actually making many policies more *discretionary*.

Ninth, although the rhetoric of the era has emphasized the notion of *deregulation*, it has actually been an era of *re-regulation*. There has been a shift from protective, statutory regulations, many being pro-collective, to promotional and directive regulations that are pro-individualistic and often anti-collective (as in controlling bargaining or organizational rights of trade unions). Perhaps the biggest trend of all in the longer term has been the extension of *fiscal regulation*, or the *fiscalisation of social policy*, by which governments have deliberately set out to steer social behaviour by adjusting fiscal policies.

In sum, these ironies pose several contextual challenges for social protection policies, and condition the options that should be considered.

#### 4. Restructuring Social Income<sup>3</sup>

Social protection is fundamentally about providing income security. For this, obviously, we need a reasonable idea of what counts as income, as well as what counts as security. Accordingly, we should think in terms of what we might call *social income*. In any society, every individual has some source of income, or dies. The total may be inadequate or grotesquely large. There are various sources, and the composition determines not just the level but also the overall security of income.<sup>4</sup>

Basically, any individual in any society has up to five sources of income, which together constitute the person's social income. This may be defined as follows:

$$SI = W + CB + EB + SB + PB$$

where SI is the individual's total social income, W is the money wage or income received from work, CB is the value of benefits or support provided by the family, kin or the local community, EB is the amount of benefits provided by the enterprise in which the person might be working, SB is the value of state benefits provided, in terms of insurance benefits or other transfers, including subsidies paid to workers or through firms to them, and PB is private income benefits, gained through investment, including private social protection.

We can disaggregate the elements as follows:

$$SI = (W_b + W_f) + (FT + LT) + (NWB + IB) + (C + IS + D) + PB$$

where  $W_b$  is the base or fixed wage,  $W_f$  is the flexible part of the wage (bonuses, etc.), FT are family transfers, LT are local community transfers, including any income from charity, non-governmental organisations, etc., NWB are non-wage benefits provided by firms to their workers, IB are contingency, insurance-type benefits provided by firms to their workers, C are universal state benefits (citizenship rights), IS are insurance-based income transfers from the state in case of contingency needs, and D are discretionary, means-tested transfers from the state.<sup>5</sup>

We do not have data on the distribution of social income, or of the weights of the several components. However, based on anecdotal and scattered data, we can guesstimate the modal patterns in the regions of the world during the era of statutory regulation (i.e.,

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<sup>3</sup> This section may be skipped, after the first few paragraphs.

<sup>4</sup> Of course, some groups receive less *income* than they *earn*, not because of taxes but because intermediaries control access and deduct some of it, so concealing their true poverty. Women, in particular, are often impoverished in this manner. If you wished to increase their income security, a primary objective should be to break the control mechanisms. Distinctions between gross and net incomes are as relevant for workers as for businesses, yet rarely do income statistics or labour market analyses take that into account.

<sup>5</sup> A source of income not highlighted in this decomposition is income from the sale of goods and services. These are included in W, and effectively in the flexible part of W.

before the era of market regulation or globalisation). In a stylised way, we guesstimate that *relative to other regions and as a proportion of total personal income*, in the post-1945 era the average values of the components of the social income, as expressed in the first identity, were as in Table 1.

For example, in western Europe, for the average person the share of total social income accounted for by the money wage was about average for the world, whereas the share coming from state benefits was high by world standards and the *share* coming in the form of informal transfers from the local community was low. In eastern Europe, the money wage was a small part of social income, while enterprise benefits comprised a very high share. In east Asia, money wages were not only low in absolute terms but were a small share of social income, while community transfers comprised a high share – wage workers were subsidised by their predominantly rural kinship communities.

Table 1: Relative Structures of Social Income in Era of Statutory Regulation, by Region

	W	EB	SB	PB	CB
Africa	Medium	Low	Low	Low	High
Western Europe	Medium	Medium	High	Medium	Low
Eastern Europe	Low	High	Low	Low	Low
North America	Medium	Medium	Low	High	Low
Latin America	Medium	Low	Low	Medium	Medium
South Asia	Low	Medium	Low	Low	Medium
South-East Asia	Low	Medium	Low	Low	High

When commentators stated that “labour is not a commodity” and referred to “de-commodification” in the middle decades of the 20<sup>th</sup> century, they meant that a growing proportion of social income was coming from non-wage, non-monetary elements. By contrast, although one would have to document it, it is not too fanciful to depict recent trends as increasing “labour re-commodification”, since for many groups there has been a shift away from non-wage, non-monetary forms of social income to money wages.

Perhaps the most important ways have been the erosion in informal social support systems, particularly in developing and ‘transition’ countries, and removal or loss of entitlement to enterprise and state benefits. But there are other ways too, often harder to evaluate. Suppose, to give an illustrative example, a man was receiving \$100 as a wage, and had a long-term secure employment contract, guaranteed healthcare, subsidised canteen food and membership of a group pension scheme. The total value might be \$200. How do we measure the value to the worker of the employment guarantee? One imagines many people would be prepared to sacrifice, say, 10% of their income to retain such a guarantee. If an employer takes the guarantee away and gives the worker a 10% pay rise, our statistics would show income rising by 10%, which is misleading because all that has happened is that the structure of social income has changed. Although we do not have good data to demonstrate it, something like this seems to have been happening all over

the world – except that for many there has been no compensation for loss of security, or the hope that they could obtain it has diminished.

Another example is where there is a shift from SB to PB, or a shift to IB in which workers have to pay a higher share of the costs to secure the benefit. In such cases, not only would workers find that the structure of their social income had changed, but lower-wage workers would probably suffer disproportionately, which would widen the functional income distribution and inter-group income differentials among workers. The extra cost for the worker might account for proportionately more of the social income of relatively low-paid, insecure workers, and the actual cost might be higher as well.

In short, we may hypothesise that under the impact of economic liberalisation and “globalisation”, the structure of social income has been changing. Overall, one may hypothesise that the median changes taking place in the designated regions are as in Table 2, where a plus sign implies a rise in the *relative* contribution to individual income, a minus sign implies the opposite. Where both a plus and a minus sign are given, one surmises that part of the growth of income differentiation is due to a shift in one direction for some groups and in the opposite for others.

Table 2 suggests that in most parts of the world there has been a shift to money wages and a shrinkage in the share provided by state benefits and services. Perhaps most significantly – and this is a guesstimate rather than a statement based on substantial statistical information – there is increasing reliance on private provision (personal investment and saving) and community support (voluntary provision), or an increased need for those sources to fill voids opened by diminishing public provision. This does not mean that the need will be met.

Table 2: Trends in Components of Social Income since 1970s, by Region

	W	EB	SB	PB	CB
Africa	-/+	-/+	-	0	0
Western Europe	+/-	+/-	-	+	+
Eastern Europe	+	-	+/-	+	+
North America	+/-	+/-	-	+	+
Latin America	+	+	-	+	+
South Asia	0	?	-	+?	0
South-East Asia	+	+	0	+	-

This perspective should help to clarify what the restructuring of social protection implies, and why institutional changes in the composition of social income must be taken into account in assessing inequality and socio-economic insecurity. However, the disaggregation of Table 2 is not as revealing as when we consider what has been happening to the sub-components of social income and to distinctive socio-economic



groups. Before considering this, we need to have an image of the new global stratification that has been taking place internationally.

## 5. The New Global Stratification

It is of limited use to consider social protection and socio-economic security as if there were no social groups or 'classes'. Conventional labour statistics are not very helpful. For instance, there are no peasants in international statistics. And we have no information on classifications based on the range of income sources and controls by which patterns of economic security or insecurity are reproduced or undermined.<sup>6</sup>

For our purposes, it may be useful to consider the following image of social fragmentation taking place internationally. The point of any such exercise is to identify groups that have distinctive sets of entitlements and patterns of social protection and security, and that as a result are likely to have a particular attitude to various forms of social protection.

