

THE GENEROSITY OF SOCIAL INSURANCE, 1971–2002

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International comparisons of national social policy rely overwhelmingly on programme spending ratios. However, there are widespread problems with this type of data as an indicator of trends in societies' commitments to social protection. This paper suggests an alternative approach to understanding social commitments and introduces a new international data set of social insurance programmes that is comprised of important characteristics of three types of public insurance: unemployment, sick pay, and public pensions. The data are available annually from the 1970s for 18 OECD countries. Looking more closely at trends in two programme characteristics, income replacement rates and programme coverage, we develop an indicator of expected benefits. According to this indicator, there is considerably more evidence of welfare state retrenchment in recent years than most analyses of public spending have suggested.

I. INTRODUCTION

Has the welfare state become less generous in recent years? Based on analyses of welfare programme spending, there is not a lot of evidence that it has (van Kersbergen, 2000; Lindert, 2004). This has led many to conclude that talk of welfare state 'retrenchment' begins from a faulty premise. Yet, when pressed, most experts acknowledge that spending is not necessarily a good measure of the scope and impact of the welfare state. As Peter Lindert

(2004) points out in his two-volume history of social spending in the OECD countries, the behavioural (dis)incentives that are popularly associated with high government spending vary considerably across countries. By some conventional analyses, all of Scandinavia should have long ago collapsed under the weight of its public spending. Yet in 2005, three of the four most competitive economies in the world, according to the *Global Competitiveness Index*, were in Scandinavia; the United States is the other one (Lopez-Claros *et al.*, 2005).

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Why should we expect spending to be a reasonable gauge of welfare reform or retrenchment? When it comes to evaluating welfare reform, focusing on spending often obscures as much as it reveals. Most contemporary criticism of the welfare state centres on the incentives created by welfare programmes, not necessarily on the current size of the social budget. Perhaps the main reason why spending is commonly used to assess welfare policy among countries is that there are few other adequate sources of cross-national data. A major purpose of this article is to introduce an alternative set of indicators of welfare effort in the OECD. These data, which focus on the generosity of social insurance programme commitments, suggest that there has been considerable welfare retrenchment since the mid-1980s. Moreover, by providing more detailed information about the specific features of welfare state programmes, the approach introduced here may facilitate analyses of social programme dynamics.

The rest of the paper is divided into four sections. Section II outlines a commitment-based or ‘social rights’ approach to welfare programmes which is prevalent in sociology and political science, but less well known in economics. It defines what I mean by generosity, while describing some of the specific shortcomings of social spending as an indicator of welfare retrenchment and reform. Section III presents several indicators of the generosity of social insurance programmes from 1971 to 2002 for 18 industrial democracies. Section IV combines these indicators into a single generosity index, and briefly analyses trends over time. The results suggest that, contrary to analyses of trends in social spending, welfare states have seen widespread retrenchment since the mid-1980s. That retrenchment, moreover, has been greater in the most generous welfare states, suggesting some limited downward convergence in recent decades. However, these trends do not suggest a ‘race to the bottom’. Section V concludes, discussing some possible directions for future research to expand the available comparative data on welfare state institutions.

II. WELFARE STATE SPENDING AND WELFARE STATE GENEROSITY

Historically, researchers examining the causes and consequences of welfare state programmes have

used various measures of social spending as the dependent variable. This practice also characterizes contemporary literature on welfare retrenchment (Pierson, 1996; Garrett and Mitchell, 2001; Huber and Stephens, 2001; Swank, 2002; Castles, 2004). Peter Lindert illustrates the tendency to link a high spending ratio with resilient welfare state programmes and institutions:

For all the pronouncements to the contrary, there has been no ‘crisis’ or ‘demise’ of the welfare state since that dawn of the Reagan–Thatcher era. In fact, there has not even been a ‘rollback’ or ‘retreat’ or ‘retrenchment’ or ‘scaling back’, except in a few categories in a few countries. Since 1980, out of the twenty-one leading OECD countries, only three have cut the share of GDP spent on public pensions, only four have cut the share spent on welfare, and only three have cut the share spent on unemployment. Overall, only two have cut the shares spent on social transfers. (Lindert, 2004, pp. 306–7)

Despite the widespread tendency to equate social spending with welfare state commitments in the empirical literature, there is plenty of evidence that spending is not necessarily a good indicator of welfare state resiliency. It is not even clear that the conflict over ‘the welfare state’ is about spending. The creation of welfare state institutions was rarely motivated by a desire for government spending for its own sake. Fundamentally, *welfare programmes constitute rules establishing and governing general entitlements to public benefits*. This conception of welfare, which might be thought of as a ‘rights-based’ view, focuses on conditions for people to make these claims. The rules can be set to emphasize different objectives: insurance against risks, promoting economic growth, redistribution, poverty relief. Changes in the rules have an impact on the achievement of these broader goals, and will, to varying degrees, alter individual expectations and hence the ‘character’ of the welfare state. Such changes can also have an impact on the distribution of resources in society. This type of rights-based conception is promoted by sociologists such as Korpi (1989) and Esping-Andersen (1990), and is also embraced more broadly in sociology and political science (Hicks, 1999; Kitschelt, 2001; Castles, 2002; Green-Pedersen and Haverland, 2002).

In this perspective, ‘retrenchment’ or ‘roll back’ is properly conceived as a reduction in the expected generosity of welfare benefits for

individuals, not (necessarily) as a reduction in aggregate spending (Korpi and Palme, 2003; Allan and Scruggs, 2004). What constitutes generosity is multidimensional. Generosity can entail: (a) the level of a benefit (in absolute or relative terms), (b) the duration for which one can receive the benefit, (c) the conditions necessary to qualify for the benefit, including conditions for continuing to receive a benefit (e.g. a job search requirement for unemployment insurance), or (d) simply access to the benefits defined in (a)–(c). A retrenchment in expected benefits can be viewed as a withdrawal of social rights.

