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Abstract

Social insurance is an established method of social protection in certain European Union (EU) member states and has been introduced more widely as a means of minimising the threats to social welfare expenditure from economic crisis and ageing populations. With the recent global financial crisis, when affordability of welfare spending is coming under intense scrutiny, it is timely to consider the nature of social insurance. This paper reviews social insurance in three different welfare regimes (Continental, Scandinavian and Anglo-Saxon) and considers its future role. Social insurance currently takes a variety of forms reflecting historical developments and ideological influences in different member states and going forward is argued to be an important mechanism both in terms of its contribution to fiscal sustainability and solidarity.

Keywords

Political Science – Social Democracy – Social Policy – Sociology – Welfare State

Introduction

This paper examines the nature of social insurance in the European Union (EU). This method of social protection has a strong history in member states such as Germany and France, and it has become increasingly popular throughout the EU as a means of minimising the threats to social welfare expenditure posed by economic crises and ageing populations. The continuing global financial crisis (GFC) has cut into business profitability, leading to large-scale cutbacks at a time when governments' own revenues have decreased, bringing into question the affordability of welfare state measures and leading to pressure on social insurance schemes, particularly in the poorer EU member states (Gough, 2010). Now, perhaps more than ever, the EU's welfare states need to reconfigure to find the correct social protection balance. A focus on social insurance may provide states with a cost-effective method of ensuring individuals are properly protected from adverse events.

The nature of social insurance is shaped by changing perspectives on social welfare, and the first section of this paper therefore outlines how these have varied since the 19th century, from ideas of 'harnessing' capitalism for social ends, through using state mechanisms to redistribute resources from the wealthy to the less fortunate, to diminishing state interference in the economy, and back to restrained state intervention shared with private provision. In contemporary approaches to redistribution, there is increasingly a preference for a social development approach rather than the traditional social welfare approach. From this background of the motivations and influences behind state social provision the paper then moves on to explain the various types of social protection the state may offer, from the more interventionist to the more *laissez-faire*. This enables social insurance to be contextualised as a relatively restrained form of state intervention that may enable considerable private social provision while still protecting vulnerable citizens. The proportion of reliance on public and private protection may vary considerably between social insurance systems, and this section also briefly outlines variables which affect how redistributive or otherwise a scheme may be, for example the type of benefit paid, and the proportions of contributions and paid by the state, the individual, and their employer.

After this general examination of social insurance as a means of social welfare provision, the paper is able to move onto its second major section, which looks at various social insurance mechanisms found in the EU. For reasons of space the discussion is limited to five member states, with Gøsta Esping-Andersen's (1990) model of welfare state regimes used to group states with similar histories of social insurance practice together. Continental regimes Germany and France are investigated first, followed by Scandinavian regimes Denmark and Sweden, and Anglo-Saxon regime the United Kingdom. For each state an outline of early social insurance measures sets the scene for later developments, enabling us to see how the initial formulations of social insurance in each country have been affected by the broader context of changing theoretical ideas about the role of the state in social welfare provision to produce social insurance systems that have different focuses and meet different goals, but which nevertheless have much in common. Space limitations lead us to focus on only one of the modern forms of social insurance and it is recognised that the welfare states examined do not encompass the experience in a number of member states, especially the newer member states and those with more struggling economies. With all the countries under study facing similar problems

caused by increasingly elderly-heavy demographic profiles, we have elected to highlight pension insurance. While in and between national social insurance and social protection systems there exist important nuances of difference in approach that we readily acknowledge, we focus here on broader patterns across the various jurisdictions within the EU. Overall, we find that despite their different historical experiences, the member states rely on a surprisingly similar mix of public and private measures to protect their citizens from destitution in old age. In general, contributions-based public social insurance, combined with state-funded subsistence pensions, are supported or supplanted by occupational or other private insurance schemes, with informal private insurance such as asset diversification also available.

What is social insurance?

Background: Changing perspectives on social welfare

The idea of ‘domesticating’ capitalism for social purposes first became popular with social democrats and liberal reformers in the 19th century. As Midgley (1999: 2) explains, these thinkers, inspired by the unprecedented economic growth that occurred in Europe and North America during the industrial revolution, hoped to ‘harness’ capitalism’s dynamism through state intervention to guarantee large-scale job creation, decent, fair working conditions, and adequate wages. By the end of the 19th century, in many countries labour unions had formed to exert pressure directly on industry owners, and in countries such as Germany, Denmark, and Sweden, social democratic and other centrist parties had exercised legislative power over economic production, and implemented labour and social reforms.¹ These gains were further extended in the first half of the 20th century, with the popularisation of John Maynard Keynes’ argument that governments could intervene to encourage economic growth and employment, the introduction by US President Franklin D. Roosevelt of a raft of social benefits collectively termed the ‘New Deal’ during the Great Depression, and the adoption following the Second World War of social reforms proposed by Lord William Beveridge in the United Kingdom. Beveridge, Roosevelt, and other ‘productivists’ viewed social wealth being as reliant on continued economic growth and high levels of employment. Their focus therefore remained on ‘harnessing’ capitalism rather than subduing or circumscribing it, and the post-war expansions of social services, while ‘massive’ for the period, were relatively modest compared with what followed them (Midgley, 1999: 2).

In the 1950s and 1960s, the productivist, social democratic view of social welfare waned with the popularisation of the notion of redistribution. The primary proponent of this new perspective, Richard Titmuss, saw the free market in a much more negative light than Keynes had. Although he was not a Marxist, Titmuss (1976) certainly distrusted capitalism and the idea of progress for progress’ sake; he argued that the costs of economic growth created ‘diswelfares’, and did agree with Karl Marx that individuals should each receive according to their need. However, Titmuss criticised Marx’s corollary that individuals should also contribute according to their ability, as he believed altruistically that the allocation of social services should not be subject to provisos. Instead, he advocated for social welfare to be available universally, and held that the ability of the collective (the state) to redistribute the

¹ The political manoeuvrings associated with these early reforms will be discussed later in this paper.

resources generated by economic growth (through the tax system) to meet the social needs of individual strangers represented the highest form of social organisation. He believed that, in addition to serving individuals' needs, a redistributive, unconditional social system also promoted desirable societal goals such as altruism, equality, solidarity, and 'the institutionalisation of a collective social conscience' (Midgley, 1999: 2; Titmuss, 1976). The redistributive conception of social welfare caught on in the prosperous 1950s and 1960s, and the term 'welfare state' began to be used as state social programmes were extended to encompass a much wider range of individuals with social needs. We will see examples of welfare state expansion later in this paper.

In the 1970s, however, another view of social welfare began to emerge. In the US, Martin Feldstein (1974) argued that tax-funded welfare expenditures decreased individuals' incentives to make investments rather than to consume, thereby hampering economic growth and prosperity. Similarly, British economists Robert Bacon and Walter Eltis (1976) argued that the emergence of the British welfare state had created a relatively large class of people who did not participate in the productive market, and whose livelihoods depended on the labour and taxes of a relatively small number of producers. This group was seen as a drain on the productive economy's resources, again preventing optimum investment and economic development. In addition to providing generous benefits that disincentivise individuals from looking for work and moving out of the unproductive group, the welfare state was also derided for discouraging economic growth by increasing labour costs (since it forces employers to meet certain minimum requirements for wage levels, sick pay, and so forth) and reducing labour flexibility (since welfare state labour laws prevent employers from firing and hiring at will, or at least make this prohibitively costly). Politicians on the right of the political spectrum promoted and took advantage of the changed public perspective on social welfare, seizing the opportunity to 'roll back' the welfare state, paring back social services and decreasing state intervention in the economy.

Criticism of a wasteful and distorting welfare state which ultimately lacked legitimacy was not limited to groups to the right of the political spectrum but was also advanced by social democratic and Marxist theorists (see, for example, Habermas, 1976; O'Connor, 1973). In view of a widespread anti-welfare perspective and faced with the probability of continued retrenchments of state social services unless public and political opinion on the issue changed, social welfare advocates have attempted to come up with a new rationale for collectively-funded social provision. To this end, many have adopted the social development perspective, which first emerged in discourses relating to developing nations. The social development approach to social welfare seeks to dispel the view that the goals of economic progress and social welfare are necessarily in conflict. Indeed, like the 19th century and post-war designers of social policy, promoters of the social development perspective believe economic development is a powerful dynamic. However, it inherently produces 'distorted development', inducing wide gaps between the rich and the poor, and excluding large numbers of people from participating in the workforce. It is therefore seen as desirable to harness economic growth for social ends, using interventionist strategies to create employment, raise incomes, and improve living standards (Midgley, 1999).

In bringing about these desirable social goals, social development proponents aim to diverge from the welfare state policies of the 1950s and 1960s by creating productivist and investment-focused policies rather than redistributive and consumption-oriented ones. While they do not intend to eliminate state intervention, they re-frame such redistribution as a social investment that 'generates positive rates of return and continuously feeds resources back into the economy' (Midgley, 1999: 3; Esping-Andersen, 2002). This investment takes many forms. Human capital, for example, may be built up through education; parents who learn child-rearing and family-planning techniques, children who learn about nutrition, and disabled people who learn vocational skills are all better equipped to contribute productively to society. Social capital, on the other hand, delivers returns when community groups focus on building networks for local economic development. Social development advocates such as Michael Sherraden (1991) also argue for the development of community and individual assets. At the community level this can include involving community groups and public organisations in creating social infrastructure (such as local roads and drinking water facilities). This can combine with individual asset development to form part of a wider social investment strategy. For example, individual development accounts (IDAs) into which people make savings deposits matched by the state can encourage people on low incomes to save for social purposes (such as housing or education). This approach moves welfare away from the consumption orientation of 1950s-style income support programmes, helping the poor to build up the resources needed to escape poverty, and to provide for themselves, rather than feeling dependent on the state.