A feature of the stratification is that growing numbers of people are detaching themselves or being detached from mainstream national regulatory and protective systems. It is presented in descending order based on average social income.

\* **The elite.** At the zenith of the globalising economy is an *elite*, consisting of a tiny minority of absurdly rich and high-earning people, whose impact on social and economic policies and political developments is out of all proportion to their number. Some of these individuals have long since reached the stage of seeing their incomes rising almost exponentially. They are global citizens. With their billions or many millions of dollars, the most relevant points are that they are detached from national regulatory and social security systems, neither needing nor contributing to them, either psychologically -- not feeling committed to their maintenance or improvement -- or politically. The elite has very strong income security, and whatever they need of other forms of security. Their biggest danger is hubris, and being caught in criminality. Their winner-takes-all existence sets patterns of social risk and sickness.

\* **Proficians.** These are the new craftsmen of the global flexible economy. As the name implies, they are a mix of professional and technician, mostly working as consultants or in short-term employment contracts. They operate in a climate of insecurity, but are well compensated for this. Perhaps their main form of insecurity is work insecurity, epitomised by the frenzied pace of their erratic work schedules, stress and burn-out. They are often able to evade or avoid taxation, and are at least partially detached from state-based social protection systems.

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<sup>6</sup> We should note the recent revision in 'occupational classes' for UK statistics. This is undoubtedly an improvement, although it does not cover the issues raised in this and related papers. For a theoretical approach, see G. Standing, "Modes of control and insecurity: An approach to 'decent work'", SES Paper (Geneva, ILO, 2001).

\* **The salariat.** This consists of salaried employees, including those working in civil services, large corporations, para-statal and other bureaucracies. They have a high degree of labour security, but probably suffer from some job and skill reproduction insecurity because they may be moved around and/or gain promotion in their enterprises by leaving technical skills behind them. Because of their reasonably high incomes and a tendency to identify with managements, employers and the elite and proficient strata, members of the salariat typically feel detached from the state social protection system, seeing their future and income security in terms mainly of private insurance benefits and earnings from judicious investment.

\* **Core workers.** These are the bulwark of what those of us with long memories used to call the working class. Welfare states were created to serve the needs of core workers, those in full-time, regular, typically unionised jobs, usually with manual skills. In the post-1945 era of statutory regulation, it was implicitly presumed in industrialized countries that these workers represented the norm and that a majority of workers in all countries would eventually belong to this stratum. The larger the proportion of people belonging to it, the more people would be in a position to support and benefit from the mainstream, insurance-based social protection system and the mainstream regulatory system.

The trouble is that although the legitimacy of a redistributive welfare state depended on core workers, they never comprised a majority of the workforce in most countries and since the 1970s have been shrinking almost everywhere. This is not just a reflection of “de-industrialisation”, and the dispersion of manufacturing wage labour around the world. It is also because of various forms of labour market flexibility. Core workers traditionally benefited from most forms of labour security, but with the growth of wage system flexibility a growing proportion of their income has come in insecure forms. They also suffer from increasing job insecurity and employment insecurity, while their unions have been weakened almost everywhere. Above all, with core workers dwindling in numbers and not expected to grow, their agenda has lacked *legitimacy*.

\* **Flexiworkers.** These comprise a disparate group in non-regular work statuses, including casual workers, outworkers, contract labour, agency workers and domestic workers. Their common characteristic is labour insecurity in most respects. In the era of statutory regulation and welfare state capitalism it was presumed these “informal” forms of employment would decline as economies developed. More recently, they have appeared to be the future. Not only have the number of people trapped in petty activities in rural and peri-urban areas grown, but flexible labour processes have boosted other forms. Among the associated trends, growing proportions of labour forces have lacked entitlement to statutory protection and have been disintegrated to social transfers.

\* **The unemployed.** The number has risen extraordinarily in the era of market regulation. They suffer from labour market insecurity, given higher unemployment, and from greater income insecurity than in the past, because the level of benefits has been cut, duration of entitlement has been shortened, and conditions for entitlement have been tightened.

\* **The detached.** This is a growing minority of the population in many countries, cut off from mainstream state benefits, lingering in poverty, anomic and threatening those above them in the income spectrum simply because others fear falling into their ranks. In recent years, politicians have been inclined to treat these, many of whom are victims of economic liberalisation, as in need of “re-integration”. They linger in the streets, in bus and train stations, in city parks. They make those above them in the social order feel uncomfortable or smug, depending on where they fit. The detached represent fear. And it is fear that induces concessions from the near poor – the ultimate tool of inequality.

If one divides societies (and the international economy) into these seven fragments, one sees that the top three strata are increasingly detaching themselves from state-based social protection, while the bottom three are increasingly being detached by explicit and implicit disentanglement to its benefits and services. Although one may choose a different way of stratification, the analytical device may also help us to picture the growing inequality of social income and deterioration of economic security.

Table 3 is an interpretation of what anecdotal evidence and reports suggest are the sources of income received by the separate strata, or the sources on which each group relies for survival. The asterisks indicate the main sources of income for the higher-income strata; the blanks imply that the source is not applicable, or that no guess on aggregate trend seems reasonable. The table’s final row indicates what seems to have been the global trend for the source of income specified by the column. Thus, the base wage has tended to decline as a part of social income, the flexible part of the wage has been rising, income from private savings and investment has been rising sharply, and so on. The +/- sign means the source has risen for higher-income groups, fallen for others.

Table 3: Sources of Social Income, by Socio-Economic Status

Sources Stratum	W <sub>b</sub>	W <sub>f</sub>	FT	LT	NWB	IB	C	Is	D	PB/K
Elite										***
Proficians		*				+	+			*
Salariat	*	+			*	*	+	+		+
Core	+	+			+	+	+	+		
Flexiworkers		+	+	+			+	(+)		
Unemployed			+	+			+	(+)	+	
Detached				+			+		+	
Global trend	-	+		+	+/-	+/-	-	-	+	*

Table 4 complements Table 3, in that it indicates how the seven strata experience various forms of security. Thus, for example, proficians have high levels of income security and skill reproduction security, being in control of their own activities, but have no employment or job security. Core workers have some employment security (although diminishing), relatively high work security and reasonable entitlement to enterprise and other benefits.

Table 4: Forms of Labour Security, by Socio-Economic Status

Stratum	Security	Labour market	Employment	Job	Work	Skill Reprod.	Income	Benefits	Representation
Elite		+	+	+	+	+	+	+	0
Proficians		(+)	-	-	-	+	+	0	-
Salariat		+	+	(+)	+	(+)	+	+	0
Core		0	(+)	0	+	0	0	+	+
Flexiworkers		-	-	-	-	-	-	-	-
Unemployed		-	-	-	-	-	-	-	-
Detached		-	-	-	-	-	-	-	-

Note: +, above average; 0, average or not applicable; -, below average.

Although one may quibble with Tables 3 and 4, they suggest a way of interpreting what is happening to income and income security. The socio-economic fragmentation has produced a situation in which those in -- or identifying with -- the top three strata feel increasingly *detached* from the mainstream state social protection system. They are thus less inclined to defend its principles of social *solidarity*, while the bottom three strata feel deprived, detached by disinterest to the benefits long offered to core workers, to whose ranks they had aspired. To them, there is no solidarity on offer, and for them, to talk about social solidarity would sound like a sick joke. The pervasive detachment and lack of social solidarity have contributed to the loss of *legitimation* of the welfare state.

An image of fragmentation, coupled with a classification of informal activities and forms of flexibility outlined elsewhere, may be useful for assessing the relevance of policies to give social protection and security, and for assessing the limitations and apparent lack of general appeal of systems of social protection promoted in the 20<sup>th</sup> century.

