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Paying for Social Rights

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ABSTRACT

The expansion of 'social duties' has been a prominent feature in the development of social policy and the welfare state. Drawing on unique time-series data in the database of SCIP (Social Citizenship Indicators Project), this article describes and analyses the development of 'social duties', primarily in the form of taxes and social insurance contributions, in eighteen countries from 1930 to 1990. In focus are the institutional and longitudinal variation in the increase and change in these duties and how they have been distributed among employers, the insured and state authorities.

INTRODUCTION

In the course of the twentieth century, social policy reform has greatly enhanced peoples' potential to cope with the misfortunes of life. This expansion of 'social rights' has been paid for by a simultaneous extension of 'social duties'. A recurrent theme in the wake of social policy reform has been the conflict between social and political actors over how to distribute the costs of the extended social entitlements. Social policy programmes will differ in their redistributive outcomes depending on how the link between risks, contributions and benefits is designed. It is this redistributive potential that historically has made, and continues to make, the financing of social policy a highly salient issue of conflict.

The rubric of social policy covers a broad range of activities and policy instruments. This article will focus on three major income maintenance programmes, providing economic compensation for the loss of income

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caused by old age, sickness and unemployment. The purpose of this article is to describe and analyse the social duties, of both a moral and material character, that have accompanied the expansion of coverage and increased benefits in these three income maintenance programmes during this century. The state can provide help for those who lose their income, or are unable to earn an income in the first place, in a number of different ways. These range from schemes in which means-tested benefits are targeted to certain categories to universal programmes providing benefits for all citizens or residents. This cross-national, intertemporal and institutional variation in the way in which these benefits have been paid for will be an important theme of the article. Thus, the approach is comparative and historical, focusing on some selected aspects of development in eighteen advanced industrialised countries from the 1930s to the 1990s.[1] The empirical material consists mainly of data from the database of SCIP (Social Citizenship Indicators Project) at the Swedish Institute for Social Research.[2]

THE FISCAL BASIS OF SOCIAL RIGHTS

The different dimensions of citizenship require different forms and extents of state activities. Both civil and political rights are universal in the sense that they are not provided to individuals as such but rather to all of society. As a rule, in the Western democracies one does not have to approach any government agency to claim the right to be treated equally before the law, and normally one does not have to demand the right to vote from any specific public institution. Social rights, on the other hand, demand active efforts on behalf of the state to a substantial degree. These rights must be provided in the form of concrete measures directed to individuals, and they require an extensive administrative apparatus and some kind of distributional mechanism. This costs money, and the development and existence of social rights are thus highly dependent upon the capacity of the state to extract revenue.

During the period between 1960 and 1993, social security transfers as a percentage of GDP increased from 7 per cent to 16 per cent among the OECD countries (OECD, 1995). The increase in social spending in these countries reflects what has been called 'the revolution of rising entitlements' (Bell, 1974, p. 39). The heavy financial pressure on the state budget accompanying this rise in entitlements has not gone unnoticed by the taxpayers (see Figure 1). The proportion of the wage an average industrial worker pays in the form of income taxes (state and local) and social insurance contributions in our sample of eighteen countries between 1930 and 1990 has increased substantially.

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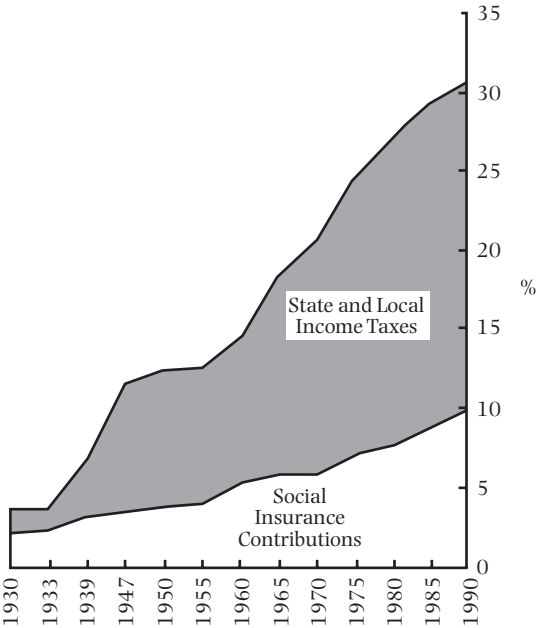


Figure 1. Average state and local income taxes and social insurance contributions as percentage of gross earnings in 18 countries, 1930–1990 (average production worker). *Source*: SCIP data base.

The contemporary discussion and debate about citizenship and social rights still derives much of its inspiration from the classical discussion in T. H. Marshall, *Citizenship and Social Class* (1950). Marshall drew attention to what he saw as 'the marked shift in emphasis from duties to rights' (Marshall, 1950, p. 9). If the social duties of citizens in a welfare state are defined as the way in which social expenditure, or social rights, are financed, this shift in emphasis from duties to rights is not supported by subsequent evidence. The acquisition of social rights is definitely among the most expensive financial investments an average citizen in the industrialised world makes during his or her lifetime. In 1930, an industrial worker paid on cross-national average 1.6 per cent of his or her gross income in direct income taxes and 2.3 per cent in social insurance contributions. In 1990, these figures had risen to 20.7 per cent and 9.9 per cent respectively. The increase in total tax burden was most pronounced during the period 1933 to 1947 and during the early 1960s and 1970s, while the early 1930s and the period 1947 to 1955 witnessed a practical standstill in the long-term trend towards an increase in the average tax burden.