As the investment-focused policies outlined above imply, the social development perspective focuses on improving the public and political perception of social welfare by attempting to mitigate the apparent excesses of the welfare state, while still helping people who need it. This approach is perhaps most clear in the social development policy of increasing the cost effectiveness of social welfare. Welfare state critics have pointed out that since public-sector social services do not operate in the market, they are liable to remain 'in business' even if they waste resources or do not achieve their goals. Midgley (1999) states that although data supporting allegations of inefficiency is sparse, welfare state critics have capitalised on the image of wasteful state services being supported by economically productive sectors, and have used it to bring about the retrenchment and privatisation of social services. Social development advocates for applying efficiency evaluation technologies to social programmes, and using the results to increase efficiency - but it also argues that changes should be based on maximising investment returns, rather than simply saving costs. Another social development policy aimed at remedying problems associated with the welfare state is making it easier for people to participate in the workforce. Social development proponents support the idea of supplementing welfare services with tools such as state-supported job-search programmes and business start-up courses (as alluded to above), as well as using the tax system to support people in low-paid employment, creating jobs for those in need (including sheltered employment for those unable to cope with the demands of the open labour market), and blocking impediments to economic participation such as discrimination and lack of child care. In investing in people and resources exponents of social development also hope to minimise the social dislocation that can result in crime and violence, and thereby also create an environment more conducive to economic development.

As this brief outline has shown, a number of different perspectives towards social welfare have waxed and waned in popularity since the idea of 'harnessing' capitalism for social ends first took hold with social democrats and liberal reformers in the 19th century. Productivist ideas, promoted by Beveridge and Roosevelt in the first half of the 20th century, were overtaken in popularity by the idea of redistribution as post-war prosperity in the 1950s and 1960s enabled state welfare to reach many more people than before. Economic troubles from the 1970s allowed right-wing politicians to reduce the generosity of the welfare state, which they saw as hindering economic growth, but social development advocates have sought to dispel the idea that social welfare and economic growth are necessarily in conflict. Returning to a productivist view of capitalism, they have promoted investment-focused strategies of using state resources to build up human and social capital, which they believe will reap returns of both economic growth and improved social outcomes.

Types of social protection

The various approaches to social welfare policy outlined above have produced a variety of ways in which individuals can be protected from the worst effects of adverse life events. This working paper focuses on one type of social protection, social insurance, which first emerged in its modern form in Germany in the 1880s, and which is enjoying a renaissance with the growing popularity of the social development approach. But before moving on to examine the various ways in which social insurance can vary and its operation in practice, it first makes sense to contextualise it. This section will therefore outline a number of social protection systems. As well as income maintenance through social insurance, social assistance (means-tested publicly financed safety net provision) and social security, transfers may occur through private insurance and through taxation.² In addition, there are in-kind benefits (for example, health care, long-term care and social services). The choice of a system will be guided by ideological, practical, and historical considerations. The different approaches can be seen as being located on a continuum from the more state-interventionist to the more market-oriented approaches.

The top and bottom ends of the social protection scale may be dealt with quite briefly. At one end of the continuum, a state can intervene to protect the livelihoods of its citizens by providing them with free goods and services (or, slightly further down the continuum, it may provide these at a reduced price). State-funded social provision may have the benefit of allowing all who need it to access assistance, and contribute significantly to social and economic development, but it may also disincentivise people from working, and place overwhelming strains on the productive sector. At the opposite end of the continuum from social provision, the state steps entirely out of the frame, leaving poor individuals to fend for themselves, or to rely on private charity from other individuals or corporations. In these circumstances, many people may cope well, investing in a diverse range of assets to protect themselves from shocks, smoothing their lifetime consumption by using collateral to 'dissave' (for example through reverse mortgages), or relying on private insurance to protect their incomes. However, some people may be unable to generate any income (for example

² Preston (1997: 30) classifies social security systems in three ways, according to: (1) the nature of entitlement; (2) the sources of funding, and; (3) the institutional structure. In terms of the entitlement, he identifies three 'very different conceptual systems: contributory social insurance, universal entitlement systems, and targeted social assistance systems'.

due to disability, illness, or child-rearing), be poor savers, or be hit by more shocks than they can cope with. Private charity may prove to be too whimsical, applying only to certain cases, and private insurance may exclude those who need it most, because their circumstances are too risky to ensure a profit for the company. Neither state intervention alone, nor private social protection alone, have been found to provide the coverage and feasibility needed to adequately protect people from adverse life events. However, lesser forms of state intervention, and private means supported by state intervention, are found much more commonly throughout Europe and the western world.

There are three main ways (short of complete social provision) whereby the state may intervene to help those in need. The first of these is through providing citizens with social allowances. These grants are funded by general tax revenues, and are available universally to those meeting certain demographic, social, or health status criteria (Hill, 1996). For example, in the United Kingdom, France, Germany and Norway, child benefits are available to all children regardless of their parents' income (Bradshaw and Finch, 2002). In New Zealand, superannuation is paid to all citizens above a certain age, without reference to their savings, or assets, or contributions to a scheme (Work and Income, 2010).³ Although it has never been implemented,⁴ economist Milton Friedman's (1962) notion of a 'negative income tax' is an extreme example of a universal social allowance. His idea, advocated by others under terms such as 'basic income' or 'citizens' income' (Moffitt, 2003; Parker, 1989), would guarantee all individuals a minimum income, which could be claimed back by the state through high taxation on wages. Granting minimum incomes avoids the need for (and costs associated with) testing people's means, assets, or disabilities, but, as Hill and Moffitt note, it has proved difficult to persuade politicians to consider a scheme which combines indiscriminate cash distribution with high taxation. As this last example indicates, universal benefits can deplete a state's revenues, with the result that they are often reduced to token amounts, and need to be supported by other funding sources.

The second main way in which the state may intervene to help protect people from adverse circumstances is through social insurance. In Europe, the term social insurance is often used to connote all state-provided social welfare (Grossekettler, 2004). However, technically it refers specifically to contributory public benefit programmes – that is, accounts initiated by the state, into which individuals and/or their employers contribute funds, usually subsidised by the state, and which pay out either cash or in-kind benefits to the individual in the event of particular contingencies occurring (for example unemployment, illness, injury, or requiring care in old age). These accounts may range from formal, personal accounts, belonging strictly to the individual, through to collective funds from which resources are drawn for the entire insured community. A social insurance scheme may be 'defined-contribution' (whereby the amount paid into the account is fixed, either as a uniform sum or as a proportion of earnings), 'defined-benefit' (whereby the amount paid out by the scheme is either flat-rate or related to previous earnings), or a mixture of both. The pay-as-you-go (PAYG) pension system refers to the collective funds category;

³ Individuals must meet certain residency requirements, however. See Work and Income (2010).

⁴ Ideas close to a negative income tax have been implemented however, and the UK got as far as issuing a Green Paper on it. The problem is that it has to be at a fairly high rate to work – the UK proposal was for 30 percent.

however, pension reforms make increasingly extensive use of supplementary pension insurance based on a notion of individual accounts.

Social (or public) insurance is identical to private insurance in the sense that it creates risk pools in which risks and resources are shared (Korpi and Palmer, 1998). However, private insurance is prone to adverse selection – it excludes particularly ‘bad risk’ individuals from its pool, because the cost of paying out in these extra risky cases would increase insurance premiums to the extent that low-risk people would be dissuaded from purchasing the insurance. Social insurance pools these risks much more radically than the commercial constraints of private insurance would allow (usually by being compulsory), allowing it to award benefits as of right, without reference to fault and regardless of risk (Hill, 1996). New Zealand’s no-fault accident insurance scheme, provided by the Accident Compensation Corporation (ACC), provides an interesting example. It achieves two unusual things: first, because it is universal (it applies to all residents and visitors) the poor and high risks are covered; and second, because it is no-fault, it avoids the panoply of claims and counterclaims that bedevil ordinary accident and disability insurance where blame affects who pays (or receives) (Bismark and Paterson, 2006).

Social insurance can also be designed to minimise another problem inherent in private insurance. Bovenberg et al. (2008) point out that moral hazard, the tendency of insured people to take more risks, may be decreased if individuals’ benefits are drawn from personal accounts, rather than a common insurance pool. Social insurance further improves on private insurance in that the state can also borrow if it needs additional resources to pay the costs of dealing with a widespread threat. In addition, the state needs to step in where there is market failure. For example, it may provide ‘liquidity insurance’ to people who need benefits but have empty social insurance accounts, by using future compulsory contributions into the insurance scheme as collateral (ibid.). Unlike any private scheme though, the state does not require collateral from individuals in order to provide benefits – it may continue to pay pension benefits even when the savings in an individual’s account are used up (ibid.). Social insurance schemes vary widely depending on how they are funded, how they are administered, and whether the benefit payments are flat or dependent on the individual’s contributions. These variations will be examined in the next major sections.

