Basic Issues in Social Security Programs

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There are seven basic questions to be answered in designing any social security system: (1) What perils should be covered; (2) What kind of techniques can be used; (3) Who should be covered; (4) Who are eligible for benefits; (5) What kind of benefits should be provided and to what extent; (6) What methods should be used to finance the programs; and finally (7) How should the programs be administered? The questions will be discussed in the order listed.

I. PERILS COVERED

Five social risks have been considered for coverage under social security programs. These are old age, unemployment, poor health, premature death of the breadwinner, and large family size. These risks affect all segments of the population and are severe in their impact.

1. Old Age

The problem

There are several primary problems involved in old age dependency. First of all, old age brings the cessation of earnings or a substantial reduction of earnings, although expenses continue. Thus, the severity of economic losses due to old age is in most cases great.

Secondly, population trends in many industrialized countries show that there has been a phenomenal growth in the number and proportion of the aged population. It is held that this tendency will continue in the future. The primary reasons for this spectacular increase in the absolute and relative

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number of the aged are a decline in the birth rate (which has now turned upward) and an increase in life expectancy.

Thirdly, even though the proportion of the aged has increased, the employment opportunities of the aged have declined. Among many factors contributing to the decline of labor force participation by the aged, the most important factor is the transition from an agricultural economy to an industrial economy. In an agrarian economy, it is possible for the aged to continue to work at least on a part-time basis, but they are unlikely to remain in the labor force in an industrial economy partly because of a general decline in physical efficiency and the personnel policies of employers.

**Methods of dealing with the problem of old age**

There are primarily three private approaches to the problem of providing for the aged; namely, (1) assumption of risk, (2) transfer of risk and (3) pooling of risks. As to public approach is, there are generally three; (1) social insurance, (2) public assistance and (3) a hybrid technique. In this section, the private approach will be considered.

As to the method of assumption of risk, the individual would save for his own old age. However, this method has become very difficult. For example, the capacity of individuals to save for their own old age maintenance has been lessened. This phenomenon can be explained by several factors: (1) the adverse effect of the outflow of many varieties of consumer goods and services on the savings for old age; (2) the unfavorable effect of high-pressure advertising and/or liberal extension of installment credit on systematic provision for old age; and (3) the adverse influence of price inflation on personal efforts for old age protection.

As to the method of transfer of risk, care by children can be considered. It is true that in some countries the law requires that children support their aged parents and that such a practice has long been regarded as having a highly desirable social value. However, such a concept has slowly changed because of the changes in economic and social conditions in modern society such as increasing urbanization of a society and changes in housing conditions. In some cases, from the social standpoint it is regarded as desirable that children be relieved from the burden of supporting their parents at a great

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(2) See pp. 57-60.
sacrifice of their own. Thus, the care of the aged by children has become an economically difficult matter in many cases.

The principal methods of pooling risks are private pensions and private insurance other than private pensions. Private pension plans have varied from informal plans on a cash-disbursement basis to contractual plans on an actuarial basis.\(^3\) The majority of the formal pension plans have been of the discretionary type in the sense that the employer has had exclusive control. There has, however, been a trend toward a greater mutuality of obligation. As a rule, a worker to be eligible for a pension must have attained a certain age together with a stipulated number of years of continuous service with the employer. If the worker resigns, he loses all accumulated service credit. Employers usually have adopted formal plans because they expect to reduce labor-turnover and to increase efficiency and loyalty of workers. Despite its obvious importance as a technique for reducing economic insecurity, private pension plans have several limitations. Many workers are not covered under private pension plans. Continuance of such a plan is uncertain, for the employers may fail, merge or change hands, or the pension plan might be terminated by the employer. Furthermore, there has been no legal guarantee of a pension.\(^4\)

Voluntary private insurance other than pensions is an important method of providing old age protection. It has, however, difficulties of its own. Among other things, the cost factors involved in private insurance prevent the mass of wage earners from relying on it completely.

Private charity can be considered as one of the approaches of solving the problem of old age dependency. It usually consists of fuel, food, clothing and other necessities rather than in the form of money. However, this private charity is frequently haphazard and wasteful, the amount uncertain and insufficient.

In most countries the public approach to be explained later has become the most important method of providing an income for the aged mainly because of such factors as a changed social conscience, political objectives, industrialization and urbanization.

\(^{3}\) For detailed discussion see McCill, op. cit., pp. 69-125.

Definition of the peril

There are two major factors to be considered in defining the peril of old age to be covered under a social security system: (1) the determination of the pensionable age; and (2) the issue of chronological age versus retirement.

Pensionable age. The determination of pensionable age may be considered from several angles. The first factor to be considered in determining the minimum age at which the normal benefit under a social insurance scheme or the assistance benefit under a public assistance scheme is payable would be the extent of the needs of the aged. This in turn can be affected by the severity of the income loss caused partly by the inability to work because of physical changes and partly by the incidence of the unemployment among the aged.

The second factor would be the consideration of the economic condition of a country, especially the productivity of an economy and the employment situation as well as the relative prevalence of poverty in a community. In an economy where full employment prevails, the lowering of the pensionable age will affect adversely the productivity of the economy. While in a country where unemployment prevails, it may be desirable to encourage early retirement by means of the lower pensionable age in order to provide the jobs held by the aged for the younger people.

The third factor would be the cost of providing pensions. The pensionable age should be determined by careful consideration of ability to pay the cost either by the insured worker and their employers under a social insurance program, or by the taxpayers under a public assistance program. Furthermore, the consideration of the burdens of other public services than public pensions such as the burdens of maintaining highways, parks, schools, public health, military forces and police force may be important.

The fourth factor would be the proportion of the aged to total population, the proportion to labour force, and the indigent aged to specific age group.

Chronological age or retirement. One eligibility requirement for a pension may be the mere attainment of a certain specified chronological age, whereas the other may be actual retirement from employment in addition to the attainment of a defined age. In determining either one, many factors must be considered. (5)

The first factor would be consideration of the effects of retirement on national output. If public income security programs force or encourage people to retire from the labour force before their productivity reaches zero, the society will certainly lose potential output. The extent of this loss will depend on several considerations. First of all, the pensionable age is certainly one consideration, since the age requirement has a definite relationship to contributions of the labour force to the output. Secondly, the capacity of the people to work at these ages and the extent of using the rest of the labor force should be considered. There is wide agreement that economic efficiency and capacity to work decline with age even though there are wide differences of opinions as to their nature and extent in different employments and occupations. It is highly probable that the improvement of the health condition will prolong vigor as well as life, thereby expanding the employment potential of the aged. The more this occurs, the greater will be the additions to the output which have been lost in these countries which through income security programs make it possible for people to retire at a biologically earlier age. Thus, it is quite obvious that the larger the percentage of population of pensionable age, the greater will be the economic loss to the society as a whole. It will be, therefore, advisable to take measures to make it possible or to encourage the aged people to remain in the labor force as long as it is productive to do so. On the other hand, so long as a society has a general labor surplus, there is little to be gained by adding these aged workers to the number of work seekers. Furthermore, when there is a large volume of unemployment, the net loss to the society through unemployment of the aged will be less important than the losses due to the unemployment of the younger workers. Under these circumstances, it would be desirable from the standpoint of a society as a whole to encourage retirement rather than discourage it. Thus, public attitudes toward the encouragement of early or later retirement through social security programs will be influenced by the changes in the general employment situation as well as by long-term trends in the employability of the aged.

The second factor would be the economic needs and condition of the aged. The actual severity and incidence of loss of income among each age bracket should be considered. The important consideration in choosing either one of the requirements is the proportion of the numbers of any age bracket who are at any time unable to earn because of physical or some other reasons.
and who do not have savings adequate to provide what the society considers to be an acceptable standard of living. The proportion of indigent people in a specific age bracket should also be considered. The larger the proportion, the greater the probability that the society will extend the payment of pensions to those who are not in need in order to provide for those who are in need.