The industrialised countries rely to a great extent on a small number of

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taxes to generate the vast bulk of government revenues. This is reflected in the fact that throughout the period 1930 to 1990, an average worker has paid income taxes in every country in our sample, as well as (in all but four countries) social insurance contributions.[3] However, an average worker is, and always has been, taxed quite differently in different countries: the discharge of social duties has taken place in different institutional settings. Some countries have emphasised what can be called a 'benefit' principle. In accordance with this principle citizens who benefit from a social policy programme should also pay for it. The financing of income maintenance programmes should, accordingly, rely heavily on social insurance contributions. Among the countries where such contributions always have played a significant role we find Austria, Germany, Belgium and the Netherlands. In Switzerland, Italy and France it is possible to observe a rather sharp increase in the wage proportion an average worker pays in social insurance contributions since the mid-1980s. Other countries have put more emphasis on what can be called an 'ability to pay' principle. According to this principle, income maintenance programmes as well as other social entitlements should be financed through (progressive) taxation, primarily income taxes, reflecting individual citizens' general ability to pay taxes. Among countries where the taxation structure can be said to be guided by this principle we find Australia, Canada, Denmark, Finland and Sweden, countries where state and local taxes have accounted for the largest part of the financial burdens placed on the individuals in the period 1930 to 1990.

THE DUTIES OF SOCIAL CITIZENSHIP

In light of the increasing expenditure on social policy during the twentieth century, a central concern among the authors of social policy reform has been to minimise the costs of the proposed reforms. Social duties do not only pay for benefits of various kinds, they can also be used as powerful devices to control the costs of income maintenance programmes.

The cost of an income maintenance programme will depend upon the probabilities for the insured event to occur, the proportions of high- and low-risk individuals covered by the scheme, and the size of the losses which are insured. Consequently, the costs of income maintenance programmes can be held down basically in two different ways. One approach is to minimise the proportion of high-risk individuals covered by the scheme. In this context, the performance of social duties can be considered as the admission ticket that has to be paid in order to be able to claim social rights. This excludes individuals who have not been able to, or not wanted to, perform the full range of social duties imposed, or allows them

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only restricted membership in the income maintenance scheme. In 1933, the International Labour Office (1933, p. 77) summarised this strategy rather bluntly with respect to unemployment insurance:

> In a compulsory scheme there are bound to be a certain number of bad risks. It is essential from the point of view of financial stability that these bad risks be kept down as much as possible, and the qualifying period enables a fund to do this. It has already been said that the unemployable and the loafer should be excluded. This is quite as important from the financial point of view as from other points of view.

The second principal way to reduce the costs of an income maintenance programme is to decrease the risk incidence probability by encouraging low-risk behavior. The potential of social policy institutions to affect peoples' norms and behaviour has always been a prime concern among the architects of social policy reform (see, e.g., Piven and Cloward, 1971; Berge, 1995). A central question in this context has been how to combine the social purpose of providing protection against old age, unemployment and sickness, with what have been believed to be the appropriate incentives to encourage 'low-risk' behaviour. Historically, the most important norm has been the norm to perform on the labour market. Thus, although social policy reforms in various degrees have alleviated economic insecurity by decreasing individuals´ dependence on the market, these reforms have also emphasised the importance of performance on that same market.

The moral duties of social citizenship

Historically, the norm to work or perform on the market, or at least to have the potential to do so by living an 'orderly' life, has, in income maintenance schemes been reinforced in two different ways. One has been through application of the 'less eligibility' approach, where claimants for help are stigmatised in order to discourage citizens from applying for help. The second approach has been to explicitly exclude from the possibility of receiving help those who can not comply with the specified norms.

The first approach is the strategy of the poor laws, where the question of how to combine the relief of poverty with what were believed to be appropriate behavioural incentives was solved in a straightforwardly punitive way. This is well exemplified by the perhaps most (in)famous piece of poor law legislation, the English Poor Law Amendment Act of 1834. The 'less eligibility' principle was central to this act, and meant that the recipient of relief in every way was treated as a second-class citizen. In addition to undergoing rigorous tests of need, recipients of help were also denied certain civil rights, reflecting the view that poverty was

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the result of moral shortcomings. Generally, the restriction of civil and/or political rights has historically been a common way of stigmatising the applicants for poor relief. For example, the Swedish poor laws included the possibility to deny the right to vote to those receiving social assistance on a permanent basis, a provision that was in force up to the late 1940s.

Part of the poor law tradition survived in the targeted income maintenance programmes, above all old age pension schemes, that were introduced in many countries around the turn of the century. In these schemes, the more offensive aspects of the poor law legislation were removed, but they still retained some provisions with a punitive character. The number of applicants was kept down by excluding from help those who could not meet certain moral standards, and the concepts of 'deserving' and 'undeserving' poor thus continued to linger in these schemes. As indicated by the legislative provisions documented in the SCIP database, most of the targeted old age pension schemes enacted at the turn of the century excluded applicants who could not meet certain moral requirements. However, duties of a moral character have not been restricted to targeted or means-tested income maintenance programmes. For example, the Swedish general pension scheme of 1913 did not only exclude individuals who failed to pay their contributions but also those who lived 'asocial' lives. Further, as late as in the 1990s, the Austrian sickness insurance scheme still stipulated that no wages lost were to be paid if illness was caused by participation in fights, drunkenness or misuse of drugs. Thus, payment of social insurance contributions need not give an unconditional right to benefit.

In the light of the importance of the norm to perform in the labour market, moral requirements have been especially important in unemployment insurance schemes. The central aim of these requirements has been to ensure that the applicants are involuntarily unemployed. In 1911, the United Kingdom became the first country to institute a compulsory national unemployment insurance programme. This bill stipulated that the benefit applicant who had lost employment through misconduct, left employment without just cause, or refused job offers without just cause could be denied benefit for a certain period of time. In 1930 most national compulsory unemployment schemes included demands similar to those expressed in the British Act (International Labour Office, 1933). These conditions moreover have been quite similar irrespective of the institutional character of the unemployment benefit scheme.