The third main way of publicly assisting people is through social assistance. These means-tested transfers from general revenues to the poor encompass a wide range of schemes (see Ditch, 1999). Since they allocate state resources only to those who most need them, means-tested benefits may be seen as helping promote both equality and efficiency; however, as Hill (1996) states, the matter is not simple. Individuals may fall into a ‘savings trap’ which forces them to spend their savings before they can access a benefit, allowing squanderers to reap publicly-funded rewards while savers cannot, and providing incentives for more wealthy individuals to conceal their assets to obtain benefits. Means-tests which allocate benefits only to those whose incomes or savings fall below a certain threshold also tend to create a ‘poverty trap’, as people receiving benefits are discouraged from entering the workforce if they will only earn a small amount above the threshold. In addition, the need to test people’s incomes and assets can produce costly bureaucracies, and these may also stigmatise beneficiaries through their efforts to clamp down on benefit fraud. However, a means-tested

benefit system may provide a 'safety net' to catch individuals who for various reasons 'fall through the cracks' of other social protection systems, such as social insurance.

The tax system provides a further mechanism for income maintenance, and though it usually functions to complement the other systems, its increasing use makes it worth mentioning briefly. An expression of Titmuss' (1976) idea of fiscal welfare, mechanisms such as tax credits increasingly play a part in income maintenance. Tax relief schemes may allow dependent relatives such as non-earning wives and children to be taken into account in earners' tax assessments, providing redistribution between different types of family; or they may permit employers to pay less tax if they contribute to pension or sick-pay schemes; or at they may provide tax relief towards people's housing costs (Hill, 1996). Raising the point at which the tax threshold (the income level at which earners must pay tax) is set is another way of reducing the burden faced by poorer earners.

Social insurance variables and criteria for assessment

So far we have examined changing historical views towards state intervention in social protection, and outlined a number of different ways in which social protection may be provided. As we have seen, social insurance appears to provide a middle way between the extremes of full state-funded social provision and a completely *laissez-faire* approach to social welfare. It may be more fair and transparent than social allowances, and it has the potential to minimise problems private insurance cannot, such as adverse selection and moral hazard. But there are a variety of types of social insurance schemes, and their perceived successes may vary widely depending on the values and goals of the person, government, or country assessing them. This section will provide a brief overview of the ways in which social insurance schemes may differ, before looking at different criteria that may be used for assessing social insurance schemes. Having established that the degree to which a scheme furthers solidarity, is redistributive, or reclaims capitalism's rewards for the working class may be either valued or reviled, we will then be prepared for the next section, which examines the operation of various social insurance schemes in practice.

There are three main groups of factors across which social insurance schemes may differ. First, social insurance may be offered for a wide or narrow range of potential calamities. For example, in one country a social insurance scheme may only be used to protect people against loss of income when they retire, while in another the scheme may apply to all potential causes of income loss, including child rearing and illness. A third country may offer a scheme that subsidises individuals' health care costs, or finances long-term care for the elderly. It is important to note that the boundaries of social insurance can be quite difficult to pinpoint. Insurance covers lack of earning power, whether because of age (young and old), unemployment, disability, or health status, but it also covers other aspects – for example health directly, housing, and disasters (in New Zealand for example, the Earthquake Commission provides earthquake insurance; other countries deal with this differently). It is not however usually possible to buy social capital insurance nor is it normally provided by the state. The second way in which social insurance schemes may differ is the degree to which they apply to all members of society. For example they may only apply to blue-collar workers, or to those with continuous contribution histories – something which may pose problems for people who take time out from the workforce to take care of children. A third area of variation is the way the schemes are funded, and how they

make payments to individuals. For example, contributions may be made by just the individual, by the individual and their employer, or by the individual, their employer and the government – and the proportions paid by each of these contributors may be equal, weighted in some way, or open for them to choose. In addition, the contributions may be voluntary or compulsory, and (as noted earlier) they may be set at a flat rate or be proportional to the individual's income. Further, contributions allocated by one individual, class or generation may be allocated back to that class, individual, or generation, or they may be redistributed to another.

The most salient criterion for assessing social insurance is social solidarity (Esping-Andersen, 1990). The ability to contribute to the goal of integrating a society's members is particularly highly valued in countries such as Norway and Sweden. Defined-benefit schemes theoretically are able to help redistribute resources from the well-off to the impoverished but this can vary greatly across different social insurance systems.⁵⁶ Hill (1996) notes that a scheme with graduated contributions based on income, but flat-rate benefits, will be much more redistributive than a system with both graduated contributions and graduated benefits (or indeed, the unlikely and regressive combination of flat-rate contributions with graduated benefits). The redistributive power of a social insurance scheme is also influenced by those most likely to make claims on it. For example, an unemployment scheme may be quite redistributive, as it is more likely to make payouts to those in more marginal, lower-paid jobs than to those in more secure, highly-paid jobs. On the other hand, a pension scheme may end up benefiting wealthier people, even if it makes flat payments, because the wealthy are more likely to have high life expectancies and therefore make more pension claims in total. Hill (1996: 81) refers to this phenomenon as 'inverse social redistribution'. Solidarity may also be undermined if other schemes are available. For example, in Britain the graduated contribution, flat-rate benefit pension scheme is undermined by incentives (including the ability to forego making contributions) for more wealthy people to adopt private insurance instead. Similarly, in Germany the public sector has its own separate pension scheme. In both these cases, the insurance risk is not shared evenly by the population, and redistribution is reduced.

Redistribution between individuals is not the only goal pursued by social insurance advocates however. While pension schemes may benefit the long-lived rich over the short-lived poor, they can serve to smooth an individual's income over his or her lifetime – social insurance pension schemes are often promoted by governments as a way of redistributing one's own income to avoid impoverishment in later life. In Germany, for example, 'status maintenance' insurance schemes graduate their premiums and payments, allowing high contributors to receive high benefits. Although this contrasts sharply with the Nordic notion of solidarity, it aligns more closely with German values and is seen as more transparent. The operation of pension schemes is not always straightforward as governments paint it, however. While individuals' earmarked tax accounts may be reserved specifically for them to use,

⁵ Since many migrants go to other member states temporarily to earn incomes large enough that they can provide remittances for their families at home, they will tend simply to return home if their earning power is inhibited by loss of job or disability, rather than remaining to receive whatever social benefits are available.

⁶ Defined benefit systems can be contrasted with defined contribution systems. The latter are regarded as providing a greater sense of ownership, control, and flexibility.

often social insurance is 'pay-as-you-go', with the contributions of the current working generation funding the living costs of the currently retired generation.⁷ Circumstances like this, where redistribution occurs between generations, imply an 'inter-generational contract', with the current working generation hoping their own retirement will be funded by the contributions of the next.

In some countries, social insurance has had the goal of delivering the rewards reaped by capitalists to the workers who produced them. In Sweden, Italy, and Finland, for example, employers provide the majority of the social insurance funds' contributions. In France and Belgium, employers are the sole contributors to family allowance schemes. However, Hatland (1984) points out that most economists now agree that the costs of these contributions are likely to be passed on through decreased wages and prices, and that they serve as a 'tax on labour', which may increase unemployment.

Social insurance in the EU

As we have seen, there are theoretically many dimensions along which social insurance schemes may potentially vary, and a variety of goals against which a particular insurance scheme may be assessed. This is borne out in practice; in a study of social protection practices in advanced capitalist welfare states, Fritz Scharpf (2000: 192) found that countries differed considerably in their schemes' degree of coverage, generosity, and efficiency, as well as in 'their commitment to reduce, or prevent, the social inequalities that are continuously generated and reproduced by capitalist market economies'. Scharpf's study found broad evidence for Esping-Andersen's (1990) three main types of social system - Continental, Scandinavian, and Anglo-Saxon⁸ - and despite the caveats mentioned in David Mayes and Zaida Mustaffa (2010), it is nevertheless useful to group similar social systems together, to make salient both their broad commonalities and specific differences. This section will therefore adopt Esping-Andersen's three main welfare state types to structure an overview of social insurance mechanisms in the EU. While there is not space to discuss every EU member, representatives of each welfare state type will be examined - Germany, Italy and France for the Continental type, Denmark and Sweden for the Scandinavian type, and the United Kingdom for the Anglo-Saxon type. In each case, the country's early forays into social insurance will be examined before its current old-age social insurance mechanisms are assessed. This enables us to look at the reasons behind the different formations of the welfare state, whilst refraining from detailed historical analysis. For the latter we can rely on the rich analyses undertaken by, for example, de Swaan (1988), who examines welfare state formation and collective action focusing on interventions for poor relief, public health, education and social insurance. His comprehensive review highlights the way in which elites benefited as much from the provision of social insurance and other public goods.

⁷ While, in general terms, all pension systems are in wide terms PAYG, in the sense that the money being paid to pensioners results from the actual production of goods and services by those who are active workers, there are differences in the way in which pensions are distributed - which can be either as the 'capital' or their right as pensioners.

⁸ Esping-Andersen (1990) also refers to the three welfare state regimes as conservative or corporatist, social democratic, and liberal. They are adapted from Richard Titmuss's (Titmuss et al., 1974) three models of social policy, the performance-achievement, institutional-redistributive, and the residual. See also Abrahamson (2000).

