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Social policy as social risk management

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SOCIAL POLICY AS SOCIAL RISK MANAGEMENT

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With the growing sophistication in social policy instruments and the advances made in the analysis of their impact, it became clear that the analytical separation of social policy and social security policy from other policy areas is increasingly difficult. The paper discusses a new analytical approach based on the social management of risks. It redefines social policy as public interventions to assist individuals and households to cope with their risks. The conceptual framework starts with the notion of main needs and defines and subdivides the risks threatening the satisfaction of these main needs. An important feature of the framework is that social policy is not only linked to the satisfaction of the main needs at a certain moment, but to the risk that, at a certain moment in the life-course of an individual, the needs cannot not be satisfied. Social policy is then no longer solely focussed on the guaranteeing that all individuals in an economy can fulfil their main needs in a static framework. Quite the contrary, social policy is focused on preventing contingencies to materialise, on mitigating the effects before they materialise and on coping with the unfortunate moment bad luck, shocks or unfortunate events strike. The social risk management framework rests on the observation that the satisfaction of main needs and the management of risks, is not the sole responsibility of public authorities. Social welfare is produced by at least three institutions symbolically summarised as the social welfare triangle of which markets, families and public authorities form the corner-points.

Introduction

Social welfare in an economy depends on its ability to satisfy the needs of its members and to manage the risks threatening the well being of the same people. Outside paradise, the satisfaction of needs require some individual- and social actions. But both the ability to act and the possibility to realise positive results are subject to uncertainty and may be threatened by risks. Societies have developed various ways to deal with these basic problems and elsewhere[2] we attempt to analyse and compare the variety in, what we call, the *social management of risks.* Traditionally a large part of social risk management has been defined as either social policy or more narrowly welfare state policy. However, social risks and needs have always been taken care of even in the absence of deliberate social policy or welfare state arrangements. Three major institutions are used to satisfy needs and to take care of risks: *the market, the family and the state*. Each of them has different historical and geographical

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[2] Gøsta Esping-Andersen and Chris de Neubourg, Social Welfare and Efficiency: Comparative Social Policy (working title), Oxford, Oxford University Press, 2001. This paper is an adaptation of parts of the draft of the first chapter of the new textbook.

appearances, but basically they are found in all societies across time and locations. Economies and societies have blended the three basic elements in different portions and different formats, but the three elements are always present. Is we disregard the role of the three institutions and the links between them, we will not be able to *assess and compare the impact, effectiveness and efficiency of social risk management arrangements* across societies. This also implies that the analysis of public interventions cannot be limited to social policy in the narrow sense, but should take into consideration public interference with families and markets as well. It is important to note that very concepts of markets, families and the state should be interpreted in their broadest meaning. Markets not only refer to monetarised transactions but also to barter trade; families not only refer to biological ties, but also to extended families and social network-based solidarity; the state not only refer to nation-states and national governments but also to public authorities of different natures.

Individual problems – individual solutions

Individuals who are confronted with a problem will react. Their reaction consists of two basic elements: solve the problem at hand and take action to prevent the problem from arising again. Let's take a simple problem and one that is hard to imagine that it would not shared by everybody: every individual needs means to survive. In a monetarised economy, this is an economy where transactions are made by using money, this implies that an individual needs money to buy the goods that are necessary to survive (or, in other words, to satisfy his/her basic needs). Solving the problem in this case means: make sure you get money to buy basically food and protection against the elements (cloths, a shelter). In modern economies the option that most people will opt for, is to look for a job that provides the money that is needed. This is, however, not the only option an individual has. One could also try to produce the goods that you need yourselves. Another option would be to ask your family (your parents, grandparents, children, grandchildren, brothers, sisters, …) to provide the money. Or, even in a monetarised economy, to ask them for the direct provision of the goods that you need. You even may fall back on begging and charity, but that can be regarded as a peculiar way of employment (you will need to undertake some activity in order to have access to the goods) or as a special case of social network based solidarity (resembling the family). Finally, there is the option to steal either the money or the goods. The latter option, though clearly

chosen by some, will be largely disregard in this context. This means that we will exclude actions implying the use of violence or force by individuals.

Summarising; in absence of a benevolent public authority individuals wanting to satisfy their basic needs can rely on some form of activity on the market (either the labour market or a product market) or rely on their family or a wider form of socially available networks.

