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Full Length Research Paper

Implication Of Financing Social Security On Economic Stability In Igboland (South East) Nigeria

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Social security is a shared care arrangement designed to meet contingencies and other conditions of insecurity due to either deprivations or contingencies. It is widely practised globally. Social security is usually intended to raise welfare or reduce exploitation. But they actually work to raise the cost of labour in the formal sector and reduce labour demand and it is a major factor responsible for unemployment in Nigeria. Unemployment in Nigeria has become a major problem for policy makers. Nigeria has been financing social security overtime but their implications on economic stability have not been fully ascertained. This study sought to investigate the implications of financing social security on economic stability in Igbo land. The study adopted descriptive research design. The result of the study indicates that proper financing of social security has a positive and significant implication on economic stability of Igbo land. The implication of this is that financing of social security can contribute significantly to the growth of economic stability in Igbo land through reduction in unemployment. The issue of social security has been used over time in Igbo land, yet the region suffers from high unemployment rate and economic instability compared with other region in the country. We, therefore, recommend that social security financing in Igbo land (South East) in Nigeria should be focused on the activities that can reduce the level of unemployment rate and thereby maintain economic stability in the region.

Keyword: Social Security, Economic Stability, Unemployment, Labour, Igboland,

INTRODUCTION

Economic stability is a term that has been in focus for the past several years mainly because of the economic downturn experienced globally in the recent past. Economic stability measures the worth or strength and competitiveness of a country with other countries and it plays a very important role in making policies that can enhance social security in a nation. Countries formulate economic policy with the aim of stabilizing the economy, among others. The achievement of economic stability in South East Nigeria is the duty of zone, irrespective of its political arrangement. Private sector operators investing in the zone are concerned about economic stability because it impacts on their performance. Mordi (2006) states that maintaining relative stability is crucial for both internal and external balance and hence, growth in an economy. Economic stability refers to an economy that experiences constant growth and low inflation. Gbosi (2002) cited in Ojong and Hycent (2013) defines economic stability as the achievement of price stability, social security, maintaining full employment and achieving sustained economic growth. This means that economic stability is desirable because it encourages economic growth rate that brings prosperity and employment. Shane (2014) opines that economic stability in the economy of a region or country shows no wide fluctuations in key measures of economic performance, such as gross domestic product. This means that stable economies demonstrate modest growth in gross domestic product (GDP) and jobs while holding inflation to a minimum. The economic policies of the South East strive for stable economic growth rate and prices, while economists rely on multiple measures (national income, consumption, inflation, investment, international trade and international finance) for gauging the amount of stability. Maintaining economic stability is partly a matter of avoiding economic and financial crises, low savings in economic activities, stable inflation and excessive volatility in exchange rates. In other words, economic instability can increase uncertainty, discourage investment, impede economic growth and causes social security by reducing living standards (Geoff, 2009). Social Security in other hand is the foundation of economic security for millions of people in South East Nigeria which includes retirees, disabled persons, and families of retired, disabled or deceased workers. Social Security is largely a pay-as-you-go program. This means that today's workers pay Social Security taxes into the program and money flows back out as monthly income to beneficiaries. As a pay-as-you-go system, Social Security differs from company pensions, which are "pre-funded." In pre-funded retirement programs, the money is accumulated in advance so that it will be available to be paid out to today's workers when they retire. The private plans need to be funded in advance to protect employees in case the company enters bankruptcy or goes out of business. The findings of a new International Labour Organisation (ILO) survey confirm what many have long known to be true -- that economic security, coupled with democracy and government spending on social security, not only benefits growth but also promotes social stability. The report, 'Economic Security for a Better World', marks the first attempt to measure global economic security as perceived by ordinary people. It is based on detailed household and workplace surveys covering over 48,000 workers and more than 10,000 workplaces worldwide.

Conceptual Framework of Social Security Systems

Definition

Puffer (1998) describes social security systems as publicly administered sets of Programmes which provide for people in the event of loss of income and often in the event of need for medical care or the expense of raising children. The World Bank (2004) saw social security system as a developed mechanism to provide income security for older citizens as a part of safety net. Schwarz (2002) inferred that social security systems are designed to provide an income to those individuals who suffer a loss in earnings capacity through advanced age, the experience of a disability, or the death of a wage earner in the family. While in some cases, the systems are designed to facilitate direct transfers from the government to these particular target groups, and the emphasis is on providing a mechanism whereby the individual might insure himself against the loss of future earnings. The International Labour Organization endorses a minimum standard of 40 percent of an individual's wage for 30 years of work.

