# Classic principles and designs in European social security

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# Classic Principles and Designs in European Social Security†

## 1. INTRODUCTION

Social security systems in Europe expanded strongly after World War II, but since the late 1970s/early 1980s a period of rethinking, retrenching and reconstruction has set in. Apart from the fiscal crisis after the oil price shock and subsequent economic recession, other factors contributed to this, including an expanding new-right ideology (marketisation, privatisation) and pressures on welfare states to adjust to a changing society (increased labour participation of women, population ageing, growing plurality of households, work flexibilisation, etc). The changes which were implemented in national social security programmes have been recorded in detail (e.g. MISSOC, various years). Within social science, they have spurned comparative analyses from a variety of perspectives. Typical questions included whether systems were converging or diverging (e.g. Kautto et al., 1999; 2001), whether European types of welfare arrangements will be viable in the future (Kuhnle, 2000) and how to characterise and conceptualise change (e.g. Palier, 2001). Theoretically a major interest has been to identify the relative strength of causal factors impinging on reforms, such as socio-economic pressures or challenges to institutional capacities, facilitating or constraining policy adaptation and thus leading to path-dependent change (e.g. Esping-Andersen, 1996; Scharpf and Schmidt, 2000) or the notion of a "new politics of the welfare state" (Pierson, 2001) according to which a new theoretical framework is required for an understanding of contemporary changes in welfare arrangements.

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The above are mostly economic, political and institutional analyses. The preferred indicators of change have been spending on social protection, the generosity of transfers and services (replacement rates and other indicators) and the more general perspective of institutional change or stability (path dependency versus path breaking). A few studies have looked into the manifestation and change within *principles* underlying social rights. For example, in an earlier study with Jon Kvist, we have defined and examined shifts in the degree of work-relatedness within unemployment compensation, i.e. how far social rights are based on conditions pertaining to previous or future employment (Clasen et al., 2001). In a sophisticated attempt, Bolderson and Mabbett (1995) have analysed the complexity of principles inherent within four social security schemes in seven countries by way of drawing analogies with allocative principles found in market exchange, public policy and taxation.

This chapter is much less ambitious, and concerned only with *classic principles* of redistributive justice underlying social rights, i.e. need, equity (or reciprocity) and equality (or universalism). To what extent have these principles of re-distributive justice expanded, eroded or remained unaltered? Which ones have become more or less dominant? Has there been an increased mixing of principles within single programmes, or have principles become more separated out and distinctive in character? Are trends the same across European social security systems or do we see diverging trends, perhaps indicating institutional path dependency?

There are a number of reasons why we should expect changes in the relative scope of the three principles. These will be discussed section 3. However, rather than trying to strengthen theoretical propositions, the chapter has two other main concerns. The first one is conceptual, to clarify what we mean with social security principles, examining the ways in which their relative scope can be identified and delineating indicators of change over time (section 2). The second is empirical: to use two of these indicators and to identify and compare trends (section 4). The final section will present preliminary results and provides some speculative discussion about causal factors.

The analysis is confined to three European countries in particular (United Kingdom, Germany and the Netherlands) and includes a, more general, section on Denmark, Sweden and Finland. While these six countries are not meant to represent the range of social security traditions in Europe, they nevertheless display a substantial variation and diversity of social security principles.

One assumption underlying our analysis is that principles are linked to specific instruments. The operation of the principle of *need*, for example, requires some mechanism by which resources are targeted and thus distinguish between claimants who can and who cannot do without support. This instrument is usually a means (or income) test. The principle of *equity* (or reciprocity) is commonly applied within social insurance programmes, which link benefit entitlement to contributions. The principle of *equality* (or universalism) is linked to non-contributory, non-means-tested citizenship based social rights. Of course, such a stylised account does not do justice to the real world of social security in which the design of instruments varies considerably, and several principles are often manifest within a single programme.

Indeed, although the presentation of empirical evidence in section 4 is organised by countries, we should point out that our level of analysis is not welfare states or national social security profiles. As Bolderson and Mabbett (1995:127) point out, "countries do not employ the same principles consistently over all the benefits provided by their social security system", and principles are not always utilised consistently in the main benefits for different categories. Instead, different principles can co-exist within single social security programmes, and we are particularly interested in those programmes in which the mix of underlying principles has changed. Only a full review of all national social security programmes would allow interpretations about the overall direction of change. The evidence in section 4 does not claim to be exhaustive in this sense. Nevertheless based on a review of some major changes, some tentative inferences about national trends are possible.

## 2. Principles, Designs and Measuring Change – A Closer Look

### *2.1. Principles and designs*

In some respects all social security schemes are needs-based since they have developed in response to needs and wants of (groups of) citizens that stem from certain (politically legitimated and acknowledged) social contingencies. What we are interested in are the three principal types of such responses. Underlying each type is a typical normative view on the character of the need which is responded to, and a related use of one of three basic principles of redistributive justice: need, equity and equality (Deutsch, 1975). A first type of response, aimed at poverty relief, sees need as arising only from the moment that a minimal level of subsistence is not met. Based on what is generally called the principle of need this response redistributes resources to the worst off only. In social security practice the typical instrument used for assessing 'true need' is the means test. A second type of response, aimed at the preservation of living standards, sees need as arising when an achieved standard of living is threatened. It redistributes resources to those who are regarded to be in need on grounds of the equity principle: those who have achieved more, are given more, so that initial status differences are reproduced. In social security practice, wage-relatedness of contributions and payments is a typical manifestation of this type of response. The third type of response sees need not so much as an issue of minimal or differentiated living standards, but as a broader condition of citizens, as an issue of general well-being. The aim here is not to relieve citizens from neediness, but to proactively promote the well-being of all. In this type of response resources are redistributed on the principle of equality, since all citizens are seen as having a right to a common standard of well-being. Here, the typical instrument in social security is the universal benefit.

In comparative social policy, this threefold typology is rather common, although the general principles are often termed differently, such as the principle of selectivity (need), the principle of reciprocity, equivalence or social insurance (equity), and the principle of universality (equality). Also associated are common distinctions between types of social rights, based on poverty (relief), reciprocity and citizenship. At the level of welfare regimes, the principle of need has been regarded as the dominant influence on policy direction in liberal welfare states, the principle of equity as prevalent in conservative welfare states, and the principle of equality as nowhere more manifest than in social-democratic welfare states (Esping-Andersen, 1990). However, this relatively simple conceptual framework is actually difficult to investigate empirically if the analytical interest is devoted to countries rather than programmes (Bolderson and Mabbett, 1995).

Within the field of social security there are three ideal–typical connections between the perception of need, redistributive principles and instrument designs. The principle of need is central to social assistance programmes. These are commonly tax funded, under control of the central state or local authorities, and aimed at poverty relief. The needs principle is most directly manifested in the fact that social assistance schemes provide benefits up to subsistence level only and that eligibility depends on a test of means. However, apart from the generosity of benefit levels, the design of the latter can vary from a very strict definition (any resources and capital taken into account; no or negligible amount of other income disregarded; high marginal tax rate; etc) to a more lenient one (e.g. only income tested; a considerable amount of resources disregarded, low marginal tax). Also, means-tests can be limited to the claimant, or might be extended to incomes (or resources) of his or her (married) partner, other family or household members, and even to relatives not living in the same household.

At the other end of the spectrum in terms of the scope of conditionality are benefit programmes which embrace the principle of *equality* or *universalism*. Universalist benefits tend to provide standard flat-rate benefits, often at a moderate level in order to provide basic security. However, varied rates are applicable at times (e.g. for dependants) and rates might be more generous. Indeed, the defining character might be regarded as neither the level of benefits nor the absence of benefit differentials, but the fact that eligibility is unconditional in the sense that it is not subject to a test of needs (or means), nor that contributions are required prior to receiving support. The scope of universal benefits can vary, with some benefits pertaining to the entire population above a certain age (e.g. universal pension) others to certain groups (e.g. some disability benefits) or sections of a group (universal benefit for first child only). Benefits tend to be tax funded and under responsibility of the state.

The principle of *equity* or *reciprocity* is most prevalent in social insurance programmes. Typical characteristics vis-à-vis other income maintenance schemes include risks which are generally associated with the labour market, eligibility and risk-pooling (no differentiation of individual contribution rates in relation to risk and compulsory membership), state regulation or involvement (at least to some extent), entitlement (based on contribution records) and funding (contributory rather than taxation) (Erskine and Clasen, 1997). Employers and trade unions are often involved in policy-making and/or administration and, generally, most of the funding stems from contributions by employers and employees.

However, a brief reflection on three of these criteria in actual social insurance programmes reveals significant deviations. Germany and France, for example, are regarded as strong social insurance countries in the sense of contribution funding (see Kautto, 2001). However, in both countries major social insurance programmes are supplemented with tax subsidies, amounting to 20% of total receipts in France and a similar percentage of pension revenue in Germany. More extremely, 80% in Denmark and more than 90% of Swedish unemployment insurance is tax funded. There is also other variation. Eligibility is, in principle, reserved for those who have made a specific number or volume of contributions which are usually compulsory for wage earners in (regular) employment. This is not, however, necessarily the case. Membership can be voluntary (unemployment insurance in Sweden and Denmark) and paid employment is rarely the exclusive route to eligibility, because certain groups may be granted access or are considered as co-insured, even though they do not contribute (financially) to the system (as e.g. graduates, carers and family members, or survivors of contributors).

Finally, there is variation in the degree to which both the level and duration of social insurance benefits are determined by contribution record. Germany belongs to a group where benefits (within public pension, unemployment and sickness insurance) are closely related to earnings and thus take on a wage replacement character. The purpose is maintaining accustomed living standards. Unemployment and sickness insurance in Nordic countries (and to an extent also public pension insurance in Denmark) form a second type of programme. Although replacing earnings in principle, universal basic benefits for non-earners and the incorporation and level of benefit floors and ceilings tend to breach the principle of reciprocity that asks for correspondence between contributions and benefit. At times the degree of this breach is significant. Danish unemployment insurance is a good case in point, providing a notional earnings replacement rate of 90% but effectively paying out flat-rate benefits except for workers with just above half average earnings (Kvist, 2001). This is due to a very narrow corridor between benefit floor and ceiling. With its near flat-rate payments Danish unemployment insurance comes close to the third group in Europe, consisting of social insurance in the UK and Ireland where benefits have traditionally adopted a flat-rate character, and are pegged at a modest level covering subsistence needs only.

