

**SOCIAL TRANSFERS: SPENDING PATTERNS,
INSTITUTIONAL ARRANGEMENTS AND POLICY RESPONSES**

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INTRODUCTION

This paper presents an overview of the main income transfers to those of working age. There are at least three reasons for reviewing these transfers. First, the fiscal cost of the programmes covered in this paper is sizeable for the typical OECD country, at a time when there is a need to reduce deficits and to restrain overall government spending. In 1992, they represented around 7¼ per cent of trend GDP, more than double what they were in 1960. Second, there are large variations in spending on transfers to the working-age population across countries. Such differences account for almost three-quarters of the total variation across countries in the share of general government spending in GDP. Third, income transfers can have a major impact on a range of labour-market incentives, and hence on the demand for and supply of jobs.

The approach taken in this paper follows on from earlier OECD reviews of income transfers (*e.g.* OECD, 1976; OECD, 1985; and Saunders and Klau, 1985). However, the focus of attention shifts from an aggregate assessment of the effects of population trends and changes in average benefits towards differences in institutional features governing eligibility across countries. A number of recent studies have pointed to the importance of institutional details in both increases and cross-country differences in spending (*e.g.* OECD, 1994a; OECD, 1994b; OECD/PUMA, 1994 and 1995). In this context, income transfer programmes can be characterised by the rules governing who can obtain benefits (*eligibility*) and the amount of benefits received (*entitlements*). Much of this paper is built around these two concepts of eligibility and entitlements. Up to the present, most cross-country research on income transfers has focused on benefit rates or entitlements, possibly because they are more easily measured than eligibility conditions (which tend to be multi-dimensional and difficult to characterise). However, as will be developed below, eligibility rules and their interpretation have a role which is probably equally as large – if not more important – in determining the growth in spending and explaining differences in programme size across countries. They are also of key importance in policy reforms aimed at improving the functioning of programmes and reducing their costs.

This paper is divided into two sections. The first section begins with an overview of patterns of social transfers over the past two decades and the main factors

underlying these trends. Then, cross-country differences in transfer spending by programme are discussed. The second section presents a brief overview of reforms in this area, focusing on ways in which the programme goals might be achieved at less budgetary cost.

SOCIAL TRANSFERS: GROWTH AND CROSS-COUNTRY COMPARISONS

Transfer payments covered by this study

The transfer programmes covered in this study' can be grouped as follows:

Social insurance transfers provide public-sector insurance against income loss associated with unemployment, disability, sickness, maternity, occupational injury and disease. Benefits are mainly linked to previous income, are not income-tested and are limited to those having adequate contributions and work history. Premiums are normally set in line with income and are not risk-rated² In addition to correcting for general insurance market failure, governments are often particularly concerned about providing minimum cover for high-risk (often low-income) groups and, where there are minimum benefit levels, the link between benefits and the previous wage may be broken entirely.

Social assistance programmes aim at preventing individuals or households – whether in employment or not – from falling below some socially defined minimum income. These benefits are available to virtually all individuals, but are generally means-tested (*e.g.* through income and asset tests) and, where individuals are “employable”, work-tested. They can take the form of cash or targeted and tied benefits for the consumption of certain goods or services (*e.g.* rent allowances, food stamps and school meals) and are generally tailored to need, taking into account family size.

Family benefits or *child allowances* make adjustments for greater economic needs in larger households, with additional support directed, in particular, towards larger families. The most important cash transfers in this area take the form of supplements for dependent children, although these are often not the only benefits.

Most OECD countries have some combination of these three elements, although the balance between them and the particular way in which transfers are provided can vary substantially across countries.

Growth since the 1960s³

Income transfer spending directed at those of working age rose on average over the OECD by around 3 to 3½ percentage points of GDP from 1960 to 1980. Data limitations make it difficult to assess the relative importance of the various factors underlying this increase. Nonetheless, for all components where information is available, increases in the *coverage* and *generosity* of transfer programmes appear

to be much more important than changes in the share of the working population (*i.e.* demographic factors) in explaining spending growth. Moreover, comparing the first two factors, much of the increase appears to have come in the form of widening eligibility and/or greater take-up of benefits rather than an increase in rates of benefit, although the latter may have been important in some individual countries (Saunders and Klau, 1985). In the case of unemployment benefits, for example, the rise in unemployment was clearly the dominant factor, coupled with some extensions to eligibility over this period; in contrast, changes in unemployment benefit rates appeared to play a smaller role.

There was a marked slowdown in growth of these transfers during the 1980s (Table 1). For the area as a whole, there was an increase of 1½ percentage points from 1980 to 1992, with spending reaching 7¼ per cent of trend GDP in 1992. Roughly two-thirds of this increase was accounted for by spending on unemployment benefits and social assistance programmes, particularly in the period 1989-90 when the increase was concentrated in a group of mainly-English-speaking and Nordic countries. By 1992, working-age transfers represented roughly half of total transfer payments to households and about one-sixth of total government spending. A striking feature of these data is the variation in the amount spent on such programmes across countries. In 1992, spending under this heading ranged from 1 to 2 per cent of GDP in Japan and Greece, 3 per cent in the United States to around 13 per cent in Finland and the Netherlands. This difference is the largest of any component of government spending and accounts for nearly three-quarters of the variation in *total* general government spending across countries. A good portion of these differences in GDP shares appears to reflect the variation in the institutional approach to providing support and, in particular, the fact that benefits are often taxed more heavily in higher spending countries (Adema *et al.*, 1996).⁴

The overall growth in spending can be decomposed into two components: *i*) the change in the “target group” (*i.e.* those potentially falling within the scope of each programme); and *ii*) a *residual* item, which includes the effects of changes in eligibility conditions and in programme entitlements.⁵ An assessment of these elements suggests the following:

- For most of the programmes covered (particularly early retirement, and disability and sickness programmes), changes in the residual were more important in explaining spending than changes in the size of target groups. Unemployment benefits and family allowances, however, were exceptions: changes in the number of unemployed and in the share of children in the total population contributed significantly to observed spending changes.
- A key feature underlying the slowdown in spending growth during the 1980s appears to have been a tightening-up of access to and benefits from transfer programmes {as indicated by the marginal growth or decline in the residual in most cases}. The main programmes where eligibility and/or entitlements

Table 1. Total spending on transfers for the working-age population: trends over the 1930s

Percentage of trend GDP

	Level				Change			
	1980	1982	1989	1992	1980-82	1982-89	1989-92	1980-92
United States	3.0	2.8	2.5	3.2	-0.2	-0.2	0.6	0.2
Japan	1.3	1.4	1.2	1.2	0.1	-0.3	0.0	-0.1
Germany	6.5	7.1	6.2	6.0	0.6	-0.9	-0.2	-0.6
France	6.5	8.0	7.0	7.0	1.6	-1.0	-0.1	0.5
Italy	3.5	4.1	3.8	3.7	0.6	-0.2	-0.2	0.2
United Kingdom	5.1	6.1	6.7	8.1	1.0	0.6	1.4	3.1
Canada	4.7	5.8	5.7	6.7	1.1	-0.1	1.0	2.0
Australia	3.3	4.0	3.9	5.4	0.7	-0.1	1.5	2.1
Austria	5.8	..	..	6.7		..		0.9
Belgium	10.6	11.3	8.8	8.7	0.7	-2.5	-0.1	-1.9
Denmark	10.6	10.2	11.2	11.9	-0.4	1.1	0.6	1.3
Finland	5.6	6.5	8.0	12.7	0.9	1.5	4.6	7.1
Greece	1.9	2.5	2.8	3.0	0.6	0.4	0.1	1.1
Ireland	6.2	7.8	7.1	7.9	1.6	-0.7	0.8	1.6
Luxembourg	8.4	8.6	8.0	8.3	0.2	-0.5	0.3	0.0
Netherlands	12.9	14.0	12.3	12.7	1.1	-1.8	0.5	-0.2
New Zealand	4.5	4.2	7.5	8.4	-0.3	3.3	0.9	3.9
Norway	6.3	6.8	8.5	9.9	0.4	1.8	1.4	3.6
Portugal	3.6	4.0	3.9	4.6	0.4	-0.1	0.7	0.9
Spain	5.0	5.3	5.7	6.7	0.3	0.4	1.0	1.7
Sweden	8.7	8.5	10.1	11.7	-0.2	1.6	1.6	3.1
Switzerland	2.8	..	..	4.3		..		1.6
OECD average	5.8	..	..	7.2		..		1.5
OECD less Austria and Switzerland	5.9	6.4	6.6	7.4	0.5	0.1	0.8	1.5
OECD average	4.5			5.0				0.5
OECD less Austria and Switzerland	4.5	4.6	4.8	5.0	0.1	0.2	0.2	0.5

Source: OECD, Social Expenditure (SOCX) data base

appeared, on average, to expand (although with a wide degree of country diversity) were disability and early retirement programmes.

- As in the preceding decades, a greater role appears to have been played in the 1980s by changes in *eligibility* conditions relative to programme *entitlements*: for most programmes (including disability and sickness schemes),

there is only a weak correlation between indicators of changes in benefit generosity and the residual item described above. The correlation is stronger (0.8), however, in the case of unemployment benefits: there were substantial increases in benefit replacement rates in several countries (e.g. Canada, Australia, Finland, Portugal and Sweden) where the residual item (and overall programme spending) rose; and falls in replacement rates in other cases (e.g. the United States, the United Kingdom, Denmark, Ireland, the Netherlands and Spain) where the residual declined.