Types of Social Security Systems

The World Bank (2004) opine that social security type includes the informal and traditional arrangement where old people receive food, shelter, and care from their children. As the productive capacities of the old decline, they are supported by the work of their children, just as they once supported their children and parents. Other supporting systems under the informal social security system are local communities, informal clubs, kinship networks, patrons and religious, and other nongovernmental organizations. However, children support are still the main source of support for old age and more than half of the world's old people are estimated to rely on informal and traditional arrangements system. The World Bank (2004) averted that the loosening of family, kinship and community ties, and rise of wage labour add new elements to the age- old problems of providing for those who lack an income or have medicals needs. It was this problem that made government assumes the responsibility of providing the formal type of social security system.

The formal type of the social security system is divided into two. According to Barr (2001), the first type is where the workers are required to contribute a percentage of their salaries to the pension plan, with the employer making up the difference, this type is known as the Mandatory Retirement Saving Scheme, or the defined Contribution System. This social security type encourages long-term saving and enhances financial backing for long-term investment, and the risk is borne by the worker. For instance, if people live longer than expected, they may outlive their retirement saving. The second type is based on the principle of Pay-as-you-go where payment usually depends on years of service and the workers' salaries, such Pension plan usually covers the civil servants and the military, and it is publicly managed. The risks here are broadly shared with government or employers.

Roots (1994) also said that annuities is another form of social security system type where regular payments to an Insurance Company is made during the working life of the purchaser and this provide him with an annuity during retirements. This type of annuity is usually marketed as a personal social security system scheme.

Discussing the financing mechanism and the benefit structure of the major types of social security system, Schwarz (2006) said that under the Pay-as-you-go system, current workers make contributions based on their current earnings and the contribution is used to pay current recipients. The worker who is making the contribution only receives a promise from the government that it will pay benefits related to these contributions when the workers become eligible for a pension. Under the second type, the worker contributions are invested, rather than spent, and the investment earnings are an integral part of the benefits eventual!) paid. These investments can be managed by a monopolistic pubic agency or competitively with participation by the private sector. The benefit mechanism are also of two types: Under the defined benefit mechanism, the pension received is usually a function of income expressed as a percentage of income per year of contribution, the benefit provided is specified in some way and if financing fall short, someone, typically either the government in a public plan or the employer in an employer-base plan, have the responsibility to provide the pension. On the other hand, under the defined contribution mechanism, the contribution is specified as a percentage of salary, and rates are specified for employees, employers, and. potentially, the government, but the final pension is determined by the amount in one's pension account at the time of retirement, which includes both contributions and the investments earnings in those contributions. Under this system, no specific benefit is promised, the pension is completely dependent on the money in the account, and there is no need for a guarantor of last resort (Schwarz, 2005).

Reasons for Social Security Systems

Giving reasons for social security system, the World Bank (1994) opined that as people grow old, they may change their preference and wish that they had saved more but then it is often too late. Even if people try to save when they are young, they may find few reliable savings instruments or secure financial markets in developing countries. Savings often take the form of real estate, livestock, or jewelry, all of which suffer from fluctuations in price and potential misfortunes due to disease, theft, or war. Besides, the absence of insurance markets is also another reason, since people are always uncertain about how long they will live they may wish to purchase insurance that will earn them an income, Pension or annuity over their lifetime. The insurance companies are also not well developed in many developing countries because of information deficiencies and weak capital markets. For instance, when people have more information about their life expectancy than the insurance company does, a problem known as adverse solution occurs, where good and bad risks are pooled, and premiums are charged according to the average risk of the group. The good risk (those who expect to die young) find these terms unacceptable. So the insurance company is left with only the bad risks (those who expect to live long), the insurance company will raise their premiums leading more good risks to opt out. For these reasons, the government often takes on the role of regulator or mandator of social security system (Schwarz. 2006).

