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.