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The Insurance Discourse and Social Security

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This paper starts from the assumption that the prevailing discourse on social security needs reconsideration. The selection of the discourse is always crucial, as it has important implications for the social policy pursued, including its institutional arrangements. The paper advocates that social policy, as a whole, can fundamentally be based on a general insurance discourse, thus providing an understanding of social security that differs from approaches based on social assistance and mere income redistribution. It is also claimed that this approach, emphasizing a risk-centred concept of social security and a well-established legal, actuarial and institutional framework, is capable of dealing with the various pressures on social security created by globalization. The issues of the insurance principle in social security were discussed in this journal, but at a more practical level and from a different perspective, in the paper by Kessler (1999).

The features of the approach suggested are discussed from the point of view of contributory and non-contributory schemes, civil society, commercial and mutual insurance, individual and social risks, public goods theory and the concept of civil liability. This paper contains a modified presentation of some ideas put forward in an earlier paper presented at a research conference of the International Social Security Association held in Helsinki in September 2000 (Forss, Kalimo and Purola, 2000).

1. Introduction

The prevailing understanding on the needs for social security, the necessary economic resources and the ideological background adopted for social policy are all in a process of change. The ideologies and theories define and guide the discourse for social policy. The discourse adopted will always affect the definition of the social problems, the assessment of alternative solutions and, ultimately, the political desirability of the various alternatives. The prevailing discourse therefore also has a major impact on policy measures and the related institutional arrangements.

In this paper we shall use the term "discourse" to refer to structured thinking, reasoning, speaking or writing on social security, based on the systemic interdependence and interaction between substantial, instrumental and normative aspects. Thus, discourse is not merely an academic concept in textual analysis but a practical vehicle for political communication and, consequently, policy formulation.

In particular, we wish to discuss the potential of an insurance-based discourse for the governance of social risks. We start with a risk-oriented approach to social security by defining its basic substantial objective as the provision of people with the resources to cope

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with specified common risks in life. Furthermore, social security schemes protect society against collective risks associated with poverty, epidemics, marginalization, crime, etc.

The concept of social security as insurance provides an approach to social policy that is different from those of social assistance and mere income redistribution. Our intention is to emphasize the substantive target problem of social security, i.e. insecurity and risk. We take an insurance approach in reasoning on social security at all levels including basic social protection, and distinguish between the measures and goals of income redistribution and consumption levels, on one hand, and those of social security and risk protection, on the other.

In order to understand the logic of collective social risk protection we should not restrict ourselves to only introducing the concept of risk and to the task of dealing with its consequences. We must also pay attention to the origin of risk and risk prevention. This in turn raises the question of collective and individual responsibility and legal liability, and claims to be made.

All these factors must be taken into consideration in the historico-political process framing the social contract that forms the legal body and practical rules of social security schemes. We shall argue that there are several often overlooked advantages in arranging social security as a mutual insurance in a legally and administratively separate body independent of the yearly state budget process.

Social insurance is one well-recognized approach to social security, implying specific financial arrangements, most often applied in old age and health insurance. This approach is manifested in many existing social security schemes of the Bismarckian tradition and it is also present in the famous Beveridge report of 1942, aimed as it was at conquering the "five giants" of social risk: want, disease, ignorance, squalor and idleness. However, since this paper intends to present a more general insurance-based discourse for social security, we do not wish to relate the paper further to these important traditions of thought on social insurance. Therefore, we do not restrict our approach to "social insurance" only, as this term already has a well-established meaning in social security.

We shall begin our analysis with a general overview of the insurance approach in section 2. In section 3 we shall further examine the concept of risk, dividing it into individual risk and collective risk, including civil rights, politics, state government and civil society. Insurance contracts and social risk are interpreted using well-known concepts from the analysis of public goods. The issue of liability for risks is highlighted in section 4. In section 5 we sketch some of the possible impacts on institutional arrangements resulting from the application of the general insurance discourse, including mutual insurance contracts. In section 6, the concluding comments bring together our views regarding some new ways of understanding and formulating social security, making particular schemes more quality-oriented, transparent, efficient and incentive-compatible, without having to sacrifice the main objective of social security – to protect against social risks.