Although we now outlined the options for the simplest form of our problem, we still are left with the task to lay out the options for preventing the problem to arise again in the future. Persons wanting to secure the fulfilment of their basic needs in the future should save which means, postponing consumption or, more technically substitute immediate consumption for consumption in the future. They may either do that by just putting the money (or in some cases the goods) aside or using the capital market to make sure the level of their future income is satisfactory to meet their basic needs. It is important to note that using the capital market has at least two sides: it can imply putting money in saving accounts or insurance accounts and it can imply borrowing money. But there are other options as well. Individuals have also in this case the same choice as before: they either rely on some market activity or they rely on their social network, say the family. That is to say, they make sure that either income from (self-) employment will be generated in the future or that they will be able to rely on their family. The family option is easy to understand, but the labour or product market options require some explanation. Making sure that you will be able to sell products in the future or that you will be employed against a certain wage is only possible if some form of contract is used. On a product market it means to sign a contract that guarantees that someone will buy your goods in the future. On the market for labour it implies a contract that guarantees effort against wage in the future as well. The individual makes a contract with an employer to make sure that the latter will keep him/her employed whatever happens to him/her (for example when he/she gets ill). This simple example illustrate why its is important to pay considerable attention to labour market policy including employment protection; it lies in the heart of social risk management and social policy and forms an integral part of the protection that societies offer to their members. Remark that signing a contract is by no means ruling out uncertainty completely: the buyer of your goods may die, your employer may suspend operations or your insurance company may go bankrupt.

We may rephrase the problem of satisfying basic needs in the future in an interesting way. If we consider needs to be satisfied by an income stream (again "income" referring to much more than money) over the life of individuals, the problem of guaranteeing satisfaction of needs in the future can be reformulated as the problem of synchronising the income stream of individuals with their consumption stream. My income stream may be enough to satisfy my basic needs now, but will it also by satisfactory in the future, which is inherently uncertain in many different ways. The basic welfare problem when the future enters the analysis then becomes a storage problem: how can I store income (or goods and services) in order to be sure that I will be able to satisfy my needs in the future? Of course my possibilities for storage depends on how much I can store after having satisfied my basic needs in the present. My needs for "storage" will depend on my assessment of the likelihood that I will not have enough income, goods or services to satisfy my needs in the future (see below). For the argument in this section it is enough to understand that this "storage" problem can be solved in many different ways including the simple storage of goods or money (saving), making (implicit) contracts with parties in the product- or labour- markets or within my family or by using instruments of the capital market including insurances and investment.

Basically we now have the major elements that we need in order to proceed with our analysis: individuals faced with the problem of securing the satisfaction of their basic needs of food and shelter now and in the future, can cover their needs by activities on markets (the product market, the labour market and the capital market) or by relying on their families (or other social networks). Remark that we phrased the context and the problem deliberately in very broad terms and also allow individuals for example to produce and stock their own food and shelter. This may sound somewhat outlandish to readers in, say OECD economies, it is relevant if we want to use the framework to analyse for example coping strategies of people in countries in other stages of economic development or in along other paths of development in Africa or Asia. Moreover, a lot of the welfare production and welfare distribution in advanced capitalist economies take place in families outside the market place and without monetary intermediary. Even in the later case we will need the broad definition of the production and distribution of welfare in order to be able to understand the full implication of the interaction between markets, families and the state.
Understanding to role of public authorities in designing and implementing social policy is framed in all cases by the same basic options that individuals have. This means that, whatever

social policy mix is chosen, it is bound to interfere and interact with these basic options for individuals.

When the future enters the analysis, individuals have in principle the same options as before when dealing with the problem of making sure that their basic needs are covered in the future: they take some action on a market or they rely on their family (or social network). However, there are a few new elements that we have to consider when trying to analyse the new situation. First of all and obviously, individuals need to make decisions and choices that stretch out over a longer period, or easier to deal with conceptually, that stretch out of at least two periods. Secondly, individuals have to regard the satisfaction of their needs in the future as a problem they have to deal with: this introduces the standard and plausible assumption of risk-aversion among individuals (individuals would like to avoid the risk of not having their needs satisfied). Thirdly,
individuals have to have idea of the likeness (the probability) that a certain unfortunate event (contingency) may happen and fourthly they will need a counterpart either on a market or within the family who is willing to share his/her views on the need to make decisions over at least two periods and on the definition of the probabilities of the contingency (no agreement on the probabilities themselves is needed).
We enter now a much more complicated world that requires that we are able to analyse behaviour under uncertainty, i.e. choices and transactions are made without knowing for sure what will be the exact outcome.