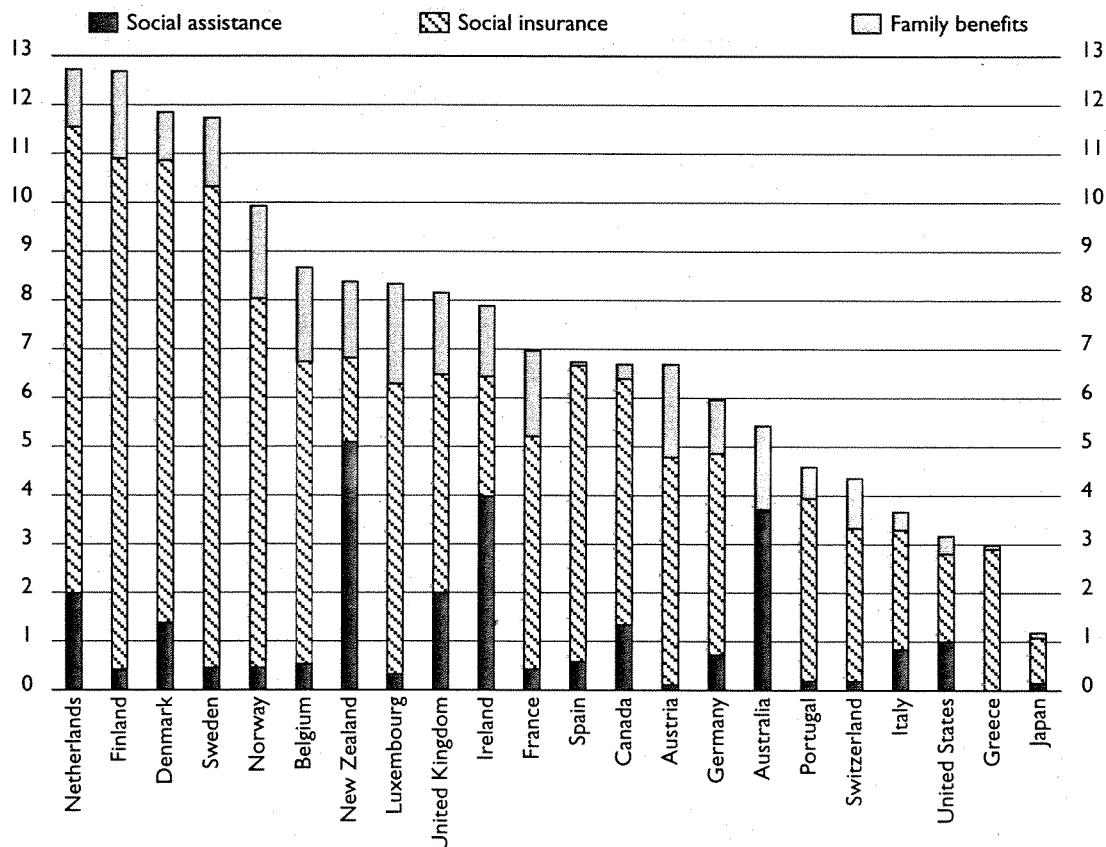
Spending differences by programme type: insurance, welfare and family benefits

In Figure 1, countries are ranked from highest to lowest in terms of working-age-related transfer spending relative to trend GDP. Transfers are broken down into those programmes most closely associated with the insurance-related, family and child, and social assistance benefits.⁶ Because the data on social assistance have been drawn from different sources, this breakdown is approximate. In general, the most "generous" systems are found in a group of northern European countries, with spending shares at their highest in the Netherlands and the Nordic countries. However, as noted, the tax position of benefits may be an important factor explaining the high level of spending in these countries (Adema *et al.*, 1996). Southern European countries (as well as Austria and Switzerland) spend less than average, as do North America, Oceania and Japan. The United States, Japan and Greece have the lowest ratios of working-age transfer spending to trend GDP.

Focusing on the structure of transfer spending, the main distinguishing features across countries are as follows:

- Insurance-related transfers dominate total income transfers. They make up two-thirds of total transfers across countries and account for four-fifths of cross-country variation in the total; on average, they make up the bulk of transfers in low-spending countries as well as in high-spending countries.
- Targeted programmes (social assistance, family and child benefits) are substantial only in Australia and New Zealand, where they account for virtually all transfers; in Ireland, where their share is around two-thirds; and in the United Kingdom, where they are just under half. In most other countries they represent roughly one-third or less of total spending.⁷
- Countries with higher overall spending also, on balance, generally spend more on social assistance as a share of GDP. For example, social assistance as a share of GDP is greater in Denmark and the Netherlands than in the United States, even though the importance of social insurance in total transfer spending is also larger in the former countries.

◆ Figure 1. *Working-age transfers by type, 1992*
As percentage of trend GDP



Note: Total income transfers and family benefits were taken from the SOCX datafile while total social assistance spending was drawn from Eardley et al. (1996). Social insurance transfers are defined as Total less social assistance less family benefits.

Sources: OECD Social expenditure database (SOCX). Eardley et al. (1996).

- The weight of family benefits in total working-age transfers is, on average, not higher in more "generous" countries. Nonetheless, there is a group of mid-range countries – including France, the United Kingdom, Australia, Belgium, Ireland, Luxembourg, New Zealand and Norway – where family benefits make up a relatively large share

In summary, these data indicate the dominant role of insurance-type transfers in OECD countries: whether a country lies in the group of "high" or "low" spenders, in terms of overall transfer spending, seems to depend primarily on the scope and generosity of its social insurance programmes. In contrast, inter-country differences

Table 2. Working-age-related income transfers by
Per cent of

	Unemployment		Disability		Sickness		Maternity	
	Level 1992	Change 1980-1992	Level 1992	Change 1980-1992	Level 1992	Change 1980-1992	Level 1992	Change 1980-1992
United States	0.7	0.0	0.9	0.0				
Japan	0.3	-0.1	0.3	0.2	0.1	0.0	0.1	0.0
Germany	1.5	0.7	1.5	-0.4	0.4	-0.1	0.0	-0.1
France	1.6	0.7	0.9	-0.1	0.5	-0.1	0.2	-0.1
Italy	0.7	0.1	1.4	0.3	0.2	-0.1	0.1	0.0
United Kingdom	1.2	0.3	1.9	1.0	0.2	-0.1	0.1	0.0
Canada	2.2	0.9	0.5	0.2	0.1	0.0	0.2	0.1
Australia	1.8	1.1	1.2	0.3	0.1	0.0		
Austria	1.0	0.3	1.8	0.4	0.2	0.0	0.4	0.3
Belgium	2.2	0.1	2.0	-0.2	0.9	-0.6	0.2	0.1
Denmark	3.6	-0.4	1.8	-0.2	1.1	-1.0	0.5	0.3
Finland	3.2	2.8	3.8	1.0	0.7	0.5	0.8	0.5
Greece	0.8	0.5	1.9	0.9	0.1	-0.1	0.0	0.0
Ireland	3.2	1.4	0.8	0.2	1.1	-0.8	0.1	0.0
Luxembourg	0.6	0.1	2.5	-0.7	1.0	0.0	0.3	0.1
Netherlands	2.8	0.8	4.7	0.0	2.6	-0.6	0.1	0.0
New Zealand	1.9	1.4	0.8	0.3	1.2	0.9		
Norway	1.4	1.0	2.8	0.8	2.1	0.4	0.4	0.3
Portugal	0.5	0.2	2.0	0.3	0.8	0.2	0.1	0.0
Spain	3.2	1.1	1.8	0.4	1.0	0.2	0.0	0.0
Sweden	2.6	2.2	2.4	0.4	1.3	-1.1	1.3	0.6
Switzerland	0.9	0.9	0.3	0.1	0.3	0.0	0.0	0.0
OECD average ²	1.7	0.7	1.7	0.2	0.7	-0.1	0.2	0.1
Standard deviation	1.0	0.8	1.1	0.4	0.7	0.5	0.3	0.2

1 Includes social assistance for many countries. However, as means-tested income transfers are sometimes included in Figure 2.

2 Unweighted average.

Source: OECD Social Expenditure Database (SOCX).

in the level of social assistance spending appear to play a negligible role with respect to the rankings of overall transfer spending.