The third factor would be the cost of providing pensions for the aged. There is a general agreement that payment of a pension automatically on the attainment of any specific age instead of on the basis of both age and retirement requirements is likely to increase the proportion of the national income which is channeled to the aged. The higher the pensionable age, however, the smaller will be the income transfer.

The fourth factor would be the economic and social environment. First of all, the higher the level of national income, the more is it likely to favor the age requirement alone, since the richer society is not likely to be concerned about the potential loss of national output by the aged. Secondly, the public attitude toward retirement is important in choosing either one of the methods. If the public is much more inclined to favor early retirement in order to provide a long retired life, the public will support such legislation. Thirdly, the number of the aged in relation to the size of the working population will be very significant. In the countries where there has been a great increase in both the number and the proportion of the aged to the total population, the country sometimes raises the pensionable age or introduces a retirement test in order to preserve the productivity of the society as a whole.

The fifth factor would be the attitudes of the public toward the claims of the aged. Since the cost of such a public pension for the aged is to be borne by the working population, the willingness of the public to provide such a pension should be carefully considered. The aged are not the only group which makes a claim on the national income. There are several others such as defense forces, veterans, students, the police force and those favoring the extension of highways. Therefore, it is desirable to consider the priority of such public expenditures in accordance with the intensity of the needs.

The final factor would be the administrative problems associated with a retirement test. If retirement is tested by means of money income, there are several disadvantages. At first, such a test is often affected by changing price
and wage levels which in turn are subject to frequent amendment of the income ceiling. Secondly, such a test will discriminate against the high-paid workers for whom part-time employment will lead to disqualification, whereas the low-paid workers may not have to give up employment even after the pensionable age. Thirdly, the opponents of such a test insist that it nullifies the objectives of the social insurance type of program by introducing a sort of needs test into the eligibility conditions. Whatever its validity may be, it is likely that the use of money income as a test of retirement is subject to considerable misunderstanding.

2. Unemployment

Involuntary unemployment may be defined as the lack of remunerative work for those who are able and willing to work. Quantitatively, it can also be defined as the difference between the quantity of labor services offered at a given level of wages with a given set of working conditions, and the quantity of labor services taken at such a level.\(^{(6)}\)

The problem

There are several causes of unemployment. These causes are complex and to a great extent interrelated. For our purposes, the more immediate and apparent causes will be briefly considered.

Technological improvement causes unemployment. Workers lose their job because of the introduction of a new machine or a new process which displaces labor or makes it economical to hire a different class of labor. Such technological improvement is always taking place somewhere in modern industry and this type of unemployment is increasing in importance.

Seasonal unemployment is caused partly by the fluctuations in weather and the flow of raw materials which affects production directly, and partly by seasonality in the demand for products.

 Strikes or lockouts are another cause of structural unemployment. Idleness caused by a strike or lockout becomes unemployment for those who must find new jobs. Furthermore, this strike or lockout in a certain industry brings other undesirable phenomena such as the adverse effects on dependent or interrelated industries. If large numbers are involved, for a considerable

period of time, the effect of a strike or lockout on the demand for all kinds of goods and services may be adversely affected.

Frictional unemployment is due to personal reasons rather than impersonal reasons. A considerable number of workers quit their jobs voluntarily, and workers are discharged by the employers. In most of these quittings and discharges, the separation takes place before there is any definite plan for another job which in turn causes a large turnover of labor accompanied by a great deal of lost time.

Business cycles cause the most severe mass unemployment. When depression takes over an industry, the number of workers is reduced by discharges, indefinite layoffs and part-time operation, and consequently unemployment becomes usual. Instances occur even when the economy in general is prosperous. But the most outstanding fact is that when a country as a whole enters into a general depression, mass total unemployment occurs and millions more are compelled to work on a part-time basis.

The impact of unemployment on the worker and his family, on industry and on the society as a whole is great.

There is nothing more detrimental to personal skill and efficiency than prolonged unemployment which consequently brings insecurity and lack of peace of mind. The consequences on the family of an unemployed worker are many: family savings become exhausted; insurance protection stops because policies lapse or are surrendered; furniture is sold and the house is lost through foreclosure; and food expenditures are reduced thus leading to malnutrition.

Unemployment affects not only the unemployed but also individual employers as well industry and business in general. The curtailment of purchasing power brings great obstacles to the continuation of mass production. The losses suffered will go far beyond the immediate decrease in profits. The curtailed production may increase costs of production, making it more difficult to maintain the present market. At the same time, the charges on unusual fixed capital and other necessary overhead expenses may eat into surplus which will eventually threaten final bankruptcy.

There is no way of measuring the effect of unemployment on society as a whole. It is, however, certain that the evil consequences of prolonged involuntary unemployment are incalculably detrimental to the social order. In addition to financial losses through idle plants and unproductive manpower,
even greater losses are the harmful effect on habits of thrift, immorality and crime resulting from unemployment. These impair the basic security of our entire social structure.

Methods of dealing with the problem of unemployment

From the analyses of the problem of unemployment, it is evident that society must seek ways to attack it.

There are primarily two approaches: private approaches and public approaches. The following private approaches are possible: (1) assumption of risk through individual savings; (2) transfer risk\(^{(7)}\) to the relatives and friends; and pooling of risks.

Individual savings have become a difficult matter even for a short period of unemployment because of the highly improved modern art of selling goods and services to the wage earners.

Financial assistance from relatives and friends may not always readily available. Private relief is also one of the sources of providing relief for the unemployed, but it is neither adequate nor an altogether suitable means of maintaining the unemployed.

Commercial insurance companies have long written insurance against death, old age, fire, sickness, accident, legal liability, the perils of sea and other perils, but they have not written individual policies insuring against unemployment because of the lack of the needed actuarial basis and partly because of fluctuation in employment which makes the matter of reserves important and difficult. Public actions in this field have become quite obvious.

The following are public approaches: (1) social insurance\(^{(8)}\); (2) public assistance\(^{(9)}\); (3) an efficient system of public employment offices; (4) the distributions of public works with due reference to the demand for labor in private employment; (5) juvenile placement, guidance and training; and (6) transferrence of adults from overcrowded industries or from the deteriorated industries. Some of these approaches deserve more extended discussion at this time, because they do not arise in connection with other perils.

\(^{(7)}\) In the United States supplementary unemployment benefits schemes have been devised through collective bargaining.

\(^{(8)}\) See pp. 57-59.

\(^{(9)}\) Ibid.
In reducing the maladjustment of manpower, an efficient system of public employment offices or exchanges has been regarded as very important, since the labor market can be adequately organised through such a mechanism to connect those who are in need of jobs with those who offer jobs. Its chief function is to protect the unemployed from needless wandering from place to place and from overcharges by private employment agencies, if any. This mechanism may be used in developing and carrying out a program of vocational guidance and rehabilitation. Furthermore, if careful records of applicants for work and of all applications for help wanted are kept and analyzed adequately by a group of statisticians, a system of public employment office is in a position to provide answers to a important questions such as excesses and deficiencies in the labor supply and demand in different industries, the types of training needed, and employability of the unemployed through public works and other measures.

Government can avoid or relieve the depressed economic situations by postponing or accelerating public works in accordance with economic conditions. Public works include such government projects as the construction of highways and other public buildings, hydroelectric dams, land reclamation, river and harbor improvement, and flood controls. The main objective of public works is scheduling of such programs, and governmental selling and buying in such a way that a large amount of money is released when private business is in a slump, thus tending to stabilize the general economic activity of the nation.

It may be necessary to train the young people to guide them to branches of employment with a future rather than leave them enter deteriorating industries. Rehabilitation of the unemployed adults in overcrowded occupations or in deteriorating industries so as to fit them into those other skilled and semi-skilled occupations in which labor is relatively scarce has received much attention in many countries.

