Globalisation and the concept of insurance

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GLOBALISATION AND THE CONCEPT OF INSURANCE

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Summary

As a result of globalisation, the views expressed in society about social security and the nature of the discourse on the subject are in a process of constant change. The discourse adopted has important implications for the social policy pursued, including its institutional arrangements. The paper advocates that social policy could fundamentally be considered as insurance, thus providing an understanding of social security that differs from approaches based on social assistance and income redistribution. It is also claimed that this approach, emphasising a risk-centred concept of social security and a well established legal, actuarial and institutional framework, is more capable of dealing with the various pressures created by the process of globalisation. The features of the approach suggested are discussed from the point of view of contributory and non-contributory schemes, civil society, commercial and mutual insurance, individual and social risks, and public goods theory.

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I Introduction

Due to globalisation, our understanding of the needs for social security, the necessary economic resources and the ideological background for social policy are all in a process of constant change. The ideologies and theories define and guide the discourse for social policy. The discourse adopted will always affect the definition of the problems, the assessment of solution alternatives and, ultimately, the political desirability of the various alternatives. The prevailing discourse therefore also has a major impact on policy measures and the institutional arrangements to be employed.

We start with a risk-oriented approach to social security by defining its basic objective as the provision of people with the resources to cope with specified common risks in life. Furthermore social security schemes protect society against collective risks associated with poverty, epidemics, marginalisation, crime, etc.

In this paper we wish to discuss the potential of an insurance-based discourse for the governance of social risks. The conception of social security as an insurance provides an approach to social policy that is different from that of social assistance and income redistribution. On a global level, this approach also embodies specific views about the essential content of the welfare society and its internal logic, highlighted by the concept of the global village, i.e. civil society, rather than simply the concepts of global markets and the global network of states (cf. Beck, 1998).

II Social security discourse

Every instrumental method, such as insurance, adopted in social policy formulation, has a specific logical relationship to certain normative value structures in society which will be reinforced by that method, but also to a particular substantive target problem, with the intention to influence this by the same method within the framework of accepted values in society.

In this paper we shall use the term “discourse” to refer to structured thinking, reasoning, speaking or writing on social security, based on this systemic interdependence and interaction between substantial, instrumental and normative aspects. Thus, discourse is not merely an academic concept in textual analysis
but a practical vehicle for political communication and, consequently, policy formulation.

The insurance approach to social security is not new. It is manifested in many existing social security schemes of the Bismarckian tradition and it is also present in the famous Beveridge report of 1942, aimed as it was at conquering the “five giants”, or social risks, of Want, Disease, Ignorance, Squalor and Idleness. However, since this paper is intended to put analytical focus purely on individual and social risk and insurance, we do not at this stage wish to relate it further to these important traditions of thought. It still goes without saying that our ideas have their offspring in both these traditions as well as in observing the Nordic and other social security schemes during many years.

Much of the debate on the welfare state, especially among economists (cf. Buti et al., 1999, Sandmo, 1991), has concentrated on its effects on consumption, labour supply and economic growth, expressing the well-known dichotomy in opinion between proponents and opponents towards social security. We do not intend to enter into this debate here, since it focuses on economic performance and consumption levels rather than on social security and general welfare.

The economic debate on the welfare state often does not recognise risk protection as a substantive element, neither as an individual value nor as a social benefit or a public good. Consequently it also fails to see the difference between measures aimed at risk protection and measures aimed at income redistribution. Whereas much of this welfare state debate concentrates on consumption level and income distribution, we shall focus on risk protection as an independent, substantive conceptual issue. This is done knowing that in a social security context, risk and inequality are intertwined in a complex way including a fundamental time aspect, as is pointed out by Sinn (1996).

We do also not participate in the once popular discussion on the compatibility of individual rationality and welfare state arrangements (cf. Øverbye, 1995). Large welfare states do factually exist, and draw substantial political support in many, if not even most, developed countries. The main question and challenge is how best to organise them, by which premises, and according to what discourse.
Social security benefits could be understood rather strictly as measures aimed at providing security against different risks. The concept of security implies insurance in the true meaning of this concept and not simply social assistance or income redistribution.

