II SOCIAL PROTECTION IN THE "NEW" ECONOMY

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Greater uncertainty and risk associated with the new economy justify a reconsideration of social security systems in Asia

Technology, globalization, deregulation and competition have merged in a potent package as the "new" economy, bearing both hope and peril for developing economies. This paper examines the impact and implications of the new economy on social security and social welfare protection, highlighting Asian non-welfare States. Workers inevitably bear the burden of adjustment to globalization and the new economy despite overall long-term gains. Developed countries face a "race to the bottom" competing with sweatshop developing countries. There is no easy compromise on the correct level of labour and social standards with uneven, diverse socio-economic growth. Greater interdependence, integration and convergence of global and technology trends have rendered all economies more volatile and susceptible to exogenous factors, including contagion. Greater uncertainties and risks are inserted into national economies, which feed back and constrain domestic policies and goals. These effects, epitomized by the Asian crisis, encompass a social dimension as deep and profound as the economic aftermath. Idiosyncratic Asian social security and welfare systems warrant a rethinking in the same way that Western welfare State reforms are spurred by demographic and fiscal transitions.

This paper is meant to be provocative, identifying trends and ideas rather than aspiring to ready-made policy solutions or resolutions. The underlying premise of poverty alleviation and improving the economic and social welfare of workers is intrinsic to growth, as any worsening would impinge on economic efficiency and productivity. After a review of definitions and concepts of social protection, globalization and the new economy, their interrelationships and impacts leading into Asian issues, with policy implications, are outlined below.

The four components of social protection

According to the International Labour Organization (ILO), social protection is conceived as having four components, namely, social security systems (statutory employer-related benefits), universal social benefit systems (benefits for all), social assistance systems (poverty alleviation in cash and in kind for all in special need) and private benefit systems (employer-related or individual benefits) (ILO 1997: 5-6). Social security protects members of society through public measures against economic and social distress, the provision of medical care and the provision of subsidies to families with children (ILO 1998a: 8). Distress is caused by work stoppage

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or a substantial reduction in earnings resulting from sickness, maternity, workplace injury, unemployment, invalidity, old age or death of a wage earner in the family. Social security elements include social insurance, social assistance, benefits financed from general reserves of a country, family benefits, provident funds and employer provisions, notably workers' compensation and other complementary programmes. A social safety net ensures that each member of society facing destitution is provided with the minimum level of cash income, health and social services needed to lead a socially meaningful life (ILO 1997).

The role of the State in social protection is, however, politically conditioned

While individuals acting through markets are responsible for income maintenance and welfare protection, the State is the traditional provider of last resort. The State may either take a Bismarckian approach to social insurance, offering protection in the event of contingency, or adopt a Beveridgean response, acting directly on poverty through mutual aid and solidarity via non-contributory, universal benefits or means-tested and discretionary benefits, or some combination of the two (Spicker 1993). Social responsibility and social justice thus complement political democracy, including civil rights and liberties. In practice, the State intervenes on a continuum, from non-intrusive, market-supporting measures to central control in a welfare system. In consequence, the social market and the economic market distinguish between need and utility respectively. Politics may dictate government-knows-best provision instead of self-interested individualism, which impinges on affordability and choice. The welfare triad of State, market and family are functional equivalents and mutually substitutable in social policy for the public management of social risks (Esping-Andersen 1999: 36).

Models of the welfare State lie along a continuum

The welfare State incorporates universal social insurance to provide a minimum of social security as a constitutional right and inalienable component of citizenship, redistributes wealth and helps those in need (Zijderveld 1999: 10-13). Economically, it is a mixed system, based on a relatively free market for business while producing and providing collective services in the social sphere, occasionally through non-government organizations. The residual welfare State found in the United States of America, which takes responsibility for general welfare in a targeted manner only when the market and/or family fail, is at one end of the spectrum, limiting its scope to marginal and deserving social groups. At the other end, the European welfare State is universalistic, assuming responsibility for a broad spectrum of social services and having a highly organized and deeply institutionalized role in distributing these services, to which, in principle, all citizens are entitled. The Scandinavian system is the most comprehensive, intensive and extensive welfare State, aspiring to equality of the highest standard, not equality of minimal needs.

