Social Security and Development Planning: Some Issues

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ECONOMIC and social development policies both aim at improving the welfare of the population, though they often appear to compete with rather than complement each other. This is especially true for emerging nations, whose limited resources impose a degree of austerity upon the satisfaction of the collective economic demands of their citizens. In such circumstances, social security provisions may easily be overlooked by the development planner, who naturally is far more concerned with the growth of the economy than with economic security for individuals and who is prone to pay more attention to resources using government funds than to transfer payments.

To the extent that social development projects make demands on scarce resources, they affect the rate at which accelerated economic growth can be obtained, somewhat in the same way as do activities directed to achieve other national goals, such as national defense. Although social security transfer payments may affect aggregate savings in some degree, they do not establish independent claims on scarce resources. Consequently, a degree of individual income protection in the present is compatible with laying the groundwork for a more productive economy in the future.

This fact strengthens the case for taking adequate account of social security measures in the development plan. Such an action fits well into a concept of planning that must be concerned also with the present and that finds itself confronted with social security as a firmly established method of income maintenance. Incorporation of social security measures in the development plan has been recommended at many international meetings but has seldom been followed by those who draw up economic plans. (*1*)

One reason for this failure is the difficulty of reconciling social security programs with traditional planning objectives and techniques. Planning objectives usually emphasize capital formation. Those who regard the lack of capital goods as the principal barrier to accelerated economic growth, and therefore the most promising target of development strategy, sometimes oppose social security programs on the basis of exaggerated views of their capacity to increase consumption and reduce savings and investment.

Planning techniques rely in principle on a comparison of costs and benefits for the establishment of priorities among the various government programs. Social security programs share with education, health, housing, and other social development activities the difficulty that their aims are not fully expressed by the usual central planning goal of greater per capita output. These aims, considered separately from the expenditures necessary for their achievement, can usually be better expressed in physical terms than in monetary terms—as so many years of education for a specific percentage of the school population, as a percentage decline in the mortality or the morbidity rate, as so many cubic feet of shelter per family, and the like—and hence do not easily fit into the planning mechanism.

To gain consideration for social security programs within the conceptual framework of the plan, attempts have been made to measure the contribution these programs make toward resource mobilization. It has been said, for example, that social security produces a "sense of well-being and personal satisfaction" (*2*) and that it consequently enhances the morale, stability, and productivity of the labor force. Similarly, social security expenditures are considered by some writers as an investment in "human capital." (*3–7*) Unfortunately, neither of these approaches yields quantifiable measures of how much a specific social security expenditure will add to the income per capita (or gross national product) in the planning period. Such effects are difficult to ascertain for any type of investment, and they are even harder to determine for transfer payments. Nor does a comparison with the experience

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of other countries yield a quantitative solution that fits into the planning calculus.

Social development programs including social security are based upon a society's concept of a better life. Decisions as to which social goals should be realized, to what extent and by what method of implementation, are made essentially in the political arena though they are, of course, subject to economic constraints as to feasibility, timing, etc. These decisions then become, in large part, given data for a comprehensive development plan.

Integration of social security programs within the economic plan does not necessarily imply subordination of social security to economic growth: It can lead to a choice of implementing social security measures that are compatible with and beneficial to the development plan.

No attempt is made here to establish any priority for the introduction of various social security programs within developing nations. The article is restricted to a first attempt at demonstrating that social security programs, intelligently conceived, need not work at cross purposes with the objectives of development planning and, when integrated with the development plan, can actually help realize these objectives. Of the various ways in which social security can affect the economy, only the consumption and savings effects and the effect on redistribution are discussed here. Mention is also made of the potential contribution to public sector investment that may be made by social security programs.

EXTENT OF SOCIAL SECURITY PROGRAMS IN DEVELOPING COUNTRIES

The social security programs that have been introduced in the developing countries show a wide variation in terms of coverage.[1]

At the beginning of 1967, at least some type of social security program was in effect in 120 countries (compared with only 80 countries in 1959 and 58 countries in 1948). Only eight countries had no social security program in force. Of the different types of programs, industrial accident insurance was most prevalent (117 countries), and unemployment benefit programs were in effect in only 34 countries. The greater prevalence of one type of program in comparison with another does not indicate any necessary logic in terms of stages of economic development. Some of the most highly industrialized countries may not have certain types of programs that have already been introduced in several developing countries.

The oldest and, numerically, the most widespread types of social security programs are those providing compensation for work-connected injuries and occupational diseases. There are very few countries without at least some type of limited legislation in this field, though some of these programs still consist mainly of provisions that fix the liability of individual employers for paying compensation for work-connected accidents. In the great majority of countries, these programs are financed solely by employers. The general reliance on employer contributions alone reflects the traditional principle that employers should be liable for payment of compensation to employees injured in the course of their work.

Ninety-two countries now have some type of old-age, invalidity, and survivor benefit programs (including 8 out of 11 Middle Eastern countries, 19 out of 23 countries in Central and South America, 11 out of 24 countries in Asia and Oceania, and 23 out of 39 countries in Africa). From 1963 to 1966, 11 developing countries enacted old-age, invalidity, and survivor measures for the first time.