Social insurance in continental Europe

The Continental, social insurance-based form of the welfare state first emerged in Germany in the last quarter of the 19th century, and its main precepts were adopted in Austria, Italy, and France thereafter (Esping-Andersen, 1990; Kuhnle, 1984). Its first architects were conservative, elitist, and corporativistic, and correspondingly the Continental welfare state focused not on meeting egalitarianist ideas of redistribution but on maintaining status differentials (Esping-Andersen, 1990; 1996). The corporatist idea of preserving people's class and status 'was subsumed under a state edifice perfectly ready to displace the market as a provider of welfare', leaving little room for private insurance or 'occupational fringe benefits' to play a role (Esping-Andersen, 1990: 27). In addition, the Continental welfare state also reflected the influence of the church; social insurance schemes typically supported the traditional family model by excluding non-working wives, while family benefits were provided to encourage motherhood, and 'family services' such as childcare were 'conspicuously underdeveloped' (ibid.). We will now examine social insurance schemes in Continental pioneer Germany, as well as in Continental adopter France.

Germany

Social insurance was first introduced on a large scale in Germany in the 1880s, when Bismarck's government established a compulsory sickness insurance scheme (1883), accident insurance scheme (1884), and old age and invalid pension insurance scheme (1889) (Kuhnle, 1984).⁹ In a 1943 article republished in 1999, medical historian Henry E. Sigerist explains the motivations of the elites who created the schemes. Bismarck, a feudal landowner, felt uncomfortable with liberal, *laissez-faire*, market-based economic and social policies, and, along with his allies in the Conservative party, he instead took a feudal, paternalistic attitude towards poverty alleviation; these elites believed that the state (with which they strongly identified, since they saw the monarch as in their class) should provide for the economically weak. They were further motivated to pursue this goal by the growing popularity of their rivals in the socialist movement – the conservatives hoped that if they provided state protection for workers, it would decrease the socialists' ability to muster the workers to their cause (and thereby increase their political power). Sigerist outlines Bismarck's general plan:

What Bismarck had in mind was a centralised and unified system of insurance that would protect all economically weak groups including agricultural workers from major risks by providing compensation and services. It would be financed by contributions of employers and employees, and by government subsidies. Government charity was to become a government subsidy. The various occupational groups would be organised into corporations which would administer the insurance system.

(Sigerist, 1999: 484)

Although these aims were not fully realised in any of the three 1880s German social insurance statutes, Bismarck's general ideas did manage to get through. The 1883 Sickness Insurance Act did not provide for a centralised, unified scheme, as Bismarck could not drum up enough political support for one; however, it made membership of

⁹ See Kuhnle (1984) for a discussion of the debate surrounding the origins of social insurance and the welfare state, and see Sigerist (1999) for a discussion of smaller-scale welfare measures in Prussia and Germany which preceded Bismarck's schemes.

a private sickness insurance scheme compulsory for all workers in listed occupations, and it set minimum benefits (although larger, wealthier funds could provide their members with additional benefits) (Sigerist, 1999).¹⁰ The workers contributed two thirds of the premiums, with their employers providing the balance, and the two groups administered the funds in proportion to these contributions. In its final draft the Industrial Accident Insurance Act (1884) also did not allow for either a centralised scheme or for government contributions. Employers were the sole contributors,¹¹ and the law only applied to a limited number of occupations, although this was increased through subsequent amendments. Bismarck did succeed in achieving a corporatist system of administration of the schemes though; each industry was required to form its own trade association, and these (which comprised employers, not employees) each administered their own insurance fund. The workers' only representation was at the arbitration courts.

Bismarck's final (1889) social insurance statute, which provided coverage in the case of old age and invalidity, finally allowed for government funding. Regional insurance funds, administered and guaranteed by the government, were contributed to equally by employers and workers, with the government subsidising each pension and covering administration costs (Meyer, 2007; Sigerist, 1999). Benefits were paid out to scheme members (that is, workers earning below 2000 marks annually, and all manual workers) who reached the age of 70, or were disabled by sickness (Sigerist, 1999). The scheme aimed to provide income maintenance (rather than mere income protection), and it maintained the statuses of its members by paying higher benefits to those whose higher salaries enabled them to make higher contributors (Overbye, 1994). However, Meyer (2007: 208) notes that the pensions were 'modest', and generally 'not sufficient to provide a means of existence'.

Germany's current social insurance schemes still reflect Bismarck's influence. Social benefits remain allocated on the basis of employment, rather than citizenship (as in Scandinavian welfare states) or proven need (as in Anglo-Saxon welfare states) (Esping-Andersen, 1996). However, social insurance policies have not been immune to changing economic and social circumstances since they were first created. The most striking example is German pension insurance. The original 1889 scheme, for manual and low-income workers, was followed in 1911 with parallel schemes for salaried workers and other sectors of the workforce as they protested the special treatment (in the form of government subsidies) that the pensions allowed urban workers (Baldwin, 1990; Overbye, 1994). Pressures for increased universalism continued to translate into 'a patchwork policy of extending pension insurance to previously non-covered populations' such as agricultural and other self-employed workers, as well as bringing pension funds under 'one general umbrella', and building up safety-net minimum income support schemes for people unable to participate in social insurance (usually because of unemployment) (Esping-Andersen, 1996: 68). The benefits themselves, and the way they were funded, have also changed since they were first implemented. After the world wars and the great depression left 'huge

¹⁰ These benefits included funding for medical care and funeral costs, as well as income in the event of sickness, maternity, and accident (for the first 13 weeks, after which accident insurance would apply).

¹¹ Although in its first year the benefits were paid by the government, following this, the employers contributed enough to repay the government and build up their own funds.

gaps' in the pension system,¹² adoption of the 'adequacy principle'¹³ led in 1957 to a shift from actuarially-related contributions and benefits to a 'pay-as-you-go' system whereby contemporary contributions funded contemporary benefits, so the working paid for the retired (Baldwin, 1990; Esping-Andersen, 1996: 69; Meyer, 2007: 208). Pension benefits were pegged to previous earnings, at a relatively high rate,¹⁴ to allow for a fair standard of living after retirement (Meyer, 2007); and the compulsory retirement age was reduced from 70 to a flexible 'window' of 60 to 65, which applied variously depending on factors such as gender, disability, and length of service in the workforce (Börsch-Supan and Wilke, 2003).¹⁵ These changes were acceptable in an environment of near-full employment, but since then Germany's economic fortunes have faltered, reducing the number of employed people able to make pension contributions. In addition, Germany faces a sharp demographic shift, with the proportion of elderly people to working-aged people due to increase considerably in the next few years (Börsch-Supan and Wilke, 2003; Meyer, 2007).

In order to combat these challenges to the German pension system, a pension reform process begun in 1992 and culminating in the 2001 Riester reform bill (named after then-labour minister Walter Riester) has transformed the 'monolithic' statutory PAYG system into a multipillar system which provides greater scope for private pensions (Börsch-Supan and Wilke, 2003: 49; Meyer, 2007). While the statutory PAYG 'pillar' of pension provision remains compulsory for most employees¹⁶, the 1992 pension reform anchored benefits to net wages rather than gross wages and will raise the normal entitlement age to 65 by 2017,¹⁷ and the 2001 reform will decrease the replacement rate from 70 percent to around 66-67 percent of previous income by 2030.¹⁸ The benefit-

¹² The wars reduced the number of people making pension contributions, while raising the number of widows and disabled people claiming pensions. Compounding the problem, the pension funds, which had mostly been invested in bonds, had been devastated by 'galloping' inflation (Meyer, 2007: 208-9).

¹³ According to this principle, the tax system should generate enough income to cover government spending – so in general, government budgets should balance taxes against spending.

¹⁴ For example, in 1990, German pensions were allocated on average at 77 percent of net earnings (European Community, 1993, cited in Esping-Andersen, 1996: 70).

¹⁵ The retirement age (the age at which full retirement benefits would apply) for men who had been in the workforce for between five and 35 years remained 65, but men who had worked for 35 years or more were entitled to retire between age 63 and 65. Women, the unemployed, and the disabled could retire from age 60 (with certain conditions – see Börsch-Supan and Wilke, 2003).

¹⁶ 'Virtually all' employees belong to the scheme, with membership voluntary for self-employed workers. Civil servants are excluded from the statutory scheme but have their own, 'even more generous', scheme, which is financed solely by general tax revenues (Meyer, 2007: 210).

¹⁷ Pegging the benefits to net wages served to decrease them, as tax and social security contributions have risen over time, reducing the value of net to gross wages. The raising of the 'normal' retirement age for all pension types except the disability pension is to be completed by 2017, although most changes will be effective by 2011. (Lower retirement ages for women and the unemployed were revoked in a separate reform in 1999.) People who have served for 35 years may retire up to three years earlier than the 'normal' age. See Börsch-Supan and Wilke (2003).