Our intention is to emphasise the substantive target problem of social security, insecurity and risk. We take an insurance approach in reasoning on social security at all levels including basic social protection, and distinguish between the measures and goals of income redistribution and consumption levels on the one hand and those of social security and risk protection on the other.

Social security can be properly defined only by adopting an appropriate definition of social risk. It will be seen that the concept of social risk can be understood as comprising individual risks and macro-level collective risks. Together these form system risks to be borne by the economy, whether by the social security scheme itself or by the state government.

We shall begin our analysis with a general overview of the insurance approach in chapter III, including civil rights, politics and state government, and civil society. In chapter IV we shall further examine the social risk concept, dividing it into individual risk and collective risk, whereby insurance contracts and social risk are interpreted using well-known concepts from public goods analysis. In chapter V we attempt to sketch some of the possible impacts on institutional arrangements resulting from consequent application of the social insurance discourse, implemented by a set of mutual insurance contracts. In our view this may lead to new ways of formulating social security, making particular schemes more quality-oriented, transparent, efficient and incentive compatible, without having to sacrifice the main objective of social security - to protect against social risk.

The problems and advantages associated with globalisation are extensively exposed in economic and social science literature. Globalisation can be divided into several simultaneous processes, economic, cultural, political, etc; (cf. Beck, ibid.), many of which affect social security in intricate and complex ways. Beck also distinguishes the factual condition of “globality” from “globalisation” as a process and from “globalism” as the liberal ideology proclaiming free trade, free factor movement, etc. According to Beck (ibid. p. 217), the latter forms a discourse which is “one-dimensionally economic” and possesses a “political world
market authoritarianism, that is seemingly apolitical but that acts highly politically”. Such a discourse could easily imply catastrophic effects on individual social security. We shall discuss an alternative to this discourse, recognising the factual existence of many global phenomena and the inevitability of some globalisation trends.

III The insurance approach to social security

Constitutional rights and security

In many countries, the constitutional legislation consists of an assurance to provide all citizens with basic social security benefits. These benefit rights represent the actual implementation of social rights and the obligations of the state to provide people with security against specified common risks in life.

Provisions in the constitution concerning the social rights of citizens are one response to the demand for security. These may however sometimes only give an assurance based on rhetoric, without a separate legislation, they do not guarantee the provision of any concrete measures, nor do they specify the level of material security that should be provided.

A distinction is often made between non-contributory and contributory schemes reflecting the main ways in which the schemes are organised and financed. According to the discourse adopted by many, basic security should be financed by non-contributory arrangements, e.g. from general tax revenue. The benefits of non-contributory schemes are statutory, independent of employment record and have wide coverage (i.e. are universal). These schemes are organised by the public sector and the level of benefits does not depend on contributions or taxes paid by the individual.

In contributory schemes the payment of contributions is more or less directly related to the level of benefits. These arrangements, too, may be statutory or based on agreements among social partners. They are often dependent on the employment contract and financed through income-related contributions, in more or less funded insurance schemes. The organisation of such schemes is often arranged in collaboration between the social partners and agents from the public
and private sectors. The main risks covered are usually also understood and treated as being insurable in the rigorous technical sense. The beneficiaries’ right to benefits is based on contributions paid exclusively for their benefit, either by the insured person herself, the parents, the employer, the state or some other party. Through contributions paid by the state, these schemes may be indirectly related to the state budget, but are generally independent of it.

Specific aspects of non-contributory schemes

An important aspect of non-contributory schemes is that they may cover many different risks, most of which cannot be insured in the technical sense. The particular forms of benefit are numerous and often very diverse. The only common feature is that they are paid from the government budget without any specified relation between specific benefits and contributions.

Non-contributory benefits are usually of two sorts: means-tested, i.e. awarded only where income / wealth falls below a prescribed limit, and universal, i.e. awarded without contributions or eligibility testing on the basis of other criteria, like residence or citizenship. (Barr 1993, 239-240). An important objective of non-contributory schemes is, by definition, to support the minimum or standard “customary” satisfaction of specified needs, e.g. decent housing. Non-contributory benefits thus often imply some idea of altruistic assistance or egalitarian objectives of income redistribution, while the contributory schemes do not specifically aim at these objectives, although income redistribution occur, ex post.

