

A Conceptual Framework for Social Safety Net; Individualization of Society and Risk Management

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The purpose of this paper is to present a conceptual framework for social safety net (SSN); tentatively defined as social measures for temporal alleviation of damages caused by income risks. Section 1 summarizes main characteristics of SSN as a social security system following this tentative definition. Section 2, utilizing the notion of individualization of society and focusing on the development of globalization, argues why social SSN has become necessary in the contemporary world. Section 3 concludes the paper by deliberating on the relevance of the reasons for necessity of SSN for Asian countries.

(1) Main Characteristics of SSN

Let us summarize basic characteristics of SSN by means of three key words; prevalence of income risks, policy tools for temporary effects, and social and market-based risk management.

Prevalence of income risks

First, as could be conjectured by the fact that the term safety net originates from a net to protect acrobat players of a circus from falling to the ground, SSN is related to high risky situations prevalent in contemporary world, where global integration of economic activities has brought about quick and unexpected spillover of shocks over various parts of the world economy. Moreover, the term risk here refers to situations in which it is not necessarily possible to derive probability distributions of outcomes so that one could insure against such conditions. In other words, it is related to the conditions including the situations described by the term uncertainty defined by Frank Knight (1921).

Temporary policy tools

Second, SSN is a simple and inexpensive measure to protect people from risks, as could be seen from the fact it is named after a simple and inexpensive instrument, a net. It is a temporary means of social security to mitigate direct damages caused by shocks, and is not necessarily related to side effects of the damages. In terms of fiscal expenditures, it is related to short-term expenditures and not to permanent fiscal burdens. Moreover, SSN does not have much to do with structural problems such as inequality of income among different class of people, absolute low-income below the poverty line, or rapid aging of the society. Employment insurance for the provision of short-term assistance to the unemployed is a typical tool for SSN, while poverty alleviation programs such as livelihood protection system or subsidies for education, housing and foodstuffs are social security system largely aimed at structural problems.

Social and market-based risk management

Third, SSN is not aimed at specified occupations, or any age and sex groups. In principle, it is directed to anonymous constituents of the society. In other words, it is a device to manage risks faced by unspecified members of the society by the society as a whole co-operatively. In the case of employment insurance system, for example, insurance premium is usually paid by employers and employees, so that the system is a sort of mutual assistance, and the government has no fiscal obligation in the operation.

Moreover, effectiveness of SSN is dependent on the role of market. After alleviation of direct damages of income risks, the beneficiaries of SSN are expected to return to the market in order to participate in the competitive process. In this sense, the effectiveness of SSN is closely related to the development of open labor markets.

(2) Necessity of SSN

There are two basic reasons for the emergence of SSN as an important method for social security in the contemporary world; individualization of the society and the globalization of market economy.

Individualization of society

Individualization means weakening of various (family, community, or class) ties and relations among individuals in a society (Beck1986). Individualization is different from individualism, but both stands in interactive relationship. The concept of individualism is a moral doctrine, while the concept individualization refers to the state of society in various aspects of socio-economic activities of the people such as consumption, labor and property holding. Quite often, individualism could become a driving force of individualization of society, and individualism could be intensified owing to the development of individualization.

In terms of the history of Western developed countries, individualization has proceeded in two phases. The first phase occurred at the time of establishment of industrial society. When agrarian and community-based economy evolved into industrialized market economy, the development of labor market “liberalized” people from community ties. People left regional communities and joined industrial society in the cities as free hired labor force. Individualism as a personal moral doctrine, combined with liberty, a doctrine about political morality, was one of the driving forces to transform feudal and community-based society into civil and market-based society.

In this phase, however, although people became liberalized from community ties characterized by group work, community-based property ownership, and traditional and custom-based lifestyle, they were still subject to family ties. Moreover, in the industrialized society, there emerged new form of ties in the form of class ties; labor union at occupation level or firm level provided new framework to restrict individualistic behavior in various aspects and joint risk-bearing by the people. As is eloquently described in Esping-Andersen (1990), classical measures of social security system aimed at protecting the welfare of members of particular unions were introduced through the interaction and under the pressure of class interests.

The second phase of individualization proceeding globally in the contemporary developed world has liberalized people from family ties as well as from class-based relationship characteristic to the industrialized economy. Traditional family images have been replaced by modern family system such as nuclear family and single-parent family, and the standardized full-time employment system of industrialized society by diversified and flexible work system such as work-sharing, temporary workers and job-hopping part-time workers (Furi-ta-s in Japanese). Labor unions have felt serious difficulties in representing the interests of diversified labor force. Individualization of this type is no doubt a phenomenon of post-industrialization society. In developed countries in continental Europe, high level of welfare system has elevated the living conditions of all classes (elevator effect), reducing the concerns about class differences and discrimination (Beck 1986). It seems also that individualism in the sense of indifference to the situation of others or lack of sympathy towards others has been one of the main driving forces of individualization in this phase, although specification of exact mechanism at work is not necessarily an easy matter.

