

# **Global Normative Standards and National Solutions for Pension Provision:**

**The World Bank, ILO, Norway and  
South Africa in Comparative Perspective**

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# Contents

|   |    |
|---|----|
| FOREWORD.....   | 3  |
| SUMMARY.....  | 4  |
| SAMANDRAG .....   | 5  |
| Introduction .....  | 7  |
| Two global normative perspectives on redistributive fairness of pensions..... | 7  |
| The World Bank .....  | 8  |
| The International Labour Organization .....                                   | 11 |
| Local/national solutions: Norway and South Africa.....                        | 15 |
| Norway: institutional pluralism, universalism and social divisions.....       | 15 |
| South Africa .....  | 20 |
| Conclusions.....  | 21 |
| Literature.....   | 28 |

# Foreword

This publication comes out of the *Strategic Program for Research on Globalization and Internationalization: welfare, work, legitimacy and globalization*, at the Stein Rokkan Centre for Social Studies at Bergen University Research Foundation. This program is designed as a University of Bergen research network, and its primary area of activity is the study of changes in *welfare and labor market institutions* as they are played out in the debate on globalization and internationalization.

Issues of distribution, regulation and fairness are central to the program, which incorporates research in sociology, political science, economics, history and philosophy. One basic premise for program research is that focusing on welfare and labor market institutions can provide important insights into other areas of society and that it can also shed light on other globalization issues, such as the status of the nation state and conditions for democratic governance.

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# Summary

This paper identifies and describes the normative content of ideas concerning pension systems/social security schemes in terms of the concepts of fairness or justice laid out by two selected international organisations: the World Bank and the ILO. In this context, these organisations are regarded as setting global normative standards and as acting in ways that influence local powers to adopt policies that accord with these ideas. The focus is on the ideas implicit in policy stories, i.e. on the frameworks of understanding within which problems are specifically identified, their causes singled out, and remedies pursued. Three factors crucial to an understanding of the concepts of distributive justice that underlie these organisations are discussed: the coverage or scope of the pension system, redistribution, and the adequacy of pensions. The paper then presents the institutional framework of pension provision in Norway and provides a brief account of the South African system. On the basis of these four cases, the paper concludes with a comparative normative account of these frameworks and a description of various contrasts and similarities.

# Samandrag

Dette notatet identifiserar og diskuterar det normative innhaldet i idear om pensjonssystem med omsyn til rettferdsforståingar slik desse blir lagt fram av to internasjonale organisasjonar; Verdsbanken og ILO. Desse organisasjonane blir her sett som globale normative standard settarar. Dei er aktørar som prøver å påverke lokale makthavarar til å tilpasse seg slike standardar i politikktutforminga. Fokus ligg på idear forstått som policy historier, det vil seie eit rammeverk for forståing som inneheld problemidentifisering, årsaksforståing og løysingsforslag. Diskusjonen her er konsentrert om tre aspekt som er sentrale i høve til å forstå fordelingsrettferdskonsepjonen til desse organisasjonane: medlemsskapsomfang, omfordeling og substansielt omfang til pensjonane. Notatet syner så den institusjonelle utforminga av pensjonssystemet i Noreg og gir ei kort framstilling av det Sør Afrikanske systemet. Ut frå desse fire døma konkluderer notatet gjennom ei komparativ samanstilling av desse normative rammeverka for å få fram kontrastar og likskapar.



## **Introduction**

The aims of this paper are threefold. Firstly, to identify and describe the normative content of ideas about pension systems/social security schemes in terms of the concepts of fairness or justice laid out by two selected international organisations. The discussion will focus on three factors: the coverage or scope of the pension system, redistribution, and the adequacy of pensions. These aspects are crucial to an understanding of the concepts of distributive justice that underlie these organisations.

The second aim is to describe in some detail the present institutional framework of pension provision in Norway and to provide a brief account of the South African system.

Thirdly, on the basis of these four cases, the paper concludes with a comparative normative account of these frameworks and a description of various contrasts and similarities.

I shall start with the premise that there exist certain global ideas concerning pension models, and that international institutions act so as to influence local powers to adopt policies that accord with these ideas. The focus is on the ideas implicit in policy stories, i.e. on the frameworks of understanding within which problems are specifically identified, their causes singled out, and remedies pursued.

“Like any good yarn, policy stories have settings (the basic assumptions), villains (the policy problem and who or what is causing them), heroes (the policy solution and who or what should be responsible), and, of course, a road leading to a happy end (concrete prescriptions for reform). Each contribution tells a slightly different story of the same issue: each identifies problems, apportions blame, and claims to provide solutions. Each story combines factual observation with fundamental beliefs about how to best manage pension systems” (Ney 2000).

Such policy stories are visible at different levels of social scale from the micro to the macro and global levels. It is at the international level that we shall begin, by presenting some central normative components of the policy stories of the World Bank and the ILO. In this context I shall concentrate mostly on the solution or the prescribed happy end of the policy story.

## **Two global normative perspectives on redistributive fairness of pensions**

Laid out below are two normative perspectives on fair pensions, the first based on a well-known World Bank report and the second on an ILO story derived from an executive summary of the ILO viewpoint. Before proceeding, it is important to stress that in the current article the views of these organisations are probably portrayed as more ideologically homogeneous than they really are. Both organisations do in fact manifest contradictory and competing views, which means that they are in reality more pluralist than they are made out to be here.

## The World Bank

The World Bank report *Averting the Old Age Crisis* has been influential in setting pension reform agendas and influencing pension reforms in different countries. The discursive impact of the report has been global in scope, representing the economic attitude of the neo-liberal establishment (MacKellar 2000, Deacon, with Hulse and Stubbs 1997). The basic premise of the World Bank is the need for economic growth:

“Everybody, old and young, depends on the current output of the economy to meet current consumption needs, so everybody is better off when the economy is growing – and in trouble when it’s not” (World Bank 1994, p. 3).

For the World Bank, there is a need to link the role of the pension system to the need for economic growth. A pension system that avoids market distortions and thereby promotes growth is good for the economy. Ultimately, a bigger pie is better for everyone, including the old. The report describes a situation in which both informal (non-public and non-market institutions) and formal (read public) old-age programs are in trouble worldwide. Informal community and family-based arrangements are weakening. Formal programs are beset by escalating costs that drive tax levels and tax rates up, and because of the resulting market distortions, this weakens private sector growth. In addition, these same programs fail to protect the old. The report therefore issues a strong warning to developing countries not to follow in the footsteps of richer countries: “At the same time, many developing countries are on the verge of adopting the same programs that have spun out of control in middle- and high-income countries” (World Bank 1994, p. 1). The World Bank puts forward a host of arguments for why formal public programs are failing, and why they are unfair and unable to meet the demographic challenge.

