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OUR Social Security Act needs extensive and careful revision. The law was drafted in haste, presented to Congress in haphazard form and passed with scarcely a ripple of opposition. Only when the law was on the brink of being implemented did our confusion manifest itself. Shortly before 1 December 1955, the target date of implementation set by the newly appointed Social Security Commission, certain powerful segments of management and organized labor rose up in arms. There were the usual speeches, editorial invectives, press releases and finally the now-commonplace march to Malacañang. Their desired objective was achieved. The day before the law was supposed to take effect, the Commission suspended its compulsory coverage provisions for an indefinite period, thus effectively consigning the law to legal limbo.

The important point is that opposition was conceived in ignorance of the basic theory of social security and born in the light of special interests that are in conflict with the interests of the community as a whole.

Some employers, on the one hand, are wary of the additional 3% tax to be imposed on them. They see only the immediate added burden on their shoulders. They fail to perceive the benefits accruing to them and to the economy in the long run. Certain segments of organized labor, on the other hand, are either lackadaisical or in active opposition to the law—lackadaisical because most of the powerful labor unions already have similar benefit systems, in some cases providing higher benefits

than the contemplated law; in active opposition because they fear that management will pass the cost of social security on to laborers in the form of higher prices or deferred wage increases. The general public and its leaders, unaware that they are the direct beneficiaries of social security, sit inattentively by while the opponents of the Act lobby to advance their sectional interests.

Our present social security law certainly needs amendment before it can fully achieve the ends it seeks. But it has to be amended in the light of the essential objectives and with full knowledge of the fundamental nature and principles of a social security plan.

PRECONCEPTIONS

In a discussion of this kind, the social values and preconceptions held by the author are bound to creep in, consciously or unconsciously. It would be well therefore to state these at the outset.

A first conviction is that reforms are not unworthy of support merely because they are incomplete. The author is critical of our present social security law primarily as to the amount of individual security provided, secondarily as to the methods used to attain such a measure of security. This in no way detracts from his support of the present law, even were it to remain unamended.

In the second place, the author believes that it is the function of government to concern itself with the economic as well as the physical or political security of the citizen. He believes with Lincoln that government should "do for the people what needs to be done, but which they cannot, by individual effort, do at all or do so well." Few will question this fundamental function of government.

Thirdly, it is the author's conviction that the costs of social security must be distributed equitably over the entire population so as to ensure that those who can afford to pay

will pay more, while those less fortunately situated will pay less. This is no more bold a principle than that embodied in the income tax structure; that is, that it is preferable in a democratic country to foster an equitable distribution of income between classes so that gross inequalities are to be tolerated only if there is some strong and compelling reason. This conviction, in turn, is based on the prior assumption that we all have a social duty to care for the less fortunate in our midst and that the burden of this duty is proportionate to our social income and position in the community.

The fourth, and last, conviction is that social security should not be held in abeyance until the unemployment problem is solved, as some economists have counseled. Lord William Beveridge, designer of Britain's social security plan, has put the matter humorously: ". . . to make a good job you want both things — both social insurance and prevention of mass unemployment. It is like saying that no man is satisfactorily dressed unless he has both coat and trousers; that does not mean that till he is sure of his coat he will be warmer without any trousers."

NECESSITY OF SOCIAL SECURITY

The presence of insecurity in our lives is too familiar to require introduction or elaboration. It is, at the time of writing, all too tragically apparent in the Philippines, where one and a half million persons are unemployed and several more millions underemployed.

The plight of the modern-day wage and salary earner, some 30% of our labor force, is merely one special phase in this broad battle against insecurity. Dependent as they are upon their jobs for a wage or a salary, anything that prevents them from working jeopardizes their very existence.

When the worker's earnings are interrupted for any reason, his first recourse — and the best from the national point of view—is to whatever personal savings he may have put by. Even in prosperous times, however, a considerable proportion

of the wage-earning population of the Philippines is unable to make both ends meet on their insufficient wages, to say nothing of saving for the future. Thus the only resort of such wage-earners is to depend on other members of the household, on relatives or friends, or on public and private charity.