Even in the simpler case before, adopting a market solution or a family solution requires that there is another party, another individual on the market or in the family. If an individual decides to offer his/her labour in exchange for payment, it is implied that on the labour market there is another individual who is prepared to hire the first person and pay out the agreed wage. If an individual decides to grow vegetables and sell them on a market it is implied that there is another individual willing and able to buy these vegetables (or exchange them for something else). If an individual decides to ask a family member to provide food and shelter it is necessary for the option to be viable, that there is at least one other family member who is prepared and able to provide the goods. Inherently market solutions and family solutions are "social" and require reciprocity between individuals. The reciprocity on a market is direct (something is exchanged immediately for something else); the reciprocity within a family is indirect (in the simplest case, something is received under the implicit promise to return a

similar service to other members of the family). Notions of reciprocity and their complications are dealt with in several chapters below. All in all it seems that the "individual solutions" in the title of this section are less individual than they first appeared.

Yet when considering risks over more than one period, market- and family- solutions require not only other individuals willing to trade or to provide, but also common views on the future however vague they may be. So even without the state or any other collectivity in the analysis, we have to conclude that individuals are not able to deal with their risks on their own. They need at least one other person to trade with or to receive from. But of course in the realm of the real world, individuals will use sophisticated forms of markets, institutions and contracts. We gave already the example of a labour market that encompasses more than a direct quid-pro-quo; we can easily add insurance markets as another example of an institution that is needed in the analysis of how social welfare is produced.

For the argument in this section, it makes clear that already in these simple cases there may be situations where no market- or family- solution is available, simply because there is no counterpart on the market or within the family. That is to say, situations wherein individuals may have opted for a market- or a family- solution for the satisfaction of their basic needs but are unsuccessful in realising the option. These situations are called ***market failure and family failure*** respectively. A more detailed look on what actually are the needs and the risks that we are analysing is necessary and we also need to relax the assumption that all individuals are equal (this assumption has been made implicitly so far).

Basic needs or main needs?

The argument so far referred to the satisfaction of ***basic needs only***. This reduced the analysis to something we thought was understood similarly by all of us. In fact, this was an (temporary useful) illusion. Although all agree that some food and some physical protection in the forms of clothing and a shelter are needed to survive, we would start to disagree when we would try to define what exactly this would mean. How much food? Which food? How much clothing and which clothing? And what kind of roof above our head? It is easy to understand that the actual definition of the content or even the level of basic needs that need to be fulfilled highly depend on physical and geographical location. The need for shelter in Alaska is different from that in the Caribbean; the cloths providing adequate protection against the wind and the sun in

the Central African deserts are different from what is basically needed in French Polynesia or in Paris. Attempts to retract to the very basics and talking about minimum calorie-intake when talking about food, may give you the illusion of getting near a universal definition of basic needs. It is, however, defective as well. Even if it would be possible to define the absolute minimum to avoid starvation, the composition of the intake in terms of minerals, proteins and other substances would matter. And the issue would start to be complicated further if the question arises “avoid starvation to do what?” To sit down in the shadow of a tree, to work on farm-land, to deliver (healthy) babies, to attend school or to work in the metal industry?
But yet the complication is not complete: needs also differ across time. Certainly the definition of the basic assets and goods that you need to survive in New York City or Brussels in the twenty first century differ from those needed in the same places just after the Second World War. And we could go on. It comes down to the observation that it is nearly impossible and perhaps not very useful to try to define what basic needs exactly are. We better talk about needs that individuals want to be fulfilled. They differ across time and location and they are relative to the prevailing standards of a given society. This does not mean we that we can dismiss the question if minimum standards all together; it comes up again at length when measurement problems and poverty and actual social policy practices are discussed. It has, however, one important implication at the introduction of this analysis: it de-links the notion of social policy and the idea of securing the fulfilment of basic needs. Social policy is definitely not limited to public interventions aimed at providing means to everybody to fulfil basic needs only. Some parts of social policy are related to that specific aim, but many other parts are not. The link between basic needs and social policy is sometimes brought to the footlight in the political rhetoric surrounding the reform of social policy or the welfare state (see the minimalist views on social policy), but it is far from actual reality in all the economies that we consider.