One of the earliest approaches toward coverage for old-age, disability, and survivor benefits in developing countries is in the form of "provident funds" (in effect, compulsory savings schemes), under which a lump sum is paid to covered persons upon retirement or disability or to their survivors. Where social insurance programs have been established, wage-related contributions and benefits seem to prevail.

Some type of sickness and maternity benefit program is now in effect in 65 countries. This total excludes various countries in which only one or more limited types of sickness benefits are provided and the approximately 20 countries that provide only for some kind of maternity benefit program.

Some form of family allowance program is now in effect in 62 countries. Most of these programs

[1] This section is based on *Social Security Programs Throughout the World, 1967* (Social Security Administration, Office of Research and Statistics), 1967.

were enacted before 1960. Among developing countries, such programs are now in effect in 20 African countries (including all 18 French-speaking nations), in six Latin American countries, in three Middle Eastern countries, and in three Southeastern Asia countries that were formerly French colonies.

Unemployment benefit programs are in effect in only 34 countries, including six developing countries (Brazil, Chile, Cyprus, Ecuador, the United Arab Republic, and Uruguay).

This article is concerned primarily with the programs that provide old-age, survivors, and disability benefits, though programs providing sickness and maternity benefits and family allowance programs are also of major interest to developing countries. Of the programs in effect in these countries, many pay cash benefits, though benefits-in-kind are often included in sickness (health) insurance plans, family allowance programs, and children's health programs.

So far, no dominant pattern has emerged in the combination of social security programs appropriate to a specific stage of economic development. The major types of programs provide coverage for different risks. It is difficult to arrive at priorities for the introduction of programs, since in most countries there is a need for coverage of all the risks. Ultimately the program mix in any country is determined by the variety of cultural, historical, economic, and accidental factors that enter into political decisions.

CHARACTERISTICS OF SOCIAL SECURITY PROGRAMS IN DEVELOPING NATIONS

The study of social security and its relationship to other aspects of socio-economic planning properly begins with a brief review of the differences. in degree more than in essence, between social security programs and other social programs that might be instituted by emerging nations. Four principal characteristics that distinguish social security programs from other social planning measures are examined here.

First, it should be noted that the growth of social security systems is to some extent unrelated to the rate of economic development. European and United States experience may make it appear that social security is one of the byproducts of industrialization, especially where trade unions have wielded significant political power. In contrast, in some developing nations social security programs have been established and expanded despite a slow rate of industrial growth. The introduction of social security programs can in many cases be traced to colonial influences or may represent imitation of the institutions in advanced nations. The continued existence and expansion of social security reflects the adaptation of these instrumentalities to the specific needs of the various societies.

Secondly, once social security programs have been introduced in a country, they are more likely to expand (with respect to occupational and geographic coverage, the risks insured, and the size of benefits) than to contract. The expansion results from numerous factors, such as the growth of the population and associated growth of the labor force and the effects of urbanization and industrialization, accompanied by a decline in the importance of preindustrialization forms of assisting the old and the sick. Resistance to contraction of social security programs builds up in the beginning because income maintenance plays such an important role in the early stages of economic development. This is particularly true when the margin between the living standard of the active labor force and that of the incapacitated part of the population is much narrower than it is in the more advanced economies. (*8*) Later on, any encroachment on social security rights is fought because it represents a setback in the fight for an improved political, economic, and social status for the workers.

The speed of expansion differs with the type of social insurance program that has been selected. Short-term risk protection schemes expand fast. On the other hand, long-run pension schemes—that is, those financed on the basis of actuarial projections—are quite stable.

Total social security expenditures in underdeveloped and industrialized countries alike tend to grow at a faster rate than the gross national product. Steady expansion can also be observed if social security expenditures per capita are studied over a period of time. (*9a*)

A third difference between social security programs and other social development activities is that the former—to a greater extent than other government activities—tend to be financed outside the regular government budget through employee and employer contributions. Only government subsidies to the programs are budget items. Furthermore, the administration of such programs is often entrusted to semi-autonomous agencies, which fall somewhere between the public and private sectors. (*10a*, *11*) The government (typically through its ministry of labor or ministry of social affairs) usually maintains some general control over these quasi-public bodies by establishing procedures to ensure compliance with the social security legislation. It also exercises some control of the financial soundness of operations, thereby safeguarding the residual guarantee of the program.

Several developing nations, particularly in Latin America, now supplement the employer-employee contributions with sizable government subsidies. In part, such action may be emulation of the practice in certain European countries, in part it may be because rising contribution rates are an excessive "indirect" cost of production. As a result of continued growth, these government subsidies now amount to a significant proportion of social security receipts in a number of countries. (*9b*, *11*, *12a*, *13a*)

The government subsidies to social security programs are financed either from general revenues or through special taxes or surtaxes. Both ways of financing present a potential source of conflict between social security administrators and economic planners who may fear the loss of revenue that would otherwise be available for the financing of economic development. In some countries, the government subsidy to social security programs is as high as one-fifth of all government revenue.[2] (*12b*, *13b*)

A fourth characteristic of social security is its adaptability in serving wide socio-economic policy objectives, such as the maintenance of aggregate demand and the redistribution of income. As a recent study of social security development and social planning in Latin America states:

> To the extent that the social security system is financed by employer-employee contributions, it produces compulsory savings and adds to the investment resource available to the public sector. . . . The funds allocated are. . . . transfer payments that affect the character, timing, and sources of consumption expenditure [which] over the long-term need not affect its total or diminish the resources available for investment. (*14a*)

The effects of social security systems on redistribution of income, consumption, savings, and the use of reserve funds are of primary concern to the development planner. Not discussed here are the effect of these programs on manpower, cost-price relations, price levels, population, health, tax policy, public administration, industrial democracy, and other areas.