If many people are deprived of their earning power, grave effects will be felt in every phase of the national life. Economically, there is the huge social cost of supporting the aged, the survivors, the disabled, and the unemployed—a burden now borne by society as a whole but more particularly by those families shouldering the cost directly, generally families who can least afford it. There is also the loss of output and the reduction in the national income occasioned by the unproductive men. Socially, this insecurity undermines the physical and moral welfare of the working section of our population; while those directly dependent upon relatives, friends or public charity tend to deteriorate in initiative and self-respect. Politically, the whole structure of the social order is threatened by the logic of revolution, for workers will not forever be content with the shibboleths of political freedom. Prolonged periods of starvation and misery exhaust the patience of even the humblest. As President Magsaysay stated in his Inaugural Address (30 December 1953): "Democracy becomes meaningless if it fails to satisfy the primary needs of the common man, if it cannot give him freedom from fear and freedom from want. His happiness and security are the only foundation on which a strong republic can be built."

ITS OBJECTIVES

The *limited* role that social security plays in the economy of a nation cannot be overemphasized. Its objective is neither to assure employment to our vast standing army of unemployed nor to bring comfort in our old age. Its circumscribed objectives must be carefully understood, else much of the criticism and proposals for amendment will be in the direction of ends never contemplated and entirely unsuited to the nature of a social insurance scheme.

It is essentially an *income-insurance* system providing a *minimum* income out of a common fund to which the beneficiaries contribute in specified amounts. Its coverage applies to the major ills confronting primarily industrial workers and others dependent upon wages and salaries for their subsistence, and even then it does not cover all of this industrial and commercial wage-earning population. The amount of income guaranteed is tiny, designed merely to afford subsistence. By no stretch of the imagination can it be conceived as affording comfort, nor was it meant to. Its principal objective is to maintain a minimum income at times of work stoppage due to the hazards of non-cyclical unemployment, old age, sickness, disability and death. This is stated as a declaration of policy in Section 2 of Republic Act 1161.

Because of its limited role, the law does not eliminate the necessity of personal thrift and initiative, of governmental measures against mass unemployment, the promotion of employment opportunities, the prevention of accidents and sickness, and health measures designed to lengthen the average life-span of the Filipino citizen. Its minimal nature merely assures a floor to a certain portion of our wage-earners; rising up from this floor is the responsibility of each person in our society.

Properly drafted and effectively administered, the law can be expected to increase the purchasing power of the poor, to add to their productivity by adding to their peace of mind, and to contribute toward a higher level of employment. This is a potent argument against the "first-things first" proponents who argue that primary attention should be paid to the encouragement of capital investment and therefore the attainment of full employment for our one-and-a-half million unemployed. The two problems, in fact, are closely interlinked. The solution of one leads directly to the solution of the other.

ITS NATURE

Insurance versus Social Welfare. Social security is more than an *insurance scheme*, i.e., the giving of peso-for-peso value

in exchange for privately-purchased annuities. A successful social insurance scheme is based indeed on the idea of private insurance but with added social benefits provided by the state. The present critics of social security in the Philippines will usually be found in the insurance camp.

Essentially, of course, a social security plan *is* insurance. The essence of the insurance principle is maintained: that is, small sums are paid in periodically to a fund, for which a large sum is paid back when a specified contingency occurs (in this case, unemployment, old age, sickness, disability or death). Moreover, in keeping with the insurance principle, the size of the principal sum bears some relation to the size of the premiums paid.

On the other hand, it is just as important to remember that social security is eminently *social* in essence. Under this scheme, income redistribution looms large on the horizon quite apart from the strict insurance principle. For instance, if you and I buy a private annuity at the same age for the same amount, we will pay the same premium and get the same ultimate benefit although you may be wealthy and I poor. But under social security—specifically, say, under the old-age retirement pension plan—if you are making ₱500 a month while I am making the theoretically minimum wage of ₱104 a month, you will contribute five times as much in premiums as I, but when we come to draw our benefits, yours will only be 3.7 times greater than mine (since, assuming an average of four dependents and the maximum benefit payment of ₱6, your benefit would be ₱6, while mine would be ₱1.60 per day. Yours would then be only 3.7 times bigger than mine, though you paid in five times as much). The example would be even more striking as the disparity of wages assumed larger proportions.

This disparity between premiums paid and benefit payments received is one of the things that make social insurance "social." This kind of income redistribution is common to all social insurance schemes. It comes about through weighting benefit formulae in favor of low wage participants, through establishment of maximum benefits and (one hopes) through

minimum benefits as well, and through extra allowances for dependents (5% for each dependent in our present law).