The existence of earnings-related or flat-rate contributory benefits is a crucial characteristic distinguishing Bismarckian from Beveridgean social insurance respectively. The defining indicator here is the extent to which programmes correspond with the logic of private insurance which demands equivalence between risk, premiums and compensation. The Bismarckian schemes are closer to this logic, because of the correspondence between wage-related contributions and wage-related benefits, while Beveridgean schemes pay flat-rate benefits for wage related contributions. In combination with other design features (e.g. the ease of access) this can make the latter akin to universalist schemes in the sense of providing basic security (often at subsistence level) rather than status preservation. Social insurances can deviate in other aspects from this logic, thereby generating more or less 'solidaristic' redistribution.[1] This is why social insurance programmes generally resemble not pure but 'messy' or multi-principle contracts (Ferge, 2000). In other words, the reference to the general principle of reciprocity (benefits linked to contributions) is insufficient without acknowledgement of the parameters which determine the actual character of particular social insurance programmes.

Yet ideal–typical classifications of social security principles rarely do justice to the variation in design features and have problems with capturing the co-existence of several principles within a single programme. For example, the ideal–typical classification in Table 1 summarises the major differences as discussed above. However, some programmes consist of a primary and a secondary component, such as pension arrangements in Nordic countries. Others are 'hybrids' in the sense of incorporating instruments which are usually associated with different principles. For example, German unemployment assistance requires a means test in order to establish eligibility (need), but benefit rates proportional to previous earnings (reciprocity). The Dutch old age pension is generally regarded as a Beveridgean social insurance scheme, but it contains a means test on a partner's income. Disregarding differences in generosity, the British contributory pension scheme is not too dissimilar to basic universal old age pensions in some Nordic countries due to a range of activities which give rise to credits and make it all but universal. In short, rather than merely concentrating on the label of a programme, its specific design features are important indicators for the assessment and changing relevance of principles and thus the character of schemes.

### 2.2. *How to measure change?*

One problem with measuring shifts in the relative scope of distributive principles is that these can be the result of two processes: legal changes in benefit conditions (like the introduction or tighter application of a means test),

[1] In effect, in the field of social security 'solidarity' can be defined as 'deviation from the logic of private insurance' (Van Oorschot, 1991). Such deviations from equivalence are possible in the relation between risk and contribution, and between contribution and benefit payment.

Table 1: Ideal–typical correspondence between social security principles and instruments

| | | | |
|---|---|---|---|
| General principles of (re-)distributive justice | Need | Equity | Equality |
| Types of social rights | Poverty based | Reciprocity based | Citizenship based |
| Alternative terms for principles in social policy | Selectivity | Contributory<br>Equivalence<br>Insurance principle | Universalism<br>Unconditionality |
| Social security tradition | Social assistance | Social insurance | Categorical benefits<br>Universal benefits |
| Welfare regime | Liberal | Conservative | Social-democratic |
| Ideal–typical characteristics | – Tax funded<br>– State responsibility<br>– Aimed at poverty relief (minimum income guarantee)<br>– Means test | – Contribution funded<br>– (Co)-involvement of social partners<br>– Benefits either flat rate (Beveridgean); or earnings related (Bismarckian)<br>– Aimed at income maintenance<br>– Risk and contribution test | – Tax funded<br>– State responsibility<br>– Benefits (near) flat rate<br>– Aimed at well-being (income guarantee and maintenance)<br>– Risk and citizenship test |

or changes in the context within which social security operates, be these of a social (e.g. more lone parents), economic (increase in unemployment) or demographic nature (cohort effects). Depending on their direction, both can enhance or diminish each other's impact. For example, the growth in the number of unemployed people in receipt of needs-based social assistance might be the combined result of an increase in long-term unemployment and 'reform spillover', i.e. the consequence of a more narrowly defined entitlement to unemployment insurance. On the other hand, a reduction in the generosity of a universal pension might not necessarily lead to an increased use of (additional) means-tested support if occupational pensions have become more widespread.

Analytically there are therefore three variables indicating shifts in the relative scope of social security principles. First, changes in eligibility and entitlement criteria of particular programmes can be identified and monitored over a certain period of time. This 'legal' perspective has the advantage of documenting intended policy change. It is also relatively easy to access relevant data. However, contextual changes might exacerbate or reduce the effect of these policy changes, as described above.

A second, perhaps complementary, indicator could be the number or proportion of claimants in receipt of a particular benefit or covered by a particular programme. For example, the respective roles of unemployment insurance and means-tested unemployment assistance might have changed over time. Fewer recipients of the former and a rising share of claimants in receipt of the latter signifies a decline in the scope of the contributory (reciprocity) and increase in that of the needs principle. Another volume indicator would be the share of expenditure on particular programmes and, ideally, on elements within particular programmes based on different principles, e.g. the role of tax subsidies in social insurance schemes. In reverse to the 'legal' indicator, these 'social rights' indicators provide an idea as to the change in the actual scope of a particular principle, but it is not always possible to attribute this change to policy making and policy intent.

A third indicator would be to specify typical benefit recipients and compare their current income package with the one which would have applied twenty years ago, for example. In terms of universal, insurance and other components, how does this package compare for, say, a pensioner with previously half-average earnings and a 30-year working life? Data for this 'typical case' approach might be more difficult to obtain compared with the other two indicators.

Ideally, a combination of all three approaches would be preferable. However, in this explorative study we concentrate on the 'legal' perspective and, where available, also make use of some information which allows comments from a 'social rights' perspective in terms of expenditure and claimant numbers.

Finally, we need to be clear about the terms which describe directions of change, i.e. the changing significance or scope of principles. Reforms within social security programmes are closely observed by social policy analysts, sociologists and other social scientists. In order to describe change and identify trends typical terms are used such as 'tighter means testing', 'declining universalism', 'erosion' or 'expansion' of the social insurance principle or 'shifts from insurance towards needs orientation'. However, the use of these terms can be imprecise or ambiguous, and the direction of change which they might indicate unclear. For example, do tighter contributory requirements, e.g. requiring a longer work record before eligibility is established, imply a weakening or strengthening of 'the insurance principle'? If more capital or income is taken into account in means testing, does that imply that the needs principle is becoming more or less pronounced? If an income test at a very high level is introduced, does that mean that a previously universal pension has become needs-oriented?

Different terms might be appropriate for the different perspectives. From a legal perspective, terms such as 'strengthening', 'sharpen' or 'tightening' might refer to the same process within social insurance programmes. From a social rights perspective the terms 'expansion' and 'contraction' might be preferable. For example, requiring a longer work record in order to qualify for a reciprocity-based benefit tightens (strengthens, sharpens) Bismarckian principles. A shorter work record (or the recognition of activities other than paid work) would weaken Bismarckian and strengthen Beveridgean principles within the same scheme. The latter process might lead to more people becoming eligible or actually receiving a contributory based benefit, i.e. expanding the scope of social insurance. However, depending on other changes in the socio-economic context, the same policy can be accompanied by an unchanged scope or even a contracting scope of the insurance principle.

## 3. What to Expect?

From the perspective of the three classic principles underlying social security benefits, this section will discuss reasons why the relative scope of need, reciprocity or universalism can be expected to (have) change(d) in the countries covered in this chapter. As with others, they have witnessed considerable degrees of change in economic, demographic, social and political contexts within which social security systems operate. Directly and indirectly these changes have shaped the scope of income maintenance programmes in terms of the number of claimants and changes in the conditions attached to them.

### *3.1. Need*

A trend towards an increasingly important role of the needs principle, indicated by a more extensive scope of means testing, has been documented in a range of studies (Van Oorschot and Schell, 1991; Gough, 1994; European Commission, 1995; George and Taylor-Gooby, 1996; Bolderson and Mabbett, 1996; Ploug and Kvist, 199; Daly, 1997). This advancement, and its possible further expansion, can be linked to a number of economic and political factors.

First, the extension of means testing has simply been the result of 'spillover'. High and persistent levels of unemployment, plus the curtailment of non-means-tested schemes fuelled the number of those who have had to resort to social assistance. But the growth of social assistance in some countries is also a result of the lack of services and alternative benefits available for groups which have become more numerous as a result of social changes (e.g. lone parents). Second, sociological theory would predict that, under conditions of budgetary restraint, cost-cutting efforts would be more readily directed towards schemes which are less popular and benefit relatively few and non-organised groups (such as means-tested social assistance). The role of middle-class taxpayers and cultural arguments, which are often more concealed, could come in here as well. Central would be the moral distinction which is made between 'the deserving' and 'the undeserving', which is strongly influenced by perceptions of the degree to which needy people are seen as being responsible for the situation they are in – and therefore undeserving (Will, 1993; Van Oorschot, 2000a). If this perception is becoming more prominent, social support will tend to become more selective and less generous. The apparently increasing significance of the notion of self-reliance and individual responsibility among European citizens (Kluegel et al., 1995; Halman and Nevitte, 1996) would provide a favourable cultural context for a trend towards more selective targeting.

Third, a more targeted and selective approach within social security has long been advocated by neoliberal politics which had a major influence in the 1980s and early 1990s. But also Christian-Democrats have regularly expressed concerns about the negative effects of individualisation and the decline of citizenship, which are both seen as a consequence of a generous system of welfare provision. More recently, the position of European social-democratic parties, which tended to emphasise solidaristic and collective forms of social security, has shifted towards a more 'pragmatic' or 'third way' approach. To differing degrees, but applicable to all six countries reviewed here, social democrats in the 1990s have come to accept the need to curb social expenditure, promote individual responsibility and emphasise labour market integration rather than protecting social wages. Increasing living standards and adverse demographic changes are often used as a justification for reducing the scope of large-scale universal or contributory programmes and promoting occupational or private forms of income security for most people, while reserving residual public means-tested resources to those without the means to opt for market cover.

