FINANS-
DEPARTEMENTET

Social Security in Sweden and Other European Countries — Three Essays

Rapport till

ESO

Expertgruppen för studier
i offentlig ekonomi

Ds 1993:51

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Postadress	*Besöksadress*	*Telefax*	*Telefon*
Expertgruppen för studier i offentlig ekonomi (ESO) Finansdepartementet 103 33 Stockholm	Östra Järnvägsg. 10, 6 tr.	08-10 65 91	08-763 1588 (Marja Lemne) 1542 (Carina Lindroth) 1573 (Göran Schubert)

CORRECTION: Pages 86 and 87

1992 "Standard" income events for single apw in:

	Sweden		Denmark	
	Replacement rate	Change in income %	Replacement rate	Change in income %
Ill 1 week	81[1]	-0.3	63, 100[1]	-0.6, 0
25 % unemployment, eligible for compens.	86[1]	-3.1	63[1]	-7.2
25 % unemployment, not eligible	30[1]	-15.9	31[1]	-6.3
Injured, total loss of working capability	100[1]	0	104[1]	+29.1
Injured, ⅓ loss of working capability	100[1]	0	80[1]	-4.5
Pensioned[2], max. working period	69	-31	59	-41
Pensioned[2],[3] working period	41	-59	53	-47

[1] : The replacement rate is before taxation. For illness there are two replacement rates and changes for all countries except Sweden. The first refers to insurance alone, the second includes usual compensation from the employer. For Sweden the two coincide in 1992.
[2] : The replacement rate is after taxation.
[3] : Strictly speaking "nonsense". The concepts are relative to the APW.

1992 Family benefits for *APW-couple* in:

	Sweden		Denmark	
	Replacement rate	Change in income %	Replacement rate	Change in income %
1 child	—	+4.8	—	+4.3
2 children	—	+9.6	—	+8.6
3 children	—	+16.9	—	+12.9
Birth of child no. 2 benefits, max. duration	90[1]	-3.5	63[1]	-6.3
Birth of child no. 2 benefits, standard duration	90[1]	-0.9	63[1]	-3.0

[1] : The replacement rate is before taxation. The first case with benefits in connection with birth reflects the effect of the maximum duration of the benefit. The second case reflects the effect of a common duration of 14 weeks.
[2] : The replacement rate is after taxation.

Germany		The Netherlands		Great Britain	
Replacement rate	Change in income %	Replacement rate	Change in income %	Replacement rate	Change in income %
100[2], 100[1]	0, 0	42, 100[1]	-1.0, 0	8[1], 80[2]	-1.6, -0.4
63[2]	-7.0	70[1]	-6.5	15.4[1]	-18.8
56[2]	-8.6	32[1]	-9.3	15.2[1]	-18.9
67[1]	+5.2	70[1]	-27.0	33[1]	-58.1
67[1]	+6.0	63[1]	-10.7	30[1]	-19.6
73	-27	50	-50	47	-53
0	-100	50	-50	16	-84

Germany		The Netherlands		Great Britain	
Replacement rate	Change in income %	Replacement rate	Change in income %	Replacement rate	Change in income %
—	+4.0	—	+2.3	—	+3.0
—	+7.8	—	+5.7	—	+5.5
—	+15.4	—	+10.0	—	+7.9
100[2]	0	100[1]	0	53[1]	-4.3
100[2]	0	100[1]	0	58[1]	-2.9

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Av Sven E Olsson, Hans Hansen och
Ingemar Eriksson

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Preface

The social insurance system in Sweden faces a major restructing. Costs have skyrocketed, while effects on economic growth, according to many commentators, have been increasingly detrimental. As the structural budget deficit has increased, so have the needs for change.

An important part of the analytic work needed to reshape the social insurance system is the study of experiences in other countries. In this study, three essays in this field, by three different authors, brings in a European perspective in the Swedish debate.

- Sven E Olsson, Swedish Institute for Social Research, reviews social insurance models in different European countries, in a historical perspective.
- Hans Hansen, the Ministry of Economics in Denmark, compares the benefit regulations in Sweden and a number of other European countries.
- Ingemar Eriksson, the Ministry of Finance in Sweden, reviews recent social insurance reforms in three European countries.

In a separate chapter, the authors summarize their respective studies. Their three main conclusions are:

— The study of different systems and reforms in Europe may help us avoid a number of costly mistakes in our own reforms.
— A convergence of different systems seems to take place, irrespective of the harmonization in the EC.
— Social insurance incentives and systems have a profound effect on the level of marginalization and social exclusion in different countries. Mistakes may, thus, be extremely costly.

All this means that this is a very important little book. ESO — the Expert Group on Public Finance — is now deeply engaged in the process of reforming the Swedish social insurance system. We have already published an anthology on the necessity for comprehensive reform. We have also started a project, the aim of which is no less than sketching how such a reform might be shaped.

This study is an important contribution to that project. We hope it will make an impact also on the Swedish debate.

Klas Eklund
Chairman of ESO

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Sammanfattning

I det andra kapitlet av denna rapport beskriver Sven E Olsson Hort socialförsäkringens rötter i olika policymodeller, från Bismarck till Beveridge, och analyserar skillnader i försäkringarnas utformning med utgångspunkt i en typologi som bl.a. föreslagits av Richard Titmuss. Viktiga dimensioner för att skilja olika välfärdsmodeller är förekomsten av grundtrygghet resp. standardtrygghet. I en residual modell finns varken eller, i den universella ligger tonvikten på grundtrygghet, i korporativa-selektiva system kommer däremot standardtrygghet i första rummet, medan i den institutionella modellen både grundtrygghet och standardtrygghet förekommer i försäkringarna. Socialförsäkringarnas utformning är nära beroende av övriga institutionella förhållanden, t.ex. skattesystemet och politiken för full sysselsättning. Därför är det för tidigt att tro att vi i Sverige i hastig takt är på väg mot en ny välfärdsmodell.

Hans Hansen redovisar i det tredje kapitlet en grundlig analys och beräkning av hur den disponibla inkomsten för en genomsnittsarbetare förändras vid olika försäkringshändelser och jämför Sverige med fyra andra Europeiska länder. Analysen pekar på att traditionella internationella jämförelser av försäkringars bruttoutgifter och kompensationsnivåer kan vara ganska vilseledande. Länder med höga beskattade förmåner har i allmänhet höga skatter och mindre tillägg från avtalade försäkringar och vise versa. Jämförelserna visar också att för de förmåner som är bestämda i lag är reglerna i Sverige 1992 inte särskilt generösa. Beaktas de omfattande avtalsförsäkringarna i andra länder och neddragningarna i förmånerna 1993-1994 i Sverige är det troligt att bilden skulle vara ännu mindre förmånlig för Sverige.

I fjärde kapitlet av rapporten ger Ingemar Erikson en översikt av ekonomiska problem och stukturreformer i Storbritannien, Holland och Tyskland. Trots mycket stora skillnader mellan ländernas system tycks alla ha genomfört eller övervägt omfattande strukturreformer

inom pensionssystem och sjukförsäkring. Marknadsliknande eller korporativa försäkringar med avgiftsfinansiering har problem med olika marknadsmisslyckanden, t.ex. svag kostnadskontroll, orättvisa avgiftsskillnader och ökande negativa externa effekter. Här införs genom strukturreformerna ofta egenskaper från de offentliga systemen: budgettak, riskomfördelning, skärpta kontroller. I skattefinansierade offentliga system förekommer ofta effektivitetsproblem och underfinansiering. I dessa system införs mer marknadsegenskaper som egenavgifter, fondering, valfrihet och konkurrens.

I ett avslutande avsnitt dras bl.a. den slutsatsen att felaktigt utformade socialförsäkringar eller strukturreformer kan öka omfattningen av utslagning och marginalisering. Om mer egenavgifter, premier, fonder, konkurrens etc behöver införas i den svenska socialförsäkringen bl.a. för att öka effektiviteten, bör det endast avse metoder som hos våra grannar i Europa visat sig funktionella och utan allvarliga bieffekter.

1 Introduction and Issues of the Report

For decades, the "Swedish Model" in social policy has been a pride for our country, and something that others often have envied. The social insurance has been comprehensive, with universal coverage for every citizen, comparatively simple and unified, publicly financed on a risk-distribution base, with generous benefit levels and adequate basic levels for low income earners, the young and poor, equal treatment for men and women, administratively effective with exceptionally small overhead costs and — seasoned with spectacular innovations like partial pensions and parental insurance, even for fathers.

During the last 10 years, this picture has been dramatically changed. The expenditures have increased sharply, as well as the average usage of insurance. Fundamental changes in the model have become necessary.

The expenditure for social insurance increased 28 per cent in real value between 1980 and 1991, which corresponds to an increased share of GDP from 17,7 per cent to 20,1 per cent. Most insurances have become under-financed — in spite of increased contributions. The Work Injury Fund has accumulated since 1987 a debt, covered by state grants, of SEK 27 billion. The contributions to the Supplementary Pension (ATP) have increased from 9,4 per cent of the gross wage base to 13 per cent between 1982 and 1993. Yet, the ATP pension payments have exceeded the contributions and pensions have had to be financed with investment returns on the ATP fund. In the late 1980s, the sickness insurance contributions covered 80 per cent of total costs, instead of the legislated share of 85 per cent and the State direct budget grants expanded.

A major factor behind this development is the increase in the number of insurance and benefit recipients. Early retirement pensioners have increased 32 per cent from 1980 to 1992. Old age pensio-

ners with ATP have increased from 57 per cent in 1980 to 78 per cent in 1992. Sickness absence measured in average absence days per insured increased from 18 days in 1980 to 26 days in 1990. The expenditure for unemployment insurance was SEK 5 billion in the late 1980s, but had exploded to an estimated SEK 50 billion in 1992.

The general opinion is that the social insurance is rather efficient in achieving social targets: to ensure social and economic security in case of illness, old age, child births, etc. The social protection in social insurance — pensions, sickness benefits, health insurance, work injury insurance, etc., still have major support among the population and most political parties.

However, the social insurance problems in public financing and the anticipated negative consequences for the macro-economy have forced accelerated policy interventions. What was considered as a central achievement of the Swedish welfare state only a couple of decades ago is now beeing evaluated differently. Since 1991, virtually all major insurance systems in Sweden have been more or less modified and further, even larger changes are forthcoming. This includes lowered sickness and unemployment benefits, waiting days, sick-pay systems, the abolishing proposals of short-term work injury benefits, partial pensions, real value losses in family benefits, etc.

Changes in overall economic performance in Sweden and a growing international dependence have contributed to this development. But there is a growing consensus among an increasing number of politicians, economists, insurance administrators and others that the remaining problems in the social insurance have to be solved urgently in order to enforce the recovery of the Swedish economy and to promote a sustainable growth.

The Swedish strategy until now has been to modify each social insurance separately. The possibilities of increasing insurance or actuarial elements are discussed within many systems. Alternative methods to improve cost control, by ear-marked contributions, financing and administration outside public budgets, are considered for some insurances, while increased funding is contemplated for others.

The first hypothesis underlying this report is that despite differences in concepts and thus in types of social security schemes, the need to

restructure programs seems common to most systems. Reform discussions are therefore not the outcome of any specific system, but a general response to changing demographic, economic and policy environments. The problems on the agenda vary between programs, but most often relate to these elements:

- *Effectiveness and efficiency.* There is a growing concern in most programs that resource outcome and consumer satisfaction are poor. Individuals, households, firms and public institutions tend to make wrong choices in adapting to the benefit regulations and financing. The dynamic efficiency decreases, in labour supply, savings, investments, consumption, prophylactics, rehabilitation, etc. External effects of large social systems often seem larger than expected.
- *Cost control.* More generous rules and increasing demands or needs push costs upwards. The social expenditures are increasing rapidly. In public systems, this causes growing problems in unbalanced public finance, both in the short-term and in the future. In insurance systems, this can have the consequence that social expenditure will consume an inappropriate share of GDP.
- *Equity and distribution.* The long-term re-distributive effects of large tax financed compulsory social programs are to a considerable degree unknown, insignificant or unintended. On the other hand, market failures in insurance systems create unacceptable variations in premiums and benefits by cream skimming and other adaptations.

Moreover, the public confidence in the social insurance future capacity to secure economic safety, has successively been weakened. The demand for more freedom of choice is evident.

The second hypothesis is that many of the alternative insurance methods, nowadays under discussion in Sweden, have been explored or tried out in other European countries. Hence, despite even larger differences between countries, the factors which contribute to the need for reforms appear to be rather similar. Many alternative insurance strategies are implemented or contemplated and thus shared between

countries. For every problem, there is more than one choice of solution. We could avoid many traps by extended comparisons:

- *Inaccurate references.* Governments often use comparisons with other countries as arguments for changes. The comparisons of social insurance systems between countries are based invariably on National accounts, where the classifications are different, or limited exposes over benefit rules. Carefully calculated micro comparisons can reveal that, in spite of such gross expenditure and program variations, the individual outcome of combination effects of taxes and benefits is often not so different.
- *Cultural heritage.* Historically, the social protection construction in different countries is heavily dependent on the local origin of policy formulation. Consequently, by describing and studying these differences, you will observe where this cultural heritage, rather than strict analysis, is setting the limits for change in reforming social insurance.
- *Market failures.* The difficulties with relying on the market mechanisms for basic social insurance are clearly evident in many other European countries. Public social insurance can cope with risks that would be covered inefficiently in private insurances.
- *Corporative rigidities.* The limitations in adaptivity, real economic performance and efficiency gains in insurance systems that are more corporative in nature are likewise obvious in other countries.
- *Lessons to be learned.* Whereas urgent Government actions often cure or moderate the problems in immediate focus, they often bring unwanted side-effects. The outcome of reforms depends heavily on the way consensus is achieved.

Neither the problems in the Swedish social insurance nor the alternative solutions are common only to Sweden. By bringing more of the European perspective into the present debate of changes in social insurance, we hope to widen the scope and fundaments for a Swedish reform and shift the policy from one of ad hoc changes to one having a more comprehensive strategy.

This report consists of contributions from three authors of different nationalities and professional backgrounds and with different perspectives on social insurance and the European systems. We share the view that improvements in the Swedish social protection could be strengthened by increased knowledge of social insurance in other countries. The contributions are complementary, targeting different questions. The time and resources at our disposal have not permitted us to extensively integrate the texts, which means that the differences in composition, syntax and language is obvious. Occasionally, this also has had the side-effect that some technical details in the countries described are repeated.

The report is organized as follows:

In Chapter 2, Sven E Olsson Hort, presently senior researcher at the Swedish Institute for Social Research, gives a review of social insurance in different countries in relation to various models for social policy. He discusses the policy roots from Bismarck to Beveridge and analyses differences in insurance structures on the basis of the typology proposed by Richard Titmuss.

In Chapter 3, Hans Hansen, head of the Law Model Secretariat at the Ministry of Economics in Denmark, presents a thorough and detailed comparison of benefit regulations for a set of insurance events in Sweden and four other European countries in 1992. On the basis of this, he analyses differences and similarities of actual net compensation for a number of standardized type families in these countries.

In Chapter 4, Ingemar Eriksson, head of the Income Policy Unit at the Ministry of Finance, briefly reviews various economic problems in social insurance and major structural reforms in the United Kingdom, the Netherlands and Germany.

Finally, *in Chapter 5*, the discussions and observations is summarized. One of the conclusions is that actual benefit outcome and reform strategies seem to converge between countries and there is perhaps a trend towards a harmonization in a more mixed social insurance model.

2 Models and Countries — the Swedish Social Policy Model in Perspective

2.1 Introduction

The Swedish model is a phrase that has become familiar to international observers of, as well as to domestic participants in, public policy making. The Scandinavian countries, especially Sweden, have acquired a worldwide reputation — somewhat tarnished in the last couple of years — as model welfare states. Talk of the Swedish or Scandinavian model refers in some way to the system of social protection and services, together with aspects of the labour market and the political process. Despite the apparent differences between Scandinavian countries with respect to social policy, what people have in mind is cradle-to-grave welfare, peaceful industrial relations and consensus-seeking politics (cf Heckscher 1984; Hedborg & Meidner 1984). In this chapter the focus is limited to income maintenance or transfer payments (for an economist's, non-Swedish but still Scandinavian, view on these matters, cf Sandmo 1991). Nevertheless, the basic question remains: are we currently witnessing the end of the Swedish model — is this experience just a parenthesis in a longer socio-historical transformation (cf Wetterberg 1993; Olofsson 1984).

In the literature on the welfare state, Sweden is by no means the only country to have been singled out for appraisal, applause and/or criticism. There are other social policy models and model welfare states. All theoretical models have distinct cultural dimensions, being closely related to domestic policy events. Far from being constructed in a vacuum, social policy models are abstracted from actual social developments. It was shortly after Prussia became Germany that the first social policy model which survived its originator saw the light of day. It was in Britain that the notion of the welfare state was adopted during World War Two as part of the struggle against another, and older, welfare state that had turned into a warfare or power state, Nazi

Germany. Furthermore, it was through the early postwar social reforms in the UK that the notion became influential outside its country of origin. Notwithstanding Maurice Childs' *Sweden the Middle Way* (1936), it was only from the 1960s onwards that Sweden and the other Scandinavian countries became notably popular policy models.

Welfare models are generally presented as dichotomies. Some exceptions to this pattern will be discussed later in this chapter. Initially, the focus is on two popular dichotomies in the welfare state literature: Bismarck vs Beveridge, and residual vs institutional. It then shifts to a typology which has put the Swedish model in the forefront: the idea of a trichotomy consisting of Liberal, Conservative and Social-Democratic/Socialist models of welfare capitalism. Finally, the future of the Swedish model is considered in the light of these theoretical models as well as of recent events.

2.2 Bismarck: The Original Model

It was from Germany that the concept of *Sozialpolitik*, a concept intimately linked to the idea of social insurance, spread through Europe a little more than a century ago. Social insurance is an amorphous notion that respectable academic reference books tend to refrain from defining. Its twin sources are modern actuarial private insurance (setting premiums to cover compensation for specified risks), and the thriving 19th century friendly societies (voluntary associations whose members pay dues in return for benefits to cover sickness, old age, burial, etc). It was shortcomings associated with the labour market, not the insurance market as is sometimes assumed, which generated new institutional arrangements. Historically, compulsory social insurance is the industrial capitalist counterpart of the old means-tested poor law system that went back to at least the early modern epoch.

The German social insurance set-up has generally been taken as the starting-point of the welfare state, although general public education, for instance, was an earlier welfare or civil state activity in some parts

of Europe and North America. In 1881, in the Berlin Reichtag of Imperial Germany, the Emperor proclaimed, in the *Allerhöchste Botschaft*, that more than repression was needed to ameliorate the social conditions of the working class, and that he, with God's help, desired to create something valuable for the workers but also their masters: social peace through social insurance against the risks of occupational injury, invalidity and illness, and old age. His Iron Chancellor, Prince Otto von Bismarck, did not have to invent these insurance schemes — there had been forerunners in Austria, Belgium and France, though not in Sweden — but he was the first to implement them on a large scale.

It is worth noting that this social policy model had a background which is now generally forgotten, though similar assumptions tend to feature in recent model-building in this area, not least in the present round of European integration (cf Boje & Olsson 1993; Alestalo & Flora 1992; Berghman 1992; Schulte 1992). First, the model was a part of the nation-building of the Second Reich, which had to tackle the dual problem of welding previously independent states into a single administration and enhancing its international industrial and military status. Social policy was part of a program for German-Prussian greatness. Second, this intertwined process was subject to pressure from below in the form of an emerging industrial proletariat that lacked traditional loyalties and had the potential for achieving state power.

Thus, it is no coincidence that the Bismarckian social insurance schemes directly addressed the social situation of industrial workers as a collective and, in the administration of these schemes, attempted to bring employees and employers together with the state as a third partner (financial support as well as administrative control). The proposal, drafted by a concerned bureaucracy, grew out of practical experience of voluntary, and to some extent, company sponsored insurance schemes, supplemented with analytical work by, in particular, German state theorists — the *Kathedersozialisten* — who were concerned about the legitimacy of the new nation state but also aware of the generally weak position of individual workers in an emerging

risk society and thus sceptical about purely voluntary, individual market solutions.

A characteristic feature of the Bismarck schemes is their selectivity or corporatism, their aim of covering industrial workers as a social category with a common interest. Compared to the old means-tested poor laws, the insurance principle meant that claimants/recipients were entitled to reimbursements from funds to which they — together with or through their employers — had contributed during their working life as respectable workers and wage-earners. Hence, the industrial working class was awarded a dignified or upgraded social status under Imperial state tutelage. Adding social to insurance implied a transcendence of the pure market principle into a qualitatively new public relief system, in particular as the state not only created a new bureaucracy and subsidized the new system but even acted as lender of last resort. Initially, these schemes paid little heed to the problem of income security as against basic security. Only later, when other social groups also obtained their specific schemes, did this aspect — earnings-related instead of flat-rate benefits — become of crucial importance. But that brings us well into the 20th century.

During the 1880s, Germany adopted legislation on occupational injury insurance, sickness and invalidity insurance, and old age pension insurance, against the wishes of the workers' representatives. Unemployment insurance was added later, after France and Norway had introduced national laws in 1905 and 1906, respectively. These four bulwarks have come to be regarded as the cornerstones of social security, giving the welfare state a bias in favour of male labour. The components of social security grew at varying rates throughout the first half of the present century in the advanced capitalist world, in Europe and North America but sometimes most notably in the Pacific, Australia and New Zealand. Thus, from the start the welfare state lacked a gender dimension (cf Lewis 1992; Jensen & Mahon 1992; Bergqvist 1991 & 1990). More recently, various types of family benefit, in particular child benefits, have tended to be included but then we reach the border between the social service and the social security state (cf Björnberg 1993; Olsson & Spånt 1991; Anttonen 1990; Hobson 1990). Their status in delineating social security sub-

programs is still ambiguous as can be seen in Hans Hansen's contribution to this report.

2.3 Beveridge: The new Global Example

Following Bismarck's initiative in 1881 no other single event had such a profound impact on the international discourse on social policy until the Beveridge plan was presented in the early 1940s. Sir William Beveridge, an upper class liberal civil servant, had been involved in welfare reform since 1911, when the first British system for sickness and unemployment insurance was set up and soon enlarged into the more comprehensive notion of National Insurance (retirement pensions, widow's pensions, invalidity benefits, etc). In the 1940s, Beveridge attacked the inadequacies of this system with the aim of creating an all-encompassing social safety-net. As mentioned, developments in the Dominions, especially in New Zealand during the 1930s, were of particular relevance. Similar tendencies were evident in the Swedish reform process in the 1940s, in particular in the writings of Gustav Möller, minister of social affairs 1932-52. Otherwise, it was neighbouring Denmark that provided a model at that time for Swedish social reformers.

Beveridge was determined to prevent postwar Britain from reverting to the inequalities of an archaic past. An already rich and powerful imperial aristocracy should share at least part of its wealth and authority with the common people. The aim was to cultivate cross-class solidarity — the wartime bonding of officers and other ranks — between employers and employees as well as the self-employed and non-employed. Beveridge's Report on *Social Insurance and Allied Services*, released in 1942, was seen by its author as "one part only of a comprehensive policy of social progress" (1942:6). Beveridge was close to Keynes and it is important to emphasize that social insurance was considered to have the macroeconomic function of an "automatic stabiliser". Two years later Beveridge published *Full Employment in a Free Society*. The intimate relationship between social insurance and

employment, between work and welfare, is obvious from Beveridge's work.

After Beveridge the conceptual emphasis can be said to shift away from the German notion of social *insurance* to the broader, American concept of social *security*, which had been established in the 1930s as the keynote of the New Deal pension reform. At the same time, it is pertinent to add that *welfare* never gained a strong position in the American vocabulary, where this notion has always been associated with poverty and destitution, with the intricate distinction between the deserving and the undeserving poor.

Rather than invent new insurance schemes, Beveridge tried to integrate the five main programs in a coherent framework, to renew National Insurance in the context of the modern labour market. Four aspects of the Beveridge model are worth singling out: universality vs selectivity, contributions vs tax financing, flat-rate vs income security and the idea of a national minimum.

The Beveridge plan turned attention from selectivity to universality. Instead of focusing exclusively on workers or employees, it looked at the close relationship between work and welfare in a wider, risk-pooling perspective: the individual members of a community — whether working or non-working — should be able to count on some degree of care and protection provided by the community as a whole. Everybody should be covered by social "insurance" or security. Benefits should be provided at a flat rate. Likewise, contributions should be flat rate. In the form of a national minimum this idea was seen as an important step away from the bare necessity of traditional poor law support or public assistance. However, a national minimum still functions as a demarcation line quite low on the income scale, with no security for higher income standards. In the 1940s, there was a preference for flat-rate benefits in Sweden, too, and throughout the postwar period the Agrarian Centre party has remained loyal to this idea (Olsson 1989). Recently, moreover, the idea of returning to a flat-rate system has been advocated by political pamphleteers of various convictions though without taking into consideration the major changes that since have occurred in the social structure (cf Isaksson 1992).

The Beveridge plan provided the foundation for subsequent social security legislation in Britain: universal, flat-rate benefits financed from contributions. The idea of full employment did not catch on as it did in postwar Sweden. In the UK, moreover, it was above all the inauguration of the National Health Service (known from its abbreviation as NHS, or as Mr Bevan's Dream after the responsible Minister) in 1948 that came to symbolize the welfare state and a new relationship between the crown and its subjects. Thus, the still imperial British case was a different welfare state, a social service state, emphasizing public services rather than social insurance and full employment.

2.4 T H Marshall and the Idea of Social Citizenship

The above helps to explain why so much food for thought in this field has been inherited from British scholars. There was a time when social scientists and historians saw the development of the welfare state as a — Roman — road from Bismarck to Beveridge, a peaceful evolution from a pre-democratic industrial class model to an all-embracing citizen-model of welfare. The Beveridge plan and the Bevan reforms in the 1940s gave rise to several ways of conceptualizing the welfare state. Two figures are particularly relevant for our discussion: T H Marshall and Richard Titmuss.