**Definition of unemployment**

In order to preserve the willingness of workers to work rather than to be idle, and to provide protection to those who are involuntarily unemployed because of lack of work and who are able and willing to work, unemployment must be defined carefully under public approaches.

First of all, an unemployed worker should be able and available for work. He should be fit physically and mentally to work and should show evidence of
availability for work, for example, by registering at an appropriate employment office.\(^{(10)}\) Secondly, a voluntary quit without good cause\(^{(11)}\) does not come under the definition of unemployment. Only involuntary unemployment has been generally considered compensable. Thirdly, the case of discharge arising out of misconduct in connection with work has generally been excluded in defining unemployment. Fourthly, those who have refused or have failed to apply for or accept suitable work without good cause are generally excluded. Fifthly, unemployment caused by a labor dispute is not generally considered compensable.

**Long-term and short-term unemployment**

A basic issue in unemployment insurance is whether the protection provided under public programs should be limited to short-period protection or be extended to long-period protection.\(^{(12)}\) A corollary question deals with the specific public program to be used.

There are three common methods for dealing with long-term unemployment: unemployment insurance, public assistance, and public works. For the unemployed workers, the advantages of unemployment insurance compared with an income security program based on need are several.\(^{(13)}\) First, the benefits are paid as a matter of right rather than subject to a means or need test. Second, there is not much room for exercising administrative discretion. It has, however, disadvantages, too. Among other things, the benefits are generally relatively low averaging about one-third of previous earnings. During the period of prolonged unemployment the claimant is unlikely to continue to supplement those benefits from his savings. Therefore, in making a decision to use unemployment insurance as the major instrument for long-period as well as short-period unemployment, the benefit rates must be reconsidered by reference to some maintenance standard.

Some propose to use public works programs for long-period unemployment in order to protect the workers from the depressing and demoralizing effects of long-period unemployment and also to prevent the worker’s skill from deteriorating. Certainly, this may be one of the answers for the solutions of

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\(^{(11)}\) In some cases voluntary quit is not considered compensable regardless of its cause.

\(^{(12)}\) For detailed discussion see Burns, *op. cit.*, pp. 112-117.

\(^{(13)}\) Ibid.
long-period unemployment.

For society as a whole, unemployment insurance and/or public assistance as a method dealing with long-period unemployment also presents both advantages and disadvantages as compared with public works programs. As far as the advantages go, first of all, the cost is less in case of the former method than in the case of large-scale public works. The latter—public works—usually involve the allocation of larger amounts of funds for the relief of the unemployed than either the insurance method or the assistance method. It is more desirable to pay prevailing wage rates to the workers under the public work projects in order to make them feel that they have a real job. Furthermore, in order to preserve the skill of the workers which is likely to deteriorate in case of prolonged unemployment, it is also desirable to place the unemployed workers on jobs similar to those held previously but this presents many difficult problems.\(^{(14)}\) Secondly, neither the insurance method nor the assistance method involves the difficult task of determining the timing and the appropriate spheres of government activities. Furthermore, before carrying out public works the willingness of tax-payers to support the unemployed should be carefully considered together with the reactions from the private producers on the production of commodities through public works programs.

On the other hand, it may be difficult to check malingering if long-periods of unemployment are compensated through the insurance method. The assistance method is likely to weaken the morality of the unemployed and their families because of a need test.

Particular difficulties in checking malingering arise under the insurance method at the time of high employment because of the ease with which benefit rights can be established with a short-period of employment especially if the system provides uniform benefits, and liberal eligibility requirements. The solution to this problem may be to set high minimum earnings or longer period of employment requirements as a condition of eligibility at the expense of eliminating from benefit rights those for whom unemployment insurance would be an appropriate source of income. Another solution may be to combine social insurance with public assistance, paying the insurance benefits to the

\(^{(14)}\) For those unemployed workers it will be necessary to provide appropriate materials, machinery and technical supervision.
unemployed for a limited period and thereafter switching to the assistance scheme on the need basis. As a final point, when unemployment is paid without any needs test, society may find itself bearing benefits paid indefinitely to some long-period unemployed who are not in need as judged by prevailing standards at the very time when the desirability to limit the benefits to those who are in need is great.

3. Poor Health

Poor health may be defined here as any physical or mental impairment which requires medical attention by a physician and results in expenses or loss of working time. However, it should be recognized there is a wide difference in opinion as to the definition of health. The World Health Organization defines health as a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity.\(^{(15)}\) This is an extreme and idealistic view, the objective being to strive for perfect health.

The Problem

Poor health results from infection and a more or less inevitable wearing-out process which is correlated with age. Sometimes, it results from personal factors such as overeating, overdrinking, neglect and a great variety of things which connects with personal hygiene. Sometimes, the general social environment such as deficient disease control, bad water, bad housing, and poor public health is associated with a person's work. For example, an inadequate wage means undernourishment, inadequate clothing, poor housing, inadequate medical and nursing care, and nervous strain. There is no doubt that such factors as heavy work, standing, bad ventilation, improper heating, dust, noise and other improper working conditions injure health seriously.

Poor health may be induced by injury and disease or impairment since birth. An injury is a relatively sudden impairment occurring in a violent fashion voluntarily or involuntarily. An accident is a sudden fortuitous event occurring independently of human intent.\(^{(16)}\) Disease tends to develop over a period of time, while injury occurs instantaneously. There are two types of economic loss resulting from loss of health, namely, loss of earnings and medical care.

expenditures.

Methods of dealing with the problem of poor health

Efforts to prevent poor health include devices such as medical care, public health, preventive medicine and medical research. As to medical care, physicians constitute prime personnel resources for the prevention and care of poor health, and hospitals are the most important organizational facilities providing health services. Public health includes activities for the prevention of disease and the specific promotion of health which are primarily a community responsibility. Preventive medicine is the function of professionals in promoting personal and family health. Medical research conducts its investigations into causes, cares and rehabilitation. More detailed consideration in these preventive efforts is beyond the scope of this study.

As far as devices for meeting the financial impact of health loss are concerned, there are broadly three private approaches: namely, simple assumption of risk, transfer of risk and pooling of risks. At first, assumption of risk means the acceptance of the burden or risk by being prepared to meet losses when they occur. This method is not a desirable method for disability losses, because they may be catastrophic to the individual or the family. Secondly, transfer of risk means a mere shifting of the financial burden of risk to the others. A person in poor health is unlikely to meet disability losses successfully by transferring risk to others such as friends or relatives. Thirdly, pooling of risks is a device for reducing the financial consequences of risks by pooling individual exposures. Despite the fact that individual and group health insurance have constitute a very important private approach to the problems caused by poor health, they have several shortcomings. First, private insurance does not cover many people who are really in need of protection. Second, the cost has been a prime barrier. Third, private insurance protection often has been inadequate in meeting the needs of the insured people.

Public approaches such as social insurance and public assistance\(^{17}\) have been one of the earliest forms established in industrialized countries.

Definition of disability

Disability is inability work or carry on regular activities. The main causes

\(^{17}\) As to the features of these two public approaches see pp. 57-59.
of disability are accidental injury and sickness.

One of the problems arising in a social health insurance program providing income for persons who cannot work is the proper way to restrict cash payments to persons who are genuinely disabled.\(^{(18)}\)

The usual method of determining the existence of disability is to rely on certification by the patient's attending physician. Some of the medical profession object to this, since the patient's right to secure benefits is determined by his physician’s judgment, thus impairing the patient-physician relationship.

When some controls for improper certification are used, the medical profession often criticizes these controls as leading to third-party intervention between them and their patients, and as involving a risk of lay-control of professional judgment. This problem is perhaps soluble if the administration is prepared to use professional personnel to operate the controls and if the medical professions are prepared to cooperate with the administration.