## 6. The Eight Crises of Social Protection

The notion of crisis is overused, and one uses it in this paper with some unease. However, given the developments associated with globalisation – notably the privatization of economic activity, the privatization of social policy, informalisation, the spread of flexible labour practices and the new globalised socio-economic stratification – it is no exaggeration to describe the emerging tensions and dilemmas in social policy as crises.

In what follows, there is no implied order of significance, although some are clearly more fundamental than others. We might start with one that is worth highlighting simply because usually we either ignore it or take it for granted.

### (i) *A Linguistic Crisis*

In the 16<sup>th</sup> century, Francis Bacon recognized the tendency to mislead by the clever use of words, which he described as the *idols of the marketplace*. Social thinking

has always been afflicted by the misuse of words and phrases. But in recent years the situation in the sphere of social protection has become ridiculous. Increasingly, we see analysis by metaphors, and discussion of social protection has been blighted by a veritable babble of euphemisms.

Nobody trying to be influential can afford to neglect the fine art of buzzwords. The tendency of educated people to spend time concocting new acronyms has become a mild sickness. We have social scientists masquerading as consultants, and consultants posing as scientific searchers of truth. Images conveyed by simple terms are taken as reality, and words are increasingly loaded with ideological symbolism and political correctness.

It may seem innocuous. It surely is not. Why make such a fuss? The reason is that the terms we use help to shape the policy agenda. Take just two examples. Perhaps the most influential terms in the sphere of social protection in this era have been *the social safety net* and *active labour market policy*. In both cases, the images conveyed to the unwary are quite different from what they usually mean in reality. Who could possibly be against having a social safety net to catch all those poor victims falling off the globalising economy? The reality is that this is a disembedded notion that is actually about giving conditional crumbs of comfort for the poor. Instead of a safety net, which suggests something broad and comforting, what is meant is a highly targeted, selective scheme, usually based on means-testing. The notion of *targeting* may sound so sensible – directing scarce resources at the poorest of the poor – but in fact a vast amount of empirical evidence has shown that means-tested and other selective benefits rarely reach those most in need, due to low take-up rates, stigma, administrative inefficiencies, and so on. To advocate such schemes in low-income countries is worse than silly. Those who have done so either do not understand social policy or know very well that the administrative structures required do not exist.

The notion of *active labour market policy* is equally disingenuous. Who could possibly favour being passive if one could be active? The word ‘active’ seems virile and strong, whereas its opposite, ‘passive’, suggests laziness, and lack of initiative. In fact, usually active policy is little more than having the state telling people what they must do in order to receive some moderate state benefit, directing them to training or job schemes. By contrast, the much derided *passive* policy entails giving funds to individuals or families with minimal or no conditions, leaving them to make choices about how to conduct their lives and allocate their resources. It could, more fairly, be described as liberating.

There are many other terms used to convey impressions that are judgmental or unproven – such as “dependency”, “social exclusion” (linking implicitly with the apparent need to have the excluded being re-integrated via jobs), “employability”, the “deserving poor”, “crowding out”, “multi-pillar”. All are used to shape perceptions. It is perceptions that influence policymakers and inform the “focus groups” that increasingly determine policy.

In short, the linguistic crisis is real, and is not going to go away. One almost feels inclined to recommend that all undergraduates should have a course to prepare them for the wiles of the wordsmiths, some of whom will be their teachers.

(ii) *A Fiscal Crisis*

Much has been made of ‘the fiscal crisis of the welfare state’. There is no need to be dragged into a debate on whether or not it deserves to be called a *crisis* at all. But essentially because social security schemes were designed for industrial society based on regular full-time employment, in which contributions were balanced by outlays, they are put under fiscal strain in all societies that do not correspond to that model. The fiscal tensions have been created by labour market and economic trends and by the policy responses over the past two decades or so.

Essentially, the contributory basis of 20<sup>th</sup> century social insurance schemes has been eroded, and the prospects for the emergence of such a contributory basis in developing countries have faded into irrelevance. Almost everywhere, while contributions have tended to shrink, the demand for social protection has risen, and the need for it has risen even more. One reason is that more people have been in jobs earning less than enough to survive decently without benefits.<sup>7</sup> It has become a commonplace to refer to the extremely low “coverage” rates of social insurance systems, and numerous proposals have been made to achieve an “extension” of social security, although it is rarely clear what the extension would mean.

Although labour market changes and greater income inequality within countries have contributed to the shrinking coverage in industrialized countries, one factor in the general crisis has been the growing structural power of capital, associated with increased capital mobility. Big corporations perceive there is less need to compromise on social protection, so that they show less willingness to pay contributions to social solidaristic systems and less willingness to operate elaborate enterprise benefit schemes for lower-income workers.

In developing countries, another factor, which has received little attention, is the increased dependency on foreign aid and debt relief. Paradoxically, this could discourage national and multinational corporations from being prepared to contribute to the revenue required for adequate social protection.

Whatever the factors behind the shrinking revenue base, governments have responded by making their benefit systems increasingly selective (targeted). There has been a steady process of *explicit disentanglement* – with some groups finding they are not eligible for benefits or services – alongside a process of *implicit disentanglement* – caused by changes in the way labour relations are organized that have put more people in

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<sup>7</sup> For instance, for over thirty years the proportion of the Australian population relying on some state support rose steadily, even though the proportion in jobs also rose.

statuses that do not qualify them for state benefits.<sup>8</sup> In many cases, governments have lowered actual benefits – often urged by the IMF, OECD and other bodies to move to “reduced generosity” (as if the benefits were charity).

Because “social insurance” contributions have been shrinking (in relative terms, and often in absolute terms as well), the tax share of the revenue needed for social protection has been rising. This has tightened the fiscal screw, since governments have been driven to cut social budgets. This has encouraged them to tighten further the criteria used to determine who receives and who does not receive state benefits. All over the world, this has led to more conditionality and an extraordinary array of ingenious ways of deciding who should be excluded from entitlements – means-testing, asset-testing, behaviour-testing, categorical-testing, and so on. It has also contributed to the popularity of earned-income tax credits – so-called “in work benefits” – as a major means of social protection and incentive to economic activity.

Probably, many countries have managed to contain the fiscal pressures, although analysts are nervous about the effects of ageing, which is often described as “a time bomb”. In any case, those budgetary deficits do not induce the fear and panic that they did a few years ago. The trouble is that the ways in which the politicians and international bodies have modified the fiscal pressures have accentuated other crises.

### (iii) *A Legitimation Crisis*

The welfare states that developed in the middle decades of the 20<sup>th</sup> century were based on the notion of *social solidarity*, in which social insurance and other transfers were based, in theory, on a pooling of risks, so that the fortunate effectively subsidized the unfortunate, and so that consumption and incomes were smoothed over the life cycle. A presumption of the model, and its several variants, was that the working class accounted for the overwhelming majority of the population, or was expected to become a majority. The norm was the man, as ‘breadwinner’, in regular, full-time employment. And even when women became perceived more as part of the labour force, they were implicitly or explicitly expected to become regular, contributory workers.

For various reasons, the social solidarity basis of the welfare state has been eroded. The working class is no longer expected to be that majority – the *core* stratum has been shrinking in industrialised countries and is no longer expected to become the eventual majority in industrializing societies. In terms of the new global stratification, the three groups above the core have been detached by fortune, while the three groups below the core have been detached by misfortune. What this means is that at the upper end of the spectrum, more people feel they have little or nothing to gain from a system that pools risks, because they believe that either they have a much lower risk of being in need than those below them in the spectrum or that they can obtain more effective insurance cover from private sources.

