

## **Social Security: Basis for the Welfare State**

### Challenges and Opportunities for Nepal

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#### **Introduction**

This paper tries to shed light on social security system in Nepal. The main argument of this paper is that introduction of social security can promote the notion of welfare state. The primacy of Keynesianism and welfare state expanded role of the state in social policies and economic development. The whole idea of welfare state, by and large, is to promote ‘social justice’ and one of the key mechanisms to do so is through social security. The concept of social security has evolved over time, and is used in various ways. Notion of social security covers all measures providing benefits whether in cash or in kind, to secure protection, inter alia, from:

- lack of work-related income (or insufficient income) caused by sickness, disability, maternity, employment injury, unemployment, old age, or death of a family member;
- lack of access or unaffordable access to health care;
- insufficient family support, particularly for children and adult dependants; and
- general poverty and social exclusion.

Social scheme can be of a contributory (social insurance) or non-contributory (assistance from the state to the needy people). In this sense, social security primarily focuses on social insurance policy/programme providing social protection to people in time of market failure and inabilities of the state to respond to livelihood crisis. In addition to this, it also consist policies and programs designed to reduce poverty and vulnerability by promoting efficient labour market policies to protect them against hazards during an emergency<sup>2</sup>.

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<sup>2</sup> See at [www.adb.org](http://www.adb.org)

Social protection, for its part, is often interpreted as having a broader character than social security (including, in particular, protection provided between members of the family or members of a local community). It is also used in some contexts with narrower meaning than social security (understood as comprising only measures addressed to the poorest, most vulnerable or excluded members of society). Thus, unfortunately, in many contexts the terms ‘social security’ and ‘social protection’ are used interchangeably. In this paper, the term ‘social protection’ is used to mean protection provided by social security systems in the case of social risks and needs deficit.

The host of problems related with livelihood could be adversely affecting less active poor persons (e.g. the children, elderly, disabled, and widows) as well as active ones (particularly for unemployed and under employment ones). That said both are social policy framework to address poverty and vulnerability both in developed and developing countries. They refer set of benefits available from the state, market, civil society, and households or through a combination of these agencies to the individual/households to reduce multitude of problems related with livelihood. There are five main ways (could be more than that) that states can develop legitimate mechanism to provide social protection. First through reforming existing **labour market**; second, by developing **social insurance** mechanism to provide cushion from any impending risks associated with unemployment, ill health, disability, work-related injury, and old age; third, special **social assistance and welfare package** primarily designed for the marginalised and most vulnerable groups in the society who do not have other means of adequate support, including widows, elderly persons, fourth **micro-and area/group specific schemes** (for example special package developed for the Karnali region) to address vulnerability at the community level, including micro insurance, agricultural insurance, social funds and programs to manage natural disasters and finally, **child protection** to ensure the healthy and productive development of children such as mid-day meals, special package for girls student and alike.

Inclusion of all these elements makes this framework more demanding in developing countries than the social security. Social security is more applicable in the conditions, where large numbers of citizens depend on the formal economy for their livelihood. Through a defined contribution social security programmes are managed. The advocates of social protection fall into two broad categories: 'instrumentalists' and 'activists'. Those who represent instrumentalist school of thought argue that extreme poverty, inequality and vulnerability, is dysfunctional in the achievement of development targets (e.g. the Millennium Development Goals). In this view social protection is about putting in place risk management mechanisms that will compensate for incomplete or missing insurance (and other) markets, until a time that private insurance can play a more prominent role in that society. 'Activist school, for its part, believes that persistence of extreme poverty, inequality and vulnerability, as symptoms of social injustice and structural inequality see social protection as a constitutional right of citizenship. In the context of wide spread informal economy, formal social security arrangements are almost absent for the vast majority of the working population. Besides, in developing countries, the state's capacity to reach the vast majority of the poor people may be limited because of its resource scarcity. In such a context the role of multiple agencies, that could provide social protection, becomes important for policy consideration and holding the state responsible to provide for the poorest sections by regulating non-state agencies<sup>3</sup> and even redistributive justice.

### **Objectives of Social Security**

Following promise can be incorporated within social security provisions.