There is also the problem of the impact of such devices on medical secrecy. This problem is perhaps soluble through the use of such devices as the adoption of codes or symbols or by imposing on all those who process the raw data the same duties of professional secrecy and confidence as are common to the medical profession.

Another problem area is the technical difficulty of certification in cases where psychosomatic factors are involved. Since there is a danger that some payments may be made to persons whose disability is within their own control, the exclusion of such kinds of illness from the risks covered is recognized as one solution.

As far as permanent or long-period disability is concerned, it is very easy to have a conflict of interest between the medical profession and social security administrators. For short-period disability, the problem is less serious because of the limited duration of benefits. In long-period disability there is no time limit to duration, and therefore improper and undesirable payments may have serious consequences for financing the programs. The fact that the psychological effect of a decision of permanent and total disability to an individual is harmful must not be ignored. One proposed solution for this difficulty is the use of

\(^{(18)}\) For detailed discussion see Burns, \textit{op. cit.}, pp. 117-126.
different language such as "long-period disability" or "invalidity insurance." Furthermore, efforts have been made to define the degree of incapacity which gives a right to pension so long as loss of earning capacity persists.

When the criteria relate to capacity to obtain employment, decisions have to be made as to what percentage of the loss of normal earning power shall confer eligibility, and to whether the loss of income to be compensated refers to inability to work in one's normal employment or any employment at all. In making these determinations the state of labor market must be carefully considered, since as a general rule the disabled are marginal workers whose prospects of employment are very sensitive to change in the general level of the demand for labor.

The next problem is the eligibility of the disabled for pensions after they return to complete earning capacity. The worker has no right to an invalidity pension in those systems where the disability insurance system is regarded as protection against loss or reduction of earning power. On the other hand, the worker as a right to an invalidity pension in those systems where such a scheme is envisaged as providing reparation for physical injury regardless of its effect on earning capacity.

**Special factors effecting the decision to include medical care**

Whether or not a community will decide to exercise the powers of government in the field of medical care, for which categories of population and for which types of program will be needed, will be dependent upon several factors. First of all, the degree of dissatisfaction with existing methods of organizing and financing medical care on the basis of unmet health needs, the availability of medical services, and the severity of the economic burden of medical costs on individuals and families should be considered. Secondly, the attitude of the public toward government activity is an influencing factor. Thirdly, the attitude and traditions of the medical professions should be considered. Finally, the decision may be dependent upon the character of the citizenry, their capacity to exercise self-restraint in the utilization of freely available goods and services, their attitude toward the administrator, and their willingness to pay the cost of comprehensive medical services.

**4. Death of Breadwinner**

Premature death of a breadwinner means the death of a producer with
dependents such as a wife, dependent children and other dependents, if any. It also includes the death of a disabled or old age pensioner, if he leaves survivors who are, at least, in part dependant on his pension.

The problem

Premature death of a breadwinner causes two major problems: (1) the cessation of the earning power of the deceased which in turn leads to socially and economically undesirable effects on the survivors, and (2) extra expenses for burial expenses, last illness and other. The younger the age of the death of breadwinner, the greater will be the loss of future earnings. Upon death his family may be forced to live below a subsistence level unless they have other financial sources. Furthermore, the survivors may be greatly burdened by the various expenses incurred in connection with the medical expenses incident to last illness, burial expenses and other personal debts, at the very time when the emotional shock is very great.

Methods of dealing with premature death of a breadwinner

There are primarily three private methods of dealing with the premature death of a breadwinner: (1) simple assumption of risk; (2) transfer of risk; and (3) pooling of risks.

As to the first approach, individual savings would be the first defense against the financial impact caused by the death of a breadwinner. However, as was the case in the problem of old age, unemployment and poor health, this approach is usually ineffective.

As indicated earlier in connection with other perils, the transfer approach has been considered less reliable than the approach which has been considered one of the most satisfactory solutions.

Even though the private insurance approach has been extremely important in some countries, this approach has several limitations. First, it leaves many uncovered groups primarily because of its voluntary or employment-connected nature. Second, the cost factor involved makes it impossible for the low-income groups to be adequately protected. Because of the importance of this peril and the inadequacy of private approaches for large segments of the population, public alleviative devices have become commonplace.

(19) Turnbull, Williams, and Cheit, op. cit., pp. 50-51.
Definition of the peril

The protection of survivors upon the death of the breadwinner is intended to replace, at least in part, the loss of earning power of the deceased suffered by his family as well as the extra incurred on the death of the breadwinner.

This peril is usually classified as employment-connected death. In order to be covered under a workmen’s compensation scheme, the death must have occurred in the course of and must have arisen out of the employment.

5. Large Family Size

The Problem

The inflexibility of a wage or salary with the size of the family is one of the prime causes of the undernourishment and other hardships suffered the families of the wage earners.

Methods of dealing with the problem of large family size

Primary private alleviatory approaches are: (1) selfassumption in the form of savings, (2) transfer of the burden to others, and (3) pooling of risks. Savings in advance have been very difficult, whereas transfer of risk to relatives or friends is not a suitable approach for the solution of this problem. No private insurance other than some specialized forms such as twin insurance has been designed to deal directly with this problem. Therefore, public action in this field has been fully justified in some countries.

There are several public alleviatory approaches. The development of municipal education, creation of maternity and child welfare clinics, the successive improvements of working conditions of the juveniles, the provisions of allowance for dependent children in the income tax law, and family allowances are good examples of the public approaches.

Definition of the peril

Under the family allowances scheme, definition of the peril is relatively simple. The periodic money payment is made usually to the mother for each child with or without exclusion of the first child below a certain age without any test of income or need.

Several factors affect a decision as to whether the family allowances scheme should be introduced. First, the trend of birth rates would be the first factor.

It may be more desirable to have such a scheme in the countries where a downward trend of birth rate has prevailed. The second factor would be the national wealth. Unless there is enough capacity to afford such an expensive scheme, it would present many difficulties in its financing. The third factor would be the condition of the children. The greater the impact of the large family size on the well-being of children, the more it would be desirable to introduce such a program. The fourth factor would be the public attitudes toward government participation in this field.

II. TECHNIQUES

1. Major Techniques

There are two major income security techniques: social insurance, and public assistance. The nature of social insurance and public assistance may be more easily understood by exploring the differences between the two.

The first difference is the presence or absence of a means test or needs test as a criterion of eligibility and a determinant of the amount of benefits. In social insurance there is no means or needs test in determining the eligibility for benefits. The benefit is given as a matter of right whether the beneficiary has sufficient income or not. Eligibility is usually determined by the fulfillment of the requirements specified in the law such as a specified period under covered employment. On the other hand, public assistance is to be given only to those who are in need. this need is determined through a means or needs test by the administrator or by taking account of the applicant's resources together with availability of assistance from his relatives.

The second difference is the predictability as to eligibility and benefits. In social insurance it is a general practice to specify precisely the conditions concerning eligibility, and the nature and amount of the benefits so that it is quite possible for the insured to predict his benefits, whereas in public assistance it is customary to provide the income with the investigation of family needs by the administrator so that it is almost impossible to predict the benefits by
the needy.

The third difference is the extent of the discretion of administrator. In social insurance, there is less room for the administrator to exercise his discretion. The claimant is protected from the administrator's arbitrariness by the machinery of appeal. It is true that in public assistance the recipient can appeal in case of any complaints but it is not easy to handle every appeal on an objective basis partly because of the nature of public assistance itself and partly because of other factors such as the different standards applied in the different localities and availability of fund.

The fourth difference is the method of financing. Social insurance usually requires specific contributions by the insured persons and their employers, if any, or by employers only on behalf of their employees, whereas public assistance is financed out of general taxation.