Significance of Social Security Systems

Explaining the importance of social security system, the World Bank (1994) opined that social security system is important to the old and the economy. To the old, it facilitates people's effort to shift some of their income from their active working years to old age, by saving or other means; redistribute additional income to the old who are lifetime poor but avoiding perverse intergenerational redistributions and unintended intergenerational redistribution, and providing insurance against the many risks to which the old are especially vulnerable. The importance to the economy includes minimizing hidden costs that impedes growth such as reduced labour employment, reduced savings, excessive fiscal burdens, misallocated capital, heavy administrative expenses and evasion, sustainability based on long-term planning that takes account of expected changes in economic and demographic conditions. One of which may be induced by the old age system itself: which enables policy makers to make informed choices, insulated from political manipulations that may lead to poor economic outcomes (Arrau and Klaus, 1993).

Social Security System in South East Nigeria

South East like other region also depended largely on the informal social security system, where people have voluntarily saved and invested in their children and other extended family members expecting to reap the return later. As the productive capabilities of the parents decline, the children and their extended family members take up the responsibilities of feeding, clothing and housing their old parents. In fact old parents are seen living with their adult children. Aminu (2007) reported that more than 97 percent of the urban old and 93 percent of rural old are receiving some financial or material support from family or kin in Nigeria. However, modernization, urbanization, migration, secular education and nuclear families, and the breakdown of traditional social norms have weakened these ties.

In addition to the informal types, Nigeria also introduced the formal type that was based on the defined-benefit otherwise known as Pay- as- you- go that is mostly unfunded. Membership of this social security system is voluntary and it is not transferable. It is usually managed by the state governments and management of the organizations that adopts the type. This social security system has a limited coverage and benefits are usually bias, payments depend on years of service and retirement age is put at either 35 years in service or when one attains 65 years of age whichever one comes first. This system was faced with some bottlenecks such as lack of adequate funding, discrimination in coverage, poor record keeping: demographic shifts and weak administration (Aminu, 2007).

CONCLUSION

The study indicates that proper financing of social security has a positive and significant implication on economic stability of Igbo land. The implication of this is that financing of social security can contribute significantly to the growth of economic stability in Igbo land through reduction in unemployment. The issue of social security has been used over time in Igbo land, yet the region suffers from high unemployment rate and economic instability compared with other region in the country. People in the region provide their citizens with a high level of economic security that have a higher level of happiness on average, as measured by surveys on national levels of life satisfaction and happiness. The most important determinant of national happiness is not income level -- there is a positive association, but rising income seems to have little effect, as wealthy countries grow wealthier. Most workers in south east Nigeria are unaware of trade unions, which in most regions represent less than 10% of workers. Women usually experience more insecurity on average than men do; also more forms of insecurity. Employment security is diminishing almost everywhere due to the 'informalisation' of economic activities, outsourcing and regulatory reforms. A large number of people possess skills that they do not use at work. Job security (defined as the possession of a position with good prospects of satisfying work and a career) is weak in most states in the region and data from people's security surveys highlights widespread job dissatisfaction.

Drawn from the above submission, one can conclude that there are two major types of social security system in Nigeria namely: informal and formal. The informal type is as old as mankind and still plays an important role in supporting the old in Igboland where children, extended family members, communities, informal clubs etc play a prominent role. However because of modernization, urbanization, nuclear families, secular education, etc the responsibilities of taking care of the old by the system has diminished greatly. The formal system which includes Pay- as you- go and defined contribution are the major types currently use at States and zonal level respectively in Nigeria.

RECOMMENDATIONS

Based on the above findings, we, therefore, recommend as follows:

1. Social security financing in Igbo land (South East) in Nigeria should be focused on the activities that can reduce the level of unemployment rate and thereby maintain economic stability in the region.
2. Igboland should encourage and integrate the informal social security system with the formal system. The integration of both forms by the zone should make laws that would make parents educate their children and such children would be made responsible to support and assist their parents when they become old.
3. Under the formal system, since Igboland has adopted pooled fund in financing social security, states that make up Igboland should not have access to the fund in order not to rub the recipients of the potential benefits.
4. Government should not force the fund managers to invest in public securities, while prudent companies and joint ventures companies should be allowed to manage the fund.
5. Private institutions vested with power to manage the pension fund should be advised to diversify their investments, and invest in overseas securities in order to reduce specific risks associated with such funds in the region.

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