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WELFARE STATE DEVELOPMENT IN EUROPE SINCE 1930: IRELAND IN A COMPARATIVE PERSPECTIVE

WALTER KORPI

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Walter Korpi is Professor of Social Policy at the Swedish Institute for Social Research of the University of Stockholm. This paper has been accepted for publication by the Institute which is not responsible for either the content or the views expressed therein.

Welfare State Development in Europe Since 1930: Ireland in a Comparative Perspective

The development of the modern welfare state is one of the major social and political changes in the Western countries during the past century. Together with a group of colleagues at the Swedish Institute for Social Research, Stockholm University, I have for some time been involved in a comparative study of this change in 18 OECD countries. The purpose of this comparative research programme is to describe welfare state development in the Western countries, to attempt to explain this development, and also to look at some of the consequences of welfare state development.[1] To use the vocabulary of T. H. Marshall (1950) one could say that we are studying the development of social rights and the emergence of social citizenship in the Western countries.

My lecture is based on this comparative research programme on welfare state development. I will here begin by outlining the basic features of our comparative data base. Thereafter I will describe some features of the development of Western welfare states with respect to old age pensions and sickness insurance. In this context I will attempt to put developments in Ireland into an international perspective, and note some examples of what for a foreign observer appear as peculiarities in the development of the Irish welfare state. Finally, I will take up the question of different strategies for equality, make an attempt to assess their relative effectiveness, and also briefly look at developments in the labour market.

[1] For more detailed descriptions of this research programme, see, for example Korpi 1989; Palme 1990; Esping-Andersen 1990; Kangas 1991; Väisänen 1992, and Wennemo 1992.

The Comparative Data Base on Welfare State Development

In the comparative welfare state research programme we have constructed a data base which includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, The Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States. These are the more or less rich and industrial OECD countries with a population above one million and a history of uninterrupted political democracy during the post-war period. The main social insurance programmes in these countries have been examined in 1930, 1933, 1939, 1947, 1950 and then every fifth year up to 1985. Data for 1990 are now in progress.

The programmes included are the five main legislated social insurance programmes - old age pensions, sickness insurance, work accident insurance, unemployment insurance, and family benefits. These programmes are intended to provide for alternative sources of income when income from normal sources are strained or interrupted - permanently as in the case of old age or temporarily as in terms of sickness, work accidents or unemployment.

We have described the development of these five programmes in terms of the social rights they give to citizens via legislation. Thus we have coded and attempted to quantify social insurance legislation in terms of the extent to and the conditions under which they replace lost income or provide income for citizens.

Central aspects here concern income replacement rates. As a baseline for comparing income replacement in social insurance programmes over time and between countries, we have chosen to relate benefits to the wage of an average industrial worker. Such a baseline is more informative and relevant than most alternative ones, based for example on exchange rates. Here both benefits and wages are taken net of taxes and social security contributions. We have computed net benefit rates for different types of households - single persons, couples with children, and couples without children.

We have also described conditions for eligibility for benefits - conditions in terms of requirements for contributions, labour force participation, waiting days before benefits are paid out in sickness and unemployment, duration of benefits, and the financing of benefits. In addition, we have tried to determine the coverage of social insurance, that is what proportion of relevant population groups that have the right to the benefit.

Here it is only possible to present to you a very small sample of the data we have. I will focus on development of old age pension and sickness insurance in a few European countries, which should be of interest in this context - Ireland, the United Kingdom, France, Germany and Sweden. In addition I will give you some averages for the 13 European countries and for all our 18 countries.

Old Age Pensions

Let us begin with old age pensions, the programme which is the single most costly one and in many ways a key social insurance programme. In Europe, besides means tested programmes, we find at least two other types of pension programmes. One of these is the classical "corporatistic" model of pensions, where entitlements to pensions are based on work requirements, different occupational groups have had different pension schemes, and pensions are related to previous income.

Another type of old age pension is the so called Peoples' Pension or *Folkpension*. In this model entitlements to pensions are in principle being based on citizenship, not on work record, and flat rate pensions have been typical. The Peoples' pension idea means that most citizens receive a pension, but a minimum level pension, a safety net which does not provide income security.[2]

[2] Cf Esping-Andersen and Korpi 1984; Esping-Andersen 1990.

Replacement Rates: To what extent do pension programmes replace previous income? We have computed different types of replacement measures - for minimum pensions, minimum work-related pensions, pensions for a typical industrial worker with varying degrees of labour force participation, and maximum pensions.

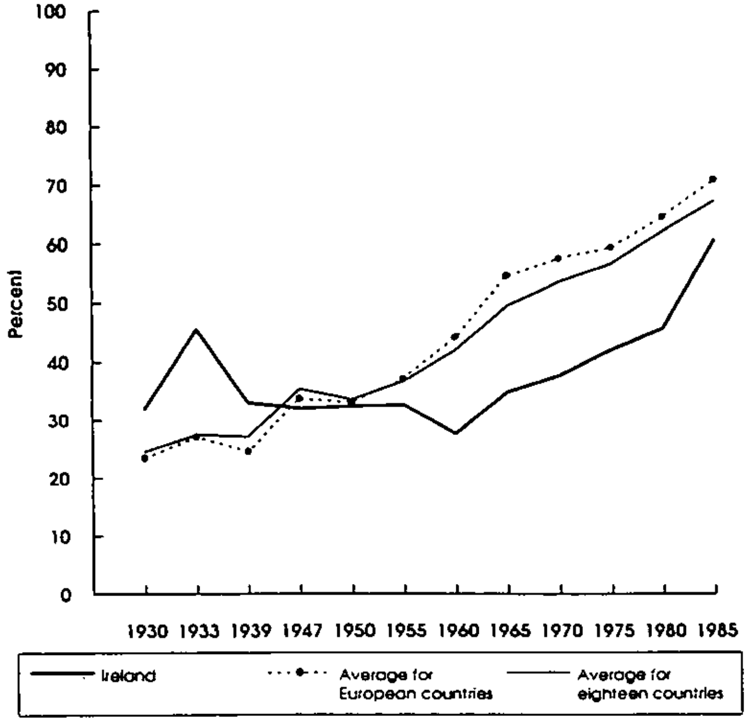
The replacement ratio I will present here is calculated in *terms of the pension a newly retired industrial worker will* get, assuming that he has just passed the normal pension age and that he has worked for 35 years. I will present replacement rates as an average for a single person and for a married couple, where both are above pension age but only one of the spouses has been working (that is the classical single-earner family).

It should be noted that the replacement rates here refer to the pension for a newly retired worker. If we were to include *all elderly citizens on pensions, the replacement rates would be* lower, often considerably lower. This is because many of the elderly have entitlements to pensions based on earlier rules, which often have been improved for later age groups.