Competitive pressures in the new economy are forcing a hollowing-out of the welfare State

The welfare State has waned with the demographic transition of the post-war baby boom. Social security domains in poverty prevention, poverty alleviation, social compensation and income redistribution face new risks in employment and employability as structural unemployment has emerged as a new kind of poverty. A techno-economic paradigm of information and communications technology (ICT) and the knowledge-based economy (KBE) have created a new knowledge-elite class that favours free markets in this post-industrial society, characterized by globalization, decentralization, deregulation and privatization. Labour becomes the Achilles heel of globalization as the ideological underpinnings of social protection, national solidarity, social partnership and tripartism are undermined. There is a hollowing-out, downsizing and retrenching of the welfare and social State, an erosion of social citizenship and a return of unemployment, with jobless growth, greater labour market flexibility and deregulation (Mishra 1999). Labour market deregulation and flexibility in decentralized collective bargaining can lead to social dumping and a downward shift of wages and working conditions. Competitive cost considerations exert a downward pressure on social protection and social expenditure as Governments and corporations reprioritize budgets, taxes and profits. Simultaneously, the ability of national Governments to pursue full employment and growth through reflationary Keynesian policies has been undermined.

Labour and the State are weakened as jobless growth and globalization reduce bargaining power vis-à-vis capital

The balance of power shifts away from labour and the State to capital in two related effects, joblessness and a digital divide. Career paths are changed, with contingent and atypical work (Sherman and Judkins 1995). Microelectronics means joblessness in a simultaneous direct loss of employment and employability in globalized markets of transferable skills, technology and finance. Microelectronics reduces employment directly by substituting hardware and systems, restructuring, changing products and components, and fostering takeovers, mergers, bankruptcies and overseas competition. Microelectronics truncates time, cuts out layers of middle management, supervision, brokering and intermediation. New developments in flatter organizations and lean production lead to flexible manning, the need for multiple skills and the end of restrictive practices by trade unions. Ironically, the worker as consumer still cannot be summarily dismissed as Walter Reuther, president of the United Automobile Workers' Union in the United States once said, "Robots don't buy cars, Mr. Ford".

A digital divide yawns between the skill "haves" and "have-nots"

The digital divide affects the less educated, less skilled and vulnerable minority groups by age, gender or race. Knowledge becomes a "heterogeneous resource" as the knowledge content of goods and services like computers, telephones, aeroplanes or cars incorporates value added that changes traditional activities. In the old economy, people bought "congealed resources" in a lot of material held together by a little bit of knowledge while in the new economy people buy "congealed knowledge" with a large amount of intellectual content slipped into the physical commodity (Stewart 1997: 10-16). Multifactor productivity grows as technology is coupled with working smarter, increasing the divergence of labour utilization between old and new economies (OECD 2000). Creativity and innovativeness and not just technical skills and qualifications explain the difference between intellectual capital and conventional human capital.

The new economy, in the view of some, affects business cycles as ICT and productivity together with globalization change the short-run trade-off between inflation and unemployment. Diverse growth sources lead to gains from increasing returns to scale, network effects and externalities. Communications networks and Internet applications increase as more people are connected, entailing considerable spillovers, contributing to multifactor productivity and fuelling growth. ICT and productivity put downward pressure on inflation while increased globalization and competition keep wages and prices in check. Taken to extremes, these developments lead to belief in the myth, now exploded, of the end of the business cycle.

The new, non-industrial risk society fosters irrational sentiments and a backlash against globalization

Finally, an underlying premise of the volatile KBE is the parallel conception of a "non-industrial" risk society where both nature and tradition cease to understand and interpret radicalized challenges (Beck 1992 and 1998). In the age of risk, society becomes a laboratory with nobody responsible for the outcomes of experiments. Globalization, ICT, KBE and deregulation carry risks, with a loss of distinction between nature and culture as basic changes in the foundations of the nation State and sovereignty occur simultaneously. "Given" risks in fate, nature and tradition are distinguished from "manufactured uncertainty", where risk is produced as a consequence of scientific and political efforts to control or minimize them. "Organized irresponsibility" results if institutions and policies are confronted with these risks but deny their reality, as politicians are prone to do. Without the necessary compensation or control, risks and manufactured uncertainties set off dynamic challenges, which in turn may be translated into systemic risk and irrational sentiments, observed as a backlash against globalization.