- reducing income insecurity, including the eradication of poverty, and improving access to basic health services for all people, so as to ensure decent working and living conditions;
- reducing inequality and inequity
- providing adequate benefits as a legal entitlement:

while

- ensuring the absence of discrimination on the basis of ethnicity or gender; and

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<sup>3</sup> ['Debating Social Protection'](#) Devereux, S and Sabates-Wheeler, R. (2007) IDS Bulletin 38 .3, Brighton: Institute of Development Studies

- ensuring fiscal affordability, efficiency and sustainability

Against this backdrop, one could argue that social security establishes the true notion of welfare state whose which is class-neutral state and tries to mediate the common interest of labour and capital and seeks their mutual adjustment and codetermination of policy. In addition to this it also makes following commitments:

- Constitutional Provision for the role of a state for the protection and promotion of socio-economic well being of its people,
- Equal opportunity to all and absence of special provision based on any class, clan or ethnicity representing as individual or group identity,
- State and government has some defined role in national economy – running enterprises under government control including the regulation of economic activities of its citizens.
- State avows and maintains a minimum level of social justice to the weaker sections of the society.
- The state formulates national policies and plans activities to achieve the socio-economic goal of the state covering the whole community of people, especially the weaker section of society in a balanced and planned way.
- Effective legislation is pursued for the welfare and protection of workers who work in enterprises producing goods and services and delivering it.

### **Historical Development**

Germany was the first nation to adopt modern social security schemes through an old-age social insurance programme designed by Otto von Bismarck. The whole idea of this programme was to promote the well-being of workers to keep the German economy floating at maximum efficiency, and to stave off calls for more radical socialist alternatives. Coupled with workers' compensation programme established in 1884 and the "sickness" insurance enacted the year before, this gave Germans a comprehensive system of income security based on social insurance principles.

Despite his conservative credentials, Bismarck would be called a ‘socialist’ or reformist for introducing these programmes, as would President Roosevelt 70 years later. In 1935 the US President signed into law the Social Security Act, incorporating a new term that combines “economic security” with “social insurance”. Following the First World War, social insurance schemes developed rapidly in several regions, and social protection was included on the agendas of the newly-established international organizations, including the ILO and the International Conference of National Unions of Mutual Benefit Societies and Sickness Insurance Funds which was launched in Brussels in October 1927 and later became the International Social Security Association (ISSA).

In 1941, in the Atlantic Charter, President Roosevelt and UK Prime Minister Winston Churchill committed to improved labour standards, economic advancement and social security for all. At the height of the Second World War, in 1942, the UK government published the Beveridge Plan, named after its main author, Lord Beveridge, which led to the setting up of the first unified social security system. In France, Pierre Laroque led government efforts to extend social protection to the entire population, and a national social security system was set up in 1946<sup>4</sup>.

In 1944, with the tide of war turning, the ILO’s historic Declaration of Philadelphia called for the extension of social security measures, and for the promotion, on an international or regional basis, of systematic and direct cooperation among social security institutions, the regular interchange of information and the study of common problems relating to the administration of social security. One year later, the UN General Assembly adopted the Universal Declaration of Human Rights, whose Article 22 recognized that “Everyone, as a member of society, has the right to social security”. In 1952, the ILO adopted the Social Security (Minimum Standards) Convention (No. 102), and in 2001 it launched a Global Campaign on Social Security and Coverage for all<sup>5</sup>.

## **Nepali Context**

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<sup>4</sup> See at [http://www.ilo.org/wow/ILOinHistory/lang--en/WCMS\\_120043/index.htm](http://www.ilo.org/wow/ILOinHistory/lang--en/WCMS_120043/index.htm)

<sup>5</sup> See at [http://www.ilo.org/wow/ILOinHistory/lang--en/WCMS\\_120043/index.htm](http://www.ilo.org/wow/ILOinHistory/lang--en/WCMS_120043/index.htm)

Hindu-Buddhist society used to have a welfare state. Almost all ancient Sanskrit literature on statecraft provides sufficient examples of such provision. The ancient society as described by Panini was welfare based truly democratic society. Buddhist way of life thereafter had tremendous impact on creating an ecologically and socially just and prosperous society in this part of the world where wellbeing of every human beings was ensured. In *Valmikiya Ramayana* and hundreds of similar citations in *Srimad Bhagabat Geeta* and other purans have given enriched descriptions of the welfare state systems - they have mentioned ‘*Praja Ranjan*’ – happiness of the people,’ *Praja Palan*’- wellbeing of the people and ‘*Praja Rakshya*’ - protection of the people as the main job and duty of the king and his people- the state<sup>6</sup> .