A rights or entitlement approach to the welfare state makes apparent the fact that social policies do affect people's incentive structures. While this is not a controversial statement, focusing on incentive structures requires empirical researchers to confront the incentives created by institutions, and to look beyond social budgets. Welfare state programmes do not only benefit those currently receiving social payments. (Most people with unemployment or health insurance are not unemployed or sick.) Changing the rules governing social insurance alters expectations about benefits for everyone covered.

Viewing welfare programmes as defining certain social rights reveals that many criticisms of welfare state spending are fundamentally criticisms about the incentive effects of (existing) rules. Programmes such as health insurance, unemployment insurance, or pensions are usually criticized for being 'too generous', 'too easy to exploit', or 'too inefficient'. Indeed, many criticisms of welfare programmes increasingly point to negative effects on recipients (social exclusion, atrophy of skills) not just costs to tax-payers or forgone economic growth.

Of course, welfare state commitments have benefits and costs. Insurance provides opportunities that improve the efficiency of labour markets. Generous social insurance can improve the allocation of labour by facilitating good matching of jobs and skills, or by encouraging labour-force participation (Barr, 2001). Some aspects of generous benefit rights have been suggested to provide incentives to invest in certain types of human capital (Iversen and

Soskice, 2001). On the other hand, a long duration of unemployment benefits tends to increase the length of unemployment spells, and basing retirement pensions on only a few, high-earning years creates some perverse earning incentives.

One argument often made by proponents of a 'social rights' perspective on the welfare state is that the conditions governing social insurance (not unlike those with access to private insurance) are important beyond their budgetary effects because they affect the distribution of life chances, and shape the balance of power between social groups in politics. Unemployment and public pension benefits undoubtedly facilitate the bargaining power of many employees *vis-à-vis* their employers. In Walter Korpi's (1983) work on power resources, for example, social welfare rights are a resource promoting some distributive interests over others. The distributive implications of welfare policies are hard to evaluate directly from aggregate spending. Underlying a constant level of spending, for example, may be changes in the rules that fundamentally alter individual or group bargaining power.

In order to bring into sharper relief how alternative indicators of welfare benefits can shed new light on welfare state reform, it is important to consider some of the specific problems with conventional approaches that use spending data as the main proxy. This discussion is not meant to suggest that spending never matters. It is meant to illustrate why we need something more to evaluate welfare state development and change.

There are three major shortcomings of spending data. First, spending ratios do not really address the size or changes in the dependent population. Imagine a country with the same (constant) ratio of transfer spending to GDP. In the first period, 18 per cent of the total population lives in a household without work. In the second period, that rate is 21 per cent. (Those figures are in line with what OECD countries have experienced in the last 30 years.) Does this constitute retrenchment in welfare state programmes? While the spending ratio has not changed, the *generosity* of benefits to individual recipients would almost certainly be judged to have gone down.²

² Lindert (2004, pp. 193–209) finds that an aging population is associated with declining pension benefits per pensioner. Though he even refers to this as a reduction in benefit generosity, why this should not be interpreted as retrenchment is unclear.

A classic illustration of this problem occurs in the UK during the period from 1979 to 1997. While total benefit *spending* grew from 9 per cent to 11.9 per cent of GDP, dependency grew faster (Institute for Fiscal Studies, 2006). The percentage of unemployed in the labour force increased by over 40 per cent (from 5.5 to 7.1 per cent), and the number of old-age pensioners in the population increased by over 15 per cent (from 16 to 19 per cent). However, the after-tax income replacement rate for pensioners and unemployment benefit recipients fell dramatically. This period saw the elimination of earnings-related unemployment and sickness benefits, reduction in the old-age pension replacement rate (pension benefit divided by net wages), scaling back of the earnings-related old-age pension, and increased prevalence of means-tested benefits. Thus, while spending increased, the level and terms of access to benefits for individuals declined quite substantially.

A second problem with spending ratio data is that one cannot separate social spending trends and economic growth trends. A relative increase (decrease) in the spending ratio may be due to faster (slower) spending growth or slower (faster) economic growth. Differences in cross-national growth rates can distort cross-national comparisons of social spending. For instance, though the social spending share of GDP fell considerably in Ireland and rose considerably in the UK between 1980 and 2001, real social spending in Ireland grew much faster in the period, despite falling benefit dependency rates. The Irish welfare state probably became more generous in this period (and the data presented later provide some support for that claim), while it would be hard to make that claim about the UK.

A third problem with spending ratios is that the tax treatment of transfers varies across countries and time. Social expenditures have been increasingly subject to tax, especially in the ‘high tax, high benefit’ countries. An OECD analysis by Adema and Ladaïque (2005) found that Sweden, for example, taxes back almost 20 per cent of its reported social expenditure, while the United States taxes back around 6 per cent. While these differences do

not eliminate the gap between high- and low-spending countries, they do reveal that increases in spending may not indicate any increased benefit generosity within groups of high or low spenders.

III. MEASURING WELFARE GENEROSITY

In this section, I discuss the main empirical contribution of the paper: time series data on the generosity of social policy benefits in 18 OECD countries between 1971 and 2002. The data come from the Comparative Welfare Entitlements Dataset (CWED), and are based on a comprehensive analysis of international and national sources. Data are presented for each of three major social transfer programmes: unemployment insurance, sickness cash benefits (not health-care benefits), and public pensions. This paper isolates two of the most important social insurance programme characteristics: replacement rates and coverage ratios.³

(i) Income Replacement Rates

For individuals, one of the most important indicators of the generosity of welfare programmes is the *net income replacement rate*, or the portion of income in work that is replaced by social welfare benefits. CWED defines replacement rates as

$$\frac{(\text{cash benefits} - \text{income taxes})_{\text{out of work}}}{(\text{wages} - \text{income taxes})_{\text{in work}}}$$

Income taxes include net social charges: compulsory contributions to social insurance programmes less cash transfers. The calculations assume a worker, aged 40, who earns the average production worker (APW) wage in the year in question and is fully insured. (Calculations for pensions are slightly different.) The importance of taking taxes into consideration cannot be overemphasized. As suggested earlier, different tax incidence and marginal tax rates across countries (and time) have important consequences in comparative analysis. CWED compiles benefit net replacement rates for two types of households: a single worker and a single-earner family. The latter is defined as a household with a

³ The CWED data set contains additional information for calculating benefits, as well as additional features of these social benefit programmes, such as the duration of benefits and number of waiting days before receiving benefits.

dependent spouse and two children. Family benefits include applicable supplements or means-tested cash benefits for family members.