Since the mid-1970s, the question of how social policy and welfare state institutions can influence the attitudes and behaviour of people has

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once again come into the fore of social policy debate, largely through the contributions of the 'New Right' and 'neo-conservatives' in the USA, Britain and elsewhere (for an overview, see Glennerster and Midgley, 1991; Roche, 1992). A central idea in these lines of thinking is that increased individual responsibility is the best, or even only, way of handling the deficiencies in the form of skewed incentives and wasteful growth in public programmes that the welfare state is allegedly suffering from. Since the requirement to perform in the labour market has been an essential ingredient in social insurance schemes from the very beginning, this debate has principally concerned the need to extend this requirement also to social policy measures of a targeted or social assistance type. In an influential review of American welfare policy, Mead (1986, p. 1) blamed the persistence of various social problems in American society largely on the fact that

> federal programs that support the disadvantaged and the unemployed have been permissive in character, not authoritative. That is, they have given benefits to their recipients but have set few requirements for how they ought to function in return. In particular, the programs have as yet no serious requirements that employable recipients work in return in support.

The material duties of social citizenship

The epoch of modern social insurance legislation, conventionally considered as beginning with the Bismarckian reforms of the 1880s, did not mean that compliance with certain moral standards as an eligibility condition disappeared. However, the introduction of social insurance meant that the emphasis was put on meeting material rather than moral conditions in return for benefit entitlements. By making entitlement to benefits conditional upon past performance in employment and/or financial contributions from the insured, benefits could be justified as having been earned. Although social insurance reforms in the late nineteenth century and onwards did not embody a strict actuarial correspondence between individual risks and contributions, considerable emphasis was still placed precisely on the insurance character of social insurance programmes. By stressing the reciprocal basis of social policy, the connection between contributions and benefits, between effort and reward, social insurance reform involved an element of market logic (Baldwin, 1992; Berge, 1995). In the words of T. H. Marshall (1970, p. 50): 'The contribution of the insured person should, in fact, be regarded, not as paying for the benefits, but as qualifying him to receive them.'

For example, a salient feature of both the British National Insurance Act of 1946 and the United States Social Security Act of 1935 was the

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contributory and thus insurance aspects of the proposed reforms. Beveridge (1942) stressed the desirability of a system under which people 'paid for what they got' and did so by means of specific contributions. In the United States, President F. D. Roosevelt committed the government to an uncompromising policy of payroll tax financing in 1935. For Roosevelt, the principal motive seems also to have been that a contributory social insurance system would make protection against unemployment and old age an earned right, as well as make the payment of benefits more certain by putting the government under obligation (Leuchtenberg, 1963; Derthick, 1979). When told that employee contributions, by their regressive nature, were a mistake, Roosevelt answered:

> I guess you're right on the economics, but those taxes were never a problem of economics. They are politics all the way through. We put those payroll contributions there so as to give the contributors a legal, moral, and political right to collect their pensions and their unemployment benefits. (Quoted in Leuchtenberg 1963, p. 133)

That the importance of contributions from the insured to the financing of income maintenance programmes often has rested on psychological and moral, rather than purely economic, arguments, is well illustrated by the debate preceding the Swedish pension reform of 1946. The type of pension that was introduced by this reform, Peoples' Pension (*folkpension*), was a universal flat-rate pension which was to be received independently of contributions paid. However, even though benefits were not dependent upon contributions made, it was considered psychologically important that special contributions of some kind none the less would be made to this pension scheme. Hence, the Peoples' Pension was partly financed by means of an earmarked tax (1 per cent of taxable income). It was assumed that by making these contributions the insured would feel that they were contributing to their own retirement (Elmér, 1960).

Among the advanced industrialised nations the principle of relating benefit eligibility to a contribution period has been widely used in all three kinds of income maintenance programmes under consideration (see Table 1). In old age pension schemes, the average contribution period taken into account for new pensioners has increased from 7 years in 1930 to 28 years in 1990. This increase largely reflects the fact that during the post-war period many countries have introduced earnings-related old age pension schemes, and the gradual maturation of these schemes is reflected in the data. Thus, in Canada, Finland, Norway, Sweden and Switzerland the basic flat-rate pension schemes, which normally included only nominal (if any) contribution requirements for individuals insured, have been complemented with earnings-related supplementary schemes

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TABLE 1. *Average contribution periods determining eligibility for benefit (average production worker)*

	Pensions (years)	Sickness (weeks)	Unemployment (weeks)
1930	7	24	41
1950	12	13	29
1975	20	9	27
1990	28	10	26

Source: the SCIP data base.

with an extended contribution period as a qualifying condition. In Austria, France, Germany, Italy, the Netherlands, Switzerland, and the United States, the contribution period for new pensioners during the whole period 1930 to 1990 has been above the total average.

In sickness insurance the average contribution period required for establishing eligibility for benefits decreased from 24 weeks in 1930 to 10 weeks in 1990 – a reduction that mostly took place during the first two decades, when the contribution period was almost halved. Finland, Italy, Japan, the Netherlands and Sweden have never applied a contribution period as an eligibility condition, and Norway instituted such a condition as late as 1971. The contribution period has tended to be especially long in Belgium, Canada, Ireland, Switzerland and the United Kingdom.