In an essay published in 1950, Marshall argued that statutory social services had become a component of citizens' rights in the modern Western democratic state. It is no longer the industrial worker but the citizen *per see* that comes to the fore. Marshall identified three species of rights — civil, political and social — which have been cumulatively secured over the last three centuries (see table 2). First out was a body of rights of the freely contracting individual — civil rights — some but not all of them closely related to the expansion of a market economy, which in turn made possible the development of political rights. Taken together, the winning of civil and political rights made it possible for the large majority of the population to secure social rights in the twentieth century.

Table 1. The growth of citizenship

	Civil rights	Political Rights	Social Rights
Period	18th Century	19th Century	20th Century
Principle	Individual freedom	Political freedom	Economic freedom
Measures	Legal equality	Right to vote	Pensions

Source: Adapted after Pierson 1991 p 23

According to Marshall, social rights included a "whole range from the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilized being according to the standards prevailing in society" (1963:74). This is a broad definition of the welfare state which basically follows the characteristic features of the British road to social reform (cf Briggs 1961).

The coming of the welfare state is thus an historical process, but one which is part of a broader progressive history of expanding citizenship. Taken together, civil, political and social rights form the foundation for full membership of a modern community or the social solidarity of modern societies. Sufficient economic resources, along with a proper education, relevant medical services and adequate housing, is a necessary condition for the exercise of civil and political rights.

Marshall was not unaware of the tensions between the formal equality of citizenship and the real inequalities of the capitalist market — the fact that individuals differ in their command over resources. Like many other early postwar thinkers he was not particularly worried about how state power could bring about desired effects on the distribution of material resources without undermining the stability of the socio-economic system. Furthermore, Marshall confined himself to state welfare and ignored the role of non-statutory benefits.

Finally, it can be noted that social rights were written into the UN declaration of human rights in 1944 and are now inscribed in many national constitutions. For instance, the new Swedish constitution from 1974, besides affirming the right to basic economic security, talks of the right to a job as well as to decent housing, adequate health care, etc. Thus, it is no coincidence that a social rights

perspective has been frequently employed in Swedish welfare state research (cf Korpi 1991 & 1989; Palme 1990; Kangas 1991; Vennemo 1992).

2.5 Richard Titmuss' Welfare Division and Model

Another influential British scholar in this period was Richard Titmuss, whose ideas, like Marshall's, have had a strong impact in Scandinavia. Titmuss' contribution is twofold. In an essay from 1958 on the "Social division of welfare" he drew attention to the fact that social welfare is not the only form of institutionalized commitment to human wellbeing (cf Sinfield 1978). There are at least three alternatives to statutory social provisions:

- fiscal policies, tax credits or tax deductions instead of cash benefits;
- occupational benefits, from fringe benefits at enterprise level to provisions through nationwide contracts negotiated by the organizations of employers and employees (trade unions);
- various types of voluntary assistance, charitable and mutual aid.

Titmuss distinguished the four forms of organized welfare as: social, fiscal, occupational, and private. He used social welfare as a synonym for state welfare and statutory services. This component tended to dominate the study of the way advanced welfare societies functioned. State welfare has certainly been the core of modern welfare systems, not least in Western Europe, but the peripheral or shadowy existence accorded to other forms of welfare in the social policy discourse, belittles their significance.

Chronologically, different types of private institution contributed to the early development of industrial-capitalist societies. Philanthropic initiatives were one way of alleviating the sufferings of the poor and destitute. The Church had paved the way before the advent of this type of society, and the Bible — as well as pre-Judeo-Christian thought — provided the distinction between the deserving and the

undeserving poor. In the 19th century it was the rich who created charitable foundations to support the deserving poor, and maybe also to transform the undeserving into deserving. Education was another prime concern for such voluntary but often highly institutionalized endeavours.

Of a different character were the initiatives taken by the poor themselves. Mutual aid through friendly societies grew in 19th century Europe into popular social movements before the advent of trade unions. At a time when no statutory cradle-to-grave protection existed, the most typical forms of support were sickness and funeral insurance.

Charity and mutual aid were both important for meeting needs in early industrial societies but have tended to decline or to be incorporated into state-provided services. But there is another non-statutory institution, occupational welfare, which has developed alongside the expansion of statutory provisions. The growth of occupational welfare, as indeed of fiscal benefits, must be seen in the context of the much more widely acclaimed development of social services. As far as social security is concerned, occupational welfare serves as an alternative to statutory provisions, while fiscal welfare is of importance in understanding the development of private pension plans and government housing subsidies. Overall, in varying forms and to a greater or lesser extent, these four forms are to be found in every country, though the mix varies.

Three Models of Social Policy

With no explicit connection to his first endeavour, Titmuss' second contribution to the literature about social policy models comes from a series of lectures published posthumously in 1974. While Marshall's citizenship approach is a more or less direct theoretical offspring of the key characteristic of the Beveridge plan and subsequent British social legislation, Titmuss' three models, discussed below, indirectly give credit to both Bismarck and Beveridge, as well as to American experience in this field of social action.

Titmuss distinguished between three types or models:

- residual,
- industrial achievement-performance,
- institutional.

This trichotomy has been widely used but, following an earlier American usage by Wilensky and Lebeaux (1958), it is usually condensed into a dichotomy: residual vs institutional welfare. Before accepting this transformation of the original Titmuss approach, let us take a brief look at that approach. The industrial achievement-performance model has tended to be overlooked, which makes it appropriate to point out that this is the model that is closest to a modern version of the Bismarck model. Social welfare institutions are adjuncts of the economy, and social needs are met on the basis of merit, work performance and productivity. Perhaps more correctly, this model is an elaboration of the continued development of social security on the European continent, and an Italian researcher has even renamed it the "meritocratic-particularistic" model (cf Flora 1986). Other researchers in this field have talked about "segmented" or "fragmented" welfare systems (Ervik & Kuhnle 1992; Kuhnle 1990).

On the continent, universal schemes never developed to the same extent as in the UK, and although the number of persons covered by social insurance steadily increased in the early postwar period, the system was fragmented, with separate schemes for different groups in the labour market. These schemes were mostly compulsory but administered jointly by employers and employees, sometimes with the state as a third partner. This development gave rise to an emphasis on income-related benefits, in contrast to the explicit aim of the Beveridge model. Instead of a national minimum to which social security benefits were tied, the normal wage-earner became the standard. This also meant that those outside the labour market were not measured with the same yardstick as those within.

The residual model of social policy — reflecting the absence of a welfare state in postwar America — is based on a commitment to market sovereignty. This model sanctions only limited government involvement in the distribution of welfare, assuming that most people

can contract their own welfare and that state intervention is needed only when normal channels of distribution fail. The individual (male) breadwinner — either alone through the market or with a little help from his (sometimes extended) family — should be able to sustain himself (and his dependents). Residual welfare systems therefore tend to be targeted towards the marginal segment of the population — the poor and destitute, those without any personal safety-net — that is incapable of self-help. Again, the demarcation between deserving and undeserving poor becomes of central concern.

In recent Swedish debate, a complete alternative to the prevailing universal or institutional model along the lines of the residual model has been presented by neo-liberal thinkers (Kristersson & Idergard 1989). The package is slightly different, however, and the model has been labelled "individual welfare policy". The individual is expected to contract personal safety with private insurers or to rely on his/her intimates — subsidiarity — instead of being exposed to state coercion. Utopia is a civil welfare society. Charity is upheld as an ideal allegedly underestimated or even detested in Swedish society (cf Olsson Hort 1992).

In contrast, the institutional model — the legacy of the Beveridge plan — does not recognize fixed boundaries between market and state for public welfare commitments, and sees individual welfare as the responsibility of the social collective. Furthermore, the institutional model promotes the principle of a 'social minimum' whereby all citizens are equally entitled to a decent standard of living, and considers that full social citizenship rights and equality of status should be guaranteed unconditionally. The institutional welfare state tends to limit and partially supplant ("secondary" in the tenth subdimension in table 2) the market as the primary distributive network of welfare. According to Mishra (1977), no other welfare state can boast such a perfect concordance with the institutional model as Sweden.

This dichotomy has commonly been presented in the form of a number of subdimensions to illustrate divergences and possible combinations. Here, I follow Diane Sainsbury's (1991) recent, critical elaboration of this dichotomy:

Table 2. Dimensions of Variation of the Residual and the Institutional Models of Welfare

Dimension	Residual	Institutional
Proportion of GDP	Low	High
Levels of Benefits	Meagre	Adequate
Range of statutory	Limited	Extensive
Population covered	Minority	Majority
Preventing needs program	Non-existent	Substantial
Dominant programs	Selective	Universal
Type of Financing	Fees	Taxation
Role of private org	Large	Small
Ideology of state interv	Minimal	Optimal
Need-based distr as Ideol	Marginal	Secondary

Source: Sainsbury (1991); cf Alber (1988); Korpi (1980); Mishra (1977).

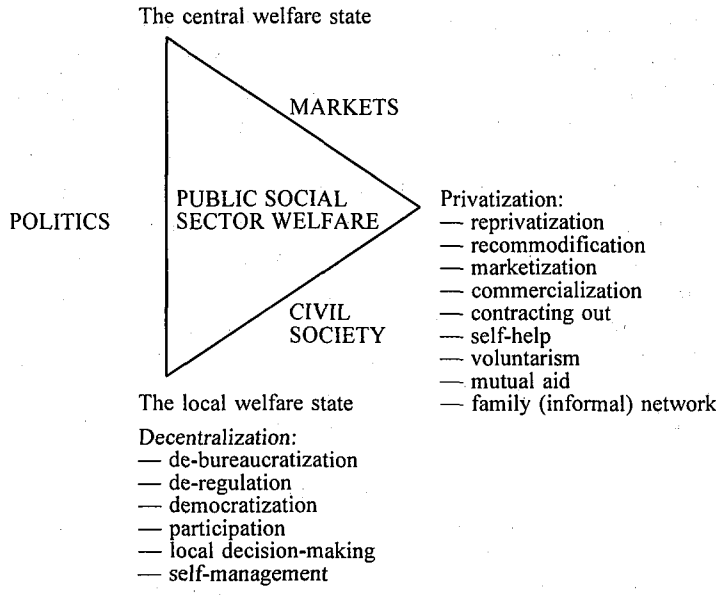
2.6 Trichotomies: State — Market — Civil society/family

Social science literature often adopts a sectoral approach — for instance, economy, politics, culture — and dichotomies are common tools. While this is legitimate, nevertheless I would like to emphasize that the state-market or politics-economy dualities are not adequate as analytical tools for deconstructing the secrets of social security. As pointed out in Titmuss' first typology, there are several alternatives to state welfare (occupational, fiscal, private). Furthermore, there are considerable grey zones between them. Talking about the residual model, not only the Market but also the Family popped up as an alternative, which reflects a tendency to merge the industrial achievement-performance (market/neo-corporatist organizations) model with the residual (market/family) model when using the institutional-residual dichotomy, where the emphasis is generally on the institutional aspect.

The appearance of the Family as a separate network brings up the frequent use of the concept of *Civil society* in modern discussion of welfare models. This classical notion, dating back to the Italian Renaissance and Scottish Enlightenment, as well as German Idealism,

and a part of the Gramscian current in postwar marxist and postmarxist thought (cf Anderson 1977), has recently undergone a remarkable transformation. Civil society is once more, rather crudely, pitched against the state, not as in the good old days, the emerging bourgeois-capitalist market society against the feudal-military state but the post-industrial welfare society against the bureaucratic welfare state. In the welfare state discussion in Sweden, civil society has often alluded to continental social-christian thought, the idea of subsidiarity and similar supposedly communitarian values (Zetterberg 1992). In contrast, certain strands in the radical left tradition — proponents of state centralism and national norm-setting — simply dismiss the idea of civil society as nothing more than a reflection, even a construction, of prevailing economic inequalities. However, it is also part of a more ecologically minded and left libertarian discourse, and has been applied to the 1980s discussion of the relationship between decentralization and privatization — see figure 1.

Figure 1 Politics — markets — civil society



Source: Olsson 1993:253

To be sure, there are also key figures in contemporary social science who argue that civil society, as an entity distinct from the state and the market, does not exist. Anthony Giddens, for instance, emphasizing the vast administrative reach of the modern state, refuses to use the notion at all, arguing that "with the rise of the modern state... 'civil society' simply disappears" (1985:21). However, this is an author who, under the Foucauldian spell, implies that surveilliance is incomparably the most important feature of the contemporary democratic state, and who manages to write almost 400-pages treatise without more than a passing reference to the welfare state. However, even this stauch critic makes allowance for social movements — the "old" popular movements such as the farmers' and labour movements — which have helped shape modern states, and although Giddens, contrary to, for instance, the idea of Karl Polanyi (1944), who spoke about countermovements vis-a-vis the market, argues that these movements are born in response to the state, they clearly act in a niche of their own (1985:313).

Although disputed, the concept of the civil society is a common tool in modern social science. Jürgen Habermas, for example, has intertwined it with his earlier idea of a public sphere, which consists of both the direct and the mediated discussion of critically reasoning individuals, either alone or in groups and organizations (1989). In this way they form public opinion and are thus able to exert pressure on the political system without being formally part of it. In civil society, spontaneous movements and associations, "new social movements", beyond the reach of the — social — state bring new problems and perspectives to political attention.

Habermas (1984-5), as well as another representative of the German critical tradition, Claus Offe (1984), have argued that the welfare state has changed from being a successful means towards the end of equalization, to an instrument of deceptive rationalization which deprives the competitive business sector of jobs. Via active labour market policies, the lives of individuals become even more regulated by the state bureaucracy. Instead of making people more dependant on the state, these authors have argued for the necessity to overcome the "work society utopia" by strengthening the everyday lifespheres, for instance through a universal basic income (cf Van Parijs 1992).

Greater solidarity in these lifespheres of civil society can give legitimacy to a new, less work- and state-centered welfare paradigm. A new social state, maybe with street level bureaucrats, and definitely with independant social networks appears as an alternative to centralized welfare state management.

Partly following Habermas, Alan Wolfe argues that since the 19th century, civil society has evolved into something clearly distinct from both the market and the state, "embodying neither the self-interest of the one nor the coercive authority of the other" (1989:16). In contrast to Marshall and his successors, the emphasis is not on rights but on a "moral dimension", on interdependence, personal autonomy and responsibility. Civil society encompasses both the Family and the Market and has been suggested to consist of both intimate (family) and distant (voluntary national associations) obligations. This distinction admits a perception of the welfare state that transcends the politics-economy reductionism. It is not only networks of close mates that are possible alternatives to the centralized welfare state paradigm.

To a much greater extent than reliance on intimate obligations, it is conceivable that distant networks of organized interest groups, even at national level, will become increasingly relevant in the future. In a neo-corporatist civil society such as Sweden, the national organizations in the labour market, as well as in agriculture, etc., already have a tremendous impact on the overall state-of-affairs. In the past, voluntary associations or friendly societies played a pioneering role in sickness insurance. In the future, the organizations of pensioners may become more significant than today (cf Olsson Hort & Sparks 1993). The current agenda actually includes a complete return of sickness and work injury insurance to civil society, this time to the organizations of employers and employees. Still, the trade unions, although heavily subsidized by compulsory social contributions from the employers, and for the time being, also from the state budget, are the organizational backbone of unemployment insurance societies. This is also civil society — distant obligations coupled with social-occupational rights.

Much Scandinavian social science stresses the amorphous boundaries between state and — civil — society. There are no and never have been any fixed boundaries between private and public spheres (cf

Kuhnle 1989; Allardt 1987). This applies at least in part to the modern central welfare state, which has a strong legitimacy as a fairly non-bureaucratic distributor of pay-checks (Svallfors 1991). But it is particularly true of the local state, which has always exerted its independence, reflecting the historical self-determination of the peasantry. The local community was never thoroughly penetrated by the nobility and feudal state, despite the administrative control exercised by the Lutheran State Church. Furthermore, the role of cross-class popular social movements, such as the teetotallers, in the formation of the welfare state should not be underestimated. It is in this context that the present discussions about changes in the organization of welfare provisions towards "more civil society" have to be analyzed.

2.7 Policy regimes or the Three Worlds of Welfare Capitalism

In recent years, the discussion about welfare models has taken a new turn with the growth of empirical cross-national or comparative research on advanced welfare states conducted by scholars such as Peter Flora and Walter Korpi. In this context it is appropriate to add Peter Baldwin's *The Politics of Social Solidarity* (1990), a fine example of the historian's craft. Especially the most popular dichotomies, such as residual vs institutional, have been scrutinized far more critically (cf Therborn 1987 & 1989).

Following in particular the release of Gösta Esping-Andersen's *The Three Worlds of Welfare Capitalism* (1990), the notion of "policy regime" has become a fancy way of contrasting the experience of the Social Democratic or Scandinavian — especially the Swedish, sometimes also referred to as the institutional or (neo-)Corporatist — welfare state with the Liberal (universal, Anglo-Saxon, or Beveridgean) model on the one hand, and the Conservative (Catholic, Corporatist, Continental, Selective, Bismarckian) on the other. Esping-Andersen's regime-types basically correspond to Titmuss' three-fold typology of welfare models: residual or liberal, industrial

performance or conservative, and institutional or social-democratic (cf Kolberg 1992a-c). Thus, the problems that apply to Titmuss are also relevant in a critical review of the concept of policy regime, which is defined in terms of the priorities given to state, family, and market, with no allowance for the many and varied sets of voluntary, non-governmental or semi-official intermediary institutions and organizations with significant welfare functions (cf Kuhnle & Selle 1992, who prefer Titmuss' first idea of a "division of welfare"). These models or regimes are ultimately ideal-type classifications of empirical cases (countries).

Esping-Andersen adds two new dimensions to the debate about welfare models or policy regimes: decommodification and stratification. Both are related to discussions about the welfare state in terms of efficiency, equality, security, poverty, and solidarity, but in particular the first notion — decommodification: the withering away of labour's commodity form or "the alpha and omega of the unity and solidarity required for labour-movement development" (1990:37) - is closely linked to Polanyi's perception of the historical transformation of Western society into a monetarized exchange economy. Furthermore, sceptical reviewers of Esping-Andersen have pointed out the dual nature of the relationship between wage-earners, state and market. What he analyzes is more a recommodification — better functioning labour markets — than a decommodification of labour power. There are also those who have identified decommodification as another aspect of what economists call the problem of disincentives. This is a discussion that has taken a new route in recent years.

Stratification is more common sociological goods, but still significant for a discussion of the outcome of welfare state activities on the distribution of life-chances. In terms of comprehensiveness and total social spending, welfare states can be similar and still have entirely different effects on the social structure. Each case produces its own unique fabric of social solidarity: "one may cultivate hierarchy and status, another dualisms, and the third universalism" (Esping-Andersen 1990:58).

I think it is illuminating to show the clustering of nations that results from these two dimensions (table 3). One reason is, of course, that examples from other countries are cited when changes in welfare

systems reach the political agenda. As the table shows, three of the five countries discussed in the next two chapters in this book — Sweden, Denmark and the Netherlands — land in the same columns (socialist/high decommodification), while Germany is consistently in a group of its own (conservative/medium decommodification), as is the United Kingdom (liberal/low decomodification).

Table 3. Decommodification and stratification in various policy regime types according to Esping-Andersen

Decommodification		
Low	Medium	High
Australia	Italy	Sweden
United States	Japan	Norway
New Zealand	France	Denmark
Canada	Germany	Netherlands
Ireland	Finland	Belgium
United Kingdom	Switzerland	Austria
Stratification		
Liberal	Conservative	Socialist
Australia	Austria	Denmark
Canada	Belgium	Finland
Japan	France	Netherlands
Switzerland	Germany	Norway
United States	Italy	Sweden
United Kingdom	Ireland	New Zealand

Source: Esping-Andersen pp. 52 and 74
Note: All the above nations scored "strong" on their respective stratification label, apart from Ireland, United Kingdom and New Zealand, which scored "medium".

Researchers in this field, often inspired by the position of their country in the wrong box, have slightly extended this approach. Castles and Mitchell (1990) have added a qualification in the form of two types of liberal policy regime — the market-oriented (US, Japan) and "radical", "lib-lab" (UK, Australia, New Zealand), reflecting the significant difference between Beveridgean universalism and American residualism — while Leibfried, confining himself to the European scene, in particular the social dimension of the European Community

and the European Economic Area, distinguishes four types of welfare state: modern universalistic (Scandinavia), liberal free-market based (UK, Ireland), continental based on labour market participation (Germany, France, Austria, the Netherlands, Belgium), and the Latin rim with rudimentary welfare institutions (Italy, Spain, Portugal). Habermas has added a communitarian model based on experience of an alternative culture — self-help and ecological responsibility — in central Europe (Abrahamson 1992). More than the others, the latter model has close links to the idea of a civil society of both distant and intimate obligations circumjacent to the state and the market. The latter may also be true of those libertarians who emphasize modern urban individualism at the expense of traditional family values.

Finally a comment on the policy regime terminology: there is the obvious problem of labels — Conservative, Liberal, Socialist or Social-Democratic — with a considerable variation in meaning across national political cultures. For instance, in the US the connotations of Liberal — including a Liberal welfare state — are very different from in Europe. As are those of the notion of welfare as such. There is also the problem of overpoliticizing: why call stratification in the Netherlands socialist? Even in Scandinavia, the SD-label may exaggerate the significance of one political movement at the expense of others. The importance of Social Democracy in Scandinavia in general and Sweden in particular is well known. Therefore, in the coming section I will focus on the non-social democratic heritage of the Swedish Model, which is relevant at a time when a representative from such circles, the present Minister of Social Affairs and chairman of the Liberal Party, Bengt Westerberg, is, as an active participant in the public sphere, regarded as the main proponent of a general welfare policy or "institutional model" (cf Westerberg & Nordh 1993).

2.8 The Swedish Model: from Hedin to Westerberg

Unlike its German or British counterpart, the Swedish model has no honourable imperial heritage. Actually, the Bismarckian model was simply stolen by the leading local left-wing intellectual of the day, the

urban radical-liberal MP Adolf Hedin (Olsson 1990). Now almost completely forgotten, in his time Hedin was considered a tribune of the people who frankly addressed the demand of equal democratic rights as well as the rights of the Norwegian people still under the tutelage of the Swedish monarch (the last remnant of an imperial past).

For almost two decades Hedin had been an active participant in poor law reform. In 1884, he presented a private member's bill which reviewed European social legislation since 1870 and concluded that the unitarian German approach was superior. Criticism of the authoritarian tendencies was accompanied by full recognition of the democratic potential. In particular, Hedin emphasized its scope: compulsory state insurance against the risk of loss of income due to sickness, work injury or old age.

Hedin refrained from outlining an organization for social insurance in Sweden and simply proposed the relevant legislation should be drafted. As regards sickness insurance, for instance, instead of compulsory state insurance he favoured state support for the existing voluntary associations, which survived in Sweden until 1955. In Parliament, Hedin managed to make the bill acceptable to the great majority of farmers in the House. In an uncontested amendment, the landowners made it clear that they were prepared to trade municipal poor relief for state-financed transfer payments to all types of workers, not just urban-industrial. Hence, from the start there was an implicit shift from workers' to people's insurance.

It took roughly thirty years for Hedin's fairly detailed priorities — state subsidies to voluntary sickness benefit societies, work injury regulations (including a factory inspectorate), employer liability for such injuries (transformed into compulsory occupational injury insurance in 1916) and old age insurance — to be enacted. Retrospectively, the most important was the pension law of 1913: the first truly universal social insurance program characterized by mixed financing (taxes and contributions) and low flat-rate benefits, different for men and women. It is noteworthy that when this law was debated, the responsible Liberal minister (Axel Schotte) emphasized that it was a citizenship reform — a retirement pension was a social right, in contrast to the traditional means-tested poor relief (cf Rothstein

1992a). Long before Marshall's theoretical elaboration of the Beveridge plan, the idea of social rights was central to Swedish social reform.

Another crucial component in Swedish welfare policy is the idea of full employment or the right to a job. Although the powerful arsenal of labour market policy measures is a postwar phenomenon, the emphasis on work — public relief work but later also training and retraining — instead of cash benefits became part and parcel of Swedish unemployment policy during World War I. With the start of the long reign of Social Democracy in 1932, this policy was defused by adapting it to trade union demands, and in the postwar period full employment became a foundation, not least financially, for extensive social security. Likewise, the insistence on full employment is the background to the minor role, until recently, of cash unemployment benefits in the Swedish system. This welfare model can also be called a "civilized version of workfare".

Almost fifty years after Hedin, in the aftermath of local theoretical contributions such as the Myrdal's *Crisis in the Population Question* (cf Carlson 1990), the reform process began which slowly gave birth to the idea of a Swedish model. Although this far-reaching welfare state manifesto was more concerned with personal social services than with social security, its guiding idea is the notion of a productivist social policy, and thus close to the original workfare model. Some Beveridgean elements — especially flat-rate benefits — in the Swedish system were strengthened in the early postwar years with the second pension reform and the introduction of universal child allowances, both effective from 1948. Sickness insurance was soon also compulsory, but here a decision (in 1946) to introduce flat-rate benefits was never implemented and gave way to earnings-related benefits when the system began in 1955. Another major step towards a mixed system of flat-rate and earnings-related benefits was the introduction of a statutory universal superannuation scheme in 1960. Parental insurance from 1974 also followed this unified pattern. This development occured under the auspices of Gunnar Sträng, Torsten Nilsson and Sven Aspling, ministers of social affairs 1952-1976 — all of them key figures in the third generation of Social Democratic leaders (cf Ruin 1990).

Unemployment insurance is the major exception to the idea of a unified Swedish social security system. It is deliberately non-governmental, being under the administrative control of trade unions, although financed with contributions from the employers and, in the present unemployment crisis, heavily subsidized by the state. While it is mainly for political reasons that the present government wants to make the system compulsory and lessen the influence of the unions, this system is of course more vulnerable to organizational changes in times of big deficits. Furthermore, it is interesting that a change from voluntary to compulsory insurance would, at least on paper, bring the Swedish system even closer to the institutional model, thus more stateness and less civil society. However, such a move may well be obstructed by other changes presently under review in Sweden.