The rest of this section discusses trends in replacement rates for the four individual social insurance programmes: unemployment, sickness, social pensions, and standard pensions. Table 1 provides replacement rates for endpoints (1971 and 2002) and the mid-point (1986) of the series. For ease of presentation, countries are grouped in the table by welfare regime: liberal, social democratic, and conservative (Esping-Andersen, 1990).⁴ Subsequent line charts plot trends in the mean value for each regime type over time.

Liberal welfare states are characterized by an emphasis on market outcomes with limited social rights. Countries that are commonly classified as liberal are the Anglo-Saxon countries (Australia, Canada, Ireland, New Zealand, United Kingdom, and United States). Switzerland and Japan are also included in the liberal category. Switzerland is commonly regarded as a liberal welfare regime, though it also relies on some social insurance arrangements that are characteristic of conservative welfare states. Japan is classified as liberal because it does not have an extensive and ‘status preserving’ state welfare system and it emphasizes private social provision via firms (not unlike the USA’s employer-based health insurance system, sick-leave, and pensions). While the level of benefits in liberal regimes is expected to be low, coverage may be high. One would expect liberal countries to have low benefit generosity.

Social democratic welfare states are characterized by a commitment to generous social insurance policies that are universally available to all. In social democratic countries, the welfare state is considered to be a legitimate provider of income for people, and so there is less stigma associated with the receipt of benefits. Benefit replacement rates are expected to be high, there are few means-testing provisions, and many benefits are based on citizenship. The social democratic regime is certainly comprised of the Nordic countries. Many scholars

also place the Netherlands in this category, as I do here.

Conservative welfare states are characterized by the use of earning-related social insurance programmes that preserve social status. Unlike the social democratic regimes, there is limited intent to ‘level’ via state policy. Instead, social insurance benefits are linked to labour-market positions in work. For instance, the generosity of labour-market benefits often increases with age and the length of insurance coverage. Unlike liberal welfare states, social welfare spending here is not limited, but extensive and generous, particularly for those with regular labour-force attachment. Conservative welfare states were also traditionally characterized by state-sanctioned programme segmentation: workers belonged to occupationally organized pension and sickness funds, where the terms for benefits varied between funds, and more generous terms went to higher status groups. (This is less true today.) More broadly, conservative welfare states have policies that preserve traditional family roles by, for example, discouraging female labour-force participation via high marginal taxes on second incomes, or providing generous cash and tax benefits for families with children. Conservative welfare policy is commonly associated with the dominance of centrist Christian Democratic political parties. Countries whose welfare regimes are typically designated conservative are Austria, Belgium, France, Germany, and Italy.

Unemployment replacement rates

Figure 1 shows the development of replacement rates for unemployment benefits in each welfare state regime. As the figure suggests, replacement rates in the social democratic countries were, through the early 1990s, higher than replacement rates in the other two regimes. Those in conservative countries appear to be very low, which would be uncharacteristic given the previous description of the conservative regime. However, this poor performance is somewhat deceptive. It is driven by Italy’s extremely low unemployment insurance replacement rate. If Italy is excluded, the other four conservative

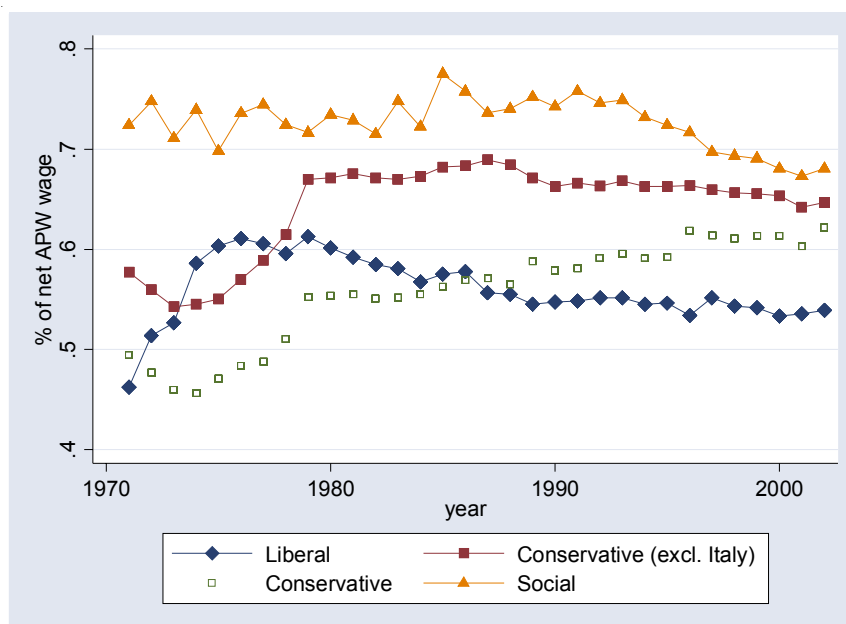
⁴ Some scholars base their groupings on historical or cultural factors; others emphasize common political or structural causes (e.g. Castles, 1998; Huber and Stephens, 2001; Pontusson, 2006). Our own research results with CWED data raise questions about conventional assumptions regarding the coherence of these regimes. Thus, one should think of this typology primarily as organizational (Arts and Gellisen, 2002).