In unemployment insurance, the average contribution period required for establishing eligibility for benefits is considerably longer than for sickness insurance, presumably reflecting the relatively more strict overall conditions that applicants for unemployment benefits have been subjected to. The decrease in the required contribution period from 41 to 29 weeks between 1930 to 1950 must be interpreted with caution. Canada is excluded from the calculation of the average contribution period for 1950 because of its extreme value of 600 weeks. If we also exclude the country with the highest value for 1930 (Italy with 144 weeks) from the calculation of the required contribution period for this year, the average is reduced to 30 weeks. This indicates that if we exclude the most deviating values for the years 1930 and 1950, the average contribution period determining eligibility for benefit in unemployment insurance has shown a very modest decrease from 1930 to 1990. The USA is the only country which never has applied a contribution period as a qualifying condition (instead applying a minimum earnings condition), and in Italy and Norway contribution conditions were removed in the 1960s and 1970s respectively. In all other countries, a contribution period has been applied throughout the period in question, ranging from as high as 156 weeks in

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Austria during the 1950s, 1960s, and 1970s, to as low as 13 weeks in France during the 1970s and 1980s.

The concept of social citizenship implies that all citizens share the same basic set of rights and duties. However, social rights are often conditional in the sense that they are granted only to individuals who have fulfilled specific social duties. The consequence of requiring a contribution period and/or a work record for establishing eligibility for benefits is not difficult to outline: a weak attachment to the labour force quite simply means limited opportunities to perform the social duties that are a prerequisite for claiming social rights. If the qualifying condition, in terms of a contribution period, is not met, the applicant will not be eligible for benefits or the level of benefit will be lower because of a shorter contribution period. Thus, the contribution period condition can therefore potentially prevent people in need from receiving benefits, or force them to rely upon so-called second or third tier benefits.

Indeed, historically it has been argued that income maintenance programmes should be tax-financed rather than contributory precisely with reference to equity considerations. To wit, individuals or societal groupings with no or only limited prospects of being able to pay an insurance premium should be protected and guaranteed a decent living standard in the case of sickness, unemployment or old age. However, this compassion for the less fortunate has in most cases only applied to the 'deserving' poor. Thus, whereas contributions from the insured throughout history often have been regarded as crucial for maintaining the self-respect and dignity of the needy, a contributory approach to social policy reform has historically been rejected in some countries, for example Australia and New Zealand. This has been done partly because the 'deserving' poor, because of their low or non-existing incomes, were argued not to have the possibility to pay social insurance contributions (Kewley, 1973; Hanson, 1980; Dixon, 1983).

The use of a contribution period as an eligibility condition points to a central ambiguity of social rights, the potential contradiction between citizenship and contributorship (Baldwin, 1992). Employment affects stratification processes not only within the sphere of production, but also during periods outside the employed labour force. Thus, in structuring citizens' access to social rights, social duties are an important aspect of welfare state stratification. Social rights have often been viewed in terms of their capacity for 'de-commodification', enabling individuals or families to uphold a decent living standard independent of their market income and market participation (see, e.g., Esping-Andersen, 1990). The existence of social duties in the form of a contribution period requirement

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demonstrates that for de-commodification to be possible, it must be preceded by commodification.

THE DISTRIBUTION OF THE COSTS OF INCOME MAINTENANCE PROGRAMMES BETWEEN THE INSURED, THE EMPLOYERS AND THE STATE

The conflicts related to social policy reform have often reflected the fact that the costs of instituted programmes do not necessarily have to be borne by the immediate beneficiaries. The fact that the state has the possibility to draw on resources other than the contributions from the beneficiaries constitutes the fundamental difference between social insurance, or income maintenance programmes in general, and the principles of commercial insurance. How the burdens of income maintenance programmes are distributed will not only be an important determinant of net beneficiaries. It will also, perhaps more importantly, have vital ramifications for the legitimacy of these programmes. A recent example of this is the lively debate surrounding the comprehensive reform of the Swedish income-related old age pension scheme (ATP). A great deal of the opposition to this reform on the grassroots level of the Social Democratic Party was based on the fact that contributions formerly paid by the employers would, in the envisioned new system, be paid by the insured.

Aside from contributions from the state and the insured, income maintenance schemes can also to varying degrees be financed via contributions from the employers. Regarding employers' contributions to income maintenance schemes, it is often argued that these are in fact shifted 'downstream' to the consumer, by being built into selling prices, or shifted 'upstream´ to the wage earners in the form of wage reductions or smaller wage increases. Thus, according to this argument, the employers' initial share of the financial burden of income maintenance programmes is of little significance, since it is the insured who will bear the final costs anyway. However, contributions to social insurance schemes have throughout history frequently been opposed by the employers or their representatives on the grounds that the employers' contributions will put a too heavy burden on companies, thereby decreasing their competitiveness with countries without these kind of taxes. This argument would not be put forward if the entire burden of employers' contributions simply could be shifted to the insured.[4]

During the course of history, representatives of the labour movement have frequently opposed social insurance contributions from the insured in many countries, based on the argument that workers' wages do not enable them to bear these costs (Perrin, 1969; Thane, 1978; Hanson,

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1980; Taylor, 1981; Petersen, 1990). They have argued that employers, and the industrial system as a whole, have a responsibility for the well-being of the workers. According to this argument, labour costs should therefore include the combined costs of maintaining labour in both employment and economic inactivity – contributions from the employers are therefore in reality a deferred wage (International Labour Office, 1955; Euzéby and Euzéby, 1984). This belief in the responsibility of the employers has perhaps found its clearest expression in the case of work accident insurance. Throughout the period 1930 to 1990 almost all of the advanced industrialised nations considered here charged the whole cost of work accident insurance to the employers.

The idea that the industrial system should assume responsibility for its alleged harmful effects is also illustrated by the opinion expressed by the American Federation of Labor (AFL) in connection with the enactment of the Social Security Act in 1935. The position of the AFL was that the workers it represented were ready to pay half the costs of old-age pensions, with the argument that everyone gets old. However, as regards unemployment insurance, the attitude of the AFL was that the workers should not have to pay a cent, since it was the employer who laid men off (Brown, 1972). The view that unemployment, at least to a certain degree, is a cost of production has prevailed in the United States, and is reflected in the fact that employers in 1990 bore the whole cost of unemployment insurance in all states except three, by means of the system of experience rating (US Social Security Administration, 1990).