INCOME REDISTRIBUTION

The view is sometimes held that unequal distribution of incomes is a necessary byproduct of, as well as a precondition for, rapid economic growth. This view is based on the contested propositions that most domestic saving is done by upper-income groups and that returns on capital are primarily reinvested in productive domestic investment. Although, in many underdeveloped nations, income and wealth are concentrated in only a few hands, this situation has not produced a satisfactory rate of domestic investment. Some observers feel that, in order to stimulate investment, the consumer demand of the lower- and middle-income groups must be strengthened since their consumption is primarily geared to domestic products (the only commodities they can afford as a rule)—unlike that of the higher income groups, who favor imports. A profitable market for the products of import-substitution industries very likely would lead to further expansion of this type of investment and, through forward and backward links, promote domestic investment in general. (*15*, *16*)

Most writers believe that the existing income distribution in many underdeveloped nations, particularly in Latin America, presents an obstacle to development, for both economic and political reasons. A major objective of income redistribution policy is to strengthen the incentives to produce and the productive capacity of the nation. This may require reducing income differentials. The policy tools at the disposal of those who plan redistribution of income range from direct measures such as land reform, tax reform, employment, wage and trade union policy, and subsidization of

[2] The IBRD/IDA study shows that total social security receipts from all sources (including government subsidies) amount to 48 percent of current government revenue in Argentina, 70 percent in Bolivia, 50 percent in Brazil, and 74 percent in Chile. (*12b*)

of consumer goods and services to more indirect devices such as public expenditures for education, health care, and housing against the background of an appropriate population policy. In practice, the planner may find his choice of tools restricted by powerful political forces who believe their vested interests to be threatened by specific measures. In many cases, redistribution policy has had "more effect in redistributing income within the middle strata and improving the relative position of some of the better organized urban groups than in changing the main features of distribution between high, middle, and low." *(14b)*

Because of the weakness of the customary tools for bringing about a redistribution of income under the conditions prevailing in undeveloped countries, the attention of planners has been attracted to the redistributive effects of social insurance programs. It is recognized that social security can play a major role in supplementing inadequate incomes and can provide the covered population with a decent standard of living. *(17, 18)* Moreover, the inherent potential of the social insurance system can be reenforced by development strategy. *(19)* By varying the scope, benefit structure, and method of financing a social security system, the development planner can enlist the help of such a program in shaping the direction and the extent of the desired redistribution. Reliable information on the precise workings of the social security redistribution mechanism is missing, but the broad outlines of this effect are clear.

Redistribution occurs in several directions. To the extent that the real burden of the benefits accruing to the older beneficiaries is covered by today's younger contributors, one can talk of a redistribution among successive generations. This type of redistribution fits well with the concept of a growth process that intends to strengthen the economy over time and thereby make it easier for later generations to carry a burden incurred in a period of relative underdevelopment.

Redistribution from risks with low incidence to those with high incidence is a significant factor in easing the transition from the expanded family to the nuclear family and from a subsistence economy to a market economy.

The development planners' interest centers upon redistribution among different income strata. Here a problem of measurement of the redistributive effect of social security programs arises. Any attempt to measure the redistribution of income through social security requires a comparison of the costs assumed with the benefits received by different population groups. The amounts of the benefits received and the contributions paid by the insured can easily be contrasted. To measure the total financial burden on the insured, however, one must also consider the incidence of employer contributions and government subsidies borne by that income class.

The present state of knowledge about the incidence of certain taxes, including the social security payroll tax levied on the employer, fails to yield an unequivocal answer for either developed or underdeveloped countries. For reasons stated later in this article, it appears that the employer contribution, at least in less developed countries, is shifted backward to the workers.

The usually regressive nature of the tax system in underdeveloped countries would imply that a significant share of the burden of the government subsidies is also carried by the insured.

Unless this situation is corrected, it would leave the insured with most of the cost burden. Redistribution would occur only within the labor force. Although this effect may be quite significant in countries with a broad range of wages, it does not affect income distribution between major income groups. However, development strategy can—by strengthening the bargaining power of the workers, for example—reduce backward and, by promoting competition, prevent forward shifting of employer contributions. In addition, a more progressive tax structure would mean that a greater share of the government subsidy would be carried by the upper-income classes.