Some general factors explaining cross-country differences

While the preceding section provides a broad overview of differences in approach towards income support, explaining cross-country differences requires a more detailed examination on a programme-by-programme basis. Cross-country differences in spending are complex, and total spending, as well as its breakdown by programme, can reflect a variety of factors.

programme: level in 1992 and changes over the 1980s

trend GDP

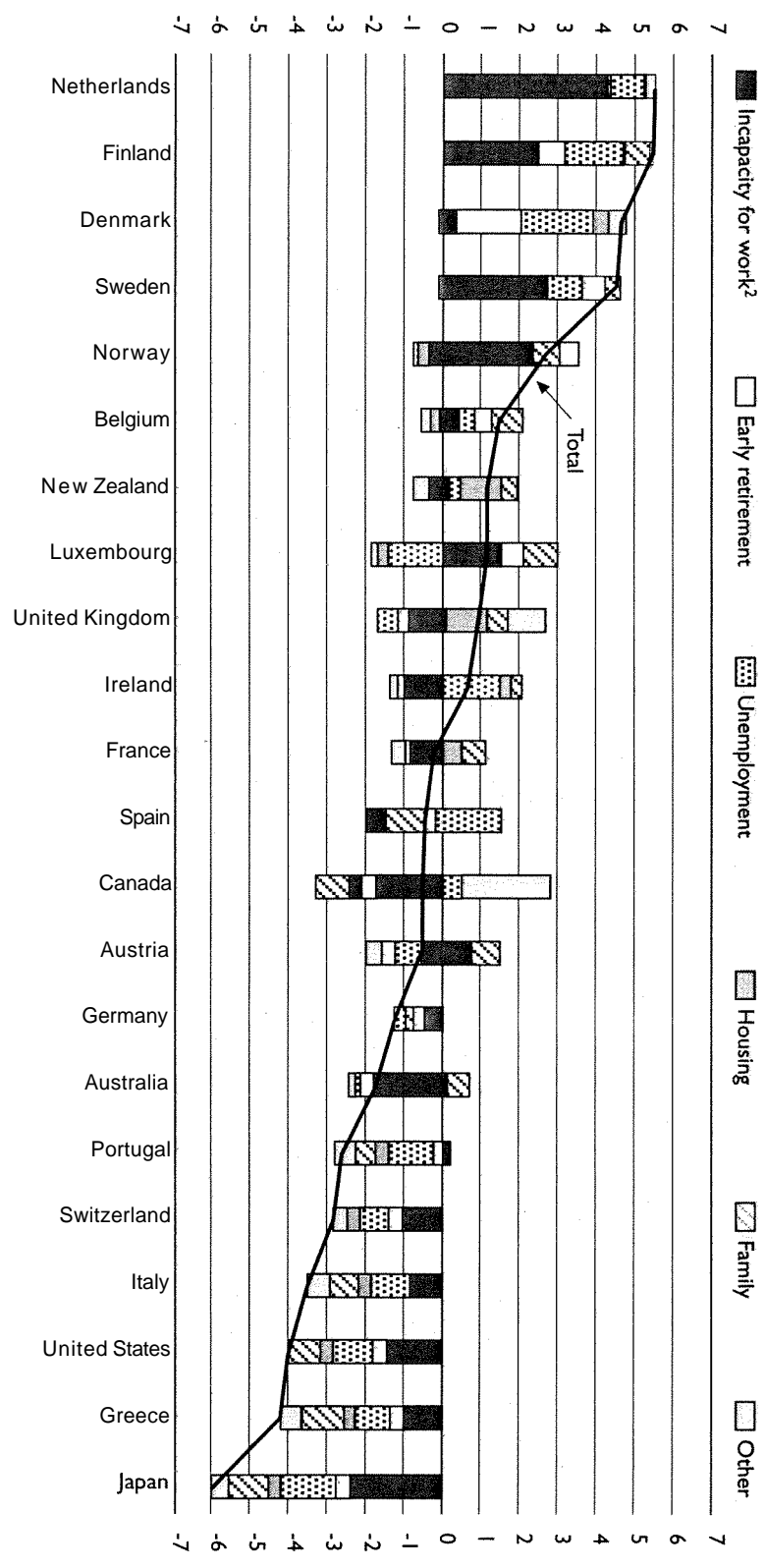
Occupational injury and disease		Early retirement		Other contingencies ¹		Housing		Family benefits		Total working-age-related	
Level 1992	Change 1980-1992	Level 1992	Change 1980-1992	Level 1992	Change 1980-1992	Level 1992	Change 1980-1992	Level 1992	Change 1980-1992	Level 1992	Change 1980-1992
07	02			05	00			04	-01	32	02
02	00			01	-01			0.1	00	12	-01
08	-02	00	00	05	02	02	00	1.1	-07	60	-06
08	-02	04	00	02	02	08	03	1.8	-02	70	05
05	0.1	03	03	00	00	00	00	04	-05	37	02
01	-02	01	-01	15	09	1.5	14	1.7	00	81	31
05	02			29	09			03	-03	67	20
				04	02	02	00	17	07	54	21
02	-01	1.1	03	02	00			19	-09	67	09
05	-03	07	02	03	00			19	-11	87	-19
02	00	20	1.0	1.0	10	08	04	1.0	02	11.9	13
03	0.1	11	06	07	05	04	02	18	09	127	71
00	00					01	00	01	-02	30	1.1
0.1	00	02	02	04	02	06	-01	14	04	79	1.6
09	-02	09	02	04	02	01	00	21	03	83	00
00	00	04	03	08	00	03	01	1.2	-09	12.7	-02
13	08			01	-01	14	1.4	1.6	-07	84	39
00	00			10	06	02	-02	19	08	99	36
04	02	0.1	01	00	00	00	00	06	00	46	09
05	01	02	02	00	00	01	0.1	01	-03	67	1.7
08	06	02	00	07	03	10	-02	14	02	117	31
1.5	03			04	02			10	01	43	1.6
05	0.1	04	02	06	02	03	02	12	-01	72	15
04	03	05	03	06	05	05	05	07	0.5	32	1.9

under other components as well, this does not include all social assistance transfers, shown for example in

Individual programme spending is shown in Table 2 and in Figures 2a and 2b, which show individual programmes in each country as deviations from the OECD mean for that programme. While there is considerable country diversity, the following patterns appear:

- Countries in roughly the top and bottom quartiles of working-age-related spending tend, respectively, to be consistently higher and consistently lower than average in spending on all or virtually all spending components, even when allowance is made for differences in unemployment rates. This may be related to the *tax treatment* of benefits and the structure of the tax system (see note 4).

◆ Figure 2a. Working-age income transfers: individual programmes as deviations from the OECD mean¹ % of trend GDP, 1992

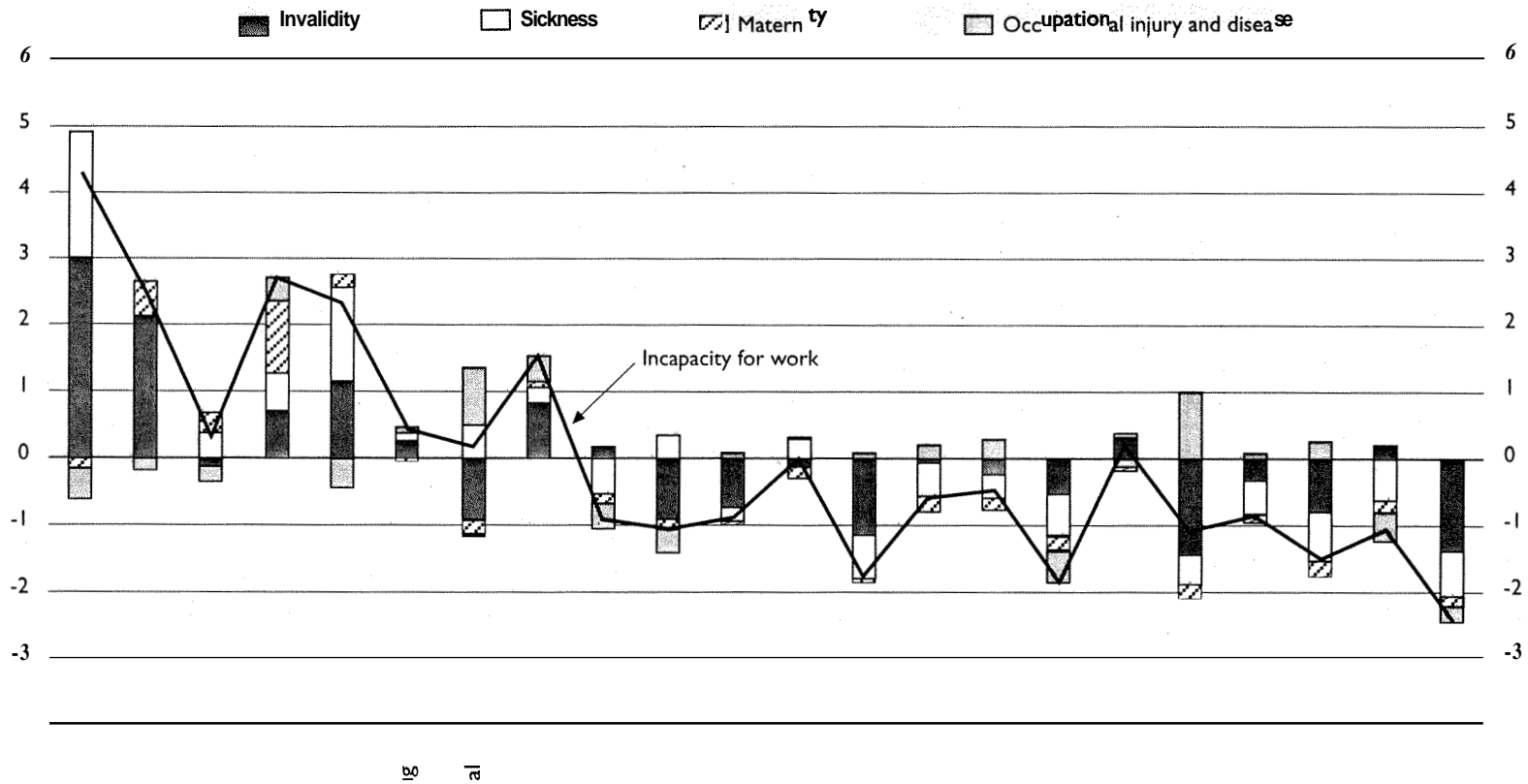


1. Each column is the sum of spending components (as a share of trend GDP) expressed as deviations from the mean (calculated over all countries). In countries where programmes do not exist (for example, early retirement benefits), spending is zero and the average is calculated over all countries irrespective of whether they have programmes or not.