Kautilya mentioned that happiness of the king lies in the happiness of his people and their welfare is his welfare. What is good and pleasant to his subject should be treated as something good and pleasant to him. Kautilya further mentions that weaker section of society is to be given priority of audience with the king and judges. They should have free travel on ferries. Spinning work should be given to handicapped women. Women must be protected against exploitation and punishment is to be maintained for sexual harassment. According to Kautilya social security was both a private and state matter. The state has the obligation to provide safety nets to the children, the aged, childless women and the helpless. Honest officials shall be made permanent. An official accomplishing his task as ordered or in a better way shall be promoted and rewarded. The family of a government service who died on duty is to be looked after by the state. Kautilya has also made good mention of welfare of prisoners with all facilities with safe water, clean bathrooms, latrines, and protections against harmful insects. They were also to be provided good food, place to sleep and exercise and well protection against the harassment, torture old prisoners and rape of women prisoners.<sup>(3)</sup> Dharma obliged property owners to support sick, old, beggar, and dispossessed through charity works.

If we look at from Lichhivi period to the Malla, we could see many efforts taken by the rulers for the welfare of their citizens. King Mahendra Malla was so concerned about people that he only

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<sup>6</sup> Keshab Prasad Bhattari, *Nepal's Journey Towards Welfare State*, paper presented at the seminar jointly organised by Friedrich-Ebert-Stiftung Nepal office and CLASS Nepal, August, 2011

used to eat after he saw smoke coming out of people's house. The notion that 'go to Gorkha, if justice is denied' captures the condition of Nepali statecraft in its formative phase. Prithivi Narayan Shah in his *Dibya Upadhes* clearly stated that the strength of place rest on empowerment of its citizens". When we look at the legal provisions, we could see almost all the written constitution starting from the time of Padma Sumshere JB Rana till today, in theory, emphasis on the need of social justice and the protection of society to establish an egalitarian state based on welfare. Rana regime abolished slavery, *sati pratha*, sought to modernise the state offered orphans, widows, jogis, lands for their livelihood. Similarly, the Panchayat constitution all touch upon the social security. The constitution of 1990s and the interim constitution (2007) come many step forward and envision "welfare state" and stress on ***right to social security*** to all citizens as a duty of the state and explicitly concerned agencies of the state to formulate policies and programmes accordingly. Principally, the Interim Constitution of 2007 has stipulated some new rights: right to work, education, health, food, social security, social justice and many more.

There are four acts: Bonus Act, Social Security, Unemployment Insurance Act, Trade Union Act, Labour Act, Labour Commission under discussion (with the CA dissolved, their fate is unknown). These are crucial acts to seek the neutrality of the state between capital and labour, for the democratisation of economic power as well as the ability to foster post-conflict peace building measures and maintain social peace. Social support of unions is essential for economic development and a healthy relationship between labour and employers wherein both can view each other as social partners and common stakeholders of democracy. An economy cannot grow without social support.

One could argue that there are traditional social security initiatives governed by the norms of the society itself (not by the state) for centuries. In the olden days, both society and family played crucial role by being the most effective mechanisms of social security. In addition to this, the traditional civil society organisations based on the culture of duty, volunteerism, and charity also played an important role to this end. If we look at - almost all the communities have their own schemes to help each other during emergency. But with the winds of blowing modernity and the changing lifestyle of the people in this part of the world as well - these values are subsiding - families are disintegrating and the traditional notions of social security themselves are in crisis.

Now people are looking towards the state for social protection and the right-based NGOs, CSOs and, trade unions are playing crucial role to this end.

Practically, what is available until now in the form of social security is that those who are working in the organised sectors such as government, banks, and state-owned corporations are entitled for pensions while others get gratuity at the time of retirement. In addition to this - workers are entitled for the festival bonus of one month. For the casual workers - government of Nepal with the help of donors is also operating programmes like food for work, micro-credit, micro-insurance, cash payments to the elderly citizens and widows. In addition to this, elders, handicapped, children and, those who cannot work due to poor health are taken care of by the family itself. Of late, government is also contributing towards this end.