What is insurance?

In many countries, there are political forces in the social policy debate, on both right and left of the political spectrum, which argue in favour of pure income-redistributive measures, such as negative income taxes, citizen’s wage or other non-contributory arrangements. However, this debate is based on the common misunderstanding that social security and vertical income redistribution are more or less equivalent issues. The key issues in social security, the individual value of risk protection and the public benefit following from a socially safe society, is missing from the debate.
On the contrary, the direction of social security development should rather be to include citizens in contributory social insurance schemes. This assumes of course, that the collection of contributions follows specific solidaric mechanisms designed to accommodate those unable to pay at some stage in life such as childhood, parenthood, unemployment or study periods. The recently modified Swedish old age pension system provides a good example of this, in that pension accrual is calculated also on the basis of social security benefits.

The concept of insurance is often understood in terms of commercial insurance or market insurance. An important characteristic of insurance is the actuarially calculated correspondence between the contributions and the benefits. Commercial insurance is basically a financial instrument, i.e. an investment whereby the insured can restore his/her financial position after a loss. The premium thus calculated is often called an actuarial premium. The calculation implies that the risk should be insurable in a technical sense, meaning that it should be fairly small, predictable, independent of the insured individuals’ (hidden) actions and characteristics, etc. (Booth et al. p. 275 et seq., Barr, op. cit. p. 111 et seq.)

Commercial insurance schemes are usually not directly applicable in cases where social insurance is seen as politically necessary. Social insurance, in addition to individual risk protection, also fulfils a wider and more ambitious social mission, for which risks are not always “insurable” according to a rigorous actuarial definition, and an actuarial premium cannot easily be calculated.

There are several reasons for this. The most important is that justice and solidarity in the society all members of society, or particular groups within it, are considered important partners for compulsory inclusion in the insurance scheme. Another reason is that market failure problems in insurance markets, adverse selection and moral hazard (cf. below) mean that some risks are not commercially insurable. The collective elements of social risk reinforce the risk of market failure, since protection against them is a pure public good.

The principle of insurance in social security does not concern simply a specified actuarial insurance technique and definitions and conclusions based on it. The principle common to all different types of social security is that individual security is provided by collective resources that are used to pay out benefits. Social
security schemes could be organised as a mutual insurance institution, whereby the insured individuals, who are also directly or indirectly contributors, and thus customers, are entitled to a vote in the organisation, and legally entitled to their benefit right in the event that the conditions agreed in the insurance contract is met. This is an important political issue, since a direct vote and the existence of a customer relationship with the insurance institution enhance the opportunities for maintaining individual social rights in any civil society.

Understanding social security measures on the basis of a broad conception of insurance opens up new possibilities for developing social security, and especially basic security. This insurance approach stresses that social security, insurance and basic security all aim at compensating the effects of risk realisation, which cannot otherwise be satisfied even by the most just income distribution. As we have pointed out earlier, social security is not exclusively an issue of vertical income distribution, i.e. redistribution in favour of poor families, but usually has an impact also on horizontal income distribution, concerning genders, risk groups, age, regions and so on. The income effect of benefits is just one of the tools or measures for achieving the final objective, which is security and welfare on an individual and social level. A further aspect which is easily overlooked in the daily debate, is that most social insurance instruments do not so much redistribute income between households, as over the individual life cycle, as is the case with pensions.

The insurance approach naturally also emphasises the provision high quality services in all essential areas of social services, such as health, education etc. Insurance increases degrees of freedom for varying the institutional arrangements and puts in an element of user-orientation, quality-awareness and legal rights. Whether the actual provider of the service is public or private, the user may claim his/her right through direct membership of the mutual insurance institution.