¹⁸ PAYG pension benefits are calculated according to the individual's lifetime earnings, and are the product of four factors: (1) the individual's relative earning position; (2) their years of service; (3) the type of pension they receive and age at which they retire; (4) a reference pension value, indexed to annual changes in salary and wage levels (Börsch-Supan and Wilke, 2003; Meyer, 2007). The replacement figures of 70 percent and 66-67 percent of average net income are not directly comparable, as the 2001 reforms allow the reference earnings calculation to include both the individual's wages and a government subsidy (of up to 4 percent) provided to private pensions (these subsidies are discussed shortly). Pension levels are therefore falling further than the figures appear to suggest. However, the reforms aim to hold the new levels stable, so that further reductions will not be required (Wilke, 2003).

reducing effects of these measures, aimed at lessening the intergenerational burden as the proportion of retired Germans to working ones increases, are expected to be offset by Riester's three new pension pillars – a needs-oriented basic income, individual pension savings accounts, and occupational pension funds (Börsch-Supan and Wilke, 2003). The needs-oriented basic income guarantees needy people a minimum subsistence income, while the PAYG pillar is also now able to be supplemented via voluntary, private individual savings accounts. In this pillar, the state encourages employees¹⁹ to contribute to certified private pension funds,²⁰ either by a paying a subsidy directly into the savings account or by allowing retirement savings to be withdrawn as a tax-deductible 'special allowance', depending on which is more advantageous to the saver (*ibid.*). In addition, because taxes on pension savings are deferred until the benefit is paid out, they may be seen as receiving a further, implicit, state subsidy. In the third pillar, the state has strengthened various occupation-based pension schemes²¹ by permitting salaries to be converted into company pension plan contributions (although collective employment agreements are entitled to veto this conversion). Contributions (which may be made by employers or employees) may be calculated on the basis of either net income (thus delivering a large implicit tax credit, due to deferred taxation), or gross income (which entitles contributions to the same direct subsidies or 'special allowance' tax relief as that received by the individual accounts) (*ibid.*). While the reforms have altered the German pension landscape in their attempt to reduce public pension expenditure, they leave the corporatist, low-redistribution Continental style of social insurance intact.

France

The pace of development of social insurance in France was much slower than in Germany. It is true that France's voluntary state-guaranteed national pension fund, established in 1850 following the 1848 revolution and used by Napoleon III to shore up public support, preceded and inspired Bismarck's own reforms (Baldwin, 1990; Cutler and Johnson, 2004; Rimlinger, 1971). And it is also true that France's national employment accident insurance fund, set up in 1868, predated Germany's by 16 years (Baldwin, 1990; Ruffat, 1998). Yet despite France's initial leadership in establishing these insurance schemes, they lacked the comprehensiveness of the early German schemes, reflecting both a liberal inclination to leave the state out of welfare and a lack of urban class pressure, due to a relatively slow French pace of industrialisation (Baldwin, 1990; Diebolt and Reimat, 1997). Even when France updated its social insurance schemes, the 1898 statute making employers liable for providing employees with 'a mechanism of partial, but systematic compensation for accidents at work' (Ruffat, 1998: 453) was 'less seaworthy than the more urgently required measures on the books in Germany and Britain' (Baldwin, 1990: 105); and the 1910 workers' pension law, which made pension scheme membership compulsory for most

¹⁹ In this instance the category of 'employees' includes both dependently employed and certain self-employed workers.

²⁰ The products eligible for state subsidy include pension insurance, capitalisation products, interest-bearing bank accounts, and shares in investment funds. A number of conditions must be met in order to achieve certification, the most important being that the scheme provide a guaranteed lifetime annuity from the date of retirement – if an individual chooses instead to receive a lump sum payment, the subsidies have to be repaid to the tax department. For a full description of the conditions, see Börsch-Supan and Wilke (2003).

²¹ Meyer (2007) notes that prior to the 2001 reforms, occupational pensions were primarily used as a recruitment, motivational, and retention incentive, and tended only to make up a small proportion of the average worker's retirement pension, supplementing the much larger role played by the PAYG pensions.

industrial and agricultural workers, as well as for all workers earning below 3.000 francs, 'made no fundamental improvements to the fate of indigent old people', although this was mainly because the obligation to join was 'widely flouted' (Diebolt and Reimat, 1997: 185; Saint-Jours, 1982).²²

The compulsion for workers and those earning below a certain threshold to make contributions reflected the influence of Bismarck's 1889 pension law on the French, and Germany's influence grew after France regained Alsace and Lorraine from Germany in 1919 (Saint-Jours, 1982). Although it took more than a decade to reach an agreement, France's belief that retaining the popular German social insurance schemes in these repossessed provinces was necessary to hold their support, and that it would be incongruous to enact a scheme in some provinces and not others, led to the introduction of a Bismarckian national social insurance scheme in 1930 (Baldwin, 1990; Cutler and Johnson, 2004; Dutton, 2002). Like Germany's system, the French scheme (which covered the risks of sickness, maternity, disability, old age, and death, but not unemployment or workplace accidents) was based on employment rather than citizenship or need, and it focused on status maintenance rather than redistribution between rich and poor (Saint-Jours, 1982; Starzec, 2009).²³ It was often viewed as social assistance rather than social insurance, since contributions remained optional for those who earned above the 'ceiling of participation', which divided respectable employees from the working class (Saint-Jours, 1982: 121).

Divisions between various classes remained when social insurance was finally cemented in France after the Second World War (Starzec, 2009). As in Germany, the political left were unable to implement solidaristic reforms in France at this time (Baldwin, 1990).²⁴ Instead, the general social insurance scheme was extended to cadres (high-ranking salaried employees) and the self-employed on a limited basis that reflected their unwillingness to shoulder the riskier manual class' burdens. Cadres therefore contributed to, and benefited from, the scheme for the part of their income which fell below a certain wage ceiling, and belonged to a supplementary PAYG scheme for the part of their income above the ceiling; their success in keeping the ceiling low in order to benefit from the superior supplementary scheme kept the general scheme's benefits modest, and by 1961 all wage earners were compelled to belong to a supplementary blue- or white-collar scheme (*ibid.*).²⁵ Similarly, the self-

²² Many workers resisted the scheme, as the contributions card reminded them unpleasantly of the old police workers' identity card. In addition, many employers refused to deduct their employees' contributions from their wages, and eventually the courts absolved them of liability, thereby rendering membership voluntary and allowing the scheme to become progressively undermined (Baldwin, 1990; Saint-Jours, 1982).

²³ For example, pensions for scheme members were allocated from the age of 60, and if a member had belonged for 30 years or more, paid up to 40 percent of their previous average earnings. Contributions to the social insurance scheme were also based on earnings – they totalled eight percent of an individual's income, with four percent paid by the individual, and the other four percent by the employer (Saint-Jours, 1982). The scheme was extended to include workplace accidents and family benefits in 1932 (Starzec, 2009).

²⁴ Ambitious French plans to finance social insurance transparently, with the contributions of the wealthy funding means-tested benefits for the poor, were much more redistributive – and therefore met with much greater opposition – than contemporary British or Scandinavian schemes. The number of potential opponents was also higher in France, where the proportion of self-employed citizens was more than three times that in the United Kingdom (Baldwin, 1990). See also Starzec (2009).

²⁵ These complementary schemes are sometimes referred to as the second pillar of the general scheme.

employed belonged to the general scheme, but only as members of occupational subgroups, 'between and within which solidarity was limited' (ibid.: 161).

Solidarity in French social insurance was increased in the late 1960s and early 1970s when redistribution was permitted between occupational groups, and membership of the general scheme was extended to the last excluded occupations (for example, private detectives, prostitutes, and fortune-tellers) (Baldwin, 1990). But from the mid 1970s, as in the rest of Europe, economic and, later, demographic challenges have increasingly threatened France's ability to finance its social insurance schemes; while economic crises have increased the number of unemployed people and eroded the contributions needed to fund health, old-age, and unemployment insurance, an ever-swelling number of French people are reaching the pension age, further increasing the costs of funding social insurance (Béland and Hansen, 2000; Vail, 2009).²⁶ In order to combat these challenges, various reforms during the 1990s and 2000s have attempted to make social insurance more cost-effective, a process that has also tended to harmonise the various occupational schemes. For example, in 1993 the 'first significant structural modifications to the postwar French pension system', which applied to the basic and supplementary schemes, increased a general solidarity tax to finance a pension liability fund, indexed benefits to prices rather than wages, increased the minimum number of contribution years required for full pension eligibility from 37,5 to 40, and extended the wage reference period upon which pensions were based from 10 years to the highest-paid 25 years of a worker's career (Vail, 2009: 124; Ebbinghaus and Hassel, 1999). In 2003, the more generous public pension scheme was aligned with the private scheme when similar reforms were introduced, along with financial penalties for early retirement and rewards for late retirement, and, like in Germany, the ability to join voluntary private pension funds (Starzec, 2009; Vail, 2009).²⁷ Special public sector occupations (such as national railway workers, and employees of the Banque de France) were brought into closer harmony with the rest of the public sector in 2007, although their scheme remains the most generous (Vail, 2009).²⁸

Social insurance in Scandinavia

The Scandinavian welfare state system has existed almost as long as the Continental one, but its guiding principles are strikingly different from those within the German or French social insurance systems. Whereas Continental European welfare states were designed by conservative elites, in Scandinavia, social democrats were much better able to influence politics. Rather than promoting status-maintenance, the social democrats were in favour of breaking down the barriers between different classes,

²⁶ For example, in 1995 health care costs made up 9,5 percent of GDP in France, and pensions made up 10,6 percent, with a projection to rise to 14,3 percent by 2040. As Vail (2009) states, such projections suggested a threat to the very survival of France's social insurance scheme.