The demographic transformation that has resulted in increased numbers of dependent old people is central to the way in which the report frames the inadequacy of the existing formal system, which is built around one dominant public pillar of pension provision. The problem lies in the method of financing the system by means of Pay-As-You-Go (PAYG) arrangements, whereby current outlays on pension benefits are paid out of current revenues. When the system is young, generous benefits to the first generation of retirees cost relatively little in terms of contributions and outlays. However, as the system matures and the population ages, the cost in terms of outlays increases due to the increase in the number of pensioners who expect steadily more generous benefits and the decrease in the number of people of working age who pay contributions. Thus, in a mandatory PAYG scheme, where saving, insurance and redistribution are combined within the same system of a dominant public pillar, problems arise as the system matures.<sup>1</sup> This scheme is based on a defined benefit

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<sup>1</sup> These three core functions are specified as follows: *Saving* involves income smoothing over a person’s lifetime, i.e. people postpone some consumption when they are young so as to be able to draw on these savings when they are old. *Redistribution* involves shifting lifetime income between persons, “perhaps because if low-income workers saved enough to live on in old age, they would plunge below the poverty line when young.” In other words, because the ability to save is unequally distributed, redistribution is needed to secure some saving for all persons. The *Insurance* function consists in protecting against the risks of recessions, bad investments or inflation that may reduce the value of the savings, the risk of outliving one’s own savings, or that public programs may fail (World Bank 1994, p. 10.).

formula, since there is no clear connection between contributions and benefits among the three core functions mentioned above, i.e. there is no actuarial fairness in the scheme. For this reason, and due to the increasing cost burden, people tend to view these contributions as ordinary taxes rather than as the price for a specific service to be rendered. This perception leads to a vicious circle, where high tax rates encourage evasion, thus defeating the purpose of a mandatory scheme (i.e. where everyone has to contribute). At the same time, assuming that people are rational economic actors, they will attempt to benefit from the system by seeking to qualify for benefits without contributing the amount they ought to.

The World Bank also maintains that high taxes have detrimental effects on economic growth, since they reallocate resources to the informal sector, thereby reducing output in the more efficient formal market sector of the economy. The existence of a PAYG system of funding crowds out private savings, since people expect that the government will pay their pensions, and this leads to reduced savings and smaller investments. In this way, the privilege of the first generation of beneficiaries, who do not need to save, is paid for by later generations in terms of lost investments and lower incomes. Moreover, high public spending on pensions crowds out other public growth-friendly investments. The end result is less economic growth and a smaller pie to be shared.

The report sets out to debunk several recurrent myths in the pension debate. Not surprisingly, perhaps, all these myths concern the supposed efficiency and fairness of, and the need for, government social security programs. One of the myths the report aims to expose is the seemingly progressive and redistributive character of public social security programs. In a lifetime perspective, they argue, there is not much redistribution from lifetime rich to lifetime poor. This can be explained largely in terms of the difference in longevity between rich and poor. The rich live longer and therefore collect benefits over more years than the lifetime poor. A public earnings-related pension pillar, of the type familiar to us especially from the European context, is therefore a poor solution for those who want redistribution:

“Ironically, the largest transfers go to high-income groups in earlier cohorts, whereas middle- and sometimes even lower-income groups in later cohorts get negative transfers. The larger and more earnings-related the benefits in the public pillar, the greater are these perverse effects” (World Bank 1994, p. 13).

Given these inadequacies of existing pension systems, the question arises of what has to be done. The World Bank proposes a radical change in pension design by suggesting a three-pillar model of pension provision, in which the three core functions are separated. In this model the role of the public pillar is limited to the objective of alleviating old-age

poverty and insuring against various risks.<sup>2</sup> It should be tax financed and modest in size so as to give scope for the other two pillars, while at the same time keeping tax rates low. Although the World Bank report offers different options for the design of the public scheme, it considers a variant of a means-tested scheme, in the form of a minimum pension guarantee, as the best way to hinder poverty in old age.

The second pillar would have the objective of securing the saving function, while also providing coinsurance. It should take the form of a mandatory pillar fully funded and privately managed, preferably through personal plans, as this would give higher returns than poorly managed public funds. This pillar would be characterised by actuarial fairness; it would achieve symmetry between contributions and benefits, and would exclude any redistributive considerations.

A third pillar, consisting of voluntary occupational and or personal savings plans, completes the pension provision by offering additional protection for those who want more income and insurance in their old age.<sup>3</sup>

### **Normative bases: actuarial fairness and means-tested safety nets for the poor**

So what are the normative implications in terms of distributive justice of the international standards set by this global organisation? The basic assumption is that of actuarial fairness, whereby symmetry between individual contributions and outcomes in terms of pension benefits is the norm. In short, the efforts of individuals to participate via the free market should be reflected in the design of the pension scheme. Although the report severely criticises the perverse distributive outcomes of public schemes, the proposed alternative does not foresee any major effort to reduce income differences as such. Quite the contrary, redistributive efforts ought to restrict themselves to the limited goal of hindering poverty in old age. In this sense, benefits would be very modest at mere subsistence level and means tested in order to avoid as far as possible any distortions of the market system. There are therefore ostensible differences between this approach and the broader distributive aims and underlying logic of both the Nordic and

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<sup>2</sup> The poverty concept applied throughout this paper is a relative one. In comparing two countries as diverse as Norway and South Africa, poverty will have different meanings depending on the context. In 1997 the share of persons on low income, defined as income after tax per unit of consumption below 50% of median income, was 4.7%. On average, old-age pensioners with minimum pensions had incomes of NOK 7,500 above the low income limit in 1996. The group of old-age pensioners made up 7% of the group of persons with low incomes. Their proportion (i.e. that of persons above 67 years of age) of the total population was 14.4% in 1990. Thus income poverty and low income is less of a problem in this group compared to some other population groups. A strong increase of the minimum pension in 1998 improved the income position of this group still further (St.meld nr 50 1998–99). In South Africa 35.8% of the population fall below the income poverty line, defined as US \$ 2 a day (1993 PPP US \$) based on the period 1983–2000 (Human Development Report 2002, <http://hdr.undp.org/reports/global/2002/en/indicator/>). Thus these two ways of measuring poverty and low income reflect highly different economic and social contexts. For instance, in terms of PPP (purchasing power parity) gross national income per capita, the per capita for Norway was US \$ 29,630 in 2000 and US \$ 9,160 for South Africa (World Development Indicators 2002, <http://www.worldbank.org/data/wdi2002/tables/table1-1.pdf>). Measurement of income poverty does not take into account informal and non-monetary forms of provision, a fact that adds to the situation of highly different national contexts to which these poverty indicators must be related.