However, does this imply that from now on all needs will be considered as the potentially being linked to social policy? Theoretically this would defendable, but this is as far from actual policy practice as the myopic view that links social policy to basic needs only. Some demarcation of the area is useful and inevitable if we do not want to get lost. The criterion to use for deciding what needs shall be envisaged when talking about the social management of risks, can not be found in theoretical decisions; we have not much more than common sense and policy practices in the countries we focus on. Amartya Sen’s approach of talking about capabilities is of relevance here though.

The needs that can be considered as mostly prominently to the realm of the social management of risks are:

- access to housing and utilities
- access to food
- access to health and healthy sexual reproduction
- access to security, civil- and human- rights
- access to social participation.

The first three are easy to understand ("healthy reproduction" referring to the physical and social circumstances that allows human beings to prorecreation). Access to security reflects the need to be protected from criminal activities and the access to human rights; access to social participation refers to the need for individuals to be truly embedded in the social and economic life of the community they live in; when this access is not secured we can speak of "social exclusion".

Starting from this list it can be seen that a lot of what we would define as social policy, is difficult to assess as directly related to one of these needs except for those policies that would define benefits in kind only, such as health care, food distribution, housing. The reality, however, is that much of what we would regard as the social management of risks or social policy is not directly related with providing goods and services that would satisfy these needs, but is focussed on the *means* to get access to the fulfilment of these needs. In many situations and in most of the countries we study, this implies in the first place to secure income for all individuals in order to guarantee that they can buy access to all these things. And besides on income directly, a lot of social policy is related to mechanisms that allow individuals to generate the income themselves now and in the future namely to labour and to education. On the other hand, while very important if absent, the access to security in terms of physical protection and human rights is usually not defined as part of social policy. For advanced capitalist economies we could assume that these rights are secured but that does not mean it can be left out of the analysis completely and certainly not when less developed economies are considered. Individual political- and economic- freedom, equal (legal) treatment regardless of gender, ethnicity or religion and institutions guaranteeing democracy are important pre-requisites for successful social policy (and economic growth as argued by Amartya Sen).

Defining the ***scope to the Social Management of Risks***, we then can say that it covers the *main needs*:

- access to housing and utilities
- access to food
- access to health and sexual reproduction
- access to social participation,

and *the basic mechanism* that guarantee the fulfilment of these needs:

- access to income.

Access to income has to be understood in its most broad meaning referring not only to income (or stocked wealth) in monetary terms, but also encompassing all means of existence provided in kind.

In advanced capitalist societies social policy cannot be understood if we refer to direct "income" provision only; a big part of social policy is linked to instruments that guarantee or improve the access to income for all members of a society namely labour and education. Therefore we explicitly add these two mechanisms to describe the scope of social policy (and of this book) knowing that the correlation between "income" on the one hand and labour and education on the other, are high:

- access to labour (as the main income-generating mechanism)
- access to education (as the main source for future income).

Access to security and civil- and human-rights has a different nature in this respect. These are goods that are difficult to provide on markets or families. Partial physical protection of your person and belongings can be bought on a market (security firms, private security agents, body guards) or provided by a family, but they cannot be fully regarded as normal economic goods (given their public goods elements). Civil- and human- rights are definitely never provided by markets or families. Guaranteed property rights, political rights and enforced equal treatment for example can only be produced by recognised and legitimate public authorities or a state. We regard them here as necessary and important prerequisites for social policy as we study it. This implies that, if civil- and human- rights are not secured, the analysis of the social management of risks has to start with a serious study of the impact of the lack of civil- and human- rights (the exclusion of certain groups from basic rights can not be ignored when studying the impact of social policy; for example a society guaranteeing access to education to its members but excluding women). If, however, basic civil- and human- rights are secured, it does not mean that the issue can be ignored completely. This is more than a theoretical discussion even in advanced capitalist economies, wherein we may accept that these basic rights are secured. All legislation and certainly social policy legislation

use a definition of the covered population in terms of citizenship, residence or contributors. This regularly leaves members of society not fitting these criteria often without (social) protection. Illegal immigrants and refugees form a problem in this respect and not only because they themselves are deprived of protection, but also because they form an additional management problem for the protected part of the population. If for example illegal immigrants are denied access to the health system, a case of open tuberculosis threatens not only the health of the infected uncovered person but also the health of all the others persons he or she may infect. In spite of what we said, we will focus our attention to the main needs as defined above, assuming that basic civil- and human- rights are secured in the societies we study.