Table 1
Social Insurance Income Replacement Rates

	Unemployment insurance			Sick-pay insurance			Old-age pension (minimum)			Old-age pension (standard)		
	1971	1986	2002	1971	1986	2002	1971	1986	2002	1971	1986	2002
Australia	31	45	48	31	46	48	32	39	39	32	39	39
Canada	38	68	68	0	68	68	39	49	49	44	60	61
Ireland	36	58	44	36	58	44	21	42	40	33	53	46
Japan	69	56	61	48	52	59	9	29	32	18	66	60
New Zealand	40	56	42	40	60	42	34	56	49	56	49	27
Switzerland	32	78	77	81	81	79	21	29	31	27	46	48
United Kingdom	64	35	37	63	35	24	31	36	37	31	51	57
United States	63	67	57	0	0	0	0	42	39	51	52	71
mean	46	58	54	37	50	46	23	40	40	37	52	51
sd	15.8	13.6	14.0	28.1	24.5	25.0	13.4	9.3	6.7	12.8	8.2	14.0
COV ^a	0.34	0.24	0.26	0.75	0.49	0.55	0.57	0.23	0.17	0.35	0.16	0.27
Austria	57	65	61	81	80	82	49	47	53	80	75	76
Belgium	58	68	63	66	90	86	17	38	38	77	83	72
France	46	74	70	60	64	62	30	58	54	41	63	55
Germany	71	67	66	100	100	93	24	23	20	68	72	62
Italy	17	11	52	77	83	81	18	38	40	67	76	86
mean	50	57	62	77	83	81	28	41	41	67	74	70
sd	20.4	25.8	6.6	15.4	13.3	11.5	13.0	12.9	13.8	15.4	7.3	12.1
COV ^a	0.41	0.45	0.11	0.20	0.16	0.14	0.47	0.32	0.34	0.23	0.10	0.17
mean (excl. Italy)	58	68	65									
sd	20.5	24.5	31.4									
Denmark	89	79	63	70	78	63	50	58	51	55	61	58
Finland	44	68	62	75	89	73	40	54	39	41	66	63
Netherlands	91	78	73	91	78	73	46	55	52	46	55	52
Norway	60	71	69	60	100	100	45	51	55	46	61	63
Sweden	79	84	76	84	94	83	40	55	38	56	75	59
mean	72	76	68	76	88	78	44	55	47	49	64	59
sd	19.9	6.5	6.0	12.1	9.8	14.0	4.3	2.5	7.9	6.5	7.5	4.5
COV ^a	0.28	0.09	0.09	0.16	0.11	0.18	0.10	0.05	0.17	0.13	0.12	0.08

Notes: ^a Coefficient of variation. Unemployment and sickness benefit figures are the average ratio of post-tax benefits to post-tax income of the typical insured worker in two household types, single and single-earner family with two children in the first 6 months of coverage. Minimum old-age pension replacement rate figures are the average ratio of net benefits to net income of the typical worker for a single pensioner and a couple with no earnings history. Standard old-age pension rate figures assume a single person and single-earner couple with typical earnings throughout the working life.

Figure 1
Unemployment Replacement Rate Trends, by Type of Welfare State Regime



welfare states have an average replacement rate that is between the liberal and social democratic countries.⁵

Since the early 1980s, there have been tangible signs of replacement rate retrenchment in all three types of welfare states. After rising rapidly in the early 1970s—owing to increased generosity in Canada, Ireland, and Switzerland—liberal countries began cutting unemployment replacement rates first. The largest declines were in Ireland and the UK, but benefits were also reduced in Japan, New Zealand, and the United States. Overall, the replacement rate fell from a peak of 61 per cent to 54 per cent in 2002. In the social democratic countries, replacement rates start falling in the mid-1980s, with larger cuts coming in the 1990s. The average was 8 points lower in 2002 than at its peak in the mid-1980s. Replacement rates in the Netherlands and Denmark are, moreover, on a longer downward trend that started in the mid-1970s. Only Norway and Finland escaped large cuts in replacement rates, but

both have traditionally had the lowest replacement rate levels in this regime.

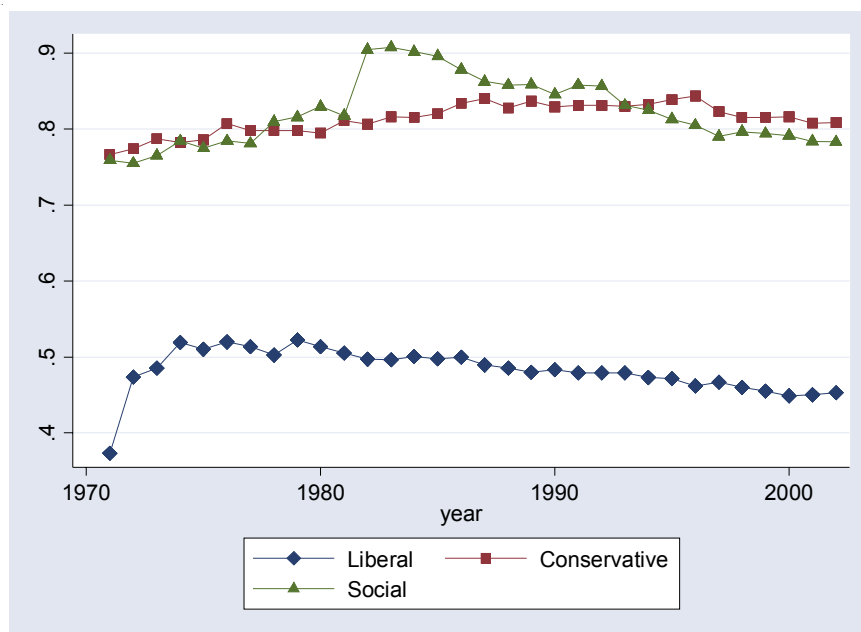
In the conservative welfare states, retrenchment appears least marked, even with Italy excluded. The average APW replacement rate is 4–5 percentage points below its peak in the mid-1980s. Once again, however, the average effect obscures reality somewhat. The cuts in replacement rates in Austria and France have been minimal, while those in Belgium and Germany have been large: nearly 10 percentage points.