Social security, civil society and mutual insurance

Social security can be seen to consist of a social contract based on solidarity among the citizens and institutions of society, including the state, which of course has to provide legislation and mediation in cases of legal disagreement. The insurance institution as such, however, need not be included in the everyday
political and budgetary processes of the state, or have any financial dependence on the state treasury or the yearly state budget. On the contrary, there are even clear advantages of keeping social security separate from the budgetary process of state government. We shall return to this argument later on.

Even in the earliest forms of mutual social insurance funds one can find elements of this kind of social contract, attempting to include civil society and the state in the same framework. From the point of view of sociology and political science, the social security contract deals with mutual insurance in civil society and, accordingly, with the relationship between the state and civil society. It also focuses attention on the kind of contract people believe that they make when they pay insurance contributions or taxes, or when they apply for their benefits.

One important advantage of insurance concept over that of non-contributory social assistance is that it does not divide individuals morally into those to be supported and those who pay. The insurance concept simply classifies situations in life of equal individuals into two categories, namely those which entitle to benefits and those which do not. In other words, whereas assistance implies a direct transfer from payers to non-payers, under the insurance concept all are directly or indirectly “payers”, although some face a loss and some do not. For this reason, it can be assumed that the majority of citizens would rather prefer paying earmarked insurance contributions than taxes to finance social assistance.

Not only commercial insurance and mutual insurance in a civil society but also the state based benefit schemes need to be studied from the viewpoint of the insurance concept. The insurance concept refers not simply to the assurance provided by the constitution, the actuarial technique used in commercial insurance or the extent to which the institutional insurance as a whole provides people with security but also to the social contract that people are engaged in or believe they are engaged in, when they pay the contributions (or taxes) or apply for benefits. This, in our view, provides an obvious way of defining a moral and economic contract, incorporating solidarity, i.e. an idea of vertical as well as horizontal equity, among and between groups of contributors, be they income groups, social groups, genders or generations.
The differences between the concepts of insurance and non-contributory social assistance are also logically related to the specific status of contributions based on the insurance contract in contrast to funds collected through general taxation. In commercial insurance as well as in social insurance, an essential issue is how the insurance premiums and contributions are collected and who is to administer the collected funds. This raises the much larger question of the economic responsibility of the insurance organisation and the political and legal responsibility and authority of the state treasury.

Social security and globalisation

One important observation is that globalisation may reduce the political and economic power of nation state governments in favour of multinational organisations and global companies. Free movement of labour and capital is also a key issue for social security, making national social security schemes vulnerable in many respects. Free movement also indirectly shifts the focus from nation state and place of residence to the individual person.

In our view, many of the problems in social security caused by globalisation can be circumvented or avoided by organising social security through the principle of mutual insurance rather than through state government budgets. Insurance institutions may enter contracts with other insurance institutions abroad more easily than state governments and treasuries, for a number of reasons. Firstly, because they are independent of any irrelevant political agenda; secondly, because there is an existing tradition, an institutional framework and legislation concerning private insurance, which can be transmuted and used in the case of social security institutions and, finally, the contributions and the right to benefits can be evaluated in monetary terms and tied more directly to the individual insured person and to the local or global employer.

The insurance approach opens up several other areas, all worth a study in their own right. For example, the international, multinational or even global action of social insurance institutions and possible global competition between them will have substantial political, social and economic consequences.

The insurance approach has some advantages which may be more compatible with the globalised world and its challenges than tax-financed social security
based on yearly government budgets. Using actuarial techniques for standardising cost evaluation, the insurance approach may also present new opportunities for dealing with differences in systems and legislation, e.g. at an EU level, thus avoiding the need of too much centralised harmonisation of legislation.

IV Individual risk, social risk and social contract

In this chapter we shall further develop the idea of an insurance approach to social security by attempts to formulate an adequate risk concept for social insurance. Public goods theory will allow us to formulate a comprehensive and relevant concept of social risk, including most important forms of social security in the main conceptual insurance framework. (Atkinson and Stiglitz, 1980 p. 482 et seq., Brown & Jackson 1995 p. 61 et seq.)

A close relationship exists between the conceptual content of insurance on the one hand and a public good on the other. While most public goods models are static, the conceptual homology requires the introduction of a time dimension. The concept of “public” is closely related to the concepts “common” and “collective”. Thus, instead of the concept of a “public good”, one sometimes sees the synonymous term “collective good” (cf. Oakland, 1987).