Typically, the redistribution problems of the less developed countries result from the limited scope of many of their social security programs. Large groups of workers are not covered. In 1960, in the Latin American countries (many of which have social security programs that are relatively long-established) the insured population varied from 4 percent to 73 percent of the economically active population and from 1 percent to 34 percent of the total population.[3] Of the 66 million

[3] Unfortunately, no data are available that relate the number of insured persons to the total number of wage and salary earners (the persons typically covered under social security in advanced countries). *(13c)*

persons in the economically active population of Latin America, only 15 million, or about 23 percent, were covered in 1959 by some type of social security protection. (*12c*)

In spite of calls for the expansion of social security in the rural sector at nearly all international gatherings of social security experts, this problem continues to resist attempts at an early and adequate solution.

Limited coverage is only partly the result of a deliberate policy of gradually introducing these schemes. It is often forced upon the social security institutions by the economic, social, and political differences between town and country, the difficulties of adjusting a transfer of income device to a subsistence economy, the administrative difficulties of collecting contributions outside larger urban undertakings, and the inability of the rural workers, peddlers, and similar groups to finance their own social protection.

Persisting limited coverage has a tendency to create a perverted type of redistribution—from the "poorest to the poor" (*20*)—primarily because the commonly found government subsidy is often financed by taxes on consumption and hence the burden falls on the rural population as well as the urban. Both noncovered rural workers and covered urban workers carry ultimately a significant share of the cost of social security, but only the better-off urban workers benefit from it.

Serious questions are raised by a redistribution from the lowest (rural) income group to the more "privileged" (urban) sector of the labor force. The latter group not only has somewhat greater economic resources, but it also has the organization and political party aid in gaining, maintaining, and increasing government support for the maintenance of its income in contingencies.

HOW CONSUMPTION IS INFLUENCED

When cash benefits are provided under a social insurance system to persons temporarily or permanently removed from the labor force, purchasing power is put in the hands of those who otherwise would not enjoy it. At the same time, the disposable income of earners is reduced by the amount of their social security contributions. The effect on total consumption expenditures therefore depends on the difference between the increase in consumption expenditures by all beneficiaries and the decrease in consumption expenditures by all contributors and those who ultimately carry the burden of a government contribution. When a significant part of the contributions is accumulated in reserve funds, the outcome further depends on the difference between consumption by the ultimate recipients of the outlays from the invested reserves and consumption by the contributors. When social insurance programs receive government contributions, the differences between beneficiary consumption and taxpayer consumption must be considered.

In those developing countries where the income of the contributors is near the subsistence level, the difference in the consumption pattern, the propensity to consume, and the consumption levels of contributors and beneficiaries may not be significant. Elsewhere a net increase in consumption and a concomitant decrease in household savings are to be expected. A new funded pension system in a nation whose contributing population is young and whose claimants are aged and relatively small in number may actually reduce consumption in the short run.

A modest increase in consumption is a small price to pay for political stability and public consent to development policy measures. As W. A. Lewis recently stated:

> Economic growth creates disturbing tensions in society, which can be resolved only if the increased output is used to secure more equitable distribution. . . . Narrowly conceived, economic interest may seem to point in the direction of holding down consumption as long as possible, but the interest of creating a healthy society with tensions and injustices moderated and limited requires that welfare be given equal priority with growth right from the beginning. . . . To provide a framework of services for the unemployed, the aged, the orphaned and the handicapped is just as important as saving to build factories to produce more radios or bicycles. More saving and more growth are desirable, but not at the expense of social or welfare services. On the contrary, the universal experience is that as income per capita increases, both savings and the public services increase their relative shares of the national income at the expense of personal consumption. . . . Those who have accepted the advice of impatient economists have found themselves with riots on their hands. (*21*)

SOCIAL SECURITY AS SOURCE OF SAVINGS

If contributions are greater than benefits, long-term social insurance systems can mobilize a considerable amount of savings that otherwise would not be acquired by developing nations. In general, this situation would occur in the initial period as reserves are being built up but disappear after the program reached maturity. However, the temporary excess may occur over a period of 20 or more years that often coincides with the peak of demand for public-sector development funds. The following tabulation indicates a possibility of additional savings, as a percent of covered wages, in a number of developing countries. (*22a*)

Country	Contributions	Benefits	Sum of benefits and administrative expenses	Difference
Panama, 1963	5.0	2.5	([1])	2.5
Mexico, 1963	6.0	1.4	2.0	4.0
Paraguay, 1964	8.5	1.0	([1])	7.5
Turkey, 1965	11.0	1.4	2.3	8.7
United Arab Republic, 1963–64	21.0	2.1	([1])	18.9
Libya, 1965	5.0	.4	.6	4.4
Congo (Kinshasa), 1963	6.5	1.8	2.8	3.7

[1] Not available.

National net savings can increase only if insured workers do not reduce their voluntary savings by the amount of the employee contribution. There is good reason to believe that this does not occur to any significant extent.[4] With the usual income distribution in developing countries, employee social security contributions are unlikely to affect voluntary savings substantially. Instead, they are more likely to reduce consumption expenditures, particularly if the average income of the insured is so near the subsistence level as to preclude savings in any case. (*23*, *24*) In the experience of the advanced countries a social insurance program may have the effect of actually increasing voluntary saving. (*25*, *26*, *27*)

The effect of employer contributions on savings depends on their incidence. If the incidence is on profits, employer contributions would reduce total savings. Where employer social security contributions may be deducted from gross income, as a business expense under corporate income taxes, the burden of the employer contribution falls partly on all taxpayers. The most likely outcome in the face of an abundant labor supply and weak unions is, however, that the burden of employer contributions is shifted backward to employees.

