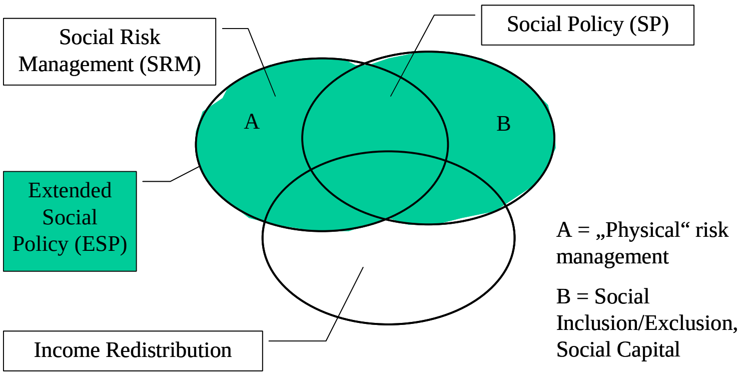
What is Social Risk Management?

Social Policy (SP) is traditionally defined as public measures to provide income security for individuals and households. SP programs typically encompass labor market policy, social insurance and social assistance. *Social Risk Management* (SRM) is a new conceptual framework – put forward by the World Bank - that extends the traditional framework of SP by looking into public actions to improve market-based and non-market-based (informal) instruments of social risk management. *SRM consists of public interventions to assist individuals, households, and communities better manage risk, and to provide support to the critically poor (Holzmann, Jorgensen 2000).*

Income redistribution is an important feature in both SRM and SP activities, but it is not a primary goal. In contrast to the welfare state concept of redistribution, which aims to correct the primary market-determined income distribution towards a more egalitarian end, SRM features income redistribution as an intermediate goal to achieve social resilience. The concept of SRM also exceeds the traditional definition of SP by looking into "physical" risk management policies such as public measures to protect against natural disasters and epidemic illnesses. The basic idea of SRM is that all individuals are exposed to *multiple* risks from *different* sources, whether they are natural (such as earthquakes, flooding and illness) or man-made (such as unemployment, environmental degradation, war and terror). SRM also encompass macroeconomic policies to reduce the exposure to economic shocks such as sudden oil price hikes and unpredictable moves in currency exchange rates.

The following figure depicts the basic features of SRM, traditional SP and income redistribution. It also marks the additional "new" foci (A, B) which result from the *extended* social policy (ESP) concept that guides our research (shaded area).



Source: Adapted from Holzmann/Jorgensen 2000

The high and rising public expenditure level for SP programmes in OECD countries generate wide political concern, particularly in view of an aging population and rising international competition (“globalization”). The traditional view of SP is partly responsible for this tension because it over-emphasized the role of direct provision of social protection by the public sector (e.g. low cost housing). SRM goes beyond public provision of social protection and draws attention to informal and market-based arrangements, and their effectiveness and impact on growth and development.

SRM broadly falls into three strategies:

(i) *Preventive strategies* are public measures to reduce the probability of risk. For example, in the labor market preventive SRM interventions are geared to improve the skills or the functioning of labor markets to reduce the risk of un- or under-employment, or low wages.

(ii) *Mitigation strategies* decrease the impact of a probable risk. Typical mitigation strategies are portfolio diversification, insurance and hedging. They can be both, formal and informal. Reciprocity arrangements in families or communities are examples of informal insurance schemes.

(iii) *Coping strategies* relieve the burden of risk once it has occurred. The government has an important role in assisting people in coping, for example, in the case where individual households have not saved enough to handle serious illness or catastrophic risks.

These strategies are set against the background of different types and degrees of asymmetric information. Asymmetric information among market partners, individuals, groups and government critically influences the effectiveness of a risk management strategy. When some actors hold exclusive private information risk markets may not develop, become instable or function poorly. Informal risk sharing mechanism often emerge as substitutes for market-based insurance, in particular in the early stages of economic development. More generally, there is a need for public regulation and oversight if asymmetric information creates a potential for "market failure". Yet, asymmetric information may also result in "government failure" so that a comparative institutional analysis is needed.

Over the last two decades, the concept of *social inclusion* (SI) has achieved much academic and political interest in the debate on social policy. Proponents of SI policies argue that modern social policy should not be confined to traditional measures of income support but should consider aspects of social cohesion. SI is another objective of the *extended* concept of social protection (*ESP*) that guides our group's research. In the ESP view, a well designed unemployment insurance scheme does not only improve individual welfare through consumption smoothing but will also increase social stability; providing income support for the elderly enables them to participate in social life; access to education for the poor provide better chances for children to integrate into society; and so on. On the other end, SI measures go well beyond mere financial and income-oriented considerations. Investments in the socio-cultural infrastructure, including "social capital" (Portes 2000), are appropriate instruments and institutions of an extended social policy. The ESP concepts is also linked to "capability approach" (Sen 1999) and the "social rights approach" (Fabre 2000).

Literature:

Fabre, Cécile (2000) : Social rights under the Constitution. Oxford: Oxford University Press.

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Portes, A. (2000), Social Capital : Its origins and applications in modern sociology, in Lesser, E. (Ed.), Knowledge and Social Capital, 43-69, Boston: Butterworth-Heinemann.

Sen, A. (1999), Development as Freedom. New York: Knopf.

Cross-departmental research group “Social Risk Management”

The cross-departmental research group Social Risk Management evolved from the previous DIW working group on Social Policy. It is a cooperation of people from different departments of the DIW Berlin (Public Finance, ETE, and mainly SOEP) with the aim to produce scientific outputs in the fields of social risk management and extended social policy, education in particular. Our outputs are joint project aquisition, scientific publications, jointly organized workshops and the development of a comprehensive and consistent social risk management strategy of the DIW Berlin. The current outputs, including articles in refereed journals, are documented on our website http://www.diw.de/deutsch/intranet/aktivitaeten/forschungsgruppen/socialrisk.html. The research group is jointly organised by Prof. Dr. Gert G. Wagner (SOEP), Prof. Dr. Viktor Steiner (Public Finance) and Dr. Reimund Schwarze (ETE).

A special focus of the research group's work is the participation in the network *International Reform Monitor*, organised by the Bertelsmann Foundation. It consists of twenty partner institutions such as London School of Economics (LSE), the Brookings Institution and the Melbourne Institute of Applied Economic and Social Research. The network analyses and evaluates reforms in the fields of social policy, health care, state welfare, family policy, labour market and industrial relations.