Unemployment and poverty are the still visible social impacts of the 1997-1998 crisis

Turning to the Asian context, unemployment and poverty are visible social impacts of the 1997-1998 crisis, felt particularly by vulnerable groups such as women, children, the elderly and migrant workers. The poor suffer hunger and malnutrition. Social distress affects the elderly, the homeless, street ragamuffins and "economic orphans" from dysfunctional and disintegrated families owing to divorce, domestic violence, humiliation from job loss and even suicide. Children are deprived of school and as the only commodity of the poor may even be forced into crime or prostitution, a fate worse than child labour. Migrant workers, without any social security and welfare protection in the best of times either at home or abroad, face deportation. Labour markets across Asia have been integrated with increasing globalization and economic integration since the 1970s (Asian Development Bank 1998: 34). This may have eased domestic employment pressures, boosted national savings and the overall balance of payments through workers' remittances, but with a time bomb effect. Ironically, the human face of the crisis is reflected in the very success of a broadened East Asian middle class that evaporated in an "historical class plunge". Manual, production and office workers and middle-level management and professionals who became rich in the real estate and stock markets have now joined the urban low-income class.

However, social security networks remain underdeveloped in Asia as the lack of social dialogue deprives those in distress of a voice

A general lack of social dialogue exists in Asia, except in the Republic of Korea, where trades unions are relatively strong. Social distress carries no voice with inadequate safety nets, absence of democratic institutions and freedom of association (ILO 1998b). Asian social security networks, including those in Japan and the Republic of Korea, are appallingly underdeveloped and neglected. The financing of old age security and health care provisions and welfare protection issues, including coverage of migrant workers, requires an effective long-term institutionalized social network. Asian social security and welfare traditionally rely on individuals and families as communitarianism prevails in rural, agricultural settings, sanctioned by Confucian values and Asian filial piety. Industrialization, urbanization and modernization have denuded such traditional systems and values. The scope, expanse and elasticity of farming communities to absorb and protect extended families, kin and friends have been reduced. The urban poor cannot easily escape back to the countryside, where the rural poor may still have some land for sustenance.

Social security reform in Asia needs to be accompanied by financial sector development if the high domestic savings rates are to be translated into adequate social protection

Social security and welfare protection as public goods bear a rethink even if fully-fledged welfare States in the Western model are neither viable nor suitable in Asia. Mandatory publicly or privately administered savings ranging from pay-as-you-go to self-financed provident funds should be a minimum as individuals are myopic. Existing Asian systems are an informal, ad hoc hodgepodge, ranging from developed schemes for the army and the civil service, mostly colonial legacies, to stigmatized charity provisions by civic rather than civil society, to abject neglect for the majority. Although the social, economic and cultural environments in Africa, Asia, Latin America and the industrialized economies differ, all countries face some common social policy reform issues. Short-term objectives must be weighed against long-term social, economic and institutional effects and all face financial constraints. The high domestic saving rates in Asia belie the low mobilization, investment and utilization vehicles, implying that financial sector development must proceed in tandem with social security design and reform.

Growth fuelled by reliance on foreign investment and markets exposed the region to the forces of globalization and the new economy but the new social contract called for is hard to forge in the Asian context

Asia has to be globalization-ready not just by adjusting to a more open competitive environment in trade liberalization and deregulation, but also by preparing domestic industries, including State and indigenous enterprises, to face the entry of foreign competitors, notwithstanding any positive affirmative policy. Blaming globalization, especially speculative financial flows, for social and economic distress is reaching for excuses, as global interdependence and contagion are the costs of reliance on foreign investment and export-led growth. Graduating effectively, efficiently and quickly to participate and compete in the global economy is hard for developing countries with national agendas based on nationalism or ethnicity as in South-East Asia or with strong, visible government hands and State-business relationships as in the newly industrialized countries of the region. Democracy, political freedom and choice, welfare capitalism and an egalitarianism that balances equality and equity are not Asia's strong suits. A new social contract in keeping with globalization and the new economy, with its emphasis on the tertiary sector, is hard to forge in Asia's socio-political ethos and value systems. The challenges are no easier for Asia than for the developed industrial economies.