Social insurance has several merits. First of all, from the insured person's standpoint, it encourages independence and self-reliance. People in such a society prefer smaller assured benefits claimable as a right over larger grants as charity. Secondly, when there are so many people who need income security by reference to public measures, it will be almost impossible to use the public assistance approach, since the investigation of each individual case would be costly and time-consuming.

Social insurance also has some disadvantages. First of all, some argue that social insurance weakens the incentives of workers to participate in production. This contention will be weak in case of the aged, the permanently disabled and the widowed with dependent children. It is stronger in the case of the temporarily disabled and unemployed. Secondly, some say that social insurance is more costly in the sense that it may involve the allocation of a larger share of national income than would have been the case if publicly provided income were available only upon proof of need.

In the field of social insurance, there is an obvious tendency to extend the scope of protection in terms of both the number covered and the range of risks covered with the improved quantity and quality of benefits and to emphasize social equity rather than actuarial equity. On the other hand, there is a tendency to remove the normal stigma from public assistance. Thus, it may be said that social insurance is a progression from private insurance to
the direction of public assistance, whereas public assistance is a progression from poor relief under the poor law in some countries to the direction of social insurance.\(^{(22)}\)

The social security system of a country includes the complex of social insurance and public assistance programs. It has been said that it is not easy to achieve comprehensiveness in the scope of protection in social security with either one of the two techniques alone. Social insurance inevitably leaves some groups unprotected, since it provides benefits only in the presence of certain precisely defined conditions. Public assistance must cover the residual. Therefore, the two techniques should be carefully coordinated, although the choice of greater emphasis on any one method for a given purpose is largely determined by its feasibility to the economic, political and social environment of a country concerned. In most countries, public assistance has supplemented social insurance. It has substituted for the insurance benefits in these cases where the individual was unable to fulfill the qualifying conditions or has exhausted his benefits. It has also supplemented the insurance benefit in these cases where there still exist unmet needs.

So far, consideration has been limited to the relationship between social insurance and public assistance. There is another technique which is designed in such a way that it lies half-way between social insurance and public assistance. Some call it the income-conditioned or hybrid technique.\(^{(23)}\) Under this hybrid technique eligibility for the payment of benefits is specified by the law. In this respect this technique resembles social insurance. It resembles, however, public assistance in that the resources and income of the applicant are taken into account in determining the amount of benefits and eligibility for benefits. On the other hand, under the hybrid technique the law specifies the extent of the amount of benefits to be reduced for each specified amount of income possessed by the applicant so that the applicant is in a position to estimate the amount of benefits beforehand. The administrator can exercise little discretion, since the nature of the right is defined by the law. For example, if the administrator is to take into account the income of the applicant and of his or her spouse,

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the law specifies the items of the property to be disregarded, and the amount of the earnings and/or income from certain specified sources to disregarded in determining benefits.

2. Special Medical Care Techniques

Medical care techniques other than public assistance are broken down somewhat differently such as (1) public subsidies to a voluntary insurance organization, mutual benefit society, or trade union organized to provide medical care for their members; (2) compulsory social insurance; and (3) a national health services. (24)

Under the technique of subsidizing voluntary health insurance plans, certain types of non-profit health insurance plans receive a subsidy from public funds if they meet specified conditions which usually relate to membership, minimum benefits to be provided to the members, and financial stability. One advantage of this technique is that it preserves private enterprise it relies heavily on the voluntary activities in this field. There are, however, several disadvantages. First, it is not possible to cover the total population or even all the working population, because the income of some persons is too small to pay premiums even when they are lowered by a public subsidy to the private organization, and there are always some people who refuse to insure although they could afford it as long as membership is voluntary. Second, the extent of public control of such organization is likely to increase with increasing subsidization. Third, the levels of service vary not only with the efficiency of management of the individual funds but also with the character of their membership, their occupational composition and economic level, and their geographical location.

Under “compulsory health insurance,” the term being used in this case to describe one type of social insurance according to our definition, certain categories of persons are required to pay contributions on the basis of which an insured worker is entitled to benefits. The benefit takes the form either of free access to certain defined types of medical services, or indemnifying the patient for all or part of the fees he has paid the doctors, hospitals, or pharmacists. It is difficult to evaluate this technique, since there is a variety of

practices. However, the insured usually has free choice of a doctor or of those doctors who have indicated their willingness to practice under the scheme. Sometimes, the insurance scheme has its own hospitals and clinic, and sometimes, service is supplied by other public or private health agencies who are reimbursed directly or through patient from the scheme.

Under the national health services technique which, depending upon the observer's definition, may also be called compulsory health insurance, the defined categories of persons who are eligible receive medical care from physicians and other medical personnel, and are treated in the institutions which are financed by public funds and are usually publicly owned and operated. Under the universal coverage scheme, there is free access to medical services. However, the financial burden on the public fund is great. Furthermore, some may argue that this is socialized medicine which interferes with traditional private enterprise.

III. PERSONS COVERED

There are broadly two ways of determining the persons to be covered: universal coverage, and partial coverage.

Universal coverage has several advantages. First of all, it provides all citizens with socially needed protection. Secondly, when universal coverage is combined with a benefit structure which is independent of past contributions or earnings, it is much more simple to administer than partial coverage, since there is less need to keep the individual insured's record of contributions and benefit payment for administrative purposes. On the other hand, it is difficult to provide universal coverage from the financial point of view, because a much larger proportion of national income would have to be allocated for this purpose.

A partial coverage system usually extends its protection to those employed. Often a social insurance scheme excludes such groups of people as nonemployed, self-employed, farm workers and domestic servants mainly because of difficulty in administration. In some cases it excludes non-profit organizations and government employees because of a constitutional question. The principal advantage of partial coverage is that benefits are more likely to be related to contributions or earnings and in some countries this is considered very desirable. Public assistance by definition only covers those in need.
IV. ELIGIBILITY REQUIREMENTS FOR BENEFITS

Eligibility requirements for benefits under social insurance and public assistance may be considered separately.

Social insurance schemes generally require the claimants to satisfy such requirements as a minimum period of attachment to covered employment, and a specified number of contributions during a prescribed period of time. There are several exceptions. First, under workmen’s compensation schemes the usual requirement is generally simply that the accident or disease arise out of and occur in the course of employment. There is no other requirement. Second, the death of a breadwinner poses several peculiar features. Some schemes cover any death from any cause without exception. In this case they usually require being under covered employment and/or a certain minimum period of contributions. Other schemes only cover death resulting from employment or other prescribed causes and in this case there is usually no contribution requirement. As to widow’s pensions, all schemes usually require former dependency on her husband, care of dependent children, or disablement. For dependent children there is generally an age limit. However, it must not be forgotten that there are wide differences in practice with regard to those basic requirements.

In public assistance common eligibility requirements are nationality, a certain period of residence, a means test and moral factors such as willingness to work. In practice, there are also wide differences in detailed requirements.

V. BENEFITS

1. Types of Benefit Structure

There are basically three principles underlying benefit payment; (1) benefits based on individually demonstrated need; (2) benefits based on an assumption of average need; (3) benefits based on the earnings of the insured.\(^{(25)}\)

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\text{Benefits based on individually demonstrated need}
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\(^{(25)}\) For detailed discussion see Burns, \textit{op. cit.}, pp. 19-70.
In general the public assistance operation is based on the principle of individually demonstrated need.\(^{26}\) Under such a system an agent of the assistance organization investigates the applicant's available income and resources as well as his income needs. The difference between the available income and resources, and the income needs is theoretically the amount of relief to be granted.