How generous have old age pensions been? In the early 1930s, legislated old age pensions programmes existed in 13 of our 18 countries. During the 1930s in the countries with legislated old-age pensions, average income replacement for pensioners was low, around 25 per cent of an average industrial worker's wage (Diagram 1). It increased with about 10 per cent in the immediate post-war years. However, the main acceleration came in the 1960s, in the Golden Age of western capitalism. In spite of the post-1973 economic difficulties, the increase has tended to continue throughout the 1980s. To a large extent this increase reflects the maturation of income related pension programmes.

As is well known, Ireland inherited the British means tested pension programme of 1908. In Ireland in the 1930s, replacement rates were above the average of the European

DIAGRAM 1. OLD AGE PENSIONS, 1930-1985:
Average net income replacement rate



countries. There were some improvements in Irish social welfare programmes in the 1930s.[3] However, the peak in the Irish pension replacement rate indicated by our data for 1933 was not the result of reform activity during the depression. Throughout the 1930s pensions remained at a maximum of 10 shillings per week, £26 per year per person. Changes in replacement rates reflect instead the fact that while benefits were unchanged, there

[3] Unemployment Assistance was introduced in 1933 and widow's pensions in 1935 (Maguire) 1986.

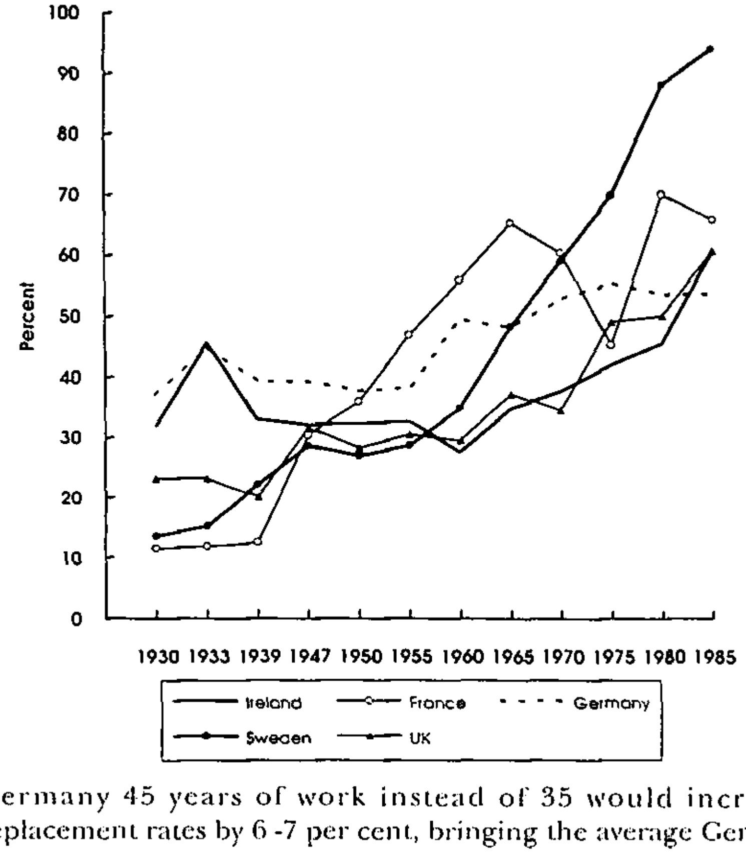
was a considerable change in industrial wage levels, first a lowering of wages in 1933 and then some increase up to 1939.

From 1939 to 1960, Irish pension replacement rates stagnated at around the 30 per cent level. After 1958, however, Ireland experienced a rather drastic change in the political climate (Breen *et al.* 1990). The introduction of the contributory pensions in 1960 improved replacement rates considerably. Yet, with statutory pensions based on flat rate benefits, in spite of increasing benefits Irish replacement rates could not catch up with those in the other Western countries, where income related programmes were common. There was, however, a considerable increase in Irish flat rate benefits from 1980 to 1985.

Let us now compare the development of Irish pensions with those in the United Kingdom, France, Germany, and Sweden (Diagram 2). In the 1930s Irish placement rates were at the German level. Although both Ireland and Britain paid 10 shillings per week in old age pensions, because of the higher wage levels in Britain, British replacement rates were considerably lower than in Ireland. In the post-war period Irish pension replacement rates have followed the British ones quite closely.

Of the countries considered here, especially Germany but also France represent the classical corporatist model. In Germany, all pensions have thus been tied to a work record, requiring a minimum of 25 years of insured employment and taking into account up to 45 years of contributions. This work requirement means that a relatively large proportion of citizens - especially women - have not been qualified for a pension. In the 1980s the German average pension level was relatively low :ompared to that in many other countries. This reflects the fact hat our figures give an average pension for a single person and for a couple, where one of the spouses has no work record, and thus has no pension. By 1985, Irish pension levels have thus caught up with and surpassed the German ones. However, in

DIAGRAM 2. OLD AGE PENSIONS, 1930-1985:
Average net income replacement rate



Germany 45 years of work instead of 35 would increase replacement rates by 6 -7 per cent, bringing the average German replacement rates up to the Irish level.

In France, pension replacement rates also increased in the post-war period up to 1965. However, in the French *Regime Generale* there was a ceiling for wages taken into account. From

1955 to 1975, this ceiling remained stable. As a result of wage increases above the ceiling, French pension replacement rates dropped quite a bit until the ceiling was increased at the end of the 1970s.

The Nordic countries, including Sweden, have been typical exponents of the universal flat rate Peoples' Pensions. Up to 1955, Sweden therefore had lower replacement rates than Ireland and many continental European countries. In the 1950s and 1960s, however, Sweden as well as Finland and Norway added an income related work pension to the flat rate pension. This new pension system thus combined the idea of universalism with the idea of earnings relatedness, creating what could be called an "institutional" model of pensions. When this institutional system matured in the 1980s, Swedish pension replacement levels became the highest among these 18 countries.

Also in Britain, some efforts were made to add an earnings related pension to the national minimum one. Attempts at such reforms did however generate political controversy. The earnings related component in British pensions has therefore been relatively small. However, as a result of an earnings related pension introduced by the Labour government in 1978, replacement rates in Britain increased considerably during the Conservative government in the 1980s.[4]

In 1985 there was considerable variation between countries in terms of pension replacement rates. Among our 18 countries the highest replacement levels in old age pensions were found in Sweden, Finland, Belgium, Norway, Italy and Austria. As mentioned above, Sweden, Finland and Norway have complemented their flat rate Peoples' Pensions with earnings related pensions. Belgium, Italy and Austria represent classical "corporatist" pension systems with relatively strong earnings related pensions.