The above are but a few arguments which point to a growing scope of the needs principle. On the other hand, there are also reasons why means testing might not become more prevalent. First, recent positive labour market developments in a number of European countries might lead to a decline in the number of people who have to resort to needs-oriented schemes. Second, since social assistance depicts (often implicit) national poverty lines, and given that tackling poverty and social exclusion has recently gained political prominence (e.g. in the UK), political efforts might be expected which aim to reduce the scope of needs-based social security. Third, the means test is a blunt instrument and often incapable of tackling two policy aims at the same time, potentially not meeting either. While apparently reducing costs due to a targeting of resources, means tests can open unemployment traps by making a transition from welfare to work financially unattractive, particularly for low-paid jobs and for households with no earners. Means-tested benefits can hence be more costly than universal benefits which encourage rather than discourage labour mobility and might thus be more compatible with flexible and atypical forms of work in modern labour markets (see also Lister, 1997).

### *3.2. Universalism*

Universal transfers can have a wide scope (e.g. basic state pensions), or be confined to a particular group (children), but are otherwise non-discriminatory. This makes them vulnerable to cut-backs for a number of reasons. First, at times of tight fiscal budgets, familiar criticisms levelled at universal benefits, such as inefficiencies in terms of reducing poverty or inequality, and as transferring resources to those who do not need them, usually become stronger. This will be even more so in the case when other (public, occupational or private) arrangements have expanded over time and have made universal support superfluous for an increasingly large section of the population. Second, the coverage of universal benefits might be wide and therefore benefit a large section of the population, but in contrast to contributory wage-replacement transfers, universal benefits are tax-funded and thus not (strongly) defended by organised interests. Third, whereas contributory benefits are explicitly based on reciprocity, universal rights are linked to group membership. According to Marshall (1950), the connection between rights and duties towards a community (or state) is predicated upon a notion of community spirit and 'loyalty to society'. As Ganssmann (1993) argues, this represents a much more tenuous link than the one which is inherent in the quasi-contractual relationship between contributions and benefits within social insurance schemes. With reference to Weber, the latter imply a higher level of 'formal rationality' and are thus more compatible with modern capitalism (Ganssmann, ibid.:393). In modern, complex and pluralistic societies, therefore, citizenship-based transfers are likely to become more precarious in the long run.

On the other hand, there are reasons why universalist principles might not be prone to erosion. Because universal forms of social protection also benefit the middle classes, the latter can be expected to resist cutbacks (Van Oorschot, 2000b; Rothstein, 2000, 2001). These arguments have particularly been made with respect to universal services (education, health) and state pensions, which tend to be the most popular areas of social policy. Within social security, those universal benefits which serve broader populations, cover more widespread risks and pay out higher benefits might prove less prone to attrition than universal benefits which cover risks with a low relative probability, and pay out low benefits only. This point can be related back to Ganssmann's argument. Rather than the principle of universalism per se, it might be benefits which are both low and reserved for only a relatively small social group which are vulnerable, because it is for these schemes where loyalty to the community tends to be the only motivation to support. If, however, many people profit from more generous transfers of a universal nature, calculated self-interest combined with loyalty can be a powerful motivator (Van Oorschot, 2000b). If this was the case, institutionalist arguments and path dependency might be helpful in explaining the relative robustness of universal benefits. In 'encompassing' welfare states (Korpi and Palme, 1998) with relatively generous benefits it might be more difficult to curtail universalist elements. By contrast, in welfare states where the needs principle has a strong profile, cutbacks in universal benefits might be easier to implement because those are all but irrelevant for the broad population.

### *3.3. Reciprocity*

Reciprocity is a central principle within social insurance programmes which were perhaps the most characteristic form of public income protection in the second part of the twentieth century, at least in Europe. In the context of European welfare state change, it is particularly pertinent to ask whether this principle is doomed or can adapt and continue to thrive within the context of global politics.

There are at least three arguments which would indicate a weakening of the reciprocity principle. All three point to changes in the socio-economic context within which schemes operate which render social insurance less effective, more costly and less equitable. First, at times of mass unemployment, high levels of early retirement and demographic ageing, the contributory funding mechanism of social insurance (payroll taxes) puts upward pressure on non-wage labour costs. Employers might respond by releasing more staff or hire flexible staff outside the social insurance net. Both responses reduce contributory revenue and increase the demand for benefits, potentially leading to another round of increased rates of payroll taxes. This scenario applies particularly to countries with strongly earnings-related social insurance schemes and few institutional mechanisms which would allow to break this vicious cycle, to Germany, for example (Manow and Seils, 2000). Second, because of the tight link between (standard) employment and benefit entitlement, social insurance schemes cover a decreasing part of the working population in modern societies, with both men and women working in increasingly flexible and atypical types of jobs

(Clasen, 1997; Baldwin and Falkingham, 1994). Creating an insider–outsider scenario, the declining number of insiders would diminish vested interests in maintaining social insurance as the predominant form of social protection. Third, particularly the Bismarckian type of social insurance is based on the principle of equivalence and status maintenance. However, it also comprises solidaristic elements by redistributing from good to bad risks and from richer to poorer contributors or non-contributors. This in-built tension between principles of reciprocity and need is likely to become more precarious when the latter elements expand, potentially undermining the schemes' legitimacy in the eye of those who financially contribute most (Erskine and Clasen, 1997).

However, these potential pressures on social insurance do not necessarily imply that the reciprocity principle is actually waning. Ferge (2000), for example, argues that it is precisely the mix of principles that provides social insurance with a strong legitimacy. The mix means that social insurances are 'messy' contracts, which "... can incorporate opposed interests and can reconcile, at least to some extent, individualism with collective structure" (p. 25). As 'messy' contracts social insurance programmes would have strong civil support and be relatively stable in times of retrenchment and reconstruction. Once a distinction is made between strong (Bismarckian) and weak (Beveridgean) principles of reciprocity within social insurance, we might find the former to be more robust and resilient than the latter. Means-tested, 'small' universalist and Beveridgean basic security schemes rely on institutionally weak interest structures. In contrast, some social insurance programmes in continental European countries continue to be 'tightly coupled' with national macroeconomic policy and other policy domains such as industrial relations (Hemerijck et al., 2000). This, and the position of employees and employers as contributors to and (in some countries) administrators of social insurance, might act as a considerable line of defence against governments' plans for reconstruction and retrenchment (e.g. Bolderson and Mabbett, 1996; Palier, 1997; Timonen, 2000). However, depending on the wider context, it is not necessarily the case that employers and employees would both resist contracting social insurance schemes, and form a united front against governments.

Finally, with reference to the two perspectives indicating shifts in principles, the reciprocity principle might be strengthened and yet contract in scope at the same time. A general trend of tightening contribution and work record criteria within unemployment insurance has possibly excluded some groups from eligibility (Clasen et al., 2001), but at the same time strengthened the principle of reciprocity for a smaller section of the workforce, giving a core of standard employees an even stronger incentive to defend social insurance. Secondly, within tight economic constraints and adverse demographic trends (but the desire to maintain social insurance), the balance between flat-rate and earnings-related insurance programmes may have shifted, producing a convergence, with programmes characterised by previously strong and weak versions of the equivalence principle becoming more alike. As the subsequent discussion will show, this is in fact what seems to be happening within pension arrangements in Germany and Nordic countries.

## 4. Changing Principles and Practices

The purpose of this section is to identify some of the major changes which have occurred in terms of shifting principles within social security in the six countries over the past two decades. Both the legal and the social rights perspectives have been taken into account as far as possible. However, the section is meant to be preliminary.

### *4. 1. The Netherlands*

In the past two decades the Dutch social security system has been reconstructed drastically (for details see Visser and Hemerijck, 1997; van Oorschot, 1998, 2002; van Oorschot and Boos, 2000). Before the reforms it consisted of a safety net of means-tested social assistance and social insurances of two different kinds. The 'workers' insurances', covering workers' risks of unemployment, sickness and disability, provided Bismarckian wage-related contributory benefits with a relatively large degree of (in the German terminology) 'insurance alien' or 'solidaristic' elements (e.g. little or no risk-related contribution differentiation). Second, the 'peoples' insurances' covered the demographic risks of old age, survivors and child benefits. As Beveridgean insurance programmes with income-based contributions and flat-rate benefits, they were close to the Nordic type of universal benefits in terms of their broad coverage and citizenship-based access.

Induced by the economic recession at the time, the reform period of the workers' insurances began in the early 1980s. The initial reaction was to try to keep social expenditure under control by lowering the duration and level of benefits. This reaction was known as 'price' policy, because it was mainly directed at keeping the system affordable. However, by 1990 the number of workers' insurance beneficiaries had increased by more than the decline in the number of social assistance beneficiaries during this period. Subsequently, the emphasis was put on 'volume' policies which were aimed at reducing access to schemes and at stimulating labour market re-insertion of benefit claimants. The price and volume measures taken with regard to the wage-related workers' insurances subsequently included:

- a reduction of the earnings replacement ratio from 80% to 70% in unemployment, sickness and disability insurance (1987);
- a sharpening of work record requirements for entitlement to unemployment insurance benefits in two steps (1987, 1995);
- a replacement of full disability benefits for partially disabled people, with partial benefits (1987);

- a limitation of the duration of earnings-related disability and unemployment benefits, depending on work record (unemployment: 1987) and age (disability: 1993), with the introduction of (near) flat-rate benefits for those who do not qualify for the wage-related benefits, or have exhausted it;
- a restriction of the concept of 'disability', tightening access to the disability benefit scheme (1993);
- a re-examination of the disability status of 400,000 disabled workers over 50 years of age according to the new concept, resulting in 28% of them losing benefit (1993);
- an introduction of risk-related contribution differentiation in the disability benefit contribution (1998);
- a privatisation of the first 6 weeks of sickness (1994), followed by an extension of these 6 weeks to a full year (1997);
- a tighter work obligation policy towards all beneficiaries (activation).