The literature on public goods has tended to focus on market failure. The fact that a good produces utility sharable by several individuals makes pure voluntary market solutions sub-optimal. In a voluntary situation people tend to pay less than they would if the good was private, which in turn leads to underprovision of the public good, a point which is extensively covered in public goods literature. Furthermore, mechanisms designed to make people reveal their preferences include an incentive to understate these preferences so as to escape payment. This phenomenon is often called the free-riding problem (Atkinson & Stiglitz, op. cit. pp. 513-518).

To reach optimal levels in public goods provision, preferences should be known, each individual participant should agree on a binding contract, and the public sector often interferes either directly by turning the contribution into a compulsory tax, or indirectly by monitoring contract implementation through the legal system.
One way of understanding insurance contracts, is to see them as public goods contracts supervised by government authorities.

Within the framework of a predefined set of individuals, a public good is non-divisible and non-replicable. Even if it could be divided or replicated, the division or replication brings nothing new to the benefits of individuals using the public good. To participate in using the public good creates an equal opportunity to benefit for all individuals in the community, and so the benefit also becomes public. This does not of course imply that all individuals appreciate the public good equally or attach the same value to it. Where there are technical ways of excluding people from using the public good (as in the case of a movie theatre) we shall use the term excludable public good. The excludable public good forms a so called club good for those who pay the entrance fee and participate in using the good. If exclusion is impossible, like in the case of defence, the term pure public good is used. Thus, an open air theatre is a pure public good, whereas an indoor stage performance is an excludable public good.

How does the concept of public good relate to insurance? We shall argue that the relationship is very close: in fact, any insurance contract can be interpreted as a process of public good provision. The key concept is collectivity, linking several agents to a shared value, in this case risk protection. The links to time, space and specific resources are crucial, since they are needed to calculate risks and losses and thus to determine the cost of provision.

Individual risk

Let us first deal with insurable individual risk. It is seen that even in this case there is a link to excludable public goods. In this case the free-riding problem is not involved in the process of public goods provision, because the public good is strictly provided only to payers of an entrance fee or, in our case, an insurance premium.

Individual risk takes a concrete form in a specific arena, for example the home, workplace, local community, nation state or the global arena. To be relevant for insurance purposes, individual risk must be a potential sudden loss identifiable by several agents, be they a group of individuals, households, firms, etc., hence it is a collective subject.
Consider two points in time, T1 (ex ante) and T2 (ex post). At point T1 (ex ante) any risk fulfilling the above criteria will be shared by many agents and is in this sense collective, or public. The agents form a risk collective, and thus the protection mechanism provided by the insurance contract form a joint benefit, public good or, to be more specific, a club good, for those who sign the contract.

After realisation of the risk at point T2 (ex post) the risk turns private for part of the agents, who face an accident or loss calculable in monetary terms. Ex ante, members of the risk collective may choose to insure themselves, i.e. join the club, or to rely on their own luck. This precludes free-riding at the provision stage, but since individual risk is in part unobservable, the individual may still free-ride by concealing relevant information and thus trying to avoid paying a fair actuarial premium.

To be insurable in a normal insurance contract the risk prospect has to be calculable in two ways a) in probability terms and b) in monetary terms. Furthermore, the risk should be independent of any hidden characteristic of the agent (the hidden type or adverse selection problem), and of any hidden action that the agent undertakes (the hidden action or moral hazard problem).

These are analogous to the more general free-riding problem of public goods, because the individuals may escape from paying their true costs, although they cannot escape payment of the fee itself, because this would prohibit them from using the benefit.

A further condition for commercial insurance is that the risk should be predictable in time. For example it should not be affected by major unexpected factors in the economy, climate or political conditions, such as revolutions, strikes or wars, which would change its probability in an unpredictable way.