Sick-pay replacement rates

Figure 2 shows trends in sick-pay replacement rates. Replacement rates are high in both conservative and social democratic regimes throughout the period, though the conservative regime average is slightly higher in 2002. Replacement rates in the liberal countries are considerably lower. This reflects, in part, the fact that the USA has no national programme. However, the main difference is the

⁵ Through at least the 1980s, the Italian welfare state did have a more generous unemployment benefit with an 80 per cent (gross) replacement rate. However, the scope of this benefit is very ambiguous. It was apparently available only for lay-offs by large employers in certain sectors and under particular circumstances, and statistics on its extent are not available. (It was also slowly phased out in the 1990s.) While this type of ‘discriminatory’ treatment is characteristic of a conservative welfare regime, all other programmes analysed in the study were general in scope (i.e. the same rules applied to all), so we also used the general scheme for Italy.

Figure 2
Sickness Replacement Rate Trends, by Type of Welfare State Regime



fact that sickness insurance and unemployment insurance benefits are identical in most liberal countries. In the other countries, and especially within the conservative regime, sick-pay replacement rates are higher than unemployment replacement rates. Whether that difference reflects any social distinction between those temporarily *unable to work* and those *unable to find work* is not clear, but it is tempting to claim that this difference is explained by shared beliefs about differences in the moral hazard associated with unemployment and illness. The problem with that account, however, is that it fails to explain the absence of such differentials in liberal and social democratic regimes.

The social democracies show some increase in replacement rates through the mid-1980s (largely owing to Norway and Finland’s adoption of more generous sickness-benefit schemes). After that, there is considerable retrenchment, even more than the decline in unemployment replacement rates. Again, the only exception is Norway. The trend for the liberal countries is more or less identical to the trend for unemployment replacement rates. This is because sickness and unemployment benefit programmes are closely integrated. In the conservative regime, there is only minimal evidence of retrenchment. Benefits in these countries fell somewhat in the 1990s (except for Italy), but, compared with the

liberal and social democratic countries, the changes were very small indeed.

Social pension replacement rates

A social pension is defined as the pension benefit at retirement age for a person (or a couple) without a work history. It is notable that in few countries does the minimum pension exceed 50 per cent of the APW net income. Figure 3 shows trends in the average replacement rates for social pensions by regime type. Social democratic regimes generally provide more generous social pension replacement rates. Again, however, the replacement rate of those benefits has fallen considerably since the late 1980s in all of these countries except Norway. By 2002, the Canadian and New Zealand social pensions were as generous as those in four of five social democratic countries. Both conservative and liberal countries, on average, saw benefits rise sharply in the 1970s before levelling off in the 1980s. Since then, there is some evidence of retrenchment in the liberal countries, but none in the conservative ones.

Standard pension replacement rates

The last set of replacement rates is for standard public pensions. The pension amounts are based on the rules governing the treatment of past wages, accrual rates, and calculation formulae. Since a pension entitlement can vary considerably, based on

Figure 3
Social Pension Replacement Rate Trends, by Type of Welfare State Regime

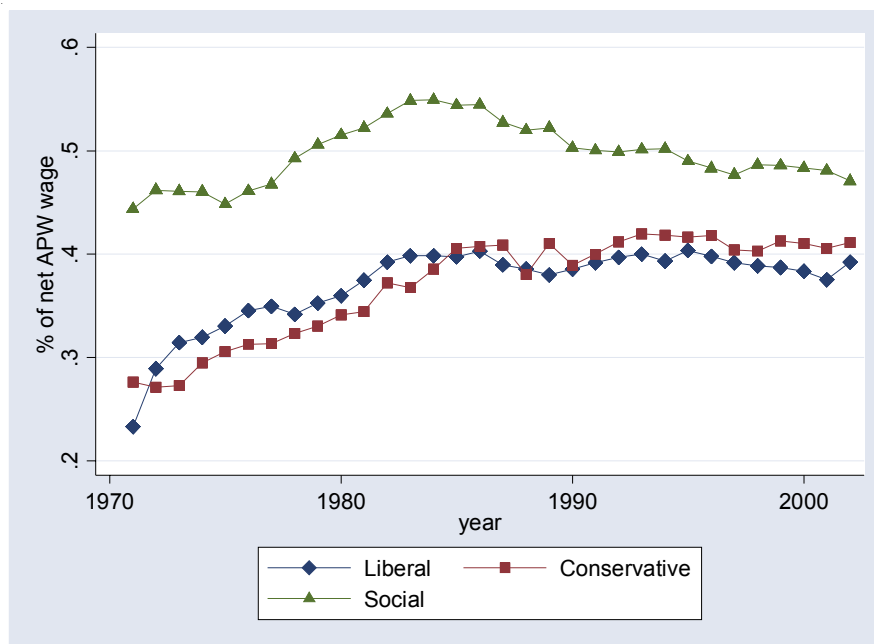
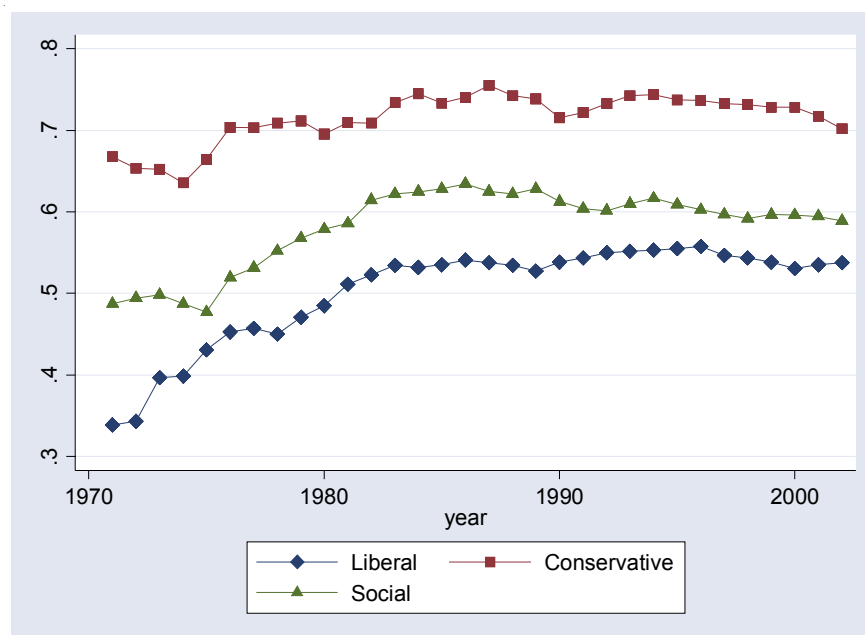