2. The category "Incapacity for work" includes: invalidity benefit, sickness benefit, maternity benefit and occupational injury and disease benefits. See Fig. 2b for the breakdown of these components.

Source: OECD Social expenditure database.

◆ Figure 2b. *Transfers for incapacity for work: individual programmes as deviations from the OECD mean*
% of trend GDP, 1992



Source: OECD Social expenditure database.

- Arrangements covering the various dimensions of "incapacity for work" (combining disability, sickness, maternity and occupational injury and disease) tend to be particularly important in determining overall country differences: spending in this area is generally higher than the average in high-spending countries and lower than the average in low-spending countries. This pattern also tends to be followed for individual components of incapacity, but with considerable variation across countries in the role of individual programmes. However, Japan, Italy, Greece and a group of mainly-English-speaking countries (the United States, the United Kingdom, Canada, Australia, Ireland and New Zealand) tend to have consistently lower spending for these components.
- Higher-spending countries appear to be more generous with pre-retirement pensions (e.g. France, Belgium, Denmark, Finland and Luxembourg) and housing benefits (France, the United Kingdom, Finland and Sweden).
- As noted above, countries with above-average family benefits appear to be clustered around the middle of the ranking of OECD countries' working-age transfers as a percentage of trend GDP, with much lower-than-average benefits in a number of southern European countries, North America and Japan.

Part of these differences may reflect external or exogenous factors and, as noted, the tax position of benefits in certain higher-spending countries may be of considerable importance. However, spending levels in individual countries are clearly dominated by the rules governing access to benefits and the level of entitlements, and the application of these rules in practice. Other factors, such as differences in demographic structure, risk characteristics of the population, and programme coverage, appear to be less important in accounting for cross-country variations in spending. The remainder of this section briefly deals with factors appearing to explain spending differences at a programme level.

Eligibility and entitlement conditions for three programmes

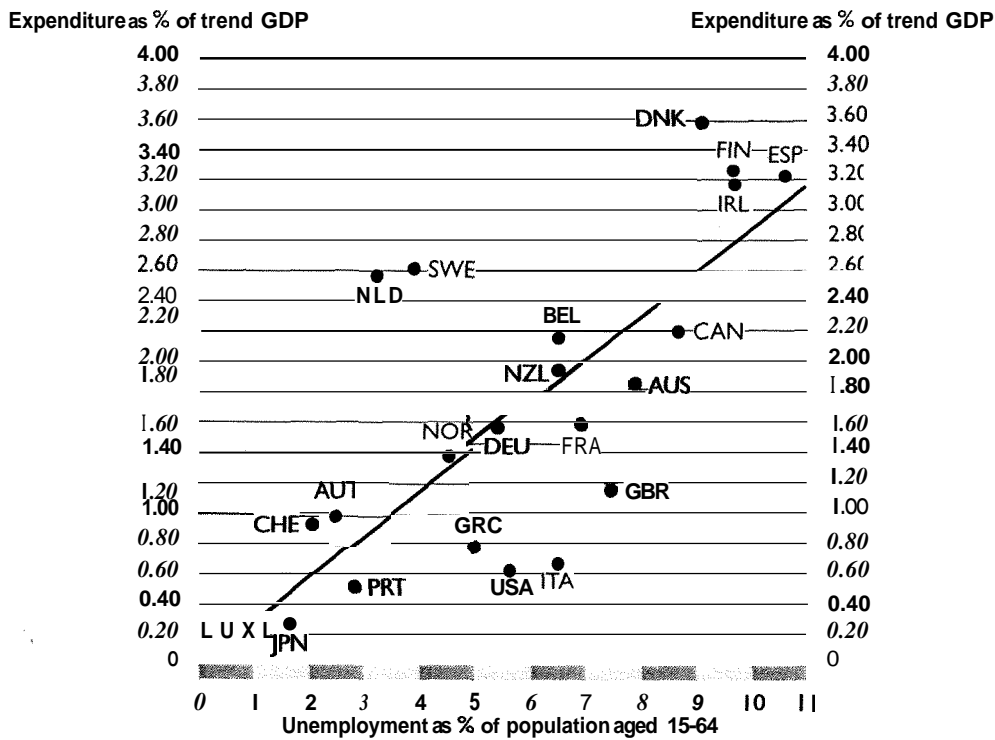
Differences in spending on transfer programmes can be associated to a large degree with the rules governing eligibility and entitlements and how these rules are interpreted. An attempt is made to draw some broad conclusions as to the key elements for three individual programmes (unemployment benefits, disability benefits and social assistance) by aligning available information on eligibility and benefit rates with spending and beneficiary numbers. This approach can be only approximate and inevitably focuses on countries showing markedly different patterns from the average. Eligibility and entitlement conditions have many dimensions and it is difficult to characterise them in a straightforward manner. Specific rules (e.g. qualifying periods for social insurance) will be more important in explaining spending variation in some programmes than others, and these patterns are unlikely to be

the same across all countries. Furthermore, for some components, income-tested arrangements and insurance-type programmes are discussed together, even though they may have different objectives. These results therefore remain tentative and should be treated with caution. Annex tables present some more detailed programme characteristics.

Unemployment insurance and assistance

For the OECD countries taken as a group, unemployment insurance and assistance payments represented around 1 per cent of trend GDP in 1980, rising to 1.7 per cent in 1992 (Table 2). Spending on this component varies widely across countries, ranging from 0.3 per cent of trend GDP in Japan to 3.6 per cent in Denmark in 1992. Comparisons across countries need to be treated with some caution, for reasons of programme definition and the fact that countries were at different stages of the economic cycle in 1992.⁸

◆ Figure 3. *Unemployment benefits and number of unemployed*
1992



Source: OECD Social Expenditure Database.

Table A1. Indicators of Unemployment benefit generosity, 1991, 1995

	Gross benefit income in the first 3 months of unemployment as a percentage of gross wages in previous employment ¹		Summary measures of benefit entitlement ²		Net replacement rates 1994/95 ³
	Average wages	% Average wages	1991	1995	
United States	31	46	11	12	16
Japan	46	49	10	10	45
Germany	40	42	28	26	54
France	57	63	37	38	55
Italy	15	15	2	204	19
United Kingdom	24	37	18	18	51
Canada	51	51	28	27	43
Australia	38	58	26	27	31
Austria	44	47	31	26	
Belgium	43	60	42	42	59
Denmark	61	90	52	71	81
Finland	53	60	39	43	59
Greece	50	50	17	22	
Ireland	41	56	29	26	37
Netherlands	70	70	51	46	69
New Zealand	33	50	30	30	39
Norway	60	60	39	39	62
Portugal	65	65	34	35	
Spain	66	80	34	32	49
Sweden	83	90	29	27	67
Switzerland	77	77	22	30	62

1 The rates refer to an unemployed worker aged 40 who has been working continuously since age 18 with no interruptions, with a dependent spouse but no children

2 See OECD (1994a) for a fuller description of these calculations. Simplified it is the gross benefit as a per cent of income averaged over family types at different wage rates weighted by the duration of benefit

3 Summary measure of benefit entitlements on a net-of-tax and housing benefit basis as a percentage of net-of-tax earnings (see Martin 1996). Data for the United Kingdom, Australia, Ireland and Sweden are for 1995, for all other countries 1994

4 See Martin (1996) for an explanation of replacement rate calculations for Italy

Source: OECD Database on Unemployment Benefit Entitlements and Replacement Rates

Expenditure on unemployment benefits (as a share of trend GDP) relative to unemployment (as a share of the working-age population) in 1992 is shown in Figure 3. Several countries – including Denmark, the Netherlands and Sweden, and, to a lesser degree, Austria, Belgium, Finland, Ireland and Spain – stand out as having relatively high levels of spending given their respective levels of unemploy-

ment; others – such as the United States, the United Kingdom, Italy and Greece – have relatively low expenditures

- As regards entitlements, replacement rates for unemployment benefits are high in most of the countries shown (including Denmark, the Netherlands and Sweden) where spending (after controlling for unemployment levels) is high, although these comparisons depend to some extent on which specific replacement rate is used (Table A1). However, replacement rates are also high (at least initially) in France and Portugal, where spending is below average (given these countries' levels of unemployment). The type of benefit may have an impact on spending levels. Low, flat-rate benefits as in the United Kingdom, and income-tested benefits as in Australia, both lead to sharply lower spending in these countries.⁹
- There is wide variation in the *share* of the unemployed receiving benefits. Data for the early 1990s suggest that beneficiaries as a share of measured unemployment ranged from around 35 per cent in the United States and Japan to over 100 per cent in a number of European countries (OECD, 1994a).¹⁰ The reasons for this can vary substantially across countries. Looking at the low-spending countries, it would appear that the relatively short period of benefits is a contributing factor in the United States, Japan, Italy and Greece (countries where unemployment assistance schemes are also of limited scope) (Table A2). Even though initial contribution periods are long in some high-spending countries (Belgium, the Netherlands and the Nordic countries), all tend to have long benefit periods (once unemployment assistance is included), increasing the share of the unemployed receiving benefits

Disability insurance

All OECD countries provide some form of income protection in the event of disability, or to allow for reduced earning capacity. In 1992, spending represented, on average, 1.7 per cent of trend GDP for the countries covered, up roughly ¼ percentage point from 1980 (Table 2). There is wide variation in such spending: at the upper end lies the Netherlands (4.7 per cent of trend GDP), followed by Finland, Norway, Sweden and Luxembourg; a group of nine countries currently spends between 1.4 and 2.0 per cent of trend GDP (Germany, Italy, the United Kingdom, Austria, Belgium, Denmark, Greece, Portugal and Spain), the remaining countries (the United States, Japan, France, Canada, Australia, Ireland, New Zealand and Switzerland) spend around 1 per cent of GDP or less on disability, with Japan and Switzerland having the lowest shares of around 0.3 per cent.