From the 1960s, paralel to the expansion of the public welfare system, nation-wide negotiated occupational welfare schemes grew in importance: additional pensions, sick pay, work injury benefits, etc. (Edebalk & Wadensjö 1989 & 1988). Thereby tendencies to a more fragmented overall system — public as well as private — became noticable. Furthermore, also in the welfare sector the importance of labour market organizations increased. Thus, most fulltime employees in Sweden are nowadays covered by complementary occupational insurance schemes, and roughly one million Swedes, out of a total of nine, receive cash benefits from such schemes.

However, occupational benefits are not the only non-statutory alternative to social welfare. From the early 1980s, as part of the debate about the fiscal crisis of the state, doubts were cast upon in particular the National Superannuation pension system's ability to meet its commitments for future generations of retired people. The opportunity to contract an individual pension with a private insurance company has existed at least for a century in Sweden, but in the 1980s the private insurance market was booming, partly due to rather favourable taxation rules. Also new private health insurance alternatives saw the light of day in the 1980s. New arrangements for tax exempted individual pension savings have since been added. Individual fringe benefits at enterprise level also grew in importance in the 1980s. Overall, these developments point at a growth for what Titmuss once labelled occupational, fiscal and private welfare — in

contrast to the social welfare of the institutional model (Olsson 1988). Furthermore, from the late 1980s, fighting inflation became the overarching concern of the government at the expense of fighting unemployment. This was an important shift in government priorities, applicable to both the former, pre-1991 Social Democratic cabinet and its non-socialist successor. It is in this perspective, and the unprecedentedly high unemployment figures in Sweden, that the present changes and proposals in the social security system have to be evaluated. Despite ambitious efforts to combat unemployment along the lines of the traditional active labour market policy, fighting inflation has remained the top government priority.

In the 1990s, starting with the spring 1990 accord between the Social Democrats and the Liberals and continued during the non-socialist government after 1991, a number of changes have occurred or been proposed in the social security system. Retirement age may be deferred and the individual savings element in the pension system will be strengthened; an employer period has been introduced in sickness insurance along with individual contributions and a reintroduction of a qualifying day; significant cuts have occurred in sickness cash benefits (from 90 to 75-65 per cent) and will apply in unemployment insurance as of January 1994 (from 90 to 80 percent); work injury and sickness insurance will most likely be amalgamated and transferred from the state budget, perhaps even jointly administered by the organizations of employers and employees; unemployment insurance may, as also mentioned, be made compulsory and thus no longer under trade union control; the expansion of family benefits has been curbed, the exception being a special "family values" jewel called "care allowance" promoted by three out of four non-socialist parties in Government but blocked for two years by the Liberals.

If a priority shift towards combatting unemployment were to occur in the years to come, then the above-mentioned changes, perhaps with a move towards compulsory unemployment insurance as an exception, might be in line with the traditional workfare model. In this perspective, a change to a pure flat-rate basic security system is much more dubious, although even such a system can be combined with far-reaching negotiated occupational welfare. But it will be a less stable system, more vulnerable to populist attacks (cf Palme 1993).

However, representatives of the Employers Confederation have criticized a pure statist flat-rate social security system and emphasized the importance of a continuation of the earnings-related system in order to create incentives for people to work (Herrin et al 1993). Overall, the role of economic incentives has again come to the fore. Social security schemes shall enhance productivity and economic efficiency. In the late 1980s, when labour shortages were a problem, this was done under the banner of rehabilitation. In the present period of high unemployment, the idea of bonuse for those who quickly return to the labour market or withdraw in order to upgrade their working skills has been floated. Even before the start of the superannuation pension scheme in 1960, one of the founders of the Swedish labour market model, the trade union economist Gösta Rehn, suggested that individuals should be able to draw entitlements partly at will (cf Rehn 1977). The goal was maximum, or optimal, flexibility for the individual and an end to the rigid compartmentalisation of social life, with its distinct stages of study, work and retirement. This idea is still outside the boundaries of conventional political wisdom but similar arguments have been heard in recent years (Fölster 1993).

Still, the traditional model has certainly been scrutinized far more critically than ever before, not least in the light of international experience, in particular similar systems in other European countries. In that respect, this report is no exception from the general trend, evident not least in Ingemar Eriksson's overview of the current reform process in some European countries. As is clear from Hans Hansen's contribution to this report, in the 1990s substantial changes have also been made to various branches of the social security system, also in Sweden. Furthermore, an abundance of reforms have been proposed, some of which I have dealt with elsewhere (Olsson 1993 & 1992).

In the domestic policy debate it is a general or institutional welfare policy that has become the common notion. As mentioned, this is due not least to the outspoken defence of this notion by the present non-socialist minister of social affairs, Westerberg. Also in official government documents, the idea of a universal or institutional welfare policy has currently been pitched against a selectivist or residual approach. In this way, along with Social Democracy four out of five non-socialist parties have continued to adhere to the traditional

Swedish model. This is a model they have backed since the inception of either this model or these parties — with the crucial exception of the superannuation pension reform in 1960 (Uddhammar 1993). Whether the fifth party, populist New Democracy, will end up in the welfare state coalition, is still unclear (cf Rothstein 1992b).

Notwithstanding the intense debate about the welfare state in general and the income maintenance system in particular, and the appearance of a critical stratum of anti-traditional welfare intellectuals on the left as well as on the right of the political spectrum, in Sweden there is no clearcut or obvious alternative to the traditional approach or model (cf Scherman 1993; Söderström 1993). The nearest one comes is rather vague ideas about a new welfare mix in which "civil society" would play a greater role. I have already mentioned the marginal deviations from this statement, the idea of more honourable charity and an individual welfare policy as well as the ambiguities related to the notion of civil society. In my final section, I will discuss the longterm implications of these proposals and changes for the general characteristics of the traditional Swedish model.

2.9 Towards a New Swedish Model

In this article I have tried to outline the intellectual origins of the idea of a Swedish model — the existence of a fair number of social policy models and their roots in social legislation in other countries — and briefly touch upon the relationship between these models and the gradual evolution of social security programs in Sweden. The basic questions are whether the policy regime or welfare model of the Far North has started to move closer to one or the other of the two — or three — alternatives that seem to be available in the comparative welfare state literature, and to what extent state welfare is being replaced by fiscal, occupational (or corporate), and private welfare?

I hinted at the possibility of a more mixed welfare system with, again in the words of Titmuss, more fiscal and occupational (corporate) welfare, and in the state sector a downscaling towards, paradoxically, both more universality and more selectivity (or corporatism;

"civil society"). One way of resolving this paradox is to apply another model — Palme's (1990) model of old age pensions — on a more general level of analysis. Combining Titmuss and several successors, including Esping-Andersen and Castles, Palme distinguishes between (1) a residual model with no or low social rights, (2) a universal basic security model with a fairly high degree of stateness in the form of statutory flat-rate benefits ("Beveridge"), (3) a — selective but rather comprehensive — corporatist income security model with an emphasis on labour market participation and earnings records ("Bismarck"), and (4) an institutional model which combines the latter two. Thus, he ends up with the familiar sociological four-box table (see figure 1), and Sweden lands in the fourth box: basic security (the old people's pension system, dating back to 1913) was linked in 1969 with statutory income security (the general supplementary pension system from 1960) via the pension increment. Since then, on top of the statutory systems, occupational and private pension schemes have grown in importance (Olsson 1987). Also in other components of the social welfare system such tendencies can be found (cf Marklund 1992; Olofsson 1989).

Figure 2 Models of welfare.

		Basic security: No	Basic security: Yes
Income Security	No	Residual (P, F, O, & S)	Universal (S, O, F, & P)
	Yes	Corporatist-Selective (O, S, F, & P)	Institutional (S, F, O, & P)

Note: P - Private; F - Fiscal; O - Occupational; S - Social.
Source: adapted after Palme 1990a & b

This model-building has been applied to only one type of social insurance scheme, retirement pensions, but the distinction it makes between flat-rate (universal) and income-related (corporatist or

selective) social security systems, and the possibility of combining them, reflects actual developments not least of social expenditure changes in Sweden. It is of continuing relevance for our discussion here: with this typology in mind, universal and corporatist-selective — but still comprehensive — models can be treated as two independent dimensions of variation besides the institutional. There is also the possibility of mixing them with the other Titmussian model: a residual model can have a strong element of not only private but also fiscal and occupational welfare. The variation between the four alternatives in parenthesis might be considerable and change over time (the rank order is tentatively outlined with capital letters in the box above; NB for all for four alternatives). Fiscal welfare in particular implies a large degree of state-guaranteed — tax relieved — "freedom-of-choice", which in the residual model can be combined with a varying degree of corporate welfare — from enterprise schemes to negotiated and jointly administered — and with public poor relief or social assistance as the last resort.

In Sweden, the present statist mix of universal and selective but rather comprehensive social insurance schemes, including both statutory and negotiated occupational schemes — the institutional welfare model or general welfare policy — may for instance be partly replaced by a less statist mix with an all-encompassing universal flat-rate scheme as a base, combined with various corporate or occupational — perhaps partly statutory or tax subsidized — schemes as well as blends of private and fiscal types of welfare provisions (cf Palme 1993; Eriksen 1992). Overall state responsibility will continue to be of greatest importance, but in the actual provision of benefits, in cash and in kind, there will be more plurality or fragmentation. The outcome is a more segmented welfare state. Nevertheless, both tendencies — towards corporatism or/and universalism — will create new problems and conflicts between various "vested interests". With less stateness, redistributional and egalitarian issues — social justice — will remain a bone of contention.

Whether such — potential — changes warrant a new label for the Swedish welfare state is still questionable. As the saying goes, "to remain the same, things have to change". After a hundred years in existence, the object is still moving — or transforming. The welfare

state is not an end to history, but neither is it a dead end. Thus, it is advisable not to draw premature conclusions about a shift in political and social priorities. It would be an exaggeration to suppose that a new model has emerged or is quickly taking shape. I say this even though the present government is explicitly aiming for a "revolution in welfare policy", while other social engineers speak of the "expenditure reform of the century" or a "change of system", and their critics discern a rapid move to a two-thirds society. At the heart of this very real problem lies the question of the type of employment situation to which these changes will be connected; whether the civilized version of workfare will survive and even reappear in a more flexible form, or if the work utopia society will wither away.

3 Elements of social security in Sweden and four other european countries

3.1 Introduction

One important component of the "Scandinavian Model" or "The Nordic welfare society" is the living standard for the populations of Scandinavia. The general impression is, that the living standard in Scandinavia is very high, among the highest in the world. It is also the impression that the Nordic welfare societies take good care of their citizens, when they are ill, unemployed, get old or otherwise are in economic need. This impression includes public service as well as transfer income and the "easy" access to both. How does this compare with the facts, and how does it compare with conditions in other countries?

It is very difficult to make meaningful multi dimensional comparisons of welfare levels between different countries. The basis for such comparisons will of necessity have to be simple, and the dimensions very few. With these restrictions it is, however, the aim to make comparisons of important elements of the social security systems in Sweden, Denmark, Germany, The Netherlands and Great Britain. This will be done for two dimensions and for transfer payments only. The first dimension will categorize the systems according to entitlement, type of benefit and financing method. This dimension could be called the rules dimension or the legal dimension. The other dimension, the individual or personal economic dimension, will measure the impact of different events, such as getting ill or unemployed, on the economy of the family or the individual. This sounds quite simple, but it requires several simplifying assumptions for such calculations to be done consistently for all countries.

It is necessary to assume a common income concept as a yardstick as well as common "family types" in the 5 countries. It is not sufficient to look at levels for gross benefits, because the taxation of

social security benefits varies considerably from country to country and from one type of benefit to the other within the same country. Some kind of disposable income will have to be the chosen income concept, which means that the personal taxation systems in the 5 countries are involved. These taxation systems are very different.

Common "family types" is not a well defined concept. The important issue here is to select the family types at the same relative position in the income distribution in all 5 countries. Whether this is the case for OECD´s "Average Production Worker" from "The Tax/-Benefit Position of Production Workers" is not clear[1], but OECD´s "APW", and derivatives from the APW, have been chosen as the common family types, because they are the only internationally comparable references available. Similarly it is the disposable income concept as used by OECD in the "APW-studies" which is used. This is a very simple income concept only taking wage income (or compensation income) and standard conditions in personal taxation into consideration. The investigation of the personal economic dimension is therefore simplified, but it is consistent with OECD´s studies of "The Tax/Benefit Position of Production Workers". 1992 will be the basis for the calculations. Some of the calculations for Germany and The Netherlands will, however, be preliminary updates from 1991 data.

The macro economic dimension is not considered systematically here. It is not because it is unimportant, the recent Swedish revisions of the social security and personal taxation systems are primarily for macro economic reasons, but the aim here is to investigate the structure of the systems from the individual point of view. This will include the impact of some of the changes from 1992 to 1993 in Sweden on the individual disposable income level.

Finally, what is behind the selection of the countries? Sweden and Denmark are representatives for the "Scandinavian Model", but their systems are quite different. Germany is the representative for the "insurance" system and one of the orginal "models" c.f. Sven E.

[1] It is on the working programme of OECD to make a systematic investigation of this issue in a coming version of "The Tax/Benefit Position of Production Workers".

Olsson Hort's chapter 2. The Netherlands were chosen as a relatively small "Central European" country often compared with the Scandinavian countries, and Great Britain because of her "laissez-faire" reputation during the conservative governments since the early 1980's and because the country represents the other of the original "models" mentioned in chapter 2. These abbreviations are used for the countries: S (Sweden), DK (Denmark), D (Germany), NL (The Netherlands) and GB (Great Britain).

3.2 General Characteristics of Important Elements of Social Security in five European Countries, 1992

The rules for social security and personal taxation are comprehensive and complex in all 5 countries because they have to be very precise and they must exhaust all possibilities for entitlement to the benefits, main rules as well as exceptions, and all cases of taxation. It is, however, easier to see "the bearing idea" in the systems for some of the countries than for others.

The Swedish system is relatively easy to grasp and overview, because the principles are fairly clear but also because "the basic rate" (basbelopet) is so important both for transfer payments and for calculation of standard deductions in the personal taxation system. The Danish system is difficult to grasp because the principles are very mixed and because there are so many levels of benefits. The German system is for a large country but also fairly complicated and difficult to overview because there are several versions of each component, each covering a specific group of the population. The unification of Germany has contributed to the complexity because there are two part systems, one for the new "länder" and one for the former West Germany, the idea being that the system for the new "länder" shall gradually approach the system for the old "länder". In this study only the rules for the old "länder" are applied. The Dutch system is fairly clear on the principles and is mostly based upon percentage rates in

relation to income. The British system is difficult to overview because of mixed principles and many benefit levels.

This rather loose text or rules description cannot be used alone to characterize the systems of the 5 countries a more systematic approach is needed. For that purpose three criteria have been selected. The first is about entitlement to social security, the second concerns the type of benefit in the systems and the third criterion is about financing social security in the 5 countries. This first characterization of the systems is rather general and will be elaborated upon when each element is further investigated. It should be emphasized, that only public elements of social security are included. This is somehow "unfair" to countries, e.g. The Netherlands and Great Britain, where private schemes are important, and should be kept in mind when the comparisons are made. Furthermore, not all elements of social security are included in the study. The selected elements are:

- Illness
- Unemployment
- Injuries from work
- Retirement
- Having children
- Maternity leave

These components are important, but they do not exhaust the systems. Among the most important missing elements are social assistance, invalidity pensions and support for education. Social assistance is the "final" part of the social security systems. In some of the countries, e.g. The Netherlands, there are legal poverty guidelines for entitlement to social assistance, in other countries, e.g. Sweden, these guidelines are recommendations.

In Denmark it is up to the local authorities to asses the economic situation of the applicants. Invalidity pension is calculated in most countries as the pension (old age) you would be entitled to, if you had not been declared disable. The conditions for support for education varies considerably between the countries and would be worthwhile an investigation of its own, also because "multi national" educations will probably be of increasing importance in the coming decades.

Entitlement for social security

The result of the characterization of the selected elements of social security according to entitlement in the 5 European countries is contained in table 1.

Table 1 Entitlement to social security in 5 European countries, 1992

	S	DK	D	NL	GB
Illness, insurance	□ *	□ *	■	■	□/■
Unemployment, -"-	□ *	□ *	■	■	■
Injuries from work, -"-	□	□	■		□
Retirement	□/■	□/■	■	□	□/■
Family allowance	□	□	□	□	□
Maternity leave, insurance	□	□	■	■	□/■

□ : The entitlement is in principle for all.
■ : The entitlement is in principle for people working, primarily employees.
* : Compensation is also for self-employed people why the character □ was used.

In Sweden, the social security system is characterized as being relatively open with general access for all (relevant) population groups. The specific conditions for this access, e.g. the length of membership of the unemployment insurance scheme and former working periods required before compensation can be received, will be described in more detail later on. Benefits from the Swedish supplementary pension scheme (ATP) are dependent on former income, both for employees and self-employed people. Measured by the gross benefits, those from the ATP-scheme are now, on the average, considerably higher than those from the basic social pension scheme.

The Danish system has basically the same characteristics as the Swedish one. The supplementary pension scheme in Denmark (it is also called ATP) is, however, far less important than the corresponding Swedish one. Benefits from the Danish ATP-scheme are dependent upon hours worked in the past (not income) and only employees are eligible for the benefit. The German system is very different from those in Scandinavia. In Germany there are, generally speaking, separate systems for groups working in different sectors and industries. The main groups are employees in the private sector (within

the private sector there are several separate schemes), employees in the public sector (where social security is included in the employment conditions) and self-employed people (who may join social security schemes of their own).

The characterization of the German system also reflects the connection between the contribution to the specific elements and the right to receive benefits. Generally speaking, without former contributions there is no right to receive benefits, the system has an "insurance" character.

In The Netherlands there is a general social security system for all, and on top of that, a separate one for employees, c.f. the section on financing. There is no specific scheme for injuries from work, c.f. later.

Great Britain has two separate social security systems, one for people working and another for other groups of the population.

Family allowances (for children) have the same character in all 5 countries. It can be argued, that this is not an element of social security. Family allowances are, however, important transfer payments.

The type of benefit

The classification according to type of benefit is "flat rate" or "related to income". This sounds simple, but in e.g. Sweden and Denmark the benefit from unemployment insurance is related to former income (it was 90 per cent of former income in both countries in 1992) before it reaches a maximum. When this maximum is reached at a fairly low income, i.e. below the income level of the APW, the benefit will be classified as "flat rate". The compensation for unemployment is therefore classified "flat rate" for Sweden and Denmark. When the maximum is reached at an income above that of the APW, the benefit is classified as "related to income". This is the case for Germany and The Netherlands. Table 2 contains the result of this classification.

Table 2 Type of benefit, "flat rate" or "related to income", 1992

	S	DK	D	NL	GB
Illness, insurance	■	□	■	■	□
Unemployment, -"-	□	□	■	■	□
Injuries from work, -"-	■	■	■		□
Retirement	□/■	□	■	□	□/■
Family allowance	□	□	□	□	□
Maternity leave, insurance	■	□	■	■	□/■

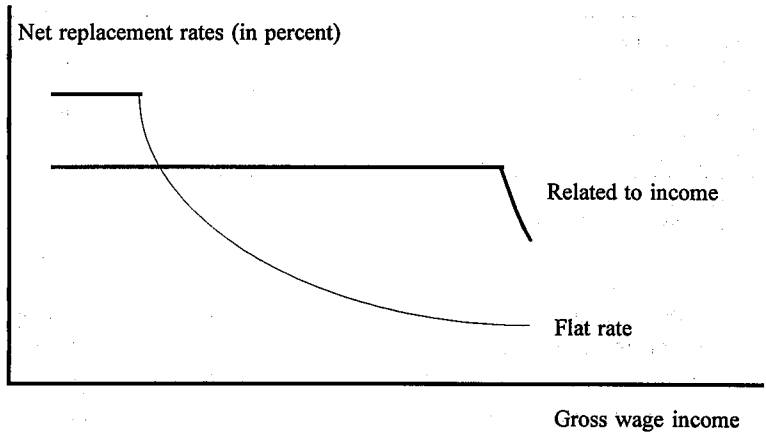
□ : The benefit is "flat rate".
■ : The benefit is "related to income".

The type of benefit determines the profile of the "net replacement rate", which is important for the incentives in the systems, c.f. later. The "net replacement rate" is the usual term for the rate (in percent) between the disposable income "after" a social "event" (e.g. becoming unemployed) and the disposable income "before" the "event". The time period is usually the same, e.g. one year, for the two measures of disposable income.

Classified in this way Germany mostly has a "related to income" system while the Danish system mostly is a "flat rate" system, with Sweden, The Netherlands and Great Britain in between. It is evident that, generally speaking, the Swedish and Danish systems are quite different with regard to type of benefit. For one important item, however, that is unemployment insurance, the benefit type is "flat rate" in both Sweden and Denmark as well as in Great Britain, while it is "related to income" in Germany and The Netherlands. The maximum benefit is, however, reached at an income much closer to that of the APW in Sweden than in Denmark.

The implication is decreasing net replacement rates with increasing income in the "flat rate" countries, while the profile for the net replacement rate is much more constant, at least for a substantial income range, in the "related to income" countries. The two profiles are sketched in graph 1.

Graph 1 Net replacement rates in "flat rate" and in "related to income" systems. Stylized curves.



High replacement rates may result in weak incentives to seek employment, living on "social security" is more attractive, and the risk for unemployment may be concentrated in the low income brackets where the replacement rates are high.

There are furthermore a few problems in the classification presented. The Danish pension system is classified as "flat rate" and not "mixed", that is because the supplementary pension scheme "ATP" is dependent on hours worked during the working life, not the income. Family allowances in all 5 countries are classified as "flat rate". The German system contains both a cash transfer and a tax deduction. The value of the tax deduction (it is a deduction in taxable income) increases with income, at least up to the maximum level of marginal taxation.

Replacements for loss of income are by nature means tested, except for old age pensions (means testing, as used here, implies, that the benefit is reduced with increasing income). In most of the countries there is none or only a modest degree of means testing of old age pensions, with Denmark probably having the highest degree. Family allowances are hardly replacements for lost income, they are compensation for increased costs, and they are rarely means tested, the

exception being Germany, where the cash transfer for child number 2, 3, etc. is means tested.

The methods of financing

There is a considerable variation between the 5 countries with regard to financing methods applied.

Sweden applies contributions paid by the employer as the source of finance for a major part of social security. In Germany contributions from both employers and employees (split even) are major sources of finance. In The Netherlands there are, as already mentioned, two systems, a general one and one for employees only. The general system is financed by taxes (itemized percentages of income in the lowest tax bracket) and the system for employees is financed by contributions based upon the employees' gross wages and paid by employers and employees. From 1990 the employers' contribution has partly been paid by the employees, who in return receive a "compensation allowance" from the employers. In Great Britain the system for people working is financed by contributions from employers and employees, while the system for other groups is financed by taxes. The general method of financing social security in Denmark is by taxes, but there are suggestions to increase the importance of contributions from employees and employers connected to tax reform proposals.

It has been widely debated whether the financing method "matters" particularly as far as unemployment levels are concerned, but there is hardly any clear evidence. The variation among the 5 countries investigated here should be the ideal basis for further research in this topic.

The classification according to financing method is contained in table 3.

Table 3 Methods of financing social security, 1992

	S	DK	D	NL	GB
Illness, insurance	■	□	■	■	■
Unemployment, -"-	■	□	■	■	■
Injuries from work, -"-	■	■	■		□
Retirement	■	□	■	□[1)]	■
Family allowance	□	□	□	□	□
Maternity leave, insurance	■	□	■	■	■

□ : At least 50 % financed by general taxes.
■ : At least 50 % financed by contributions from employers and/or employees.
[1)] : In The Netherlands itemized parts of general taxes finance the publicpension system.

The classification above is again of a "mixed" character, the criterion being primarily (above 50 per cent) financed by the source indicated. In the real world both taxes (or budget deficits) and social contributions are used to finance the same component, even if the main principle is one or the other. One example is unemployment insurance. In Sweden and in Germany this element is in principle financed by employer/employee contributions, but the strong increase in unemployment in Sweden during the recent recession and in Germany's new "länder" after the reunification are not being financed by contributions but by general taxes and budget deficits. In Sweden the total level of employer contributions to social security was decreased from approximately 38 per cent of gross wages in 1991 to 35 per cent in 1992 and again to 31 per cent in 1993, in order to reduce the wage costs and increase the international competitiveness of the Swedish economy.

The systems characterized by entitlement for groups working in different sectors and industries, as financed by contributions from the employers and/or the employees and with benefits of the type "related to income" are often regarded as "insurance like". None of these systems are, however, insurance systems in a strict actuarial sense, they are all "pay as you go" systems, and there is no stringent link between the premiums paid and the benefits received. The component which is closest to an insurance system is the Danish ATP scheme (a defined contribution plan), which is of relatively minor, but in-

creasing, importance in the Danish pension system. The benefits of the Danish ATP are linked to the contributions, which are related to hours worked during the membership of the scheme.

3.3 Comparison of the Separate Elements of Social Security in the 5 Countries

In the following, each of the selected elements of social security will be characterized in more detail and there will be calculations of the impact on disposable income of the "APW" of being ill, unemployed, etc.

Two kinds of calculations are performed. The first is the calculation of the compensation connected with the "event" measured in relation to the loss of income caused by the event. This is usually done on a gross basis and the result is the gross replacement rate. In some cases the compensation is related to the loss of net income (e.g. in the German unemployment insurance system), then the result is a net replacement rate.

The other calculation performed is the impact of the event on the annual disposable income of the APW. This is a reasonable calculation when the "events" cause the loss of some of the income. When all income is lost, the impact on the disposable income can easily be transformed to the usual net replacement rate concept (100 plus the percentage change in disposable income with the appropriate sign). It is the impact on the annual disposable income and the net replacement rates which are used in the comparisons.