Figure 4
Standard Pension Replacement Rate Trends, by Type of Welfare State Regime



individual work and wage history, several assumptions were used in calculating the replacement rate. A common assumption in the calculations was that the worker retired on 1 April of the year in question,

worked a full career (or from age 21 to retirement age), and earned the APW wage in each year of his or her career.⁶ Second, CWED includes information only on public pensions, which meant excluding

⁶ Using the wage in the year of retirement as the ‘historic insured wage’ can lead to a considerable overstatement of actual benefits (Scruggs and Allan, 2006).

some pension benefits that are sometimes treated as quasi-public, but are the result of sectoral or collective industrial bargaining agreements. (For example, supplementary pension regimes in France were excluded.) Finally, the standard pension replacement rate applies to the first year of receipt. Since many countries have moved from adjusting pensions annually for overall wage growth to annual adjustment based only on inflation, these results may understate some cuts in pension generosity.⁷

Based on the trends in Figure 4, conservative countries are clearly the most generous, and have been throughout the period. However, the social democratic and liberal regimes move generally toward the conservative country line through the 1980s. After that, however, the social democratic line falls, while the liberal line continues to move slightly towards the social democratic countries. Improvement in the liberal group is due mostly to Japan and Switzerland, which both started the period with very small public pensions. However, it is also lifted by the surprisingly generous US public pension system, which has the highest replacement rate of any country for couples (about 80 per cent of APW wages) in 2002. In the social democratic regime, there was considerable replacement rate growth in Norway and Finland, and some expansion of couple's pensions, specifically in the Netherlands. With only a few exceptions (the United States, Italy, and Norway) public pension systems 'matured'—i.e. existed long enough for a new retiree to be fully insured by the system—during the 1980s. This helps explain why replacement rates levelled off in most cases.

(ii) Social Insurance Coverage and Recipients

In determining the generosity of a social insurance system, it is important to consider not only the replacement rate that the programme is expected to pay an individual, but other dimensions of generosity. Expanding coverage is widely considered an important indicator of the expansion of the welfare state to include the entire population. Historically, even where social insurance existed from the early twentieth century, coverage was initially limited.

(Flora and Alber, 1984; Korpi, 1989). This section discusses trends for unemployment and sickness insurance coverage, and the portion of the population above retirement age in receipt of a public pension.

Table 2 provides coverage rates for unemployment and sickness insurance as a proportion of the labour force. For pensions, it provides an estimate of the number of people above retirement age who are in receipt of a public pension.⁸ The table provides annual data for 1972, 1987, and 2002, along with the mean and coefficient of variation (COV: standard deviation divided by the mean) for each regime. In brief, coverage increased substantially from the 1970s, and has not declined since then. With only a couple of exceptions, there is little evidence that the scope of social insurance has been retrenched.

Unemployment insurance coverage increased considerably during the 1960s and early 1970s in many countries, and has gradually converged over time. The largest categories of non-covered workers in labour market programmes are public-sector workers, the self-employed, and the unemployed who have exhausted unemployment insurance benefits. Unemployment insurance coverage has increased considerably in the Nordic countries, which use the Ghent system: heavily state-subsidized unemployment funds administered by trade unions. Union membership increased during the 1970s and 1980s, owing in no small part to this institutional arrangement (Rothstein, 1992; Scruggs, 2002). Switzerland's large increase in unemployment coverage is due to its (late) implementation of a compulsory national programme.

Sickness insurance coverage rates resemble those for unemployment in the liberal countries (except for the United States). Sickness coverage is considerably higher in the conservative and social democratic countries than in liberal ones. Only Canada, Switzerland, and Belgium experienced a considerable decline in sick-pay coverage during the 1980s and 1990s. In Switzerland, the dramatic decline in coverage (at least according to official statistics) is

⁷ Recent reforms, such as those enacted in Italy and Sweden in the 1990s, are reflected only minimally, if at all, in the results. As more and more people accrue benefit rights under the aegis of those reforms, the effects of those rules will show up in replacement rates in later years.

⁸ Coverage rates for public pensions (the proportion of people in the work-force who are insured) are hard to determine, because many people who are not in work at a given time may still have accumulated an entitlement to a pension based on their previous work history.