2. The insurance approach to social security

2.1. Insurance in non-contributory and contributory social security schemes

A distinction is often made between non-contributory and contributory schemes reflecting the main ways in which the schemes are organized and financed. According to the discourse adopted by many, basic security should be financed by non-contributory arrangements, e.g. from general tax revenue. The benefits of non-contributory schemes are statutory, independent of employment record and of wide coverage (i.e. they are universal).

These schemes are not only organized but also administered by the public sector, and the level of benefits does not depend on contributions or taxes paid by the individual.

In contributory schemes the payment of contributions is more or less directly related to the level of benefits. These arrangements, too, may be statutory and state-organized or based on agreements among social partners. They are often dependent on the employment contract and financed through income-related contributions, in more or less independently funded insurance schemes. The organization of such schemes is often arranged in collaboration between the social partners and agents from the public and private sectors. The main risks covered are usually also understood and treated as being insurable in the rigorous technical sense. The beneficiaries' right to benefits is based on contributions paid exclusively for their benefit, either by the insured persons themselves, the parents, the employer, the state or some other party. Through contributions paid by the state, these schemes may be indirectly related to the state budget, but are otherwise independent of it.

An important aspect of non-contributory schemes is that they may cover many different risks, most of which cannot be commercially insured. The particular forms of benefit are numerous and often diverse. The only common feature is that they are paid from the government budget without any specified relation between specific benefits and contributions.

Non-contributory benefits are usually of two sorts: means-tested, i.e. awarded only where income or wealth falls below a prescribed limit, or universal, i.e. awarded without contributions or eligibility-testing on the basis of other criteria, like residence or citizenship (Barr, 1993, pp. 239–240). An important objective of non-contributory schemes is, by definition, to support the minimum or standard "customary" satisfaction of specified needs, e.g. decent housing. Non-contributory benefits are thus often understood to imply some idea of altruistic assistance or egalitarian objectives of income redistribution, while the contributory schemes do not specifically aim at these objectives, although income redistribution occurs, *ex post*.

We wish to stress that all social security benefits, be they non-contributory or contributory, can be understood rather strictly as measures aimed at providing security against different risks. The concept of security implies insurance in the true meaning of risk protection and not simply altruistic assistance or income redistribution. Therefore, the specific aspects of the insurance-based approach to social security are applicable to different kinds of social security arrangement, as highlighted in the following.

2.2. Constitutional rights and social security

In many countries, the constitutional legislation provides the basic legal foundation for social security. In many countries, this legislation consists of an assurance to provide all citizens with specified social security benefits. These rights are nowadays an important part of the socio-political reality. They have also been listed in many intergovernmental agreements, e.g. in U.N. and E.U. organizations. These benefit rights represent the commitment of the state to the actual implementation of social rights and to its obligations to provide people with security against specified common risks in life.

Provisions in the constitution concerning the social rights of citizens are often based on mere rhetoric. Without a separate legislation they do not provide any concrete measures, nor do they specify the level of material security that should be provided. The essential aspect here, therefore, is that the discourse behind the constitutional rights must create an insurance-like situation for the citizens, i.e. the insured in reality, for coverage given by the state against the damage caused by the realization of specified common risks.

2.3. *What is insurance?*

The concept of insurance is often understood in terms of commercial insurance or market insurance. An important characteristic of commercial insurance is the actuarially calculated correspondence between the contributions and the benefits. Commercial insurance is basically a financial instrument, i.e. an investment, whereby the insured can restore their financial position after a loss. The premium thus calculated is often called an actuarial premium. The calculation implies that the risk should be insurable in a technical sense, meaning that it should be fairly small, predictable, independent of the insured individuals' (hidden) actions and characteristics, etc. (Booth *et al.*, 1999, p. 275 *et seq.*; Barr, 1993, p. 111 *et seq.*)

Social security is seen as politically necessary in many situations in which commercial insurance is not even applicable. In many social security schemes, especially in the non-contributory ones, risks are not always "insurable" according to a rigorous actuarial definition, and an actuarial contribution cannot easily be calculated. There are several reasons for this. The most important is justice and solidarity in the society for all its members, or particular groups within it, since the latter are considered important partners for compulsory inclusion in the social security scheme. Another reason is that market failure problems in insurance markets, adverse selection and moral hazard mean that some risks are not commercially insurable. The collective elements of social risk reinforce the risk of market failure, since protection against them is a pure public good.