From a scheme design (legal) perspective, it is clear that the changes of *unemployment insurance* imply a stronger emphasis on the principle of reciprocity: tightened work-record criteria for the wage-related benefit imply a closer relation between what workers pay in and what they eventually can get out. For another part, the introduction of a short-term, flat-rate benefit trajectory for people with short and/or discontinuous employment records de facto implies an introduction of the Beveridgean principle for this group. This has not been the prime goal of the revisions, however. It can be interpreted more adequately as a result of, at the same time, trying to preserve the living standard protection for older and core workers, to cut back on unemployment benefit expenditure for younger and peripheral workers, without introducing means testing for this latter group. From a social rights perspective the shift in the scope of principles is less clear. Certainly, the reforms have resulted in a contraction of the group of workers covered by the reciprocity principle, since after the sharpening of work record requirements in 1995 only about 45% of all workers would qualify for the wage-related benefit would they become unemployed. The result was also a spillover to means-tested social assistance, due to the short duration of the flat-rate insurance benefit. But looking at the total population of unemployed people figures show that it is actually the scope of the needs principle that is contracting. While in 1987 82% of all unemployed received means-tested social assistance, with 18% on social insurance benefit, this changed to 63% and 37% respectively by 1993, and to 60% and 40% in 1998 (MINSZW, 2000). The economic upturn of the 1990s resulted in relatively less long-term unemployment, and thus in less assistance dependency among the unemployed.

The revisions of the wage-related workers' insurance scheme for *long-term disablement* significantly curtailed benefit access, level and duration not only for partially disabled people, but more generally for all younger disabled workers. People younger than 33 years of age are now only entitled to a 'flat-rate plus' benefit (which equals the level of the minimum wage plus a supplement of a small, age-dependent portion of the difference between the previous wage and the minimum wage). People over 33 are entitled to the wage-related benefit, the duration of which depends on age, and after expiry of this trajectory disabled workers are entitled to the 'flat-rate plus' benefit. The introduction of age as a criterion for benefit level and duration was presented by the government explicitly as a (more easily measurable) proxy for contribution record. It represents a clear sharpening of the reciprocity principle. The contribution differentiation sharpened the reciprocity principle further, since with its introduction in 1998 firms and economic sectors which generate more disability claims have to pay higher contributions.

From a social rights perspective, again it is not exactly clear what happened regarding the scope of principles covering the risk of long-term disablement. Due to the 'partialisation' of benefits for partially disabled workers, the tightening of the disability concept, and the re-assessment of those under 50 there is certainly spillover to unemployment insurance, and because of its limited duration, consequently to needs-principled social assistance. On the other hand, studies have shown that shortening the wage-related trajectory has been 'repaired', more or less completely, by collective agreements at sectoral and branch level, allegedly for as much as 80% of all workers (Goudswaard et al., 2000). This would imply an important restoration of the reciprocity principle, albeit on a lower collective level. However, the restorations mostly excluded peripheral and younger workers (Boos and Van Oorschot, 1998). One could conclude that the scope of the reciprocity principle has been retained for older and core workers, while the needs principle became more important for other groups.

The privatisation of the full year of *sickness benefit* implies the abolition of sickness insurance for most of the workforce. The insurance scheme now only still exists for specified categories (estimated at 15% of the previously covered population), like pregnant women, (partly) disabled workers, people on temporary contracts and apprentices. With the privatisation the scope of the reciprocity principle in the social protection of sick employees has nearly been put to the extreme of full private insurance, since most employers insure their legal obligation for sick pay with private insurance companies, which apply the logic of private insurance. The average sick pay amount did not suffer very much though, since employers have to pay at least 70% of the wage, and in most cases collective labour agreements top this up to 100% (as was common practice under the benefit scheme). There is little spillover to social assistance, since vulnerable groups are still covered by the old collective insurance fund.

Whereas budget concerns were the prime mover for reconstructing the workers' insurances, they formed the context within which the reforms of the peoples' insurances took place. These reforms were primarily aimed at modernising the schemes by making them consistent with changing role patterns of men and women, particularly the increased participation of women in the labour force, and with changed household formation. This modernisation resulted in equal rights for men and women in old age and survivors' pensions (before, married women had no individual entitlement to old age pension, widowers were not entitled to survivors pension) and in equal treatment of married and unmarried couples. Where the modernisation of schemes implied a broadening of the entitled population, there was a conflict with the general aim of cutting back on social expenditures. The solution was that means tests were introduced to keep total expenditure under control.

In the case of the survivors pension the means test is applied to the survivors income (for those born after 1950), and implies that the once Beveridgean insurance scheme became a needs-based social assistance scheme for a specific category of needy people. It is expected that in 2015, when the cohort of those born before 1950 will have reached the age of 65, there will be only about 15,000 people entitled to the scheme, while at present there are some 175,000 claimants. The social protection of Dutch widow(er)s shows a clear shift to the principle of need, but also to reciprocity for those who take an additional private insurance. In the case of the old age pension, the means test takes account of the income of a partner under 65 only. Here the social rights effect is much smaller compared to the survivor's pension, but it signals a principle break with the social insurance character of the Dutch national old age pension. In short, the changes of the survivors' and old age pensions reflect a stronger application of both the principles of equality (women gaining independent pension rights, men gaining rights to survivors' pensions, equal treatment of married and unmarried couples) and of need (introduction of means tests). Only in the case of survivors' pensions can one say that social protection as a whole has become dominated more strongly by the principle of need (and, additionally, of reciprocity for those taking private insurance).

Dutch *child allowances* have been repeatedly adjusted during the last twenty years in various minor and major ways. The overall trend has been a reduction of the population of children for which allowances are paid and a reduction of benefit levels, both aimed at decreasing expenditure. As a result, the scope of social protection, particularly for larger families, has diminished quite substantially. In this sense, the principle of universalism has contracted. What is rather remarkable, however, is that the funding of the scheme went over from employers contributions' to general revenue in 1989. This was a practical, not principled measure, since this compensated employers for the abolition of a series of investment subsidies and tax deductions. However, it implies a loss of the contributory character of Dutch child allowance, and moves it directly into the category of universal, tax-funded, non-means-tested transfers.

The means-tested *social assistance* scheme was adjusted in 1996 after it had met strong criticism regarding its (perceived) abuse and misuse, its complexity, its inadequate dealing with (local) differences in need, and its passivity towards (alleged) work-shy claimants. First, benefit rates were adjusted for singles and single parents, who became entitled to 50% and 70% of the minimum wage only (instead of previously 70% and 90%) with a possibility of a top up of 20% where they could prove they were not cohabiting. People younger then 21 are, as a rule, no longer granted benefits, but offered (and have to accept) a job under the Youth Work Guarantee Scheme. Furthermore, through a series of measures beneficiaries are more strongly 'activated' to participate in the labour market. The revision of social assistance implies a sharpening of the principle of need for singles and single parents, who now have to prove they are not cohabiting. The stronger 'activation' of beneficiaries links up with a general trend in the social protection systems of many other countries.

In conclusion, in the Dutch peoples' insurances the equality principle has been strengthened, mainly as a result of introducing equal treatment of men and women and of married and unmarried couples. At the same time the principle of need was newly introduced, by way of means tests. This fundamentally transformed the character of Dutch survivors' protection from a national insurance scheme to categorical social assistance. One result is that the social protection of survivors as a whole now relies more on self-provision, private insurance and social assistance. The social rights effects of introducing a means test in Dutch old age pensions were less severe. In the Dutch workers' insurances which cover unemployment and long-term disability the reciprocity principle has been emphasised more strongly, in the sense that stronger links have been created between contribution record (work record, age) and benefit level and duration. At the same time, minimum level, Beveridgean-type benefits were introduced for those workers with small or no contribution records.

In The Netherlands social partners not only co-operated with government in moderating wages, but also in reforming social insurances. Their involvement has in a way 'saved' the reciprocity principle, and thus the objective of preserving the living standard for older and core workers, but at the cost of lesser protection for younger and peripheral workers. There has been spillover from insurance schemes to social assistance, but due to the economic upturn of the 1990s the scope of the needs principle regarding the protection of unemployed people has actually diminished. In the protection of sick workers the reciprocity principle has been almost put to the extreme, since sickness benefit has been privatised for the largest part of the Dutch workforce. In social assistance the need principle has been tightened somewhat for singles and single parents. More significant here is the increased emphasis on activation and job (search) obligations. There is no unidirectional trend in Dutch principle shifts. The Dutch social security system as a whole has retained its hybrid character. The result is that the Dutch welfare state has not become a typical representative of one specific welfare regime. It remains located somewhere between the Nordic social-democratic type and the continental corporatist type, a position which it has been assigned by various commentators (e.g. Goodin et al., 1999).

### *4.2. Germany*

While this is not the place to discuss the merits of welfare state typologies (see Ostner and Lessenich, 1998; Kohl, 2000), the strong social insurance orientation is certainly one of the characteristics of social policy in Germany particularly in the area of transfer payments. About two-thirds of social security spending is based on mandatory contributions by employees and employers. What is more, ever since the 1950s the link between contributions and benefits (reciprocity) has become more pronounced, which was a major factor that facilitated broad political compromises and a relatively stable policy path since the 1950s (Offe, 1991).

Major risks and contingencies, such as unemployment, sickness, work accidents and old age are covered by compulsory social insurance programmes for the vast majority of the population. Introduced in the mid-1990s, the separate compulsory long-term care insurance complemented existing programmes, even though it also established some new elements (such as fixed benefit ceilings, a compensation for employers, competition between public and private providers). Rather than shaking off 'the Bismarck legacy' (Götting et al., 1994) the programme might be regarded as an indication of its continuing strength.

However, since the mid-1990s the debate about the viability and desirability of maintaining a social security system which is strongly based on the reciprocity principle and funded by payroll taxes has certainly become more confrontational (Leisering, 1996). This has to be seen in the context of German unification and subsequent economic recessions which substantially contributed to a rise of social insurance contributions. As a proportion of gross wages, the total rate climbed from 34% in 1982 to 42% in 1998. In the 1990s, this trend was accompanied by a heated discussion about its potentially stifling impact on economic growth and employment.

This debate overlooks that, despite a number of institutional veto points, Germany has actually curbed the expansion of social expenditure more substantially than many other European welfare states since the early 1980s (Alber 1998). Alber (2000:262) estimates that the real value of insurance benefits for those in receipt of old age pensions, unemployment or sickness benefits in 1997 would have been between 10% and 20% higher than in 1981 if no adjustments had been implemented. Schmidt (2000) worked out that by the year 2000 pension levels would have been about 25% higher had legislative changes between the mid-1970s and the end of the 1980s not been introduced. These results were brought about by frequent and incremental changes (Steffen, 2001). Individually modest but widespread cutbacks affected both large programmes based on contributory principles as well as smaller and needs-based schemes, such as social assistance (Alber, 2000). However, reforms left the institutional structure largely intact. Only recent policies have shifted principles to some extent and indicate potential for more movement. This can be shown in a cursory overview from both the legal and the social rights perspective.