[4] Here we must remember that this earnings related supplement in Britain is given only to those recently retired. In Britain, the major part of the elderly, therefore, have only had the minimum level flat rate pension. This probably explains the large proportion of poor among the elderly.

With a 61 per cent replacement rate in 1985, Ireland fell into a middle category together with Denmark, France, New Zealand, Japan, USA, Switzerland and the United Kingdom. The clearly lowest replacement level was found in Australia, which by 1985 had moved back to its traditional means tested pension programme.

Coverage: Another aspect of the pension system is the proportion of citizens who have a right to an individual pension when they retire. This we can refer to as the *coverage rate of pension programmes*. In the case of pensions it is reasonable to relate the number of insured persons to the population in the ages 15-65 years.

In the 15 countries which had legislated old age pensions in the 1930s, about half of the citizens were insured, and thus had a right to a pension when they attained normal pension age. This coverage rate increased up to around 80 per cent in 1960 and has remained at that level up to 1985.

In 1985, however, pension coverage rates varied considerably. Eight countries (Canada, Denmark, Finland, The Netherlands, Norway, Switzerland, Sweden, and New Zealand) had universal systems of basic pensions with complete coverage of the population. In countries with work related pension systems, such as Japan, Germany, USA, Austria, France, Italy and Belgium, coverage was however much lower. In Ireland, in spite of the extension in 1973, the proportion covered by old age pensions remains among the lowest, around 50 per cent (including public employees).

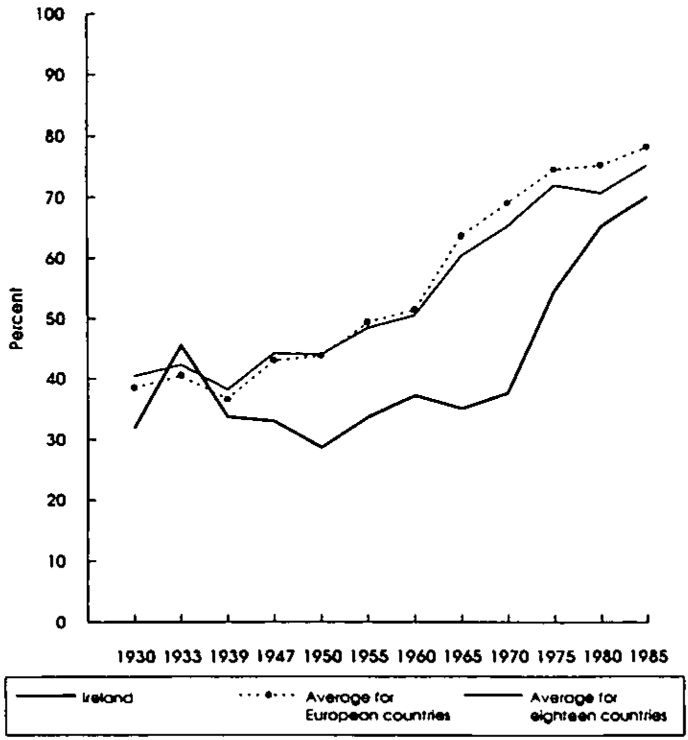
Sickness Insurance

Let us now also look at sickness insurance, one of the social insurance programmes intended to protect for short-term losses of income. I am here concerned only with cash benefits, not with hospital treatment, etc. As is well known, Ireland took over the 1911 British insurance programmes for sickness and unemployment.

Replacement rates: In sickness insurance I will discuss the development of average net replacement levels, defined as an average of four measures: benefits for a single person with

DIAGRAM 3. SICKNESS INSURANCE, 1930-1985:

Average net income replacement rate



respect to short-term illness (one week) as well as long-term illness (26 weeks) and benefits for a couple with a dependent spouse and two minor children, also here short-term illness as well as long-term illness.

Among the 11 countries with legislated sickness benefits in the 1930s, net replacement rates were about 40 per cent of the average wage (Diagram 3). Average replacement levels increased rather rapidly during the post-war period, especially during the period 1960 to 1975. In the 1980s, however, average benefit levels in sickness insurance have stagnated. This reflects cut-backs of benefits in several countries during the post-1973 economic crises. Remember, however, that average old age pension replacement rates apparently were more difficult to cut and continued to increase in this period.

Irish benefits remained stable during the 1930s but wage levels varied, giving replacement rates roughly at the European average. After World War II, increases in Irish flat rate benefits only barely followed the increase in average wages, resulting in a stagnation of benefit ratios at about the 30 per cent level. Thus, Irish replacement levels lagged behind the European average up to 1973, when benefits in the Irish sickness and unemployment insurance were made related to previous income (with the income related component payable after 2-3 weeks of waiting). Thereafter, Irish replacement levels almost caught up with the European average.

While Irish benefit ratios in sickness insurance were higher than those in Britain during the pre-war period, in the 1950s there was a convergence between Irish and British replacement levels (Diagram 4). When income related supplements were introduced in Britain, however, Irish benefit ratios fell behind the British ones between 1965-1975. After 1979 the Conservative government had decreased the extent to which benefits are income related, making them close to flat-rate benefits.[5] Therefore in the 1980s British replacement rates have

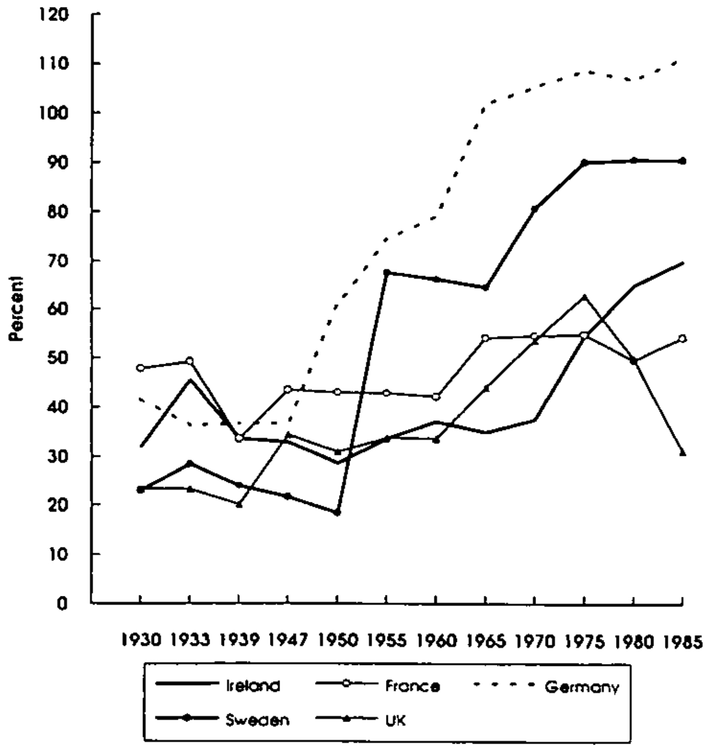
[5] Also child supplements were abolished as a result of the introduction of general child allowances.

been brought down almost to their pre-war levels. At the same time Irish benefit levels have increased as a result of income related supplements.