Thus, in social security the principle of insurance does not concern simply a specified actuarial insurance technique and definitions and conclusions based on it. The principle common to all different types of social security is that insecurity is often produced by collective actions in society and, consequently, individual security is provided by collective resources that are used to pay out the compensatory benefits.

The insurance concept refers not simply to the assurance provided by the national constitution, to the actuarial technique used in commercial insurance or to the extent to which the institutional insurance as a whole provides people with security. The concept refers also to the social contract that people are engaged in or believe they are engaged in, when they pay the contributions (or taxes) or apply for benefits. This, in our view, provides an obvious way of defining a moral and economic contract, incorporating solidarity, i.e. an idea of vertical as well as horizontal equity, among and between groups of contributors, be they income groups, social groups, genders or generations.

In many countries, there are political forces in the social policy debate, on both the right and the left of the political spectrum, which argue in favour of pure income-redistributive measures, such as negative income taxes, citizen's wage or other non-contributory arrangements. However, this debate is based on the common misunderstanding that social security and vertical income redistribution are more or less equivalent issues. The key issues in social security, the individual value of risk protection, and the public benefit following from a socially safe society, are missing from the debate.

The economic debate on the welfare state often does not recognize risk protection as a substantive element, neither as an individual value nor as a social benefit or a public good. Consequently it also fails to see the difference between measures aimed at risk protection and measures aimed at income redistribution. Whereas much of this welfare-state debate concentrates on consumption level and income distribution, we shall focus on risk protection as an independent, substantive conceptual issue. This is done knowing that in a social security context, risk and inequality are intertwined in a complex way and include a fundamental time aspect, as is pointed out by Sinn (1996).

2.4. Applications of the general insurance approach

Understanding social security measures on the basis of a broad conception of insurance opens up new possibilities for developing social security, including many contingencies usually defined in terms of non-contributory basic security. This insurance approach stresses that social security, insurance and basic security all aim at compensating the effects of risk realization, which cannot otherwise be satisfied by even the fairest income distribution arrangements.

Not only commercial insurance and mutual insurance in a civil society but also state-based compulsory non-contributory benefit schemes can be understood from the viewpoint of the insurance concept. The differences between the concepts of insurance and non-contributory social assistance are also logically related to the specific status of contributions based on the insurance contract in contrast to funds collected through general taxation.

The direction of social security development should be to include citizens in contributory social insurance schemes. This assumes, of course, that the collection of contributions follows specific solidarity mechanisms designed to accommodate those unable to pay at some stage in life such as childhood, parenthood, unemployment or study periods. The recently modified Swedish old-age pension system provides a good example of this, in that pension contributions are collected, and accrual is calculated also on the basis of social security benefits.

As we pointed out earlier, social security is not exclusively an issue of vertical income distribution, i.e. redistribution in favour of poor families; it usually has an impact also on horizontal income distribution, concerning gender, risk groups, age, regions and so on. The income effect of benefits is just one of the tools or measures for achieving the final objective, which is the security and welfare of an individual and society. A further aspect, which is easily overlooked in daily debates, is that most social security instruments redistribute income not only between households but also over the individual lifecycle, e.g. pensions.

The insurance approach can also include the provision of high-quality services in all essential areas of social services, such as health, education, etc. Insurance increases degrees of freedom for widening the institutional arrangements and adds an element of user-orientation, quality-awareness and legal rights. Whether the actual provider of the service is public or private, the user may claim his or her right through direct membership in the insurance institution.