<sup>3</sup> The three-pillar metaphor is well chosen because it evokes an image of stability and security, whereas if one or especially two of the pillars are missing there is a strong suggestion of lacking stability and security.

the continental European welfare states: “Against organised labour, against European corporatist social security structures and for the very poor: that is the political strategy of the dominant anti-poverty thinking in the Bank” (Deacon with Hulse and Stubbs 1997, p. 69).<sup>4</sup> In this way the report takes a clear stand in favour of a model of pensions and social policy which, in the literature on classification of welfare regimes and welfare states, is known variously as the Residual or Liberal type (cf. Titmuss 1974, Esping-Andersen, 1990). Within this model the state plays a residual role by providing a safety net, in the form of a mere subsistence income, for those who for various reasons lose out in contending with the market system. Redistribution is limited to achieving this aim and no more. The other factor presupposed by the system is the provision of security by means of dominant market relations. The preferable system is therefore considered to be voluntary private pensions, since these allow freedom of contract and result in a conception of distributive justice that acknowledges individual economic efforts in terms of contributions, investment choices and risk taking. However, the World Bank does not pursue this ideal to its logical conclusion, insofar as it compromises freedom of choice in obtaining the goal of adequate savings. Thus the World Bank report represents a blend of strong belief in the distributive fairness of market institutions and the need for some hierarchical paternalism through mandatory saving and minimal redistribution through the tax system.

## The International Labour Organization

The International Labour Organization (ILO) offers a contrast to the neo-liberal policies of the World Bank and similar organisations, such as the IMF. The mission of the ILO is to set and keep common international social standards (Deacon, with Hulse and Stubbs 1997).

The pension debate is one in which the ILO and the World Bank have differed substantially. In the ILO Summary on Social Security Pensions: Development and Reform (ILO 1999, Gillion 2000), the ILO’s point of departure is a historical perspective in which they see social security pensions as a major development.<sup>5</sup> Yet there is a considerable contrast between the beginning of the last century, when there were no social security pensions and life was “nasty, short and brutish” (Gillion 2000, p. 1), and the situation today, where levels of poverty among the elderly are comparable to those among other social groups in developed countries. Life expectancy for workers

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<sup>4</sup> Thus under the heading institutional winners and losers the report notes: “With the pension transition, managers of social security institutions will lose some of their power that comes with wielding monopolistic control over large flows of money, and workers in these institutions may lose their jobs. The social security bureaucrats may try to mobilize political parties and pressure groups to oppose the transition. Severance pay may help to defray their opposition. Private financial institutions gain, especially those that reap the large profits available to early entrants into the market, so they can be expected to lobby in favour of a decentralised funded pension system. In many Latin American countries unions may expect to lose and oppose the transition if they were previously the sole representatives of the workers in the social security program. Unions may be won over by letting them establish new pension funds as in Chile and Argentina” (World Bank 1994, p. 273).

<sup>5</sup> The ILO (1999) document is entitled “The Development and Reform of Social Security Pensions: The Approach of the International Labor Office” (Executive Summary), Geneva, ILO. The document I refer to here is an updated version (2000), with Colin Gillion, Director at the Social Security Department, as author.

has improved, and the introduction of disability pensions and early retirement schemes has reduced the economic risks associated with incapacity to work. In this respect:

“A large part of this profound improvement in social conditions can be attributed to the creation of social security pensions which must be counted as one of the major social developments of the last hundred years” (Gillion 2000, p. 1).

Even so, the ILO adds that the goal of social security has yet to be completed in a global or worldwide perspective.<sup>6</sup> Coverage of social security pensions in developing countries is still very low and the organisation sees the extension of coverage to workers throughout the world as a major objective. Schemes must be developed which, in addition to broadening the coverage, are well governed, economically efficient and in line with international human and social values. Thus the core normative premise of the ILO is the fundamental right to economic security for all people, and this ought to be achieved by extending social security to provide a basic income to all in need of such protection. For the vast majority of retired and disabled people, as well as women and orphans around the world, this right is still denied. The ILO points out that, for these people, the key issue is lack of entitlement and not the basis for determining benefits.

The concept of ‘crisis’ that is crucial to the World Bank is absent from the ILO’s characterisation of the situation. However, this does not mean an absence of challenges to pension schemes. The report notes that pension schemes around the world are in a state of transformation. The ILO identifies similar problem areas as those of the World Bank, such as the benefit structure, the financing of pension programs, including the management of investment, coverage and its shortfalls, governance and administration, problems of contribution evasion, redistributive issues etc. It is in their interpretation of causes that the two organisations differ. I shall briefly point out this difference within two areas.

As mentioned above, in the World Bank policy story the PAYG system of financing is viewed as fundamentally flawed and due for replacement by pre-funding through the private sector by means of defined contribution schemes. The demographic transformation accentuates this flaw in the public system leading to unacceptable tax burdens. In addition, the World Bank report abounds with examples of poor public governance of pension funds and the corresponding superiority of private funding. The picture painted by the ILO is quite different. They acknowledge that demographic transformation represents a risk factor, but they argue that this does not constitute an argument for changing the system into one that requires defined contributions through private fund management:

“...some of the perceptions about the operation of such a scheme are factually and analytically wrong. It would not reduce the burden (on the national economy and the population at large) of supporting an ageing population, unless pension benefits were reduced relative to income in work. But both these changes could

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<sup>6</sup> Deacon notes that the international context in which the ILO was established in 1919 involved the Bolshevik unrest sweeping Europe and the Treaty of Versailles, which was closely concerned with labour conditions: “the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries.” (Quoted in Woolcock 1995) (Quoted from Deacon, with Hulse and Stubbs 1997, p. 73). Since then the strategy of the ILO has been to exert moral pressure on governments to sign and ratify conventions of good practice.

also be achieved under a public social security scheme of the pay-as-you-go type. The reason is fairly straightforward. The standard of living of retirees can only be provided from the real incomes of those in work, whether this transfer takes place through a public mechanism or through market-based savings. If it is the former, contribution rates must be increased. If it is the latter, then the accumulated financial assets of pensioners must be sold to contributors in order to provide the pensioners with money for consumption. In both cases the amounts of money involved (contributions or mandatory savings) are equivalent. Both must react in the same way to increases in the proportion of pensioners to the active population” (Gillion 2000, p. 17).