The State's ability to step up to the new challenges is undermined by the logic of international capital mobility

The dilemma lies in greater uncertainty and risk requiring more State-driven social security and welfare protection when the new economy calls for more neo-liberal, private sector-led cost competitiveness and profitability. Wage costs should not be weighed down by social security costs to be competitive, but poor labour and social standards and social dumping are undesirable. Tripartite social structures are of no avail as globalization strengthens capitalism in societies bifurcated into winners or losers. National interest and solidarity are lost when sovereignty is overrun by foreign investors and multinational corporations. The logic of globalization sets the tune to which developing economies dance, conflicting with the logic of the national community and democratic politics. Social policy becomes an object of contention between global capitalism and the democratic nation State (Mishra 1999).

Social protection receives little attention from ASEAN but is increasingly part of trade regimes under the World Trade Organization

Transnational social policy issues are addressed by some regional groupings, notably the European Union and the North American Free Trade Agreement. However, they are not discussed in the Association of Southeast Asian Nations (ASEAN) or ASEAN Plus Three. The preferred non-institutionalized ASEAN or Asian approach to globalization is fundamentally ad hoc, pragmatic and strategic and combines neo-authoritarianism with the market. Non-interference in domestic politics is not just the rule, but is part of the cultural etiquette. Whether it is the "residual" approach to social policy taken by international organizations with some powers of economic surveillance through granting loans and arranging financial assistance or the non-committal preference for non-institutionalism, Asian social security and welfare protection remain fundamentally weak and are squeezed further by the need to be internationally competitive. Minimalist social security policy is at best an adjunct to economic and social policy, not human rights under the United Nations or labour rights under ILO. Trading regimes directed by the World Trade Organization are, however, increasingly concerned with social clauses such as minimal labour and human rights as trade unions in developed industrial countries seek to limit unfair competition and social dumping.

Privatization can reduce public expenditure burdens but does not eliminate the role of the State in providing basic social and welfare protection

Privatization of social security is a seductive argument, promoted to lower the public expenditure burden, encourage self-reliance and respond to a more differentiated and individualistic demand in a post-industrial society (Esping-Andersen 1996: 26). Adverse selection in the annuity market requires the existence of fairly priced annuities, and increased welfare gains occur only by putting a larger segment of the population into this market by mandating the conversion of private retirement accounts into annuities. If privatization entails a shift of responsibility to companies, it affects international competitiveness, corporate profits and labour market flexibility. Even as a last resort, the State is morally responsible for certain basic social security and welfare protection even if individual responsibility is important. Granted that social insurance is still desirable with greater uncertainty and risk in the new economy, the preferred alternative would be defined contribution rather than defined benefit plans, similar to individual insurance schemes in Chile or the 401 (k) individual retirement accounts in the United States. Means-tested welfare State and income transfer programmes, which perversely create work disincentives and lead to a tax revolt, are lessons from the West.

Social justice must accompany increased growth and affluence if the gains of the working middle class in the region are to be safeguarded

In conclusion, whatever is missing in Asia or what is idiosyncratically Asian has to be addressed, urged by the destabilizing crisis and international standards and practices. Growth with affluence implies social justice, measured in the ability of citizens to meet basic needs and to take advantage of opportunities and life chances. It would be a pyrrhic victory if Asia attained growth, with higher labour force participation, but the working middle class was in danger of becoming an underclass. As Asia recovers, the new issues are more social than economic. With or without a welfare State, government intervention must mandate savings, regulate markets and commission private agents to produce financial and social security services complementary and supplementary to State- and employer-based provisions. Leaving it to individuals, families and communities to provide for social security and welfare protection is no longer viable or politically acceptable. Global trends portend unpredictability as to the probability and extent of risks occurring and an uneven distribution of the resulting damage. Private coverage of social risks is impossible, incomplete and insufficient, and yields inequitable outcomes given the imperfect ability to assess and measure risk owing to asymmetric information, the skewed distribution of damage and its probability of occurrence, and the myopic behaviour of people at risk. Market failure is a necessary but not a sufficient condition for government intervention; externalities prevail for social security as it is a public good in itself.

Parts of Asia are already confronting ageing populations. The post-war baby boom may turn into a "social security bust" if holistic policy reform is not undertaken in time, as experience elsewhere has shown (Aaron and Shoven 1999). In the final analysis, the misperception that globalization and the new economy are major constraints to national policy is due to the mistaken identification of global and national forces as competing in a zero-sum game rather than being complementary. The tendency to blame or to make excuses overlooks the positive, transforming impact, the improved capabilities and the new resources unleashed by globalization and ICT.

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