The reference for the calculations will, as earlier mentioned, be OECD's "APW". The disposable income concept of the APW is rather simple, only reflecting gross wage levels, standard personal taxation rules and standard family allowances. Housing and costs for day care for children are not taken into consideration.

The APW is a production worker in the private sector of the economy. The impact of being ill, unemployed, etc. could be different for self-employed people or for employees in the public sector. The results are only valid for employees in the private sector.

The calculations are for one point in the income distribution, that of the APW. This is especially a problem when the profiles of the net replacement rates are in focus, because a variation in income is needed for that investigation. The results are only valid for one point in the income distribution, but deductions about the profiles can be obtained from knowledge of the type of benefit ("flat rate" or "related to income").

The income events are standard, they have a specific character, e.g. length of time (one week, 3 months, etc.). Other "specific characteristics" could result in a different impact. Alternatives are therefore used for some of the events.

In the real world it is often possible to receive several benefits simultaneously, in this study only one is received at a time. It is thus the isolated effect of "one" event which is investigated. The events will usually cause a decline in income, which may be counteracted by an increase in other benefits. The "one" event calculations will then express the maximum effect on disposable income.

The interpretation of the APW calculations is thus narrow, but it will hopefully give some insight into the structure of the social security and personal taxation systems in the 5 European countries.

A new joint project between The Ministry of Finance in Sweden, The Ministry of Social Affairs and Employment in The Netherlands and The Ministry of Economic Affairs in Denmark is aiming for a more comprehensive analysis of the social security systems in the three countries. Profiles for net replacement rates will be traced over a considerable income range, for varying duration of the income events and for a broader range of family types. The first report concerning the unemployment insurance systems in the three countries will be published in the summer 1993.

Illness

This component is typically a "mixture" of labour market agreements and public insurance schemes. The two parts can be in sequence (first one, then the other) or they can supplement each other simultaneously.

The calculations therefore cover both situations, public insurance alone and the usual situation including labour market agreements. Public insurance alone is often administered by the employers, at least for shorter spells of illness.

Table 4 contains the most important characteristics of the insurance schemes in the 5 countries. The following important principles have been chosen for the characterization:

- Is it usual for the employer to supplement the benefit from the insurance for a period?
- Is there a waiting period?
- For how long can the benefit be received?
- Is the system for all working groups of the population?
- Is the benefit "flat rate" or "income related"?

Table 4 Characteristics of compensation for illness in 5 European countries, 1992.

	S	DK	D	NL	GB
Is Employer supplement usual?	No	Yes[1)]	No (compensation is 100 %	Yes[3)]	Yes[4)]
Waiting period	No[2)]	No	No[5)]	Yes[3)] 2 days	Yes 3 days
Max. benefit period	No formal limit	52 weeks	78 weeks	52 weeks	28 weeks
Eligible groups	Employees Self-empl.	Employees Self-empl.	Employees	Employees	Employees Self-empl.
Type of benefit	Income related	Flat rate	Income related	Income related	Flat rate (several levels)
Special rules		White[6)] collar workers receive wages during illness	High income persons may leave the system	High income persons must leve the system	

1) : Wages are paid in many cases, c.f. also note 6.
2) : From 1/4-1993 there is a waiting period of 1 day.
3) : According to agreements in some industries in The Netherlands, the employees receive wages also in the waiting period. Other agreements make employees eligible for wages after the waiting period. There are proposals for a 3 - 6 weeks period where employers pay wages during illness.
4) : There are supplements for many British employees, when they are ill.
5) : Germany is considering introduction of waiting days in the scheme.
6) : From 1994 most blue collar workers will also receive wages during the first 2 weeks of illness.

Comments

There has been and still is a general trend towards increased emphasis on wage payment (partly or in full) from the employer during shorter spells of illness in all 5 countries. This can be the result of labour market agreements (Denmark, The Netherlands and Great Britain) or legislation where the employer is obliged to pay insurance benefits identical to or close to the lost wage income (Germany and Sweden). In Denmark the employers also have the obligation to pay (for 2 weeks) the public insurance benefits, which for most workers are substantially lower than the lost wage income, c.f. table 5.

The German employer's obligation to pay full wages (for 2 weeks) depends on how long the employee has worked for the employer. There will thus be employees, who are not eligible for wages during illness, who will have to rely on the insurance system. In the case of Germany this compensation is 100 per cent for the APW. In Denmark the employer's obligation to pay according to the public benefit scheme depends on the length of the employment too. Employees not eligible will receive benefits from the public authorities. In Great Britain the length of time of work for the present employer also has an influence on the level of compensation from the insurance scheme, which is being administered by the employers. In Britain many workers are furthermore entitled to a supplementary benefit (Occupational Sick Pay) on top of that from the basic system (Statutory Sick Pay), but not all are covered by the supplementary system, which is a result of labour market agreements.

Sweden introduced by legislation a 2 week "sick wage" period in 1992 with the same degree of compensation as the insurance scheme had earlier for the same period. In 1993 a waiting day has been introduced and the degree of compensation from the insurance scheme has also been lowered, especially for longer spells of illness. There are waiting days in both Great Britain and in The Netherlands. In The Netherlands the labour market agreements often give full compensation during shorter spells of illness, and legislation has been presented in the Parliament (late 1992) suggesting a 3 weeks period of wages

from the employer in small firms, 6 weeks in larger firms, during illness.

The maximum period in which the insurance benefit can be received may seem longer in Germany than in Denmark c.f. the table, but this has to be qualified. In Germany the 78 weeks are within 3 years of illness, in Denmark the 52 weeks are within 1½ years.

In The Netherlands and in Germany there is a maximum level of income to which the contribution percentage for financing the insurance scheme is applied. When an employee passes that income level he or she may leave the insurance scheme in Germany, in The Netherlands the employee has to leave the scheme and replace the public insurance with a private one.

The terms "flat rate" and "related to income" in table 4 are used in the same sense as in table 2, the benefit is "flat rate" if the APW receives the maximum level, if not, the benefit is "related to income". Only Denmark and Great Britain have "flat rate" benefits.

The replacement rate

The "standard" event chosen is being ill for one week. The effect of that event is illustrated by APW calculations, one for the public insurance system alone, and one for the "usual" case, where labour market agreements are implemented to supplement the public insurance system. The calculations are for 1992 and cover the replacement rate (usually gross) and the impact on disposable income of the event measured in relation to the annual disposable income of the APW. The results are included in table 5.

Table 5 The effect on disposable income of being ill for 1 week, 1992.

	S	DK	D	NL	GB
	Public insurance alone				
Replacement rate	81	63	100[1)]	42	8
Change in disp. income %	-0.3	-0.6	0	-1.0	-1.6
	"Usual" cases (incl. labour market agreements)				
Replacement rate	81	100[2)]	100	100[3)]	80[1,4)]
Change in disp. income %	-0.3	0	0	0	-0.4

[1)] : The replacement rate is net, after taxation.
[2)] : "Usual" may be exaggerated, but wages are paid in many cases.
[3)] : The waiting period is also compensated in many labour market agreements.
[4)] : There is a considerable variation in the net replacement rate for British workers.

In the "usual" case only Sweden and Great Britain have less than full compensation for 1 week of illness. In 1993 the waiting day in Sweden will lower the replacement rate and increase the negative impact on disposable income, especially for shorter spells of illness.

For longer spells of illness, where the public insurance schemes have the dominant effect, the Swedish insurance scheme has higher replacement rates than those of the other countries, except Germany. That will also be the case in 1993. It has been proposed, that this element of Swedish social security should be "contracted out" to the partners on the labour market c.f. Ingemar Erikssons´s chapter 4 for the administration of the schemes, especially in Germany and Great Britain.

Not only Sweden has tried to save on expenditures for this very costly element of social security. In e.g. Great Britain the benefit in the Statutory Sick Payment scheme was held at the same level in 1992 as it was in 1991.

Unemployment

High unemployment rates in the European countries makes this element of social security very important both for the public budgets, the recipients and for the incentives to seek work. Of the 5 European

countries in the study 4 have experienced relatively high levels of unemployment for several years while Sweden´s experience with high unemployment is quite new.

The selected principles, according to which the unemployment insurance schemes were characterized are:

- Is insurance mandatory or voluntary?
- Is there a waiting period?
- Is the period during which benefits can be received dependent upon the duration of former occupation?
- Is there a mechanism by which to renew the right to benefits?
- Is the benefit "flat rate" or "related to income" (important for incentives)?
- For how long can the unemployed receive the benefit?
- Is there an "additional" scheme?

The categorization according to these principles is contained in table 6.

Table 6. Unemployment insurance in 5 European countries, 1992.

	S	DK	D	NL	GB
	Basic System				
Type of insurance	Voluntary	Voluntary	Mandatory	Mandatory	Mandatory
Eligible groups	Employees Self-empl.	Employees Self-empl.	Employees	Employees	Employees
Waiting period	No[1)]	No[2)]	No	No	Yes 3 days
Duration of former occupation required	4 months of work within 1 year	26 weeks of work within 3 years	12 months of work within 3 years	26 weeks of work within 1 year	1 year of work
Renewal of rights	As above Job offer	26 weeks of work within 1 ½ years Job offer	As above	As above	13 weeks of work within 26 weeks
Type of benefit	Flat rate	Flat rate	Income related	Income related	Flat rate
Max. benefit period	14 - 21 months dependent upon age renewal: no limit	2½ years renewal: 7 + years	½ to 2 3/4 years	Step 1: ½ year	1 year. Older workers have a longer period
	Additional System				
Existence	None	None	Yes	Yes	None
Eligible groups			Unemployed not eligible for insurance	Unemployed not eligible for insurance	
Max. benefit period			No limit	Step 2: ½ to 5 years Step 3: 1 year	
Benefit formula			Income related	Income related[3)]	

[1)] : From July 1993 there will be 5 waiting days in the Swedish insurance system.
[2)] : In Denmark, the employer pays compensation for the 1st day, from July 1993 for the first 2 days.
[3)] : In the last step of the system the benefit is "flat rate".

Comments

One fundamental difference is between mandatory and voluntary membership of the insurance scheme. Only Sweden and Denmark have voluntary schemes which require incentives to join the scheme instead of relying on social assistance or other alternative benefits, c.f. later.

There is also a minimum length of membership in Sweden and Denmark (1 year in both countries) before the employee (or self-employed person) is eligible for the insurance benefit.

In 1992 only Great Britain had a real waiting period before insurance benefits could be received. From July 1993 there will be a waiting period of 5 days in the Swedish system.

In most of the countries i.e. Sweden, The Netherlands and Great Britain the requirements to the length of the former working period must be met within 1 year before the unemployment, in Denmark and Germany it is within 3 years, with Denmark having the shortest required working period (26 weeks) of those two countries. 26 weeks are, however, not always the same requirement. In The Netherlands it is sufficient to work 1 day during the week while it has to be a full time week in Denmark before the week counts.

In Sweden and Denmark the employee can claim a job offer of sufficient duration in order to renew the period in which the benefit can be received when the first period has expired. This is unique for these two countries. In the other countries a new working period is required.

In Sweden the period can be renewed in practice without end, in Denmark it is also very long, and exceptions have been introduced when the "final" expiration was close. There are proposals in Denmark to introduce two periods of a combined length of 7 years, where "activation" and education is emphasized much more than in the present system. This new system could be in place from the start of 1994.

In Germany and The Netherlands, where the initial period in which benefits can be received is relatively short, in The Netherlands it is only ½ year, there are additional systems for unemployed whose

rights have expired. In Germany the length of the initial period in the insurance scheme depends on age and working record this is not the case in the additional scheme where the period is "without end". The benefits from the German additional system are not received "automatically", but only if the person or his family is in economic need. In The Netherlands it is the periods in the additional scheme which depend on the former working record. In Sweden there is also a scheme alongside the insurance system, but that is an alternative scheme for people who are not insured, or if they are insured, do not (yet) fulfill the requirements for receiving benefits from the unemployment insurance scheme.

The "type of benefit" will be commented upon in the section on "the replacement rate".

The replacement rate

The income event chosen is being unemployed for 3 months during the year (25 per cent of the time). This is close to being "typical" in a country like e.g. Denmark, where the unemployment rate in 1992 on average was approximately 11 per cent, which implied that approximately 30 per cent of the labour force experienced unemployment for longer or shorter periods during that year.

Technically the 3 months are considered to be one period of unemployment and this is of consequence in countries where there is a waiting period.

The calculations have been performed both when the APW is eligible for the insurance benefit and when he or she is not (not insured in countries with voluntary systems, "out-insured" in countries with mandatory schemes). The results of the calculations are contained in table 7.

Table 7 **The effect on disposable income of being unemployed 25 % of the time, 1992.**

	S	DK	D	NL	GB
	Eligible for insurance				
Replacement rate	86	63	63[1)]	70	15.4
Change in disp. income %	-3.1	-7.2	-7.0	-6.5	-18.8
	Not eligible for insurance				
Replacement rate	30	31	56[1)]	32	15.2
Chance in disp. income %	-15.9	-6.3	-8.6	-9.3	-18.9

[1)] : The replacement rate is net, after tax.

For the APW eligible for the insurance benefit the reduction in disposable income is smallest in Sweden, it is somewhat higher and of the same magnitude in Denmark, Germany and The Netherlands while it is relatively high in Great Britain.

The benefit type is, however, the same in Sweden and Denmark, both are "flat rate" implying, that the replacement rate is high for APWs with relative low income and then drops off with increasing income. The British scheme has the same profile, but at a lower level, c.f. also the stylized curve in graph 1. The German and Dutch schemes are very different. In these two countries the replacement rate and the impact on disposable income is much more constant over a wider range of income, c.f. graph 1. This could have the implication that the incentives to seek work are modest or non existent in Sweden and Denmark for employees with relatively low income. A Danish study indicates, that about 20 per cent of the families in the "marginal group" on the labour market (the size of the marginal group is approximately 10 per cent of the total labour force) have no or very small incentives to apply for a job instead of living from unemployment benefits, which they can do for a long time.

The approved changes in the Swedish unemployment insurance system from July 1993 will decrease the compensation, especially for the lower income groups. If the 5 day waiting period, which is introduced from July 1993, had been in force in 1992 the isolated effect would have been a change in table 7's gross replacement rate

for Sweden from 86 per cent to 80 per cent, and the reduction of disposable income would increase from 3.1 per cent to 4.6 per cent.

The calculations for the APW not eligible for unemployment insurance benefits are more difficult to interpret. In Sweden the unemployed APW receives a special labour market compensation which is "modest", but it can be supplemented by social assistance (not included in the calculation). In Denmark the uninsured unemployed receives social assistance including compensation for housing costs. This compensation makes the receiver of social assistance better of than the receiver of the unemployment insurance benefit in this particular case. The small impact on disposable income is combined with a low gross replacement rate. This "odd" combination is possible because social assistance is a net benefit, wich is not taxed. With a higher degree of unemployment (from approximately 40 per cent and up) the insured single APW will be better off than the uninsured. There is, anyhow, an incentives problem concerning insurance in the Danish system. Many proposals have been presented, but a proper solution has not been found yet. The German additional scheme is primarily for unemployed whose right to receive the insurance benefit has expired. The compensation is, as already mentioned, only received if the family is in economic need. There is no time limit for receiving this benefit. The Dutch additional system has two steps and it is the last one which was used in the calculations. In Great Britain there is no additional scheme and the APW not eligible for the insurance benefit can receive social assistance. Social assistance can also supplement the unemployment insurance benefit for the British APW.

Injuries from work

The basic insurance system for this event is generally speaking similar in Sweden, Denmark, Germany and Great Britain while there is no particular scheme covering compensation for injuries from work in The Netherlands, where the injured person will receive compensation from the public invalidity pension scheme. The basic principle in the four countries having such a scheme is a specific compensation for

the loss of working capability. This compensation is related to income in 3 of the countries while it is flat rate in Great Britain.

The schemes may be combined with or supplemented by other parts of the social security system. Sweden has the system with the most clearcut principle, there is a 100 per cent compensation (within the usual income boundary of 7.5 times the "basic rate", basbelopet) and the scheme is coordinated with other parts of the social security system. The Danish system is (as usual) fairly complicated because the scheme in severe cases of injuries is combined with the invalidity pension scheme, which implies favourable taxation of the injured APW, c.f. the section on "the replacement rate". The German system has relatively clear principles and can be supplemented in special cases. The British system is easy to overview, it is a flat rate benefit for each level of loss of working capability.

The minimum degree of loss of working capability for which compensation can be received varies from 6.7 per cent in Sweden, 14 per cent in Great Britain, 15 per cent in Denmark and 20 per cent in Germany to 25 per cent in The Netherlands, the minimum loss of working capability required in the Dutch public invalidity pension scheme.

The replacement rate

Two events have been selected for this element of social security, one is a complete loss of the working capability, the other is a loss of ⅓ of the working capability. In the last mentioned case it is assumed that the injured APW works ⅔ of the time on usual conditions. The results of the calculations are contained in table 8.

Table 8 The effect on disposable income from being injured at work, 1992.

	S	DK	D	NL	GB
	Complete loss of working capability				
Replacement rate	100	104	67	70	33
Change in disp. income %	0	+29.1	+5.2	-27.0	-58.1
	Loss of ⅓ of working capability				
Replacement rate	100	80	67	63	30
Change in disp. income %	0	-4.5	+6.0	-10.7	-19.6

Sweden has the most transparent system with both a gross and net replacement rate of 100 per cent. It has been considered wether to decrease the replacement rate, but up to now (spring 1993) the change has been a tightening of the conditions for receiving this benefit and a proposal to "contract out" this scheme together with that for health insurance. These schemes are also administered quite "tightly" in e.g. Germany and Denmark.

The injured Danish APW completely losing his or her working capability will experience a considerable increase in disposable income. This is because the injured APW will receive the insurance benefit as well as two components from the public invalidity pension scheme which also implies favourable tax treatment as a pensioner. In the "⅓ case" the injured APW will not be an invalidity pensioner (the minimum loss of working capability is 50 per cent in the public invalidity pension scheme before benefits can be received) and there is a modest drop in disposable income in this case. The Danish scheme is an example of the lack of "linearity" according to how severe the loss of working capability is. The German, the Dutch and the British schemes are closer to being "linear", but only the Swedish one is strictly "linear".

The German scheme overcompensates for the loss of working capability while the British compensates at a relatively low level with the Dutch case falling between these two.

In Sweden, Denmark and Germany the benefit type is "income related", at least to an upper limit while the benefit type in Britain is "flat rate".

Retirement

Pension reforms are very central in the current debate on social security. In most countries pensions are the most expensive component of the social security system and the demographic development, implying a severe ageing of the populations in the industrialized countries, will challenge the current schemes both from the budget and the labour supply point of view. In all 5 countries in this study pension reforms have recently been implemented or are in the planning stage for political decisions.

This investigation is only concerned with public pensions (due to age), and that is a problem when comparisons are made, because private, collective and company schemes are of varying importance in the 5 countries. Company schemes are probably most important in The Netherlands and in Great Britain, they are of declining importance in Germany and of minor importance in the two Scandinavian countries.

There is a substantial variation in the principles and in the pension levels between the countries investigated. The following criteria have been chosen for a summary characterization of public schemes for old age pension:

- What is the formal age of retirement?
- Does the pension scheme allow flexible retirement?
- Are all citizens eligible for pensions from the scheme or the basic part of it?
- Is the pension dependent upon former periods of work and income or is it a "flat rate" benefit?
- Is the level of the pension dependent upon marital status?
- Is the pension means tested?
- Is there an additional or supplementary public pension scheme?

The result of this characterization of the public pension schemes is contained in table 9.

Table 9 **Characteristics of public pension schemes in 5 European countries, 1992.**

	S	DK	D	NL	GB
	Basic pension scheme				
Formal pension age	65	67	65	65	60/65
Flexible retirement	Yes	No	Yes	No	No[1)]
Eligible groups	All	All	Employees + some self-empl.	All	All[2)]
Pension dependent on former working period and income	No	No	Yes	No	No/ Level: Yes
Pension dependent on marital status	Yes	Yes	No	Yes	Yes
Means testing	Partly	Partly	No	No	No
	Additional pension scheme				
Existence	Yes	Yes	None	None	Yes
Eligible groups	Employees + Self-empl.	Employees			Employees
Pension dependent on former working period and income	Yes	Only on hours worked			Yes

[1)] : It is possible to defer the retirement in Great Britain
[2)] : In Great Britain, the basic system for people who have been working is different from that covering people who have not previously participated on the labour market.

Comments

The formal age of retirement is not a "firm" indicator for when the actual retirement takes place, there may be flexibility in the schemes or early retirement may take place through other schemes. Changes in the formal retirement age are, however, important signals, and most of the countries already have or are debating wether to increase the formal retirement age. The Swedish government has proposed to increase the retirement age to 66 years gradually during the period from 1994 to 1997. The German pension reform will gradually cancel

the early retirement schemes from 2001 to 2012 aiming for a uniform formal retirement age of 65 years, starting at 62 through the flexibility in the system (a reduced pension can be received from that age). In The Netherlands it is being debated whether to increase the age to 67 years and in Great Britain it is discussed to increase the retirement age for women from 60 to 65 years. Denmark has one of the highest formal retirement ages, and there are no plans for an increase, on the contrary, the effective age is being lowered by reforms of labour market retirement arrangements.

Sweden and Germany have flexible schemes where there is an actuarial adjustment of the pension according to when the retirement starts (before or after the formal age). A couple of years ago a "premium" was introduced in the Swedish system for late retirement, an improvement of the incentive to retire relatively late. Sweden also has a "part pension" scheme where part time work can be combined with pension from the age of 60. Denmark has a similar scheme but relatively few people are using it. The Swedish "part pension" scheme has been widely debated and a closing for new entries was proposed but not decided. One of the arguments is that the scheme provides too good incentives for early retirement, contrary to the current policy of delaying retirement.

All of the countries, except Germany, have a basic pension scheme for all citizens fulfilling requirements about domicile for some time in the country. In Germany the basic system is primarily for employees in the private sector and specific groups of self-employed people. This is fundamentally different from the schemes of the other countries. Furthermore the level of the pensions in the German scheme is heavily dependent on former work and income. Pension rights are earned on the labour market. Other activities e.g. education and child care are also "earning" pension rights but only if there is also labour market participation for some time. There is a limit to the pension which can be obtained in the German basic system because there is in practice a maximum number of years in which it is possible to earn pension rights and there is a limit on the income factor used in the pension formula, which is "new" from 1992. The British basic pension scheme has two "flat rate" levels, one for pensioners with a former work record and one for pensioners without.

In the other 3 countries the pension from the basic system is "flat rate".

The pensions received depend upon marital status in 4 of the countries, with Germany being the exception. A married couple with two pensioners have a disposable income which is less than twice that of a single pensioner (basic scheme) but the ratio between the two levels varies a great deal. In Sweden a pensioner couple´s disposable income is approximately 1.75 times that of a single pensioner, in e.g. Denmark the same relation is approximately 1.55. The ratio gives an impression of the equivalence weights implied in the different countries. The most usual "OECD" ratio is 1.7.

Means testing of basic pensions is primarily taking place in the two Scandinavian schemes, but there are limits for extra income in e.g. the German system when pensions are taken out before the formal retirement age. In Sweden means testing of the basic pensions is only in relation to income from the additional public pension scheme, in Denmark several sources of income can result in means testing. In Sweden it is only the supplementary part the basic pension which is means tested in this way, in Denmark it can, for pensioners up to 70 years of age, also be the basic amount which is reduced by extra income.

Additional public pension schemes are available in Sweden, Denmark and Great Britain, the Swedish one being the most important. In Sweden the nominal amount from the additional pension scheme is already (on the average) significantly larger than the basic pension. The means testing of the basic pension implies a combined marginal percentage of 100 for that part of the basic pension (the supplementary amount) which is exposed to means testing, that is approximately 35 per cent of the total for a single pensioner. It is only additional pension income beyond 35 per cent of the basic pension which contributes to an increase in the disposable income of the pensioner. For that part of the additional pension income taxation is furthermore quite severe, so the contribution to disposable income from the additional pension scheme is relatively modest compared to the substantial nominal amounts. The supplements from the British and especially the Danish additional schemes are not of the same magnitude as those from the Swedish scheme.

The replacement rate

Two "events" have been calculated, one being retirement after a "maximum" time of participation on the labour market, the other being "retirement" after no participation at all on the labour market. The two events are extremes, giving insight into the character of the public pension systems of the 5 countries.

In the calculations based upon former working period it is assumed that this is as long "as possible" in 1992, i.e. it is the maximum possible pension the retired APW receives. Some of the additional schemes, i.e. the Danish and the British, have not been in operation long enough for obtaining full pension rights for the participants. In these cases it is assumed, that the APW has contributed to the schemes for as long time as possible before retirement in 1992. The Swedish ATP scheme started in 1960, which means, that it has been possible for the APW to contribute for the 30 years, which is the maximum taken into account, when the pensions are calculated. For Germany it is assumed, that the APW has earned pension rights in 45 years (education and work), which must be close to a physical maximum. It should be noted again, that it is the maximum possible pension at retirement in 1992 at the formal retirement age, which is calculated. The net replacement rate may be a little exaggerated in the German case, because of the very long former working period assumed.

For people without former labour market participation it is perhaps not meaningful to use the term retirement, and the net replacement rate has to be interpreted as relative to the annual income of the APW. Note that the calculations in table 10 are of net replacement rates.

Table 10. The net replacement rate at retirement, 1992.

	S	DK	D	NL	GB
	With former max. working period				
Net replacement rate	69	59	73	50	47
	Without former labour market participation				
Net replacement rate	41	53	0	50	16

The retired APW in Sweden has a net replacement rate close to that of the retired German APW and higher than the rate for the Danish APW, which is above the "Dutch" and "British" net replacement rates. The reductions in the Swedish pensions by approximately 2 per cent in 1993 (in relation to what they would have been) will lower the net replacement rate in 1993 for the Swedish pensioners.

For the pensioner without former occupation, Denmark has the highest "net replacement rate" followed by The Netherlands and Sweden. The reductions in 1993 of the Swedish pensions will also lower this replacement rate. The replacement rate is low in Great Britain, and straight 0 in Germany. The implication is, that there is a very substantial difference between the public pensions for men and women in Germany and Great Britain, both countries with relatively low participation rates for women.