The British system accomplishes the function of income redistribution in a different way. It is accomplished by taking money from the people in the form of an income tax (which is graduated according to ability to pay) and giving it back in the form of direct assistance to those who cannot afford to live on the low flat-rate benefits supplied by their social insurance. The same end can be achieved in the Philippines by government contributing directly to the social insurance fund.

The plan, then, is social as well as insurance because it envisions: 1) a minimum income; 2) no strict relationship between cost and benefit; 3) compulsory coverage; 4) no necessarily predictable chance of loss; 5) the premium not based upon degree of risk but as percentage of income; 6) operation not as a contractual right but as a legislative one; and 7) preference for the lower-income groups who cannot otherwise afford insurance.

The result of the private insurance approach—considering a strict relationship between benefits and contributions—would completely frustrate the purposes of the law. With our prevailing low wages, contributions would be small and therefore—according to strict insurance—benefits would be correspondingly small, hardly enough to maintain body and soul together as calculated by one of our leading actuarians. This negation of the Act if the insurance-approach is used strictly is also one of the compelling reasons for being alerted to private insurance companies who want to underwrite the whole government system on strict private-insurance principles. Even the limited objectives of the Act would not be achieved under them.

AMENDING THE ACT

We are now in a position to examine our Social Security Act (R.A. 1161) and to indicate the lines along which it should be amended. We do this very briefly as we have treated the matter in greater detail elsewhere.[1]

[1] Arturo Tanco Jr. in *Social Order Digest*, Vol. II, beginning No.3 (March 1956) ff.

Scope of the Law

1. First, the law does not have any provisions for health insurance. This defect should be remedied. Health risks are real, they are insurable, they are not adequately covered by private insurance. Other countries have provided for this in their social security legislation.

2. Second, the definition of covered employment (Sec. 8 j) is too narrow. No provision is made for service performed in the employ of a community chest, fund, foundation or corporation, organized and operated exclusively for religious, charitable, scientific, literary or educational purposes. There is no reason why workers in the employ of religious, charitable, scientific, literary and educational organizations should be denied the benefits of social security. The argument is commonly advanced that, since these organizations do not make money in their operations, they should not be taxed for the security of their employees. They are not taxed in any other respect (the argument concludes) so why make an exception in this case? The answer is: Why not? Their employees are faced with exactly the same risks faced by other employees covered by the law. It would be a curious irony, in fact, if those who are working for a good cause will for that very reason be denied the benefits of security given by the law. The cost of providing this security should be counted into these companies' wage appropriation just like any other production cost and should be met by budgeting revenues accordingly.

3. Thirdly, amend the law to provide for gradually widening coverage every year (Sec. 9 a). Since the administration of social security calls for a complicated administrative machine, the more inclusive the coverage of the plan to begin with, the more overwhelming the job of setting up the system. It was therefore wise to limit in the beginning the groups of people who receive this kind of security. This was the compelling reason for limiting coverage of the present system to employers with 200 or more employees. There is in fact no other cogent reason. This type of exclusion on the basis of number of workers employed, however, becomes less and

less justifiable as the system gets more experienced and has set up its administrative machinery so that it functions smoothly. The inequity of taxing employers with 200 or more employees while leaving untouched an employer with, say, 195 employees is manifest. Employers have realized this and have complained that unfair competition will result. Other adverse effects on employers can be briefly noted: (1) Marginal employers who employ a number that hovers around 200 will be tempted to either discharge workers in order to bring their staff below the limit set in the law, or refuse to take on additional workers who would make them liable to the tax, even in times of peak loads. This would, in turn, hamper full productivity since management will tend to employ fewer men than they actually need. (2) Workers may eventually shun employment with small concerns not covered by the law. This latter possibility has operated in Great Britain to the detriment of the smaller concerns and to the detriment of fuller labor mobility.