One important advantage of the insurance concept over that of non-contributory social assistance is that it does not divide individuals morally into those to be supported and those who pay. The insurance concept simply classifies situations in life of equal individuals into two categories, namely those situations that entitle people to benefits and those which do not. In other words, whereas the idea of assistance implies a transfer from payers to non-payers, under the insurance concept all are directly or indirectly "payers", although some face a loss and some do not. For this reason, it can be assumed that the majority of citizens and organizations would prefer paying earmarked insurance contributions rather than taxes to finance social security. An insurance discourse might thus be a more easily acceptable and more efficient vehicle to organize resources for the needy than the assistance discourse can ever be.

3. Individual risk and social risk

Social security can be properly defined only by adopting an appropriate definition of social risk. The concept of social risk can be understood as comprising individual risks and macro-level collective risks. Together these form system risks, which are to be borne by the economy and its members, whether private or public organizations or individuals.

3.1. Individual risk

To be insurable in a commercial insurance contract the risk prospect has to be calculable in two ways: (a) in probability terms, and (b) in monetary terms. Furthermore, the risk should be independent of any hidden characteristic of the agent (the hidden type or adverse-selection problem), and of any hidden action that the agent undertakes (the hidden-action or moral-hazard problem).

A further condition for commercial insurance is that the risk should be predictable in time. For example it should not be affected by major unexpected factors in the economy, climate or political conditions, such as revolutions, strikes or wars, which would change its probability in an unpredictable way.

In most countries, social security consists of a multitude of different schemes. Some of them can be directly identified as some sort of insurance contract, while others cannot. In any case, many, if not most, risks covered by social security cannot easily be covered by private voluntary commercial insurance. The reason follows from complex adverse-selection and moral-hazard problems as well as from collective social policy goals. Many events included in social risk complexes, such as poor health, unemployment and so on, will happen to the individual before he or she has had the opportunity to sign any insurance contract or pay any premium. There are many risks which individuals are not even aware of, which should still be dealt with. Therefore, many individuals face a situation where private insurance would not cover the risk. Dealing with social risks on private markets may thus lead to segregated markets, where many of those who need the insurance most will not be covered.

The time aspect is also important. In private insurance, risks are usually easily identifiable accidents, limited in time and in some sense repeatable, thus allowing probability and cost to be calculated with significant accuracy. The collective elements of social risks, on the other hand, tend to be unique and extended in time, and difficult to identify in probability and monetary terms.

Another characteristic that makes many of the risks covered by social security schemes different from those covered by commercial insurance is the fact that the beneficiary can him- or herself affect the realization of the risk, e.g. studying or caring for a child at home. The essential aspect is that these risks have been considered to be so important that their realization, in spite of their nature, is accepted, through a political process, as a reason for paying out the related social security benefit.

To be relevant for any insurance purposes, individual risk must be a potential sudden loss identifiable by several agents, be they a group of individuals, households, or firms; hence it is a collective subject. All the risks covered by schemes in different branches of social security meet this basic requirement.

3.2. Social risk and system risk

Social risk cannot be defined or calculated solely on the basis of individual risk. Risk complexes exist which cannot be broken down to an individual level, but are collective, or public, in a deeper sense. This may be for reasons of complexity, ambiguity or lack of knowledge, causing general difficulty in foreseeing the consequences of large social or natural events.

Social security influences and deals with social risk in a complex manner including the above-mentioned collective-risk elements. The existence of social security influences certain social risks in a prohibitive way, and limits the consequences even in cases where the original cause is non-social or external. Some social risks are caused or worsened by lack of individual security itself. One example is criminal behaviour, which has individual as well as social welfare effects of many kinds, some of which, such as theft, can be insured in commercial insurance, some of which cannot, such as the general feeling of uncertainty or fear.

Large accidental events like an epidemic, economic depression, earthquake, war, nuclear reactor accident, etc. may have external causes which cannot be effectively influenced by political decision, but since they still create social risks within society, the prohibition and limitation of their consequences is clearly an issue of social security.