But even more important than this, the ILO has normative reasons for opposing the introduction of such a scheme, since defined contribution schemes do not provide predictable and guaranteed income. This is a fundamental principle of the ILO and one that they believe can only be accomplished within a defined benefit social security scheme. The World Bank would of course argue that, due to the political risks involved in public schemes, defined benefit schemes do not provide a basis for predictions or the provision of guarantees. Rather, they view such schemes as inherently unpredictable and insecure. This exposes a basic difference between the two organisations in terms of their trust in public and private institutions, and this is further evinced by their views on private pension management. Whereas the World Bank is highly critical of publicly managed funds and argues for the superiority of private funds, the view of the ILO is much more sceptical. Although the ILO mentions and warns against the politicisation of investments and admits that there are many examples of poorly managed government funds,<sup>7</sup> they also provide examples of what they consider to be effectively managed funds, such as the public Quebec Pension Plan.<sup>8</sup> Moreover, they add that OECD experience in the management of private pension funds suggests that the regulation of pension managers requires considerable care because of the obvious opportunities for insider dealing, whereby managers might improperly benefit themselves (Gillion 2000, p. 5).

For the World Bank the demographic transformation and the increasing pension burden created by the public PAYG system of financing create a problem of lacking fairness between generations, in that future generations face higher tax rates compared to earlier generations of taxpayers. A core argument here is that the private savings crowded out by PAYG schemes represent a lost opportunity for growth that would have created a larger pie for future generations to share. In this way the existing pension

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<sup>7</sup> The question of the politicisation of pension funds is an important one that overrides the public-private distinction. It is of course naïve to believe that large international pension funds with strong economic power would not try to use this to politically influence government policies in ways that suit their interests, whatever they may be. The other side of this is of course the processes of politicisation from within private pension funds. By this I mean the increasing pressure from various stakeholders to incorporate social, ecological and ethical concerns into the management of pension schemes, with regard to their investment policies. To the extent that such features of pension fund investment policies are realised, we can speak of a process whereby pension funds mimic the welfare state in terms of setting certain socially and ethically relevant standards that are not to be compromised, even in cases where the result would be lower rates of return on investments. So far, however, a study by Bernt Kasemir and Andrea Süess (2001) has revealed that pension funds investing in environmental projects in fact give higher returns than ordinary market investments.

<sup>8</sup> Experience with public management, such as that of the Norwegian National Insurance Fund or the Petroleum Fund, has also been good in terms of governance and investment returns.

system is creating growing conflicts between generations. Referring to the mixed and inconclusive results in the literature on this issue, the ILO disputes this view of the drawbacks of public savings, and maintains that the growing financial burden must be disassociated from the PAYG form of social security organization as such. The increased pension burden in the future does not point to any inherent lack of generational fairness in public social security schemes. The generational contract is sustainable so long as the compliance and trust of future taxpayers can be secured.

In sum, the ILO points to two paramount problems. The first is the lack of coverage, which needs to be expanded to all people. The second is the importance of governance issues:

“A well-designed social security programme can fail to meet its goals if it is poorly governed. Many of the problems of social security schemes in developing countries result from poor governance and can be resolved by improvements in governance rather than requiring major reforms” (Gillion 2000, p. 10).

This is of course almost opposite to the conclusion arrived at by the World Bank, which recommends developing countries not to follow in the footsteps of the developed countries, especially those of Europe.

A central concern for the ILO with regard to governance is that the tripartite structure of social security governance should be retained through the participation of governments, employers and employees. But this is exactly what the World Bank wants to do away with by transferring governance to private fund management and substantially reducing the influence of what they call the welfare bureaucracy and the unions. The notion of good governance therefore has clearly contrasted connotations within these two policy camps. The World Bank wants to depoliticise pension governance by securing far greater scope for market-based pension provision. The ILO wants to enable the participation of stakeholders in order to secure democratic governance of pension schemes.

### **Normative bases: universal coverage and redistributive social insurance fairness**

The ILO is quite explicit about the normative basis for its policy guidelines. It names five central elements: the extension of coverage to all members of the population, protection against poverty for all members of the population, provision of income replacements for lost earnings due to retirement for all those who have contributed, adjustment of income to take account of inflation and (to some extent) improvements in living standards, and finally the creation of an environment for additional voluntary provisions. In addition, the ILO stresses the importance of principles of compulsory affiliation, equality of treatment, guaranteed and predictable benefits, democratic management, and the responsibility of the state to ensure that the conditions for the delivery of benefits are fulfilled (Gillion 2000). To accomplish this the organisation stresses the need to develop pluralistic designs and flexible structures, since there is no such thing as a universal and perfect retirement income scheme. Pension schemes have to adapt and change to suit altered economic and social circumstances. In order to reduce poverty and provide low risk retirement income, pension schemes must be redistributive and benefits must be provided from diversified sources. The ILO

therefore advocates a four-tiered system. Firstly, there is an anti-poverty, means-tested or universal tier, financed from general revenues; the second tier is a PAYG arrangement with defined benefits; the third is a mandatory defined contribution component; the fourth and final tier encompasses voluntary savings and non-pension sources of income.<sup>9</sup> By applying the concept of tiers to emphasise the basic interconnectedness of the different sources of retirement provision, the ILO offers a visualization of the pension system that is different from the separate pillar identities of the World Bank conceptualisation. The ILO foresees a much stronger role for public provision than does the World Bank, insofar as the first two tiers would be based on general taxation and PAYG financing, with the second tier of the defined benefit kind. It is the second tier that represents the strongest divergences in normative terms between the two organisations. The ILO wants to keep a redistributive mandatory defined benefit tier, of the kind that is now traditional in OECD countries. Here the World Bank presents a much clearer break with the existing system, by setting up a second mandatory pillar that does not involve redistribution and which is based on defined contributions to a privately managed funded system. However, the ILO also adds a mandatory defined contribution tier that may or may not be privately managed. The most important normative principle of the ILO proposal is the universal coverage of pension schemes. This is premised on notions of basic social rights and social justice. To enforce such principles, compliance through a mandatory and redistributive social insurance scheme is needed. With regard to the design of pension schemes, the ILO proposal is close to existing schemes within the OECD countries, although it also includes mechanisms to accommodate increasing diversification through defined contribution elements and voluntary additions.

## **Local/national solutions: Norway and South Africa**

In this section I shall present the existing pension landscape of Norway and outline some of the normative bases of its National Insurance system. This section will draw on previous writings about the Norwegian case (Ervik 2002a, 2002b). The presentation of the South African case will be only cursory.

### **Norway: institutional pluralism, universalism and social divisions**

At present, the pension landscape in Norway reveals a situation that combines plural sources of income security for the elderly. A universal and fairly generous first tier of pension provision is combined with other tiers of income sources, as well as a public

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<sup>9</sup> Although the ILO applies the concept of a means-tested basic pension, in discussing the extension of coverage to the informal sector the organisation opens the way for other policy options, such as tax-based universal schemes. Cf. for instance the ILO/SAMAT paper by Fultz and Pieris (1999) on social security schemes in Southern Africa.

system of service provision for old people. There is, however, a social division, since groups within the private sector do not have access to occupational pensions.