The effect on saving of government subsidies to social security programs depends on the sources of government revenue from which the subsidies are paid. The effect of a specific tax earmarked for social security would depend on the incidence of that tax.[5] When the government subsidy to social security programs is financed from general revenue funds, the effect on saving depends on the nature of progressivity of the entire tax system. As the whole tax system in most of the less developed countries is regressive,[6] the largest portion of the burden of the government contribution is borne by the insured population (normally the lower- and middle-income classes).

Thus, under the conditions prevailing in the developing countries, it appears that substantially all the costs of social security programs are borne by the insured population.

The economic development planner looks to social security programs as a means of mobilizing savings from an income stratum that normally has a low saving capacity and that other means—short of inflation—seem unable to tap. He soon learns that short-term risk protection programs do not, as a rule, lead to a significant increase of savings. He discovers, too, that the savings potential of long-term social insurance programs depends on the methods used to finance them. There will, for example, be no significant addition to savings when a pension scheme is financed by assessment—a system under which the current cost of benefits and administration, including that of a small liquidity reserve, are paid by the currently insured. Conversely, systems that build up and maintain reserves are a source of savings.

In these cases, the accumulation of substantial reserve funds in excess of current requirements enables the developing nation to use its social security system as a means—outside the regular

[4] Franco Reviglio (*10b*) feels that only "rainy day" savings may be reduced by persons with social insurance protection against sickness, disability, and unemployment.

[5] Surtaxes have been levied on electric consumption, railroad transportation, lottery tickets, horseracing bets, exports, luxury imports, soft drinks, liquor, the production of sugar and minerals, business transactions, etc. (*12d*)

[6] Social security taxes are at best proportional but in practice (because of such devices as a relative low ceiling on the contribution base) they are generally held to be regressive themselves. If one accepts the argument that regressive taxes are more favorable to private saving than progressive taxes, the argument that social security taxes increase saving gains further strength. (*28*)

fiscal system—of increasing savings in the economy. (*29, 30*) Forty-two developing nations currently operate reserve schemes, which are subject to the discipline of an actuarially determined long-term budget. (*22b*)

ACCUMULATION OF SAVINGS IN SOCIAL SECURITY INSTITUTIONS

Where social security programs provide for a funded old-age insurance system, a relatively rapid accumulation of pension reserve funds is brought about by three major factors.

1. As a rule, contributions will be collected for several years before any benefits are paid. A new system may specify a qualifying period of 10, 15, or 20 years of covered employment before a worker can draw pension benefits. A considerable accumulation of reserve funds is generally possible even where (as a result of social policy) some benefits will be paid during a transition period to persons reaching retirement age or disability before they have been covered for the full qualifying period. Moreover, some systems provide for a gradual building up of initially low benefits and for a gradual lowering of the pensionable age only after several years of operation of the program. Elsewhere, a new system may initially cover only insured workers in certain occupations or specific geographic areas. In such cases, those insured persons who move frequently between covered employment and uncovered employment will take longer to complete their qualifying period.

2. The typical age distribution in developing countries contains a large percentage of young persons. (*31*) Consequently, there are many young contributors and relatively few aged persons when a social insurance pension program is first initiated. Moreover, the number of insured persons will increase, without a similar increase in the number of beneficiaries, as industrialization draws more persons into covered employment. With a gradual extension of coverage to persons in other occupations or areas, the number of contributors should continue to rise faster than that of beneficiaries until the entire population has been covered.

3. The amount of social insurance receipts may increase as a result of inflation as wages and contributions (often a fixed percent of wages) rise. Benefits will not rise, however, unless they are tied to a cost-of-living index or a wage index by an escalator clause (not the typical case in developing countries). This observation applies particularly to ongoing pensions, since newly accorded benefits are sometimes determined by the final wage before retirement (which may be higher as a result of inflation). Depending on the way the reserves are invested, inflation may, however, nullify the savings effort.

Economic planners have so far not fully recognized the value of social insurance systems in accumulating capital funds for economic development financing. In many instances, these programs and the reserve funds they accumulate for possible use by the public sector can be expanded. Higher payroll taxes become unacceptable politically, however, if they reach a level in relation to benefits that substantially overcharges the insured worker. Such action has been taken quite openly, as in a Latin American country that recently considered adopting a social security proposal under which a part of the social security contribution was to have been designated as "compulsory saving." Not merely the pension scheme but the acceptance of the concept of social security as well would be endangered if the qualifying period for old-age benefits were lengthened to such an extent that only a small percentage of contributors would live long enough to draw benefits. (*32*) It is of major importance that the confidence of the population in the whole system of social protection should not be destroyed.

