SOCIAL WATCH

SOCIAL WATCH: World Bank's social security reforms hamper fight against poverty

NEW YORK (0ct) - Social security, a historically proved method to reduce poverty, is being decimated all over the world through World Bank-promoted privatization reforms, states the 2007 Social Watch Report.

The World Bank’s policies have targeted the reform of public social security institutions, including privatization of old age pension systems, which reduces the role of the state to compensate for market failings, adds the report.

The reforms have shifted the balance of social risk away from state institutions while transferring to the individual the responsibility for having sufficient personal savings to cover their needs during retirement.

Therefore, mandatory savings accounts and voluntary pension plans known as the ‘multi-pillar approach’ of the World Bank have substituted public pensions systems.

The World Bank has provided loans and technical assistance to developing countries that have privatized their social security systems, especially in Latin America and the Caribbean, as well as in Eastern European countries.

In developing countries such as Chile, US firms like Merrill Lynch have been some of the biggest beneficiaries of social security privatization.

However, voices of dissent have emerged from the World Bank itself. In 1999, the then chief economist Joseph Stiglitz pointed out that many of the reasons given for preferring privatized social security systems based on individual retirement accounts were not supported by evidence.

Similarly, Antonio Tricarico, one of the authors contributing to the Social Watch Report and a member of the Campaign to Reform the World Bank, says that “the single-mindedness of the World Bank in promoting privatized systems has been peculiar, since the evidence, including data in World Bank publications, has indicated that well-run public sector systems, like the social system in the United States, are far more efficient than privatized systems.”

Besides, the extra administrative expenses of privatized systems come directly out of the money that retirees would otherwise receive, lowering their retirement benefits by as much as one third, compared with a well-run public social security system, the report points out.

The World Bank’s current ‘social risk management’ approach aims at reducing the role of risk-pooling state provision while encouraging a greater role for private sector delivery of individual risk mitigating instruments.

Within this framework, those individuals without sufficient financial means to purchase commercial insurance products are more likely to have to face greater degrees of risk. Therefore, the actual aim of the new approach is to lessen the risk, not to meet the needs, says Social Watch.

To help lift older people out of poverty and help mitigate life-cycle risks, especially in the least developed countries, the best solution are policies that prioritize a strategic role for tax-financed universal pension provision.

Universal services and social assistance are distribution mechanisms that channel resources from those who have more to those who need more. In this case, individual contributions in the form of taxes have no direct relation with the benefits received; in fact, most of the beneficiaries are persons living in poverty who have therefore contributed less.

A system in which benefit depends on the risk cannot help reduce poverty simply because it does not redistribute wealth. Its rationale is not different from that of the market. Within the risk/benefit relation (i.e., investment/revenue, contribution/quality of social security) the gaps between the poor and the rich tend to grow rather than diminish.

Differently from the public systems which partially distribute wealth – since contributions are proportional to income and social benefits to social needs – in the World Bank’s approach the state has no way to help fight poverty and diminish the differences among the wealthiest and the poorest of the world.

According to Social Watch, the state remains the only feasible institutional mechanism for social protection for marginalized, poor older people with no access to either labour market opportunities or alternative risk mitigating assets, even if financial limitations make this task quite difficult.

For this purpose, the state does not have to rely solely on income transfers and traditional forms of social security. Policies that promote livelihoods and reinforce informal systems of social protection are equally fundamental in the establishment of efficient forms of social security in developing countries.

The stress placed by the 'social risk management approach' on the need of an increasingly risky role for the individuals –which will have to overcome poverty through their own effort– will only lead poverty to be perceived more as a ‘personal failure’, at least from a neoliberal perspective.

This view is unacceptable because it undermines the principle that social protection is a fundamental right of all citizens, states the Social Watch report.