3.3. *Insurance as a public good*

In this section we approach the idea of insurance in social security by attempts to formulate an adequate risk concept. Public goods theory will allow us to define a comprehensive and relevant concept of social risk, including the most important forms of social security in the main conceptual insurance framework (Atkinson and Stiglitz, 1980, p. 482 *et seq*.; Brown and Jackson, 1995, p. 61 *et seq*.).

A close relationship exists between the conceptual content of insurance on the one hand and a public good on the other. While most public goods models are static, the conceptual homology requires the introduction of a time dimension. The concept of "public" is closely related to the concepts "common" and "collective". Thus, instead of the concept of a "public good", one sometimes sees the synonymous term "collective good" (cf. Oakland, 1987).

The literature on public goods has tended to focus on market failure. The fact that a good produces a utility that can be shared by several individuals makes pure voluntary market solutions sub-optimal. In a voluntary situation people tend to pay less than they would if the good were private, which in turn leads to underprovision of the public good, a point which is extensively covered in public-goods literature. Furthermore, mechanisms designed to make people reveal their preferences include an incentive to understate these preferences so as to escape payment. This phenomenon is often called the free-riding problem (Atkinson and Stiglitz, 1980, pp. 513–518).

To reach optimal levels in public-goods provision, preferences should be known, each individual participant should agree on a binding contract, and the public sector often interferes either directly by turning the contribution into a compulsory tax, or indirectly by monitoring contract implementation through the legal system. One way of understanding insurance contracts is to see them as public-goods contracts supervised by government authorities.

How does the concept of public good relate to insurance? We shall argue that the relationship is very close: in fact, any insurance contract can be interpreted as a process of public-good provision. The key concept is collectivity, linking several agents to a shared value, in this case risk protection. The links to time, space and specific resources are crucial, since they are needed to calculate risks and losses and thus to determine the cost of provision.

Once we introduce time into public-goods analysis, the conceptual step towards analysis of risk and insurance is a short one. The link to public goods then clearly arises from the fact that the ability created by social security to avoid or cope with a risk is a pure public good. The measures taken against the risk can thus be of two different kinds.

First, one may wish to lower the probability of the risk by some general measures, such as stone instead of wood in city buildings, or making cars with seat belts and airbags. Second, one can "join the club", or sign an insurance contract which, although it does not affect the probability of risk, eliminates or at least to some extent limits the economic consequences for the individual agent, *ex post*. Social policy may include both these policy lines, when club membership is extended to include all citizens as the insured.

4. Liability and risk

In this connection we raise the question of the origin or genesis of risks. How is the risk produced and is there someone who is guilty and liable for the damage? How should this be taken into account in covering the costs of benefits paid?

An important aspect of social security, pointed out by Van Langendonck (2000, pp. 4–5), is that risk protection may involve three parties. The social security institution protects both the victim and some liable party (for example a firm) from economic consequences of the risk. This important aspect is often overlooked, even though it is one of the main reasons for tripartite arrangements of labour-related social insurance. Of course, the liable party can also be a private citizen. Yet social risks are often so complex that no single liable party can be detected. In these cases, society as a whole is the risk producer and the only possible carrier of liability. We may thus distinguish between liabilities according to civil law and liabilities according to public law. This insight further enhances the use of the concept of liability insurance in social policy, along the lines of thought that we wish to develop in this paper. This view is basically different from that of social assistance based on altruism.

In case of a clearly identified risk-producing body, the victim of damage could certainly raise a claim against this body in court. Thus, a radical neo-liberal doctrine would probably say that neither private insurance nor social security is needed.

In the case of collectively produced risks, the identification of the responsible body is, however, an altogether more cumbersome and difficult task. There are often several bodies involved, and sometimes no obvious body at all. All parties may lose time and money in a potential court process. Resources are often asymmetric to the disadvantage of the victim.

In fact most of our legislation transforms personal loss of any kind into financial assets. By paying to the counterpart, possibly through the insurance organization or the state, the risk-producer can compensate for the loss in a legal sense, if not more. This principle is very old in Roman/European legislation, and is present even in primitive cultures.