²⁷ The 2003 reform raised the full pension contribution period to 40 years (and to 41 years by 2012), raised contribution rates by 0,2 percent, indexed public pensions to prices, and liberalised restrictions on workers with low contribution histories so that they could receive benefits while working part-time (Vail, 2009).

²⁸ As in the non-special public sector scheme, late retirees received financial bonuses, the contribution period was raised from 37,5 to 41 by 2012, and benefits were indexed to prices. However, the unions won the ability to base benefit levels on the employee's previous six months' wages, and employees in more strenuous occupations had certain opportunities to retire before the age of 60. A more negative difference between the schemes was that, starting in 2010, special public workers were to be penalised for each missing year of contributions (this penalty is to reach five percent by 2020) (Vail, 2009).

and between the market and the state (Esping-Andersen, 1990). They aimed for equality, not at the level of minimal needs, but ‘of the highest standards’, allowing workers to have the same social rights as the better off, and to access state services and benefits of a level ‘commensurate with even the most discriminating tastes of the new middle classes’ (Esping-Andersen, 1990: 27). However, as the cases of Denmark and Sweden illustrate, an important part of the reason why these lofty ideals were able to influence the law was that they meshed with the economic interests of politically influential farmers and agricultural workers.²⁹

Denmark

Like Germany, Denmark first enacted social insurance laws in the late 19th century. Although official Danish commissions were working on proposals for sickness insurance before Bismarck’s proposals were made, Denmark’s sickness insurance policies did not make it into law until 1892 (Kuhnle, 1984). These differed from the German policies in that they permitted the state to subsidise sickness funds³⁰ (which, as in Germany, were pre-existing, private ones), and in that membership of these funds was not compulsory but voluntary (ibid.). The Danish old age pension, introduced a year earlier in 1891, marked an even clearer departure from the policies of the European continent. It was a horizontally universal, means-tested scheme, meaning it provided a minimum benefit to all old people, regardless of occupation, who had not received poor relief in the previous ten years, but who nevertheless lacked the means to support themselves (Baldwin, 1990; Kuhnle, 1984). Administered by local communes, the scheme was redistributive, as it was financed by tax revenues from the state and the communes (Kuhnle, 1984). Baldwin points out that the old age pension represented an achievement for the Danish farmers who were then gaining political, social and economic power against the declining urban, monarchical, and aristocratic elites – horizontally universal coverage meant that agrarian workers, as well as the usual industrial workers, would be included in the scheme, and financing the pensions through taxes rather than employer contributions saved the farmers from increased production costs. Initial plans to organise accident insurance along similar redistributive, tax-financed, horizontally universal lines were dashed however, because both the agrarian moderate liberals who had sponsored the pension scheme, and large industrialists and manufacturers, who were allied with radical liberals, were disinclined to share the costs of other occupations’ accidents (Baldwin, 1990). Instead, only industrial employers were included in the 1898 employer-funded accident insurance scheme – and their membership was voluntary until 1916 because of fears that compulsion in German and Austrian accident insurance schemes had led to a moral hazard problem, with a rising number of industrial accidents occurring in those countries (Baldwin, 1990; Kuhnle, 1984).

Solidarity became firmly established in Denmark following the Second World War, partly because unlike on the Continent, universalist reforms benefited the bourgeoisie (Baldwin, 1990). Today’s Danish social policy still tends towards universalism and redistribution, with largely tax-financed benefits available throughout the social policy system (Goul Andersen and Carstensen, 2009). However, since the 1990s, contributions-based social insurance has been regaining importance, for example in

²⁹ Although Norway provides another interesting example of Scandinavian social insurance, it will not be discussed here as it is not a member of the EU.

³⁰ For example, Kuhnle (1984) reports that in 1894 public contributions accounted for 26 percent of the funds’ total revenues.

the multi-tiered pensions system (*ibid.*). The first, state-funded tier (the 'people's pension') comprises an income-tested basic pension available to those above the age of 65; an income-tested pension supplement available to those resident in Denmark for 40 years (and available on a pro-rata basis for others with a minimum of three years' residence); and a further, means-tested, supplementary pension available annually to the poorest beneficiaries (OECD, 2007). The second tier is based on contributions – full entitlement requires a full contributions career – and it comprises the labour market supplementary pension (ATP, *Arbejdmarkedets Tillægspension*) and the special pension (SP) (OECD). The ATP is funded based on a worker's monthly hours, with the individual contributing one third, and the employer contributing the rest, and is paid out as an annuity from age 67 (OECD; Anderson, 2004). The SP, a compulsory individual retirement scheme for employees, the self-employed, and unemployment and sickness beneficiaries, was being contributed to by workers at a rate of one percent of earnings, but had contributions temporarily suspended in 2004-9 as part of an economic policy to boost consumption and employment (OECD). The third tier, comprising semi-mandatory, but formally private, occupational pensions schemes negotiated through collective employment agreements, applies to around 90 percent of fulltime Danish employees (Goul Andersen and Castensen, 2009; OECD). These pensions are fully funded defined-contributions schemes (contribution rates are agreed between the employees and employers, and are usually between 9 and 17 percent of earnings)³¹, and the benefits are typically paid as an annuity, although many schemes also allow lump sum payments (OECD).³² The fourth tier comprises individual, voluntary, private pension savings accounts (Anderson, 2004).

Although there is only room in this paper to discuss one modern form of social insurance (old-age insurance, or pensions) across every country studied, Denmark's 'flexicurity' labour market policies provide an interesting example of a type of informal social capital insurance, and are therefore worth discussing briefly. Just as social development advocates promote the idea that economic growth and the welfare state do not have to be in conflict, flexicurity supporters argue that flexibility and security in employment need not be mutually exclusive. While employers benefit from being able to adapt quickly to economic changes by altering their employees' numbers, wages, roles, and/or working hours, employees may benefit from being able to adapt their work life to preferences such as balancing work with family commitments; similarly, while employees desire security in their job, employment, income, and work benefits (such as maternity leave), employers may also seek to retain loyal, well-qualified workers (Masden, 2008). Flexicurity (a term coined in the early 1990s by Denmark's Prime Minister Poul Nyrup Rasmussen, but invoking measures first used in Denmark in 1899) attempts to satisfy all these desires through a 'golden triangle' comprising a flexible labour market, a strong social security system, and an 'active' labour market policy with rights and obligations for the unemployed

³¹ When membership of occupational schemes first became widespread in the early 1990s, unions aimed to achieve contributions levels of nine percent (six percent from the employee and three percent from the employer). After this target was reached, it was raised to 10,8 percent in 2006, and by 2009 most agreements were expected to reach the target of 12 percent. Goul Andersen and Castensen (2009: 82) believe this target 'is probably enough to make labour market pensions the backbone of the future pension system', and point out that it is quite close to 'the 15-20 percent that is the standard for upper middle class groups'.

³² See Goul Andersen and Castensen (2009) for a slightly different arrangement of the tiers (or pillars). They place all the public pensions together in tier one, moving the occupational schemes into tier two and voluntary, private individual pensions into tier three.

(Commission of the European Communities, 2007). While Denmark has the highest labour market freedom in Europe, with little state regulation (for example there is no set minimum wage), unions (to which most workers belong) negotiate for individual salaries and holidays, provide insurance, and achieve solidaristic wages which mean unskilled workers receive relatively high pay; low job protection is accepted by the unions, because the state's constitutional duty to ensure its citizens have a home and enough to eat means there are generous unemployment benefits, as well as publicly provided health, education, child care and aged care services, which help traditionally excluded groups such as women into the workforce (Madsen, 2008). The low job protection means employers are more willing to hire workers in uncertain economic times, and active labour market policies (ALMPs) oblige the unemployed to look for work, to study towards a specific objective, or become a trainee in the public or private sectors. While this obligation may be seen as a sort of motivational threat to move people quickly off unemployment benefits, the ALMPs encourage unemployed people to build up their human capital by participating in education and job training programmes that give them employability security, improving their chances of getting a job (*ibid.*). The appeal of Denmark's model led to the inclusion of flexicurity policies in the European Employment Strategy in 2007 (Mayes and Mustaffa, 2010; Wilthagen, 2008), although different circumstances both in regard to economic and social conditions and societal norms and traditions in each member state mean the European Commission has designed varying 'flexicurity pathways' for them to reach more flexible labour market security (see Commission of the European Communities, 2007). The GFC has only furthered the EU's promotion of flexicurity as 'an important means to modernise and foster the adaptability of labour markets' (Council of the European Union, 2009: 10). Not all assessments of the impact of flexicurity are so positive. Gray (2004), for example, refers to the exposure of less skilled and experienced workers to 'flexploitation' by employers in deregulated or less regulated labour markets. Contemporaneous with globalisation, privatisation and labour market deregulation has been the adoption of workfarism in Europe which has resulted in a loss of access to unemployment benefits.