The conclusion is, that public pensions in Germany and Great Britain are very dependent upon former work and income, while that is not so much the case in Sweden and Denmark and not at all the case in The Netherlands, where company and other private schemes are relatively important.

Family allowances

All 5 countries do have allowances for families with children. In Sweden and Denmark the allowance is a cash transfer while it is combined with tax deductions in Germany for "ordinary" allowances and in The Netherlands and Great Britain for allowances for single providers. Most of the countries also have special additional allowan-

ces for single providers but these are not considered here. Superficially the family allowance schemes look alike in the 5 countries and their contributions to the disposable income of the "APW-couple" are not all that different. There are, however, some differences in the principles of the schemes.

The following criteria were selected for the characterization:

- Is the family allowance a cash transfer and/or a tax deduction?
- Is the allowance for all families with children?
- Is there a variation in the allowance according to the number and/or the age of the children?
- Is the allowance means tested?
- For how long can the allowance be received?

The result of the characterization is included in table 11.

Table 11 Characteristics of family allowance schemes in 5 European countries, 1992.

	S	DK	D	NL	GB
	Allowance as cash transfer				
Eligible groups	All families with children	All families with children	All families with children	All families with children	All families with children
Variation in the allowance according to number and age of the children	Flat rate per child. Increasing from 3rd child	Flat rate per child. Highest for infants and young children	Flat rate per child. Increasing from 2nd child	Flat rate per child. Increasing from 2nd child and with age	Flat rate per child. Highest for first child
Means testing	No	No	Yes	No	No
Max. duration (age of child)	16/End of school	18	18/27	17/27	16/19
	Allowance as tax deduction				
Existence	None	None	Yes	Yes	Yes
Eligible groups			All families with children	Single providers	Single providers
Type of deduction			Flat rate, value increasing with income	Flat rate, value increasing with income	Flat rate, value increasing with income

Comments

The cash transfer element in the 5 countries is for all families with children. There is some variation between the countries in the level of the allowance according to number and age of the children. In Sweden, Germany, The Netherlands and Great Britain there is a variation according to the number of children. In the 3 first mentioned countries it is the "youngest" of the children who receive the highest allowance, in Great Britain it is the "eldest". In Denmark the cash transfer is higher when the child is "young", in The Netherlands it is opposite.

Germany is the only country where the cash transfer is means tested. The means testing only takes place on the allowance for the 2nd (and "later") of the children, and there are minimum floors for the allowances for these children.

The maximum age for receiving this allowance varies considerably, but in several cases allowances for education take over, which is the case in Sweden and (with a one year gap) in Denmark, in other cases the allowance continues during education (the "end" is the age after the / in table 11).

In Germany, The Netherlands and Great Britain there is also a tax deduction scheme for families with children. The German scheme is the only general one (covering all families with children). The deduction, which is the same for each child, has the highest value for high income families, because the deduction is in taxable income exposed to a progressive taxation scheme. Families who cannot utilize the deduction receive a cash transfer equivalent to the tax value of the deduction, but according to the lowest marginal taxation rate, which is 19 per cent in Germany.

The level of the allowance

The reference for the APW calculation is now the annual income of the APW couple with 1.5 times the income of the single APW. The "reference" couple has no children. In the German case means testing has been applied for the 2nd child (and only that) because the family income is in the range, where means testing is very likely.

The effect on the disposable income of the "reference" couple of having 1, 2 and 3 children is calculated in table 12. The children are between 0 and 7 years old (0 and 8 in The Netherlands).

Table 12 The effect on disposable income from family allowances, 1992.

	S	DK	D	NL	GB
	Percentage change in disp. income from:				
1 child	+4.8	+4.3	+4.0	+2.3	+3.0
2 children	+9.6	+8.6	+7.8	+5.7	+5.5
3 children	+16.9	+12.9	+15.4	+10.0	+7.9

The effects of the varying levels of the allowance according to the number (and the age) of the children are reflected in the table.

Sweden has the most generous scheme but both the German and Danish ones are close to the Swedish. The means testing of the allowance for child no. 2 in Germany is the reason for the relatively large "distance" to Sweden and Denmark for the "event" 2 children. For 3 children the Danish scheme is not so generous, because there is no variation according to the number of children here. The calculations for Denmark all include young children, the levels are not so high for older children (7 to 18 years). The "freezing" of the Swedish allowances at a constant level from 1991 through 1992 and 1993 will narrow the gap to the schemes of the other countries.

Maternity leave

Maternity leave and the associated compensation for loss of income is an important element of social security in all 5 countries. The compensation scheme is often a separate part of the insurance system in connection with illness.

Relevant criteria for the characterization of the maternity leave benefit schemes include:

- For how long can the benefit be received?
- Has the father a legal right to a share of the maternity leave and the benefits?
- Is the benefit "flat rate" or "related to income"?

The maternity leave benefit schemes are, as already mentioned, related to the insurance schemes for illness in several countries e.g. as far as administration and income concepts are concerned. There are, anyhow, significant differences too. There is no waiting period in any of the schemes for maternity leave benefits. There is no lower compensation for the first part of the leave, but there might be for the last part, that is the case in Sweden.

The characterization is contained in table 13.

Table 13 Characteristics of maternity leave benefit schemes in 5 European countries, 1992.

	S	DK	D	NL	GB
Max. benefit period	64 weeks	30 weeks	14 weeks[3)]	16 weeks	18 weeks
Participation of the father	Minimum 90 days[1)]	2 weeks	None	None	None
Type of benefit	Income related[2)]	Flat rate	Income related	Income related	Mixed

[1)] : Can be transferred to the mother by mutual agreement.
[2)] : Related to income for 52 weeks, flat rate for 12.
[3)] : Germany has a supplementary scheme, c.f. the comments.

Comments

The entries in the table are for usual 1 child births. In medically complicated or in "multi" birth cases, the max. period is usually longer.

The variation among the countries is very substantial, the max. benefit period in Sweden being 4.5 times as long as the ordinary period in Germany. The two Scandinavian countries have the highest labour market participation rates for women, that is part of the explanation for the favourable terms concerning the length of the maternity leave, but they are also the only countries where the father has a right to participate in the leave and the compensation. The father can participate in the German supplementary scheme, c.f. later.

The Swedish system is outstanding in flexibility both with regard to the mother's and the father's rights (the maternity leave can be divided between them in varying proportions) and with regard to splitting the period into minor periods up to the 8th year of the child.

The max. benefit period in Germany, The Netherlands and Great Britain is relatively short and only for the mother. In Germany there is a supplementary child care benefit scheme, where the mother or the father can receive 600 DM a month for up to 1½ years after the birth of their child (2 years from the start of 1993). The condition is that the recipient is not working or as a maximum has part time work. For those participating in the labour market there is a right for leave of absence from work during the benefit period. The benefit is means tested after 6 months. The means testing is based upon income information 2 years ago and would result in no benefits for the APW-couple with 1.5 APW income. It is not possible to receive other social benefits in the period the child care benefit is received, except the compensation for maternity leave which is reduced accordingly.

In Sweden, the compensation is 90 per cent of the lost income (up to 7.5 times the "basic rate") for the first 52 weeks. For the last 12 weeks it is a "flat rate" benefit. In Denmark the benefit is "flat rate" for the APW (for low income employees the compensation is 100 per cent), in Germany (ordinary scheme) and The Netherlands there is full compensation for the lost income. In Great Britain the benefit is "income related" for the first 6 weeks and "flat rate" for the remaining period, which is up to 12 weeks.

The replacement rate

Two calculations have been performed, one for the max. benefit period (within one year) and one for a common benefit period, that is the ordinary one for Germany, which is 14 weeks. The change in disposable income is measured in proportion to the APW-couple having two children. The precise interpretation is, that the family gets its second child at the start of the year and has two children all of the year.

In the calculation for Sweden (covering a total maternity leave of 360 days which is the maximum for the benefit being "related to income") it is assumed, that the wife has the leave and compensation for 300 days, the husband for 60 days. For Denmark (covering a total leave of 30 weeks) it is assumed, that the wife has 28 weeks and the husband 2 weeks of the leave and associated compensation. In all other cases it is the wife having the leave and the compensation alone. For Germany only the ordinary scheme is included in the calculations. The results are contained in table 14.

Table 14 The effect on disposable income from maternity leave benefits, 1992.

	S	DK	D	NL	GB
	Max. duration of maternity leave				
Replacement rate	90	63	100[1)]	100	53
Change in disp. income %	-3.5	-6.3	0	0	-4.3
	Common duration of maternity leave				
Replacement rate	90	63	100[1)]	100	58
Change in disp. income %	-0.9	-3.0	0	0	-2.9

[1)] : The replacement rate is net, after taxation. Ordinary scheme only.

Two of the three countries with short benefit periods, Germany and The Netherlands have full compensation during maternity leave, while it is lower in Great Britain. In the two Scandinavian countries the APW-couple experiences a relatively modest decrease in disposable income. The Swedish system is especially remarkable. In the maximum period case the parents can have a combined maternity leave of a duration of one year for a modest drop of 3.5 per cent in disposable income.

The Swedish social security system is in general terms in line with the country's welfare image but it is not always "better" than that of other countries. One element is, however, unique, and that is the maternity leave benefit scheme.

Summary of the APW calculations

The calculations presented in the preceding sections are summarized in two tables, one for the single APW and one for the APW couple, c.f. the following.

The calculations are updates for 1992 of similar calculations for 1991 presented in the Danish report "Elements of Social Security in 5 European Countries, a Comparison".

For Sweden the changes from 1991 to 1992 are only marginal. The maximum benefit from the unemployment insurance has increased at a slower rate than the average wages, the replacement rate has therefore decreased marginally resulting in a slightly larger relative decrease in disposable income in 1992 than in 1991. For 1993 (from the 2nd half year) there will be a significant deterioration for the unemployed APW in Sweden. The family allowance for children has been nominally constant in Sweden since 1991. The relative lift in disposable income from this element is therefore a little smaller in 1992 than it was in 1991. This trend will continue in 1993.

For Denmark the only important change is for the family allowance for children. This element was improved in the 2nd half year of 1991, having full effect in 1992, resulting in a relative larger lift in disposable income for that year than in 1991. For 1993 the regulation has been "delayed", but it has not been "cancelled" as in Sweden.

For Germany and The Netherlands, where most of the benefits are related to income, there are only small changes in the replacement rates from 1991 to 1992. The "drop" in the net replacement rate for the German pensioner from 76 to 73 per cent is not a real drop, but because a too low wage level was used for 1991 in the Danish study. The family allowance in Germany was improved in 1992 through an increase in the tax deduction for each child and an increase in the cash transfer for the 1st child.

In Great Britain the benefits increased less than the wage level from 1991 to 1992. The isolated effect of this is marginally lower replacement rates for 1992. Changes in the British taxation system from 1991 to 1992 had a counteracting effect on the impact of the "events" on disposable income, when the two years are compared. It should be

noted, that in the Danish study for 1991 the wage level was exagerated resulting in too low replacement rates for that year.

There has not been significant changes in the gross replacement rates and the impact on disposable income from the elements of social security in the 5 countries investigated here from 1991 to 1992. Reforms primarily in Sweden, but also in some of the other countries, will probably change that conclusion for 1993 and 1994, where significant changes can be expected.

1992 "Standard" income events for single apw in:

	Sweden		Denmark	
	Replacement rate	Change in income %	Replacement rate	Change in income %
Ill 1 week	81[1)]	-0.3	63, 100[1)]	-0.6, 0
25 % unemployment, eligible for compens.	86[1)]	-3.1	63[1)]	-7.2
25 % unemployment, not eligible	30[1)]	-15.9	31[1)]	-6.3
Injured, total loss of working capability	100[1)]	0	104[1)]	-29.1
Injured, ⅓ loss of working capability	100[1)]	0	80[1)]	-4.5
Pensioned[2)], max. working period	69	-31	59	-41
Pensioned[2),3)] 41 working period	-59	53	-47	

[1)] : The replacement rate is before taxation. For illness there are two replacement rates and changes for all countries except Sweden. The first refers to insurance alone, the second includes usual compensation from the employer. For Sweden the two coincide in 1992.
[2)] : The replacement rate is after taxation.
[3)] : Strictly speaking "nonsense". The concepts are relative to the APW.

1992 Family benefits for *APW-couple* in:

	Sweden		Denmark	
	Replacement rate	Change in income %	Replacement rate	Change in income %
1 child	—	+4.8	—	-4.3
2 children	—	-9.6	—	+8.6
3 children	—	+16.9	—	+12.9
Birth of child no. 2 benefits, max. duration	90[1)]	-3.5	63[1)]	-6.3
Birth of child no. 2 benefits, standard duration	90[1)]	-0.9	63[1)]	-3.0

[1)] : The replacement rate is before taxation. The first case with benefits in connection with birth reflects the effect of the maximum duration of the benefit. The second case reflects the effect of a common duration of 14 weeks.
[2)] : The replacement rate is after taxation.

Germany		The Netherlands		Great Britain	
Replacement rate	Change in income %	Replacement rate	Change in income %	Replacement rate	Change in income %
100[2], 100[1]	0, 0	42, 100[1]	-1.0, 0	8[1], 80[2]	-1.6, -0.4
63[2]	-7.0	70[1]	-6.5	15.4[1]	-18.8
56[2]	-8.6	32[1]	-9.3	15.2[1]	-18.9
67[1]	-5.2	70[1]	-27.0	33[1]	-58.1
67[1]	+6.0	63[1]	-10.7	30[1]	-19.6
73	-27	50	-50	47	-53
0	-100	50	-50	16	-84

Germany		The Netherlands		Great Britain	
Replacement rate	Change in income %	Replacement rate	Change in income %	Replacement rate	Change in income %
—	+4.0	—	+2.3	—	+3.0
—	+7.8	—	+5.7	—	+5.5
—	+15.4	—	+10.0	—	+7.9
100[2]	0	100[1]	0	53[1]	-4.3
100[2]	0	100[1]	0	58[1]	-2.9

4 Social Insurance Problems and Structural Reforms

Most countries in Europe face persistent and growing problems in their system for social protection. The problems often are similar and include equity problems, rapid increases in expenditure and concerns about inefficiency and poor performance. Many countries have contemplated or implemented major reforms to reduce present and future problems. However, the reforms show a large variation in strategies and focus. This chapter gives a brief review of recent major social policy reforms in the United Kingdom, the Netherlands and in Germany.

The chapter is based on expert interviews and written materials collected in november 1992 - january 1993, mostly from various Ministries. The impressions and conclusions expressed are not, however, the official standpoints in each country, but rather a mix between expert opinions and own observations or interpretations — and still perhaps some misunderstandings.

Of course, a short review like this cannot give a comprehensive and fair description of each reform, but that is not the scope. Instead, the aim is to illustrate the experiences of structural reforms which have been accumulated and from which Sweden should learn before rushing from "The Swedish Model".

The experiences collected have been targetted to economic performance: cost control, efficiency incentives and equity. That leaves much out, for example legal and administrative matters.[1]

[1] Many thanks to my brave secretary, Gunn van Tartwijk, who made this a readable translation

4.1 The United Kingdom

The social insurance in the United Kingdom still is influenced by the Beverage Plan. The public social benefits are often basic benefits and they are financed with contributions in proportion to the gross income up to a certain level. In the 1980s, the United Kingdom experienced increasing structural problems predominantly within the public pension and the health care sector.

Since the conservative party regained power the Government has implemented a consistent and long-term policy to transfer a large part of the public engagement to the private sector. Best known in Sweden perhaps is the privatization of public companies, the compulsory tendering procedure within major parts of the public service and the changes in the housing sector. But major changes have also been implemented within the social insurance, and there are plans to continue this reform strategy. As a result, the social insurance in the United Kingdom has been changed in the direction towards the model that is more common in continental Europe. However, the changes in the health care do not follow the same route.

4.1.1 The Statutory Sick-pay Reform

The sickness insurance in the United Kingdom was partly transferred to employers in 1983 in a new statutory sick-pay (SSP) system which today covers the first 28 weeks in a sick spell. The first proposal was laid in April 1980 in the Green Paper: Income during initial sickness. A new strategy (cmnd 7864).

Structural Problems

The main structural problem within the old system of sickness benefits was that of effectiveness. There was a duplication of work between employers and the Department of Social Security (DSS), both paying benefits in most cases of sick spell. One of the objectives of

the SSP scheme was to substantially reduce the overlap for short sick spells which had grown up between business and the State. In the late 1970s and early 1980s there had been a tremendous growth in occupational sick-pay and it made no sense for the State to continue to provide payments for short-term sickness through the social security system when many employers were already fulfilling the same task through occupational sick-pay.

The work incentive also was damaged by the combination effects of high benefits and tax exemptions. By bringing the bulk of sickness payments into tax, the Government ended the anomaly whereby many employees got more compensation when sick than at work.

Main Features of Present System

The statutory benefits in the United Kingdom is much lower than for example Swedish benefits. The sick pay today is paid out at one of two benefit levels. When average gross weekly earnings are £ 195 or more, the current rate of benefit is £ 52,50. If the average gross weekly earnings range from £ 56 till £ 194,99, then the current rate of benefit is £ 46,95 (this equals approximately SEK 2000 per month). Under a weekly average earning of £ 56, SSP is not payable, but a payment of income support may be made depending on the level of the employees income.

Self-employed and unemployed people may receive sickness benefit if they have a recent record of paying National Insurance Contributions. The basic rate is £ 42.70 a week but more may be payed for dependants.

It is estimated that approximately 70 per cent of the employees receive the higher rate of benefit. Statutory Sick-Pay is not payable for the first three qualifying days in a sick spell (waiting period). Benefits are usually paid only for the days which he or she would have worked but for the incapacity. The basic requirements of eligibility and benefit levels are legislated.

Reform Strategy

The changes in the United Kingdom during the 1980s in the area of sickness insurance followed the same route, as in a number of other European countries, towards a welfare mix in which the social protection became a combination of public, collective and private parts. Thus, public-paid statutory sickness benefits in the United Kingdom were extended with occupational benefits from the employers, either from own arrangements or through special insurances. Nowadays, sickness benefits above the public minimum level generally are considered as a natural and important part of the employment contract with the employee. The firms regard a competitive package as an essential part of personell policy.

About 72 per cent of the employees covered by additional insurances will have 100 per cent compensation. This expansion of occupational schemes is highly estimated by the Government and others, who regard this as an important change in social policy.

Consequently, the idea was to partly disengage the State from a job which employers had already shown themselves capable of fulfilling and to make public expenditure savings by bringing down the number of civil servants.

Elements in the Reform

Effectiveness and efficiency. In the Statutory Sick-Pay system the employer is liable to pay for the first 28 weeks in a period of incapacity for work. These 28 weeks do not have to be continous; spells of SSP that are separated by less than 8 weeks are linked together. If the employee is still sick when SPP ends, he will normally get invalidity benefits from the Social Security (unless SPP has lasted less than 28 weeks, in which case he will first get sickness benefit).

When the scheme started in 1983, employers were able to reclaim 100% of the total SPP paid. From April 1985, they also received compensation for the national insurance contributions they had to pay

on the SPP paid. They did this with holding the gross amount of SSP they had paid out from the general remittances of national insurance contributions made to the Inland Revenue.

The continuing growth in the level of occupational sick pay cover promted the Government to change this recovery percentage. The Statutory Sick-pay Act 1991 adjusted the amount that employers can recover from 100 per cent to 80 per cent. Special help was also introduced to small employers who experience abnormal levels of sick-absence. Employers can revert to 100 per cent recovery of the SSP once an employee has been entitled to more than 6 weeks. The net transfer system of SPP is regarded convenient both for employers and for Government finance.

The new Statutory Sick-Pay was efficiently implemented and all partners, including employers, trade unions and the State, generally regard the system as very functional. The decrease to 80 per cent recoverage has been extensively critizised from the trade unions and employees. It is argued that the reduction of governmental reimbursement of statutory sick-pay perhaps will decrease the occupational sickness payment schemes. The Government argues that it has been balanced by reduced employers' national insurance contributions. This largely offsets for employers as a whole the cost of the SSP changes.

Efficiency has been gained also by reducing the after tax net compensation. Abuse still exits, but is generally seen as a minor problem.

Cost control. Today, the cost control for the sick-pay is to a larger degree a task for employers. It is generally anticipated that sickness absence and expenditure have developed quite nicely since the reform. It is pointed out that the high unemployment efficiently reduces sickness absence.

The Government has an influence on expenditure development, for example by the level of the State basic amount in the sickness payment scheme. The higher levels especially have been changed moderately for a couple of years. The possibilities of reaching one single level for publicly paid sickness benefit are discussed now and then.

The partnership in the sick-pay system between the State and the employer and firms is regarded as an important incentive for cost

control. Employers generally pay extra benefits of a considerable level. Employees and their trade unions are well aware about that wage margins are influenced directly by costs of sickness absence. Consequently, there are obvious and clear links between the company costs, wage margins and the State expenditure for sickness absence. This is seen as a best-solution on incentives for cost control in a sickness benefit system.

The only major criticism against this system is raised by the National Audit Bureau. It argues that the State has not monitored adequately how employers have administered the SSP scheme. There is a risk of abuse.

Equity and distribution. Employers have continued to introduce extended occupational sick-pay cover to their employees. This has now grown to the extent that it is estimated that 91 per cent of the work-force have employers with occupational sick-pay schemes. However, there exists no reliable analysis of the actual net compensation level in different groups, areas and branches after the reform.

The differences in compensation levels between various groups in the United Kingdom are considerable. White collars and public employees have 90 to 100 per cent net compensation. Blue collar workers generally have a much lower compensation, not infrequently close to the publicly guaranteed minimum level. These differences are generally seen as an integrated part of wage differences between the various groups and sectors.

Before the reform it was suggested that the disabled and those with poor health records would suffer as a result of the provisions of the SSP-Act. This has not been clearly supported by research facts. Indeed, research by Patricia Prescott-Clark of the Social and Community Planning Fund indicates that half the people with disabilities took less than five days a year off work for sickness or treatment. And over a five-year-period half of them have not had a spell of sickness or treatment lasting a month. There is no suggestion that the employment of a disabled person would lead to increased costs for the employer.

The risk for increased selectivity in hiring new employees, of cream skimming the healthy, has been discussed but is not yet observed as any major problem.

4.1.2 Work Injury Insurance and Invalidity Benefits

The U.K. provides a no fault industrial injuries scheme which is funded and administered by the State. Benefit is paid to employees who suffer industrial injuries at work which result in a continuing disability of at least 14% (1% in certain respiratory diseases). Industrial injury benefits can be paid in addition to any other benefits, such as statutory sick pay, and awards range from £ 18.31 to £ 91.60 per week. In addition to the benefits provided by the State scheme employees can also seek damages from employers under common low where the injury was caused by employer negligence. Employers are required to insure themselves against such claims under the Employers' Liability (Compulsory Insurance) Act. In general, any state benefits paid are recovered in full from awards of common law damages.

Invalidity Benefit is paid to people incapable of work after they have received Sickness Benefit and/or Statutory Sick Pay for 28 weeks. Basic invalidity pension, which is one of the parts that make up Invalidity Benefit, is currently £ 56.10 and is higher than the standard rate of Statutory Sick Pay, currently £52.50 *and* the State Sickness Benefit rate which is currently £ 42,70 for those under pension age and £ 53.80 for those over pension age.

The majority of employees also have long-term occupational sick pay directly paid from the employer or sometimes from a re-insurance system. The State Invalidity Benefit is usually lower that the occupational sick pay. Long-term occupational sick pay benefits are generally paid until retirement. Many companies in the U.K. directly themselves or through premiums pay a direct part of the costs for marginalization and social exclusion of the work force within the company.

The rather high level of social exclusion is regarded as a persistent and very serious problem also in the United Kingdom. The marginalization through early retirement and invalidity benefits is increasing year by year, in spite of the fact that companies more have to pay the costs directly than in Sweden. There is no clear identification which factors are behind this trend. But it is obvious to many observers that

the institutional and individual incentives within sickness-pay systems and invalidity benefit systems may have an important and growing influence.

4.1.3 The 1988 Pension Contracting-out Reform

In 1988, the United Kingdom implemented an extensive pension reform which was intended to improve cost control and saving incentives. The reform introduced a new mix between public, collective and private benefits. Clearly the intensive discussion of the reform has been observed outside the United Kingdom, but the components and strategies in the reform are rather complex and the early result of the reform is also difficult to evaluate.

Main Features of Present System

By tradition, the pension system in the United Kingdom is strongly related to work history. Both the basic pension, public income-related pension and occupational pensions are dependent on the number of years pension contributions have been paid. In order to get a complete basic pension usually a person has to pay contributions for at least 90 per cent of a possible number of working years. Some occupational pensions schemes are of a defined contribution nature or non-contributory, i.e. the employer meets all costs, are those are not directly dependent on the number of contribution years. A low basic pension benefit is paid to all persons without a previous work history. A married women who does not satisfy the contribution conditions is entitled to a pension of £ 33,70 per week on the basis of her husband's contribution record, provided she is over pensionable age and he has claimed his retirement pension. Quite a number of old-age persons in the United Kingdom also receive income-tested supplements, but they still very often live on quite a low economic standard compared to the working population.

The public income-related supplementary pension (State Earnings-Related Pension Scheme or SERPS) is calculated on earned income. SERPS is a defined benefit system and is financed as a pay-as-you-go with contributions without any funding. The pension is 1,25 per cent of gross weekly earnings, presently between £ 56 and £ 420, from 1978 to the year before retirement. A non-contributory pension is paid to people over the age of 80, who have not qualified for a contributory pension. The "earnings factor", i.e. the value of the earnings on which contributions have been paid, is increased annualy in line with earnings, but increases in pensions in payment and the earnings bands increase in line with prices.

From 1988 income-related supplementary pension with a publicly regulated financing can be achieved through SERPS, employers' programs and through private insurance.