In 1966 Norway introduced a comprehensive National Insurance (NI) reform, the so-called *Folketrygden*. This incorporated the formerly separate insurance systems covering old age, disability, sickness, unemployment and compensation for families with children within a single institution. Since the introduction of this reform, old age pensions have also provided income-related benefits. As a result of *Folketrygden*, the Norwegian public pension system now has the following hallmarks. The system is universal. Every residents of Norway (minimum 3 years of residence) has the right to a basic pension (*Grunnpensjon*) independent of labour market participation. Those with incomes from employment, above a certain minimum, also receive an additional earnings-related pension (*Tilleggspensjon*). The public pension system is redistributive. It redistributes income from lifetime rich to lifetime poor. Through the PAYG system of financing based on general taxes the system also encompasses vertical redistribution, through the application of a system of progressive tax rates.<sup>10</sup>

For average wage earners, the replacement ratio of the NI is around 50 percent before tax (Herbertsson, Orszag & Orszag 2000). Taking into account the effect of the tax system, replacement rates as percentage of previous net income are higher. For an industrial worker on average income in 1995, the replacement rate was close to two thirds of previous net income (St.meld nr 35 1994–95). For below-average incomes, the net replacement rate is higher than two thirds, while for above-average incomes it is lower (cf. Table 1 below).

However, Norway's pension system consists of more than just the National Insurance system; it also encompasses occupational and private pensions. Table 1 gives an account of the institutional mix of the current pension system, based on the three tiers, and describes some of its most important dimensions:

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<sup>10</sup> Since contributions are paid also on income above the ceiling where no pension benefits are earned, this also contributes to the vertical redistributive function of the pension system.

**Table 1** *Pension tier mix: coverage, replacement levels, retirement ages, financing, and income composition.*

|  | First tier  | Second tier   | Third tier  |
|--|---|---|---|
| Type of pension                                | Public pension tier:<br>National Insurance.   | Public earnings related part of<br>National Insurance scheme and<br>occupational pensions within the<br>public and private sectors.   | Private pensions.   |
| Coverage                                       | Universal: all residents<br>with a minimum of 3<br>years of residence<br>receive the basic<br>pension.  | Both sectors: 1970: 41% of all<br>employees; 1989: 58% of all<br>employees; 1998: 53% of all<br>employees.<br><br>Public sector: near complete.<br><br>Private sector: 1998: 34%. | 1984: 166,860 schemes;<br><br>1992: 250,000 tax<br>favoured schemes;<br><br>1998: 698,000 schemes<br>including non-tax favoured<br>policies.    |
| Replacement levels                             | National Insurance,<br>including<br>supplementary<br>pension: single<br>pensioner with<br>previous average<br>income ( $5G^{11}$ ) and 40<br>years of earnings.<br>Gross income<br>replacement level<br>1995: 54%. Net<br>income replacement<br>level 1995: 67%.<br>Income 12G: Gross<br>replacement level: c.<br>33%. Net replacement<br>level: c. 45%.<br>(1G= NOK 38,080. As<br>of May 1, 2001 1G=<br>NOK 51,360). | Public sector: 66% of final salary.<br>(The right to a full pension<br>demands 30 years of earning.)<br><br>Private sector: 60–70% of final<br>salary most common.                | Varies depending on<br>contributions. Within tax<br>favoured schemes a<br>maximum of NOK 40,000<br>are tax deductible each<br>year, as of 2002. |
| Retirement age                                 | 67 years  | 67 years. Within public sector<br>specific retirement ages for<br>certain categories of employees.  | 67 years for tax favoured<br>schemes, no rules for<br>others.   |
| Financing                                      | Contributions, taxes,<br>PAYG   | Public sector: contributions, un-<br>funded for state<br>employees. Contributions, funded<br>for communal employees. Private<br>sector: contributions, funded.                    | Contributions, funded.  |
| Composition of old<br>age pensioners<br>income | Share 1982: 73.9%.<br>Share 1992: 63.2%.  | Occupational pensions, both<br>sectors: 1982: 9.7%; 1992:<br>15.2%; 1995: c. 18%.   | Capital incomes and other<br>incomes: 1982: 16.4%;<br>1992: 21.6%.  |

Source: Finansnæringenes Hovedorganisasjon (2000) Herbertsson, Orzag & Orzag (2000), Hippe & Pedersen (1991), NOU 1994:2, NOU 1999: 32, St.meld nr 35 (1994–95), Pedersen (2000).

<sup>11</sup> The basic amount (*Grunnbeløpet*, or G for short) is adjusted by parliament once or more often each year. It serves as the basis for the calculation of benefits as well as contributions. There is no automatic indexation of the basic amount.

To complete the above picture we should also take into account other sources of income and service provision. Home ownership represents a strong savings instrument in Norway. It is also associated with substantial tax incentives from the state (Ervik 2000). Among older people home-ownership rates exceed 90%. The government provides universal social services and health care for older people. In a comparative perspective, the Scandinavian countries are unique in that these services are provided through governmental organisations to a greater degree than they are in other types of welfare state (Kuhnle and Alestalo 2000).

The broad agreement on the *Folketrygd* system among the political parties created an atmosphere favourable to an expansion of the benefits offered. Thus during the 1970s a special supplement was introduced to compensate older members of the labour force, the retirement age was reduced from 70 to 67 years, earnings-related pensions for those with higher incomes were increased, incomes from employer contributions were also reduced, and finally, in 1979, contributions to the National Insurance fund were completely terminated (Seip 1994, Øverbye 1990, Kolberg 1983). Together these developments strengthened the PAYG profile of the system, with levels of financing from general transfers of tax revenues increasing relative to the financing from employer and employee contributions, thus enhancing the role of the state.

In addition to these developments in the public pension system, Table 1 shows that occupational pension arrangements have also expanded. From 1970 to 1989 membership rates in labour market occupational pension schemes increased from 41% to 58% of all employees. In numerical terms, such memberships have doubled (Hippe & Pedersen 1991). Figures for 1998 suggest the coverage is lower, about 53% (NOU 1999: 32, p. 107).<sup>12</sup> However, whereas coverage of occupational pensions is almost complete in the public sector, in the private sector it is much lower. In 1998 coverage was approximately 34% (465,000 workers) of private sector workers (Herbertsson, Orszag & Orszag 2000).<sup>13</sup>

The market for private individual pensions has also expanded substantially. In 1984 the number of pension insurance contracts was 166,860. By the end of 1998 there were 698,000 individual pension policies. Of these 160,000 were paying benefits. Assuming that each policy is held by a different individual, the total number of policies accounts for 20.3% of residents aged 17 or older in 1998 (FNH 2000).<sup>14</sup> The growth in the number of insurance contracts between 1984 and 1998 amounted to over 400%.

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<sup>12</sup> Pedersen (2000) reports a higher rate of 60%, based on wage earners aged 59 or less.