The idea of funding benefits according to collective liabilities at least in part should be an element in any social security strategy for a globalized world. Funds can be calculated and transferred, and thus deals can be made between institutions on a level of mutual agreement. The legislation for such agreement already exists, and it may easily be applied to insurance-based social security, as is already the case in the pension field.

5. Institutional arrangements

The practical measures and institutional arrangements adopted, their flexibility, transparency, quality, credibility and acceptance in civil society represent a further reason to underline the importance of the concept of insurance in social security.

5.1. National aspects

As time has passed, scattered voluntary arrangements have transmuted into firmly established, generally covering, financially important collective arrangements governed by the state or by independent social security institutions. An insurance contract in principle links the individual user to the institution providing the insurance. *A priori* this has nothing to do with place of residence, workplace or even nationality. Reference to these matters may, nevertheless, be included in the explicit insurance contract, in the case of social security in the legislation.

Social security can be seen to consist of a social contract based on solidarity among the citizens and institutions of society, including the state, which of course has to provide legislation and mediation in cases of legal disagreement. The social security institution as such, however, need not be included in the everyday political and budgetary processes of the state, or have any financial dependence on the state treasury or the yearly state budget. On the contrary, there are even clear advantages in keeping social security separate from the budgetary process of state government.

Social security schemes can, in principle, be organized as mutual insurance institutions, whereby the insured individuals, who are also directly or indirectly contributors, and thus customers, are entitled to a vote in the organization and are legally entitled to their benefit right in the event that the conditions agreed in the insurance contract are met. This is an important political issue, since a direct vote and the existence of a customer relationship with the social security institution enhance the opportunities for maintaining individual social rights in any civil society. In Finland, a case in point is Kela, the Social Insurance Institution, which administers universal schemes, financed partly by taxes and partly by contributions, in all branches of social security. Kela is directly supervised by the Parliament, which appoints commissioners, representing the insured, to carry out the supervisory functions.

Even in the earliest forms of mutual social insurance funds one can find elements of this kind of social contract, which attempts to include civil society and the state in the same framework. From the point of view of sociology and political science, the social security contract deals with mutual insurance in civil society and, accordingly, with the relationship between the state and civil society. It also focuses attention on the kind of contract people believe that they make when they pay insurance contributions or taxes, or when they apply for their benefits.

In commercial insurance as well as in insurance-based social security, an essential issue is how the contributions are collected and who is to administer the collected funds. This raises the much larger question of the economic responsibility of the social security institution and the political and legal responsibility and authority of the state treasury.

Funding based on actuarial consideration is a tool for actual calculation of benefit value, be it a value of existing funds or a "notional" fund or a notional defined contribution as in the case of the reformed Swedish pensions. Funding, and in particular individual funding, or individual "accounts", would therefore increase the credibility of any declaration of rights concerning social security benefits. This is also true for "notional" funding, if the actual benefit value is calculated and made known to the individual. On a macro level, funding can be used to reduce long-term as well as short-term financing difficulties due to business cycles and demographic development, for example.

Since social security deals with long-term issues, any connection to the yearly state budget, with its short-term political constraints, is a potential source of conflict. State budgets usually run on a short-term, one-year basis. The myopic view is further accentuated by a three- to four-year election cycle. Social security, on the other hand, requires planning periods for at least five to ten years, and, in the case of pensions, 15 to 20 years or longer.

Sometimes the measures taken in the yearly state budget may in fact be in conflict with the legal entitlement of citizens. This easily becomes the case if the cost of certain benefits rises unexpectedly, e.g. in the case of unexpected mass unemployment. Financial independence for the social security institution, especially if it includes provision for long-term solvency funding, can balance such short-run problems independently without painstaking and irrelevant public debate.

In situations where system reform is needed and where long-term planning forecasts should be made, state-based systems easily run into political difficulties. An independent insurance institution can set out future social security alternatives clearly without, intentionally or unintentionally, confusing them with other political issues that happen to be on the agenda before the next election.