Since the 1970s the highest replacement rates are found in West Germany. There the regular untaxed sickness insurance

DIAGRAM 4. SICKNESS INSURANCE, 1930-1985:

Average net income replacement rate



benefits was complemented with a wage continuation scheme for workers, which was introduced in two steps (1957 and 1969). This *Lohnfortzahlungsgesetz* gives the full wage during the first six weeks of illness. Thus for long-term illness, in combination the two German systems give more than full compensation of wages, with an average at around 110 per cent.

Up to 1955 Sweden had a voluntary, state-supported sickness insurance system with very low replacement rates, lower than those for example in Ireland. In 1955, however, a universal programme with income related benefits was introduced. In the 1970s benefit levels were made taxable and increased to 90 per cent of earnings.[6] In France replacement rates have not increased markedly during the post-war period and are now lower than in Ireland.

In the period before World War II, differences between countries in replacement rates were relatively limited. In the post-war period, however, variation among the European countries has increased. The full range of variation in average replacement levels in our 18 countries in 1985 is considerable. We find the highest replacement levels (at least 100 per cent) in Germany, Austria, and Norway, where employers continue to pay full wages during the first period of illness. In Sweden and Finland about 90 per cent of wages were replaced. Switzerland has a very pluralistic but state supported sickness insurance system, with replacement rates around 80 per cent.[7] Irish benefit levels (70 per cent) came in a middle category of countries, including Belgium, New Zealand, Japan, Denmark, Italy and The Netherlands. The weekly earnings benefits in Britain were lower than the means tested benefits in Australia.

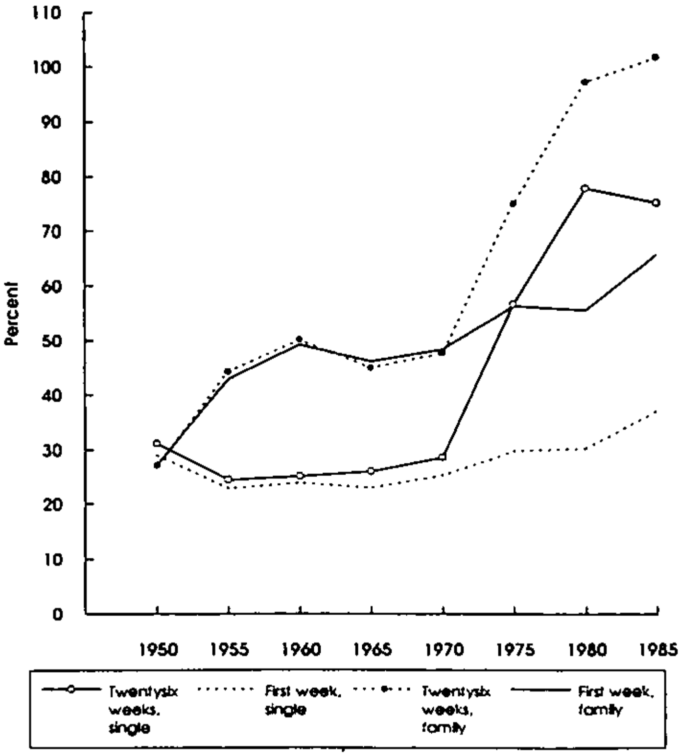
Irish Family Ideology: There is one rather unique characteristic about benefit levels in Irish sickness and unemployment

[6] In 1991 Swedish benefit levels have, however, been lowered and another decrease is scheduled for 1993.

[7] There, our data describe the relatively generous benefits going to members in the strongest union among workers, *die Schweizerische Uhren-und Metallarbeiterverband.*

insurance. This is the extent to which families are given a privileged position in these two social insurance systems (Diagram 5). In the 1950s relatively generous increments for a dependent spouse and for children were introduced in sickness insurance.[8] As a result, in Ireland the replacement rate for a family was about 20-25 per cent higher than that for a single

DIAGRAM 5. SICKNESS INSURANCE, 1930-1985: Net income replacement rates in Ireland



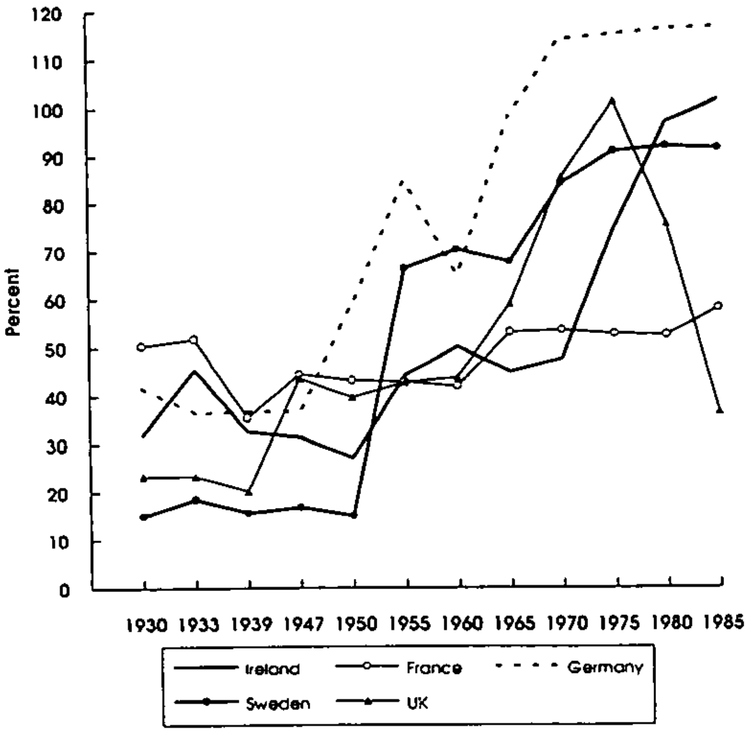
[8] Similar supplements were also introduced in unemployment insurance.

person (after 1973 replacement rates for long-term illness were increased with an income related component).

The extent to which the family is given a favoured position appears to be greater in Ireland than in the other countries. Perhaps it reflects the strong influence of Catholic ideology in Ireland. The result is that for families with long-term illness, the Irish replacement ratio at around 100 per cent is one of the highest in Europe.