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<sup>8</sup> One might also add a third form by which people have lost social protection, namely *bureaucratic disentitlement*, through over-zealous or self-motivated local or national officials increasing their ‘efficiency’.

These sentiments have been put into effect via political democracy, since changes in the relative numbers in the various strata and, more importantly, the financial power of the top strata have been able to persuade politicians to shift social protection systems away from a social solidarity structure. There is a literature that has postulated a *median voter model*, by which there is a tendency to vote for politicians and parties that promise systems and policies that benefit those with something close to the median income. A modification of this is that actually the median voter has an income above the median because the poor are least likely to vote.

One can stretch the model too far, and it has its critics. However, “middle-class capture” of the benefits of social security and other forms of state welfare has been well documented. This in itself has tended to erode the legitimacy of the social solidarity system, because those on the ideological right and left have been inclined to criticize it as being insufficiently “targeted” or “redistributive”, as the case may be.

The changing socio-economic stratification structure seems to lead to neglect of the interests of the bottom two social strata, in particular, and to neglect of the interests of any small group in need or any group that does not vote as a group. The elite, proficians and salariat also favour the privatization of social protection, where differential risks can be taken into account in determining contributory rates and where individual choice can be focused on the risks they face rather than those faced by the core or those in the strata below it. Of course, those linked to major pension funds or to healthcare corporations have promoted the privatization of social protection. Those funds are so powerful that they have set the tone of debate and have become enmeshed in the process of ‘conditionality’ for aid, foreign loans and capital flows. Pension funds in some countries have assets that are greater than the GNP of the country, and in others they are approaching that level.

Privatisation of social protection creates new mechanisms of inequality, accentuating the growth of “winners-take-all, losers-lose-all” markets and income patterns. It leads to worries about accountability and equity, with the exclusion of the relatively non-insurable and higher premia for high-risk people, such as those living in depressed regions or working in high-risk jobs. As the latter tend to be relatively low-income earners, the impact on social income inequality is also significant.

The outcome of a “social safety net” political agenda, coupled with partial privatization of pensions, healthcare, schooling and other social services, including employment and unemployment services, has been *multi-tierism*. Something like a “best practice” model, being sold to industrializing and transition countries, and elsewhere, is a minimal state base (means-tested), a privately funded second tier, a social insurance tier, an enterprise-based tier (occupational welfare), and a voluntary, private tier. Governments and international bodies are considering how each of these tiers could be regulated and how the middle tiers could be made mandatory for all or most workers. But in terms of legitimacy, any such system will imply that individuals will look primarily to one or some of the tiers but not all of them. In particular, the elite, proficians and salariat will favour the upper tiers and will be disinterested, if not hostile, to the means-tested



bottom tier benefits and services. Those are not for Us, they are for Them – and They should not be so lazy, or spendthrift, or negligent, or criminal. The trend to multi-tierism intensifies the legitimisation crisis by creating a series of zero-sum situations where one group's loss is perceived as another's gain, potentially if not actually.

There is one other source of legitimisation crisis that deserves more attention. To the extent there is a tendency for the World Bank, IMF and foreign aid donors to concentrate funds on targeted schemes intended for the poor, it could paradoxically result in a worsening of social protection because that could undermine any sense of social solidarity among the elites and middle class. In rationalising policies impeding the development of social solidarity, they can press for mechanisms that enable them to opt out of socially redistributive schemes. Ironically, if the progressive populist position was upheld – i.e., that there should be no conditionality at all in international aid – this tendency would be accentuated. An absence of any conditionality may not be neutral or one of non-interference. It is interference, because it helps to empower elites and the middle-class.

(iv) *A Moral Crisis*

The fiscal pressures that built up in the 1980s and 1990s, and the policy responses by governments, fed into what deserves to be called a *moral crisis*. This has crept up the agenda. Initially, encouraged by libertarians and the political 'right', a sentiment spread that state benefits encouraged behaviour and situations they were actually supposed to overcome, creating what have become known as *moral hazards* and *adverse selection*.

Some claims were fanciful and offensive, such as the assertion that teenagers were rushing to have babies so as to claim food stamps or child support. The selective schemes may to some minor extent have facilitated what was happening in any case – a decline in the conventional nuclear family. But the reforms that critics and defenders of state benefits were most inclined to adopt merely accentuated the moral criticisms, putting defenders of the labourist welfare state further on the defensive.

Contributing to the moral dilemmas were three claims, which Charles Murray characteristically described as 'laws' derived from his analysis of US experience from 1950 to 1980:

- *The Law of Imperfect Selection*. As any rule defining eligibility for a transfer irrationally excludes some people, policymakers broaden target populations;
- *The Law of Unintended Rewards*. Any transfer increases the value of being in the condition that prompted the transfer;
- *The Law of Net Harm*. The less likely the 'unwanted behaviour' will change voluntarily, the more likely a scheme to induce change will cause net harm.<sup>9</sup>

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<sup>9</sup> C. Murray, *Losing Ground: American Social Policy 1950-1980* (New York, Basic Books, 1984), pp.212-16.

Murray and his fellow libertarians wanted radical cuts in state benefits, and belong to a tradition of thinkers favouring insecurity. But the perspective highlights something lost on a generation that has championed *active policy*, which is that scarcely any policy is *passive* – they condition and regulate in some way or another.

The perceived moral crisis initially led in the direction favoured by those who worried about a fiscal crisis – to greater selectivity and conditionality based on moving in the direction of deciding who was *deserving* and who was *undeserving*.

Moral hazards may be cited as reasons for increased selectivity and conditionality, but other hazards are generated by the reactions. For instance, new conditions of entitlement create new hazards, as well as poverty traps, unemployment traps, and other behavioural traps. Suppose a policy is made more conditional by stipulating that benefits will only be paid to those who *lose* their job, not to those who quit a job, on the grounds that policy should not encourage “voluntary unemployment”. The condition will deter labour mobility, as well as encourage claimants to lie, scarcely the intention, but scarcely irrational in the circumstances.

Because of labour flexibility, because entry-level wages tend to be lower relative to average wages than used to be the case and because more people have to enter employment via part-time jobs, poverty traps and unemployment traps have proliferated. These encourage governments to cut benefits (“reduce the generosity”) and to tighten conditions for entitlement to them. In effect, they substitute regulatory controls for wage incentives at the margin.

Above all, the moral crisis in front of us is epitomized by the willingness for policymakers and commentators to divide potential recipients of social protection into three categories:

- (i) “*The deserving poor*”, to be offered a residual social safety net, through means-tested basic benefits (including basic first-tier pensions);
- (ii) “*The undeserving poor*”, offered the carrot and stick of ‘workfare’ and/or conditional low-level transfers;
- (iii) “*The transgressing poor*” (those who fail and are undeserving, but who are silly enough to break the rules as well, resorting to unsociable behaviour), offered the stern state prepared to uphold the law in keeping public order.

This is slightly more sophisticated than the 19<sup>th</sup> century dichotomy of the deserving and undeserving poor, but critics would feel that the modern tendency suffers from the same shortcomings as the old tendency. Categorising people in this way is arbitrary, unnecessarily judgmental and inequitable. Nevertheless, it has resulted in greater income insecurity for those on the margins of society.

The most striking outcome of the trichotomy is that those perceived as deserving are offered conditional assistance that smacks of charity, rather than a right, those who are undeserving are offered a route to social decency and social ‘inclusion’, and those who transgress are offered social ‘exclusion’ through prison, hard labour, stigmatization, summary justice, and even the prospect of social tagging.