When we look at the distribution of the costs of income maintenance schemes, a long-term trend found in all three income maintenance programmes under consideration here is the increase in burdens placed on the employers. In the financing of old age pensions, this trend has been paralleled by an almost as large increase in the burdens placed on the insured, and a corresponding decrease in the financial responsibility of the state (see Figure 2). During the early 1930s, the high share of the costs borne by the state (around 73 per cent) reflects the existence of a large number of targeted old age pension schemes, in which expenses were typically fully borne by government. The year 1933 marks the beginning of a prolonged trend towards a reduction in the share of the costs borne by the state, reaching one-third of total expenditure in 1990. This trend largely reflects the introduction of earnings-related old age pension schemes of a insurance character in a number of countries, schemes to various degrees financed out of contributions from the insured and the employers.

This long-term trend was temporarily halted immediately after the

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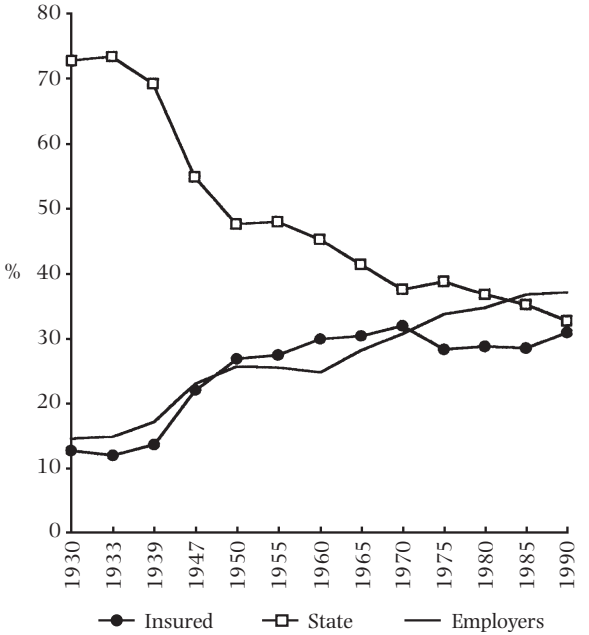


Figure 2. The financing of pension programmes, 1930–1990
Source: SCIP data base.

Second World War and in the early 1970s, periods when many old age pension schemes experienced financial difficulties and the state therefore had to assume more extensive financial responsibility. Until 1970, the reduction in the costs borne by the state was counterbalanced by rather evenly distributed increases in the respective shares of the costs paid by employers and the insured, from 12 per cent to 15 per cent each in 1930 to around 30 per cent each in 1970. After 1970 employers have continued to increase their share of the costs, reaching 37 per cent in 1990, while the costs borne by the insured decreased to 28 per cent in 1975. However, during the late 1980s it was possible to observe an increase in the share of the costs borne by the insured, possibly reflecting the renewed emphasis upon the insurance character of old age pensions.

In sickness insurance the insured carried the heaviest financial burden in 1930, over 60 per cent of expenditures (see Figure 3). Apart from a small increase in the late 1940s, the share of the costs paid by the insured decreased rather steadily until the 1970s. Since 1970, when the share of the costs borne by the insured reached 27 per cent, this share has been rather stable except for a small increase in the mid-1970s. An overall trend towards increased financial responsibility for the employers can

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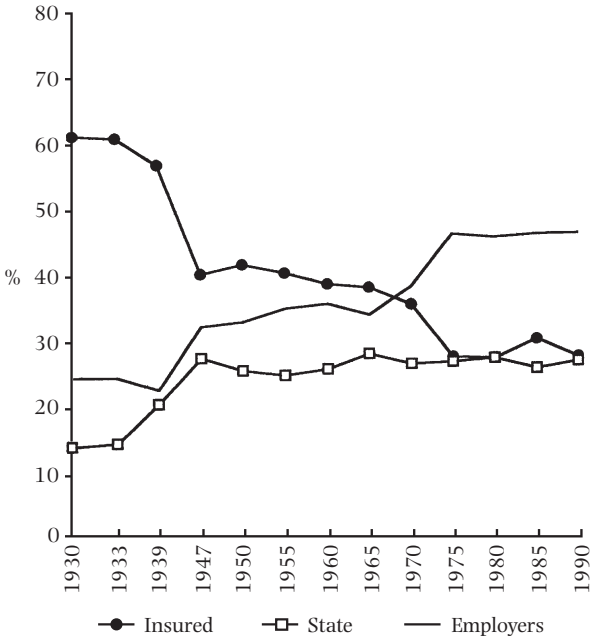


Figure 3. The finance of sickness income maintenance programmes, 1930–1990.
Source: SCIP data base.

also be distinguished in sickness income maintenance schemes. The employers paid 25 per cent of the costs in 1930, a share that decreased to 20 per cent in 1939. Since then there have been two periods of rapid increase in their share of the costs, between 1939 and 1947 as well as between 1965 and 1975. Between these two periods, the average share of the costs paid by the employers has been rather stable, around 34 per cent during the period 1947 to 1965 and around 46 per cent during the period 1975 to 1990. Finally, the costs share of sickness income maintenance programmes borne by the state increased from 14 per cent in 1930 to 24 per cent in 1947, a level which has been rather stable ever since.