Short-term social security programs (such as sickness insurance) may also have important economic and social effects even though these programs are usually financed on a pay-as-you-go basis and therefore do not offer the same opportunity for the accumulation of savings as funded pension programs. Not to satisfy urgent needs through such short-term social security programs may destroy the people's confidence in the government's willingness and capacity to provide equitable social protection and raise serious doubts as to the aims of the development program.

The potential significance of savings accumulation through social security pension reserves was the subject of a study by the staff of the Fiscal Affairs Department of the International Monetary Fund. (*10*) Table 1 of this article contains an adaptation of the results of the study, which was

TABLE 1.—Social security net savings as percent of gross domestic investment, selected countries

Country	Year	Percent of gross domestic investment
Bolivia	1963	−3.2
Colombia	1963	−2.3
Dominican Republic	1962	−.6
Mali	1962	−.4
China, Republic of	1960	−.3
El Salvador	1960	−.1
Burma	1963–64	0
Mauritania	1961	.1
Venezuela	1962	.2
Honduras	1962	.3
Guatemala	1964	.7
Mexico	1963	.7
Argentina	1963	.9
Israel	1960–61	1.0
Paraguay	1962	1.1
Nicaragua	1963–64	1.3
Dahomey	1962	1.3
Costa Rica	1962	1.5
Nigeria	1963	1.6
Brazil	1960	2.9
Congo (Brazzaville)	1963	3.0
Uruguay	1963	3.6
Panama	1962	3.7
India	1959–60	4.4
Turkey	1963	4.4
Ceylon	1961–62	8.2
Philippines	1963	8.8
Ecuador	1963	9.8
Malaya	1964	10.0
Chile	1962	14.7
United Arab Republic	1963–64	23.5

Source: Adapted from (*10*), table 4.

limited in its approach by the availability of the data,[7] some of which were collected by the International Monetary Fund especially for the purpose. The "net savings" are those of all social security programs combined, minus government subsidies to any of these programs.

Though this concept lends itself to an analysis of net saving flows through the entire social security sector, it also understates the real saving and the saving potential by that part of the social security sector most likely to accumulate savings —that is, the funded long-range systems providing old-age and disability insurance coverage. The "net savings" data combine the savings of long-term social insurance programs (usually positive) with those of the short-term risk programs (often negative). In fact, in many developing countries the surplus of the former is used to finance the deficit (or even the whole cost) of the latter (including sometimes social investment expenditures) —for the construction of hospitals, for example.

The 31 countries shown in table 1 display great variance in the ratio of social security net savings to gross domestic investment (between −3.2 percent and +23.5 percent). No firm conclusion can therefore be drawn without examining also the specific circumstances prevailing in each country that affect receipts and expenditures of all social security programs, as well as the factors influencing "gross domestic investment."

The accumulation of savings by social security programs is considerable when it is compared to total saving and other financial magnitudes in developing countries. This accumulation is remarkable in view of some of the operational factors facing social security programs in developing nations, such as (1) the relatively low-income levels of the insured population; (2) the relative narrowness of the coverage; (3) the large arrears arising from noncompliance, avoidance, and evasion by both private and public enterprises,[8] and an often-encountered failure to transmit government subsidies to the social security institutions.[9] Despite all these factors, savings are accumulated by the social security programs in three-fourths of the countries enumerated in table 1 (with savings of considerable magnitude in 12 of them) that can be made available to the public sector or subjected to its control for investment in economic development.

THE USE OF RESERVE FUNDS

Ultimately, the significance of the accumulated compulsory savings to the development process depends on the current level of accumulation and the size and investment of the reserve funds. No ready data on accumulation are available. Table 2 gives an indication of the size of social security sector assets in 28 developing nations by expressing them as percentages of the gross national

[7] The author of the study would have preferred, for example, to use "household savings," but only "gross domestic investment" data were available.

[8] In some countries a decrease in the number of insured persons was observed during a period of growth in the labor force, which has been attributed to a collusion between employers and young workers both eager to evade their social security contributions. Some employers take advantage of the low penalty for nonpayment of employer and employee contributions, often earning a return on the funds that is larger than the penalty, and are able to pay the contributions and the penalty in depreciated currency in inflationary periods. Where such a practice is permitted, the social security system in fact subsidizes the needs for working capital in the private sector.

[9] Delays in the transfer of government subsidies are usually justified on budgetary grounds, though there may also be some economic justification—even if not in law—to delay the transfer of subsidies until the funds are needed for the payment of current benefits.