*The legal perspective*

The largest element within social insurance programmes are the strongly reciprocity-based public pension schemes. The Pension Reform Act 1989, which came into force in 1992, introduced a gradual increase in the average pensionable age, the introduction of a partial pension and a shift in the pension uprating method from the increase in gross wages to net wages, resulting in a slower growth in existing pension levels (Leisering, 1992). In the 1990s, pension levels were reduced for each year of retirement before pensionable age. Time spent in higher education became credited for a maximum of three rather than seven years as previously, and students with earnings above a certain limit became obliged to pay pension insurance contributions.

Important changes in unemployment insurance in the 1980s included a lengthening of both qualifying and suspension periods, and cutting rates for claimants without children and for those leaving vocational training. By contrast, entitlement for older claimants with longer contribution records was extended (Clasen, 1994). In the 1990s, unemployment benefit rates were cut by 1% for claimants with and 3% for claimants without dependent children. For claimants who had not previously been in receipt of unemployment benefit, unemployment assistance was reduced to a maximum period of one year.

In a late conversion to a more neoliberal course, Helmut Kohl's government also reduced the level of sickness benefit from full-wage compensation (which is paid by employers for the first six weeks) to 80%. However, many employees continued to receive the full-wage compensation as a result of collective regional agreements. Several rounds of cost-saving measures in the 1990s also affected non-insurance areas such as student grants and housing benefits (Bäcker and am Orde, 1993). The level of means-tested benefits (such as social assistance) has also been affected by cuts (or non-indexation) in the 1980s and 1990s.

Overall, these and a number of other small or hidden changes in the 1980s and 1990s (e.g. redefining previous earnings as the basis for benefit calculations) helped to lower average real replacement rates, even when nominal rates remained untouched or were reduced by a few percentage points only. Qualifying conditions were tightened, as well as the link between work histories and entitlement. Leaving the position of 'better contributors' and thus core workers largely intact, or even improved it at times, social insurance became more reciprocity based or 'achievement-oriented' (Daly, 1997:144). Other reforms in the 1990s, such as the introduction of long-term care insurance, the inclusion of so-called minor jobs (few hours, low monthly earnings) into the contributory net, a slight increase in the income ceiling for social insurance contributions, and the restoration of sickness benefit rates (under Schröder) can be regarded as reforms which consolidated the role of reciprocity-based Bismarckian social insurance.

On the other hand, even in the 1980s but more significantly in recent years, some shifts in principles have occurred. Within the past two years, unemployment assistance for those without prior receipt of unemployment insurance was abolished completely. Potentially this implies a growing significance of the needs principle for jobless benefit claimants resorting to social assistance. At the same time, as part of what Alber (2000:254) refers to as 'appreciation of family policy', universalism has become stronger for parents due to a significant uprating of the level of child benefit over the past 10 years (e.g. from DM70 per month for the first child in 1995 to DM300 by January 2002).

Parents have also gained in comparison with other groups within social insurance due to the expansion of Beveridgean (basic security) elements. Most importantly, this has been the case in pension insurance where credits for bringing up children were first introduced in 1986 and subsequently extended and increased in value. In unemployment insurance (and assistance) the increasing gap between better benefits for those with dependent children compared with other claimants is another example. Finally, the German Constitutional Court has accelerated this trend. In a recent ruling, the Court regarded both financial contributions and the provision of child care as 'constitutive' for social insurance branches which cover age-specific risks, such as the long-term care insurance. Therefore equal contribution rates disadvantage parents. As a consequence, the Constitutional Court instructed the government to rectify the situation by the end of 2004 (Bundesverfassungsgericht, 2001). Overall, these changes have not threatened the predominance of Bismarckian principles within (transfer-based) German social insurance. Nevertheless, there is a growing significance of Beveridgean principles within social insurance, or a re-definition of the reciprocity principle beyond paid contributions.

Potentially even more significant in terms of changing the existing balance of social security principles is the latest pension reform which was implemented in May 2001. Within the next thirty years it will limit the increase of pension contributions and reduce the standard level of pensions. It will also introduce a minimum (means-tested) pension within the public schemes. Most importantly, it will phase in a supplementary, publicly regulated and subsidised, privately funded pension element for future retirees. This latter in particular represents a significant innovation, or 'quantum leap' according to Walter Riester, the Secretary of State for Labour and Social Affairs (*Frankfurter Allgemeine Zeitung*, 11 May 2001). The reform will change the mix of principles within the German public pension scheme. By fixing the rate of contributions and levels of pensions, it can be regarded as consolidating the dominance of the reciprocity principle. However, by subsidising the partial privatisation of pension rights it extends the scope of the reciprocity principle beyond the public pension system, promoting an individualisation of risk. Finally, the income-tested minimum pension within the public system introduced the needs principle into the German public pension system for the first time.

*The social rights perspective*

The impact of the recent pension reform will only gradually become manifest over the next years and decades. How far are shifts in principles already recognisable viewed from a social rights perspective? The scope of social insurance strongly depends on the level of employment and the type of labour market participation. In the wake of German unification and economic recessions labour force participation decreased in the first half of the 1990s, but rose slightly after 1996. In 1999 it was higher than at any time in the 1990s (Statistisches Bundesamt, 2001). However, the number of full-time jobs in the 1990s declined by 6%, while part-time employment grew (from 14% to 21%). But not all of this work is outside the social insurance framework. Indeed, after a decline in the first half of the 1990s, the number of employees covered by social insurance in the old Länder started to rise again after 1996 and reached higher levels than at any time in the old West Germany in the 1980s (Statistisches Bundesamt, 2001). By contrast, in the new Länder the number of people in employment and covered by social insurance continued to decline by a total of 800,000 between the early 1990s and 2000. In short, the scope of social insurance has diminished not in the West but in the East. The overall effect is less dramatic than is often suggested.

As far as claimants are concerned, has there been a shift from contributory-based towards needs-based benefits? For people over pensionable age, and those in need of care, the reverse has been the case. The percentage of pensioners in receipt of social assistance has declined over the past decades. From another perspective, in the 1960s, more than a quarter of all social assistance claimants were over 65 years of age. By 1980, the rate was still 20%, but by the end of the 1990s it had declined to 6.7% (old *Länder*) and 2.4% (New *Länder*) respectively (Bundesregierung, 2001). Between 1994 and 1998 the long-term care insurance system reduced the scope of the needs principle considerably, halving the number of claims to means-tested social assistance which were made because of need of care (Bundesregierung, 2001).

On the other hand, the total number of social assistance claims has increased fourfold since the early 1970s to 3.7% of the population by 1998 (2.7% in the new *Länder*). The average hides important differences. The rate for foreigners is very high (9.1%), and so is the share of children in receipt of social assistance (6.8%), while more than a quarter of all lone parents depend on social assistance. The growing number of immigrants and asylum seekers was a major factor behind the rise of social assistance in the 1990s. Discounting the latter group (for whom a separate means-tested system has since been introduced in 1993) the number of social assistance claimants increased until 1997. Since then there has been a small decline. In other words, the needs principle has gained in scope due to an increase in social assistance claims in the past decades. However, the current level is not particularly high compared with other West European, including some Scandinavian, countries, and the scope of the needs principle is still much narrower than the scope of contributory-based benefits.

Nevertheless, in terms of the main cause of applying for social assistance, unemployment has become the most important single factor. In 1980, about 10% of all claims were made because of joblessness, compared with 37% in 1998 (new *Länder*) and 56% (old *Länder*) respectively. And yet, contributory benefits for the unemployed have remained important. Of all registered unemployed people, the proportion who receive either unemployment insurance or unemployment assistance has actually increased recently, from about 80% in 1998 to 85% in 2000 (Statistisches Bundesamt, 2001). However, the rate of those in receipt of unemployment assistance rather than unemployment insurance increased in the 1990s to 46% by 2000. This might be interpreted as the need principle becoming more important within the area of unemployment support. In comparison with the 1970s, this would indeed be the case. However, for most of the second half of the 1980s unemployment insurance was actually less relevant than today, representing the main type of support for less than half of all registered unemployed (Clasen, 1994). In this respect, the scheme has not lost in significance. What is more, as outlined in section 3, unemployment assistance cannot unambiguously be seen as entirely needs-oriented but as incorporating both reciprocity and needs principles. In short, within unemployment protection the reciprocity principle has not been diminished to a great extent.

*Assessment*

The cursory discussion of the changing relevance of principles underlying social security in Germany indicates that, from both the legal perspective and the social rights perspective, the scope of social insurance has remained wide. Some reforms have expanded it even further, while changes in employment have not eroded the coverage of contributory-based social protection, even though the net has become looser in the new *Länder*. However, particularly within pension insurance, but partly also within unemployment insurance, there has been a shift from a strong Bismarckian expression of reciprocity in the 1980s towards one which gives more scope to Beveridgean principles. This has to be understood within the increasing emphasis on supporting families with children, and demographic changes, which is also the context for the expansion of the universal child benefit. The recent pension reform is highly relevant since it will establish a more mixed system in terms of principles, consolidating a Bismarckian core within the public sector, and introducing an even stricter notion of reciprocity by complementing the scheme with a supplementary private element. At the same time, a needs-based floor is being introduced. In general, over the past two decades the needs principle has become more relevant for some groups (families with children, lone parents, foreigners) but less important for others (pensioners, people in need of care). For the unemployed it has become somewhat more relevant, but the role of unemployment assistance (which is not entirely needs-based) was already strong in the 1980s and the reciprocity principle has remained important.

### *4.3. The United Kingdom*

The UK is often seen as a liberal welfare state, which might be questionable when looking across social policy arrangements as a whole, and health care in particular, but increasingly justified within a more narrow focus on social security. Benefit rates have generally been pitched at subsistence level and the role of means testing has become increasingly important in the last thirty years or so. But the contributory principle was highly relevant in the post-World War II period. Under the influence of William Beveridge, the British version of social insurance (National Insurance) envisaged a contributory revenue base separate from taxation – but with the state as the third contributor in addition to employees and employers. Benefits would be granted in return for contributions. Coverage would be comprehensive and contributions as well as benefits would be flat-rate rather than proportional to earnings. This would leave room for individuals to choose other forms of social protection over and above subsistence level. Clearly, Beveridgean social insurance was based on a weak reciprocity principle and primarily provided basic security only (Glennerster, 1995; Timmins, 1996).