As stated earlier, there are several advantages to determining benefits under this method. First of all, it is possible to adjust publicly assured income to the precise needs of the individual applicant. Secondly, it provides public money only to those who are in need. On the other hand, there are several disadvantages in the application of this method. First, sometimes a shortage of funds prevents the full payment of the difference between the income needs, and the available income and resources, as determined by a careful investigation. Second, there is a tendency to set the standards as to the items to be included in the family budget, although additional sums may be granted at the discretion of the administrator for exceptional cases. Third, the process of determining needs and resources in each individual case is costly to administer and requires highly skilled personnel. Fourth, it may be necessary to investigate a certain case more than once, since the circumstances of the applicant are subject to change. Finally, this method is greatly disliked by many, since it is necessary for the applicant to disclose his personal affairs to an official at the time of investigation.

**Benefits based on presumptive average need**

The basic philosophy behind this method is that all persons in defined groups are likely to have certain common minimum needs for income and that the function of this method is to ensure that none falls below this minimum standard.

It is possible to classify this method further into two sub-classes: the uniform benefit and the income-conditioned benefits.\(^{27}\) Under a uniform benefit system, a uniform money sum is paid to all of persons belonging to a specified group. Under the income-conditioned benefit system, the law specifies a certain minimum money income below which an individual is entitled to claim benefits

\(^{26}\) See pp. 57.
\(^{27}\) See pp. 59-60.
of a specified money amount. For each unit of income in excess of this minimum the benefit is reduced by some predetermined amount, until a maximum private income is reached above which no benefit is paid. Furthermore, the law specifies what kinds of income are to be included in the applicant’s qualifying income and the extent to which income from specified relatives is to be included.

Both forms of benefits payment have several advantages. Among other things, they are relatively simple to administer. Secondly, government intervention in the private life of the individual is kept at a minimum. Even in the income-conditioned benefit, it is possible to use income tax returns for determination of eligibility, thus using more objective criteria than a personalized method. Thirdly, both can be used for purpose of providing a certain socially desirable floor of protection, leaving room for the individuals to supplement above this floor by their own efforts.

As to the disadvantages of both methods, first, both are less effective than public assistance in meeting needs on an individualized basis, and might need to be supplemented by public assistance unless the benefit levels are relatively high. Secondly, they are weak in the face of inflation unless an increased benefit is provided automatically by reference to the index of cost of living as inflation proceeds.

Thirdly, benefits may be provided for those who have adequate private resources. However, this contention may be weak, if the aim is to provide a floor of protection to all citizens regardless of earnings or income. Fourthly, there is difficulty in setting the minimum need of the average persons. Usually, the assured money income is set at a relatively low level in relation to average earnings. Finally, they are unlikely to be flexible in the face of changes in the general level of national income.

Benefits based on previous earnings

Benefits may bear a direct or close relationship to the previous earnings or income of the insured. This principle is derived from private insurance.

This method has several advantages. First of all, where the geographical areas covered by a social security system are large and are characterised by great diversity in price levels and of economic conditions, these differences are reflected in average earnings or incomes in different areas. Secondly, in a free enterprise society where the rewards of individual initiative should be stressed, this method is appropriate. Thirdly, where social security income is regarded
as an extension of the wage contract, this method is favored by many groups including organized labor. Finally, this method makes it possible for the workers to project their future income after retirement.

The crucial problems associated with this method must not, however, be overlooked. Among these, the most important problems are (1) the conflict between the wage-benefit principle and the demand for security, (2) the determination of the insured’s past wages for benefit payment purposes, and (3) the establishment of criteria for maximum and minimum benefits.

In order to achieve social objectives, it is necessary to modify the principle of relating benefits to wages. One modification weights the benefit formula heavily in favor of the lower-paid workers. A second modification takes the form of statutory minimum and maximum money benefits. No matter how low a worker’s earnings may be, he cannot receive less than a certain amount if he is eligible at all, while there is a ceiling of the maximum benefits available to the high earning worker. A third modification is dependant’s benefits. This is a great departure from the “pure” wage-benefit principles.

As far as the method of determining previous earnings is concerned, several problems arise. First, it is necessary to keep extensive records concerning the entire wages or earnings. Second, if the excluded groups such as the self-employed and farmers are to be covered, consideration should be given to the fact that part of their income may consist of income in kind. Third, attention should be given to those persons who do not meet the contribution requirements for various technical reasons. One solution would be to use a wage base during the highest earnings sub-period in a prescribed period of time.

The problem of setting the criteria for the benefits level is the most important and difficult. Several factors should be considered. The first factor would be the determination of the proportion of wage loss to be compensated. There are wide differences of opinion. Some say the maximum benefit should be 50% of wages, some 60%, and still others 75%. All draw the line arbitrarily so that it may not be necessary to discuss these in detail.

The second factor would be whether the benefit should be the same proportion of wages for all eligible persons under the wage-related benefit scheme or

(28) For detailed discussion see Haber and Cohen, op. cit., pp. 236-237 and 264-275, and also See Turnbull Williams and Cheit, op. cit., pp. 203-209.
whether it should be varied in favor of lower-paid worker and workers with dependents. The former can preserve the benefit-wage principle but it is weak in achieving social objectives, while the latter modifies the benefit-wage principle drastically but it achieves social objectives.

The third factor would be the determination of the minimum and maximum benefits. The minimum benefit must not be so inconsequential that it does not contribute to the living of the beneficiary. Furthermore, there must be some justification for incurring administrative expenses in connection with these benefits. The more important and difficult problem would be the setting of the maximum. It is agreed that there must be some maximum limitation of benefits partly because the workers of the highest income bracket should not be allowed to draw a disproportionate portion of available funds, and partly because the high-wage-earners usually spend a smaller proportion of their earnings for their basic necessities than the lower wage earners. In any event the maximum is set at less than 100% of average earnings, thus encouraging the people to work.

2. Level of Benefits

Theoretically the level of benefits should be designed to meet the minimum need of any worker and his family. This minimum need may differ according to the community, the individual and his family size, the perils covered, and techniques used.

In determining the level of benefits, several factors should be considered. The first factor would be the consideration of the effect of level of benefits on the willingness of the workers to work. The closer the level of benefits to the earnings of a workers, the more likely he is to prefer benefit payments to work. The character of the citizenry and general level of employment should be taken into account in making this decision.

The second factor would be the role of the supplementary programs in the over-all social security system. When the level of benefits is based on average needs rather than individually demonstrated need, a larger number of persons are more likely to need the residual services. Furthermore, the broader the average, the larger number of persons who would have to turn to the supplementary programs.

The third factor would be the setting of the minimum need. The problem as to whether or not the level of benefit should be based on the minimum
need of the average person or of the lowest income group may be largely dependent upon the prevalence of poverty in a society and the national wealth. The definition of the minimum need may induce a wide difference of opinions. The determination of the minimum need would differ according to the inclusion or exclusion of savings in the minimum or according to the items included as the basic minimum living standard. This decision may also be greatly affected by the availability of national income for this purpose.

The fourth factor would be the relation of the benefit level to the wage and price level. This decision will be, in large part, influenced by the types of benefit structure.\(^{(29)}\)

VI. FINANCING

In making decisions with regard to the financing of social security programs, there are three main issues: the types of taxes to be levied; the method of spreading the cost; and the levels of government participating in the cost.

Before considering these basic issues, it is necessary to consider a number of factors. First of all, if one particular program is involved, it may be more feasible either to make the workers bear all or most of the costs of the program, or to make a grant-in-aid. If many programs are involved, it is almost impossible to consider such methods of financing, because the resulting cost to the lower wage earners may be unbearably high. Highly complicated financial relationship between different levels of government may result if many programs are financed by grants-in-aid. Secondly, the method of financing is influenced by such a factor as coverage. For example, in financing an old age insurance program it is more appropriate to use the trust fund accumulation for covering only a section of the population, whereas it may be better to use a pay-as-you-go method for universal coverage. Thirdly, the issues of financing are affected by decisions as to the types of benefits provided.