Table 2
Evolution of Insurance Programme Coverage

	Unemployment			Sickness			Pensions		
	Percentage of labour-force			Percentage of labour-force			Percentage of total above retirement age		
	1972	1987	2002	1972	1987	2002	1972	1987	2002
Australia	100	100	100	100	100	100	63	73	66
Canada	89	79	79	89	79	79	97	95	98
Ireland	68	73	100	68	73	100	95	98	99
Japan	43	47	50	56	57	58	63	92	100
New Zealand	100	100	100	100	100	100	100	100	99
Switzerland	16	91	84	100	100	18	100	100	100
UK	75	79	86	75	79	86	89	97	100
US	74	83	88	0	0	0	91	94	93
mean	71	82	86	74	74	68	87	94	94
sd	28.9	17.1	16.8	34.0	33.5	39.2	15.5	8.8	11.7
COV ^a	0.41	0.21	0.20	0.46	0.46	0.58	0.18	0.09	0.12
Austria	65	65	67	81	90	84	80	84	86
Belgium	83	84	84	80	90	83	80	89	100
France	59	53	58	98	96	95	100	100	100
Germany	76	73	68	87	90	88	85	100	100
Italy	48	51	59	65	63	66	100	100	100
mean	66	65	67	82	86	83	89	95	97
sd	13.8	13.8	10.6	12.0	13.0	10.7	10.2	7.6	6.3
COV ^a	0.21	0.21	0.16	0.15	0.15	0.13	0.12	0.08	0.06
Denmark	35	71	83	87	98	99	100	100	100
Finland	46	66	74	100	100	100	98	100	100
Netherlands	87	89	89	87	89	89	80	100	100
Norway	83	89	93	100	100	100	100	100	100
Sweden	60	79	85	100	100	93	100	100	100
mean	62	79	85	95	97	96	96	100	100
sd	22.7	10.4	7.2	7.1	4.8	5.0	8.8	0.0	0.0
COV ^a	0.36	0.13	0.09	0.08	0.05	0.05	0.09	0.00	0.00
All countries									
mean	67	76	80	82	84	80	90	96	97
sd	22.9	15.6	15.0	24.6	24.7	28.6	12.4	7.3	8.4
COV ^a	0.34	0.20	0.19	0.30	0.30	0.36	0.14	0.08	0.09

Note: ^a Coefficient of variation.

due to the fact that excluding sickness coverage in health insurance policies became easier.

Estimating a pension recipient ratio is not easy in many countries. There are three main reasons for this. First, most countries report the number of

pensions paid, not the number of pensioners—a particular problem where people qualify for pensions from several occupational pension funds. Second, some countries have administratively separate pension systems for civil servants. The number of civil service pensions is published for some coun-

tries, but civil servants are allowed to retire early and may be entitled to other public pensions (through different jobs), making it difficult consistently to avoid under- or over-counting pensioners above the national retirement age. For example, in the United States, federal employees hired since 1984 have been insured in the regular public pension system, while many (but still not all) state and local pension systems have been integrated. Civil service pensions are often payable before the public pension retirement age of 65. Trying to estimate the under-65 pensions and those over 65 drawing a public-sector and normal public pension is practically impossible. The third problem concerns the treatment of spouses. Where spouses have had sufficient labour-force participation, they receive an individual entitlement to a public pension. Where spouses have not worked, however, they may still be entitled to a pension. For instance, in the United States the pension due to a worker with a non-working spouse is 50 per cent of the earned pension. A non-working spouse (at any age) may also receive a survivor's pension on the death of their working spouse in almost all countries. Finally, a spouse may be otherwise eligible for a social pension, but, owing to high household income from the working spouse's retirement pension, may be above a household income test.

All of these complications suggest exercising some caution when interpreting the results in the final column of Table 2. Most countries appear to have attained something approaching universal take-up once social pensions, public pensions, and civil service pensions are all considered. With a couple of exceptions—e.g. Australia moved towards and then away from universalism—a larger portion of the retirement age population received a public pension in 2002 than 30 or 40 years ago. Almost all of the coverage expansion occurred prior to 1980.

IV. A SIMPLE INDEX OF EXPECTED WELFARE BENEFIT

The preceding two sections provided some programme-specific features of income replacement and coverage for major social insurance programmes. Here I combine these into a measure of

expected benefits. This is computed as the product of the replacement rate and the coverage rate, summed over each of the programmes discussed: unemployment, sickness, and pensions. (The two pension replacement rates—social and standard—are averaged and multiplied by the pension take-up rate. The index has a minimum score of 0 in the case of a zero replacement rate or zero coverage rate for each of the four programmes; the maximum score, for a country with 100 per cent coverage rate and 100 per cent replacement rate for each programme, is 3. Table 3 provides the 'expected benefit index' score for each of the 18 countries in 1972, 1987, and 2002. Figure 5 charts trends for the liberal, conservative, and social democratic regime types for 1972–2002. In addition to showing results for the averages for all countries in each regime, Figure 5 displays the conservative regime average excluding Italy, and the liberal regime average excluding Switzerland.⁹

From Table 3 it is apparent that in only a few cases—Canada, Germany, and the UK—were expected benefits in 2002 lower than those in 1972. In other words, benefits were mostly more generous at the start of the twenty-first century than they were in the early 1970s. However, it is also apparent that expected benefits in most countries were lower in 2002 than they were in the mid-1980s. Cutbacks were particularly large (at least 10 per cent) in Finland, Germany, the Netherlands, New Zealand, Sweden, and Switzerland.

In the liberal countries, expected benefits expanded considerably as laggard countries caught up with the rest of the developed world in some areas. Mandatory unemployment benefits were established in Switzerland; Canada introduced sickness benefits; the United States introduced the Supplemental Security Income pension; and Japan began wage-indexing pension contributions. However, expansion generally ended in the 1980s, and cuts, such as the UK's elimination of earnings-related unemployment benefits and an increased reliance on means-testing benefits, began.