However, fiscal difficulties in the 1950s and 1960s led to new funding arrangements, with contributions becoming fully proportional to earnings in the 1970s. In addition, benefits became (partially) proportional to wages with the introduction of earnings-related supplements to so-called short-term contributory benefit (unemployment, sickness) in the 1960s, and a supplementary pension system in the 1970s. However, unlike social insurance systems in other European countries, which became more strongly guided by the principle of reciprocity in the 1950s and 1960s, British steps towards embracing the wage-replacement concept of social security remained half-hearted, providing modest earnings-related supplements based on fairly restrictive eligibility conditions. When labour market conditions changed in the 1970s, the erstwhile rationale for proportional benefit rates, i.e. improving labour mobility, disappeared. This contributed to the neglect of benefit supplements in the 1970s, and facilitated their eventual abolition (or substantial restriction in the case of the state earnings-related pension) in the 1980s. The muted public protest at the time indicated the failure of a stronger reciprocity based notion of social security to capture a place within British social security. What is more, within the past twenty years British social security has gradually but steadily also turned away from the Beveridgean idea of social insurance, replacing it with an increasingly needs-oriented residual public system. This can be demonstrated with reference to the legal and the social rights perspective.

*The legal perspective*

A large number of mainly incremental benefit reforms were introduced over the past twenty years which contributed to a weakening of the Beveridgean social insurance model and gave more room to private and occupational social security and, within the public system, the needs principle. Too numerous to list in detail, this section lists some major programmes and the reforms which affected their underlying principles.

The basic state pension is the main component of the National Insurance system. Eligibility is based on individual working lives and thus contributions made into the National Insurance Fund, but credits have been extended for a number of activities, such as training, registered unemployment, incapacity, people aged 60 or older who are in receipt of maternity pay, caring for children or relatives, etc. As a consequence, eligibility has become easier, making the state pension a quasi-universal scheme (for those with some attachment to the labour market). Until the end of the 1970s the role of state pensions in terms of value and coverage grew. Even though the level of the basic pension was relatively low, it used to be linked to average earnings. This changed in 1981 under the first Thatcher administration which linked it to developments in prices. As a consequence, the relative value of the basic pension against average male earnings has steadily declined, from 23% in 1981 to 15% in 1993, and is expected to reach 10% by 2010 (Evason, 1999:122). The earnings-related component (SERPS) was initially meant to supplement the basic state pension so that a combination of the two would generate a pension equivalent to half of a person's wage for people retiring after 40 years of employment. However, SERPS was also curtailed in the 1980s, and private pension plans massively subsidised (Walker with Howard, 2000).

The Labour Party regained power in 1997. However, rather than restoring the link with average earnings, the new government introduced a so-called 'minimum income guarantee' for pensioners. Despite its name, this is not a universal but a means-tested top-up which brings pension levels for those with no other resources above general social assistance rates (but not by much). In April 2002 the government introduced a State Second Pension as a supplementary second-tier pension for low earners who are not part of an occupational or private scheme. Meant to replace SERPS, it provides better benefits and will also cover certain carers and people with long-term illness or disability. The third new element for individuals without any second pension are stakeholders pensions which were implemented in April 2001. These are basically regulated low-cost privately funded pension schemes. However, rather than reducing the scope of the needs principle, this is likely to consolidate or even expand it (see below). Also, recent reforms will increase the relevance of private and occupational pension income, and further diminish the role of the Beveridgean reciprocity principle in the public sector in terms of its relative role within contemporary pension income (see below).

While in pension policy, private income protection has been actively promoted, for example, via tax subsidies and national insurance rebates for private pensions, benefit reforms in other areas made private alternatives more relevant. This applies to homeowners, for example. Since 1995 they have not been able to receive support with the cost of housing for the first nine months of sickness or unemployment. In unemployment protection, frequent benefit changes in the 1980s resulted in a continual decline in the proportion of claimants receiving insurance benefits (Atkinson and Micklewright, 1989). A main thrust of benefit policies since then has been to make conditionality of benefits more explicit, tightening controls, prescribing job-seeking behaviour and stiffening sanctions for non-compliance. Further blurring the distinction between contributory and means-tested support, the introduction of the Jobseekers' Allowance (JSA) in 1996 replaced unemployment benefit with a scheme which combines contributory and means-tested benefits within one programme. It reduced the entitlement period for contributory benefits from 12 to six months, abolished additions for an (adult) dependant and reduced benefit rates for claimants under the age of 25. Income-based (i.e. mans-tested) JSA can be claimed by those unemployed who do not meet the qualifying conditions for contributory JSA or have exhausted entitlement to the latter. The (standard) benefit rates are the same for both types, but allowances and premiums apply for different claimant groups. After 1997, the Labour government did not restore the previous unemployment benefit system but kept the JSA. In addition, the New Deal was implemented in 1998 which did not alter benefit rates, but considerably increased the conditionality attached to benefit receipt and introduced mandatory participation in activation programmes (for details see Millar, 2000; Trickey and Walker, 2001).

In the late 1990s the Labour government reduced the level of contributory Incapacity Benefit for people in receipt of an occupational or private pension. In the early 1980s, eligibility to unemployment had already become more restrictive for those out of work who were in receipt of an occupational pension. Both reforms in effect introduced a means test for contributory benefits. According to the present government, not to do this would have been a "wasteful duplication of provision" (DSS, 1998). These are examples of the tenuous link between social (National) insurance contributions and benefit entitlement in the UK. Their implementation indicates a weakening of the Beveridgean reciprocity principle and strengthening of the needs principle.

Finally, the only major universal benefit is child benefit. During the 1980s, the level was frozen and thus declined in real terms. In the 1990s, rates were increased and its previous level restored. Recently the Labour government increased child benefit more than other benefits. Nevertheless, the value is still low by international standards (£15.50 per week for the first child, £10.35 per week for subsequent children; April 2001). While this was part of the government's package aimed at tackling the "scourge of child poverty" (DSS, 1998) significantly much more emphasis is put on assisting parents into work rather than on providing more generous cash support of a universal nature.

*The social rights perspective*

The benefit changes described above might give the impression that the contributory principle has all but disappeared within British social security. This is not the case. From the perspective of total social security spending, close to half of total social expenditure was allocated to contributory-based transfers in 1999 (DSS, 1999). This represents a middle position in Europe, between countries such as Germany and the Netherlands where around two-thirds of total spending is based on contributory principles, and the low contributory basis in Scandinavian countries, and particularly Denmark with around 20%. What is more, for several years in the 1980s contributory benefits in the UK were not supplemented by any tax revenue and there has not been any tax subsidy since 1998. Hence, in terms of expenditure (for individual programmes and social security as a whole), the manifestation of the reciprocity principle is very strong and closer to Bismarckian programmes in continental Europe than the design of major social insurance schemes in Scandinavia (and particularly Denmark).

Of course, as outlined, the British profile of social insurance has been distinctive due to its traditional Berveridgean notion of providing basic security rather than wage replacement. From a social rights perspective, several indicators show that this expression of the reciprocity principles is diminishing rapidly however, and is being replaced with a growing relevance of the needs principle. The share of contributory-based benefits steadily declined from over 70% of total social security spending in the mid-1970s to 46% by the end of the 1990s. Overall contributory spending actually rose by 1.6% in real terms over the past twenty years or so, which was largely due to the growth in the number of retired people (and higher pension payments due to the effect of SERPS). However, as outlined above, the level of the basic state pension in relation to earnings declined considerably within the same period. At the same time, the proportion of retirees receiving occupational pensions rose from 43% in 1979 to 65% in 1996/7. The share of employees actually belonging to occupational pension plans dropped since the 1980s to about 35% by the mid-1990s, but the proportion of people with personal (private) pensions grew 'from effectively nothing to 16%' (Walker with Howard, 2000:248). However, despite the growth of private and occupational forms of pension provision the scope of the needs principle is considerable. In 1998, more than a fifth of all pensioner households were dependent on means-tested benefits (Walker with Howard, 2000:249). Rake et al. (2000) estimate that recent changes within pension policy introduced by the Labour government will increase rather than diminish means testing, i.e. widen the scope of the needs principle further.

For those above retirement age, the share of social security expenditure based on contributions dropped from 88% to 79% between the late 1970s and the end of the 1990s. For other claimant groups, the decline has been more dramatic, particularly for the unemployed, as Table 2 shows. From another perspective, the proportion of registered unemployed people in receipt of contributory benefits dropped from over 50% in the 1970s to below 20% by the mid-1990s (Sinfield, 1995).

Table 2: Proportion of contributory benefits paid to different client groups (%)

| Year | Elderly | Short-term sick | Long-term sick and disabled | Unemployed | All |
|---|---|---|---|---|---|
| 1979/80 | 88 | 95 | 48 | 45 | 63 |
| 1984/85 | 83 | 90 | 46 | 25 | 55 |
| 1998/90 | 81 | 85 | 45 | 16 | 55 |
| 1994/95 | 78 | 44 | 39 | 9 | 7 |
| 2001/02 | 79 | 43 | 24 | 9 | 46 |

Source: DSS, 1999, Annex C.

The combined effect of policy change and the absence of wage indexation reduced the relative level of unemployment and other social security benefits in relation to average earnings. For most claimants, this has made access to (sometimes additional) means-tested benefits all but inevitable. Accordingly, expenditure trends show that the relative share of means-tested transfers rose from 17% of all social security spending to 33% by the end of the 1990s (DSS, 1999). However, non-contributory and non-means-tested benefits (so-called contingency benefits) have also become more relevant, representing 12% of total social security spending in the mid-1970s, but 22% by the end of the 1990s (DSS, 1999). These are mainly transfers linked to disability and long-term sickness, as well as child benefit. However, it needs to be noted that many of those who receive non-contributory benefits also receive means-tested benefits. This was the case for almost two-thirds of recipients of invalidity benefit in 1994, for example (Evans, 1998: 282).