However, overall reach of the programs, as measured by the number of beneficiaries and budget is small. Whatever the package of social safety net we have got, it covers only those who work in the formal sector which is only 10 percent and there is very little (except some cash transfer programs) for those who are in the informal sector or who don't work at all. The Ministry of Finance (MOF) in collaboration with Trade Unions and Chamber of Commerce is developing a new social security scheme covering over 2 million people. The facilities will be funded by a separate Social Security Fund (SSF). Government's initiative to establish social security fund by imposing one percent tax up to the first slab of taxable income is good start. But this will alone is not sufficient. Because we have majority of people living below the poverty line and they also need to be secured to make them stakeholders of this nation. The state need to create more jobs by opening up small scale industries, enterprises, labour intensive cooperatives, green-growth modernising agriculture instil the sense of economic nationalism among business community.

Conceptually, the foundations of social security are built on the notion of human rights which are expressed through national constitutions in the directive principles of the state. In the context of Nepal, the theoretical nuances of social security could be found in state's commitment to various international instruments, provisions in successive constitutions, and the ground reality of the state, that is, the large number people live below the poverty line. Hence in order to uplift large number of people out of poverty , to fulfil its commitment to national and international public laws and to restore the very *raison d'être* of the state the notion of social security plays pivotal

role. Nevertheless, there are enormous challenges to actually translate social security into action in a real sense of the term and these shall be discussed in the following sections.

## **Challenges**

There is an urgent *need* for social security policies; it is not immediately clear that developing countries *are able to* implement programmes of social security. The introduction of social security programmes in developing countries is a difficult task given that capital and insurance markets are typically underdeveloped, budget restrictions are high and developing countries are usually characterised by traditional labour structures and large levels of poverty, which would require social programmes to achieve a magnitude that few governments in developing countries are able or willing to implement [ref]. In addition, governments in those countries have, in general, less capacity to collect taxes, implement complex programmes of social protection or correct market failures, due to their low levels of income, education and infrastructure. Furthermore, political pressure against the implementation social security policies is also often high in developing countries as such policies may imply some form of redistribution (Radian, 1980; Newbery and Stern, 1987). Nepal is no exception to this phenomenon. The rampant poverty [more than 25 percent as per the government data] there is an urgent need to provide some cushion to the citizens. Interestingly, Nepal's political leaders and interest groups have incorporated all sorts of rights into the constitution without developing mechanism to ensure these rights.

Political rights can only be fulfilled through economic and social prosperity. Nepali state currently seems to be too feeble. Part of the blame goes to the socio-economic policies that it has adopted and part with the rampant corruption in society. The major bone of contention is: whether the state – in the existing economic situation will be able to fulfil them or not. Social securities are primarily funded through state's exchequer. The total contribution of tax to national GDP is below 15 percent which is not sufficient to meet the administrative costs of the state let alone catering demands generated by different societal forces. The ambitious agenda of welfare state floated by political parties will not become reality unless we introduce self-sustaining economy. The tax base can only be expanded when we move towards industrialisation, modernisation of agriculture, and other productive sectors of economy where

the country has both competitive and comparative advantage. But this has not been the case, we are simply promoting financial capitalism which does not produce anything but consumes everything imported from abroad. People working in the financial market are paid hefty amounts of money but the lack of Corporate Social Responsibility (CSR) culture in this sector has meagrely contributed towards the welfare of the broader citizenry. Its share to nation GDP is 4-5 percent. The cycle of capitalism that is mobilising money again and again to earn profits/make money without investing or providing share to the workers is another problem and this has taken momentum in 1990s and which has now reached to its heights.

The rise of high rise buildings, financial sectors and service industry based on the knowledge have captured broader amount of capital which have proved quite beneficial for handful of people but not for the workers at large. This is so because its trickledown effects have not moved out of Kathmandu. In fact, its trickle-up effects in Nepal. The only idea that has gone out of Kathmandu is the plotting of the land which is disastrous both for the state, society, and environment in the long term as massive deforestation has eroded the fertility of soil, habitat for ecological species and its sprout to support economy. Nepal economy is sustaining on the remittance sent by the workers and everyone needs 'workers' (be the are at home or abroad) but no one is interested to uplift their lives. Remittance contributes around 25 percent to national GDP.