<sup>13</sup> Besides the division of public and private coverage there are also social divisions within the private sector. Coverage and quality of pensions in terms of replacement rates are highest within the financial sector and lowest within retail and the wholesale trade, hotels and restaurants. Coverage in the former industry was 93.3%, but only 28.6% in the latter. The latter industries are characteristically labour intensive, with modest wage levels, large turnover, widespread use of part-time contracts and a high proportion of female employees (Pedersen 2000).

<sup>14</sup> This calculation assumes that different persons own individual pension insurance policies. According to the chief actuary of the FNH this may not be so. Not all companies manage to record statistics for each person, so the numbers above are per insurance contract. If the same person has contracts in different companies these are not conflated in the statistics (Personal correspondence October 2000). The number above thus overstates the relative number of persons actually covered.

Following this description of the pension system, I shall now outline some of the normative underpinnings of the National Insurance system. Here I shall draw upon and present the main findings of an earlier analysis based on parliamentary debates and other public documents from around the time of the NI's initiation in 1966 (Ervik 2002a).

Firstly, this analysis demonstrated the value of equality and universality as a shared normative foundation. Each individual is to be treated equally and is to have equal access to the social security provided by the scheme.

Secondly, it is insisted that security (or lack of security) is a social problem that belongs to the public sphere and ought to be addressed as a collective responsibility. This view applies not only to basic security but also to standard security. Emphasis is laid on the aspect that, as an institution, *Folketrygd* is a product of collective effort, which embodies a form of social solidarity. This can be seen in formulations such as “the Norwegian people” and “all our people”, which convey the idea of the state's responsibility and the inclusiveness of the security scheme. The name of the institution, *Folketrygd* – which, translated literally, means ‘people's security/safety’ rather than ‘National Insurance’ – also carries a sense of the scheme's collective and universal nature. Redistributive intervention by the public hand was also justified by drawing attention to the social or cooperative character of production via the use of terms such as “our common goods” and “those means available to society for consumption”, phrases that imply the possibility of democratic control of distribution outside the market.

Thirdly, there is a strong focus on the universal social rights of the individual. In other words, the institution is established to satisfy the individual's need for and right to security, and since this need is universal in status, it applies equally to all members of society. However, we also see a close connection between the social right and the compulsory element, insofar as everyone is obliged to become a member of the system. This means there is a reciprocal relationship between the individual and the institution, which allows us to regard it as a social contract. Where the standard security element is concerned, this reciprocity seems evident, in that contributions and benefits are linked together through the benefit formula. With regard to the universal minimum, the reciprocity cannot be constituted in narrow monetary terms. But insofar as reciprocity can accommodate differences in ability to pay or contribute, it allows us to view “non-contributors” as fulfilling their duty just as much as “contributors”. This points to the essential ambiguity and contested nature of concepts such as ‘reciprocity’ and ‘contribution’ (Kildal 1999, Ervik 2001).

A final point should be made concerning the concept of freedom. The libertarian insistence that redistribution by state institutions is unjust and restricts individual liberty (O'Neill 2000) did not figure in the debate on National Insurance in Norway. What we do find is a notion of freedom as a positive value. Thus the Nordic historical and cultural legacy, which sees the state as conducive to individual freedom rather than as an oppressive institution (cf. Stråth & Sørensen 1997, Trägård 1997), seems to have been acknowledged also among the politicians who worked on the National Insurance reform.

Not only was the National Insurance an institution that represented social justice and provided individual freedom, it was also seen as a rational way of providing security,

insofar as its administrative costs would be lower than those of so many fragmented occupational and private schemes.

In summing up the aspect of distributive fairness on which the National Insurance system is based, we can say that it reconciles different logics of distributive justice within one and the same social security scheme. The institution was pragmatic in trying to some extent to unify opposing normative principles. In its insistence on actuarial fair premiums, it did not follow the logic of individual/private insurance to its extreme, but rather gave credit to those with higher incomes in ways that provided them with higher pension benefits. On the other hand, it also avoided a purely redistributive scheme that insists on equality of outcomes. The only non-compromised principle was that of the universalism that accords coverage and the right to a basic income to all people in old age. If we think in terms of adequacy, we find that here as well a pragmatic balance has been struck concerning the definition of what constitutes a sufficient minimum of basic security. Thus the substance of universalism was balanced or compromised against the fairness ideal of the contribution-based element, with both principles having to be adapted to the overall national economy.

Given this account, it is justifiable to see the National Insurance as combining a basic social right to income security in old age with plural principles of distributive fairness.

## South Africa

The South African pension system can also be portrayed as a multi-pillar or multi-tier system of pension provision. There is a public tier in the form of the non-contributory means-tested benefit SOAP (State Old Age Pension). Pension benefits are granted to women from the age of 60 and to men from 65, with the amount depending on the income and assets of the recipient. The maximum payable amount is the SA Rand equivalent of just under US\$ 100 (about 10% of average earnings in manufacturing). The system was initially designed to benefit a small section of the population, mostly poor whites. Since the political power shift in 1994 the benefit has ceased to be linked to race and is now delivered widely, using the latest cash dispenser and security technology, even in rural areas (ILO 2002).<sup>15</sup> This old-age pension helps to reduce poverty: “The SOAP reduces the poverty gap for pensioners by 94 percent. Poor households that include pensioners are on average significantly less poor than households without pensioners” (Report of the Committee of Inquiry Into a Comprehensive System of Social Security for South Africa, Quoted from Olivier, Mpedi and Dekker 2002, p. 10).

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<sup>15</sup> In 1982 the differentials based on race were as follows: R1 for African, R5 for coloured and Indians, and R10 for whites as of 1982. Prior to 1996, coverage in South Africa extended to both citizens and permanent residents. The Social Security Assistance Act of 1992 eliminated the status of permanent non-national resident. This restriction was implemented in regulations by the Welfare Department as of March 1996. This policy change was imposed because of increasing numbers of migrant workers from neighbouring countries who sought to qualify for the old-age pension (Fultz and Pieris 1999). This shows how social security arrangements in one country may impact behaviour in other countries, thus there is a basic international, regional and global aspect of social security that implies a need for global and regional governance and cooperation. And again this reveals the continued relevance of the preamble of the ILO's founding document (1919, cf. note 5 above).

There is also an occupationally based pension tier, but this has only low coverage within the formally employed work force. Coverage varies widely between different employment sectors, so in general those who receive the highest incomes are more widely covered than those in low-paid sectors of the economy. On average the occupational tier covers 10–20% of the formally employed. The schemes are tax favoured, meaning that the state sector is involved in financing through tax expenditure, or fiscal welfare, as Titmuss (1963) has called this welfare channel, and this has implications for redistribution and revenue losses.