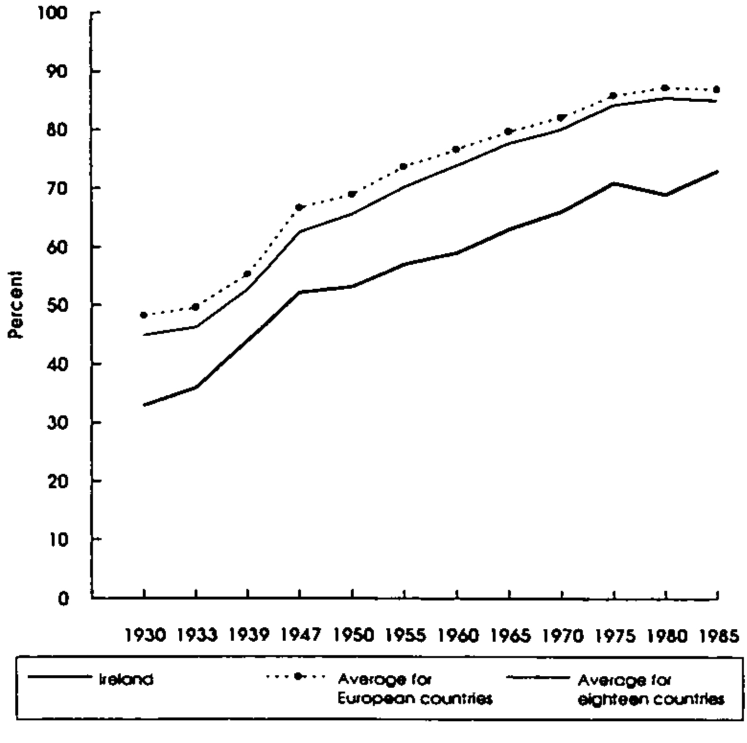
DIAGRAM 6. SICKNESS INSURANCE, 1930-1985:

Net Income replacement rate (26 weeks) for a family with two children



Coverage: With respect to coverage in sickness insurance, it is reasonable to relate the number of insured to the size of the labour force, that is to the number of citizens dependent on a stream of earned income. Among the 11 countries that had sickness insurance in 1930, coverage was around 50 per cent of the labour force (Diagram 7). Also in sickness insurance coverage increased during the first post-war decades as insurance

DIAGRAM 7. SICKNESS INSURANCE, 1930-1985: Percentage of the labour force covered



programmes were extended to new groups. Coverage rates reached an average of about 80 per cent of the labour force in the 1980s, when they stagnated.

In Ireland sickness insurance covered employed persons (thus not the large category of farmers) but excluded salaried employees above a certain wage ceiling as well as some other categories of workers (seasonal work, commerce, agriculture, and domestic service). Irish coverage levels were, therefore, somewhat below the European average but have increased with roughly the same rate as in Europe.

Table 1: *Coverage of Sickness Insurance (Cash Benefits) in Labour Force (%) 1985*

1.	Denmark	100
2.	Finland	100
3.	Norway	100
4.	Sweden	100
5.	Switzerland	100
6.	Canada	89
7.	France	88
8.	Belgium	84
9.	Austria	83
10.	United Kingdom	79
11.	Italy	77
12.	The Netherlands	77
13.	Germany	76
14.	Ireland	73
15.	Japan	56
16.	Australia	0
17.	New Zealand	0
18.	USA	0

The extension of coverage in Ireland to all employees in 1973 can be noted here as a slight increase in 1975 (cf Diagram 7). However in 1980, coverage drops somewhat. A similar drop in the 1980s can be observed also in some other countries, and can probably be interpreted as a result of increasing levels of unemployment.

If we look at the coverage of sickness cash insurance in the labour force in our 18 countries in 1985 we find the following picture (Table 1). The Nordic countries as well as Switzerland have universal coverage of the working population. Coverage is high, above 80 per cent, also in Canada, France, Belgium and Austria. With 73 per cent coverage, Ireland comes in a middle category together with Germany, The Netherlands, Italy, and the United Kingdom, where coverage ranges from 76 to 79 per cent. The Japanese coverage is below 60 per cent. In Australia and New Zealand only means tested programmes exist, thus no social insurance programmes. In 1992 the United States is the only western country which lacks a national sickness insurance programme.

Why No Corporatism in Irish Social Insurance?

When I compare the institutional structures of Irish social insurance programmes with those in Europe, it strikes me that something is missing in the Irish system. What one might have expected to find in a country with such a strong Catholic church are the classical corporatist arrangements in the institutions of social insurance programmes. On continental Europe such corporatist institutional arrangements have typically taken the form of different insurance programmes for different occupational groups and tripartite participation by employers, employees, and the state in the governing of social insurance systems. Such institutional aspects have been clearly visible for example in Germany, Austria, Italy, France, Belgium and The Netherlands.

My reading on Irish developments indicate that at least throughout the 1940s there have been attempts to create corporatist (in Ireland they were referred to as "vocational") institutions, in the constitution as well as in social insurance systems (Whyte, 1971; Lee, 1989). In social insurance the National Health Insurance Society, which was in charge of sickness insurance between 1933 and 1950, appears to have been the best example of such a "vocational" institution.

However, in Ireland, attempts to introduce "vocationalism" into social insurance institutions appears to have disappeared since the 1950s. The background to this disappearance would not appear to have been fully explained.

Strategies for Equality

An important issue in the development of social policy has been the question how we should arrange social insurance programmes so that we can increase equality and decrease poverty. These issues have been discussed and debated between, as well as within, various political parties but also within the labour movements in many countries. Here we find at least three major approaches.

The *means testing strategy* argues that by making benefits means tested we can ensure that social programmes are redistributive. In this strategy, means- or income testing is used to guarantee that only those who are in greatest need of public support will be supported. The result is that benefits are given primarily to the poor.

It is obvious that per pound or dollar of money spent on social programmes, the means testing strategy has a strong redistributive effect, or what could be called a steep redistributive gradient. A strong reliance on such programmes creates what - following Richard Titmuss -we can term a "marginalistic" type of welfare state (Korpi, 1980a).

In recent decades, the means testing strategy has been well developed for example in the United States, where the needy have been defined in terms of an official poverty line. In President Lyndon Johnson's "War on Poverty" in the 1960s, serious attempts were made to assure that only those below the official poverty line would get support.

In the Vietnam war, the US Air Force used the concept of "target efficiency" to measure the proportion of all bombs that actually fell on the targets. At approximately the same time, social scientists evaluating the success of anti-poverty programmes in the War on Poverty, also used the concept of "target efficiency", to measure the proportion of all dollars spent in the War on Poverty that actually fell on the poor, that is the citizens below the official poverty line. This was seen as an important criterion for the efficiency of the programmes (Korpi, 1980b). Also in other countries the means testing strategy has traditionally been a very important one in attempts to improve the situation of the poor.