Although the problem setting seems to have shifted considerably compared with the simple case we started with in the beginning, it is theoretically only a minor change. Talking about main needs and the mechanisms applied to fulfil them does not change the options for the individuals fundamentally: individuals can still use markets and families to satisfy their needs. Markets will often be used, but families stay important as well, even outside the realm of the basic needs. In many more cases than believed at first sight, the production of wealth within families is an important substitute for the production of wealth on markets. Where markets fail, families will provide an obvious substitute in many cases. But even without failing markets, families will produce a significant part of welfare, although its actual amount depends on many variables (history, tradition, economic development, etc.). The state or public policy comes in where actually markets and families fail or where it is understood that the solutions produced by markets are either not efficient or not acceptable (not effective); hence when individuals are not believed, rightly or wrongly, to be able to manage the risks related to these needs and their mechanisms independently and that thus some social management is requested.

Risks

What type of risks exactly are we considering? Basically only one risk, although it comes in many different forms, namely the risk of not or no longer being able to rely on either markets or the family to secure the satisfaction of the main needs.

Under the assumption that different types of risks require different types reactions (by markets, by the family or by the state), it is useful for the analysis to distinguish different

types of risks and different types of effects. We will need these distinctions to analyse the efficiency and effectiveness of different welfare solutions provided by markets, families and the state now and in the past.

The first criterion to distinguish risks is by the population that is potentially affected. We then distinguish three basic forms, universal risks, life-cycle risks and categorical risks.

Universal risks are in principle shared by all regardless of their age, gender or position in society. An easy example is the risk of getting involved in an accident that limits or prevent further activities on labour- or product- markets. It is tempting to believe that universal risks are randomly distributed among the population, but this is in fact not true and theoretically unnecessary. Universal risks can strike theoretically everybody in a society, but that does not imply that everybody is exposed to same degree to the risk. In our example, everybody can be involved in an accident, but some groups in society are more "accident-prone" than others. This is an important remark and we will need this as an element to explain insurances and government interventions in insurance markets in.

Life-cycle risks are also in principle shared by all but are specific to a certain age or to specific stages in the course of life for everybody. Old age infirmity caused by Alzheimer disease for example is an obvious example.

Categorical risks (sometimes called class- or group- risks) are risks that are peculiar to certain groups in the society for example miners, women or men. The risk to develop mining-related lung diseases or to develop breast- or prostate- cancer is not shared by everybody[3].

Trying to distinguish risks by their effects, three categories stand out: incident effects, lifetime effects and intergenerational effects.

Incident effects refer to the effects that are directly related to the event and disappear after a relatively short period of time. Temporary unemployment and short-term illnesses usually have only incident effects.

[3] Some readers will immediately remark that there is an element of choice involved the example of the miner. Nobody is strictly born as miner. This is true and refers to, what we call path dependency of risks and behaviour. We ignore this analytical complication for clarity's sake in this paper.

Lifetime effects are related to risks that usually have a long lasting effect on a persons' life. Long-term unemployment and disability usually can be seen as having lifetime effects. *Inter-generational* effects are seen when the effects of an unfortunate event are passed on to the next generation and reproduced over the generations. Disability leading to welfare benefit dependency may affect the earning capacity of a breadwinner in a way that it jeopardises the chances of his/her children to invest in education and to enter the labour market.
Remark that risks can have various effects simultaneously; an event can first lead to incident effects, but later lifetime and/or inter-generational effects may result.

Risks and their effects can be classified according to these criteria and further refining in the classifications can be made (see for example Holzman and Jørgensen, 1999). These distinctions will be important in order to analyse how much of the risk management is left to markets and the family and how much is (or could be) taken up by public interventions (the state). Table 1 summarizes the typology as explained above and intuitively it can already be understood that markets and families will have more difficulties in coping with the risks if we go from left to right and from top to bottom in the table.

Table 1
Risks and their effects

	Incident effects	Life-time effects	Intergenerational effects
Universal risks			
Life-cycle risks			
Categorical risks			

Where are we?