5.2. International aspects

In the modern globalized economy, efforts are continually being made to further liberalize world trade and to speed up factor movements. Giant global firms are operating in many countries with different labour markets, education and health standards, and with very different social security legislation. The fast pace of the "just-in-time" paradigm has a profound effect also on the local level, and increases cultural, social and geographic mobility at all levels. This is also a source of increasing socially produced risk on a local and national level.

Administrative independence also makes international action easier on an institutional level. Since international regulations, political goals, diplomatic rules, etc. limit its activities, a state government faces all kinds of "entry barriers" at the global social security level. Therefore, the application of the insurance principle would provide a better chance of acting in the global arena. Just like any multinational institution or company a social security institution can make independent contracts, establish branches in several countries, etc.

The insurance approach provides a method of converting an abstract *worth* into a concrete *value*. In social security, this implies the calculation of a monetary loss and a corresponding insurance claim, just as is done in any insurance contract. Considering the vast complexity of legislation on rights to benefits in different countries, the insurance approach thus offers a way of standardizing most of these into one compatible standard based on money. This could facilitate arbitration on the problematic issue of transferring social rights in the global arena, when individual holders of social security right move from one country to another.

The demographic trend of most OECD countries is a source of constantly increasing social risks. There are even increasing global risks, like pollution, terrorism and international crime. The global economy and its standards for competition and efficiency constitute local risks for some parts of the world. Free factor movement may change the direction of regional economic development of some particular area within just a few months. Indeed beyond the global village there lurks the socially produced global risk society, as sociologists have pointed out following the tradition of Ulrich Beck's seminal work on the "risk society" (Beck, 1992).

Collective and collectively produced social risks also form a system risk for any social security institution. Since costs have to be borne by the institution or by the insured collective, there are no obvious ways to escape the effects.

However, if the risk is restricted to a particular geographical area, as may be the case with an earthquake or an economic recession, there is the possibility of international reinsurance of social security. This may indeed be the only possibility of arranging social security independently of any political and economic turbulence.

If the risk seems to be global, such as environmental pollution and increasing old-age dependency ratios, one can take strategic measures to prepare for the worst and hope for the best. In our view, however, liability insurance and reinsurance approaches offer the most appropriate strategic instrument for coping with the problems ahead. With properly designed networks of insurance institutions, funds and contracts, individuals, social groups and national social security schemes can enter into multinational large-scale social security contracts, allowing the coverage of most of the identifiable social risks and the best possible awareness of and preparation for future global risks.

6. Concluding comments

Social security, as based on insurance contracts, may provide the most effective method of risk management in the complex social and physical environment of modern society. It thus improves the functioning of social life, by preserving society from unnecessary legal processing and mental suffering.

In the insurance discourse for social security, which we have attempted to outline in this paper, social security is treated partly as an instrument of individual risk protection and partly as a public good, providing a vehicle for protection against collective social risks. The collective aspects of social risk are not always fully appreciated in the social security debate, often because of the competing discourses based on income redistribution and social assistance in the liberalist tradition. In our view, however, the target problem is insecurity. Both individual and collective risk protection could be treated in a framework of an insurance-based approach to social security, and institutional arrangements as well as other policy instruments should then focus on that substance.

In addition to conceptual reasoning, our argument is based on historical fact. The stability of the German "Krankenkasse" institutions based on mutual liability is well known, the oldest of these having survived two world wars and extreme political turbulence. The same can, of course, be said of many other mutual insurance institutions. These institutions prove that stability follows from mutual interest among the insured persons, the insurance institution and society at large including the state.

In this paper we have taken the view that social security is social not only from the viewpoint of the individuals but also from the viewpoint of collective civil society. While helping individuals to produce public goods, such as public safety, literacy, education or health, social security schemes in fact strengthen the economic, social and cultural productivity of a nation and the global community. The insurance-based approach is expected to provide a discourse for understanding social security in a way that can sustain social policy to strengthen its essential social role in different societies.

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