The moral crisis reflects many years of steady reform. To some extent at least, one can trace the way the state abandoned the pretence of *social insurance*, or an income/need approach to social protection in liberal welfare states, as a “moving-the-goalposts” approach to social protection. No Minister of Labour or Social Affairs has been able to resist the temptation to change rules of entitlement. Thus, for instance, the age of retirement, or age for full pension, has been raised, the number of years of employment required for full pension has been raised, the duration of past employment for entitlement has been lengthened, registration procedures have been tightened, and willingness-to-move tests have been introduced. Dozens and dozens of new rules have been rationalized into existence.

The means-tested, asset-tested, behaviour-tested schemes breed moral dilemmas. The *moral hazards*, whereby it pays to stay in selective schemes because one is penalized by moving out of them, are compounded by the less mentioned *immoral hazards*, whereby unfair poverty traps means that it pays to be dishonest.

(v) *A Social Dumping Crisis*

With globalisation, there has been a tendency, whether justified or not, for policymakers to indulge in social policy competitiveness. Intent on attracting or retaining foreign capital, they are resorting to *social dumping*. There are reasons for dismissing wilder fancies such as “a race to the bottom”, because most interests recognize that if social protection, or labour standards, were dismantled, social cohesion and productivity would suffer. But competitive pressures are likely to lead to an international convergence around some hegemonic model, so that countries and communities with high shares of state benefits in social income are likely to cut back state benefits and the social protection share of national income.<sup>10</sup>

They will also shift the cost for social protection from capital to labour, which means raising the share of the costs borne by workers, through higher contribution rates, and ordinary taxpayers, rather than employers. For similar reasons, they will support partial privatization and greater selectivity of state benefits.

A social dumping crisis is showing itself through governments justifying cuts in social protection by reference to the need for competitiveness. They have tended to cut benefits and services for those not in labour, meaning that the tendency to indulge in social dumping hurts most the unemployed and detached strata in the emerging

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<sup>10</sup> For a set of international studies, see the Special Issue of the Journal of European Social Policy, March 2000.

stratification system. At the same time, also in the pursuit of competitiveness and job creation, governments have been stepping up their subsidies for low-wage labour. If paid to firms, these will keep down the incomes of low-paid workers; if paid to the workers as “in-work benefits”, they will encourage firms to keep wages down and put the workers in a low-wage trap – losing benefits if they raise their wages, leaving them with little or no advantage.

Lower social protection standards and subsidies for low-wage labour are issues that should creep up the international trading regime agenda, as aspects of unfair trading practices before the WTO. But whatever the future, the tendency to indulge in social dumping has weakened the state benefit share of social income, and thereby contributed to income insecurity.

(vi) *A Governance Crisis*

An emerging governance crisis arises from the fact that increasingly, as a result of privatization of various social protection policies, countries are finding that there are oligopolistic, if not monopolistic, private providers of services that scarcely bother to conceal their tendency to indulge in opportunistic profiteering. This means there is a growing need for regulatory instruments, which are not easy to construct if the country is economically weak or small.

There are several alternative governance systems for social protection. The system may be direct (without intermediaries), bipartite (through the state and employers), tripartite (through arrangements overseen by government agencies, employer bodies and trade union confederations), or what might be called civil governance (where government agencies oversee the policy in partnership with non-governmental organisations, with or without the involvement of other bodies). The system may be centralized, decentralized or multi-tiered.

Governance changes may reflect a desire to make systems more accountable and equitable or more efficient in some sense. One tendency is the policy of integrating public employment services with social protection, in one ministry. There may be cost reasons, but it risks making social protection more regulatory in character, or less concerned with the simple task of supplementing the incomes of the poor or vulnerable in society.

However, the strongest governance tendencies of recent years are what could be called *decentration* and the erosion of tripartism. The loss of strength of *core* workers and de-unionisation have contributed to the fading of tripartitism and variants in which workers had a strong voice, except in a few countries, where concessions have been made by unions in any case. The loss of voice by the core has in turn contributed to the loss of state benefits and services in their social income.

Decentration refers to the shifting of governance away from national level, upwards to supra-national levels and downwards to regional or local levels. Shifting part of the rule-making to an international level has unclear implications for the structure or level of social protection. Decentralisation of functions and responsibilities may have inequalitarian effects, unless countered by national policies. It tends to mean that more affluent regions can provide their residents with higher levels of benefits and better services. So, unless inter-regional subsidies are boosted, inter-regional social income inequalities are likely to grow. For similar reasons, lower-income groups of people are likely to suffer, because they tend to be concentrated in lower-income regions with limited fiscal resources.

Decentralisation historically fosters *clientelism*, in which localized interests can influence or control local officials and the pattern of social protection. Unless adequate national checks and balances are implemented, the greater the degree of decentralization, the more likely it is that social protection will be discretionary in character, selective, prone to “creaming” in allocating benefits and services, and inclined to support commercial interests and the most vociferous organizations of civil society, which may or may not be representing groups most in need.

Efficiency claims have also triggered changes in governance systems. In some countries, the desire to make services more efficient has led to the use of more market mechanisms by public agencies, turning citizens needing help into “customers” expected to buy a service. This has led to the contracting-out of social services, which in the USA has become a sphere of big business, and is spreading elsewhere.

In particular, privatization of *welfare delivery services* is taking bizarre directions, and has implications for governance. In the USA, some States have contracted out their entire social protection system. Texas put out its services to tender, and the three short-listed bidders included the world’s largest defence contractor (Lockheed Martin) and two other corporations with no prior involvement in social policy. There and elsewhere, private firms have been awarded contracts to place welfare recipients in jobs, and are paid according to results. Such practices surely lead to “creaming”, with better treatment being given to some groups and discrimination to others, and with a proliferation of paternalistic and other control functions, without any pretence at accountability. But it can also lead to local or regional monopolistic or oligopolistic structures, working against the interests of “clients” or low-income groups in general. Prices of services will rise or, more likely, quality of the services for supplicants will decline relative to the quality of the service delivered to the funders or employers.

Partial privatisation has given a growing role to the vast array of “non-governmental organisations” (NGOs) or, as they often prefer to call themselves, “civil society organisations” (CSOs). These have been keen to fill gaps left by the receding role of government as provider of state benefits and services. Governments have encouraged them by providing subsidies and contracts. The model of *civil society* being fostered is complex, but reliance on CSOs represents part of the restructuring of *social income*, with implications for the income security of those who need services and financial assistance.

CSOs are, almost definitionally, self-appointed, and as such are unaccountable in any formal sense. This can be an advantage, or a cause for concern. As far as being a source of income security, their major drawback is that they can be *discretionary* as operators of social protection policy. However well-intentioned, they will choose whom to assist, whom not to assist, and how much to assist. They raise awkward questions about representation security to which we will return.

(vii) *A Work Crisis*

The desire of policymakers to roll back state-based social protection, to make it more selective and conditional, to privatise benefits and services, and to tie entitlements more to the performance of labour has created a fundamental dilemma, which could become the most subversive ‘crisis’ of all. What should count as “work” to gain entitlement? We discuss this later in connection with workfare and the form of work society to promote. The point here is that policymakers have an awkward dilemma. Do they narrow the definition, so as to limit fiscal pressures and so as to steer people in laudable directions? Or do they broaden the definition because some of the work excluded by narrow definitions is valued, particularly given that rolling back state provision leaves various welfare deficits, most notably in the sphere of care work – caring for children, for the sick and disabled and for the elderly and infirm?

Welfare state capitalism led to a substantial growth of state-provided social services, particularly in northern Europe, where priority was given to tax-financed universalistic services rather than monetary transfers. This is part of social income. Their availability reduces dependency on private care, which has to be paid for, either directly or by reciprocity arrangements. But in the era of market regulation, selectivity, multi-tierism, individualisation and partial privatization have also affected social services. Several models of state provision have emerged. One is the *client model*, in which a person can obtain a service if satisfying basic conditions, but can obtain only modest assistance. Another is the *conditionality model*, where a person can obtain more than basic assistance *if* prepared to satisfy more conditions and to go through more bureaucratic procedures. Some have described Australia and the Netherlands as operating the former model, Sweden the latter. The UK went in the latter direction with its Social Fund, since a shortage of money obliged officials to ration by discouragement.