In the countries with a conservative welfare regime, expected benefits also expanded in the 1970s and

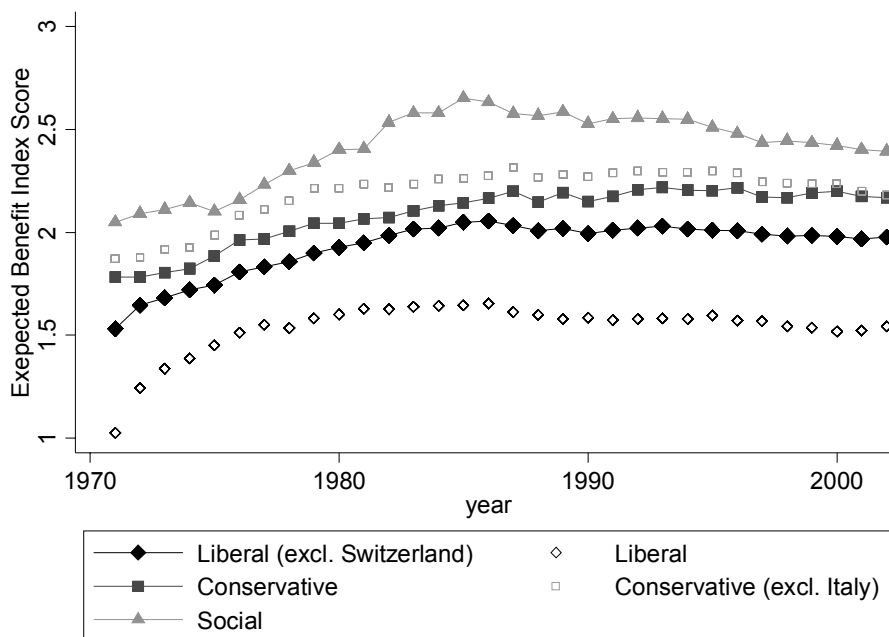
⁹ Italy's exceptional unemployment insurance programme was discussed earlier. Switzerland's declining index score in the 1990s was driven by official sick-pay coverage statistics which are in some dispute.

Table 3
Expected Benefit Index

	1972	1987	2002
Liberal			
Australia	0.74	1.04	0.99
Canada	2.18	2.15	2.14
Ireland	1.05	1.67	1.72
Japan	0.72	1.37	1.57
New Zealand	1.18	1.66	1.40
Switzerland	1.31	2.25	1.58
UK	1.50	1.32	1.45
USA	1.24	1.43	1.51
mean	1.24	1.61	1.55
sd	0.47	0.42	0.32
COV ^a	0.38	0.26	0.21
Conservative			
Austria	1.94	2.19	2.20
Belgium	1.81	2.48	2.35
France	1.60	2.25	2.09
Germany	2.15	2.33	2.09
Italy	1.40	1.75	2.11
mean	1.78	2.20	2.17
sd	0.29	0.27	0.11
COV ^a	0.16	0.12	0.05
<i>excl. Italy</i>			
mean	1.88	2.31	2.18
sd	0.23	0.13	0.12
COV ^a	0.12	0.05	0.06
Social democratic			
Denmark	1.98	2.20	2.23
Finland	1.87	2.53	2.21
Netherlands	2.30	2.57	2.33
Norway	2.04	2.74	2.82
Sweden	2.27	2.85	2.39
mean	2.09	2.58	2.40
sd	0.19	0.25	0.25
COV ^a	0.09	0.10	0.10
All countries			
mean	1.63	2.04	1.95
sd	0.51	0.53	0.46
COV ^a	0.31	0.26	0.23

Note: ^a Coefficient of variation.

Figure 5
Expected Benefit Index, by Type of Welfare State Regime



peaked in the mid-1980s. (Public spending after the mid-1980s continued to grow.) After that, especially if Italy is excluded from the calculations, there was a decline in the average expected benefit in these countries. On the whole (without Italy) the decline was greater for the conservative regime than for the liberal regime, which is consistent with slight downward convergence.

The most dramatic changes in the expected benefits index took place in the social democratic welfare states. While the social democratic countries were the most generous throughout the period examined, starting in the late 1980s expected benefits fell considerably, converging toward the conservative and liberal regime averages. This was a period that included reforms producing the ‘Dutch miracle’, Danish ‘flexicurity’, as well as reforms, driven in part by major economic recessions, in Finland and Sweden. Only Norway, insulated from various global macroeconomic pressures by its considerable natural-resource endowment, experienced an overall rise in expected benefits after the mid-1980s.¹⁰ Nevertheless, it is worth noting that all of these countries had higher expected benefits in 2002 than in 1972.

V. CONCLUSION

What the CWED project has attempted, and what should be repeated in future welfare state research, is to expand the bases for comparison by trying to measure similar things in similar ways across as many countries and years as feasible. The focus on institutional commitments differs from the more popular focus on spending levels and suggests some different conclusions. Based on these results, while welfare state programmes are more generous than they were a generation ago, there has been a shift away from expanding entitlements and towards retrenchment. In the data reviewed here, this is due primarily to reductions in programme replacement rates, not to restricting programme coverage. Though this paper does not provide a detailed analysis of the causes of these trends, they should make us less sanguine about the impact of the Reagan and Thatcher era on the welfare state than many analysts of social spending have been.

The CWED project’s data set on welfare programme social commitments remains far from complete. In conclusion, I make several specific suggestions that might improve the depth, quality, and

¹⁰ Table 3 deceptively suggests that the Danish welfare state increased expected benefits between the mid-1980s and 2002. Major cuts came slightly earlier there. Denmark’s benefits score between 1984 and 1986 was over 2.5, much higher than any later values.

comparability of social rights and welfare-state institutions across countries and time. First, analyses of social entitlement programmes should incorporate two-earner households and single-parent households into their analyses. Both are potentially vulnerable and sizable household categories in many countries, yet we do not really know how tax and benefit systems interact to affect their incentives, or how welfare systems have evolved over time to deal with them.

Second, the replacement rates of insurance programmes often vary with income. CWED data focus on the typical earner, just a single point in the wage distribution. Whether benefits are more (or less) generous for people with lower (or higher) earnings is an important distributive issue in the evaluation of social policy change.

Third, there remains a paucity of systematic comparative data on alternative types of social rights. For example, virtually none of the literature considers the adequacy of social assistance, arguably the ultimate social floor of the welfare state. Another substantive improvement might stress the role of non-cash benefits and services.

Finally, and consistent with the previous suggestions, there is a need to collect data across space and time using the main concepts that we already have. All social science is really comparative. Interesting indicators are frequently developed to analyse 'new' social problems. Though the terms 'new' and 'unique' cry out for *comparative* evidence to support such claims, the necessary data collection too often never takes place.

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