Table A2 Some eligibility criteria for unemployment benefits¹

	Benefit type ²	Qualifying conditions and maximum duration of benefits ³			
		Reference period	Employment record	Waiting period	Maximum benefit duration
United States	UI	1 year	20 weeks ⁴	1 week	26 weeks
Japan	UI	1 year	6 months	7 days	30 weeks
Germany	UI UA	4 years	3 years	none	12 months Indefinite
France	UI UA	24 months 10 years	12 months 5 years	none	30 months Indefinite
Italy	UI	1 year	2 years		6 months
United Kingdom	UI GI	1 year	⁴	3 days	52 weeks Indefinite
Canada ⁵	UI SW	1 year	27 weeks	2 weeks	50 weeks Indefinite
Australia ⁵	GI			7 days	Indefinite
Austria	UI UA	5 years	156 weeks	none	30 weeks Indefinite
Belgium ⁵	UI	27 months	90 weeks	none	Indefinite
Denmark	UI GI	3 years	⁶	none	30 months Indefinite
Finland	UI UA	4 years	⁶	5 days	2 years Indefinite
Greece	UI	12 months	7 months	6 days	5 months
Ireland	UI UA	1 year	48 weeks	3 days	15 months Indefinite
Netherlands	UI GI	5 years	3 years	none	36 months
New Zealand	GI			7-14 days	Indefinite
Norway	UI SW	2 years	⁶	3 days	80 weeks
Portugal ⁵	UI UA	⁷	⁷	none	⁷ 15 months
Spain ⁸	UI	48 months	48 months	none	24 months

Table A2. Some eligibility criteria for unemployment benefits] (cont.)

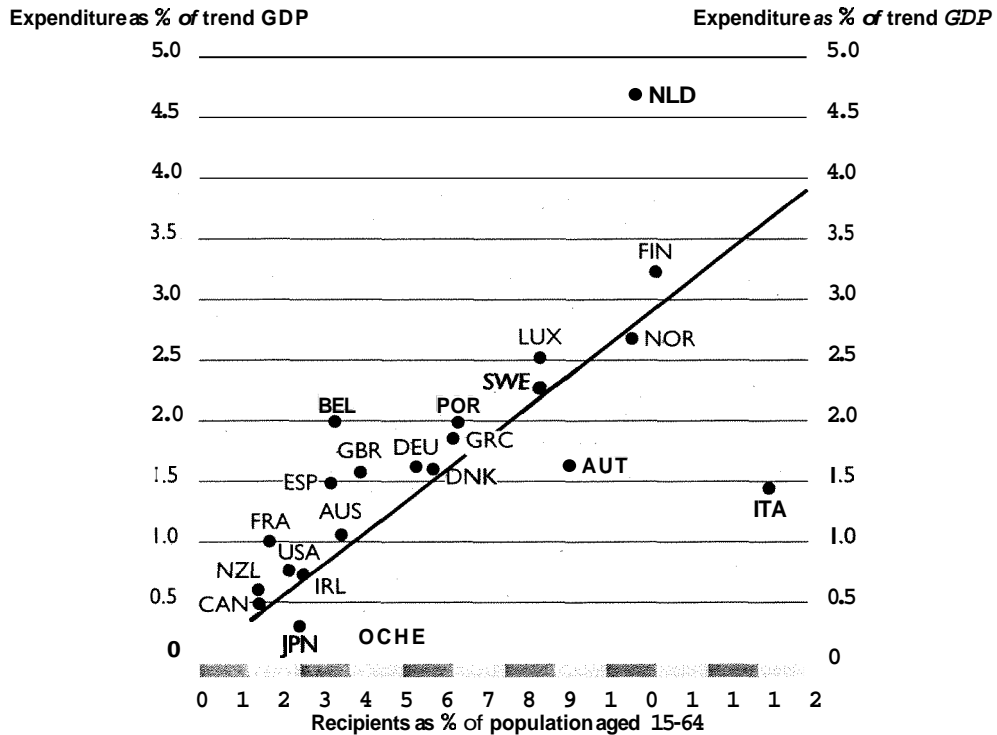
	Benefit type ²	Qualifying conditions and maximum duration of benefits ³			
		Reference period	Employment record	Waiting period	Maximum benefit duration
Sweden	UI SW	12 months	5 months	none	60 weeks
Switzerland	UI	2 years	18 months	5-20 days	50 weeks

- 1 This is a simplified version of Table 7 A 1 of the cited source. See Annex 7 A of the source cited below for further details of the definition. The table refers to the system on 1 January 1989 and to a worker 40 years and 1 day old (except in a few countries the same rates apply at other ages between 25 and 50 or 55). The data are therefore broadly representative of systems around the turn of the decade although there have been important changes since then. For the United States and Canada actual provisions vary by region (an approximately representative case is shown).
 - 2 Benefit type: UI = unemployment insurance; UA = unemployment assistance; GI = guaranteed minimum income; SW = social welfare.
 - 3 Qualifying conditions: periods are shown as weeks, months or years. To qualify for the maximum duration of insurance benefits the worker must have had the employment record listed during the reference period listed, counting the reference period up to the time of entering unemployment [except in Denmark, Finland and Norway see note 6 below].
 - 4 In the United Kingdom a certain level of insurance contributions is needed to qualify for insurance benefits. About 11 weeks of work at the APW earnings level are needed to qualify; more weeks with lower earnings. Many States in the United States also refer to the earnings record for UI.
 - 5 In countries including Canada, Australia, Belgium, New Zealand, Norway and Portugal, changes to the unemployment benefit system are taking place or have taken place since the date referred to in this table.
 - 6 Denmark, Finland and Norway use or used (this has recently changed in Norway) a rolling reference period for any period of this length; the maximum duration of benefits cannot be exceeded. Some employment or earnings record is also required.
 - 7 In Portugal before recent reforms the entire record of past earnings could be taken into account if the worker could prove past employment by producing pay slips. A person producing 10 years of pay slips qualified for 13 months insurance benefit.
 - 8 In Spain unemployment assistance is available for persons with children though not for the cases covered here.
- Source: OECD, 1991.

These spending differences correspond, in most cases, reasonably well with differences in the numbers of recipients (expressed as a share of working-age population) (Figure 4). Several countries (especially Belgium and the Netherlands) appear to have high spending for their level of recipients, while Japan, Austria, Switzerland and particularly Italy appear to have relatively low spending. Entitlements appear to be particularly generous in the Nordic countries, Luxembourg, the Netherlands and in some southern European countries (Italy, Greece and Spain); all of these countries have higher levels of invalidity spending and/or a higher share of beneficiaries (Table A3).

While contribution periods for eligibility for disability benefits may be one factor explaining country differences, this may be important only at the margin, as the bulk of the disabled are older workers. Spending levels and beneficiary numbers

◆ Figure 4. *Disability spending and number of disabled*
1990



Sources: OECD Social Expenditure Database; Blondal and Pearson (1995); OECD Employment Outlook (1993)

on disability programmes are probably more closely determined by the following rules and their interpretation (Table A4):

- *the criterion for setting disability*: some insurance-based countries (including high-spending Finland, Luxembourg and the Netherlands) assess individuals in relation to their ability to carry out their previous jobs, while in low-spending France, Canada and Switzerland, the criterion is whether they could carry out *any* job at all;
- *the minimum degree of disability* before benefits are available: in several countries, this has to be near 100 per cent (Canada, Ireland and Luxembourg), while in the Netherlands it is only 25 per cent and in Spain it is 33 per cent;
- *the inclusion of local employment conditions as a factor in determining disability*: this was often the case for older workers – Germany (1970s),