The provision of *care* has been partially privatised, with a renewed expectation that the elderly, children and others would be cared for by relatives or voluntary organisations. Parental care has spread, as has subsidised parental care of children, cash transfers for care, income entitlement protection for those providing care, and insurance for care. In some countries, subsidies have been introduced to encourage people to care for the elderly, chronically ill and incapacitated.

The spread of payments to carers, or those receiving care, has commodified this type of work, with a shift from directly-provided state benefits and services to community provision and wages. Indeed, care work has become pivotal in the reorientation of

welfare states, the restructuring of social income and the evolution of work. There is a growing “care deficit” in much of the world, due to ageing, rising divorce rates, single parenting, AIDS and a weakening of inter-generational reciprocities. This puts pressure on state services and encourages governments to shift to more selective schemes and private services. Multi-tierism is emerging, a mix of cash transfers from government, coupled with payment or services from charities, paid or unpaid voluntary care, and a subsidy in the form of the unpaid time of carers.

In care work, we see a more general part of the restructuring of *social income* – a shift from state benefits, and from family transfers, to benefits and services provided by private organisations. Some services are provided to selected groups voluntarily and freely, although recipients may have to meet reciprocal obligations. One can divide community benefits into those contractually provided and those that are discretionary. Although they may give more choice, neither provides the recipient with as much security as a universal state benefit. Care is not wholly a gift relationship, or wholly a market one. But the pressure is to make it more commercial, meaning more insecurity for anybody expecting to need it.

(viii) *A Social Justice Crisis*

The biggest global challenge to social protection systems is that, quite simply, they do not offer the prospect of income security and social protection for the poor and near-poor. There are a few rich countries where effective coverage is high, but they are a shrinking minority. At one extreme are most African and Asian countries, where a tiny percentage of the population is *covered* by state-based schemes of any sort. In the middle are the ‘transition’ countries, where often a majority is denied any realistic prospect of decent coverage. And in welfare states a growing minority is not covered, or fear that they are not. A survey in the USA found that more young people believed in UFOs (unidentified flying objects) than that they would be covered by social security later in life. Diminishing coverage, and fear of uncertain coverage, seems to be a global phenomenon.

Besides the global problem of lack of coverage – which begs a question as to the meaning of coverage, in any case – changes in social protection systems have thrown up awkward questions about social justice. For instance, a shift in priority from horizontal to vertical and administrative efficiency has implications for the equity of social policy, since it is a matter of judgment whether it is more equitable that 90% of those who receive benefits are in need – implying that some who receive benefits do not meet the criteria for entitlement – than if only 80% of those in need receive benefits, while nobody not meeting the criteria receive them. Many policymakers seem more keen to prevent the ‘undeserving’ from receiving benefits than to make sure that all the ‘deserving’ do receive them.

In the rush to selectivity, a conflict emerges between vertical efficiency and other forms of efficiency. The more you target, the more you design criteria for selectivity, the

more conditions that are applied, then the more complex the necessary procedures of identification, implementation, monitoring and auditing. In most countries, it is cynical or naïve to advise governments to adopt finely-tuned targeting, given poor administrative structures, lack of information, fear and lack of knowledge among potential beneficiaries, poorly trained, inadequately paid and overburdened officials, and pervasive distrust between applicants and officials. The system will end up being highly discretionary, prone to corruption and demoralizing for all concerned.

The problems are no different in industrialised countries. Targeting implies selecting those whom you think are ‘deserving’. The narrower the target, the greater is the difficulty of identifying people correctly, and the harder the legal, administrative and practical tasks of maintaining equitable boundaries. Perversely, selectivity almost inevitably leads to arbitrariness, and this in itself may further erode the legitimacy of state benefits and services in general, and worsen moral dilemmas. Selective, conditional schemes lead to a proliferation of local rules and judgments and the quiet spread of *discretion* as the underlying ‘principle’ of social policy. This is not a sound basis. Some discretion may be benign and well-intended, some judgments will flow from laziness, some will be opportunistic to benefit local officials or politicians, some will be blatantly corrupt. Yet selective social policy is always discretionary, and the more “active” the policy, the more discretionary its implementation.

Social services are the most prone to *discretionary failure*. They allow officials to decide whom they will meet, whom they will help, what form of help to offer, what form of monitoring, and so on. Individual case treatment is often required because laws cannot be specific enough to cover all circumstances. And means-tested and behaviour-tested transfers allow discretionary control by local authorities – in terms of interpreting, applying, monitoring and sanctioning rules – and selective oversight. The right to appeal may not always exist, and where it does it may be curtailed, costly and time-consuming.

Governments usually lack information required to make equitable judgments in designing selectivity criteria. But if motivated by vertical and administrative efficiency, they will make judgments that lead to cuts in the number entitled to state benefits. This will be compounded by the monitoring system required in selective schemes. It is oriented to disentanglement because it monitors claimants and officials asymmetrically. If a claimant makes a claim deemed to be false, he may be penalised, whereas if he does not make a claim that is valid he will lose the benefit. If an official blocks a valid claim, he is unlikely to be penalised, whereas if he paid those who should not be paid he is likely to be rebuked and penalised.

The design and application of selectivity are also shaped by *statistical discrimination*, i.e., making decisions based on what is typically the case or is popularly perceived as the norm. For instance, an elderly woman may receive benefits more easily and receive more of them because officials have sympathy with elderly women, or because they have parents who are elderly or because they fear being in that position themselves one day. A dirty man shouting obscenities is unlikely to do so well.



In general, complex rules may induce officials to fall back on attitudes, making judgments based on perceptions of types of client, leading them to focus on ways of exerting control over their role – “processing the client”.<sup>11</sup> Then there are the delays that amount to partial disenfranchisement, even if benefits are eventually awarded.

In some countries, the drift to means-tested assistance has created such strong poverty traps that the government has introduced or extended *earnings disregards*, allowing some recipients to have some earned income without losing benefits, as in Australia, Belgium, New Zealand, Germany and many US States. Others have not yet gone down that road. Many have added *labour tests*, although these may be relaxed for groups such as the disabled and lone parents.<sup>12</sup> Some have linked assistance to social “integration” requirements, such as the *Minimex* in Belgium, the *Revenu Minimum d’Insertion* in France, and the *Revenu Minimum Garanti* in Luxembourg. Some have introduced or strengthened *treatment conditionality*, notably in Nordic countries in accordance with the localised, discretionary character of state benefits.

The trend to conditional benefits has probably reduced horizontal efficiency, because of the tendency for means-testing to result in *low take up rates*. But this form of inefficiency does not count for much for those who focus exclusively on fiscal balance sheets. Even in the most well regulated countries, studies have shown means-tested schemes have take up rates as low as 20%. In Sweden, take up of *socialbidrag* (a means-tested safety net benefit) may have been that low; in Germany the take up of *Sozialhilfe* (a similar benefit) was between 21% and 64%; in the UK, the take up of means-tested Family Income Supplement was 55%; in Japan, where means-testing was less used, the rate was under 30%.<sup>13</sup> In the USA, only about 40% of the working poor eligible to receive food stamps were actually receiving them, and only a third of eligible children receive Medicaid; both of these have been attributed to the welfare reform that cut off many people from public assistance. In eastern Europe, statistical and anecdotal evidence point to even lower take up rates.<sup>14</sup> In Poland, the number of households receiving state benefits was less than half the number classified as below the poverty line used to determine entitlement.