1. Types of Taxes

In addition to making certain that the taxes are sufficient to finance the anticipated benefits, the taxes must satisfy other criteria.\(^{(20)}\) First of all, there

\(^{(29)}\) See pp. 62-66.
\(^{(30)}\) For detailed discussion see Burns, \textit{op. cit.}, pp. 155-184.
arises the problem of equity. It is highly desirable to maintain equity between individual taxpayers in roughly similar economic circumstances. In a country where it is held that the wealthier people should pay more than their proportionate share of governmental operations, it is desirable to place a lighter share of the cost on the lower-paid workers. Secondly, the economic consequences of the imposition of such a tax on the productive effort of the public should be considered. Some types of taxes or levels of tax might discourage businessmen or workers from putting forth additional efforts, thereby lowering the total national output, even though they bring adequate revenue. Finally, the effects on social behavior must be considered. For example, a tax imposed on beneficiaries to finance a particular program will make them feel a sense of responsibility in its use. In some cases, by making the employers participate in financing such a program, they will be induced to take action to reduce the severity and frequency of risk. Sometimes, when the cost of the program is charged primarily to a relatively small section of taxpayers, the result would be an undue interest on them in the program which in turn might induce undesirable reactions on the program through political influences.

**Taxes on workers**

Most social security programs collect a part of the costs from the workers. It takes the form of (1) a percentage levy on a part or all of income, or wages, or (2) a uniform amount. However, in some plans the tax is paid solely by employees and in other plans it is paid solely by employers.

The primary objective of having the beneficiary bear part of the cost is to enhance his sense of responsibility, especially where there is a fixed relationship between benefits received and taxes paid.

This method has two disadvantages. First, the tax on workers for social security purposes is in its nature a regressive tax, since there is no exception by reference to minimum income or to the extent of family responsibility and instead the rate is uniform up to the taxable maximum. Second, the scope of protection is restricted to workers, thus excluding those needy people who are not employed.

**Payroll taxes on employers**

There are two reasons for levying a tax on employers to finance social security
programs. One is that employers are regarded as being better able to pay the
tax than workers, and the other is that employers are considered responsible
for the occurrence of the risks covered under some social security programs. (32)

This practice has several advantages. First, the employers are likely to coope-
rate with the administration in keeping costs to minimum. Second, the employers
are encouraged to take actions for prevention of the risk by giving them an
incentive to keep the costs to a minimum by means of experience rating.

The disadvantages of this practice are several. First, the employers are likely
to pass this tax on to consumers through higher prices in cases where this
was not the desired result. Second, this tax is likely to be passed on to wage
earners by withholding wage increases which may be considered undesirable in
some cases. Third, the impact of the tax among different types of employers
is uneven and unfair, because some of them can pass the cost on to others,
while others cannot.

Non earmarked taxes

In general, public assistance, family allowances, income-conditioned benefits,
pensions to veterans and unearned benefits under the insurance scheme are
financed by non earmarked taxes. As the scope of coverage and perils covered
in social insurance have expanded, there has been a pronounced tendency to
abandon sole reliance on earmarked taxes paid by employers and workers.
Correspondingly, the subsidies from general taxpayers have grown to an
increasing proportion of revenue. These subsidies may either take the form of
(1) government contributions at the same time and on the same basis as
workers and their employers, or (2) underwriting the difference between the
income of earmarked taxes and total expenditures.

The non earmarked tax has several merits. First of all, it is generally a
progressive tax which is regarded as a means of achieving social equity and
as a means of achieving a desirable redistribution of income. The general tax
system as a whole is more progressive than the earmarked taxes for social
security purposes when the general revenue of a government mainly consists
of income and inheritance taxes. Secondly, the tax yield fluctuates less drastically
over time than certain types of earmarked taxes. Furthermore, the appropriations
from general revenue are more flexible in meeting changing circumstances.

(32) The latter reason is much debatable. For detailed discussion see Burns, op. cit., pp. 160–161.
This type of tax has several disadvantages. First of all, general revenue has little, if any, restraining effect on beneficiaries. Secondly, when programs are new, or have not been accepted by the public, the resistance of taxpayers to such programs is far greater than the case of earmarked tax.

Private underwriting

An entirely different principle of raising the funds for social security payments has been applied in many countries particularly in workmen’s compensation programs. This principle is the underwriting of the program through private insurance companies.

Private underwriting has several advantages. First, there is much greater flexibility in the sense that the benefits can be more neatly tailored to the needs and circumstances of the employers and/or employed workers. Second, administration can be simplified when fringe medical and disability benefits provided voluntarily by employers are integrated with those provided by the public program. Third, benefits above the legally required minimum can be provided to a certain group of workers through the use of private underwriting, either because the risks of a firm are better than the average, or because the employers may be induced to make additional contributions. Finally, this method preserves private enterprise in a field which would otherwise be monopolized by government and many believe that private enterprise is more efficient than government.

There are several disadvantages to this practice. First, it is thought by many that a private profit should not be allowed out of what is essentially a social risk. Second, since there is the necessity to supervise through public authority, additional administrative costs are inevitable. Third, since there exists competition among the private carriers, the resultant administrative costs are usually higher than those of a government insurer. Fourth, private carriers may resist the liberalization of benefits, because it may reduce their profit margins and may even reduce their market. Finally, the security of the workers in the case of private underwriting may be less than under a public insurer.

2. Distribution of Costs Over Time

In some cases it will be necessary to pay out the benefits each year as they arise, while in other situations it will be necessary to spread the costs over a longer period by accumulating a trust fund or allowing deficits to be
paid off later.\(^{33}\)

In order to accumulate a meaningful trust fund, it is necessary to be able to forecast with some confidence the future costs of social security programs. This is only possible in the case where the amount of benefits, the duration and the eligibility conditions are clearly defined by the law with objective criteria. In unemployment insurance, if an arbitrary time limit is set in the law as to the duration of benefit payments and if benefits are less than wages, a more realistic forecast of the cost is possible. In old age insurance, the eligibility requirements and benefits are specified in the law.

In disability insurance, the variations in the incidence of the risks are generally slight from one year to another. The cost of health insurance is also subject to slight variation although it is possible to have such catastrophes as epidemics and long-run changes in morbidity due to medical progress. However, the cost of a health service program has proved to be extremely difficult to predict because of the nature of the use of available services. In these two instances it may be only necessary to maintain the contingency fund for future unexpected occurrences.

In considering the feasibility of long-run costs forecasts for financing any social security program, it is also necessary to take into account the stability of money value.

**Old age insurance trust fund**

The predictability of long-run costs and income in old age insurance is affected by the type of the program itself. Under a fixed and universal benefit system it is necessary primarily to utilize demographic projections, because the population of pensionable age will determine future expenditures, whereas the population of working ages will determine the income to be secured from any selected types of taxes.

Under the systems other than a fixed and universal benefit system, the projection of outgo and income is not simple. In addition to population projection it may be necessary to take into account a wide range of economic and social data such as the number of eligible workers, the amount of the benefits, the general level of employment, proportion of the number in covered employment to the total population, the proportion of women employees, the

\(^{33}\) For detailed discussion see Burns, *op. cit.*, pp. 189-211.
age at which children start to work, future interest rates, and the trend of wages. For the projection of dependent’s and survivor’s benefits it may be necessary to gather data as to the marital status of the primary beneficiary, mortality rate by marital status, remarriage rates, marriage and mortality rates of child beneficiaries, the number of surviving dependent aged parents, and the proportion of survivor beneficiaries who will receive benefits in their own right.

The purpose of trust fund financing is to make it possible to finance the program wholly by taxes on particular categories of taxpayers such as workers and employers by collecting in the early years of the program more than is necessary to meet current benefit costs and putting the excess in a trust fund to earn the interest which will be used at least in part to meet the annual deficit in the future. This method has several merits. First, trust fund financing can lighten the burden of future generation by making current contributions pay more than the current costs of the present beneficiaries. Second, when the trust fund is invested in productive activities, it contributes to national products, although the benefits are paid to non-productive sectors such as the aged.