The trend towards increased financial responsibilities for the employers is further confirmed when we look at unemployment income maintenance schemes (see Figure 4). With the exception of the early 1930s and the late 1940s, the costs borne by the employers has increased steadily, from 14 per cent in 1930 to 43 per cent in 1990. The share of the costs borne by the state was volatile up to the mid-1950s, but the long-term trend is that the state is paying a slightly decreasing share of costs, down

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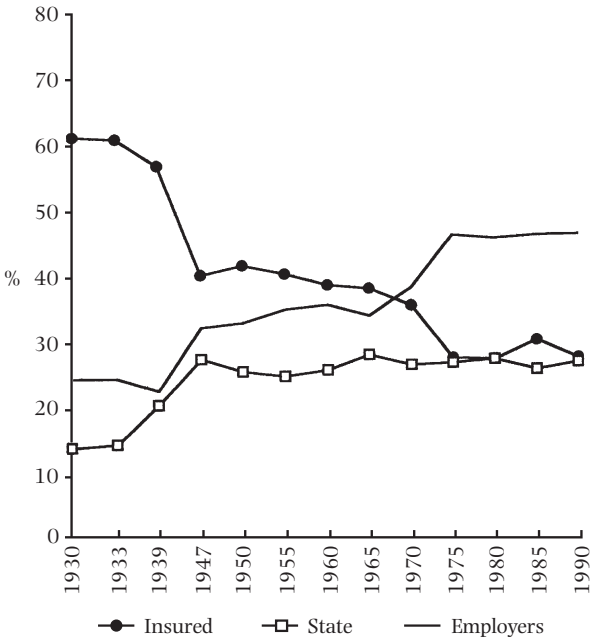


Figure 4. The financing of unemployment income maintenance programmes, 1930–1990. *Source*: SCIP data base.

from 36 per cent in 1930 to 32 per cent in 1990. The overall pattern regarding the costs borne by the insured is also one of long-term decrease. Up to 1950, the costs borne by the insured decreased sharply from 50 per cent to around 30 per cent, a level which remained rather stable during the 1950s and early 1960s. In the late 1960s, the insureds' share of the costs started to decrease once again until it reached 25 per cent in 1975, a level which has been rather stable ever since.

SOCIAL POLICY INSTITUTIONS AND THE FINANCING OF INCOME MAINTENANCE SCHEMES

The interests and ideologies represented by various social and political actors shaped the social insurance institutions that emerged in the late nineteenth and early twentieth centuries. Depending on the power resources that actors had at their disposal to enforce their interests and the institutional setting in which these distributive struggles were fought, these conflicts had different outcomes in different countries. Thus, behind the average figures presented in the previous section there are considerable differences between individual countries in income mainte-

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nance programmes. In this section, the ideal-typical social policy models of old age pensions and sickness insurance programmes created by Korpi and Palme (1998) and described below will constitute the point of departure for depicting institutional variations in the way in which the costs of these two income maintenance programmes have been distributed.

In *targeted* income maintenance programmes, eligibility for benefits is based on a means test. Targeting is the only institutional design feature of income maintenance schemes which almost by definition implies complete state financing. *Basic security* schemes are characterised by universal, or very high, coverage, providing a guaranteed minimum level of benefits. Over this minimum level, wage earners can protect their standard of living through private insurance. Within this institutional form, two subvarieties can be found, and the distinction between these is of considerable importance when it comes to scheme financing. In the first variant, eligibility is based on citizenship (or residence). In this type of programme, we would expect a high share of state financing. Citizenship as a criterion of eligibility means also that individuals with low or no ability to pay a social insurance contribution will be covered by the social insurance system, which decreases the scope for social insurance financing via the insured. To rely on employers' contributions is not a feasible alternative, since many of those with a low ability to pay are not employed. In the second subvariety of basic security programmes we find income maintenance programmes of an insurance type, with flat rate or only limited earnings-related benefits. In this model, eligibility for benefits is as a rule acquired through social insurance contributions. Consequently, these types of basic security programmes will not reach complete coverage among the population. However, since an aim of this type of programme has been to provide the majority of the population basic protection against major risks, strong reliance upon financing from the insured and/or the employers is ruled out on the same grounds as above. That is, the relatively worse off are either less able to pay high social insurance contributions, or less likely to be employed, or both.

The *corporatist* model originates in many ways from the Bismarckian reforms in the late nineteenth century. A basic idea in the corporatist model has been to bring together employers and employees in the governance and funding of social insurance institutions. Eligibility is based on a combination of contributions and belonging to a specified occupational category, and we would therefore expect to find that the main part of the costs of the insurance programmes are carried by employers and the insured, with the state paying only a minor part. Whereas countries frequently have changed the institutional form of their income maintenance

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programs, countries that introduced corporatist programmes as their first income maintenance programmes have also tended to retain this institutional form over time. Finally, in the *encompassing* model basic security schemes are supplemented with strongly income-related benefits. In this kind of programme we would expect relatively strong reliance upon state financing in the basic insurance scheme, together with a relatively high degree of contributory financing by the insured and/or the employers in the supplementary, earnings-related scheme.

Thus, based on these ideal-typical models of social policy institutions we would expect gradually more emphasis on contributions from the insured and/or the employers as we move over the institutional continuum from the targeted model through the basic security model to the encompassing and corporatist model.[5] However, we might also expect to observe a certain degree of path dependency in the development of social policy institutions. A revenue structure associated with one form of social policy institution may exert some continuing influence even though the institutional design itself is changed. The notion of development paths and institutional inertia attracts attention to the fact that these social policy models should not be looked upon in a deterministic way; there is room for variation and deviations.

These ideal-typical institutional forms seem to capture the financing of income maintenance programmes reasonably well when confronted with the data. In Table 2, the degree of state financing for selected years is depicted. The fact that countries may have changed the institutional form of their pension and sickness income maintenance programmes over time is reflected by the fact that the same country can appear in several rows of the table.