Individuals faced with the problem of fulfilling their main needs can cover their needs by actions on (product- and labour-) markets and by relying on the family. We introduced a couple of characteristics of markets and families that are important in understanding their basic functioning (for example that they are essentially social and assume reciprocity). We also discussed briefly a first set of conditions for their functioning and introduced limitations to their potential impact. Nothing was said so far on public interventions and social policy.

Individuals face risks that come in many forms and appearances. That is a complication compared to the previous situation because it introduces the time dimension. The basic risk is that individuals are uncertain on whether they will be able to fulfil their mains needs in the future. This may be due to the fact that either the outcome of their actions on markets or the support provided by families is uncertain or due to external shocks disrupting or disturbing the mechanisms by which markets and families can guarantee the fulfilment of main needs. We had to introduce the capital market as an extra possibility for individuals to cope with risks. A good deal of the social policy literature is devoted to the analysis under which theoretical conditions and historical circumstances public policy is used and/or needed to complement market- and family- solutions to the problem of the fulfilment of main needs under uncertainty/risks.

We assessed the needs that we are studying as main needs to be distinguished from basic needs leaving a broad area as possibly be covered by social policy in conjunction with markets and the family. Again the standard literature analyses which historical and theoretical forms this social policy can take and has taken in various countries.

We introduced a typology of risks (related to external shocks). That gave us a first impression about how for various risks and effects different combinations of markets, families and the state are used to cover risks.

In order to complete our “tour d’ horizon” of the concepts that we need to proceed with the analysis and of the interrelation between the concepts, there are two additional issues that have to be introduced:

- unequal individuals and
- a typology of government interventions that can be regarded as social management of risks.

This will be done in the remainder of this paper.

Individuals are not equal

So far we talked about individuals as if all individuals are alike and all have the same options and possibilities. This is a useful assumption that actually is used extensively in economic and social theory in order to bring the analysis to level of complication that we can handle. But we

want to relax the assumption now (temporarily) because its upholding would hide the view on an important set of risks and on crucial aspects of social policy. Moreover, we are not able to understand the standard equity arguments for social policy if we do not explicitly account for inequality among individuals (remark that by distinguishing categorical- and life-cycle risks we already introduced some forms of inequality).

Individuals are not equal in many respects. First people differ in their capabilities and talents they are born with, however we may assume that these capabilities and talents are randomly distributed in the economy. More importantly in this context, however, is that individuals are not living in equal or even similar social environments. We abstract here from geographical differences: of course it matters whether you are born in Japan, South-Africa, The United States or Germany, but these are not the differences we want to focus on. Even within countries there are huge differences. The major differences that are important is this context are twofold:

- individuals are born within a household with a specific place in the income distribution;
- individuals are embedded in different social network-settings.

For simplicity's sake we often disregard the first difference in economic theory, but when trying to understand the logic and practice of social policy, it is impossible to ignore it. As a major consequence individual differ sharply in the way then can rely on markets and especially on families when it comes to coping with needs and risks. It is not difficult to understand that inherited wealth and family wealth can make a big difference in the way a family can support its members in order to fulfil basic needs and to cope with the risks surrounding them. It is, however, also important when dealing with market options. Statistically spoken, persons growing up in households that belong to higher income groups usually have better educational opportunities and thus we have more possibilities on the labour market. Also their bargaining power on capital markets may differ seriously from the possibilities of people growing up in lower income brackets households. In general and from a statistical point of view, markets tend to reproduce and reinforce inequalities. The resulting inequality is not a theoretical issue when thinking about social policy, but has played a decisive role in the way social policy has been shaped throughout the centuries. Trying to un-link wealth levels of parents and children is associated with notions of social justice and is still regarded by many societies as an important aim of social policy. The above is not saying that individuals cannot change their place in the income distribution. Many examples can be

referred to in order to argue that indeed there is upward- and downward social mobility, but that does not imply that in most of the economies, market outcomes tend to reproduce rather than to change the place of individuals within the income distributions.

The issue is that, not only financial and economic possibilities and capabilities of individuals differ according to their place in the income distribution, but also the nature, extent and quality of the social network they belong to differ along the same line. This is usual referred to as the social capital of persons. We prefer to emphasize the embeddedness of individuals in networks in general. Again, outside the market, it can be understood easily that networks may act as an important extension of the family when it comes to the production and distribution of welfare. Many research results, however, also point to the importance of networks (their extent and quality) when an individual operates on markets. The access and place an individual get into the job market differ significantly across persons with different networks to give only one example.