Individualization in this phase has taken the form of not only individualization of income risks but also of diversification of income-expenditure patterns. Traditional life cycle patterns related to education, work and retirement, or marriage and child-raising are not typical any more. An increase in the number of newly-graduates without permanent jobs under favorable business conditions is symbolic of this diversification. The concept of social risk management (Holzmann and Jorgenson 1999) or SSN covering the society as a whole and all members indiscriminately could be a workable welfare system under this situation.

Globalization

Globalization is related to the necessity of SSN in two respects; socialization of income risks, and changing relative role of the government and the market.

First, globalization seems to have enhanced income risks to be accommodated socially. Owing to the increased interdependence of financial markets, local financial crises tend to have global impacts. The Asian crisis that had begun in Thailand in 1997 had serious contamination effects on other Asian countries, and the Lehman shock ten years after had exerted enormous impacts throughout the world. These global financial crises tend to entail income risks to the plural strata of people, so that impacts tend to be social. This is because crises have impacts not only on financial markets but also on goods markets by way of decrease in exports, labor markets by way of impacts on overseas job opportunities, and government budget through reduced tax revenues. Moreover, for each country, these impacts are felt simultaneously usually. Income risks under these conditions need to be accommodated socially.

Second, globalization has changed the pattern of division of labor between the government and the markets. Increased complexity of risks to be managed and decrease in revenue raising capability of the government has made the government increasingly powerless against contemporary income risks. As is argued above, contemporary income risks are related to structural factors such as individualization of the society as well as global factors like financial crises, and the government is getting increasingly impotent against them. Moreover, increased mobility across the borders by footloose production factors such as financial capital and

skilled labor qualified for global job markets has decreased revenue raising capacity of the government (Rodrick1997).

Consequently, the government is obliged to hand over its role in risk management to the market. In the *ex ante* sense, it has increasingly tended to rely on market disciplining measures in place of tight-jacket type regulations. Washington Consensus is a typical policy prescription following this principle. In the *ex post* sense, instead of devoting its resources toward protecting people fully from market risks, the government has come to focus on temporary alleviation of damages to the people and training them for re-challenge in market competition. SSN matches this kind of needs exactly.

(3) SSN in Asian context

Let us move on to the discussion about the necessity of SSN in Asia.

The introduction of SSN to Asian countries was first recommended by international organizations after the Asian crisis. The logic of these organizations for justifying the recommendation seems to go as follows. The rapid development of the Asian countries during the 1980s and early 1990s was realized because they followed market-friendly policy of deregulation and export-oriented strategy, not by the successful intervention by the development-oriented bureaucrats. However, there still remains a wide room for the promotion of market-friendly policy and further structural reform in this region, because of the persistent power of the bureaucrats, who maintain and promote crony capitalism, utilizing symbiotic relationship with family-based business groups. The crisis could be attributed to the growth of bubble and its burst as the consequence of the overrun of the crony capitalism. Just as the introduction of market-based discipline system in line with the Washington consensus had been an adequate policy, introduction of market-based risk management policy in the form of SSN is most suitable not only as countermeasure for the crisis but also for chronic structural problems in the region.

It has now become standard understanding, however, that the main cause of the Asian crisis lies not in the crony capitalism but in the massive inflow and abrupt outflow of short-term capital. In other words, it was a consequence of integration of Asia into global financial markets, and the imprudent opening of the capital account without careful examination of policy orders.

It follows that the theory of crony capitalism dose not seen to give an adequate justification for the introduction of SSN. We are now led to ask to what extent two factors discussed above are relevant to the Asia. First, there is no denying that Asian countries have been considerably integrated in global markets, so that globalization provides good reasons for the introduction of SSN in Asia. As for another factor, individualization, the degree of influence seems to be quite different from the Western countries, although individualization of the society seems to be taking place also in the region. This is because community ties still remain strongly in this region (Asami 2003). In terms of the two phase framework of individualization, Asian countries seem to be in the first phase or in the phase of transition from community-based to industrialized state by and large, although individualization of the second phase is emerging gradually. It follows that introduction of SSN should be carefully implemented taking this point into consideration.

First, since mutual assistance mechanism based on community system remains effective in Asia, especially in rural areas, risk alleviation measures should take this into account. During the crisis period, labor intensive public work programs in local communities had been highly effective in alleviating income risks through employment creation.

Second, in contemporary Asia, community ties are progressively getting weak, so that income risk of those who had been protected by community ties previously should be attended differently from the damages suffered by those who had been adapted for the industrial society already. Since people in the former category have not received education and training as industrial workers, simple re-training is not sufficient for these people, so that instead of re-training programs of SSN, emphasis should be laid on basic education as industrial workers.

Finally but not the least, in view of the poverty level in Asia, the traditional social security measures aimed at structural poverty are still needed in Asia, so that SSN has to be introduced so as to be complementary with structural measures.

References

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