In the *flat rate strategy* it is proposed that we should attempt to increase equality by providing all recipients with the same benefits. Such universal flat rate benefits should provide a safety net below which no citizen is allowed to fall. This type of argument has been relatively common not only among liberal parties but also among social democratic parties in Europe. Such a flat rate strategy was, of course, also central for William Beveridge.

While both the means testing and flat rate strategies have steep redistributive gradients, in the long run, however, they are likely to have other effects which will tend to counteract redistribution. Citizens who have been accustomed to a relatively high standard of living are not likely to accept a considerable fall in their living standard when they get sick or when they retire. Therefore high-income earners are likely to search for private (individual or occupational) alternatives or complements to the flat rate or minimum benefits supplied by the public sector. Such efforts in turn may tend to increase inequality.

As an alternative, therefore, the *institutional strategy* has been discussed in several European countries since the 1950s. The central idea in this strategy is that benefits should be *universal and income related*. This third type of strategy thus combines the liberal, Beveridgean idea of universalism with the idea of earnings related benefits of the classical corporatist programmes on continental Europe. Such an institutional welfare state would give a guarantee that in the case of illness and old age, public programmes will secure all citizens roughly the same standard of living to which they have been accustomed.

When applied, for example, to old age pensions it has thus been argued in support of the flat rate strategy that we should create equality among citizens at least in old age by giving everybody the same pension irrespective of their previous earnings. Those being in favour of universal and earnings related pensions have admitted that in the short run the effects of such a strategy would appear to be to conserve inequalities created in the labour market. However, the proponents of this institutional strategy maintain that in the long run public programmes of the institutional type will have equalising effects by limiting the scope of private or market-based programmes, which are likely to generate much more inequality.

The issue here boils down to a trade-off between two factors. On the one hand we have the redistributive gradient of the public sector, that is the proportion of each pound or dollar spent that favours the poor more than the rich. On the other hand we have the total size of the public sector, or the number of pounds or dollars that can be used for redistribution. Where the public sector is large, a much lower degree of redistribution is required to achieve the same amount of redistribution than where the public sector is small (Åberg, 1989).

From various sources we can put together empirical data of relevance for illuminating the question which of the strategies discussed above are best suited for limiting inequality among citizens. Let us begin by looking at the extent to which different legislated pension programmes have generated private pension programmes, individual or occupational ones. An important factor in this context is the level of the maximum pensions attainable within the public systems. The higher the income levels which can be protected within public systems, the smaller would the incentive to establish private pension programmes appear to be.

In our data base set we have included information on maximum pensions available within public pension systems. This maximum pension can be expressed as a percentage of the average worker's wage. For one year, 1980, we have also information on the size of private pension expenditure as percentage of the Gross Domestic Product. For 1980, we can thus relate the maximum extent to which public pension programmes replace previous wages, and the extent to which private or non-public pension programmes have developed in the various countries (Diagram 8).

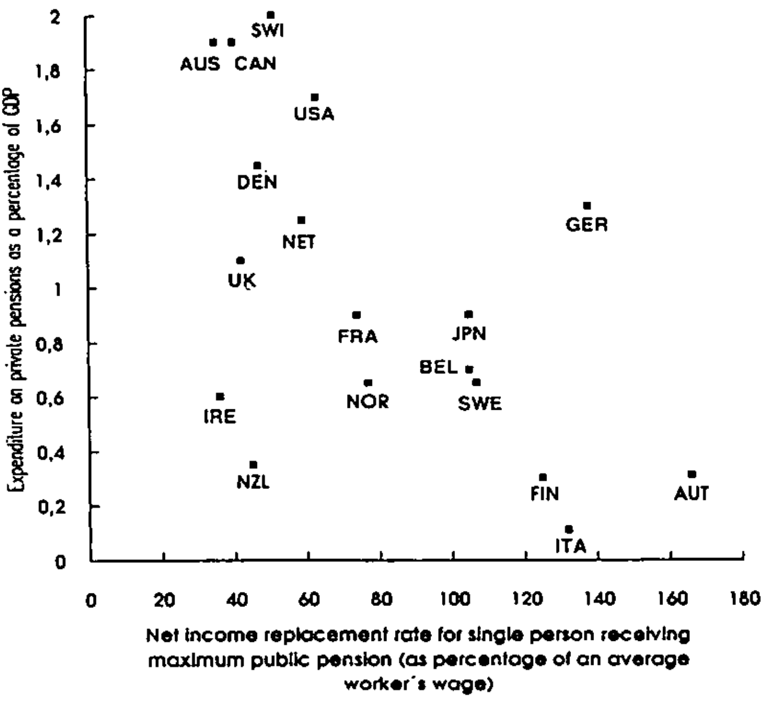
In our 18 countries public pension systems differ considerably in terms of the maximum earnings that can be replaced. Maximum replacement rates of more than 100 per cent of an average worker's wage were found in Austria, Italy, Finland, and Germany.[9] At the other extreme, maximum replacement rates were only about 50 per cent or less in Australia, Canada, Switzerland, Denmark, the United Kingdom, Ireland and New Zealand.

In spite of a few "outliers", there is an observable

[9] Italy as well as other countries have had very high or no ceilings for the level of wages which are taken into account when pensions are computed.

relationship between the level of maximum public pensions and the size of private (individual or collective) pension schemes as a percentage of the Gross Domestic Product (GDP). Thus in Finland, Austria, and Italy, where maximum levels in pensions related to previous income constitute about 120-170 per cent of an average industrial worker's net wage, private pensions are of very small importance and make up only about 0.2 per cent of the GDP. In these countries, apparently high income earners

DIAGRAM 8. MAXIMUM PUBLIC PENSIONS AND RELATIVE EXPENDITURE ON PRIVATE PENSIONS AS PERCENTAGE OF GDP (AROUND 1980)



also can get a public pension which they regard as sufficiently high so that they do not have to look for private pensions to complement the public ones.

Private pension schemes are of medium importance in Norway, Sweden, Japan, and Belgium. There maximum public pensions are relatively high, about 80-100 per cent of an average worker's wage.

In Switzerland, Australia, Canada, USA, Denmark, The Netherlands, and Britain, however, maximum public pensions replace only about 50 per cent of an average worker's net income. In these countries high income earners have therefore seen it necessary to complement the low public pensions with private pensions. In these countries expenditures for private pensions constitute 1-2 per cent of the GDP, about ten times as much as in Italy, Finland and Austria.