Low take up rates are unlikely to be random, and are likely to be lowest for those most in need or least capable of operating the system. The drift to selectivity is also likely

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<sup>11</sup> M. Lipsky, Street-level Bureaucracy: Dilemmas of the Individual in Public Services (New York, Basic Books, 1980).

<sup>12</sup> J. Bradshaw et al, The Employment of Lone Parents: A Comparison of Policy in 20 Countries (York, Family Policy Studies Centre, 1996).

<sup>13</sup> W. van Oorschot, “Non take-up of social security benefits in Europe”, Journal of European Social Policy, Vol.1, No.1, 1991, pp.15-30; A.B. Atkinson and J. Hills, “Social security in developed countries: Are there lessons for developing countries?”, in E. Ahmad, J. Drize, J. Hills and A. Sen (eds.), Social Security in Developing Countries (Oxford, Clarendon Press, 1991), p.89; R. Goodman and I. Peng, “The east Asian welfare states” in G. Esping-Andersen (ed.), Welfare States in Transition (London, Sage, 1996), pp.192-224.

<sup>14</sup> G. Standing, “The folly of social safety nets: Why a basic income is needed in eastern Europe”, Social Policy, 1998.

to be systematically inequitable. For instance, because women and minorities disproportionately depend on means-tested benefits, in that they are less likely to qualify for insurance benefits, any tightening of conditionality is likely to affect them disproportionately, as is low take up.

In spite of all the evidence about the failure to reach those in need, the march to means-tested selectivity has continued – a triumph of euphemism over fact. Low take up and the reasons for it have created immoral hazards for policymakers and for those wedded to selectivity. They could assert that low take up means that those not claiming benefits cannot need them. Or they could claim it is an effective way of rationing limited resources. The latter has been stated about the imposition of labour tests in rural public works in developing countries – a dubious claim, as many of the poorest will be among the least able to labour, or will have to travel furthest, while the stigma of so visibly complying will deter them and others.

If horizontally inefficient (not reaching most of those it should), such a system is also administratively inefficient. Wherever administrative systems are poor, as in developing countries and in many others, there will be large leakage costs in mal-administration. For this reason, many favour targeting based on easily recorded *needs*. Yet any targeting runs into moral hazards – making it more likely that people will enter or stay in the condition. This raises the cost of screening, monitoring, and policing behaviour. In the UK, administrative costs for means-tested supplementary benefit (which became Income Support) amounted to 11.3% of the total spent on the benefit, and 45% of administrative costs for the whole social security programme, for a benefit that accounted for only 18% of social security expenditure.<sup>15</sup> In the 1990s, fraud and administrative error cost 16% of the 80 billion pound annual social security budget. In short, highly selective schemes result in high administrative costs.

An adverse outcome of selectivity is a decline in the income replacement rates of state benefits in general. Formally, social assistance has given replacement rates varying from 80% of average male earnings in Switzerland to under 20% in some US States.<sup>16</sup> But this overstates the real value, because of low take up rates and the uncertainty of receipt. Even in affluent countries, and even if one assumes a take up rate of 50%, replacement rates would have been between 40% and 10% -- scarcely 'generous'. It is disingenuous for critics to claim that replacement rates are high without taking account of the probability of actually receiving them, or that they may merely reflect lower wages among those needing them.

*In sum*, means-tested benefits 'targeted' on the poor are impoverishing and stigmatising, and are likely to be eroded because they are for the voiceless or weak groups. It is surely no coincidence that in the USA, where social protection has been divided between *social security* (social insurance, benefiting the middle class) and

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<sup>15</sup> Atkinson and Hills, 1991, op.cit., p.89.

<sup>16</sup> Gough et al, 1997, p.32.

*welfare* (mainly means-tested), the value of welfare has fallen while the value of social security has been preserved. As Titmuss tersely concluded long ago, benefits specifically for the poor will be poor benefits.

Even in the spheres of *unemployment protection* and employment services a private market has been emerging. As for privatization, there can be little doubt about the impact on social income inequality. Even where a private market is only just beginning, high-income groups have been gaining. For instance, in the spheres of *unemployment protection* and employment services the proficians and salariat have been taking out employment insurance, or have it taken out for them by their employers. And big firms have been offering core employees and managers generous redundancy benefit packages, capped by “golden parachute” clauses for directors and senior managers. This is part of the fragmentation of enterprise benefits, but also helps erode the legitimacy of state benefits, on which such workers do not rely.

Privatisation also has implications for the social justice qualities of social protection. Privatisation results in the *individualisation* of benefits, which favour the relatively insurable, and thereby increase inequality and make economic insecurity more inegalitarian. For instance, people with chronic illnesses or disabilities often must pay more or cannot obtain private health insurance, and those in insecure jobs or living in low-income areas typically find they have similar problems. In the UK and elsewhere, private health insurance has spread. Insurance companies can screen out above-average risks, or refuse to insure them, or demand such high premia that they cannot afford to insure themselves. Other aspects of life are also differentially insurable, including mortgage protection and the need for long-term care. And the cost of private motor insurance may be differentiated by area of residence, occupation and personal background, with exclusion clauses and premium loadings.

If one depicts insurance payments as negative income, or a tax, then the need to pay them reduces net social income, while the benefit gained from having private insurance comprises a part of social income, which higher-income groups are not only more able to afford but are also able to obtain at lower cost. So any shift to private individual insurance is a source of differential income security and inequality.

Privatisation can also produce its own poverty traps. In the UK, various cuts in state benefits encouraged people to take out loan protection insurance. But applicants for means-tested Jobseekers’ Allowance found that pay-outs from the insurance were counted as income, which resulted in lost entitlement to the state allowance. In some cases, they lost more than the value of the pay-out from their insurance.

Finally, privatisation of insurable risks and benefits is likely to create an *underclass of the uninsurable*, unless subsidies are provided for those at the bottom of society, which would prompt new moral hazards. At the very least, the apparent shift from state to private benefits adds to the income insecurity of people who are economically disadvantaged, the already detached.

## 7. Towards an Alternative to Third Wayism<sup>17</sup>

The celebrated social policy thinker of the middle period of the 20<sup>th</sup> century, T.H. Marshall, pointed out that the 18<sup>th</sup> century was when *civil rights* became established as the legitimate goal of social reform, the 19<sup>th</sup> century was when *political rights* became legitimized, and the 20<sup>th</sup> century was when *social rights* became recognized. One may predict that the 21<sup>st</sup> century will be the century of *economic rights*.

In that spirit, consider again the question posed at the outset of this paper: What is it that should be equalized in the Good Society of the 21<sup>st</sup> century? All theories of distributive justice believe in the equality of something. Third Wayism believes in equality of merit. Those who do their duty earn, or merit, social rights, which are fundamentally based on labour. We see in this the resurrection of the Puritan ethic. Libertarians, and to some extent *compassionate conservatives* (who like a pot pourri of Third Wayism and libertarianism), are less squeamish. They believe in procedural and contractual justice, and the equality of due process. As long as procedures are followed correctly and equally, unequal outcomes are not just acceptable but socially just. Dealing with the losers is left to charity and philanthropy, and good neighbours (even in the global village that they seem to envisage, with billionaires disbursing their marginal millions to the causes they consider most worthy).

In contrast to the Third Wayists and libertarians, we may assert that the answer to the great question is what might be called *complex egalitarianism*. The fundamental economic right is or should be the right to *equal basic security*. This requires basic income security, achieved in some way or another. However, in order to enable the vulnerable and less well-endowed to retain basic security, there must also be equal *Voice representation security*, at the collective and individual levels.