Sweden

Early social insurance developments in Sweden were very similar to those in Denmark. Like Denmark, Sweden established commissions and investigatory committees to report on various social insurance initiatives, and, as in Denmark, many of their early proposals did not get off the ground (Kuhnle, 1984). Sweden's first two social insurance laws mirrored Denmark's, with state subsidies of voluntary sickness funds being approved in 1891,³³ and an employers' liability act covering workplace accidents being passed in 1901 and made compulsory for employers in 1916 (*ibid.*). However, the 1913 Swedish old age pensions law 'went further than any existing national law in the world' – it employed the notion of universality (which had been first proposed in a 1889 draft of the law), and introduced 'people's pensions' whereby, with a few minor exceptions, all citizens regardless of class or income were guaranteed a minimum benefit (Baldwin, 1990: 83; Kuhnle, 1984: 129). As in Denmark, the universality of the Swedish pensions reflected farmers' desire to be included in a scheme which would otherwise have only benefited wage-earners, and the way it was funded (by both tax revenues and 'modest' premiums paid by individuals, but not by

³³ These were not particularly generous; in 1894 state finances only accounted for 3,2 percent of the benefits (Kuhnle, 1984).

employer contributions) ensured that 'workers did not profit while independents were saddled by double burdens' (Baldwin, 1990: 89-90).

The solidarity of Sweden's social policy grew after the Second World War. In 1946 universal, unconditional, uniform pensions were made available to all Swedes; reformers essentially 'severed all links between premiums and entitlement', allocating flat-rate pensions and leaving most of the scheme's expenses to be covered by taxes, but doubling the contributions due from the most affluent individuals (Baldwin, 1990: 135).³⁴ Universalism was furthered again in 1963 when superannuation (ATP, *Allmän tilläggspension*) was introduced for all earners not covered by occupational schemes (Nyqvist, 2011). While, in line with the occupational pensions, the superannuation scheme was more Bismarckian than the basic pension – it related earnings to benefits, and required substantial rather than nominal contributions from members – as in most postwar pension schemes, funding was through PAYG contributions rather than earmarked taxes, and the scheme therefore permitted redistribution between members (Anderson, 2004; Baldwin, 1990).³⁵

In the 1990s, in what may by now be seen as a familiar pattern, the Swedish pension system was placed under unprecedented financial pressure due to economic crisis, rising unemployment, and a rapidly increasing number of retirees (Anderson, 2004; Sjöberg, 2005). A reform process from 1991 to 1999 resulted in a number of changes (to be fully implemented by 2019), and today, Sweden's public pension system has three main parts: the guarantee pension, the income pension, and the premium pension (Anderson, 2004; Nyqvist, 2011). The guarantee pension provides a 'pension-tested' benefit roughly equivalent to the basic pension and pension supplement that it replaced, and is financed by general tax revenues (Anderson, 2004).³⁶ It is available from age 65, in full for people with 40 years' residency, or pro rata for people who have resided in Sweden for at least 3 years (OECD, 2009). The income pension, which replaces the ATP, provides benefits based on lifetime earnings, and is funded by compulsory, defined contributions from employees and employers (totalling 16 percent of pensionable income), which are paid into a notional account (Anderson, 2004; Nyqvist, 2011; OECD).³⁷ The pension can be received from age 61, and comes in the form of an annuity. The premium pension is a second mandatory, defined-contributions form of social insurance; it is funded by the (unguaranteed) returns earned on 2,5 percent of an individual's pensionable income, invested in up to five

³⁴ Means tests did remain for a pension supplement, to ensure subsistence for the most needy citizens (Baldwin, 1990).

³⁵ While extending wage-based pensions to earners without occupation-based schemes increased universality, the redistributive effect of Swedish superannuation seemed to contradict solidarity. Full pension eligibility was achieved after a mere 30 years of contributions, and was calculated based on the best 15 years of earnings, allowing redistribution from the wage-earners to the wealthier, more educated white-collar employees, who began working life later, and whose incomes increased sharply later in their careers (Baldwin, 1990).

³⁶ The guaranteed pension is tested against income from the other types of pension, to ensure protection for those without adequate pension income from other sources. See OECD (2009) for details on income thresholds and pension cut-off points.

³⁷ Strictly speaking, not every earner has to pay contributions – those earning below the threshold of around five percent of the average wage are exempt from pension premiums. Earnings above a ceiling of around 111 percent of the average wage are also not pensionable, although they are taxed at the same rate, with the money going into the central government budget. The notional accounts are also topped up by 'inheritance gains' – the contributions paid by people of the same age as the individual who die before they have used up their pensions (OECD, 2009).

different funds associated with the individual's account (Anderson, 2004; Nyqvist, 2011; OECD).³⁸ The returns may be paid out from age 61, either as an annuity or as returns from continued investment (a 'variable annuity') (OECD). The fact that individuals may choose at what age they retire, from the age of 61, with no upper limit is a novelty for the system, as is the fact that the pensions are based on the sum of the individual's entire employment history (Nyqvist). Further, to ensure the sustainability of the system, a balancing factor comes into play if the contributions to the pension system do not balance with the pensions, lowering the amount paid out until the books balance (Nyqvist, 2011; OECD). In addition to the public schemes, as in Denmark, occupational pensions (of which there are four main ones) cover around 90 percent of the earning population (OECD), and individuals are also able to save through various private means.

Anglo-Saxon social insurance

The Anglo-Saxon model of the welfare state employs rather different ideas from those in the Scandinavian and Continental models. While conservative elites in Germany and farmers in Denmark and Sweden were able to influence early social policy in their countries, in late 19th century Britain, liberal free-marketeters were in the ascendant. As noted earlier, the liberals believed in the power of individuals, through the market, to provide for themselves, and held that state intervention in this process should be limited. Typical features of Anglo-Saxon social policy therefore include 'means-tested assistance, modest universal transfers, or modest social insurance', and the state acts to encourage the market, either through only guaranteeing low-level benefits (and thereby discouraging people from opting for welfare rather than productive employment), or through actively subsidising private welfare schemes (Esping-Andersen, 1990: 26-27). The United Kingdom is not the clearest example of the Anglo-Saxon model, however; Esping-Andersen (1996) feels it is best represented by non-EU members Canada, the United States, and Australia – and in the discussion below of the case of the UK there will be examples of solidaristic and corporatist social policy, although the influence of liberalism remains salient throughout.

The UK

The influences on the UK's approach to social insurance have centred on liberal ideas of self-help, but Continental and Scandinavian ideas have also had an impact. The UK's initial policy on pensions, enacted in 1908, was like the Danish one – a non-contributory, flat-rate benefit available to all who were over 70 years old and destitute (Baldwin, 1990). Funding the benefits through general taxation appeased mutual 'friendly societies', whose private pension funds depended on employee contributions, and it also 'recognised the futility' pointed out by trade unionists of asking the poor to fund their own benefits (Baldwin, 1990: 100; Hennock, 1981). Similarly, while there was no political reason to limit the pensions to any particular class, their universality was limited to those deemed without means in order to save the cost of providing benefits to the affluent (Baldwin, 1990). The benefits' flat-rate nature saved on administrative complications and reflected a desire to aid the poor, though not to raise their living standards; liberal ideas about the value of self-help – and notions of less eligibility – restricted any notions of solidarity at this early stage.

³⁸ Approximately 800 different funds, comprising international and domestic shares and/or interest-bearing securities, are registered with the premium pension authority (PPM). If the individual does not select a fund their contribution is paid into a particular default global share fund (Nyqvist, 2011).

As Baldwin (1990) notes, with progressive taxation for the middle and upper class already utilised to aid the poor, any extension of social insurance would require financial input from the recipients; in 1911, therefore, the UK adopted a much more Continental social insurance system.³⁹ The National Insurance Act made membership of sickness and unemployment insurance schemes compulsory for manual workers (Hennock, 1981).⁴⁰ As in Germany, workers and employers paid contributions into the schemes, but unlike in Germany, both the premiums and benefits were uniform,⁴¹ reflecting the same liberal notions of self-help that had shaped the UK's pension policy.⁴²

In 1942, the UK's social policy shifted focus again, with the release of the Beveridge Report. Promoting socialist ideas of universalism and state support for British citizens, the report led in 1946 to a comprehensive social insurance programme covering for all insured citizens the risks of old age, sickness, disability unemployment, and widowhood (Baldwin, 1990; Hill, 1993; Whitehouse, 1998). Yet while the rhetoric surrounding Beveridge's reform emphasised solidarity, and corollaries associated with the scheme (achieving 'full' employment,⁴³ family allowances, and a national health service) were quite revolutionary goals, the 1946 scheme may in some ways be seen as a universalist extension of the 1911 law (Baldwin, 1990; Hill, 1993; Ogus, 1982). In line with the UK's liberal notions of self-help, benefits and PAYG contributions remained flat-rate;⁴⁴ with redistribution so limited, the main beneficiaries of the scheme were the previously excluded middle classes (Baldwin, 1990; Hill, 1993; Ogus, 1982). The flat-rate nature of the benefits provided an inadequate standard of living for the elderly, however, and successive UK governments in the 1950s, 60s and 70s worked towards contributions-based superannuation that improved the pensions available for the poor without interfering too heavily with the incomes of the more wealthy (Baldwin, 1990). By 1975 the system provided flat-rate minimum pensions, above which earnings-related pensions applied until they tapered off at an income ceiling that encouraged white-collar and skilled workers to contract out to occupational schemes (Baldwin, 1990; Disney and Emmerson, 2004). These schemes had become popular in the intervening years, and they wielded enough political power to gain certain advantages over the state system; as long as the schemes promised to pay a guaranteed minimum pension (GMP), employees and employers could pay reduced contributions, and when the employee reached retirement age, the GMP could be topped up to the level of the applicable statutory benefit (Whitehouse, 1998). Although the ability of some workers to contract out introduced redistribution reductions caused by adverse selection (Disney and Emmerson, 2004), the 1975 scheme was nevertheless much more redistributive than the 1946 one. The state provided an 18 percent subsidy on contributions (which were

³⁹ See Hennock (1981) for a more in-depth examination of the political background behind the decision to extend The United Kingdom's social insurance based on Germany's example.