We already know that the degree of state financing of pension schemes has generally been higher in the earlier part of the period under consideration. This has been the case in all institutional types (except, of course, in targeted schemes). With the exception of the old age pension scheme in Norway in 1950, targeted income maintenance schemes have always been exclusively financed out of general revenue. Basic security schemes evidence, on average, the highest degree of state financing next to targeted schemes. In basic security schemes where the eligibility condition is citizenship, such as the old age pension schemes in force in New Zealand in 1950, 1975 and 1990, in Sweden in 1950, and in Canada and Denmark in 1975 and in 1990 respectively, the states' financing share is substantial. In contrast, basic security schemes of an insurance type exhibit lower shares of state financing, down to only 1–2 per cent in the USA during the whole period and 2 per cent in the UK in 1990.

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TABLE 2. *Social policy institutions and state financing of income maintenance programs (percent)**

		Old Age Pensions				Sickness			
		1930	1950	1975	1990	1930	1950	1975	1990
Targeted	Australia	100	100	100	100	100	100	100	100
	Ireland	100	100	–	–	–	–	–	–
	Canada	100	100	–	–	*	*	–	–
	New Zealand	100	–	–	–	*	100	100	100
	Denmark	100	100	–	–	–	–	–	–
	Norway	*	50	–	–	–	–	–	–
	Average	*100*	*90*	*100*	*100*	*100*	*100*	*100*	*100*
Basic Security	New Zealand	–	100	100	100	*	–	–	–
	the Netherlands	–	–	7	1	–	–	–	–
	UK	78	33	22	2	22	25	16	2
	Ireland	–	–	64	43	34	26	22	6
	Canada	–	–	65	71	*	*	47	17
	Denmark	–	–	93	66	–	–	46	95
	Norway	*	–	–	–	27	20	–	–
	Switzerland	*	24	18	19	–	–	–	–
	Sweden	72	83	–	–	–	–	–	–
	USA	*	2	1	2	*	*	*	*
	Finland	*	15	–	–	*	*	–	–
	Average	*75*	*43*	*46*	*38*	*28*	*24*	*33*	*30*
	Median	*75*	*29*	*43*	*43*	*27*	*25*	*34*	*12*
Corporatist	the Netherlands	43	62	–	–	0	6	0	21
	France	100	8	0	13	15	5	2	2
	Austria	76	15	28	31	0	0	0	0
	Belgium	50	26	16	22	0	24	43	36
	Germany	19	19	21	17	1	1	2	2
	Italy	8	15	23	2	*	0	11	0
	Japan	*	3	28	39	10	1	10	16
	Average	*49*	*21*	*19*	*21*	*4*	*5*	*10*	*11*
	Median	*47*	*15*	*22*	*20*	*1*	*1*	*2*	*2*
Encompassing	Norway	*	–	20	28	–	–	7	9
	Sweden	–	–	69	19	–	–	25	23
	Finland	*	–	13	9	*	*	0	6
	Average	–	–	*34*	*19*	–	–	*11*	*13*
	Median	–	–	*20*	*19*	–	–	*7*	*9*
	Total Average	*73*	*48*	*38*	*32*	*21*	*26*	*27*	*27*
	Total Median	*78*	*30*	*23*	*21*	*13*	*13*	*14*	*13*

* Absence of a scheme of a particular institutional form is marked by a dash, absence of a scheme overall is marked by *
Source: the SCIP data base.

The decrease in the average share coming from state financing in basic security old age pension schemes between 1930 and 1990 is partly explained by the introduction of limited earnings- or work-related pension schemes in some of these countries to complement the basic schemes from the late 1950s onwards. The introduction of earnings-related old age pension and sickness benefits in the United Kingdom (in 1959 and

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1968 respectively) involved an increased reliance upon contributory financing as well as a decrease in the importance of supplementary schemes of a targeted type, and thus of state financing. In Switzerland, the state was in 1972 obliged to provide occupational pension insurance, something which reduced general revenue financing. In Ireland, flat-rate contributions were abandoned in 1978 in favour of earnings-related contributions, and earnings-related sickness benefits were introduced in 1973. In Denmark, the decrease in general revenue financing of old age pensions reflects the fact that supplementary pensions related not to income but to the number of working years have been introduced, pensions that are financed principally by employers' contributions.

In old age pension schemes of an encompassing type, the average share of state financing through general revenue was almost halved between 1975 and 1990. This trend partly reflects the introduction of earnings-related pensions to supplement the previous existing flat rate basic pension scheme in these countries. However, a closer look at the data reveals also a more contradictory picture. In Sweden, and to a lesser degree Finland, the introduction of earnings-related old age pension schemes decreased the proportion of general revenue financing, whereas the same type of reform increased this proportion in Norway. As regards sickness insurance schemes, the introduction of earnings-related benefits somewhat surprisingly increased state financing in both Norway and Finland.

Finally, corporatist social insurance programmes are distinguished by relatively low and stable financing shares coming from the state. The relatively high levels of state financing in the old age pension schemes in France in 1930 and in the Netherlands in 1950 is possibly explained by the fact that the corporatist model was introduced in 1910 in France and had not matured in 1930, while in the Netherlands targeted state financed benefits were introduced in the Old Age Pensions Emergency Act (*Noodwet Ouderdomsvoorziening*) in 1947 to complement the existing corporatist scheme.

The data also indicates a certain degree of path dependency in the development of social policy institutions. Of the old age pension schemes of a basic security type with a high degree of state financing, all countries except the UK and Sweden changed to this type of institution from a targeted scheme, thus departing from a 'tradition' of high levels of state financing. In the countries with encompassing old age pension schemes, Sweden (with high levels of state financing in 1975) departed from a basic security scheme with high levels of state financing in 1950. Finland, on the other hand, which had a basic security programme with low levels of state financing in 1950, changed to an encompassing

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scheme with low levels of state financing in 1975. Norway with an encompassing programme with low levels of state financing in 1975 had a targeted programme in 1950, and seems thus to contradict the pattern. However, Norway changed from a targeted to an encompassing programme via a basic security programme that was in force during the 1960s, years in which the state's financing share was between 20 per cent and 30 per cent.