Table A3. **Gross replacement ratios for invalidity benefits, 1993**

	Average earnings				$\frac{2}{3}$ average earnings				Average
	$\frac{2}{3}$ incapacity		Full incapacity		$\frac{2}{3}$ incapacity		Full incapacity		
	Single	Couple	Single	Couple	Single	Couple	Single	Couple	
United States	24	24	24	24	36	36	36	36	30
Japan	0	0	27	32	0	0	36	43	17
Germany	37	37	56	56	37	37	56	56	46
France	27	27	41	41	27	27	41	41	34
Italy	42	42	77	77	43	43	77	77	60
United Kingdom	24	36	24	36	36	55	36	55	38
Canada	28	28	28	28	34	34	34	34	31
Australia	0	0	26	26	0	0	39	39	16
Austria	53	53	53	53	53	53	53	53	53
Belgium	45	45	45	45	48	48	48	48	47
Denmark	33	33	37	37	49	49	56	56	44
Finland	47	47	47	47	59	59	59	59	53
Greece	45	47	59	63	45	49	59	65	54
Ireland	23	38	23	38	34	57	34	57	38
Luxembourg	55	55	55	55	63	63	63	63	59
Netherlands	51	51	76	53	58	58	80	80	63
New Zealand	30	50	30	50	45	75	45	75	50
Norway	58	58	64	64	64	64	73	73	65
Portugal	44	48	44	48	44	50	44	50	47
Spain	40	40	73	73	40	40	73	73	56
Sweden	53	57	79	90	57	63	88	100	74
Switzerland	17	22	33	43	21	27	41	54	32

Definition: Entitlement often depends on lifetime earnings, or on accumulated pension rights. Where this is the case, the assumptions are as follows: the individual is assumed to gain entitlement at 40 years-old with a full contributions record from age 18. Earnings are assumed to increase monotonically, by 5 per cent nominal and 2 per cent real each year, reaching the ratio of average earnings given in the table the year before IVB entitlement. Each figure is the average of the case of a single person, and a married person with a dependent (but not incapacitated) spouse. (If the latter gives rise to an additional allowance, this is included). The individual has no children. No "constant care" allowances are included. The final column gives a simple average of the 16 cases considered.

Unlike the data on unemployment benefits in Table AI, these data have not been reviewed for accuracy by national administrations, and should not be treated as official OECD statistics. Estimates can be highly sensitive to other earning-profile assumptions, and do not take into account differences in administrative determination of incapacity. They should be treated as indicative

Source: Blöndal and Pearson (1995).

Australia (1980s), Austria, Finland, the Netherlands (1980s) and Sweden (1970s and 1980s).

There are also significant differences in the procedures used for determining disability. In some countries (e.g. the Netherlands, Norway and Sweden), applicants have been able to use, at least until recently, personal doctors to determine their handicap. Moreover, for a variety of reasons, many disability systems are

Table A4. Eligibility criteria for invalidity benefits

	Minimum incapacity (per cent) ¹	Eligibility/contribution requirements ²	Form of benefits ³
United States	4	1 quarter's coverage for each year since age 21, including 20 quarters in 10-year period prior to disability	Based on average covered earnings since 1950 (or age 21), up to ceiling ⁵
Japan	6	Contributions during 2/3 of period between age 20 and disability onset	Flat-rate national pension and earnings-related employees' pension, each with dependents' supplements and related to class of disability
Germany	50	60 months' contributions, with 36 months in 5 years prior to invalidity	Personal income points * Current Pension Value * (0.67 (occupational pension), 1.0 (general invalidity))
France	67	800 working hours in last 12 months (or equivalent level of contributions)	30 per cent (Group 1), 50 per cent (Group 2) of average earnings over best 10 years' insurance ⁷
Italy	67	5 years' contributions, with 3 in last 5 years	2 per cent * insurance years * average earnings over last 5 years (with ceilings)
United Kingdom	a	Prior entitlement to sickness benefits	Flat-rate pension, which may be offset by earnings-related addition
Canada ⁹	1004	Contributions in 2 of last 3 years, or 5 of last 10	Flat-rate portion + 75 per cent of imputed retirement pension
Australia	85	Residence requirement	Flat-rate pension
Austria	50	60 insurance months in last 120 months (higher for older individuals)	(Up to age 50): old-age pension * 1.9 * (50-current age) ¹⁰
Belgium	50	6 months, with 120 days worked	65 per cent of lost earnings if dependents, 45 per cent if single without dependents
Denmark	67	Residence requirement	Flat-rate based on degree of disability

Table A4. **Eligibility criteria for invalidity benefits** (*cont.*)

	Minimum incapacity (per cent)	Eligibility/contribution requirements ²	Form of benefits?
Finland	50 ¹¹	Residence requirement (national pension), no qualifying period for employment pension	National pension flat-rate, employment pension imputed old-age pension ¹²
Greece	50	15 years' insurance, 600 days in 5 years before invalidity	imputed old-age pension, adjusted by degree of invalidity
Iceland	75	Residence requirement	Flat-rate + earnings-related supplement
Ireland	¹³	260 contribution weeks, including 48 weeks paid in year preceding disability	Flat-rate pension, reduced if contribution weeks are less than 48
Luxembourg	¹⁴	12 months' insurance in 3 years prior to disability	Lump-sum per month of insurance plus earnings-related supplement plus special age-related supplements
Mexico	50 ¹⁵	150 weeks' contributions	Based on average earnings and length of coverage
Netherlands	25	Residence requirement ¹⁶	Flat-rate scheme and earnings-related scheme
New Zealand	100 ⁴	Residence requirement	Flat-rate, income-tested pension with dependents' supplements
Norway	50	3 years' insurance preceding disability (1 year in some cases)	Flat-rate basic pension plus supplement based on 20 years of highest income
Portugal	67	Contributions for 60 months	2.2 per cent per year of contributions (minimum 30 per cent) * average earnings over best 5 of last 10 years
Spain	33	Temporary invalidity, exhausted sickness benefits, 180 days' contributions; permanent invalidity (ages 26+): insured 1/4 of time from age 20 to occurrence of disability, minimum 5 years	Permanent total invalidity for habitual occupation 55 per cent of reference wage (75 per cent if over 55); incapacity for any work 100 per cent of reference wage Reference wage based on recent earnings
Sweden	50	Residence requirement	Flat-rate basic pension, plus supplement based on actual and imputed pension points

Table A4 Eligibility criteria for invalidity benefits (cont.)

	Minimum incapacity (per cent)	Eligibility/contribution requirements ²	Form of benefits ³
Switzerland	40	1 year's contribution for ordinary pension, complete contribution period for full pension	Earnings-related pension (with minimum and maximum) plus dependents' supplements, also means-tested allowance (eg for non-contributors)
Turkey	67	5 year's contributions, 180 days per year or 1 800 days total	Earnings-related pension based on last 5 year's contributions

Note This information has not been verified by national authorities. It should not be considered official OECD data and is indicative only.

1 Based on risks covered by invalidity scheme and minimum level of disability for work

2 Usual minimum requirements for general invalidity benefit. Disabilities resulting from work accidents may have different (usually more generous) conditions (see Table A8)

3 Asterisk = multiplication sign

4 Individuals cannot regularly pursue any substantial gainful employment

5 Excluding up to five years with lowest earnings

6 Totally disabled and severely disabled only

7 Those in Group 1 are considered still capable of gainful employment; those in Group 2 are not

8 Preceded by entitlement to sickness benefit

9 Some invalidity benefit provisions in Quebec differ from those listed here

10 Old-age pension is based on years of insurance times the average earnings in previous 120 insurance months

11 No strict limits in practice: 50-60 per cent for national pension; 60 per cent for full (40 per cent partial) employment pension

12 Based on 1.5 per cent per year of employment (includes disability) of recent average income (maximum 60 per cent)

13 Available to insured persons who have received sickness benefits for at least 12 months and whose incapacity is likely to be permanent

14 Unable to carry on previous occupation or occupation suited to capacity

15 50 per cent reduction in customary earning capacity

16 There is also a supplementary system of benefits for employed persons

Sources: CEC and MISSOC, 1994; Council of Europe, 1993; Pieters, 1993; US Department of Health and Human Services, 1994

particularly prone to moral hazard: they often provide more generous benefits than unemployment insurance; benefits last longer; and these programmes have permitted firms in some countries to lay off older workers, making disability insurance a form of early retirement. The risks of abuse are all the higher in those countries with high benefit rates.

Social assistance

Most OECD countries offer a range of broad-based, social assistance programmes, providing an ultimate safety net of income support. However, as noted, social assistance schemes differ widely between countries with respect to their role within the overall system of income support and social protection, and in their coverage and generosity (Table A5). Some provide benefits through *general cash assistance* for all or almost all people below some family income level (e.g. British income support, Canada Assistance Plan or Sozialhilfe in Germany and Austria) or through *specific* or *categoric* benefits to specific groups (e.g. unemployment assistance and lone-parent benefits in Australia, Ireland and New Zealand). The importance of *tied assistance* – providing access to specific goods and services in-kind or in-cash – also varies between countries.

Spending on social assistance tends to be highest in the mainly-English-speaking countries, where social assistance programmes are central elements in the overall social security system (Australia and New Zealand), or provide the main means of support for relatively large groups of beneficiaries (the United States, the United Kingdom, Canada and Ireland).¹¹ In countries which generally have well-established, comprehensive social insurance systems, social assistance programmes play a very small role. The Nordic countries – excluding Denmark – along with Japan, Austria and Switzerland spend less than 0.5 per cent of GDP on cash social assistance (although more than this in some cases (e.g. Sweden) when non-cash benefits are included), with more rigorous income and asset-testing and, usually, a greater degree of local discretion in the provision of benefits. For the remaining countries – which generally spend around 0.5 to 2 per cent of GDP on benefits in cash form – programmes exist as important but still minor partners alongside more comprehensive social insurance schemes (Figure 1).