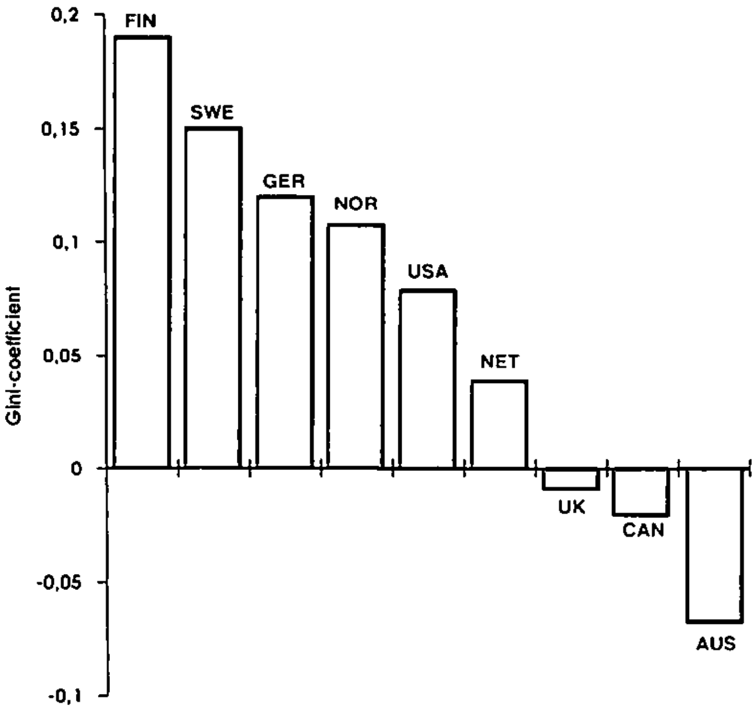
There are some "outliers" in this diagram, however. The relatively large role of private pensions in Germany probably reflects that top income earners as well as housewives are excluded from the public pension schemes and therefore are forced to use private alternatives. In the other direction, New Zealand has limited private pensions in spite of low maximum public pensions. Also in Ireland private pensions could have been expected to be more common, considering the low maximum replacement rates in the public pension systems. In the 1980s, however, private pension systems appear to have been increasing in Ireland.

Do Policy Strategies Affect Income Inequality?

The next question is what effects different combinations of public and private pension systems have for income inequality among the elderly? From the so called Luxemburg Income Study data base, we can get information on the composition of income for pensioners in nine different countries around 1980 (Kangas and Palme, 1993).

Let us first look at public pensions and measure income inequality in public pension income among those 65 years or older using the Gini coefficient (Diagram 9).[10] We find then that

DIAGRAM 9. INEQUALITY IN PUBLIC PENSIONS IN NINE COUNTRIES (GINI, AROUND 1980)



[10] The higher the Gini coefficient, the greater the inequality.

the means tested Australian pension programme is actually the most strongly redistributive one. As means tested programmes are expected to do, Australian public pensions thus give more to elderly persons with low gross income than to those with higher gross income. Public pension programmes have some redistributive effects also in Canada and in the United Kingdom.

In Finland, Sweden, Germany and Norway, on the contrary, public pension income is much more unequally distributed. In these countries those with higher total income get much higher pensions than persons with lower total earnings. In the United States and The Netherlands, public pension income is less unequally distributed.

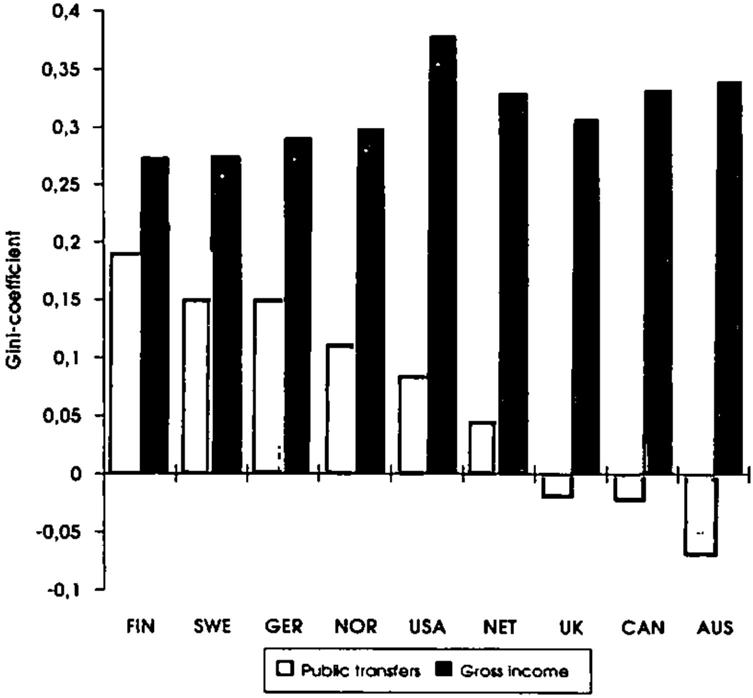
However, if we look at the distribution of total income among the elderly in these nine countries, the picture changes drastically (Diagram 10). Inequality in total income among the elderly is actually smallest in Finland, Sweden, Norway and Germany, the countries where inequalities in public pension income is largest. On the other hand, inequality in total income is considerably higher in Australia, Canada, the United Kingdom, and The Netherlands, the countries where public pension programmes in themselves are most clearly redistributive or neutral.

These results thus indicate that the effects of different forms of public pension programmes on income inequality among the elderly come in different stages. In fact their most important effects are likely to be felt before public pensions are paid out to the elderly. In countries with redistributive but low maximum public pensions, groups of citizens accustomed to relatively high incomes have found it necessary to complement low public pensions with private or collective pensions, or with other types of income. Income from such sources tends to be much more unequally distributed than income from most public pension programmes, also from those which have the highest level of inequality. Thus, in countries where public pension schemes are flat rate or means tested, they tend to be redistributive on paper only.