Trust fund financing also has several disadvantages. First, a large trust fund may be used in support of unjustifiable liberalizations in the program. Second, the actuarial estimates are subject to errors as time passes. Third, a large trust fund is an unnecessary complication which may lead to misunderstandings. Fourth, it may be necessary to reduce other taxes in the face of the continuous accumulation of the fund, if the government borrows this money. This trust fund may, therefore, not reduce the financial burden of the future generation.

**Unemployment insurance financing**

Those who advocate that the financing of the unemployment insurance should be longer than one year base their argument on two reasons. First, if serious unemployment prevails because of a general recession, it will last more than one year. In such a case, it is desirable to maintain or expand the flow of purchasing power by means of benefits payments. The system, in other words, should serve as a built-in stabilizer. Second, there would be an unfavorable psychological effect on employers if the necessity of annual balancing involves a simultaneous increase in taxes in the case where benefit payments are heavy due to widespread unemployment in a year, because the tax payment affects
the initiative of employer adversely.

There are two solutions to this problem. The first solution would be to set a level rate of contributions over the entire period which is expected to keep the fund in balance over the period as a whole rather than in any one year. The second solution would be to vary the tax rate with fluctuations in the general level of economic activity. In period of depression the tax would be cut to maximize the flow of purchasing power injected into the economy through benefit payments and at the same time to stimulate employers by lowering their costs. In periods of prosperity, taxes would be raised, since the employers are better able to bear the taxes at this time and the problem is then one of inflation.

However, there are many difficult technical problems. In the first place, it is difficult to select the appropriate balancing period. In the second place, the level of employment to be maintained must be determined. In the third place, there is a psychological difficulty in accumulating funds over more than one year, because people do not want to be in debt even during a depression. In the fourth place, the operation of experience rating, if this device is used, works in the opposite direction.

3. The Distribution of Financial Responsibility among Different Levels of Government

Under this heading will be discussed questions as to the respective financial responsibility of different levels of government. There has been a significant trend toward increasing financial participation by larger units of government.

The technical features of the program may influence such a decision. It is generally considered desirable for the central government to finance an old age insurance program because of the emphasis upon security and the desirability of maintaining mobility of labor. When a program is financed wholly or largely by a smaller unit of government, protection would probably be provided only those who reside or work within their boundaries and this would affect labor mobility adversely. In an unemployment insurance program, it is desirable to spread risks over as large a group as possible. There has also been an increasing tendency toward having the central government finance such a program as a

(34) For detailed discussion see Burns, op. cit., pp. 212-248.
part of overall fiscal policy.

The allocation of financial responsibility between different levels of government may be affected by the intensity of the desire to assure equality of access to minimum security. The poorer the locality, the less their capacity to afford the nationally determined minimum economic security partly because of limited resources and partly because of the greater number of the needy. It is, therefore, highly conceivable that the poorer local government will put pressure on the central government to secure financial aid.

VII. ADMINISTRATION

Decisions regarding the structure and character of administration will be significant for several reasons. In the first place, in some cases the benefit formulas and eligibility conditions are greatly affected by the feasibility of administration. The determination of the coverage of certain types of programs is also influenced by administrative feasibility. Selection of the level of government for administration is also an important consideration. Secondly, the effectiveness of any law is determined by the quality and nature of its administration, because there are many undefined areas by law calling for administrative interpretations. This administrative interpretation affects not only beneficiaries, but also taxpayers and society. Thirdly, harmonious and cooperative working relationship between one program and other related programs is in the hands of the administrator. Delays in service or a failure to achieve stated objectives by an administrator will bring serious repercussions.

1. Organization Structure

There are three basic organizational structures: (1) the separation of all income security programs under a single administration from health and all other welfare services programs which are placed under another single administration; (2) organization by risks; and (3) organization by client.

The first method has several advantages. First, it is likely to achieve consistency of policy and provide similar treatment to those in similar circumstances. Second, there are unlikely to be frictions between a variety of independent agencies. However, the primary disadvantage of this method is the

(35) For detailed discussion see Burns, op cit., pp. 251-256.
large scale of organization which is likely to have difficulty in handling various problems more satisfactorily because of the likelihood of rigidity.

The primary advantage of the second method is the ability to render service more satisfactorily to those who are in need for a considerable period of time, because, for example, the long-period disabled or unemployed person has been disabled or unemployed for a short-period first. Therefore, it is convenient for the beneficiary to deal with one administrative agency rather than switch to another at some arbitrary point in time. However, this method creates difficulties of its own because of the functional similarity of administration between different programs.

The advantage of the third method is ability to render the maximum service to defined groups such as children, the aged, or veterans. There are disadvantages. First, many functions to be performed for different client groups are similar in nature and the scope of organization may not be large enough to call for specialization. Second, the administering body is likely to favor its clients and disregard much wider interests.

2. Intergovernmental Cooperation

Typically, the administrative structure of social security involves more than one level of government. This is the case even in the countries where a highly centralized administration has been adopted. There are several reasons for this. First, the financial participation of the central government on the local scene has led to the assumption of a certain administrative responsibility over the local government. Second, some programs may be better administered by the local government, while other programs are better administered by the central government. For example, an old age insurance program is highly centralized, whereas public assistance programs are, to a large extent, localized. Third, division of responsibility among different level of government is desirable in order to avoid a concentration of power in the hands of a single central administration.

It is highly desirable that the statutory division of functions between the different levels of administration be clearly defined, and well devised to secure cooperative and effective coordination and to render the maximum service to clients with a minimum expenditure of the taxpayer's money. It is also true that the effectiveness of joint administration depends to some extent on the skill of administrators. This problem is particularly true in grant-in-aid
programs. The granting authority has to devise a method of controlling the fund to protect the taxpayer’s money and to ensure the achievement of the objectives for which the grants were made without impairing the proper sphere of the recipient body’s activity.

In order to ensure truly democratic administration of social security programs, several techniques have been devised. One widely used device is the advisory council which is attached to the headquarters of the administration and which may consider issues referred by either the legislature or the administrators, or on its own motion. This council usually consists of representatives of employers, workers and the general public. Its effectiveness is to a large extent dependent upon the composition of its membership and upon the extent of the reflection of the various interests in the society.

VIII. SUMMARY

The perils which may be covered under social security programs are old age, unemployment, poor health, premature death of a breadwinner, and large size of family. There are two major income security techniques; namely, social insurance and public assistance. Medical techniques other than public assistance are broken down somewhat differently: public subsidies to a voluntary insurance organization, mutual benefit society or trade union organized to provide medical care for their members; compulsory social insurance; and a national health service.

There are broadly two ways of determining the persons to be covered: universal coverage, and partial coverage.

The eligibility requirements for benefits under social insurance and public assistance are different. Social insurance schemes generally require the claimants to satisfy such requirements as minimum period of attachment to covered employment, and a specified number of contributions during a prescribed period of time. In public assistance common eligibility requirements are nationality, a certain period of residence, a means test, and moral factors such as willingness to work.

There are basically three principles underlying benefit payments; namely, benefits based on individually demonstrated need, benefits based on the earnings of the insured. Theoretically the level of benefits is designed to meet at least the minimum need of any worker and his family. This minimum may
differ according to the community, the individual and his family size, the perils covered, and techniques used.

In making decisions with regard to the financing of social security programs, there are three main issues: the types of taxes to be levied; the method of spreading the cost; and the levels of government participating in the cost. Many factors influence the decision-making with regard to these main issues.

There are three basic organizational structures; namely, the separation of all income security programs under a single administration from health and all other welfare services programs which are placed under another single administration, organization by risks, and organization by clients.

BIBLIOGRAPHY