Structural Problems

The structural problems in the public pension system in the United Kingdom have been persistent for decades. As in many other countries, the problems have centred around *equity and long-term cost control.*

Earlier, equity or distributive problems were in focus. During the 1970s basic pension was indexed in line with either prices or earnings, whichever was higher. However, the State Social Security scheme was financed by a flat rate contribution and a smaller gradueted, i.e. earnings related, contribution. As pensions had increased, these contributions had increased to the detriment of low income erarners. Benefits later received were too low for a number of pensioners. Too many retired persons to survive were dependent on various income-tested supplementary benefits. The expansion of supplementary employer-paid occupational pension was very uneven and diverse. It was difficult or even impossible for employees to estimate their future pension security.

SERPS was implemented in 1978 with the aim of solving most of the problems in the retirement system. At the time when SERPS was

implemented, the employers were given the possibility to contract out pension arrangements for their employees. The requirement was that employers' pension arrangements eventually gave at least as good retirement pension as SERPS. An Occupational Pensions Board judged these applications, supervised the financing and funding. However, the problem with these arrangements was either that small employers could not establish occupational pensions schemes, or because the scheme operated on a defined contribution basis, it could not guarantee a pension of a specified level. Therefore, most employees stayed in SERPS.

In the 1980s, cost control problems replaced equity as the major structural problem. As in most other European countries, projections in the beginning of the 1980s showed that, with an assumption of a weak economic growth, the complete margin for public spending in 2025 would have to be used for public pensions, because of the fast growth in SERPS. In rather a short time, the Government decided on a complex and far-reaching reform of the public pension system, which was implemented in 1988.

Reform Strategy

The structural reform strategy was to decrease compensation levels in the public pension system and to introduce special incentives to move pension savings from the State to occupational or private pension (contracting-out). The purpose was both to enforce short-term budget control and a long-term financial balance in the pension promise.

From the beginning of year 2000 the compensation level in SERPS will be decreased, from 1,25 per cent to 1,00 per cent in year 2010. The actual percentage depends on the length of the member's working life. This change is introduced without the lowering of pension contribution. The purpose with this decreased compensation level is also, besides strengthening financial balance, to enforce the incentives for contracting-out. After this decrease it will become easier to compete with SERPS-level within occupational pension programs or through private insurance programs.

Elements in the Reform

After 1988 it is easier for employers to choose to start pension arrangements themselves for their employees, either through own pension programs and fundings — or through reinsurance with private pension companies. The mandatory pension contributions are paid both by employers and employees, as a certain percentage of week salary, with a higher per cent at higher wage levels.

In case of contracting-out, the public contribution for the employer is decreased by 3,0 per cent and for the employees by 1,8 per cent (earlier 3,8 and 2,0 per cent). This share of the contribution can then be transferred to the employers' pension program. It is legislated that pension programs shall guarantee at least the same level as SERPS, unless it is a defined contribution scheme. In the reform the Government expanded the employers' possibility to construct "defined contribution system", in which the final pension benefit is a result of the return on pension investments.

Occupational pension schemes may be "non-contributory" which means that only the employer pays contributions, or "contributory" which means that the employee contributes as well. In a defined contribution scheme, whether contributory or not, the employer will pay into the scheme a fixed percentage of the salary of each employee. Under a defined benefit scheme the employer will pay either a fixed percentage of employees' earnings or will operate on a "balance-of-cost" basis. This means paying whatever the scheme-actuary considers necessary to ensure that a scheme has sufficient assets to meet its liabilities.

In defined benefit schemes, employees know before retirement what their pension rate will be in relation to their earnings and will have a guarantee of that rate. They can plan their retirement finances accordingly. In contributory schemes employees pay a fixed percentage of earnings as laid down in the rules. The actuarial valuation then determines the level of the employers contributions.

Defined benefit schemes are normally preferable for employees, but they may create problems for particularly small employers. A fall in the value of the scheme assets during a period of economic recession

may require the employer to increase contributions at a time when the business is hard pressed. Under a defined contribution scheme the pension payable at pension age will depend entirely on the investment returns of the contributions. The employee will not know in advance what his pension will be. Defined contribution schemes are more beneficial to younger employees than those later in the working life, because the same percentage of earnings will be invested and able to accrue income for a much longer period.

The most important change in the pension reform 1988 was that the individual was given a possibility to leave both occupational pension schemes and SERPS completely and to buy his/her own pension saving programs in Appropriated Personal Pension schemes (APP). APP is operated by insurance companies, banks, unit trusts, building societes, etc. In APP the final pensions are defined by premiums and investment returns. There is no requirement for an APP scheme to provide pension at the same rate as SERPS, but in practice an employee who was a member of such a scheme throughout the working life would be likely actuarially to receive a pension at the SERPS level. The schemes operate on a defined contribution (money purchase) basis. At the scheme's pension age the accrued rights are used to purchase an annuity either from the provider or from another insurance company. In practice most APP schemes operate on a basis that contributions will exceed the level necessary for not beeing a member of SERPS and therefore the final pension will be higher than the SERPS level. Because the rate of accrual for early years of APP membership will be higher than the later years by reason of the longer period of investment, a person in an APP in his 20s will have a pension at a higher rate than SERPS, but a person in his 50s will have a lower pension than SERPS. Not altogether surprisingly members of APP scheme choose to go back to SERPS in their mid 40s.

Thus, an appropriate personal pension (APP) scheme is a scheme which can replace SERPS. If a scheme is an APP and is an employee-chosen scheme, the employer and employee continue to pay the full rate national insurance contributions to the department of social security which then pays "minimum contributions" to the APP of the amount by which the contracted-out rate of contributions would have been lower. A member of an occupational pension scheme who is not

used for contracting-out may at the same time be a member of an APP-scheme, provided that the only contributions paid to the APP are minimum contributions. This removes the members from SERPS.

The incentive for contracting-out to occupational pensions or APP is enforced by tax exemptions. Premiums are deductable and the return on investment in funds etc. is non-taxable. Taxation is limited to the final pension benefits. The schemes are required to satisfy conditions in tax legislation to obtain exemption from tax on contributions and what accrues from them. Tax legislation lay down restrictions on the aggregate contributions which may be paid into the scheme by the member. The maximum percentage of the salary depends on the age of the individual, from 17,5 per cent at the age up to 35, to 40 per cent at the age of 61 or more.

As the contract is between individual and provider, the employer generally is not involved, but an employer may arrange a "group-personal pension scheme" for his employees under which he agrees with the provider to provide details to his employees of the APP scheme and normally pays contribution in addition to those of the scheme members who are his employees. To employees who are contracting-out, the social security administration will pay the employer's pension contribution on 5,8 per cent of the salary between the highest and lowest level directly to the insurance provider. On top of this contribution the State between 1987-1992 added an extra 2 per cent in "temporary incentive contribution". This added extra per cent is irrespective of age and income.

The insured person may pay own premiums, on top of these basic contributions, but full tax deductability is limited to defined premiums depending on age.

Recent Experiences

Implementation. As a result of the 1988 pension reform the employers' interest in contracting-out pensions for employees has been increased markedly. Today more than 11 million employees have employers' occupational pension schemes, which is approximately 60 per cent of the labour force.

There are presently approximately 166 000 different occupational pension programs covering more than 370 000 employers.

According to Government projections it was estimated that 0,5 million persons would use the contracting-out possibility to private programs (APP) during the first years. However, the Government did not anticipate the market response. The pension reform was accompanied with immense market investment in advertising and scheme construction by insurance companies etc. Very large and forceful advertisement campaigns were launched on TV, in the newspapers, etc. They all made clear that the public pension was unreliable and that only private pension saving could be depended upon in the long run.

APP became very popular, not at least as a result of the very favourable investment return estimates the companies were using in the advertising campaigns. The companies said that for younger persons the contracting-out premium was approximately twice as high as an actuarial-defined amount based on the pension contribution.

The pension reform was a successful incentive change. More than 5 million people, mainly young persons, have already contracted out their pension savings to private insurance providers, which is about 25 per cent of the labour force.

Effectiveness and efficiency. The vital efficiency concerns in pension reforms are the potential effects on labour mobility and savings. Of course, it is too early to evaluate long-term efficiency effects of the 1988 reform. The observations until now are scarce and provisional.

With more than 166 000 different occupational pension schemes the State has to have a comprehensive regulation and administration to allow employees to keep their pension rights when moving from one employer to another. It is obvious that employers are eager to use

their pension programs to recruit, keep and reward their most valuable employees.

One statutory obligation is that members who have left pensionable service, whether by leaving the employment or simply opting-out of the scheme, have the right to have their pension rights transferred from one occupational pension scheme to another, or to a personal pension scheme, or used to purchase an annuity from an insurance company. However, there are still various restrictions to move contracted-out pension rights. There is yet no evidence in the United Kingdom which indicates that the labour mobility should have been decreased to an inefficient level as a result of the differentation of pension schemes.

The pension reform 1988 introduced improvements in mobility. An individual may contribute to an APP-scheme irrespective of his current employer. If he changes employer he may continue to contribute to the same scheme. This is in contrast to an occupational scheme (except an industry-wide scheme) under which he may be a member only while employed by the sponsoring employer.

One aim with the structural reform was to increase household savings. Within the system for contracting-out persons can pay own premiums above the state minimum contribution. In occupational pension schemes employers can decide themselves if employees also shall contribute with own premiums, or if the company shall cover all costs. In APP quite a number of contracted-out persons have chosen to save more than the mandatory premium. There is, however, no indication that the increased pensions saving in the United Kingdom should have increased gross household saving.

Cost control. Yet, the 1988 reform has not increased short-term cost control within the public pension system. The success of the contracting-out was accompanied by an increasing imbalance in the public system. As a consequence of the great number of young persons who have left SERPS, the contributions are no longer enough to pay present pensions. Furthermore, increased tax exemptions for pension premiums have considerably decreased income from direct taxes. This new imbalance is forcing increasing state grants into SERPS.

To increase the budget control, the premium which can be moved to APP was reduced in 1993 from 7,8 per cent (including incentive)

to 4,8 per cent. It is envisaged, furthermore, that the contracting-out popularity among younger persons will increase the problem of balance. The Government has changed the incentive so that the extra premium which can be transferred to APP is 1 per cent only for members of APP aged over 30. However, there are already clear indications that the major cut in the premium which can be transferred has influenced younger persons proportionally more often to stay within SERPS.

The full cost control effect is in next centuary, when the calculated proportion of replaced income in SERPS is decreased from 1,25 % to 1,00 %.

Equity and distribution. Persons using contracting-out to APP will do it at their own risk. If the investment returns in the long run are high, these persons will receive higher supplementary pensions than those remaining in the SERPS. However, if long and deep economic recessions will decrease the investment returns and the fund value, the pension will possibly become lower than the public guarantee in SERPS.

The State has only accepted to protect pension savers' money if the insurance provider should collapse. If there is a low investment return, these persons have to rely on the public basic pension. The insurance providers in the United Kingdom have still not experienced the same crisis and reduction of funds as the companies in Sweden, but the projections for the long-term investment returns have been modified recently, quite considerably. The persons using contracting-out have also now experienced that a number of insurance providers used as much as 40 to 50 per cent of the premium the first year towards overhead costs.

There are roughly 7,5 million contributors to the State National Insurance Scheme who are neither contracted-out into an employer's contracted-out occupational pension scheme nor members of an APP-scheme. The Occupational Pensions Board estimates that out of a total of 38 000 schemes, used for contracting-out of SERPS, 46 per cent are defined benefit schemes and 54 defined contribution schemes. As defined benefit schemes tend to be larger schemes, more members are in contracted-out defined benefit schemes.

There is no statutory obligation on an employer in the United Kingdom to establish an occupational pension scheme or to participate in a scheme set up for the industry in which he operates. Some employers operate a number of separate schemes, for floor-workers, office staff, executives, etc. Others provide a single scheme for all their employees. Very often employers provide a scheme for only certain categories of their employees, for example by excluding part-timers or employees in particular jobs.

Obviously, the pension reform in 1988 could increase income differences within various pension groups during the coming 20 years. It is said, however, that this is a consequence one has to accept if the incentives in pension system should be improved.

Safety. The employers' occupational pension schemes are supervised actuarially at least each 3 1/2 year, so that funding, controls, etc. are reliable. The funds are handled completely outside the employer, so that his pension promise can be fulfilled even in case of the insolvency of the firm.

However, the Maxwell case has revealed that firms, in spite of regulations and control, can misuse pension funds for private purposes. Assets of pension schemes controlled by Robert Maxwell were illegally removed and used for other purposes. As a result the schemes had unsufficient assets to meet their liabilities. Quite a number of employees and pensioners lost their pension rights through the illegal use of pension funds by Maxwell. The Government has had to put in £ 2,5 million to secure pensions, and it is working to restore future pension rights.

4.1.4 The Health Care Reform 1991

There are a number of excellent exposés of health care reforms in various countries (see, for example LU-bilaga 11 till LU90, Health Policy Studies nr 2, OECD). In this part of our report, the interest will focus rather on the recent experiences of the United Kingdom Health Care Reform, than on the special technical details in the reform. But in order to better understand the experiences, we have to briefly describe the main structure of the reform.

Main Features of Present System

The United Kingdom has a National Health Service (NHS), supplemented by a small but growing private sector. The NHS has been a successful institution, but as in a number of other countries there emerged crises of public confidence and funding and performance in the 1980s.

Before 1991, hospital and community health services were provided in public hospitals and by salaried employees according to an integrated model. Most non-hospital services were, and continued to be, supplied by independent practitioners according to a contract model.

Sick people can go directly to a pharmacist and obtain medicine. If they wish or need to consult a doctor they will usually go to a general practitioner (GP). Most people are registered under the NHS with one GP. It is estimated that about 75 per cent of all doctor contacts are handled by GPs. Individuals are free to change GP, but choice has until the new reform seldom been exercised. Consultations with GPs are free of charge.

The NHS is financed mainly out of general taxation. Expenditure on the NHS is decided by the Government and the bulk is cash limited. Financial control is fairly tight.

Structural Problems

The main structural problems in the NHS were neither concerning equity, nor cost control, but problems relating to effectiveness and efficiency.

During the 1980s there were a number of structural reforms implemented in health care in the United Kingdom. For example, District Health Authorities were obliged to introduce competitive tendering for cleaning, laundry and catering services in the hospital and community health service. In 1984, a limited list for drugs was introduced. The main effect of this was to remove a large number of household medicines from payment under the NHS. The general opinion seems to be that these changes, as well as within social welfare, have been rather successful. Successful is mostly defined as cost cuttings. The discussion has been whether these changes have been introduced at an unchanged quality level. There are no thorough evaluations as yet but one common opinion is that these structural reforms have not been achieved without some losses in quality.

There are indications that the health service in the United Kingdom is relatively cheap to provide and to administrate. Furthermore, indicators of health outcome suggest that the United Kingdom's health service performed adequately. However, the structural problems in the National Health Service intensified during the 1980s. There were persistent political controversies about the level of spending. The conservative governments tried to pull back the share of national income spent on health care. Critics argued that the health budgets were not enough to match growing demand from demographic change, new costly medical techniques, and from decided improvements in services. Queuing for critical health care became a more obvious and debated problem.

The structural problems in health care arose out of a crisis of public confidence. All sorts of engaged people, authoritative figures, economists, doctors, etc. made numbers of public demonstrations of concerns. The debate intensified about the funding and organization of the NHS.

The Government came under such pressure that it had to take action. Mrs Thatcher herself took charge in an internal review, and the conviction was that the way to meet growing demands was not to inject more money, rather to raise the health care sector's productivity further.

Reform Strategy

The Health Care Reform was presented in a white paper (Working for Patients, 1989). The reform is very far-reaching but, however, not as long-ranging in introducing privatization as in other sectors of the United Kingdom public sector. Therefore, of course, there is a great interest in asking which arguments lay behind the cautious strategy concerning health care.

The basic strategy of the Health Care Reform can be summarized as: no privatization, no contracting-out, no large scale experiments — instead a direct reform with internal markets and improved management. No changes were proposed in the sources of finance of the NHS, and hence in the demand on patients. There was to be a clear separation of the purchasing and the provision of hospital services mediated by contracts. The reforms were implemented starting from April 1, 1991.

There seem to be two main reasons for the fact that privatization and contracting-out did not appear as features in the health care reform. The first main reason is the very positive value which most people in the United Kingdom attach to the health care system: politicians, academics, producers and the general public. It is wellknown that health care in the United Kingdom is rather cheap compared to many other countries. The quality of health care is regarded as comparably high. When measuring the opinions of patients and the general public, health care is highly ranked, even compared with rankings of more expensive health care in other countries. The system also gives a rather equal care, and a wide access to service. The cost control is rather efficient.

So, why introduce privatization and complex experiments in a system which works rather well. Thus, the reform proposals were designed to build on the strength of the NHS and to tackle its weaknesses.

Secondly, it is a very common opinion in the United Kingdom among both politicians and academics that privatization and contracting-out will introduce wrong incentives and an inefficient production of health services. Private producers with profit interests, backed by large investments in marketing, will increase the already high demand for health service and even create new markets and needs for health services. In the end this system will increase production of health services where it is profitable, whilst other care will be less attractive. People in the United Kingdom have been scared by the experiences in the United States. Health care services are not regarded suitable as a market area because of lack of information in the decision processes and inconsistent and inefficient measures of health quality output.

Therefore, the health care reform is based on a centrally planned and uniformly implemented "efficiency" reform with internal markets, better incentives and more efficient management. The ambition is to combine the advantages in a budgetary system with better efficiency on the micro level. There are various models for health care reforms which are tested around the world, and the United Kingdom prefers a mixed model based on professional buyers and on the use of traditional private management methods.

The other dominating strategy, the insurance strategy, has been strongly rejected, also with the motives of market failure, for example cream skimming and adverse selection.

In effect, the changes involved a fully controlled move away from the integrated model towards a form of contractual model for the hospital services, together with a form of managed competition on the supply side. The family health services were to be put under the supervision of the Regional Health Authorities.

In the reform there was never any suggestion that constraints on overall expenditure would be relaxed.

Elements in the Reform

The health care reform of the NHS is described extensively in various sources, but it is important to note the weight which is put on unity, central governance and management.

When the reform was presented, the Government was heavily critizised both from the opposition, the public and many health experts because they did not introduce a reform step by step with experiments — to compare the advantages of different methods. The Government argued, however, that the reform was necessary at once. Most of the problems and their solutions were wellknown.

Experiments have been proven to increase rather than decrease the decisional problem. Systematic experiments within health care are regarded as bringing too large implementing costs and very often they are impossible to compare and evaluate. The main target with the reform, to increase quality and productivity, is very difficult to measure and compare. Therefore, experiments tend in the long run to create a localised obsession with own methods, which eventually could stop a larger reform. Furthermore, the Government felt the need for a reform too urgent to allow for an experimental approach. Gradually, this opinion became shared by many leading English and American health economists.

The basic concept of the reform, the contractual model, include GPs, District Health Authorities and hospitals. Both GPs and District Health Authorities now emerge as third-party payers and have contractual relationships with public hospitals. They may also have contractual relationships with independent hospitals.

Large group practices were given the possibility to have transferred to them part of the funds for hospitals. Funds cover costs of hospital diagnostic tests, out-patient consultations and some in-patient surgery, drug prescriptions. Initially they are funded at the service level but gradually they will move towards a weighted capitation. These *fundholders* have full responsibility for primary care but only partial responsibility for purchasing hospital and community health service care. The fundholders usually have more than 7 000 patients. Today they can buy more than 100 well-defined treatments in hospitals. By

April 1994 it is expected that about 40% of the population will be registered with fund holders.

The District Health Authorities have changed from organizer and provider of hospital care to purchasing agents. They shall identify the health needs of the local population and decide what services will be required to meet those needs. They shall seek out the best supplies before placing contracts. Their funds are decided on the basis of the size of their resident population, weighted by age, sex and standardized mortality. All DHAs have reconstituted themselves as purchasing agents and made a start in developing the new rule. This process has shown to be more complex than expected and most districts retain some responsibility for managing hospitals. It is in practice difficult to separate these responsibilities from the purchasing function.

One major element in the reform is the introduction of self-governing trusts. *Hospitals* breake away from the DHS and become free-standing organizations. They remain under public ownership, but have more managerial independence. It is expected that most hospitals will become trusts. By April 1994 it is expected that about 97% of hospital providers will be transferred to trusts.

Early Experiences

It is much too early, of course, to evaluate the reform. But there are already some interesting results and experiences which should be mentioned.

Implementation. The sequencing of the reform has been critizised. The discussion is whether controls should be kept or whether market effects should be stimulated. The strategy has been to maintain the controls until the effectiveness of market discipline has been proved beyond doubt. The problems have been concentrating on, for example, costing procedures, where prices until now have very often born little relation to costs. Given a free market strategy this would have distorted allocation decisions heavily. When proceding further, the introduction of pricing has strengthened the incentive to improve costing systems. Another problem is capital charging, where hospitals

have been pressed to become aware of the full costs of their assets and their implications for competitiveness of the services.

Another criticism has been that the need for a reform and the analysis of the problems in NHS were not sufficiently communicated both to the public and the health service staff. Neither manager, nor the public or patients understood why and how. These issues probably received insufficient attention.

Productivity and efficiency. The contracting system now covers all major patient flows. The contracts are still fairly rudimentary, the majority are block contracts. These contracts leave most risks with providers, including the responsibility for rationing.

Hospitals shall price their services, but it has been shown that costing systems are poor. Information systems are not sufficient to underpin price calculations.

Various arrangements for quality assurance have been introduced. Quality indicators are settled in contracts. Medical auditing is strengthened throughout the NHS. A patients' charter has set new quality standards, for example, maximum waiting times for hospital in-patient treatment.

The internal competition has already led to efficiency gains. The price per treatment has decreased 20-30 per cent for a number of treatments. People waiting more than 2 years for treatment have disappeared almost everywhere and many districts have nobody waiting over 1 year in spite of an increasing demand for health care. One explanation to the improvement is, however, that the Government has invested extra funds in the health care sector to meet the new reform. Real costs are estimated to have increased 1-2 per cent per annum during the last years.

Fundholding seems to have been a success with most GPs who have participated in the scheme. Fundholders have shown themselves to be capable of improving the responsiveness of hospital services for their patients.

The first follow-ups have shown that fundholders have exercised their power of "exit" and this has had considerable effect on the services and prices. Virtually all practices forced a better service by threatening to move, or by moving, custom. Many fundholders are planning to extend that strategy.

The main problem with fundholding is the fear, justified by American experiences, that incentives will increase the tendency to turn away costly patients. Therefore, it is crucial to devise controls and measures to cope with market failures in this insurance type of system.

Cost control. In the initial year 1991-1992 there was no clear financial crisis within the NHS, which is rather unique. The normal pattern is that the NHS in the third quarter each year have problems with queuing, closing wards etc.

The current year has shown more problems as internal market forces obtain more freedom. Much noticed have been the problems for London's hospitals, which have to make large cuts in expenditure and reduce staff. DHS have published a report proposing substantial rationalisation of services in London including improvements to primary care and the likely merger or closure of several large hospitals.

Equity. There were few large shifts between service providers and no reported major break-downs in services. The concerns that equity would be on the mind have yet proved unfounded. It has been claimed that patients of fundholders are receiving better service than those with non-fundholders. However, there is yet no hard evidence to support this. In the face of these concerns, the Government have taken steps to reaffirm that patients of non-fundholding practices should be treated equitable with the patients of funholding practices. In this way, it is intended that the gains achived by the patients of fundholders will be rapidly diffused to those of non fundholders.

Future directions. Most questions, however, are unanswered. The separation of purchaser and provider introduces the learning of new procedures and it is a long process of consequential adjustments to behaviour and to services, both for the health staff and for the Government. The process has to be voluntary and evolutionary, and it is necessary to state that some changes might be haulted or reversed.

In the United Kingdom almost everyone is convinced that this cautious method is more efficient than a strict privatization model based on insurance. Health care should still be governed by incentives

towards quality, rather than more narrow economic incentives. Consumers' choices are regarded inefficient as governing forces within health care. In the United Kingdom there are also doubts as to competition between GPs. Patients do not have access to enough information to rationally choose hospital, type of treatment, or doctor. Instead, the individual preferences should be taken care of in the dialogue between patient and GP. An outstanding question raised by the reforms in the U.K. is whether the GP or the DHA is the better purchasing agent for hospital care for the individual patient and for the community as a whole.

4.2 The Netherlands

The Netherlands has had for a long time as extensive and well developed social welfare systems as the Nordic countries. One important difference has been that the Netherlands has based the system to a larger degree on a mix of public, collective and private solutions. All citiziens are included in an insurance system with lower and statutory social benefits financed with taxes. Above this, the social insurance system is related to the labour market with collectively bargained systems which are financed mutually by employers and employees. The hospitals have been private and also substantial parts of the non-institutional health care.

The imbalances in the public budgets occurred in the Netherlands during the 1980s, as in most other European countries. The financial pressure was strengthened by the fact that a proportionally large degree of the labour-force in the Netherlands had been marginalized and transformed to beneficiaries. The degree of employment is comparably low, but the productivity is higher in the Netherlands compared with most other OECD-countries.

The structural problems within the public sector have been addressed for years. Different experiments have been contemplated or implemented to introduce new models for financing and administration. One of the most well-known and radical is the proposal for a new health insurance reform, but the Netherlands also has a mix between public and collective solutions in sickness insurance and pension systems, which can illustrate the pros and cons that are inherent in mixed systems.

4.2.1 The Health Insurance Reform

The main directions for a radical change in the health care system are agreed upon in Government and between most groups in the Netherlands. The first proposals have been discussed in parliament. Large campaigns for information and public advertising have been launched.

The whole reform will be introduced step by step and is expected to be completely implemented in the late 1990s.

Main Features of Present System

The Netherlands already has, in contrast to a number of other European countries, a health care insurance today. Employees with an income lower than approximately SEK 180 000 a year are compulsorily included in the health care insurance and contributions are paid by the employees as a certain percentage of their income. Contributions account for approximately 60 per cent of health expenditure, general taxation for 14 per cent, voluntary and out-of-pocket payments for the rest. The insurance systems refund all costs of medical treatment, drugs, hospital care, etc. Cost-sharing to the degree that is implemented in Sweden is not yet introduced in the Netherlands. Employees with an income above the threshold have to pay private insurance.