The differences in *social assistance* spending are, once again, largely determined by beneficiary numbers, although benefit rates appear to be an important factor in the Netherlands (Figure 5 and Table A6). Claimant numbers, in turn, are determined by the overall approach to income support (see above): they are high in Australia and New Zealand – where income-tested benefits are the basis of the system – and in Ireland; of a moderate level in the United Kingdom and Canada, where social assistance takes on a substantial supportive role; and low in the Nordic countries, Austria and Switzerland, where social assistance programmes are

Table A5. Selected eligibility conditions for main assistance benefits

	Benefits	Resource unit	Treatment of income ¹	Treatment of assets ²	Child maintenance counted?
United States	1. AFDC	Family	2	2	1. Yes, but with disregard, Others: varies
	2. Foodstamps	Household	3	2	
	3. GA	Family	Varies by State	1-2 varied by State	
	4 SSI	Individual/family	3	2	
Japan	Livelihood Aid	Household	DK	..	
Germany	<i>Sozialhilfe</i>	Household (benefits recoverable outside)	2-3 depending on <i>Land</i>	2	Yes in full
France	<i>Revenu Minimum d'Insertion</i>	Family	2	2	Yes in full
Italy	<i>Minimo vitale</i>	Varies, but normally household	Discretionary but likely to be 1	1	Discretionary
United Kingdom	Income support	Family	1 (but family credit adds taper effect)	2	Yes in full
Canada	Canada Assistance Plan	Family	2 (but varies between provinces)	2	Yes in full
Australia	All	Family	3 (with taper)	2	Yes but with disregard
Austria	<i>Sozialhilfe*</i>	Household	1	1	Yes but only towards child's needs
Belgium	<i>Revenu Minimum d'Existence</i>	Family (but benefits from others)	3 (but reduced after first year)	2	Yes in full
Denmark	<i>Social Bistand</i>	Family (but not cohabitee)	3 (but discretionary)	2	Yes in full
Finland	Social Assistance Allowance	Family	2 (but discretionary)	1	Yes in full

Table A5. **Selected eligibility conditions for main assistance benefits** (*cont.*)

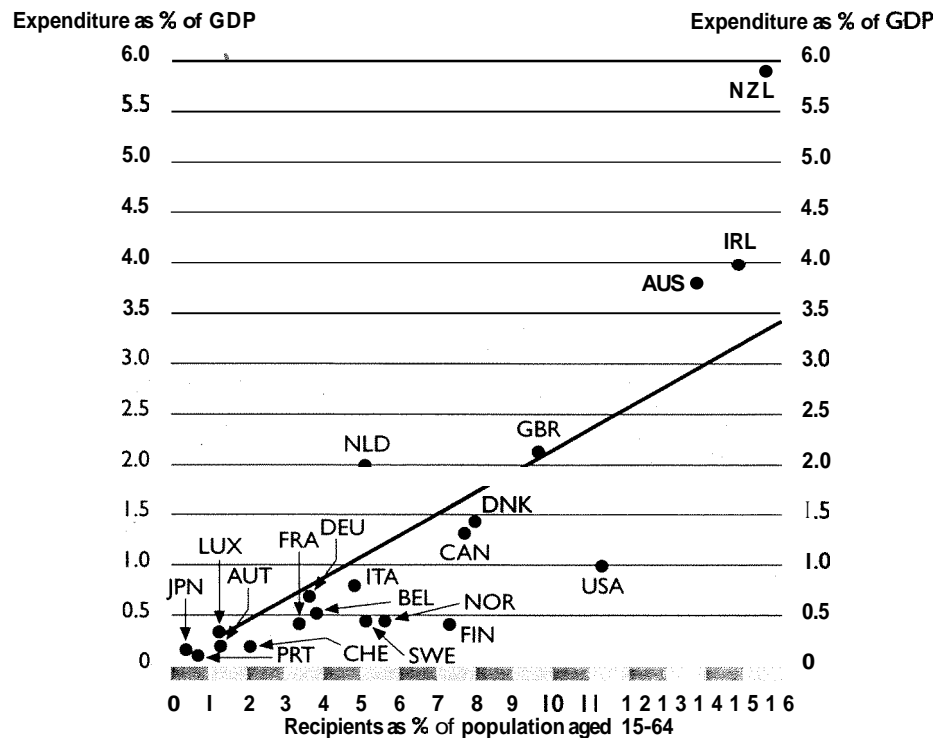
	Benefits	Resource unit	Treatment of income ¹	Treatment of assets ²	Child maintenance counted?
Ireland	12 schemes including Supplementary Welfare Allowance/ Unemployment assistance	Family	UA – 2 SWA – 1	2	Yes in full
Luxembourg	<i>Revenu Minimum Garanti</i>	Household	2	2	No
Netherlands	<i>Algemene Bijstand</i> and Unemployment assistance (RWW)	Family	1	2	No
Noway	Social and Economic Assistance	Family (not cohabitant)	1 (mainly lone parents)	1	Yes in full
New Zealand	All	Family	3 (with taper)	2	Yes in full
Portugal	No general assistance Ten social minimum schemes	Family	1	1	Yes in full
Spain	<i>Ingreso Minimo de Insercion</i>	Family	1	2	D/K
Sweden		Family	1	1	Yes in Full
Switzerland	<i>Soziale Fürsorge</i>	Household	1 (discretionary)	1	Yes but discretionary
Turkey	Social assistance and solidarity	Household	1	1	Yes in full

1 The value 1 indicates countries with a minimum earnings disregard – up to 15 per cent of the standard single person benefit 2 indicates a medium disregard (16-40 per cent), and 3 a higher disregard (over 40 per cent) Approximate calculations

2 The value of 1 indicates countries which take all liquid assets into account, applying only a small disregard for a private dwelling; 2 indicates countries with a higher disregard to liquid assets and which tend also to disregard the ownership of a private dwelling

Source Eardley *et al.*, 1996

◆ Figure 5. *Cash social assistance spending and number of beneficiaries*
1992



Source: Eardley *et al.* (1996) with Secretariat adjustments to remove age-related components.

more of a residual character and beneficiary numbers have been controlled through tighter asset and income tests, strict work tests, and close monitoring. In some of the Mediterranean countries, low beneficiary numbers also reflect the fact that these countries place greater reliance on families to provide support, particularly for younger persons entering the labour force. And, in the United States, the narrower ambit of programmes explains the low number of beneficiaries (excluding those receiving food stamps).

Nonetheless, these systems have been expanding in many countries, a trend which is related to rising long-term unemployment and the exhaustion of insurance-based benefits. But this growth is also related to underlying social trends such as the rising number of lone parents, many of whom have difficulty in finding jobs which permit them to combine work with childrearing. In addition, assistance systems have been increasingly used in Finland, Norway and, to a lesser degree, Sweden to top up other benefits.

Table A6 **Replacement ratios: social assistance as percentage of net disposable income at average earnings, 1992¹**

Before and after housing costs

	Before housing costs			After housing costs		
	Single (35)	Couple (35) + 2 children (7, 14)	Lone parent (35) + 1 child (3)	Single (35)	Couple (35) + 2 children (7, 14)	Lone parent (35) + 1 child (3)
United States						
New York	27	62	48	-0	41	12
Pennsylvania	15	44	20	15	44	20
Texas	6	43	28	10	30	22
Florida	7	68	45	-23	34	9
Japan	25	58	44	24	63	49
Germany	17	44	33	23	63	46
France	26	47	36	30	56	41
Italy	40	47	41	40	51	43
United Kingdom	21	51	38	23	60	45
Canada	19	53	45	5	52	40
Australia	31	67	43	34	72	47
Austria	26	58	34	40	132	61
Belgium	39	53	56	28	44	46
Denmark	54	78	67	41	80	72
Finland	23	65	67	42	96	107
Greece	5	8	7	-7	-31	-16
Iceland					..	..
Ireland	29	55	44	28	68	54
Luxembourg	43	62	46	36	55	37
Netherlands	58	81	69	53	86	68
New Zealand	27	63	49	18	61	43
Norway	54	84	58	34	82	57
Portugal	44	45	68	28	9	30
Spain	26	36	35	19	31	29
Sweden	58	102	60	45	118	59
Switzerland	62	102	77	51	113	71
Turkey	..				..

Note This information has not been verified by national authorities. It should not be considered official OECD data and is indicative only.

¹ Average earnings is defined as the average production worker wage (APW).

Source Eardley *et al.* 1996

Incentives and cross-country differences in other programmes

Sickness, maternity, and occupational injury and disease

Publicly provided benefits covering loss of income due to illness, maternity and work-related accidents and disease exist for most countries. However, these programmes can also include, in the case of maternity, medical costs and parental

leave, and, in the case of industrial injury and disease, health-care costs and possibly pensions.

On average, these programmes – which cover associated but different risks – represented a total of around 1½ per cent of GDP in 1992, and this has remained broadly unchanged over the 1980s (Table 2). Of the three programmes, sickness benefits is the largest, representing just under 0.7 per cent of GDP on average in 1992, down slightly over the period 1980-1992.