*Assessment*

Overall, the trend within British social security principles seems fairly clear. The contributory (Beveridgean) basic security principle has been substantially undermined in the 1980s and 1990s, and this trend has continued under the current Labour administration (Clasen, 2001). This applies particularly to those under retirement age. Overall, the result has been to steadily replace an erstwhile reciprocity principle according to Beveridge with a means-tested needs principle which is less comprehensive in scope. The state remains responsible for covering basic needs, but increasingly for the needy only, rather than for entire groups (pensioners, unemployed and sick people).

There was once a time when British governments toyed with the idea of complementing the Beveridgean basic social insurance model with a Bismarckian wage-replacement scheme. However, by the 1990s it became clear that this experiment had come to an end and that the Labour government would not try to align British social security with income maintenance principles in continental Europe. Of course, UK social insurance always was different, or rather, never became partly Bismarckian as some Scandinavian programmes did in the 1960s. However, during the 1990s the Beveridge version of social insurance has been steadily replaced with a needs principle for those who cannot provide for themselves through private or occupational schemes.

As far as social security is concerned, Labour's acceptance of the needs principle has to be seen in the context of embracing a low-wage, flexible labour market. Safeguarding the latter is a conditional benefit system for working age claimants, a more systematic active labour market effort and the use of wage subsidies through the tax system. Indeed, as a way of reducing the potential pitfalls of means testing (stigmatisation, poverty and unemployment traps) the Labour government has increasingly resorted to supplementing wages via the tax system rather than social security benefits.

During the Labour Party's first term of office the lack of concern about different types of benefits, social security principles and thus expressions of distributive justice became increasingly explicit. As Alistair Darling, Secretary of State for Social Security, underlined in a newspaper article, "today, the important difference in social security systems is not whether they are insurance based or means tested, but whether or not they provide enough help to get people back to work and improve their lives" (*The Guardian*, 16 June, 1999). In other words, participation in paid work has become the litmus test for successful social security policy; if this means farewell to a Beveridgean notion of social insurance, or its subordination by the needs principle, so be it. In this sense, the recent re-labelling of the Department of Social Security into the Department for Work and Pensions is more than merely symbolic.

### *4.4. Three Nordic countries*

In this section we discuss some of the changes which were most significant in terms of indicating possible shifts in underlying social security principles in Denmark, Sweden and Finland (for more detailed recent accounts, see Timonen, 2001 and 2000; Eitrheim and Kuhnle, 2000; Alestalo, 2000; Goul Andersen, 2000; Ploug, 2000). In general, while the 1980s were relatively stable, all three Scandinavian welfare states have introduced several reforms in the

1990s in this respect. Some of these altered the balance between universalist, contributory and needs-based elements significantly, or laid the ground for more potential shifts in the future.

*The legal perspective*

Beginning with the legal perspective and the needs principle, some means-tested benefits were significantly curbed in the 1990s. Housing benefit in particular became both less generous and more difficult to obtain due to stricter entitlement criteria in Finland and Sweden. The level of social assistance benefits was not cut, but eligibility became more conditional on participation in activation programmes (Hvinden et al., 2001).

Unlike social assistance, there were some systematic shifts within social insurance programmes. Sweden shifted the responsibility for covering the cost of sickness benefits for the first 2 weeks to employers (initially 4 weeks) and introduced waiting days. Finland extended the waiting period and both countries tightened qualifying conditions, linking labour market participation (and earnings) more closely to benefit entitlement (Eitrheim and Kuhnle, 2000). The basic sickness benefit scheme in Finland ceased to be universal in 1996. Since then groups without earnings (carers, students) have lost the right to claim benefits (Ploug, 1999: 99).

Unemployment insurance has been changed in all countries, re-balancing the relative significance of benefit principles. In Denmark, reforms in the 1970s and 1980s prevented long-term unemployed people from falling out of the insurance system (Larsen, 1991) and the response to high unemployment until the 1980s and early 1990s was to move "further towards ultimate universalism" (Goul Andersen, 2000: 75). According to Goul Andersen (ibid.) anybody without paid employment was entitled to a quasi-basic income in the sense that the formal duty to seek employment was 'practised liberally'. However, this trend came to a halt when unemployment started to decline in the 1990s. Benefit levels remained stable (and high by international standards) and coverage wide, but the maximum period of entitlement was considerably curtailed and activation periods setting in much earlier (Goul Andersen, 2002). All three Nordic countries introduced stricter qualifying conditions for unemployment benefit in the 1990s. Waiting days were introduced (Sweden) or extended (Finland). In Finland, the level of the basic (daily) unemployment benefit and other smaller flat-rate benefits was frozen in the first half of the 1990s. In Sweden and Finland, qualifying conditions for both the basic benefit and the earnings-related benefit were tightened. The balance between rights and obligations on the part of job seekers has been changed towards the latter, including tighter work tests and stricter work obligations.

Sweden is the only Nordic country which substantially lowered its replacement rate of unemployment benefits, a reduction which was later partially reversed. Otherwise, for unemployed people with stable work histories, there has been relatively little change (apart from a shorter duration of entitlement in

Denmark). However, the work-orientation and therefore the reciprocity principle within unemployment benefits systems became more prominent during the 1990s, making it harder for non-core workers to qualify (for details, see Clasen et al., 2001). The low benefit ceiling in unemployment insurance has recently been identified by Swedish trade unions as a problem (Timonen, 2001). In Sweden it reduces the actual replacement rate for average and better-paid workers to well below the nominal rate of 80%. In order to improve the level for their members, SACO (representing professional employees) introduced a private unemployment insurance system in August 2000 which supplements the public scheme so that total benefits can reach the 80% mark (up to a fixed maximum). Given that trade unions continue to have a significant influence on social democratic policy making, this move might illustrate that there is even more potential to move towards a more Bismarckian social insurance system.

A similar tendency can also be observed within Nordic public pension schemes which are characteristic for the substantial scope of universalist and Beveridgean elements. In the light of low economic growth, adverse demographic changes and inequities, a need for substantial pension reform was commonly accepted by the mid-1990s in both Sweden and Finland. As a result, both countries created systems which link contributions and pension entitlements more closely. The erstwhile universal citizenship-based basic pension became reserved only for those with no, or very little, employment-related pension income. In a sense, the universal pension was replaced by a needs-oriented scheme, i.e. a tax-funded 'guaranteed' pension for those with no or only a very small earnings-related pension.

The decline of Beveridgean and the advance of Bismarckian elements is also observable in other aspects. The individual work record became a more determining factor for the level of income Finnish retirees will receive in future, and pension contributions became evenly split between employers and employees in Sweden. One of the problems of the previous Swedish system was the fixed ceiling within the secondary ATP system which, in the light of rising average earnings, would have transformed the scheme from an earnings-related into a flat-rate scheme for an increasing number of employees. This would have made private options more attractive. Accordingly, the new ATP scheme raised the ceiling and made it adjustable in line with the growth in the economy. The calculation of pension levels will be based on lifetime earnings (rather than best 15 years) and pensions in both countries will become 'defined contribution' rather than 'defined benefit' schemes (for details, see Ståhlberg, 1997).

To a lesser extent, Denmark also created a pension system which is becoming less universal in character because of the introduction of a partial income test on the supplementary element of the basic pension. Denmark never followed Sweden in establishing a substantial earnings-related secondary public pension. The universal basic pension became fairly generous due to housing allowances, tax privileges, special arrangements and individual supplements which "ensured very high de facto minimum pensions which amounted to approximately full income replacements for single pensioners from lower income groups" (Goul Andersen, 2001). However, the rise of so-called labour market pensions created a dual pension structure in Denmark. Based on collective agreements, their scope grew substantially in the 1970s and 1980s, supplementing the largely universal public pension system (Ploug, 2000). This expansion fostered a gradual process of introducing income testing into the public system. Its design has led to only few pensioners being affected initially. However, recent reforms have expanded the scope of income testing. According to Goul Andersen (2001) this trend can be expected to continue, potentially leading to a "fuller means test covering different sources of pension income". The consequence would be a lowering of the de facto minimum pension which, in turn, might increase demands from trade unions and their members to expand labour market pensions even further. If this happens, the Danish basic universal pension may, as in Finland and Sweden, slowly be replaced by a means-tested minimum pension guarantee.

*The social rights perspective*

More than benefit reforms, steeply rising and high unemployment levels particularly in the first half of the 1990s had a direct impact on claimant trends in Sweden and Finland. As a percentage of total social security expenditure in Finland, unemployment benefit spending rose from 5.9% in 1990 to 13.5% in 1996 (Timonen, 2001: 125). High levels of joblessness also contributed to the increase of the population dependent on social assistance, and thus increasing scope of the needs principle, in Sweden from 6% to 8%, and even more so in Finland from 3.5% to 12% of the population by the mid-1990s (Timonen, 2000). Depending on the development in the labour market, the stronger emphasis on reciprocity in terms of lengthening the qualifying condition for unemployment insurance will potentially increase the scope of the needs principle further.

Social insurance systems in Sweden and Finland also adopted stricter reciprocity principles in terms of financing. Abolished in the 1970s, employee contributions were reintroduced in the early 1990s as the third source of revenue next to employer contributions and tax funding. In Sweden the unemployment insurance contribution was later abolished again, but the contribution to pension insurance increased in the 1990s. In Finland employee contributions rose steadily during the 1990s. Within earnings-related unemployment benefits they climbed from 2.1% in 1993 to 15.5% of total revenue in 1996. Despite representing a shift from employer to employee financing, Finnish trade unions welcomed this shift due to a perceived leverage this would provide in the preservation of unemployment insurance benefits (Timonen, 2001: 145).

Due to the changes discussed earlier, pension systems in both Finland and Sweden increasingly resemble the design of the more strictly reciprocity-based German pension design. At the same time the scope of Bismarckian principles has recently been weakened in Germany due to the introduction and expansion of tax funded non-contributory elements and the introduction of a means-tested minimum pension. What is more, Germany followed Sweden in setting up regulated individual private pension funds (eventually 4% of gross earnings in Germany, 2% in Sweden). Thus, some convergence has occurred in pension insurance, with the German system becoming somewhat less Bismarckian and more Beveridgean, while the reverse applies to the Swedish and Finnish public pension programmes (Hinrichs, 2001).