A major difference from OECD countries is the existence of a large informal sector of the economy, where no social insurance schemes exist, apart from the social security scheme of SOAP that manages to reach across both the formal and the informal sector of the economy. However, whereas formal social security arrangements, especially social insurance, achieves only low coverage, informal social security is important in South Africa. Informal social security encompasses social security for informal workers, informal kinship-based forms of social security (i.e. the extended family and community network), and non-kinship forms of security such as urban reciprocal networks and market associations (Olivier, Mpedi and Dekker 2002). These forms of security, and especially those associated with the concept of the traditional family, represent a first line of defence. Given the low coverage of formal provisions, this is in effect the most important form of social security for most people in South Africa. Concentrating on the pension aspect of the social security landscape, this provides us with a model in which formal income security schemes coexist alongside informal forms of security. As regards the formal elements, what we have is a residual pension model, where the public system aims primarily to reduce poverty in old age by targeting those most in need through an income and assets test. However, in the context of South Africa, where the poor is a large group, old-age poverty reduction is a more considerable goal than in OECD countries today. As for the other formal tiers of pension provision, occupational pensions are a privilege enjoyed by only a small fraction of those employed within the formal sector of the economy. Pensions are therefore associated with a strong social division in terms of welfare, with only a small minority receiving adequate pensions. Adding informal social security, coverage is extended to many more people, in effect, all those who belong to a family/kinship system or a non-kinship social security network. But here as well, some people are still excluded, namely those who lack family ties or are not included in non-kinship systems of support. For older people these informal organisations are likely to provide care and material resources. But it is difficult to assess the adequacy of these informal provisions.

## **Conclusions**

This paper has addressed the policy stories and policy advice of the World Bank and the ILO as important actors in the global discourse on the future of social security. The first conclusion we can draw is that there is a diversity of normative standards at the level of international and global actors, a diversity that is not done justice to in this account, which does not discuss the role of NGOs and other actors.

Secondly, the paper has illustrated how the normative solutions provided are interwoven with the overall framing that the organisations provide in terms of problem definitions and the conceptual tools that are applied. Given that there is disagreement about the true nature of the pension problem, in terms of both the facts and their possible implications, it is important that we become aware of the political and normative values that people and policy makers want the pension system to fulfil, before we look at the standard setting of international and global actors.

This comparative account has also revealed that the global standards set by these organisations are not significantly different from many of the actual pension systems (public and private) employed around the world today, especially within OECD countries. Table 2 sums up some of the normative elements involved in the international standard setting of the World Bank and the ILO, and the elements of distributive fairness present in the existing systems of pension provision in Norway and South Africa.

**Table 2.** *Comparison of the concepts of distributive justice in international organisations and national (public) pension schemes. Preliminary account*

| Organisations and countries:<br>Selected aspects of distributive justice: | World Bank   | ILO   | Norway  | South Africa  |
|---|--|---|---|---|
| Coverage  | Means-tested safety net for the poor, and mandatory coverage for employees.  | Means-tested or universal safety net and mandatory coverage for employees.  | Universal safety net and mandatory coverage for employees. Since 1991 unpaid care work earns pensions points. | Means-tested safety net, no mandatory coverage for employees.   |
| Redistribution  | Limited to poverty reduction.  | Poverty reduction and broad income redistribution.  | Poverty reduction and broad income distribution: "Taming of inequality in retirement" (Pedersen 1999).        | Poverty reduction.  |
| Adequacy  | Low, subsistence level for the poor, for employees adequacy depends on contribution and market performance of funds. | Above poverty level for the poor? Defined benefit reflecting previous earnings with redistribution for employees. | Above poverty level (basic security) defined benefit with redistribution for employees (standard security).   | Low and inadequate, but succeeding in reducing poverty gaps in old age.                                 |
| Ideal pension scheme  | The private pension insurance contract.  | Broadly based/universal social security/insurance scheme.   | Broadly based /universal social security.   | ? (But see last cell)   |
| Trust in institutions   | Basic trust in market institutions, distrust in public state institutions.   | Basic trust in public state and corporative institutions, distrust in markets.                                    | Strong trust in state institutions.   | Low trust in state institutions, high trust in market, and trust in informal society?                   |
| Basic philosophical approach and key concepts for fairness evaluation     | Libertarian contractual theories (with modification), actuarial fairness.  | Fairness based on a social justice perspective: positive universal liberty rights.                                | Fairness based on a social justice perspective: positive universal liberty rights.                            | ? (But see below)   |
| Basic welfare system logic  | Residual/liberal.  | Universal/institutional/ social democratic.   | Universal /institutional/social democratic.   | Mixed: residual at present, but with constitutional commitment to universal social and economic rights. |

The scheme designs of the two international organisations have different implications for social inequalities and the development of identities that enhance broad national solidarity. The World Bank's three-pillar design assumes a narrow view of the role of public schemes in providing safety nets for the poor, but sees no justification for more encompassing redistribution to reduce overall social inequalities due to differences in income. In this regard, the designs of both the ILO's pension scheme and the Norwegian National Insurance institution have the more ambitious redistributive aim not only of avoiding poverty in retirement, but also of ensuring that social distances among retired people due to different incomes do not become too wide, in other words, they seek to achieve a fairly egalitarian distribution of incomes.

As the table above reveals, I have not managed to tease out the underlying principles of the South African case. Within the academic policy debate there are various views on how the country's social security will develop. One important theme of this debate is the future role of informal social security. According to Olivier, Mpedi and Dekker (2002) these systems of informal security "are characterised by a support network, based on a strong sense of solidarity and on the premise of reciprocity" (op. cit., p. 4). In addition, they point out (cf. Table 2, p. 9) that these informal organisations have a bottom-up mode of operation, and that in terms of incentives these involve social norms and values, altruistic behaviour, charity and self-interest, while in terms of sanctions they involve social pressures and the inherent family contract. More to the point, these informal security arrangements are expressions of what are called 'African traditional values':

"It is on account of these values (which are all about solidarity, collective responsibility, compassion, equality, unity, self-determination, human respect and human dignity) that individuals subsist as families and that families become closely interlaced communities which form a large society... African traditional values such as *ubuntu* and *harambee* constitute the basis of informal social security in Africa" (op. cit., p. 12).<sup>16</sup>

Accordingly, the informal social security system represents not only a functional equivalent to formal social security, it is in fact more comprehensive, in that it meets more contingencies than formal social security. And to the extent that the above description reflects the reality of how these systems function, they also seem at least partially adequate in addressing certain needs, such as those for care and material provision in old age. However the authors point out that these informal systems face challenges, such as urbanisation and AIDS, that weaken their capacity. In addition, the authors warn, "resources and energy are increasingly being devoted to formal social security, to the detriment of informal social security" (op. cit., pp. 3–4). Since informal social security is basically seen as a way of life, it may be threatened by the expansion of formal social security. Therefore, in suggesting policies for the future, these authors

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<sup>16</sup> These values differ from those identified as Western values, such as these are reflected in for instance business life. Thus the following contrasts are found between African traditional values and the West: community above individuals, external not internal control, supportiveness above competition, people, not workers/staff, qualitative time (versus quantitative time), leadership through care and integrity, not power and status, holistic wealth, i.e. "what is the point of success in business if it does not lead to cordial relationships, if wealth is not available and beneficial to all?" (cf. note 41, op. cit., p. 13).

advocate that government and private players should support the development of informal social security and should provide means to accommodate informal social security within formal systems.