TABLE 2.—Assets of the social security sector in relation to the gross national product, selected countries

Country	Year	Percent of gross national product
Burma	1963	0.3
Honduras	1964	.4
Nigeria	1963	.4
Mauritania	1961	.4
Venezuela	1962	.6
El Salvador	1963	.6
Guatemala	1964	.7
Dominican Republic	1963	.8
Senegal	1960	1.3
Nicaragua	1962–63	1.9
Libya	1962	2.4
Mexico	1963	3.2
Paraguay	1964	4.2
Israel	1963	4.3
Philippines	1963	6.5
Costa Rica	1962	6.7
India	1963	7.2
Ceylon	1964	7.4
Argentina	1963	7.8
Turkey	1963	7.8
Brazil	1960	8.3
Bolivia	1960	8.9
Chile	1962	9.5
United Arab Republic	1963	12.8
Malaya	1964	14.5
Uruguay	1963	19.3
Panama	1964	19.8
Ecuador	1963	20.6

Source: Adapted from *(10)*, table 8.

product. These percentages may not be the most appropriate measure of the significance of such reserves in an economy, but they show that a number of less developed countries have accumulated sizable social security reserves. In half the countries shown these reserves exceed, as a percent of the gross national product, the reserves in the old-age and survivors insurance and disability insurance trust funds in the United States in the same year (3.4 percent of the gross national product). They are also higher than the sum of old-age reserve funds for workers and salaried employees in the Federal Republic of Germany (5.9 percent of the gross national product).

On the question of the use of social security reserves, several conflicting viewpoints emerge. Many government planners would like to see these funds used for investment in economic development projects according to planned priorities and, as a rule, turned over to the national treasury. Social security administrators, on the other hand, are primarily concerned with the protection of the reserve funds for present and future beneficiaries—that is, their safety, the maintenance of their purchasing power, and the highest possible yield compatible with liquidity and safety. *(33)*

The designers of social policy differ among themselves on the use of social security funds. Some may feel that programs—such as housing, education, health, and sickness insurance—designed to benefit low-income groups are those that need support. On the other hand, trade unions and similar organizations often attempt to limit investment of social security funds to projects (such as consumer credit, mortgage credit, subsidized housing, etc.) that would benefit the insured workers immediately, on the theory that reserve funds are nothing but a repository of the savings of the contributors.

The conflicting views, which result partly because of noncompatible purposes and mutual distrust that compromise agreements will be honored, are basically unsolvable on a theoretical basis, but they are being resolved daily on the political and administrative level.

The question of whether and how social security reserve funds should be protected against inflation has also remained controversial. Demands for a government guarantee against depreciation of the currency are opposed by those who believe that only general economic policy can provide a real guarantee against inflation, particularly when the accumulated reserves are large in relation to national income and wealth. *(34, 35)*

In most developing countries the reserve funds have actually been made available to the government, often as a result of legislation requiring that the reserves be invested in government securities. However, in many instances, these funds were not channeled into productive investment projects but were used instead to finance current government expenditures or the construction of prestige projects. A different approach has recently been advocated under which investment decisions would be left in the hands of social security institutions while requiring that these decisions be coordinated with national economic and social development plans. *(36a)*

Recent attempts to analyze the actual investment experience of social security reserve funds have reached conflicting conclusions—partly because of the fragmentary evidence available to different authors and partly because of different concepts and time periods for the different studies. Tamburi, for example, holds that the largest part of social security reserve funds is invested in liquid or short-term investments. *(22c)* Studies conducted by the International Monetary Fund and the International Bank for Reconstruction and

TABLE 3.—Assets of the social security sector and their composition, selected countries

Country	Year	Percentage distribution of assets	
		Physical	Financial
Argentina	1961		100.0
Burma	1963		100.0
Ceylon	1964		100.0
India	1963		100.0
Israel	1963		100.0
Malaya	1964		100.0
Mauritania	1962		100.0
Nigeria	1965		100.0
United Arab Republic	1963		100.0
Uruguay	1964		100.0
Senegal	1960	(1)	(2)
Brazil	1960	1.6	98.4
Panama	1964	10.5	89.5
Philippines	1963	12.7	87.3
Libya	1962	(1)	[3] 80.0
Ecuador	1963	14.2	85.8
Turkey	1963	19.1	80.9
Nicaragua	1964	24.9	75.1
El Salvador	1964	25.4	74.6
Venezuela	1962	36.6	63.4
Chile	1960	37.0	63.0
Mexico	1963	[4] 50.0	[4] 50.0
Honduras	1964	[4] 50.0	[4] 50.0
Paraguay	1964	51.2	48.8
Bolivia	1960	55.4	44.6
Guatemala	1964	67.5	32.5
Costa Rica	1964	80.3	19.2

[1] Not available.
[2] Estimated to be mostly of this type.
[3] Estimated to be somewhat more than 80 percent.
[4] Estimated.
Source: Adapted from *(10)*, table 10.

Development have arrived at the opposite conclusion. *(10c, 12e)*

In the majority of developing nations, a substantial part of social security reserve funds are invested in domestic financial or physical assets.[10] The physical assets range from highly profitable investments in land, apartment buildings, resort development, hotels, and luxury and middle-class housing [11] to hospitals and medical facilities designed to assist related short-term social insurance programs. The relatively heavy emphasis on investment in physical assets in many Latin American countries (table 3) reflects investment in such health facilities.

The financial assets of social security institutions in many developing countries are primarily invested in government obligations (table 4). Public debt accounted for 50–100 percent of financial assets in 10 of the 19 developing nations included in the table. In several countries, where the social security system holds a large part of the public debt (table 5), problems may be created for both reserve fund liquidity and management of the public debt.