Political Consequences of Welfare State Institutions

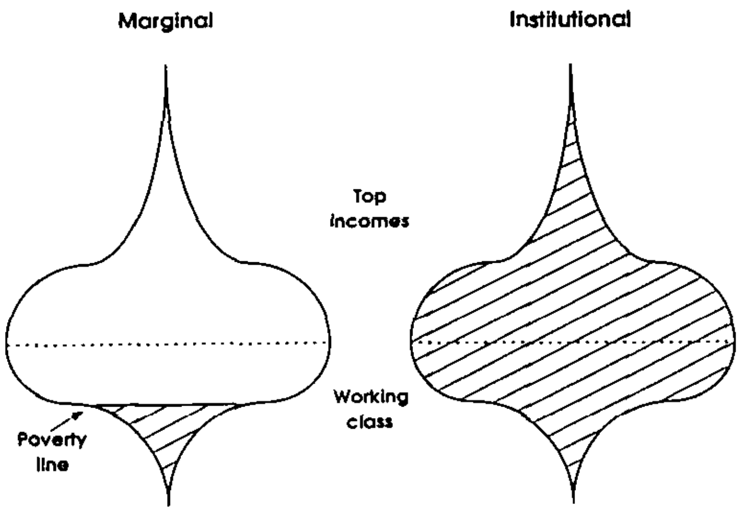
Different institutional structures of the welfare state may also have important political effects, including effects on the political support for the welfare state. Since marginalistic social programmes tend to generate conflicting interests among citizens, in this type of welfare state the electorate tends to be

DIAGRAM 10. INEQUALITY IN GROSS INCOME AND IN PUBLIC PENSION AMONG THE ELDERLY IN NINE COUNTRIES (AROUND 1980)



split in terms of views on social policy programmes. Especially significant here is the split that the poverty line tends to create within the working class (Diagram 11). If welfare state benefits go primarily to those below a poverty line, the better-off sections among workers have little incentive to support such programmes. Instead they are likely to join with the middle class in a coalition against the poor. The marginalistic welfare state thus creates a large constituency for a "welfare backlash", something which has been noted, for example, in the United States.

DIAGRAM 11. MARGINAL WELFARE STATES CREATE A LARGER CONSTITUENCY FOR "WELFARE BACKLASH" THAN INSTITUTIONAL WELFARE STATES



In the institutional type of welfare state, on the contrary, all categories of households have at least some direct benefits from social policy programmes. By defending what they have come to perceive of as *their own interests* in existing universal and income related social policy programmes, the better-off citizens are also defending the interests of the poor. Thereby, the constituency for a welfare backlash is decreased. As, for example, successive governments in Sweden have discovered, in an institutional type of welfare state it is very difficult to introduce cut-backs since most citizens feel that this is a threat to their own legitimate interests. The poor are thus not left to their interests alone.

Unemployment and Labour Market Policies

Since the mid-1970s, mass unemployment has returned to Europe. In terms of unemployment levels we are now back to the years before World War II. The post-war period, when most Western countries (but Ireland, Italy, the United States and Canada to a lesser degree than others) had full employment (defined as 2-3 per cent of unemployment) have now passed (Korpi, 1989). We are in the process of establishing what in Germany has been called "the two-thirds society", that is a society where two-thirds of citizens are quite well off but the remaining third is excluded from employment and a normal place in society.

In spite of the protracted boom during the 1980s, the average unemployment levels in the Common Market countries have ranged around 10 per cent. In 1992, in the OECD area the number of the unemployed is about 30 million persons, almost ten times the size of the Irish population. In addition, in several countries more than one-half of men above 55 years of age have been forced out of employment. In many countries the increase of labour force participation of women has been slowed down or halted.

In the 1950s, liberals such as William Beveridge but also many others took it for granted that the absence of mass unemployment was a defining characteristic of a welfare state. In the 1980s this defining characteristic has disappeared in most European countries.

However, social policy and labour market policy is of some relevance also in this situation. Of particular importance is the difference between passive and active labour market policies. Passive labour market policies pay a more or less generous compensation to the unemployed, either through unemployment insurance or through pre-retirement pensions. Active labour market policies give occupational training or create jobs, such as special programmes for youth and for long-term unemployed. Thereby, they have much more positive consequences for the situation of the unemployed as well as for human capital in terms of occupational skills.

What is often forgotten, however, is that the costs for active labour market policies generally are not higher than for the passive ones, at least if one pays the unemployed a decent compensation. Yet most countries continue to spend most of their money in passive programmes. In several European countries in the 1980s, the costs for such passive policies have been roughly of the size of costs for military defence, a few of them even higher.

Together with Spain, Ireland is the country in Europe where unemployment has been the highest, around 15-16 per cent (Table 2).[11] Ireland spends a sizeable proportion of its GDP (in 1990, 4.3 per cent) on labour market programmes. About two-thirds of these expenditures were used for "passive" unemployment compensation and one-third for "active" policies, such as labour market training, youth measures, and subsidised employment. Here Ireland follows a relatively common European pattern of allocating most expenditure on passive measures. In Germany, active measures have accounted for a

[11] Data from OECD 1991, *Employment Outlook*.

Table 2: *Unemployment and Expenditure on Labour Market Programmes 1990*

	Unemployment (%)	*Expenditure Labour Market Programmes* (*% of GDP*)	*of which Active Labour Market Policies* (*% of total expenditure*)
Ireland	15.8	4.3	34
UK	6.8	1.5	40
France*	9.4	2.7	28
Germany	4.9	2.2	47
Sweden	1.5	2.3	70

* 1989

Source: *OECD, Employment Outlook 1991.*

somewhat larger share of expenditures. This has most clearly been the case in Sweden, where the bulk of expenditures have traditionally been directed towards active measures and up to 1991, open unemployment has been kept relatively low.[12]

The Irish Experience

In closing I would like to remind you about the debate that is going on among social scientists as well as among politicians about the mixed blessings of the welfare state. As you are well aware, there is a long tradition of questioning the benefits of welfare state growth. Especially among economists of a neo-classical bent, many have pointed to the possible negative

[12] Since the mid-1991 Swedish unemployment levels have been increasing drastically and approached the 6 per cent level in August 1992. The proportion of expenditure for passive measures has now increased also in Sweden.

consequences of the welfare state for economic efficiency and economic growth. Thus, for example, some years ago Arthur Okun (1975) the late American economist, used the image of "the leaky bucket" to indicate how the welfare state wastes resources on the way when moving them from the rich to the poor via taxation and social policies.[13]

Those of you who have faith in the hypothesis of "the leaky bucket" may find some comfort in the figures which I have presented here. Ireland would not appear to have been in the most dangerous risk zone, so to speak, when it comes to leakage of economic resources via an overdeveloped welfare state. Several other countries would appear to have been taking greater risks in the welfare state area during the post-war period.

On the other hand, those of you who set value on social citizenship, as it was once expounded by T. H. Marshall, may perhaps also find some hope in the data I have presented. When the Irish compare themselves with their great neighbour in the east, they will notice that Irish pension levels for the elderly are of about the same quality. In addition, Irish sickness and unemployment insurance programmes now have considerably higher benefits than the British ones. Thus, during the post-war period Ireland has been steadily moving, although with varying speed, in the direction of improved social rights and the extension of social citizenship.

[13] For empirical data of relevance for evaluating the "leaky bucket' hypothesis, cf. for example Conte and Darrat 1989, and Korpi 1985.

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