⁴⁰ Pensions were included in the sickness scheme from 1925 (Ogus, 1982).

⁴¹ The only distinction in premiums was that men paid 4d while women paid 3d (Hennock, 1981).

⁴² Hennock (1981) does quote the main driver of the scheme, David Lloyd George, as explaining that the pensions were kept flat to enable the poorest workers to receive a more substantial benefit than their counterparts in Germany.

⁴³ Beveridge aimed at 93.5 percent (Hill, 1993).

⁴⁴ Contributions were from both employees and employers, and were uniform within the various occupational groups. The state contributed 1/6 of all benefits (except the unemployment benefit, to which it contributed 1/3), as well as 'the lion's share' of the NHS and the full cost of the family allowances (Baldwin, 1990: 117; Hill, 1993).

higher for employers than employees), and benefits were calculated based on the best years of an individual's earnings career (Baldwin, 1990).

The pressures of an ageing population and economic troubles have affected the UK as they have the other countries under study, with similar impacts on social insurance. The election in 1979 of Margaret Thatcher's Conservative government brought about a 'rolling back' of the state's involvement in economic and social policy, and pension reforms in the 1980s and early 1990s downgraded the statutory PAYG scheme's entitlements and encouraged greater private provision, including through individual retirement accounts ('personal pensions') introduced in 1988 (Whitehouse, 1998; Disney and Emmerson, 2004). Despite subsequent increases in the generosity of the two-tiered public system by the Labour government, a focus on the fiscal sustainability of pensions has meant that private provision remains important; overall coverage of voluntary private pensions (including both occupational schemes and personal pensions) was 59 percent in 2007 (Disney and Emmerson, 2004; OECD, 2009). Indeed, in 2006 a new system of 'personal accounts' was established to increase private saving for retirement. From 2012, this defined contributions scheme, which operates along lines similar to New Zealand's Kiwisaver scheme, will automatically apply to all workers not already belonging to a superior occupational scheme, as well as to the self-employed and other independents who choose to opt in (BBC News, 2006; OECD).⁴⁵ Individual contributions will amount to four percent of earnings, with an extra three percent paid in by employers, and one percent by the government in the form of tax relief (BBC News, 2006).⁴⁶ In addition to encouraging more people to save privately for their retirement, the state is also set to raise the age at which individuals become eligible for the state schemes; starting in 2010, the pension age will be equalised for men and women at 65 by 2020, then raised to 66 between 2024 and 2028, 67 between 2034 and 2036, and 68 between 2044 and 2046 (OECD).

However, as noted above, the two-tier scheme of basic flat-rate and means-tested earnings-related pensions has been made more generous since the Thatcher years. In 2002, the earnings-related pension was renamed the State Second Pension (S2P) and made explicitly redistributive, with a focus on providing poorer earners with greater benefits;⁴⁷ and from 2010, the number of contribution years required in order to receive the full basic pension will be reduced to 30 (Disney and Emmerson, 2004; OECD). In addition, all pensioners are guaranteed an income above a certain level by a two-part, tax-free, weekly Pension Credit established in 2003 (OECD). The first part of the Pension Credit, the Guarantee Credit, provides financial help to people above the age of 60 whose incomes would otherwise be below a certain minimum,⁴⁸ and is not based on any contributions history. The second part, the Savings Credit, provides people over 65 whose income (excluding Guarantee Credit income) is below the Guarantee Credit minimum, but above the Savings Credit threshold,⁴⁹ with 60 percent

⁴⁵ Automatic enrolment applies to workers between the age of 22 and the state pension age.

⁴⁶ Only annual income between £5,000 and £33,500 will have contributions compulsorily deducted from it, and there will be an annual ceiling of £5,000 for total contributions (BBC News, 2006).

⁴⁷ Those earning below a certain threshold were to receive pensions at 40 percent of that income level, while wealthier earners received only 10 percent of their income (Disney and Emmerson, 2004).

⁴⁸ In 2006-7 the standard minimum guarantee amount was £114,05 for individuals and £174,05 for couples, with higher amounts for people with severe disabilities, certain housing costs, or caring responsibilities (OECD, 2009).

⁴⁹ In 2006-7 the threshold was £84,25 for individuals and £134,75 for couples (OECD, 2009).

of the difference between their income and the threshold, as an incentive for poorer pensioners to save (Disney and Emmerson, 2004; OECD).⁵⁰

Conclusion

In the 21st century, the welfare states of the EU face a number of challenges. Top-heavy demographic profiles, emerging new challenges associated with climate change and peak oil, and the recent financial crisis threaten the feasibility of state-heavy welfare provision, while if anything making more salient the need for individuals to be protected from adverse events. As our outline of social protection systems has shown, social insurance has the potential to serve as a 'happy medium' that balances the stresses on the productive sector that full state provision can induce against the need for all people to be protected from social risks. It can provide incentives for people to contribute to economic growth (which may in turn strengthen the economy against some adverse social events), and with state subsidies in the insurance system can allow for redistribution between people with different risk profiles, and at the very least ensure that people's basic needs are met if they become unemployed, injured at work, too old to work, and so on.

Since there are many variables involved in social insurance schemes, there is wide scope for variation in the degree to which a social insurance system swings towards solidarity or self-provision. Earlier in the paper we outlined major trends in political and public attitudes towards state welfare provision. These have had varying impacts in the countries surveyed here. Yet while the popularity and practice of social insurance in the EU has been shaped overall by a number of ideologies and challenges since the late 19th century, the form and nuances of each system are clearly shaped by different historical events and developments and cultural attitudes and practices. Detailed discussion of the particular historical events and developments is beyond the scope of this paper but can be found in country-specific and cross national studies (see, for example, Ambler, 1991; Ashford, 1991; Clasen, 2005; Dutton, 2002; Gueldry, 2001).

In each of the five EU member states surveyed here, the mechanisms of social insurance have changed over time, while retaining features that hark back to the country's Continental, Scandinavian, or Anglo-Saxon background. Overall, we have seen that while early notions of 'harnessing' capitalism later gave way to more solidaristic ideas in Sweden, Denmark and the United Kingdom (and in Germany and France, although their stronger formulae there led to their defeat), in more recent decades economic and demographic challenges have been gathered up by and linked to the growth of neoliberal ideas. Although different states have reacted to these pressures differently, with the Anglo-Saxon UK much more interested than the Scandinavian states in 'rolling back' state expenditure on social welfare, all the states studied here have reformed their welfare systems in recent years. As we see in the table below, on the face of it, the EU states' pension systems are now remarkably similar. Most of them feature some form of state-funded basic subsistence income, as well as the option for private, contributions-based personal savings accounts (PSAs).

⁵⁰ The weekly Savings Credit is limited to £17,88 for individuals or £23,58 for couples. It is available to people whose income is greater than the Guarantee Credit minimum, but the maximum available to them is reduced by 40 percent of their income above the Guarantee Credit minimum (OECD, 2009).

In between these options, social insurance schemes play an important role in protecting people from the effects of being unable to work in old age. Contributions-based public pension schemes remain a dominant form of pension insurance, although the degree to which the state and/or employers fund the scheme varies between countries, and in the UK in particular redistribution is limited due to the option for more wealthy people to opt into a superior occupational scheme. Occupational schemes are compulsory in Germany and France, and voluntary elsewhere, and statutory PSAs, are in place in Sweden and the UK.

The variations in the practice of social insurance will produce different outcomes for the different countries surveyed here. Without space to examine the differences in their poverty rates for elderly people, much less the issues around other aspects of welfare state restructuring such as child poverty, we cannot fully assess what the outcomes will be. However, our analysis indicates that an insurance approach allows an appropriate balance between between collective goals of inclusion, solidarity and efficiency on the one hand, and individual responsibility, choice and effort on the other. Hence it is possible to pursue sustainable economic development and accommodate changing ideas about social protection whilst enabling individuals and households to survive adverse personal and social events, and states to have some resilience in the face of changing circumstances.

Table 1: Comparison of the pension systems in Germany, France, Denmark, Sweden and Britain.

Regime	Continental		Scandinavian		Anglo-Saxon
	Germany	France	Denmark	Sweden	Britain
Pension scheme pillars	State-funded, means-tested basic income		State-funded, means-tested people's pension (basic income, pension supplement, supplementary pension)	State-funded, means-tested basic guarantee pension	State-funded, means-tested pension credit (guarantee credit, savings credit)
	PAYG public scheme	PAYG public scheme	Contributions-based supplementary pension and special pension	PAYG public scheme (if not in occupational schemes)	PAYG public scheme (basic flat-rate pension, means-tested earnings-related pension) (can opt into occupational schemes)
				Compulsory private defined-contributions PSAs	Voluntary private but partly subsidised defined-contributions PSAs
	Occupational pension funds	Occupational pension funds	Occupational pension funds	Occupational pension funds	Occupational pension funds
	Private PSAs	Private PSAs	Private PSAs	Private PSAs	Private PSAs

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