In Turkey, where a state development bank has been used as intermediary since 1964, more than one-fourth of the total investments of the state economic enterprise is financed through the social security system. In the United Arab Republic, one-fourth of public sector investments in 1963 and 1964 were financed in this fashion.

Reserve funds have occasionally been used to support national monetary and financial policy. In 1965, for example, Argentinian social security reserve funds were sterilized in central bank deposits, and an anti-inflationary policy was thus aided. *(10d)*

In most developing countries, social security institutions invest little or nothing in private corporate securities—sometimes because of the weakness or absence of a domestic capital market. Where such a market functions, as in the Philippines, reserve fund investments in private sector enterprises are more significant. In the United Arab Republic, some social security funds were invested in private concerns that were subsequently nationalized.

Housing and personal loans under which cheap credit is provided to insured workers are fairly well-established investment outlets for social security reserve funds in Latin America. They make heavy demands on fund management, however, and occasionally lead to charges of favoritism. Although subsidizaton of consumer credit and low-cost housing through social security reserves may not offer an adequate and equitable response to national credit and housing needs, these loans are very popular with the insured who often see in them the only tangible benefit they will obtain from the social security program, at least during their working life.

CONCLUSIONS

This article will have served its purpose if it has brought out some of the possible interrela-

[10] The investment is usually in the country itself; the few cases where reserve funds are invested abroad appear to represent transitional arrangements following the independence of former colonies. Libya reportedly maintains its reserve funds in Italy; Cyprus, in the United Kingdom; the Ivory Coast and the West Africa insurance system, in France. As a rule, the influence of the metropolitan power soon wanes, and the funds are invested in domestic projects. *(22d)*

[11] A number of social security institutions are not fully prepared to perform the task of administering these investments. In a few instances in Latin America, administrative costs have exceeded financial returns. *(36b)*

TABLE 4.—Percentage distribution, by type, of the financial assets of the social security sector, selected countries

Country	Year	Public debt	Mortgages and housing loans	Personal loans	Corporation stock and bonds	Other financial assets	Cash and deposits
Argentina	1961	73.0	—	6.0	—	21.0	(1)
Bolivia	1960	—	—	—	—	35.9	8.7
Brazil	1960	53.2	3.6	—	0.3	32.5	7.4
Burma	1963	100.0	—	—	—	—	(1)
Ceylon	1964	100.0	—	—	—	—	(1)
Chile	1960	.6	16.8	2.7	3.0	33.6	6.3
Ecuador	1963	13.3	56.0	—	9.0	5.6	.3
El Salvador	1959	11.1	—	—	—	6.9	48.6
India	1963	100.0	—	—	—	—	(1)
Israel	1962	100.0	—	—	—	—	(1)
Libya	1962	—	—	—	—	—	80.0
Malaya	1964	100.0	—	—	—	—	(1)
Nigeria	1965	100.0	—	—	—	—	(1)
Panama	1964	28.0	15.2	—	8.4	36.6	(1)
Paraguay	1962	15.8	—	—	5.6	32.3	3.3
Philippines	1961	9.3	32.2	17.8	15.2	3.8	14.3
Turkey	1963	36.9	5.7	—	(1)	10.6	27.6
United Arab Republic	1963	31.1	—	—	12.3	46.2	10.4
Uruguay	1964	67.4	—	10.4	—	22.2	(1)

1 Not available.

Source: Adapted from (*10*), table 11.

tionships between social security programs and economic development policies in the context of economic planning. Some form of social security now exists in virtually all developing countries, where it has been established in the pursuit of the social goal of maintaining the income of those members of the labor force who are permanently or temporarily inactive.

These programs are of sufficient magnitude to attract the planners' attention. In several developing countries, social security receipts and expenditures range up to 10 percent of the gross national product. Expenditures represent in many cases a considerable slice (20 percent) of current government expenditures, reaching in exceptional cases the 40-percent level. (*13d*)

TABLE 5.—Percent of public debt held by the social security sector, selected countries

Country	Year	Estimated percent of total internal public debt
Chile	1960	1.0
El Salvador	1959	1.7
Costa Rica	1959	4.0
Philippines	1963	4.6
United Arab Republic	1962	12.5
Turkey	1960	13.8
Israel	1960	13.8
Ceylon	1963	15.1
India	1963	18.2
Brazil	1962	20.2
Ecuador	1963	31.5
Argentina	1961	38.9
Panama	1964	39.8
Uruguay	1964	52.6
Malaya	1964	60.3

Source: Adapted from (*10*), table 12. See also (*13*), table 11, for the increasing role of nonconsolidated public debt in the reserve funds of certain systems.

Social security expands according to its own dynamics. It not merely affects economic growth but also provides a means (through long-term risk programs) of reenforcing development policy within certain indicated limits. Of the major interrelationships discussed here, the compulsory saving/public sector investment link offers considerable promise for a successful development strategy. To gain clearer insight into the various ways in which social security and development interact, more data and knowledge are required. Some of the directions this research could take have been indicated here. However, the character and the range of the effects of social security programs on development are clear enough to suggest the need for greater attention on the way the emerging nations design and operate their social security systems. The task of simultaneously providing more adequate social protection in the present and a more productive economy in the future can be mastered.

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