To begin to see what these priorities imply, consider again the Polanyian idea of *embeddedness*. All socio-economic systems depend on systems of protection, regulation, and distribution – to embed the economy in society. Social thinkers everywhere are struggling to redefine all three in the new global world (dis-) order. I believe that complex egalitarianism, or distributive justice, requires respect and adherence to the following policy rules:

**The Security Difference Principle:** A policy, or institutional change, is just if and only if it improves the security of the least secure groups in society.

This is derived from John Rawls' famous Difference Principle, but putting the emphasis on *security*. The complementary rule is also essential:

**The Paternalism Test Principle:** A policy, or institutional change, is just if and only if it does not impose controls on some groups that are not imposed on the most free groups in society.

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<sup>17</sup> Points made in this section are developed at greater length in my book, Beyond the New Paternalism: Basic Security as Equality (London, Verso, 2001).

With these policy decision rules in mind – and they are the founding principles of the ILO’s Socio-Economic Security Programme – we must ask about social protection. This must shift away from *risk compensation* to extending and enhancing individual and collective rights, based not on labour as in the 20<sup>th</sup> century, but on citizenship in its broadest sense. It is important to emphasise that protection is not equivalent to any “social safety net” notion, it is to *liberate*. We should play on the Kennedy aphorism: Ask not what social protection must protect you *against*, ask what social protection can protect you *for*.

In that context, basic security surely requires an unconditional basic income – or what might be called a solidarity or security income.<sup>18</sup> Real freedom requires a system of social protection that allows people of all backgrounds to be able to make choices. Ultimately, social protection, regulatory and distributive policies must be integrated in a way that facilitates and extends what might be called *occupational security*, to which we will return.

How then can *redistribution* be achieved in the emerging global context? Although this is not the place to develop a detailed response, suffice it to assert that we need new mechanisms rather than give up the search for redistribution on the dubious grounds that “there is no alternative” to living in a more inegalitarian world because of the pressures of globalisation. The returns to capital and technological innovation have risen relative to those on labour, and the functional distribution of income may well have become more skewed in favour of capital. Use of progressive direct taxation may have become more problematical because of pressures of “competitiveness”. So, re-embedding the economy requires policies and institutions to raise the aggregative capital market participation rate (CMPR) to rise towards the labour force participation rate (LFPR), so that all of us have a broad portfolio of forms and sources of income. This may mean reviving ideas of *stakeholder capitalism* within firms and within local communities, as well as social investment fund and community profit sharing schemes. Trends in these directions are happening, gradually and inequitably for the most part. Social reformers will eventually grab them and make them instruments for complex egalitarianism.

How can effective and equitable *regulation* be achieved? The starting point should be that regulations should become progressively less paternalistic, and in particular the use of fiscal regulation of individual behaviour should be reduced and be subject to the two policy decision rules stated earlier. In fiscal policy, the principle of *behavioural neutrality* should be developed. In other words, fiscal policy should not be designed to be a vehicle of social engineering. And where it impinges on individual behaviour, as far as possible it should adhere to those decision rules.

Reliance on old-style statutory regulations cannot be envisaged. Although they can be useful in setting standards and guidelines, they veer between bureaucratic

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<sup>18</sup> This has had many distinguished advocates over the centuries, probably most notably of all, Tom Paine. In 1986, a group of us formed BIEN (Basic Income European Network) to consider the desirability and feasibility of moving in that direction. Membership is open to all those interested, and in recent years has included members from all over the world, with pressure to change the E to Earth.

rigidities and lax gestures depending on the administrative effort put into them. The priority should be to reinvigorate *Voice Regulation*, which means rethinking issues of tripartism, neo-corporatism and the new euphemisms of *governance* and *social capital* (sic). Any agenda that sees the extension of rights or freedoms without collective Voice Representation Security could mean only that the vulnerable would remain vulnerable. But in thinking about Voice, we must admit that old-style trade unions are weak and have lost or are losing their legitimacy, and are also tied atavistically to the 20<sup>th</sup> century labourist agenda. They have tended to look after the needs of core workers, the old working class.

Unions have been a force for social progress. But we need to move forward. There is a need to respect the idea that we need as many types of representative association as there are *interests* to represent. This means, inter alia, there is a need for strong independent organizations to bargain on behalf of *flexiworkers*, so-called ‘informal workers’, voluntary workers in civil society organizations, care workers, the unemployed and so on. At the other end of the spectrum, there is a need for legitimate *occupational associations*, that is, bodies that can defend and enhance standards and practices but which must also avoid the danger of being monopolistic rent-seeking devices, as has been the case of many professional bodies. We can see the positive signs, as well as some of the negative, in the spread of social clubs based on ethnic background, gender, type of work, and so on. To complement group-based and occupational associations, there is also a need to strengthen *community associations*.

All of this is happening. But globally, nationally and locally, it is doing so in a haphazard and often opportunistic, inequalitarian manner. This is why there is a need for a Charter for Interest Associations. This Charter should establish the governance principles of *democracy*, *accountability*, *transparency* and *equity*. Such interest associations – all those CSOs – must become instruments of representation, not be control mechanisms or the means of securing monopoly rents for their members.

Finally, the policies and institutions of social protection, regulation and redistribution must be based on the legitimation of all forms of work, not just labour. This is essential to give meaning to the *right to work* mouthed by radicals over the centuries. We must not let paternalists of any kind – Third Wayists, religious groups, Leninists, populists or whatever – to turn that right into a Duty. If you focus only on labour, or paid work, other forms of work are more debased and their performers probably more oppressed, and one perpetuates an ethos of competitive individualism rather than on what might be called social individualism based on a recognition – and celebration – of mutual inter-dependencies. So, policies must ensure that equal protection is given to those doing ‘jobs’ and other forms of work – care work, voluntary work, community work, ecological work, civil society work and all our creative enthusiasms. This means rethinking how to provide basic income security, Voice and social protection, which means delinking income security from the mere performance of, or willingness to perform, *labour*.

The key example is the work of care or caring, which straddles the uneasy division between a gift relationship and a market exchange relationship. If we think of

development as freedom, then our emphasis on basic security and Voice as the two pillars of the Good Society means that we should want basic income security for care givers, surrogates of carers, and those needing care. There should also be equally strong Voice for both sides of the relationship. Rethinking care work in the context of ageing and the fragmentation of old-style norms of family and household, leads to an answer to the question posed at the outset of this paper.

It is a vision of diversity. Basic security should be what is equalized, where security is defined in terms of freedom from morbidity, freedom from controls that fail the paternalism test, and equal good opportunity to pursue our individual sense of occupation.

## 8. Concluding Thoughts

The eight crises of social protection are unlikely to be resolved in the near future. We will have to learn to live with the linguistic crisis, and learn to respond to the deluge of euphemisms that threatens to take the place of objective analysis. The fiscal crisis reflects a failure of nerve, since there is no evidence that societies cannot afford a comprehensive system of social protection. The legitimation crisis is a political challenge, and can surely be met by seeking out a rationale for a new universalism and sense of social solidarity. The moral crisis must be countered with scorn and an appeal to renew the march to freedom; paternalism will not be accepted for long. The social dumping crisis will almost certainly run up against the pressure to extend the international trading system.

The governance crisis is already moving in a positive direction, in that the ‘associational revolution’ taking place around the world is creating institutions and interest organizations that are demanding to be part of the system of governance. The work crisis is also moving in a very positive direction, in that it has become manifestly absurd to link entitlements to social protection only to the performance of labour and in that governments are trying to reduce social spending, so that they are expecting citizens to undertake more of the social services that for many decades had been presumed to be the responsibility of the state. Finally, the social justice crisis is fueling the sense of social anger spreading around the world, and forcing politicians and social policy analysts to look to first principles. As they do so, they may find that to make progress towards what we have called complex egalitarianism, they should put on their walls the equivalent of Bill Clinton’s famous message to himself as he campaigned to become President of the United States: “It is distribution, stupid!”