Networks are more dynamic than the income distribution and a person will change networks during his/her life-cycle, but still there is a certain degree of stability and individuals can not change their network voluntary as the change their cloths.

Moreover, networks have another interesting and relevant aspect in the context of social policy. Sometimes networks develop into institutions by establishing a certain degree of routine and formality into themselves. We cannot explore the mechanisms of institution-building in detail in this context, but it is important to understand that institutions have played and important role in the context of social policy design, formation and implementation. To quote only one institution that definitely has had (and still has) his influence on social policy we would refer to labour unions. We will argue later that labour unions are not only important to explain historical forms of social policy, but for example are also important institutions in the opposition to changes in the design of social policy, even if the members of the network constituting the institution would favour the changes. The analytically important element is here that when it comes to analyse the practice of social policy, it will not be sufficient to look at individual persons only, but collective actors play a decisive role. We need this as an element to explain changes and international differences in social policy practice. It all goes well beyond the level of analysis were we can limit ourselves to analyse individuals only. We confine ourselves here to concluding that individuals may have a new option related to the fulfilment of main needs and coping with risks. Rather than turning to the market or to the family, individuals may associate themselves with other individuals in the context of a

network or an institution. Voluntary informal insurance associations or sickness funds associations for example have played an important role in shaping the social management of the health risk.

Policy strategies and policy instruments

The definition of social policy as the social management of risks, allows a new and more interesting view on policy options. The policy strategies and the policy instruments that public authorities can theoretically use in the social policy area become more divers and more in accordance with the policy practices. Traditionally the definitions of social policy, social protection policy, social security policy or welfare state policy have followed the rationale of the grounds for government interventions in an economy: efficiency grounds and equity grounds. This implied that government instruments for interventions are categorised as either correcting the outcome (distribution) of market- and family-processes (usually on equity grounds) or correcting/substituting the functioning of markets (largely on efficiency grounds). Defining social policy as the social management of risk does not make the catalogue of policy instruments much bigger, but it puts the various instruments in relations to each other. Moreover, it emphasises the impact of combination of instruments rather than the impact of single instruments and it focuses our attention to the fact that public authorities are only one of the corners of the triangle that deals with welfare production and the management of risks. It also allows us to deal with instruments and strategies that are traditionally not seen as belonging to the core of social policy and to make international comparisons of how societies deal with the impact of contingencies or of market- and family-failure.

With the growing sophistication in social policy instruments and the advances made in the analysis of their impact, it became clear that the analytical separation of social policy from other policy areas (such as for example education, business-cycle policy, structural adjustment policy, etc.) and from market- and family- based risk-managing-options is increasingly difficult. The international comparative analyses of the welfare state as made by Esping-Andersen and the OECD (among others), the attempts to conceptualise and international comparative notion of "social quality" (as attempted for example by the UN-inspired human development index and others), the attempts to understand social policy under the old Soviet system and its transition into an market-oriented economy (De Neubourg and Morris, ILO, 1999) and the everyday practice of policy formulation, all made us aware that governments and public authorities may use very different instruments to meet objectives

traditionally linked to social policy only. Addressing the risk of an income loss due to unemployment for example is traditionally linked in Western welfare states to unemployment insurance benefits and contributions only. But of course we know that this problem may be addressed by many different instruments including providing unemployment insurance benefits but also including assisting unemployed with labour exchange services, creating public work jobs, enforcing workfare programmes, stimulating people to leave the labour force by early retirement, disability benefits or prolonged schooling, advocating lower wages, increasing labour market flexibility, reducing inflation, securing private firms' profits, stimulating people to live together (or stay with their parents) so that they are not depending on a single wage or a single income source, stimulating workers to save so that they can smooth their income over time, supporting charity through NGO's, stimulating people to become self-employed, stimulating labour hoarding within private and public enterprises, and many more. The policy objective "reducing the effects of income losses due to unemployment", can be met by all these instruments. This goes far beyond the traditional social policy instrument of unemployment insurance. All these instruments are found in the policy-practise of various countries, but if we would try to compare countries in the way they deal with the policy objective on the basis of how they deal with unemployment insurance only, the analysis would be seriously hampered and be left incomplete. The concepts introduced with the social management of risks allow us to subdivide public policy strategies in a more interesting way. Following Holzman and Jørgensen (World Bank, 2000) we distinguish preventive strategies, mitigation strategies and coping strategies.