Structural Problems

There are various structural problems in the Netherlands' health care system, in equity and distribution, cost control and efficiency.

Efficiency. In a divided health care system each agent often acts to optimize his own set of targets. The Netherlands has experienced most of those problems which come from a divided organization. The rules governing funding and administration are confusing and inconsistent. Agencies can shift responsibilities onto each other with the result that patients do not get proper treatment. A patient whose treatment is finalized stays in hospital care since long-term care and home help is financed and administered in other ways, etc.

Cost control. The most important problem is regarded to be the cost control. It is impossible to project the needs. New and expensive forms of treatment are constantly becoming available. Health care professionals are pressuring the renumeration. All demands from

consumers and producers end up in the State. No single actor has clear incentives as to cost control or increased efficiency. Health care expenditure within the Netherlands grew at least as fast as in other OECD-countries during the 1980s. The crisis in health care financing at the end of the 1980s forced radical measures. Hospital projects were stopped, clinics were closed and the number of hospital beds was dramatically decreased. The policy with fixed budgets eventually led to absurd consequences. Doctors refused treatment to sick people when the money ran out. Patients turned to the courts to get their fair treatment from the State.

Equity and distribution. The insurance model always means a differentiation of premiums. Strictly actuarial, the variations can be seen as "justified". However, market failures, health equity goals for access and quality, etc. may produce unacceptable premium differences. In the Netherlands the contributions are differentiated, based on age and sex. People with health problems have experienced growing difficulties in finding an insurer who would accept them. The differences between people insured with the health insurance fund and people with a private insurance are sometimes very great, which is not regarded justified. On the other hand, the freedom of choice of many privately insured people means little in practice. Privately insured people often pay very different premiums for the same insurance coverage. People aged 65 and older, are dependent for future insurance only on their personal circumstances at the time of their 65th birthday. These and other traditional insurance problems have been one major reason for the plans for the Dutch health insurance reform.

Reform strategy

The targets of the Dutch reform are not only strictly economic, those of efficiency and cost control, but are as much a target to increase health care equity.

The Dutch Government came to the opposite conclusion compared to the United Kingdom concerning the strategy for a health care

reform. In the Netherlands the Government regarded a centrally strict budget control to be inefficient and potentially dangerous to the quality of health care. In 1987 the report of the Dekker Committee appeared and presented a completely new strategy. For the first time in the Netherlands, health care was seen as a "market" where supply and demand met. The costs of health care could and should be controlled by, for example, internal competition, i.e., making use of "market forces". At the same time, all health care should be brought under one single system. A basic insurance should be introduced for everyone.

The Government proposal, the Simon plan, is to a large degree based on the suggestions of the Dekker Committee. Approximately 95 per cent of all health care, drugs, services, etc. should be covered by a unified base insurance. The Dutch health care model could be seen as an insurance strategy, with public financing. Most of the present public engagement will be contracted out to private actors. The Insurance Boards will be transformed to consumer representatives and completely separated from health care producers, e.g. doctors, hospitals, nursing homes.

Elements in the Reform

Under the present system insured people can choose doctors themselves. The Insurance Board, the public fund or the private company are expected to pay. In the new system the insurance package will consist of treatment from different producers. The consumers will have to use certain health care producers.

The present distinction between insurance with a health insurance fund, private insurance and insurance schemes for public servants will disappear. The health insurance funds and private insurance companies will become "care insurers". Present health insurance funds and private companies may merge. Already, care insurers are expanding their competence and administration to adapt to the new insurance program.

The quality will be regulated in law. The care providers are responsible for the quality and to take systematic measures to promote and guarantee the quality. One basic idea is that consumers' choice should govern a large part of the system. Consumers are expected to exercise freedom of choice when using both health care insurers and providers. If not satisfied with a care insurer or provider, one should find another. The health care insurer and the professional health producer will learn from this and modify their policy and production. They will compete to satisfy the consumer, which eventually will improve the quality. Health insurers are not allowed to select good risks. Health insurers are expected to choose health providers more efficiently giving the best health care, regardless as to whether it is hospital care, long-term care, rehabilitation or social service that is needed.

The insurance will be financed by premiums; 82 per cent of the premium for the basic insurance will be calculated as a proportion of income. The other 18 per cent will be a flat-rate premium which is the same for everyone. The flat-rate premium may vary. The care insurer could offer the consumer the choice of an extra premium instead of a flat-rate premium. The consumer can also opt for an extra premium which applies to a number of specific facilities. It is expected that the insurer will compete with regard to the flat-rate premium. A company which operates more efficiently will be able to offer a lower premium, or it may instead provide more services. The insurer could also put various packages on to the market with different flat-rate premiums. A care insurer is not allowed to make the flat-rate premium dependent on the risk of an insured person. Age and health should not play any role for premiums.

Care insurers are expected to ensure that no unnecessary costs are incurred. For example, they will not reimburse treatment by a specialist if the G.P. can do it instead. Insurers will conclude agreements with several care providers. Under these agreements, various packages may be put on the market. Such a package is called a "care arrangement". In one package you may be sure of 24 hour home care, while another package may offer a less expensive form of care. The Government hopes that the substitution will produce considerable savings in the care sector.

The health care law will confine itself to define health care targets and specify its nature, content and scope. This is called "the functional definition".

The role of State will be markedly decreased. Almost all detailed regulations on the health care sector will be abolished. The new health care insurer instead of the State will take responsibility for health care, evaluation and costs. The State will define the targets, conduct a control of health insurers and do follow-ups of the quality in health care.

4.2.2 Sickness Insurance and Invalidity Benefits

The Netherland system for sickness insurance and invalidity generally is regarded as having problems with wrong incentives, both for the individual and for the various institutions. This is seen as an important and serious reason for the comparably large marginalization of the work-force in the Netherlands.

Main Features of Present Systems

The sickness insurance in the Netherlands is like most other countries in Europe based on the labour market. It is a combination of a lower State guarantee and a supplementing collective benefit. The public insurance guarantees 70 per cent compensation, up to a maximum of approximately SEK 900 a day of an income loss, for one year. The public system has two waiting days and supplements five days a week. The supplementary collective insurances include almost all employees. These insurances generally give 100 per cent compensation during sickness and also pay benefits during the waiting days. They are financed by the employers but based on collective bargains between the very strong labour-market organizations.

Entitlement to disability benefit arises when a person loses his income due to being unable to work in any "commensurate" employment. The payment is, as in other countries, dependent on the degree

of the invalidity. The course of disability is immaterial (i.e. occupational injury or disease). After receiving sickness benefits for 52 weeks, the State insurance or public insurance will pay 70 per cent of the income loss, which is the same as the State sick compensation guarantee level. This invalidity benefit is paid up to the retirement. Most companies will also give an own-financed 100 per cent compensation during the first year after the year of sick-pay, or even longer. Temporary work income does not affect the benefit level.

Invalidity benefit is financed completely with contributions from the employees, which is a certain percentage of the wage. Employers refund the payment to the employees. Financing is unrelated to any risk and not dependent on the level of sickness absence.

There is also a minimum guarantee level for all beneficiaries, which is rather specific for the Netherlands. This minimum depends upon the household situation. The benefit is not payed automatically, the beneficiary has to apply for it. Temporary work income and work income in general will reduce the benefit level.

Structural Problems

The structural problem in sickness and invalidity benefit system confronting the Netherlands is probably basically the same as in other European countries, but the level and complexity of the problem is probably higher. The problem is not easily classified or analyzed as an equity, efficiency or a cost-control problem, rather as a complex mix of incentive problems that eventually decrease both equity, cost control and macro-economic efficiency. The massive outflow from labour market into social insurance systems will also have increasing social concequenses.

Sickness absenteeism, especially marginalization with invalidity benefits, increased strongly in the Netherlands during the 1980s. One of the main indicators, the ratio of beneficiaries versus working persons, is nowadays around 0,82, which implies that for every working person there is 0,82 person relying on benefits. Demographic

scenarios shows that, if no measures are taken, this ratio will increase rapidly.

An analysis of microdata has suggested that 30-50 per cent of disability payments is financed hidden unemployment rather than true disability. Examinations of the number of recipients suggest that a true proportion may be even higher. When the capacity for work is slightly lowered after a sickness period or an injury, or even as a result of ageing, the employment possibilities in the Netherlands are markedly decreased.

It is estimated that close to one fifth of all aged 50-64 have a permanent and full invalidity benefit, and this is a figure much higher compared with most other OECD-countries. Among those aged 55-64 in 1986 there were already more people drawing benefits for disability than there were working. In the private sector approximately 9 per cent of working days are lost due to temporary incapacity. About 13 per cent of the insured population now receive disability pension, and expenditures for temporary and permanent absence have reached close to 8 per cent of the national income.

There is little indication that the population in general suffers from poor or deteriorating health care or health status. Older workers with more or less serious impairments have become targets for lay-offs and, if out of work, find it more difficult to obtain a job.

Incentive dilemmas

It is an unavoidable hypothesis that the development on the Netherlands labour market is heavily dependent on the legal, financial and administrative incentive structure of the corporative sickness insurance and invalidity benefits. In the Netherlands both these benefits are handled by "Industrial Insurance Boards". These Insurance Boards are related to different sectors of the market. They are in principle independent of the State.

Employers and employees are together financing sickness benefits. They both together handle the operational definition of sickness, within the framework of the law, which make it possible to widen the

definition. They jointly make up the executive level of the Industrial Insurance Board, with equal say in the decisions. At the individual level, they often share the interest in moving persons from sickness benefits to invalidity benefits. Trade unions can protect the income safety of their members by supporting invalidity decisions, instead of for example unemployment. When an employee has already drawn sickness benefit for months the employer often fears that a brief return to work will be expensive — in terms of putting back the eventual date of a definitive dismissal. The incentive for the employers is rather to haste an early retirement and to pay the necessary amendments, than to encourage the employee to get back to the company, perhaps with a lower productivity and even though expecting higher sickness benefit costs.

This corporative decision structure can create perverse incentives and processes both for the individuals and for the social partners. A sick employee with an uncertain prognosis and who has some self interest to end his working career, is tried by a non-public authority with clear vested interests in transforming the employee to the invalidity system. It is said that even without a formal application and without independent decision-making, employees with unclear health problems are transferred rapidly and unnoticeably from the collectively financed sickness benefits to invalidity benefits.

Thus, the incentive situation facing employers may be a cruical factor in the growth of disability benefits. The employers have a control over the sickness benefits and they may regard paying one year of sickness benefits and supplementing this the first year or two with a disability benefit up to 100 per cent of the former wage, as being actually cheaper than maintaining an employee on the regular pay-roll until his retirement.

Reform strategies

A number of proposals for reducing sickness absenteeism and disability benefits are already in force and others will soon be enacted.

During the 1980s the Government tried to hold back this process with various measures mostly targeted on the incentive for individuals. The incentives to claim for a benefit was lowered in 1985, by reducing collectively financed benefits from 80 to 70 per cent, but in most insurance systems the employers instead added extra 10 per cent. This change seems to have failed to have any clear effect. The benefit level in the Netherlands is lower than that in many other comparable countries. Also, eligibility has been restricted. In a major reform of social insurance in 1987, the "labour market consideration" in the law was abolished.

Recently, the target has shifted towards the structural incentives for the social partners. Employers now have to pay a higher or lower contribution under the Sickness Benefit Act if the sickness absenteeism is higher or lower than the relevant average. A bonus, half the gross annual salary, will be received by an employer who takes a partially disabled employee into his service for a maximum of one year. The employer must pay a so-called malus if an employee becomes disabled and the employer does not retain his or her services. This malus is maximum 6 months of the gross salary. Current changes include introduction of a first six weeks of a sickness benefit period which will be charged to the employer.

Cuts in benefit levels have been suggested by the Government, but they are extremely controversial. In September 1991 nearly one million people demonstrated against proposed benefit cuts, probably one of the greatest protests in Dutch history. In spite of this, the compensation in the invalidity benefits of 70 per cent now will be decreased after a person has been receiving them a number of years. The benefit will fall, slightly for older workers and heavily for persons who are young, at the date of the first pension entry.

In the Netherlands there are other rules of exit from the labour market. For the work-force aged 60-64 early retirement schemes in private systems are very influential. It is estimated that approximately

25 per cent of the large group of non-participating males receive this early retirement pension. This pension is arranged by employers and is completely outside governmental control. The incentives for exit from the labour force created by the schemes are similar to those under disability benefits. Many large firms organize their own early retirement schemes, while smaller firms delegate their implementation to more than 100 pre-retirement private foundations. This gives the companies excellent possibilites to increase productivity by reducing the number of old age persons in the firm.

A large Parlaimentary Investigation is now studying the way unemployment, sickness and invalidity benefits are carried out by the corporative Industrial Insurance Boards, which is a rather unique measure in the Netherlands. One main issue is if employer and employees, in periods of economic distress, have used their influence to reduce personal costs. The firm profit from this, since the costs will be reduced, while contributions will rise only very slightly.

4.2.3 Social Partnership — the Role of Government

In the Netherlands, the social partners, that is employers and trade unions, are comparably influential when it comes to social security. They are financially and practically responsible for the insurance funds and the insurance administration. Collective agreements could even be characterized as legislation. That goes for both coverage, structure and influence. The agreements are regarded as complicated and time-consuming to change as legislation, with that exception that, for example, changes in benefit levels should be introduced in a large number of different agreements. Concerning real economic effects of social security on labour supply and demand, social expenditure for firms, etc., there are in fact very small differences between collectively bargain agreements and benefits from legislation.

The model with collective agreements for social security is regarded as having certain advantages. It can in the best case give, for example, an effective cost control in terms of balanced budgets. Imbalances and debts, which in a number of countries are a dominant problem for the

public insurances, are less apparent. Collective social security, in other areas, could serve as a balance to a strong public sector. Macro-economic policy, for example fighting inflation, is generally regarded as efficient in systems with a collective social security as in other systems.

But adaptivity to new circumstances seems not to be (any) better or more efficient in a collective social security than in a public system. The complex process for consensus and decision, and the shared special interest of the social partners in many areas, has proved an obstacle for the State to change the incentive of the collective system, certain regulations or the implementation. The Government has not power enough to adjust the social protection, for example to change public priorities between social programs. Incentives that are efficient for firms and trade unions, but are a threat to macro-economic development, can be changed eventually through politically very dangerous negotiations, even if then.

Structural adjustment and policy changes that are seen as necessary at the national level for increasing the competitiveness in the country are introduced slowly and inefficiently.

The Dutch social security mix reveals a number of those advantages a nation can achieve by using both a public system and collective agreements, especially an improved cost control and micro-economic efficiency. The impression is, however, that the Dutch model shows better than many other countries the risks and disadvantages which can arise with a social partnership and a domination of collective agreements: diffuse competence, macro-economic sub-optimizing and a slow structural adaptive change.

4.3 Germany

The German model for social insurance is rather influential on social policy in a number of countries in Europe. So it has been in the past, and so it still is. The German insurance structure is also a welfare mix, with public mandatory systems, collective amendments and private arrangements. This mix has recently attracted interest both from countries with mostly public systems and countries which have mainly private insurance systems. In Germany there is a strong link between ear-marked contributions and expenditure. Most social transfers are defined benefits. Benefits are generally more dependent on contributions than in other countries.

The policy changes due to structural problems in Germany are not easily understandable for outsiders. There are a number of special conditions: the constitutional supreme court, the consensus policy and the division of responsibility between the Länder and the Federal state. Germany has also experienced growing financial problems in social security during the 1980s. A comparably favourable economic growth in Germany, however, has given the German Federal Government more time for consideration. Contrary to a number of other countries in Europe, the Germans have not yet seen it as necessary to question all fundaments for the social security model. The impression is that the Germans have approached the structural problems with a careful and long-term adjustment of the benefit levels and of contributions. Some scepticism could be observed at the large social experiments implemented or planned in the United Kingdom, the Netherlands and France. However, the Germans are grateful that other countries conduct these risky experiments, and they are prepared to implement those changes in the future that are proved stable and efficient.

Structural problems and public finance discussions have accelerated after the reunification. A number of new reforms are presently being implemented. Some of these reforms contain new elements which can be interpreted partly as step backs from the traditional German model.

4.3.1 Sickness and Work Injury Insurance

In Germany statutory sickness insurance and work injury/industrial accident insurance are completely different. They are based on the labour market, administrated by the social partners and formed in collective agreements. These insurances have a long tradition and still contain basic elements from the initial policy formation at the end of last century. The German insurances are often taken as a model for discussion in other countries, not at least in Sweden. Looking into the German experiences is consequently well-invested time.

Main Features in Present System

Social insurance for different groups of blue collar and white collar workers and public servants in Germany is generally regarded as complicated. Regulation as well as benefit levels are different for various groups, but basic benefits are defined in legislation. Blue collar workers have their own insurance systems that guarantees social protection. Different occupations and branches sometimes have different insurance systems, eg. miners, farmers. Tenured public servants (=Beamte) have a system completely of their own.

When it comes to general requirements and benefit levels for most employees the German system is very much like the Swedish social insurance, before our recent budget cuts.

All employees with a working income over a certain threshold are compulsorily insured for sickness and work injury. The German sickness insurance has during the first six weeks of sick-pay a completely different compensation profile compared with the present system in Sweden. The employer pays 100 per cent compensation without waiting periods. After that the sickness fund or Krankenkasse pays a benefit up to 80 per cent of the gross wage, which usually amounts to 100 per cent of the net wage, to a maximum income of approximately SEK 220.000 per year. This sickness insurance benefit is not taxable.

Sickness benefits in Germany are somewhat more similar to insurances and actuarial systems than in Sweden. Eligibility is dependent on own contributions during a certain minimum period of time. The maximum contribution is directly related to the eligibility. The maximum compensation duration is 78 weeks for one and the same illness during three years. After this period invalidity pension is automatically tested. A large number of all employees also have supplementary insurances that give up to 100 per cent also during a longer sickness spell. Employees with a higher income can, if they like, leave the public insurance system and instead use their contribution to buy a private sickness and health insurance. Blue collar workers are since 1989 allowed to leave the public system.

The sickness insurance is financed with contributions which are a certain percentage of the salary. The contributions are evenly split by the employer and the employee. The Federal Government does not add any public grants. The contributions vary considerably between different Krankenkassen, from approximately 8 per cent to 16,5 per cent of the wage base. The contributions should cover costs for sickness benefits and health care. In 1992 6,7 per cent of the costs of the Krankenkassen were spent on sickness benefits. The contributions have no direct relation to any risk, for example to the companies' different absence levels or to the age, health or sex of the insured person. The reform act of 1993 (Gesundheitsreformgesetz) provides that beginning in 1994 there shall be equalization-payments between funds (Risikostrukturausgleich), compensation for age, sex and wage base. Thus, financing of sickness insurance is organized completely outside public budgets and is ear-marked; the income should per definition cover expenditure. Financing is done without any long term funding.

The sickness insurance in Germany is administrated by the Krankenkassen, which are public. The Krankenkassen have income of their own from contributions, which shall cover all expenses for benefits and health care. The Krankenkasse is controlled by board representatives from employers and trade unions, which make general policy, set contribution rates, appoint managers, etc.

The sickness funds are supervised by the German Länder if their constituency is restricted to a single Land, otherwise supervision is

exercised by the Bundesversicherungsamt. The sickness legislation is exclusively federal.

Structural Problems

The major problem in the sickness insurance system has been characterized as stemming from market failure. The system generates increasing traditional insurance problems: cream skimming, adverse selection, free-riders. Furthermore, a mix between public and collective responsibility has not proved to strengthen interest to cost containment. The market failures have created a pressure which is based on a growing discomfort with unjustice and inefficiency. The insurance fund does not compete in a conventional manner.

Cost control. It seems evident from the experiences in Germany that the statutory sickness insurance fund model gives rather weak incentives to cost control. Sickness funds independently decide the contribution. If the sickness fund finds it necessary to increase the income, the contribution level will be increased. If the number of doctor visits increases or the drug prices rise, the contribution level increases.

The system of financing of social insurance outside public budgets in Germany gives a guarantee against debts. Under-financing in sickness funds is illegal and can be accepted for only a short period. This, however, does not give any guarantee to a well-functioning cost control. The insurance system tends to expand and to take more and more out of the disposable resources. However, expenditures for sick-pay have not been any major problem during the 1980s in Germany, although the absenteeism increased as usual in periods of economic expansion.

Furthermore, insurance methods like increased visibility of the relation between costs and benefits, choice of premiums etc. can bring unexpected results; if any effect, in Germany this tends to increase the demand for insurance and the social expenditures.

All insured persons are told of paid contribution to the sickness insurance fund in the pay-check. So it has been for decades. In-

vestigations have shown that more than 80 per cent of the insured persons do not know their contribution level. One reason is that generally a blue collar worker have no possibility to choose between different Krankenkassen. For those people where there is a certain freedom of choice, for example to leave a blue collar worker sickness fund and move to a white collar fund, the insured person often choses the more expensive sickness insurance program. Most people regard health care as being ultimately important and they probably think that an expensive sickness fund will deliver a better health care than a cheaper fund. Another reason for this is that the white collar funds formerly gave higher pay to the doctors than did blue collar funds.

Effectiveness and efficiency. It is not considered that the comparably high compensation level in Germany increases incentive problems among insured persons, for example abuse or fraud. Most observers will conclude that there is an unnecessary use of sickness benefits, but the level is low. The high unemployment rate in Germany creates a strong pressure against abuse and over-consumption.

The far-reaching and extensive sickness insurance legislation in Germany leaves a relatively small area for supplementary collective agreements on the labour market. Legally defined benefits are comprehensive both in relation to coverage, levels and eligibility. Even if the level that is regulated by law would decrease, there are in fact other collective agreements for most employees that in this case should give almost the same sickness benefits as today.

Hence, for macro-economic performance, it is of little importance whether the sickness insurance is financed within or outside public domains. Social costs for the firm will not be greatly affected. Most of the labour costs are defined by the social partners themselves, and a rather small part is legislated by the State. Consequently, the State argument for long has been, that adjustment of social security should be a matter for the labour market partners themselves to decide upon with reference to wages, benefits, paid vacation, etc.

During the whole of the1980s Germany had an intensive debate on contribution levels. Especially employer associations have claimed contributions to be too high and damaging for the competitiveness of German firms. The Federal Government has tried at least on two separate occasions to introduce structural reforms in the sickness

insurance system, but it has not really succeeded. The possibilities to adjust to a lower social insurance level have as yet proved to be rather small in Germany. The methods to manage the increased public costs after the reunion have not been successful.

Equity and distribution. The differences in contribution levels depend on the insurance collective risk, the cost for health care and care ambitions. For decades Germany has observed an increasing tendency to cream skimming. Firms which have young and healthy employees start their own sickness funds to decrease contributions. Those remaining in general public sickness funds will in time more often become persons with a higher risk.

Working people with for example part-time work, persons with numerous employers etc, basically have the same insurance protection as employees, but the contributions and systems for payment are different. The sickness benefit is most often 80 per cent of the gross income loss and the law provides that it should not be higher than the net income loss. The benefit is not taxable, so therefore the net compensation level in practice is generally 100 per cent.

Administration. The administration of the sickness insurance in Germany is regarded as rather complicated. There are approximately 1 600 different sickness funds for different regions, firms, and branches. Officially this divided organization is not recognized as a problem, it represents just about 5 per cent of the total costs that is spent for administration[2]. Off the record, however, it is often admitted that the system has various disadvantages and probably is expensive, particularly because of insurance problems, as creaming and low cost control. But the sickness funds in Germany have an important position in society because of the large number of involved employers, trade unions, employees - and the immense economic turn over. There is up to now rather narrow scope for policy changes.

Work injuries. Work injury insurance is mandatory for all employees and is financed completely by the employers. During the first six weeks of a work-injury spell, the benefits are co-ordinated with

[2] The costs of the Public Insurance Administration in Sweden is estimated to SEK 4 billion, which is 1,4 per cent of total payments of SEK 270 billion.

sickness payment, that is, a full wage is generally paid. After this period the benefit is lowered to 80 per cent of the gross income loss. Also within work injury insurance the incentive construction in Germany is opposite to the one introduced in Sweden. Benefits in Germany are lower in long-term cases. Both eligibility regulations and benefits seem less generous in Germany than in Sweden. Wear damages are normally not accepted as a work injury. In case of permanent disability or work incapacity, the benefit is calculated at 2/3 of the last income and the benefit is co-ordinated with old age pension.

Contributions are partly dependent on a certain "risk-calculation". Branches with industries with higher risks for work injuries pay higher premiums. The difference between different branches can be up to 1,5-3 per cent of the gross wage.

Work injury insurance is separated from the other social insurances and there is also a distinct connection in Germany between the insurance, injury prevention, research and treatment and rehabilitation.

4.3.2 The New Health Insurance Reform

The German health care has many unique features, for example the large number of non-profit-making health care producers. In this description we focus on issues in the insurance, and do not discuss the complicated production and distribution of health service.

Main Features of Present System

There is no direct link in Germany between the sickness insurance and health care in ways other than that health care and sickness benefits are financed with a common contribution and that health care is financed through the sickness funds.

All persons insured in the statutory sickness insurance (i.e. 88 per cent of the resident population) basically have the right to health care without any private costs. As soon as you have been admitted to the

sickness fund, you have a right to all health care and treatment. Although there are contracts between doctor's associations and funds association, there are no agreements with special regulations between the health care producers and the financing insurance funds, as being under discussion in for example the Netherlands.

As an insured person you are free to choose among the doctors and dentists registered with the insurance scheme (i.e. over 95 per cent of all ambulatory doctors). All employees are automatically compulsorily covered, provided that the regular income does not exceed a certain maximum amount per year and exceeds a certain minimum (in 1993: DM 530 per month). Cost-sharing is used for drugs, bandages and remedies, in patient care and rehabilitation and for hospital care, in dental care and also for sick travel expenses.