Once we introduce time into public goods analysis, the conceptual step towards analysis of risk and insurance is a short one. The link to public goods then clearly arises from the fact that the environment created enabling general avoidance of risk or individual accident is a pure public good. The measures taken against the risk can be of two different kinds.
First one may wish to lower the probability of the risk by some general measures, such as stone instead of wood in city buildings, or making cars with safety belts and air bags. Second one can “join the club”, or sign an insurance contract which, although it does not affect the probability of risk, eliminates or at least to some extent limits the economic consequences for the individual agent, ex post. Social policy may include both these policy lines, only club membership should be extended to include all citizens.

Social risk and system risk

Social risk cannot be defined or calculated solely on the basis of individual risk. Risk complexes exist which cannot be broken down to an individual level, but are collective, or public, in a deeper sense. This may be for reasons of complexity, ambiguity or lack of knowledge, causing general difficulty in foreseeing the consequences of large social or natural events.

Social security influences and deals with social risk in a complex manner including the above mentioned collective risk elements. The existence of social security influences certain social risks in a prohibitive way, and limits the consequences even in cases where the original cause is non-social or external. Some social risks are caused or worsened by lack of individual security itself. One example is criminal behaviour, which has individual as well as social welfare effects of many sorts, some of which can be insured in commercial insurance, such as theft, some of which cannot, such as the general feeling of uncertainty or fear.

Large accidental events like an epidemic, economic depression, earthquake, war, nuclear reactor accident etc. may have external causes which cannot be effectively influenced by political decision, but since they still create social risks within society, the prohibition and limitation of their consequences is clearly an issue of social security.

The demographic trend of most OECD countries is a source of constantly increasing social risk. There are even global risks, like pollution, terrorism and international crime. The global economy and its standards for competition and efficiency constitute local risks for some parts of the world. Free factor movement may change the direction of regional economic development of some particular
area within just a few months. Indeed beyond the global village there lurks the
global risk society, as sociologists have pointed out following the tradition of
Ulrich Beck’s seminal work on the “risk society” (Beck, 1992).

In most countries, social security consists of a multitude of different schemes.
Some of them can be directly identified as some sort of insurance contract, while
others cannot. In any case, many, if not most, risks covered by social security
cannot easily be covered by private voluntary commercial insurance. The reason
follows from complex adverse selection and moral hazard problems as well as
from collective social policy goals. Many events included in social risk complexes,
such as poor health, unemployment and so on, will happen to the individual
before he/she has had the opportunity to sign any insurance contract or pay any
premium. There are many risks which individuals are not even aware of, which
should still be dealt with. Therefore, many individuals face a situation where
private insurance would not cover the risk. Dealing with social risks on private
markets may thus lead to segregated markets, where many of those who need
the insurance most will not be covered.

The time aspect is also important. In private insurance, risks are usually easily
identifiable accidents, limited in time and in some sense repeatable, thus
allowing probability and cost to be calculated with significant accuracy. The
collective elements of social risks on the other hand tend to be unique and
extended in time, and difficult to identify in probability and monetary terms.

Collective social risks also form a system risk for any universal social insurance
institution. Since costs have to be borne by the insurance institution or by the
insured collective, there are no obvious ways to escape the effects.

However, if the risk is restricted to a particular geographical area, as may be the
case with an earthquake or an economic recession, there is the possibility of
international reinsurance. If the risk seems to be global, such as environmental
pollution and increasing old age dependency ratios, one can take strategic
measures to prepare for the worst and hope for the best. In our view, however,
an insurance approach offers the most appropriate strategic instrument for coping
with the problems ahead. With properly designed insurance institutions, funds
and contracts, individuals, social groups and national social security schemes
can enter into multinational large-scale social security contracts, allowing the
coverage of most of the identifiable social risks and the best possible awareness of and preparation for future global risks.

V Institutional arrangements

The adopted practical measures and institutional arrangements, their flexibility, transparency, quality, credibility and acceptance in civil society represent a further reason to underline the importance of the concept of insurance in social security.

In the modern globalised economy, efforts are continually being made to further liberalise world trade and to speed up factor movements. Giant global firms are operating in many different countries with differing labour markets, education and health standards, and with very different social security legislation. This is a source of increasing social risk on a local and national level.