Other voices in the debate take a more critical stance towards informal social security, especially regarding the position of women within this framework. In a critical analysis of the White Paper on Social Welfare (WPSW) (1996), Sevenhuijsen, Bozalek, Gouws and Minnaar-McDonald (2003) argue that it represents a familialist and gender-blind perspective:

“Compared to the relative space that is devoted to women and other ‘special groups’ it is in fact rather astonishing how little is said about men as a social group. Apart from the passages where they are addressed as ‘stakeholders’ in domestic and familial responsibilities, WPSW is silent on the social problems caused by masculine behaviour. Despite mentioning family violence against women and children, a problem that is indeed highly prevalent in South Africa, the report doesn’t discuss how this might be caused by specific conceptions of masculine behaviour. There is no thorough discussion of male negligence and neglect (refusal to pay child support, for example) and the abandonment of wives and children ... By this invisibility of men in the document, women are in fact targeted as the individuals who have the responsibility of solving large-scale social and political problems, while men remain relatively off the hook” (Sevenhuijsen, Bozalek, Gouws and Minnaar-McDonald 2003, p. 16).

This description raises two problems concerning the adequacy and capacity of the social security aspect of the family, namely, violence and neglect, and the implicit contract between genders. Both problems could be conceptualised as problems of compliance as we know them from formal social security schemes. In both cases, lack of compliance causes problems for the viability of the scheme. Violence and neglect create insecurity. Or, to mention a different example, women who choose education in order to be able to participate in the formal labour market may find their capacity for informal care work reduced. What this means is that we need to take into account the basic plurality of existing ways of life in South Africa, just as we should in Norway and other countries. This is not to deny the existence of African traditional values as a form of life, but just to point out that there is more to the situation than just that, and that women who choose other ways of life may have legitimate reasons for doing so.

Another perspective adds to this plurality, namely, that of social rights such as they are expressed, for instance, in the Constitution of 1996, where the Bill of Rights incorporates a comprehensive set of social and economic rights (Archer 2002). Within this perspective, people have rights as individuals to relevant goods. Further, “the state must take reasonable legislative and other measures to provide these material rights within the limits set by available resources, to achieve the progressive realization of these rights” (Sunstein 2001, p. 4). This way of thinking is closer to the social justice perspective of the ILO recommendations on pension systems and the Norwegian National Insurance, as discussed above.

Voices representing the World Bank view, with its much more limited role for the state in providing a modest means-tested safety net and its correspondingly expanded position of market provision, will most probably be found in the South-African context as well, for instance among private pension providers. A central argument for the framework advocated by these voices, visible in the debate at both the global and

national levels (in Norway and South Africa), is that universal public programs involving tax payments and revenue requirements are very costly. And it is certainly the case that the universalism that offers fairly general benefits and broad coverage is demanding on people, requiring their compliance in paying taxes. Moreover, such universalism is premised on a situation of close to full employment and high labour market participation of both men and women. However, in my view the preoccupation with public costs fails to address the costs of the alternatives, i.e. of systems involving low taxation and public expenditure and little or no redistribution, and/or systems where costs fall on other components of social security, such as occupational, market-based and informal elements.

This is an important issue to address in the context of South Africa, where the distribution of incomes and property is so unequal. In South Africa the richest 20% of the population control nearly 70% of the national income and poverty rates are in the range of 30–40% (Fultz and Pieris 1999, p. 10, cf. also Terreblanche 2002, pp. 30–44).<sup>17</sup> This may impact the present distribution of resources within the informal sector. Since the informal sector is mainly based on family and kinship or neighbourhood networks, i.e. on local private relations and material resources, the scope for pooling resources more widely is not available and the redistribution that takes place will reflect, yet not affect, the overall situation of vast distributional inequities in the national context.<sup>18</sup>

From a social justice perspective this is a strong argument in favour of enhancing the overall redistributive capacity by raising taxes and expanding public budgets. The implementation of such measures would, however, not be an easy task. It would require among other things a trust in state institutions, the compliance of taxpayers and an increasing formalisation of the economy that may take decades to accomplish in the South African case. It would also require the building of trust and solidarity across existing social divisions and an understanding of the economic outcomes in a society as representations of communal cooperation, where everyone has contributed (in a broad sense) and is thus entitled to a fair share. But although this would not be an easy goal to achieve, that does not mean that it would be impossible or that it is not worth trying. On the one hand, social security for all may be conditioned by a relatively egalitarian social structure, but on the other, broad social security provision is also a means towards that end.

Within this perspective it is also clear that questions of effective and efficient social security provisioning presuppose or are embedded in our conceptualisation of a just social order. In other words, we are concerned here with the question of what we mean when we say that burdens and benefits in a society ought to be shared in a fair way.

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<sup>17</sup> In economic terms and compared with the other SADC countries, South Africa has the second highest real GNP per capita with \$7,490 (1997) of the area with Mauritius on top with \$9,360 (Fultz and Pieris 1999, p. 8).

<sup>18</sup> This also raises the issue of global inequality in the field of social security and the question of an increased global responsibility for providing social security. In the respective texts published by the two organisations analysed here this issue is not raised. For instance the World Bank urges private pension funds to invest globally and diversify their portfolios so as to increase global interconnectedness, but this has no implications for the diversification of responsibility, which still rests with the national state. In addition, national demographic burdens are impacted by migration flows. This interconnectedness between pension systems adds a global dimension to the distributive justice aspect of social security.

This paper has provided only a preliminary clarification of the normative standard setting of the two international organisations in question, based on their general outlook on pensions. Further research is needed to account for their role as standard setters in national settings. Specific country studies made by these organisations to see how international standards are transformed into more practical policy recommendations offer one avenue of investigation. In addition, national policy debates, in which these international normative standards may gain currency, and the actors who advocate or resist such standards, must also be scrutinized. In both South Africa and Norway pension reform is currently on the political agenda and could serve as interesting cases for the analysis of the role played by international organisations in this context. Assessing the influence of international organisations on such reform processes is, however, a difficult business, since it involves inherently complex patterns, and we must allow for interaction and diffusion between and from both levels, i.e. from the global to the local/national as well as from the local to the global level.

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