Preventive strategies are aimed at avoiding the risk by organising economic and social life in a way the probability of a contingency is reduced. Good governance of the physical environment for example, macroeconomic stabilisation policy, sufficient regulation of markets, effective law enforcement are all examples of instruments that can be used in this respect. Special attention should be given to effective employment protection and regulation of labour contracts, since they protect at least the main income source for many individuals in an economy. Many more policy actions be referred to in this context. All the initiatives have in common that they intend to produce a less risky environment for the members of a society.

Mitigation strategies are aimed at reducing the potential impact of a contingency once the risk materialises. Public stimulation of saving accounts and mandated or public pension systems are example of instruments in this respect. Largely mitigation strategies can consist of

portfolio diversification strategies and insurance mechanisms. Portfolio diversification strategies aim at reducing the impact of a contingency by spreading the income or social- and economic- resources of an individual. Investment in human capital, investment in social capital (networks), extended family formation and savings in cash and kind belong to this category. Insurance mechanisms pool the risks of many individuals and spread the impact of a contingency over many persons.

Coping strategies relieve the impact of a contingency that is not covered by a mitigation strategy-instrument. Direct social assistance in cash and kind and other direct income transfers are examples of public interventions that belong to this category.

This is also the place to stress again that a government may focus solely on finding a solution that is entirely under its own control. It is, however, equally possible that the public authorities take actions that require or even rest entirely on the families or markets taking up their responsibilities. In all these activities public authorities can use the traditional instruments as found in the standard public finance literature and aimed at *correcting* the functioning of markets and families, at *complementing* the functioning of markets and families and at *substituting* markets and families. The actual tools applied to realise these aims are usually given by the following list:

- information
- regulation
- taxes and subsidies
- prohibition of production
- public production
- income transfers.

Conclusion

The paper introduces a conceptual framework that redefines social policy in a way that facilitates the analysis of actual policy practices and allows a more comprehensive international comparative analysis. The conceptual framework starts with the notion of main needs and defines and subdivides the risks threatening the satisfaction of these main needs. An important feature of the framework is that social policy is not only linked to the satisfaction of the main needs at a certain moment, but to the risk that, at a certain moment in

the life-course of an individual, the needs cannot not be satisfied. Social policy is then no longer solely focussed on the guaranteeing that all individuals in an economy can fulfil their main needs in a static framework. Quite the contrary, social policy is focused on preventing contingencies to materialise, on mitigating the effects before they materialise and on coping with the unfortunate moment bad luck, shocks or unfortunate events strike. The social risk management framework rests on the observation that the satisfaction of main needs and the management of risks, is not the sole responsibility of public authorities. Social welfare is produced by at least three institutions symbolically summarised as the social welfare triangle of which markets, families and public authorities form the corner-points.

It may sound as if the Social Risk framework provides us with the ultimate yardstick to judge the efficiency and effectiveness of social policy and to compare its results across countries and time. This is, however, not true. What it does, is providing a framework that widens our scope of policy instruments and strategies when it comes to designing social policy. It also enhances our understanding of the interdependencies between what public authorities do and what markets and family contribute to the optimisation of social welfare and it even provides a unified scheme for mapping policy initiatives and their impact. It is a major progress compared to the practice where social policy or welfare states were compared on the basis of usually Continental European or Anglo-Saxon social security institutions, but it does not solve the problem that judgments have to be made. Societies and governments make choices and these choices are not pure technical. They encompass visions on what is desirable in terms of outcomes and on what is acceptable in terms of costs. It still makes a lot of difference whether a society aims at relieving extreme poverty or whether a society wants the welfare of persons to become independent from the welfare of their parents. Trying to judge the first policy objective with the yardstick of the latter, or vice versa, is uninteresting and misleading. The introduction of the social risk management framework does not change that. It does change, however, our view on the toolkits we may use in order to reach the policy objectives set and it provides us with a comprehensive and powerful conceptual instrument to understand the outcomes and impact of social policy as well as its costs.