An insurance contract in principle links the individual user to the institution providing the insurance. This has nothing a priori to do with place of residence, workplace or even nationality. Reference to these matters may, nevertheless, of course be included in the explicit insurance contract.

Since social security deals with long-term issues, any connection to the yearly state budget, with its short-term political constraints, is a potential source of conflict. State budgets usually run on a short-term, one-year basis. The myopic view is further accentuated by a 3-4 year election cycle. Social security, on the other hand, requires planning periods for at least 5-10 years, and in the case of pensions 15-20 years or longer.

Sometimes the measures taken in the yearly state budget may in fact be in conflict with the legal entitlement of citizens. This easily becomes the case if the cost of certain benefits rises unexpectedly, e.g. in the case of unexpected mass unemployment. Financial independence for the social security institution, especially if it includes provision for long-term solvency funding, can balance such short run problems independently without painstaking and irrelevant public debate.
In situations where system reform is needed and thus where long-term planning forecasts should be made, state-based systems easily run into political difficulties. An independent insurance institution can set out future social security alternatives clearly, without intentionally or unintentionally confusing them with other political issues which happen to be on the agenda before the next election.

The idea of funding insurance liabilities at least in part should be an element in any social insurance strategy for a globalised world. Funds can be calculated and transferred, and thus deals can be made between insurance institutions on a level of mutual agreement. The legislation for such agreement already exists, and may easily be applied to insurance-based social security, as is already the case in the pensions field.

Funding based on actuarial consideration is a tool for actual calculation of benefit value, be it a value of existing funds or a “notional” fund or a notional defined contribution as in the case of the reformed Swedish pensions. Funding, and in particular individual funding, or individual “accounts”, would therefore increase the credibility of any declaration of rights concerning social security benefits. This is also true for “notional” funding, if the actual benefit value is calculated and made known to the individual. On a macro level, funding can be used to reduce long term as well as short term financing difficulties due to business cycles and demographic development, for example.

Administrative independence also makes international action easier on an institutional level. Since the activities of a state government are limited by its international regulations, political goals, diplomatic rules etc. it faces all sorts of “entry barriers” at the global social security level. The application of the insurance principle therefore would provide a better chance of acting in the global arena. Just like any multinational institution or company a social insurance institution can make independent contracts, establish branches in several countries, etc.

The insurance approach provides a method of converting an abstract value into a concrete worth. In social security, this implies the calculation of a monetary loss and a corresponding insurance claim, just as is done in any insurance contract. Considering the vast complexity of legislation on rights to benefits in different countries, the insurance approach thus offers a way of standardising most of these into one compatible standard based on money. This could facilitate
arbitration on the problematic issue of transferring social rights in the global arena when individual holders of social security right move from one country to another.

In the case of macro-level problems restricted to some particular country, international reinsurance of social security could be arranged. This may indeed be the only possibility of arranging social security independently of any political and economic turbulence. International reinsurance, cannot, of course solve global problems, like ageing or global economic recession.

VI Concluding comments

In the insurance discourse for social security that we have attempted to outline in this paper, social insurance is treated partly as an instrument of individual risk protection and partly as a public good, providing a vehicle for protection against collective social risk. The collective aspects of social risk are not always fully appreciated in the social security debate, often because of the competing discourses based on income redistribution and social assistance in the liberalist tradition. In our view, however, the target problem is insecurity. Both individual and collective risk protection could be treated in a framework of a social insurance approach, and institutional arrangements as well as other policy instruments should then focus on that substance.

In addition to theory, our argument is based on historical fact. Participants in ISSA meetings sometimes point out the stability of the German “Krankenkasse” institutions based on mutual liability, the oldest of these having survived two world wars and extreme political turbulence. The same can, of course, be said of many other mutual insurance institutions. These institutions prove that stability follows from mutual interest among the insured persons, the insurance institution and society at large.

In this paper we take the view that social security is social not only from the viewpoint of the individuals but also from the viewpoint of collective civil society. While helping individuals to produce public goods, such as public safety, literacy, education or health, social security schemes in fact strengthen the economic, social and cultural productivity of a nation and the global community.
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