The only group of programmes in which we *a priori* would expect an explicit pattern regarding the division of the remaining costs between the insured and the employers are programmes of the corporatist model (see Table 3). The governance of these schemes jointly by the insured and the employers implies a high and stable share of the costs borne by the same.

The financing shares of the insured and the employers in the corporatist schemes have been relatively stable during the post-war period. The employers have on average paid between 49 per cent and 52 per cent of the costs between 1950 and 1990, while the insured on average have paid between 34 per cent and 36 per cent of the costs during the same period of time. Although it is difficult to make any *a priori* assumptions about the distribution of the costs between the insured and the employers in the other social insurance institutions, a closer look at the data nevertheless reveals some interesting findings. In the encompassing programs, the financial burden of the introduction of earnings-related old age pensions and sickness insurance schemes has primarily been placed on the employers. Between 1975 and 1990, the average employers´ financing share increased in these schemes from 59 per cent to 72 per cent. The financing share from the employers increased in all encompassing schemes between 1975 and 1990, except within the old age pension scheme in Norway. Most marked was the increase in the old age pension scheme in Sweden, where the costs paid by the employers increased from 30 per cent in 1975 to 78 per cent in 1990.

In basic security schemes, the overall picture is more contradictory. The average financing share of the employers increased from 19 per cent in 1930 to around 30 per cent in both 1975 and 1990. The insureds' share increased from 34 per cent in 1930 to 39 per cent in 1950, and then decreased to around 30 per cent in 1975 and 1990. Furthermore, there are relatively large differences between countries with basic security schemes regarding the share borne by the insured and the employers. The basic security pension scheme in New Zealand has always been entirely financed by the state. In the USA the employers and the insured have always paid about half of the total costs of old age pensions each, while the financing of the old age pensions in the United Kingdom in

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TABLE 3. *The distribution of costs between the insured and employers in pension and sickness income maintenance schemes (per cent)*

Institution		1930	1950	1975	1990
Basic Security	Insured	34	39	28	33
	Employer	19	25	30	32
Corporatist	Insured	42	34	36	35
	Employer	32	52	49	50
Encompassing	Insured	–	–	18	13
	Employer	–	–	59	72

Source: the SCIP data base.

1950 was financed in roughly equal shares from the insured, the employers, and the state.

SOCIAL DUTIES AND BEYOND

The most apparent role social duties have played within social policy reform is that they quite simply have been instated in order to pay for the benefits that mostly are at the focus of these reforms. T. H. Marshall (1950, p. 78) noted that while social rights have been multiplied and are precise almost by nature, social duties are more vague and 'included in the general obligation to live the life of a good citizen'. However, increased benefit levels or expansion of coverage in income maintenance schemes have never been gifts from above. They have always been paid for in very concrete ways, in the form of social insurance contributions and other forms of taxes. During the twentieth century, we can observe a steady increase in financial burdens in the form of taxes and social insurance contributions placed on citizens in the advanced industrialised world.

The fact that social rights in the form of income maintenance programmes presuppose a fiscal basis makes these kinds of rights highly dependent upon a constantly changing economic environment. Many welfare states are today under heavy financial pressure, and an often heard policy proposal is to put more emphasis on the insurance features of income maintenance programmes by increasing or introducing contributions from the insured. It is argued that making benefits related to contributions on a more actuarial basis would pave the way for a more sound financial foundation of the welfare state. However, many Western European countries today have unemployment rates at double digit levels with a terrifying extent of long-term unemployment. Thus, a large number of people would be constrained to live on second or even third tier benefits upon the enactment of stricter 'insurance' principles for benefits.

During the twentieth century many moral requirements for benefit

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recipiency – in many ways remnants of demands included in the old poor laws – have disappeared from income maintenance programs. However, this need not imply that material duties have simply replaced moral duties. Eligibility for benefits is often dependent upon the payment of social insurance contributions, which in practice implies a work condition. In this way, the requirements that are necessary for getting and holding a job in an increasingly colder labour market climate also become the requirements for being eligible for full economic support in the case of illness, unemployment or old age. Thus, the mechanisms that are shutting a large amount of people out of the labour market are also the mechanisms that are shutting the same people out of the core of social policy, directing them to the outskirts of the welfare state.

NOTES

1. The countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, (West) Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States.
2. The Social Citizenship Indicator programme (SCIP) is an ongoing research project at the Swedish Institute for Social Research that aims to describe and analyse the development of social policy in the above eighteen countries from 1930 on. Data for income maintenance schemes pertaining to an average production worker (male) in the manufacturing sector have been collected for the years 1930, 1933, 1939, 1947, 1950 and then for every fifth year. See Palme (1990) for presentations of data files.
3. The countries and time periods when social insurance contributions from individuals insured have not been used at all are Australia 1930-80, New Zealand 1930-33, 1947 and 1970-90, Canada 1930-55 and Denmark 1930-55.
4. Although it seems to be a common belief that part of employers' contributions are borne by consumers and/or workers, it is rare to find empirical evidence that the whole cost of these contributions is borne by others (for an overview of the empirical evidence, see Euzéby and Euzéby, 1984).
5. Korpi and Palme (1998) also distinguish a fifth institutional form, voluntary subsidised insurance. Although some sickness insurance schemes have been characterised by this institutional form, it has above all been prevalent in unemployment insurance schemes and will therefore not be assessed here.

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