4. Fourthly, eliminate the added proviso that at the time the Act is implemented an employer needs to have made a profit the last three consecutive years before compulsory coverage can be applied to him (Sec. 9 a). The only reason for the inclusion of this provision in the law is the fear that the 3% tax imposed on firms suffering a loss would over-burden these firms so much that they would be pushed to the verge of bankruptcy. This fear is ill-founded. A firm suffering losses for a year is almost certainly suffering these losses not through any tax imposed by the government on payrolls but through other internal or external causes. The assumption that the impact of the 3% tax on these companies is large is questionable. Most of the companies and industrial establishments in the Philippines have no more than 15 or 20 percent at the most of their total costs going to labor. Three percent of this would be 0.60% of total costs at the most. Surely any company in existence for three years or more can absorb this minute amount. The fact is that labor costs have never loomed large in the total cost structure of Philippine establishments. Any company faced with a compulsory payroll tax can shift the burden either forwards or backwards: forwards to the consumer in the

form of higher prices, or backwards to the workers in the form of deferred wages. If therefore this provision were to be included at all it should stipulate coverage of firms making profits *for any one year within the last three* before implementation of the law. This would undoubtedly be more equitable to those employees working in such firms.

5. Fifthly, eliminate entirely the added provision in the present law calling for the exemption of employers having "equivalent" plans. Realistically speaking, none of the private plans now existing in several of the large companies about to be covered by the law are substitutes for Social Security—nor can social security ever be an effective substitute for these private plans.

6. Sixthly, remove two sections in the Act which call for deductions from the death and disability payments (Sections 14 and 15). With the present rates of contribution of 6%, the removal of these two provisions would not affect the solvency of the plan. As a matter of fact, the actuarial calculations of the Commission assumed that these provisions were not present and that all benefits would be paid. With these assumptions the solvency of the Social Security Fund was proven. Exclusion of these provisions, therefore, will not affect an amended law (see later sections for proposals to provide for a 3% government contribution while reducing the employees' contribution to 2%, making a total contribution of 8%). Moreover, if these provisions are not expunged the whole objective of the law is drastically modified. The main objective of the law is to provide security against the risks of unemployment, sickness, old age, death and disability. The two provisions quoted above in effect say: "You can have benefits for sickness, but not for sickness *and* disability or death; likewise, you can have benefits for unemployment, but not for unemployment *and* death or disability." True, the provisions stipulate that death and disability must occur within five years. Also, they merely provide for deductions instead of complete disqualification from receiving death or disability benefits. Nevertheless, these are absolutely unnecessary qualifications based on a fear of the insolvency of the plan. The Social Security Adminis-

trator, after performing surveys of the covered companies, has shown the baselessness of this fear.

7. Seventh, provide within the Act for payment of a fixed minimum size of benefit for each covered employee, to be paid whatever the cause of income loss. The only provision attached to this would be that the employee has been covered by the Act for the one year immediately preceding the occurrence of any contingency. At the beginning the fixed sum might be set at, say, ₱2.00 a day—subject of course to all the other conditions set for eligibility under each program. One of the fundamental aims of social insurance is to maintain a floor level of benefits based on social need. This aim is not achieved in our present law.

8. Eighth, regarding retirement benefits (Sec. 12), raise the minimum old age annuity to ₱50.00, this minimum to be paid if the employee has paid contributions for ten years. Eliminate the attached provision calling for an added amount to be paid jointly by the last employer and the employee for the purpose of covering any deficit between premiums paid and the minimum benefit rate.

The problem of old age insecurity has three dimensions: the problem of those now aged, the problem of those now young, and the problem of those now middle-aged. For the first group there is no alternative but social welfare with its system of benefits paid according to need. The second group is now covered by the law with a contributory system of old-age annuities under the insurance principle. This enables young workers, with matching contributions from their employers (and eventually, one hopes, from the government), to build up a more adequate old-age protection than it is possible to achieve with non-contributory pensions based upon a means test (i.e., social welfare and relief). The third group, those middle-aged and over, face a peculiar problem. They cannot in the few remaining years of their industrial life hope to accumulate reserves sufficient to justify paying them an adequate pension under the present system of calculating benefits. The provision in the present law calling for a minimum of ₱20.00 to be paid af-

ter ten years coverage is designed to meet this problem. An examination of Section 12 of the Act, however, reveals two defects: The minimum benefit is too low and it would take a person 25 to 30 years to attain the minimum amount.