The insured person can freely choose his or her own doctor and decide on the number of visits, etc. Treatment by specialists is in principle given only by referrals. The doctors have "Therapie-Freiheit"; they can give any needed diagnostics, treatments or medicine they find suitable or needed. Still there are no consequent and designed systems for medical audit. Within certain control functions and limits, doctors are paid by performance or treatment. The patients are not even allowed a copy of the doctor's bill and cannot check the claims the doctor will send to the sickness fund.

Structural Problems

Effectiveness and efficiency. The most important factors behind the pressure on health expenditure are regarded to be the number of doctors and the pay for doctors as well as the number of hospital beds. More doctors increases the production of health care. Doctors in Germany are said to be paid more than doctors in many other comparable countries. According to the doctors association (KBV) an ambulatory doctor earned in 1990 a pre-tax income of over DM 150 000 annually. When doctors compete between each other, they tend to compete with generosity, that is, elements in treatment for which the patients are highly appreciative. Hence, doctors will be pro-

portionally more generous with sick-listing, diagnostic tests, drugs, etc. as the number increases.

All through the 1980s there has also been an intensive discussion in Germany about using market mechanisms within the health care production. Different proposals to introduce rationing of the number of doctors have also been advanced, but have failed. In these discussions, as a choice between methods, the doctors strongly have supported the present structure and opposed models based on market mechanisms.

Many health analysts and economists within and without the Federal Government in Germany are sceptical about a system involving internal markets within health care. A number of the prerequisites for a well-functioning market are lacking, for example, a well-informed customer, a functioning price-mechanism and transparency. It is generally and often regarded as a great risk that the quality tends to decrease with internal markets and yet costs increase. It is reported that experiments with internal markets in Bavaria have not been very successful.

A major problem within the German health care is regarded to be quality control. The demand for health care is unlimited, all people would like to be healthy and live a long life. The supply of treatment is increasing and also the number of producers. But even if the the service output is increasing, there are growing doubts whether the health care is efficient, that is improving the health or relieving peoples suffering. More and more diagnostics, treatments and very expensive drugs are used, but medical evaluation of the results is constantly lacking.

Another problem very often discussed is that prophylactic care is not paid for by sickness funds today, except to a very limited extent.

Cost control. The cost control in the German health care system is regarded as being rather weak, in spite of the fact that the financing is administrated through special sickness funds. The main reason seems to be that these funds have no strong incentives for cost containment and follow-ups. The billings from the doctors are even supervised by another committee of doctors.

Reform strategies

In the late 1980s the German Federal Government conducted a number of reforms within health care remuneration. Among other things, a limit was introduced for the public subsidizing of drugs, so that only the price of the cheapest third of equal drugs was remunerated. This reform became rather inefficient because only 30 per cent of all drugs could actually be classified as synonymous. The eligibility for spectacles without costs was abandoned. The public protested highly when the right to contact lenses free-of-charge was abolished.

To strengthen the balance within the insurance funds certain levies were introduced for old age pensioners. Today they are paying 6,7 per cent of the pension to sickness insurance, while the pension fund is paying its part of 6,7 per cent.

A new, larger structural reform in health care is in force since januari 1, 1993 and beeing implemented, to control costs and increase equity (Gesundheits-Strukturgesetz). It is said that the ambition with this reform is not to decrease the relative expenditure spent on health care, rather to achieve a balance of the present level in relation to GDP. It is notable that instead of market experiments the Germans have chosen to improve the system they have with more efficient regulation, extensive controls, risk-cost redistribution and increased cost-sharing. The basic motive is to use measures which are known to work, rather than to introduce other ones, which nobody yet knows the possible long-term effects of.

Elements in the Reform

With the new reform doctors and dentist pay, hospital spending and administative outlay of the sickness funds have been "capped". This is declared as a temporary measure till the structural reforms, especially the hospital payment structures, become effective. Former experience with "capping" doctors pay seems to show, that over a medium-term period the "caps" will be eroded.

Cost-sharing is introduced or increased for various health services. The costs to the patients when buying drugs are raised from 3 DM to 3-7 DM depending on the value of the drug. Cost-sharing within dental care has increased considerably.

A new system similar to DRG for paying hospitals is in the process of being introduced. Sickness funds shall then pay a price per diagnoses according to a certain pre-defined list and not, as today, get — roughly speaking — paid for whatever they ask for. New and different methods for case management are also introduced.

The most important change in the new health care reform is the strengthening of equity. As noted earlier, the premiums to the sickness funds shall be evened out by a risk redistributive system. This system is based on the composition of the insured persons as to age, sex and wage structure within each fund. Today, a blue collar worker is mandatorially attached to a certain insurance fund, but white collars are allowed to choose a fund. The contributions or levies to blue collar insurance funds are higher generally than the levies to white collar funds (on the average 2 per cent of gross wage).

Eventually, the Federal Parliament has recognized these different treatments as being not only unacceptable, but possibly even in contradiction to the constitution. The solidarity in a social welfare system cannot and shall not be limited to the members of a certain insurance fund. In the new system insurance funds with cheap risks will have to pay to funds with expensive risks, while insurance funds with a more expensive risk will have funds redistributed. Already today a certain amount of the contributions are distributed according to the payments providing for the pensioners insured in the fund.

The possibilities for each individual to choose his or her own insurance fund will be increased. The idea is that insurance funds should compete increasingly between each other with different contribution levels and — in the future — maybe as regards the access to and quality of health care. However, the Federal Government is worried that this new system could lead to insured persons switching to more expensive insurance funds, which are regarded by many of the insured as giving a better health care. The system is expected to diminish the interest for starting insurance funds based on different firms or branches.

A new sickness insurance card ("Chip-Karte") is being implemented which will give an identification on all bills to the insurance funds from doctors, hospitals, etc. Treatments will now be possible to follow up to each insured person and producer. This is an important shift in policy and for the first time it gives the sickness funds a possibility of controlling the sick-listed and the health care producer.

A special investigation in health care consumption and treatment praxis will be conducted within certain funds. A sample of insured persons will be followed up during a number of years. These people will have their visits, diagnoses, treatments and drugs registered on an "intelligent card system". Doctors have been opposing these follow-ups for a long time, but they have now accepted them as an preferred alternative to market systems.

4.3.3 The 1989 Pension Reform

Historically, the pension system in Germany is also differentiated for various categories of employees and the system has a more insurance-based construction than in Sweden. Germany has a demographic development almost alike the one in Sweden, with a comparably old population and a clear hump in estimated pension costs after the turn of the century.

Main Features in Present System

The federal State-legislated pensions in Germany consist of pensions for blue collar workers, wage earner (white collar) pensions and pensions for miners. The rules within the different systems, however, are quite similar. The tenured public servants (Beamte) have their own pension system that differs a lot from the systems of others. As in Sweden the public employees in the AMT have very large, not specified, not funded future pension claims. These are generally not added to other pension contracts for the future.

The pensions in Germany are completely related to earlier income and the number of insured years. Hence, the pension is contributive and to receive a full pension a person has to have had at least 40 years of earned income. There is no basic pension.

A person that has at least five years of work history or a time equalized as work is eligible to pension. Insurance time equals the time contributions have been paid or other periods which are counted as work, for example unemployment, child care. The size of the pension is calculated on the basis of own income compared with the average income for each year and this base is related to the average gross wage development to all employees. An average pension is estimated to be approximately 40-50 per cent of the gross wage, but approximately 60 per cent of the net wage of an average employee.

The German pension system is financed on the basis of pay-as-you-go. The contributions to the pension insurances are 17,7 per cent of the wage sum up to a cut-off. Levies are shared between employers and employees. Adding to this are Federal Government grants of close to 1/5 of the continuous pension costs. Above the public legislated pensions there are supplementary pension systems. These supplementary pension systems are voluntary and of a rather modest size in Germany.

Persons who have a low own pension or are lacking pensions can be given social assistance. Housewives do not have their own pension rights. When families split, there are special rules for what is called supportive redistribution. Pension claims that have been accumulated during the co-habitation are shared between husband and wife.

Part-time work has long been rather uncommon in Germany. During recent years, however, part-time work has increased, as the result of the growing female labour participation. It is therefore projected that the small pensions which are accumulated from part-time work in the future will be a growing problem that could increase the demands for a basic pension of the sort that is used in the Nordic countries.

Structural Problems

In Germany there are in principal two structural problems concerning pensions that have been focused. The first one is the long-term financing of retirement pensions. The other one is the growing public costs for invalidity pensions. Perhaps the major problem has for a long time been the early withdrawal of elderly people from the labour market, which pushes social expenditure upwards. The statutory pension age is 65, but there are numerous methods to receive an earlier pension (at age 60-63), for example if you have been paying contributions for at least 35 years, if you have been unemployed at least one year, if you are a woman and have been paying contributions for at least 10 years within the last 20 years, etc.

The Federal Government argues that there are basically only four ways to solve the financial problem or secure balance within a retirement pension system: reducing benefits, reducing number of beneficiaries, save now for future costs or raising contributions. The Government has until now chosen to concentrate the measures to the control of the number of persons relying on different retirement pensions.

Reform Strategies

The present and future problems in pension financing in Germany have been discussed during a number of years and different alternative models have been proposed. The Federal Government, however, has until now chosen to adopt a "minimalistic" approach, a precautious strategy. To keep the public confidence in pensions at the same time as enforcing financial balance, the Federal Government has decided on a number of changes, which together — without changing the main features or the pension system — in the long term will give the economic improvements necessary.

In Germany pension analysts are more often cautious towards projections of pension financing for the coming 20-30 years, which are used to show future imbalance. One important reason is that

population projections longer than 10-15 years have proved unreliable. Furthermore, different measures on dependency ratios are more influenced by unemployment, the number of invalidity pensioners - than by demographics. Germans often point out that in the Netherlands today the dependency ratio is higher than the increase which can be predicted in Germany in the coming 20 years.

Adding to this, there are always major macro-economic changes during such a long prediction period as 30 years. These changes have proved historically to alter all fundamental economic projections. Today the Germans point at the reunification.

Finally, the distribution of income and wealth is constantly changing in the society, as well as public values of justice and fairness. Redistributions that are seen as obvious and self-evident today, maybe will be regarded as strange and unacceptable within just 10 years.

For these and other reasons the Germans regard it more wise to make continuous corrections to the pension system to achieve balance within 10 years - and to continue making those small changes, rather than believing again in the capacity to project stable economic and policy fundaments for a pension system that should be unchanged for 30 years. It is increasingly difficult to design such a pension system, which will be stable for 30 years, because of the rapid changes in the economic society and in Europe.

The pension reform in 1989 introduces a clear State-sharing of the responsibility. Employees are compulsorily insured under the Statutory pension insurance scheme. Persons engaged in minor employment for less than 15 hours per week with regular earnings less than DM 500 per month are excluded from the insurance.

Elements in the Reform

Effectiveness and efficiency. Before the 1989 pension reform in Germany, funding was extensively discussed as well as pensions and savings. There is scepticism in Germany towards changing the pension financing from pay-as-you-go to funding. One major reason is that a

change to funding should introduce immense transfer problems, with extra contributions for certain generations.

Furthermore, it is not widely regarded that increased savings in pension funds will lead to overall increased household savings. On the contrary, in Germany there is worry that an increased saving in pension funds should move household saving to much more conservative, large pension funds. Actually, such a move could have negative long-term effects on macro-economic performance.

In Germany, small household savings have not, as in Sweden, been put forward as a major macro-economic problem. Household savings have reached an acceptable level during all the 1980s. Therefore, pension changes have not been motivated by reasons to increase private savings.

If the State should guarantee a certain defined benefit also in the future, that certain pension claims would be paid in benefits, the State has to build its own complex control mechanism to guarantee that outside-funds will place money with adequate return on investments and low risks. This increased control could mean an inefficient capital management. There is also fear that an increased pension financing from capital gains could have negative effects on capital management and investment.

There is in Germany also a historical influence from both the world-wars, when large pension funds were totally eliminated during a few years of hyperinflation. The economic development in the world is regarded as not stable enough to base capital pensions on. It is essential that the re-distribution of gross income in the country between the working population and the aged is stable enough to survive also periods with decapitalization.

Cost control. In the 1989 pension reform, cost control will be enforced mainly by a reduction in the number of pension recipients. From the year 2001 the lower pension ages 60 and 63 will be increased to 65. The new pension age will be implemented for long-term insured males from the year 2006 and for women from the year 2012. The possibilities to an actuarially-calculated early pension or a postponed pension will be increased. Early retirement will be allowed up to three years before statutory pension age and the pension will be decreased by 3,6 per cent per year.

The system of indexation of pensions also will be changed. The pension payments should not be indexed with a gross wage index, rather replaced with a net wage index. With a start in 1992 the pensions are indexed to the average net wage development during the most recent two years (after reductions for taxes and social contributions). The Federal State Grants to pension insurances will be raised step by step and the grants will be indexed in the future in relation to the gross income of employees and additionaly when contribution rates increase.

Equity and distribution. State legislated pensions in Germany are in principle taxable, but in effect non-taxable. Taxing pensions is seen as inefficient and accompanied with circular transfer and unnecessarily high effective marginal taxes.

Germany and Sweden have a similar percentage of persons aged 65 or over (ca 18 per cent). In both countries, public pensions are estimated to be about 11 per cent of GDP (OECD 1991). The German pensions, however, are non-taxable, but the average tax for public pensions in Sweden is approximately 25 per cent. German pensioners pay sickness contributions to a level that equals working people. Comparisons like this indicate that the public net transfer from working populations to elderly in Sweden today is lower than in other important countries.

Invalidity benefits

Occupational disability pension is paid if the insured person can only earn less than half of the amount earned by a comparably healthy person because he is unable to do his job or another job which can be reasonably expected from him, because of a reduction in his ability to work by a reason of health. One condition is that contributions have been paid for at least 60 months. The invalidity pension is calculated in the same way as retirement pension. For persons below age 55, there are special rules to determine personal income points. To housewives there is no own pension in case of invalidity.

In Germany there are structural problems in early retirement and disablement pension of the same sort as in the Netherlands. A shared interest by employers and trade unions to bring down sickness absence and to increase productivity, make a strong incentive to disengage persons with a high risk of illness or with health problems. There are indications that the proportion of persons with health problems increases among the unemployed each year. Furthermore, a growing number of the unemployed with health problems receive invalidity pensions. This is seen to strongly contribute to the social exclusion in Germany.

During recessions, the exits through invalidity pensions increase. Firms very often add own benefits on top of the public insurance to enforce the incentive for older people to retire. This is done even though the firm also has to pay higher contributions to the public pension schemes in the end. The Federal Government has proposed and also implemented various changes in the public system of invalidity and early retirement pension to discourage firms and individuals to use the exits from the labour market, but until now they have been hindered by legal problems or otherwise less succesful.

4.3.4 A New Care Insurance

In Germany there is no general access to public long term care. On the other hand, the well-known three-generation responsibility means that for example older people should be cared for by their children or grandchildren. If this is not convenient and people need service and care, you have to pay with your own money or to apply for social assistance. Housewives have traditionally been responsible for the major part of care in Germany.

Structural Problems

The structural problem in care increases in Germany when more and more women turn to working on the labour market, the number of grown-up children decreases and the number of very old people as well as the single households increases. The discussion how to meet these future needs with a balanced financing has been going on for a number of years. In 1992 the Federal Government seems to have reached a consensus on a proposal, which basically means an introduction of a new social insurance for care, administered by the sickness funds. Changes still can be introduced during the legislative process.

Reform Strategy

This new insurance will be the fifth part in the German social insurance system together with sickness, pensions, work injury and unemployment insurances. The new insurance will, as with the earlier ones, be constructed as a pay-as-you-go system. Some economists and researchers have been promoting a funded system. The political parties, however, have chosen a traditional German model, with the same arguments as to why they are sceptical to a funded pension system. Hence, a funded system will take much too long before it will come into function.

Elements in the Reform

The new contribution will be dependent for income to a unified levy of 1,7 per cent of the gross wage sum up to a limit of 5 100 DM per month in the western parts (3 600 in the new Länder), which is the same amount as in sickness insurance. In this insurance also half of the contributions will be paid by the insured persons and half by the employers.

The whole population will be compulsorily covered. Children and housewifes will be co-insured with their fathers or husbands. Those already in old age care will be implemented in this new insurance immediately without waiting period and the costs will be covered from these new contributions. The new insurance will have regulations to measure the need for care, which will be met by different producers and services. People with the smallest need for care will be classified in class 1, which will give them help each week. In class 2 they will receive help daily and in class 3 help at three visits per 24 hours.

The insurance will give old age care in the home either in the form of a voucher (DM 400, 800, 1200) or benefit in kind for a certain care, or a benefit to the costs for institutional care. The highest insurance benefit paid will be DM 2 100 each month.

The estimated gross-costs for the insurance will be DM 25 billion. The number of people who are now regarded as needing old age care have been estimated at 1,65 million of which 1,2 million in ambulatory care and 0,45 in nursery homes. Approximately 75 per cent are over 60 and 18 per cent under 40. Presently, persons in care today are living mostly in special care institutions (450 000). The actual average cost for each person in these institutions is estimated in 1990 at DM 3 100, to be compared with the proposal for the highest voucher at DM 2 100, and the costs have been rising since then. It is said that 3/4 of all persons in institutions for care are dependent on social assistance today. It is estimated that due to demographic and structural changes the number of people who need care over age 60 will increase to 3,9 million in the year 2010.

One basic question still is whether the insurance must buy institutional or home-help care from defined producers, from the alternative sector — or whether the new insurance also will strengthen the competition between care producers. Today the local communes have to buy old age care from these alternative care producers.

5 Summary and comments

Chapter two of this report reminds us that there still are major differences in the structure of social insurance between different European countries. The cultural tradition is inherent in the basic strategies behind the insurance construction, in regulations, financing and administration. Some systems focus on basic security, others on income security. There are those which are work-related whereas others are unified for all citizens. In some systems individual contributions play an important role for both eligibility and financing, whilst others mainly are taxfinanced. Redistribution is important in some, but of minor importance in others. These differences reflect not only variations in social insurance philosophy but, in fact, the fundamental gap in view of the role of the State, the welfare ambition and differences in equity goals.

Yet, in a period where good (and less good) ideas in business, technology, media, etc. are spread around the world faster every year, the attachement to your own social security system, and low interest in the systems of others, are puzzling. Until recently, no matter which system they have, usually each country considered its own solution optimal. Policy makers in countries with unified tax-financed systems look at others with insurance and contributive system with indulgence and visa versa. If problems emerge, and they more often do, they attack them from own perspectives, sometimes after a short visit in some nice capitals in neighbour countries to "study insurance matters".

By describing and understanding this system heritage you realize that there is a threat that corrections and structural reforms will be heavily biased since the historical perspective overrides the cross perspective of present experiences.

However, the third chapter of this report indicates that the differences in system design and gross expenditures in National Accounts probably exaggerate the actual differences in net change in disposable

income for individuals who experience various insurance incidents. Countries with high and taxable benefits usually have correspondingly high taxes and vise versa. Countries with low public benefits usually have higher complementary benefits from occupational schemes, etc.

In Sweden, many experts still think that our system is the most generous and that this could be one reason for damaged incentive structures and, hence, for weak macro-economic performance. However, the calculations for the tax and benefits levels which are defined by legislation reveal that, when it comes to changes in disposable income, this is no long true - if it ever was. In one of the events the Swedish system is most generous and that is in the unemployment insurance. The compensation for illness one week was 1992 average. If you should consider the very frequent additions from occupational sickness insurance in the Netherlands and in the United Kingdom, and the mandatory waiting day implemented 1993 in Sweden, the level is probably now lower in comparison with the other countries. The loss of disposable income for unemployment was in 1992 lower than in other countries. This is probably changed after the lowered benefits (80%) and five waiting days which will be implemented 1993. The generosity is (was) only for relatively low income employees. For higher income the German and the Dutch systems are much more generous.

The net compensation for work injury shows a strange profile; in both Germany and Denmark the systems will overcompensate individuals when loosing working capacity, while the losses in disposable income in the Netherlands and the United Kingdom are considerable. Also in this event, Sweden gives an average benefit. After the proposed decreased benefit, Sweden will come closer to the United Kingdom and the Netherlands.

It is always tremendously difficult to compare pension systems in different countries. The basic construction differs, as well as the mix between public and collective pensions. In these calculations, which only take in legally defined benefits, for a maximum working period the Swedish system gives somewhat more than other countries, except in Germany. In the United Kingdom and the Netherlands where they depend more on collective agreements, the losses in disposable income are higher. If these differences could be taken in, it is a

reasonable hypothesis that the net differences should diminish even further.

Many other factors influence "the generosity" of social insurance and by this the incentive effects, for example the rules determining eligibility, the maximum compensation period, the routines for follow-ups, etc. One important conclusion is, however, that the incentives that are inherent in benefit levels are not worse in Sweden than in other European countries, rather the opposite nowadays. Another observation could be that one reason that gross expenditures for social insurance vary considerably between countries is the taxation and mix between public and collective benefits. The detailed calculations also reveals that the Swedish tax and transfer system is rather transparent and straightforward compared with the systems in other countries.

Chapter four of the report, although based only on three countries, gives the impression that the structural problems and reform strategies are to a large degree shared between countries — but not in the sense we usually think.

Systems that are closer to market insurance principles have traditional problems from market failures: cream skimming, unfair premium differences, inefficent competition, cost expansion, lower labour mobility, funding safety. In these systems, structural reforms tend to introduce more of public system principles, like risk-sharing, fixed budgets, public controls.

Public social insurance systems that are unified and tax-financed tend to have other structural problems as lacking effectiveness, unbalanced budgets, incentive problems, etc. Here policy changes are made towards more of market mechanisms, like premium systems, defined contribution systems and capital funding, self-risks, freedom of choice.

Corporative insurance systems based on collective agreements have problems with both market failures, as cream skimming, weak cost control incentives and those rigidities that are typical for public systems, for example slow adaption to new demands from the insured. On top of this, these systems probably tend to optimize internal efficiency, while increasing external costs. In corporative systems corrections and structural reforms seem to introduce both more of

public system attributes, like controls, and more market-like mechanisms such as freedom of choice.

If all these observations are reasonably plausible, they lead us to three tentative conclusions.

The first one is about structural reform strategies. The grass is definitely greener on our side, but let us get some seeds from our neighbour to enrich the gene varation, seems to be a basic strategy. Countries tend basically to keep their cultural system heritage, but the growing need for urgent "solutions" and the diffusion of ideas increasingly is followed by imports of methods from other systems. Evidently, the risk in such haste imports is that you do not investigate enough the experiences of the imported elements. You may cure the immediate problems, but bring other unwanted effects.

If, for example, the problems in an public insurance are unbalanced financing and a weak correspondence between taxes and benefits (any similarity to some present Swedish issue is coincidental), you can easily believe that by importing more of corporative and insurance elements, you can moderate the structural problem. But if you look closely at the new possible side-effects like weaker cost control, unacceptable premium variations, internal effectiveness and increasing costs for externalities, etc., the net effect may not be as attractive. And this can easily be learned from our neighbours in Europe, so there are no excuses for mistakes. If we have had for long the misconception that our own model was superior, this should not be repeated by a new misconception that we could invent all alone again the best-solution for present structural problem.

The second one is concerning the possible convergence in social insurance policy in Europe. This issue has been under discussion for a number of years, but there is not yet any consensus.

However, if the trends observed in this report hold for more countries than those studied, the hypothesis of convergence seems realistic. The actual outcome of tax and benefits, if included occupational additions, seems vary less than legally specified replacement rates. The growth of occupational insurance above state guarantees in many countries, and also the expanding private complements, indicate a trend towards a system based on a welfare mix. Countries with market-like insurance systems and those with public systems or

corporative systems interchange elements, which step by step should increase the similarities.

This is probably not any planned process, that is stemming from EC-directives or any other regulating force, although the Social Charter from 1989, as Social Protocol in the Maastricht Treaty, can have an indirect influence. In the future it will be essential for EC wide minimum criteria how the public responsibility for social protection for employees, as well as the safety net for the poor, is legislated, financed and administered. Systems administered by the social partners and based on collective agreements, even though they have almost complete coverage, may not be accepted in a Social Charter.

The third, and perhaps most important observation is that the system for social insurance and structural reforms potentially can have a large influence on the level of marginalization and social exclusion. In many European countries this is regarded as the most costly, long-term dangerous and complex structural problem of today. Increased marginalization pushes social expenditure upwards, and the social cost for the business rises. To compensate, firms must increase productivity, by hiring qualified personal and disengage the slow and less efficient. Again, the social costs increase, and the wheel is spinning.

There are many forces behind the spinning wheel, but social insurance incentives probably are as important as taxes and the wage formation. When the loss of disposable income as showed is very low, or when insurance events give a higher disposable income, this will have a negative effect on the individual choice between work or non-work. If the unemployment risk increases and benefits are lowered, individuals and trade unions will find it more wise to direct emerging needs for income support towards early retirement and invalidity benefits, instead of relying on more uncertain work income and low unemployment benefits. If firms must control their overhead costs by hiring healthy and young, their selectivity can go in hand with the individual preference. Adding to this, if firms and trade unions also control insurance systems and profit from excluding persons with health problems, this effectively will stop rehabilitation and enforce exclusion.

In an open single market, insurance pressure increasingly reflects Europe-wide and not country-specific trends. The policies to meet future problems in a larger degree also have to be cross-national. On the other hand, efficient institutions as tax system and social insurance increasingly could be strategic factors to strengthen the competitiveness of Sweden. The comparisons in this report indicate that a well planned and rather immediate insurance reform could put Sweden in a favourable position the rest of the 1990s. But it is essential to avoid new structural problems which can be accompanied changes towards more of market mechanisms.

A tentative conclusion for the Swedish policy is that instead of ad hoc and diffused measures with urgent imports, improvements in social insurance should be carefully integrated in a co-ordinated strategy for all insurance systems, where the advantages in present public system should be mixed with those elements from insurance and perhaps co-operative models which in Europe has proven efficient and without complicating unwanted side-effects.

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