The introduction of income or means-testing into public pension schemes has certainly squeezed universalism, but this might not necessarily lead to a growing scope of the needs principle within Scandinavian pension incomes. Instead, secondary public or occupational pension plans might have grown to such an extent that a diminishing part of the population has to resort to the means-tested public basic pension. In other words, for pensioners at least, universalism might have largely lost its original purpose in terms of reducing inequality and safeguarding an adequate income security in old age.

*Assessment*

The overview provided has been selective and stylised. A more thorough account of benefit reforms, expenditure and claimant trends would indicate that the scope of universalism is still much larger in Scandinavian social security than in any other mature welfare states. However, even a sketchy review can show two things. First, compared with 20 or even 10 years ago, the scope of universalism has diminished. This can be demonstrated with reference to pension arrangements in particular. Second, Beveridgean elements within social insurance have contracted while Bismarckian elements have expanded. This applies to pensions, but also to unemployment and sickness benefits.

A stricter notion of reciprocity within Swedish and Finnish pensions arrangements could be seen as containing demands of transforming collectively provided schemes into fully funded individual plans. Hence, making public pension systems more Bismarckian might reduce rather than increase inequality. This is what Palme observed as the outcome of the introduction of earnings-related supplements in Sweden in the 1950s. At that time Sweden replaced their previous voluntary state-subsidised sickness insurance with an earnings-related programme and supplemented the universal basic pension with an earnings-related pension programme for economically active persons. Norway and Finland introduced similar reforms in subsequent decades. The motive was to make systems more attractive to better paid employees. Compared with the alternative of allowing better earners to go private, "comparatively unequal public pensions might produce the most equal income distributions by crowding out even more unequal income sources" (Palme, cited in Korpi and Palme, 1998: 663–4). A similar point is made by Kvist (1997: 37) in relation to the expansion of second-tier pension in Denmark providing earnings-related benefits based on collective agreements. A stronger Bismarckian character might safeguard publicly provided social security and prevents middle and higher earners from making their own private arrangements for income security in old age.

## 5. Conclusions

The first section of this chapter was devoted to clarifying principles of redistributive justice which underpin social security schemes in modern welfare states. We demonstrated a need for closely examining the design features of existing social security programmes, since ideal–typical categorisations of national social security profiles tend to ignore what at times are significant difference between programmes that figure under the same heading in different countries. Means tests within needs-based programmes, categorisations within universalist schemes and conditions governing eligibility and entitlement within social insurance programmes can be configured in very different ways. The structure of a specific social insurance programme, therefore, needs to be closely investigated in order to make any statement as to its overall character and distributive impact. The principle of reciprocity, for example, can take on different specifications which can make social insurance programmes more akin to private insurance or to universal benefits. What is more, a singular programme can incorporate different principles.

A second aim was to identify suitable indicators which would allow monitoring trends over time. There are methodological problems of defining the dependent variable and of attributing shifts in the relative scope of principles to causal factors. None of the three indicators discussed (legal, social rights and typical case) might therefore be regarded as sufficiently comprehensive in order to trace developments adequately. Short of combining all three indicators, which would have required a significant data-generating effort, we used the legal and social rights indicator in the subsequent empirical section, in which we reviewed broad social security changes in the past two decades or so. We focused on the UK, Germany and the Netherlands in more detail, and discussed broad lines of developments in Sweden, Denmark and Finland.

In the light of this analysis, we are able to provide some tentative assessments about the development of principles of redistributive justice across the seven countries. First of all, from both perspectives which we applied, we noted more diverse change than what has been acknowledged by recent comparative welfare state literature which tends to emphasise inertia, particularly in continental European countries, or similar national trends. The scope of all principles has changed, or is about to change due to reforms which will have medium- rather than short-term effects. However, from a social rights perspective (coverage, expenditure, recipient numbers), the impact of some legal changes has not, or not yet been felt due to favourable labour market contexts in some countries.

This is particularly true for the needs principle. In the UK, the needs principle has significantly expanded from both perspectives, and can be expected to extend even further, reaching towards people in work via the instrument of tax credits (wage subsidies). In the other countries, the expansion was much less pronounced from a social rights perspective. But from a legal perspective, the needs principle has certainly made significant inroads, particularly in pension programmes, as well as more generally in the Dutch peoples' insurances. However, because of favourable economic conditions in the second half of the 1990s there has not been a concomitant growth of the needs principle in terms of the social rights perspective in some countries (notably the Netherlands and Denmark). Also, the growth of alternative types of pension income might mitigate the effect of extending the needs principle in Nordic pension programmes. In Germany, the new long-term care insurance scheme and the previously enacted pension reforms contributed to a decline of the dependency on needs-based support for some groups, but not for others.

There has been little indication of expanding universal elements. Instead, more typical are instances where previous universal elements were diminished in scope or replaced with needs-based elements. However, there are exceptions. As discussed, within a new emphasis on supporting families, the increased level of universal child benefit in Germany is a case in point.

On a general level it can be claimed that the scope of social insurance is not diminishing, except for the UK. However, such a claim needs qualification. First, an interesting shift of principles has occurred within social insurance programmes. From a legal perspective, Bismarckian reciprocity principles have been strengthened (e.g. in Dutch workers' insurances and Swedish and Finnish unemployment and pension programmes). A possible consequence could be, from a social rights perspective, a declining scope of the principle in terms of eligibility and/or coverage of claimants. However, Beveridgean elements have been newly introduced or expanded in some countries (flat-rate trajectories in Dutch unemployment and disability insurance, German unemployment and pension insurance), but are diminishing and increasingly being replaced in the UK.

Second, Bismarckian-type wage-related benefits with longer duration are increasingly reserved for older and core workers in the UK, the Netherlands, Germany and Finland, leaving social assistance or flat-rate benefits to younger and peripheral workers. This can be interpreted as a way of economising on Bismarckian schemes, without endangering the social protection of the core labour force too strongly (and thereby avoiding strong resistance from institutionalised labour). It enlarges a social divide in social protection, which in many workers' insurances has always existed. The Scandinavian trend towards introducing reciprocity elements in or in addition to universal schemes, is another manifestation of a growing social divide in social protection based on (stricter) application of the insurance principle. In this trend, individual work records become increasingly important as qualification for eligibility and entitlements. Through this, the sharpening of the insurance principle is closely connected to wider activation trends.

The above indicates a convergence between erstwhile strong and weak reciprocity-based programmes. As outlined in the text, German social insurance has become slightly less Bismarckian and more Beveridgean. The reverse seems to be the case in Sweden and Finland. But the UK and the Netherlands do not fit in this picture. In the Netherlands, there have been considerable shifts in principles underlying certain programmes, but no general trend in one or the other direction can be observed. As a whole, Dutch social security continues to exhibit a strong mix of principles. By contrast, a clear trend towards the erosion of the Beveridgean expression of social insurance, and its replacement with the needs principle is observable in the UK. Disregarding experiments in the 1960s and 1970s, the British social insurance system has always been guided much more by the Beveridgean notion of social insurance than other countries covered in this chapter. Current developments seem to indicate that such a single track approach is more prone to attrition than one which relies on a mix of principles.

*How can trends be explained? Some observations*

As outlined at the beginning, a discussion of the driving forces behind these trends was not central to this chapter. However, in section 3 we listed some reasons why the scope of each principle could be assumed to have contracted or expanded over time. The preliminary nature of our results does not allow us to assess the respective validity of those reasons in any systematic way. Nevertheless, we will conclude this chapter with two observations regarding causal factors which might stimulate further discussion and analysis. The first relates to institutional and the second to political arguments.

First, institutionalist arguments can help to explain why similar motives for reform can produce very different results and thus strengthen or weaken different principles. Developments in pension insurance systems are a good case in point. For example, cost-saving motives were behind Conservative British government reforms in the 1980s and 1990s which made the old age provision more targeted at those in need. A similar motive of curbing expenditure created a closer link between the Swedish earnings-related pension (ATP) and previous earnings, substituted a defined benefit with a defined contribution formula and set up individual funded pension accounts and the evenly split contribution funding between employers and employees. In short, similar motives drove different strategies: establishing a system in which the bulk of pension income will be provided by non-public sources in Britain; and trying to create a more mixed system in Sweden, conceding some space for private funds and transforming the public system into something closer to the German old-age pension system. In the Dutch pensions the cost-saving motive resulted in the introduction of means testing.

These outcomes have to do with specific design features of existing social security systems and, as Bolderson and Mabbett (1996) argue, their link with national labour markets. In Britain, social insurance benefits are not seen as an element of workers' remuneration. There is thus no option of trading wage growth against insurance benefits (Bolderson and Mabbett, ibid.). Indeed, National Insurance is all but another form of taxation in the UK, unlike in other European countries where social insurance contributions are perceived as constituting claims to 'deferred wages' and thus as an earmarked form of collective resources which is separate from general government expenditure. This, in combination with a much lower wage spread than in the UK, makes it much harder for Swedish and other governments to simply cut back contributory-based benefits. Instead, much more negotiation producing complex reform packages are usually required in order to achieve significant reforms, particularly in pension schemes (Bonoli, 2000).

Second, it is noticeable that many changes in principles discussed in the chapter were introduced under centre-left governments in the 1990s, rather than by previous Conservative administrations. In the UK, an ideological shift within the Labour Party paved the way which accepted and extended the Conservative needs-oriented agenda of residual means-tested social security complemented by elements which would foster entry into employment. In Germany, social security policy was broadly consensual until the mid-1990s. Disregarding the prior expansion of some Beveridgean elements, reforms followed traditional paths for most of the time. Tentative steps towards introducing new principles (particularly in pension policy) only occurred under the Schröder government. The removal of the most pro-universalist-oriented centrist parties from government coalitions in Sweden and Finland facilitated the introduction of new elements and strengthening of the earnings-relatedness of social insurance benefits and thus a stricter reciprocity principle. The Social Democrats in Denmark became much more pragmatic in the early 1990s, and open to implicit and explicit agreements with other parties over substantial rather than merely incremental change in social security. The Netherlands seems to be the exception, since the bulk of the legislative social security reforms took place in the 1980s and early 1990s under coalition governments dominated by the Christian Democrats. The Social-Democratic dominated coalitions since 1994 have focused strongly on introducing and intensifying all kinds of activation measures.

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