In terms of basic facilities like health and education, we have taken the reverse gear. This is so because we are operating media, schools and hospitals in the economic model of competition and this has created huge gap between private and public and haves and have not's. The classic example to this end is, we are systematically dismantling public institutions (like public hospitals, public schools, public enterprises etc) but promoting private ones who are accountable to profit than social accountabilities. The reality of our society is such that majority of the Nepalese live in the rural areas and below the poverty line who cannot afford to send their children either to private schools or to the private hospitals. Private organisations are creating hegemonic ideology to weaken freedom and dignity of workers let alone contributing towards state-building and early recovery of this conflict-torn nation.

Nepal should focus more on “development” than ‘aid’ which merely serves the interests of comprador elites what B P Koirala called *Bhuiphutta Barga*. Another important point is that state alone cannot do the job of social protection it needs support from the private sector as well. Private sector should not simply treat people as ‘consumer’, in contrast, they should bear in mind that wealth is created because society, people, and the state exist. Ethical business practices are the norms Nepali had cultivated in earlier times based on the theory of ‘*Shuva Lav*’. However, the neoliberal image of the Nepali state has weakened state’s social welfare provisions and the role of the state was reduced and created environment to flourish free market economy. The latter was considered as a solution of Nepal’s problem of underdevelopment. In contrast, this has bolstered the power of the non-state actors thereby affecting governance.

### **Opportunities**

There are ample rooms to develop mechanism to support the social security system in Nepal - if the state can harness its natural as well as human resources. It has a capacity to electrify the whole South Asian region and can accumulate sufficient wealth in its treasure from it. In the same vein, modernisation and commercialisation of agriculture could be another source of income that can financially sustain Nepali state. Worldwide agriculture is the second large source of employment. Investment on human resources could be another source of income as Nepal enjoys having the youngest number of population that falls between 18-35 years of age group. Vocational trainings could also open of windows of opportunities for jobs within Nepal as there are many areas where Nepal lacks manpower and is heavily dependent on the migrant workers. In addition to this, the development of urban areas as as ‘service’ economy could also employ large number of youths in the days to come. Investment on tourism can also increase its contribution to national GDP. What is important, though, is the loopholes that exist in our economy and these very needs to be mended. The tendency to usurp national resources for personal prosperity has resulted in a situation which Garrett Hardin calls tragedy for the commons [Ref].

### **Conclusion**

Nepali state have become victims of wrong non-contextual polices. The liberalisation of economy eroded the tax base of the state to support social projects and win the loyalty of citizens

as it favour 'labour market flexibility. Shrinkage of productive sector of economy and expansion of non-productive ones such as real estate business increased spending on consumer and luxury goods, proliferation of financial institutions, non-investment in developmental activities have led rapid deindustrialisation in the country. Both politicians and businessmen produced vicious cycles, each corrupted the other, promoted each other's interest and transformed state towards clientalism. This approach has individualized national economy and its direct consequence was witnessed in state's incapacity to distribute public goods to all citizens. The state should induce private sector to generate more wealth while engage itself in rightful distribution of the nations commonwealth. What is equally important, indeed, is to bring a large number of capital-holding individuals, firms and business enterprises into the tax net in order to encourage them to contribute to bringing the poor and powerless out of poverty and to creating an egalitarian society. Therefore the first and foremost task is to democratise economic power of the market to restore the confidence of poor and powerless in the polity and engagement in productive life.

The future of Nepal's social security system largely depends on the type of state and economic policy that it adopts. The spirit of democracy can only be established in society when it tries to address the substantial issues rather than merely becoming ritualistic. Perhaps, the social market economy, a third way, between the Anglo-Saxon oriented Washington Consensus-based based development strategy which Nepal has practised so far, and recently advocated model (which large adopted by China) built on state control[Ref] can contributing towards this end. It also reduce the gap between haves, little haves, and no - haves. This can help to build welfare state which can ensure social security and help to strike a political balance left-right divide, address basic needs by investing on social issues in society and foster state-society harmony.

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**References: will be provided in the final draft**