9. Ninth, regarding unemployment and sickness benefits (Sec. 14 and 15), increase the percentage used in calculating benefits to 30% of the daily rate of compensation plus 5% for every dependent. For unemployment compensation the minimum amount should be set at ₱6.00 a day benefit; for sickness, ₱7.00 a day. Remove, in both cases, the added maximum ceiling of 50% and 60% for unemployment and sickness compensation respectively (i.e., "in no case shall the total amount of such daily allowance exceed six pesos, or sixty percentum [50% for unemployment] of his daily rate of compensation, whichever is the smaller amount").

The reason for this proposed amendment is simply to make the benefits more socially adequate. Theoretically, the best amount for benefits should be set at approximately half of the past wages received. Since the average member of the system, as discovered in the survey, has three dependents, the above percentages are required in order to achieve this approximately half-of-wages figures. The flat-rate ceiling provided in each case seems adequate to protect the system from undue expenditure.

10. Tenth, regarding death and disability benefits (Sec. 13), relate the size of the benefits paid to the number of dependents of the covered dead or disabled. This can be accomplished by setting a minimum payment of 10% of the daily rate of a covered employee to be paid for each dependent if the deceased or disabled was covered for a year. After two years of coverage the rate should rise to 15% per dependent; after three years, 20%; four years, 25%, and five years, 33 1/3% of the average daily wage of the deceased or permanently and totally disabled. In all cases where it is necessary, the minimum amount of ₱2.00 must, of course, be paid.

When a breadwinner dies or is totally and permanently disabled, the gravity of the loss is directly proportional to the

number of children and other dependents left to the care of the widow. Our present method of calculating benefits in adhering to the insurance principle too strictly does not make adequate provision for this. No adequate distinction is made between the greater need of larger families and the comparatively lesser need of smaller ones. This proposed amendment would take care of this.

Financing the Act

11. First, reduce the employee contribution to 2% of payrolls. Although economists differ on the question of who bears the final cost of social security, the preponderance of opinion seems to point to the fact that a great part of the employer tax is passed on either to the consumers (through higher prices) or to the workers (in the form of wages). The employer therefore is burdened but little, while workers and consumers bear the brunt of the cost. There can be no real objection to this shifting of the tax, since it can be argued that these risks are costs of industry and should therefore be counted into the price charged just like any other cost. This shifting of the tax, however, does call for a diminution of the tax on the workers. They are already paying for some part of the cost of social security, first as consumers when they buy goods or services, and second in form of deferred wages or benefits. Should they, therefore, still continue to bear half of the initial costs of the system?

12. Second, the government should contribute 3% of payrolls to the system. The funds to be contributed for this purpose should be derived by earmarking a certain amount (for proportion) of the income and inheritance tax collections each year. A government contribution is necessary to achieve the law's most basic purpose: to protect the workers adequately. The present law certainly fails badly in this respect. Its most important function is hardly achieved at all, what with the sub-minimum benefits provided, the scanty coverage, and the many restrictions that hedge the four programs in on all sides. There is no social benefit, however, that is achieved without a social cost. The solvency of the system, in fact, is what worries interested observers most. A government contribution of

3% of payrolls will not only banish all doubts about the financing of the system, it will also aid in solving the crying need for liberalization of coverage, benefits, and duration of benefits.

Administration of the Act

13. First, remove from the Act the discretion of the Commission to apply the Act on an "experimental," "pilot," or "piecemeal" basis. There should be immediate, universal coverage upon passage of the amended law. The reason for this amendment is not hard to find. Since the law uses the insurance principle to achieve its ends, and since the insurance principle holds that the more people over whom the risk is spread the safer the plan, it is clear that the more universal the coverage the safer the system. This is the most valid principle in insurance, as all private insurance companies will testify. As a corollary, it is also clear that coverage should be extended to as many wage-earners as possible within the shortest possible time.

14. Second, provide, within the law, specific guides to the knotty questions of definition that are bound to arise. The question of disqualification for refusal to accept "suitable" work, in the unemployment program of social security, is the question that has given rise to the most difficult questions abroad. It is suggested here that Congress give further criteria for defining this word "suitable."

15. Thirdly, allow the Commission to invest the reserve fund of the system along safe lines according to its discretion. Broader leeway should be given to the Commission to invest the reserve funds in safe ways. Any intelligent observer can point out the good that GSIS has done in the investment field. Given greater discretion the Social Security Commission can accomplish just as much.