The amount of spending varies widely across countries because, compared with other social insurance schemes, there tends to be greater differences across countries in the sharing of the risks (and associated costs) between private individuals and firms on the one hand, and the public insurers on the other (Figure 2b). For example, in Germany and Austria and more recently in the Netherlands and Sweden, enterprises are mandated to provide cover for an initial period of illness, generally about six weeks. In contrast, in Canada and Iceland, there is a two-week waiting period (with the cover in the initial period governed in the former by collective agreements). Public spending in these cases only covers long-term risks. Similarly, maternity benefits are significant and rising in only five countries (Austria, Denmark, Norway and especially Finland and Sweden), reflecting – at least in part – generous arrangements for parental leave.¹²

But spending differences also reflect important incentive effects: while beneficiary numbers are not available in the area of sick benefits, the limited data on the number of work-days lost due to sickness suggest that cross-country differences in spending are greater than would be expected on the basis of health grounds alone (OECD, 1991 and OECD, 1995b). Cross-country differences also may reflect moral hazard and the degree of take-up of sickness benefits. The widespread practice of employers topping-up social insurance or state benefits means that most employees probably face little loss of income for a few days of sick leave, even where there are initial waiting days or replacement rates are less than 100 per cent.¹³ In contrast, employers may be more vigilant over sick leave if they face the full cost of benefits during the first days or weeks

High-spending countries for sickness benefits tend to have a combination of short contribution periods (Finland, the Netherlands and Sweden), a short number of waiting days (Belgium, Denmark, Luxembourg and Sweden), and long benefit periods (one year or more in all countries with above-average spending, except the United Kingdom). In contrast, Australia and New Zealand (with below-average spending) combine more waiting days, shorter benefit periods (also in Canada) and income-tested benefits. While France, Italy and Greece have lower rates of benefit, these countries also have, variously, longer eligibility periods, more waiting days and shorter benefit periods

Early retirement benefits

As noted, early retirement benefits are more generous in certain high-spending countries. The data for the 14 countries where such programmes were detailed show that early retirement benefits averaged 0.4 percentage points of trend GDP.¹⁴ In six countries (France, Austria, Belgium, Denmark, Finland and Luxembourg), spending averaged over 1 per cent. Certain forms of early retirement – flexible pensions and long-service pensions.¹⁵ – can be viewed as a means of improving individual choice and equity and, as long as pension reductions are actuarially fair, the issue of inappropriate incentives is less germane.¹⁶ However, arrangements to allow *early retirement for labour-market reasons* can have negative effects. Such programmes have taken various forms: explicit early retirement programmes for the long-term unemployed (Austria, Finland and Sweden); lengthening of unemployment benefits or assistance payments and/or reduced job search requirements for those approaching retirement age (Germany, the United Kingdom, Australia, Belgium and the Netherlands); explicit early retirement schemes for the unemployed or for older employees (Germany, France, the United Kingdom (1977-78 only), Canada, Austria, Belgium, Denmark, Finland and Sweden). Early retirement for labour-market reasons appears to have been largely aimed at short-term labour-market adjustments, often at a relatively high cost to the public purse for a limited impact on unemployment. Indeed, to the degree that these schemes reduce the difficulties of enterprises in shedding labour, they may have simply shifted costs from the private to the public sector and provided a subsidy for firms.¹⁷ In virtually all cases, replacement rates appear to be higher than for unemployment benefits (Blöndal and Pearson, 1995) and in Italy, Austria, Belgium, Greece and the Netherlands they are around 70 per cent or more.

POLICY REFORMS

This section presents some potential directions of policy reform for transfer programmes. In general, the discussion is based on some of the more promising elements of reform that have actually been implemented in or proposed for Member countries, and that could be applied more widely. Moreover, this assessment takes as a starting point the general structure and objectives of transfer programmes as they are at present; within this structure, it considers what might be done to improve expenditure control, reduce programme abuse, and allow programme objectives to be reached more efficiently and effectively.¹⁸

Possible reforms to social insurance systems are considered first, followed by those to social assistance. It should be noted at the outset that the distinction between insurance and assistance systems is often not clear-cut in terms of both programme organisation and objectives. For example, as noted earlier, insurance programmes in many countries tend to be all-encompassing, with basic assistance

schemes playing a residual role. These programmes – as *social* insurance – play an important redistributive (or equity) role (e.g. from lower to higher risk groups), as well as fulfilling an income smoothing function for contributors.

Nevertheless, the distinction between the insurance and basic assistance aspects of social transfers provides a useful analytical framework for assessing some of the difficulties that can and do arise with social transfer programmes, and for identifying directions of reforms that may lead to better performance.

Within this context, some insights from private insurance markets may be useful with respect to analysis of social insurance. In particular, many of the problems arising in private insurance – including those that would severely limit the ability of private providers to meet broader social welfare objectives – are not avoided, and may even be increased, by providing cover through public insurance. For example, while the problem of adverse selection is countered by requiring compulsory public insurance, the corresponding extensions of coverage (e.g. to higher risk groups), beyond what would be offered in the private sector, may exacerbate risks of moral hazard. Consequently, approaches used in various areas of private insurance to control moral hazard and other problems may provide a better understanding of what can be done to improve the functioning of social insurance cover.

A further advantage of the insurance-assistance distinction is that basic social assistance schemes tend to apply different eligibility and entitlement criteria, generate different incentives, and often serve claimants with different needs, compared with social insurance systems. Hence, some important policy trade-offs arise when a general tightening of access to social insurance forces more people on to assistance-type benefits

Social insurance

There is scope for strengthening some of the insurance-type features of social insurance programmes, largely to control moral hazard and hence improve their financial position. Such reforms would also help make more transparent the redistributive elements of such programmes, and possibly allow these to be supported from broader funding sources. The following sections describe briefly some possible reforms to: *i)* the structure and coverage of the insurance contract; *ii)* the methods used to assess initial and on-going eligibility of claimants for insurance benefits, and *iii)* the level and duration of entitlements available to eligible claimants.

Programme structure and coverage

Public insurance has tended to expand coverage by imposing a standardised insurance “package” on all insurees. This approach risks producing efficiency losses

as a result of restrictions on consumer choice and on the extent to which insurance can be tailored to individual circumstances and risks. There may be scope for allowing individual preferences to be aligned more closely with the insurance coverage they receive. For example, individuals could be given some choice about the proportion of their current earnings they want to insure. Benefit rates would then be adjusted proportionally. A reform proposal which has been put forward in Sweden, for example, would require individuals to insure between 70 and 100 per cent of current annual earnings (up to a cap); insurance benefits would initially be 85 per cent of this insured level (ESO, 1995).

Such choices would nevertheless need to be restricted to some degree. Lower limits would ensure that even low-risk individuals and groups take up some insurance cover. Capping the level of earnings that can be insured (and hence the level of benefits that can be received) provides a means of controlling overall programme costs¹⁹ and helps to ensure that the extent of income replacement is not excessive. This approach implies that replacement rates for low-earners need not change, while individuals earning above the insurance cap would be left to make their own arrangements to cover earnings above the cap against unemployment and other shocks to income. This system is already widespread in OECD countries, although the caps are often high relative to average earnings.

Eligibility

Problems arising from vaguely defined or excessively broad eligibility conditions are most apparent in the case of invalidity and sickness programmes (especially the former). As noted earlier, the wide differences amongst OECD countries, both in levels of spending on these programmes and in spending growth in recent decades, appear to bear little relation to what is known about differences in the incidence of morbidity or disablement. Instead, the growth in spending and case numbers experienced in some countries can be traced to such factors as extensions to eligibility criteria (*e.g.* to incorporate local labour-market conditions), weak control over medical assessments, and self-selection of claimants into more generous and/or longer-lasting programmes (see, for example, Helland, 1994 and Van Popta, 1997).

In response to these and other difficulties, several countries are pursuing reforms aimed at controlling access to these benefits. For example:

- the use of labour-market and other non-medical factors in establishing eligibility for invalidity benefits has been abolished or at least de-emphasised (*e.g.* Australia, the Netherlands and Sweden),
- the definition of disability has been tightened up and made more objective (*e.g.* the United Kingdom, the Netherlands), with existing beneficiaries to be examined on the basis of the new criteria; there have been proposals that

disability programmes cover only certain specified, medically verifiable, conditions (ESO, 1995);

- medical conditions are to be verified by doctors chosen by the programme administration, or by independent panels of doctors or medical experts, rather than the claimants' own doctors (e.g. Norway);
- in the case of partial disability, the scope of work-testing has been broadened to cover all reasonable forms of employment (rather than just the previous job, or a job in the previous industry or occupation) (e.g. the Netherlands).

Several measures have also been taken to control access to unemployment insurance, with restrictions being placed on those whose unemployment status appears to be largely a matter of choice and under their own control. In some cases, described in more detail below, these restrictions amount to sanctions on failure of unemployment insurance recipients to seek, accept, or retain jobs or training opportunities (including placements arranged through public employment services). In addition, unemployment insurance eligibility may be restricted in the case of those who left their former jobs voluntarily. In some countries, those who quit voluntarily are (at least in principle) completely disqualified from unemployment insurance benefits (the United States, France, Greece, Portugal, Spain); a 26-week waiting period is applied in New Zealand, and 12 weeks in Japan and Germany; in several others, 4 to 6 weeks' ineligibility is applied (Canada, Austria, Denmark, Finland, Ireland); and, in most other cases, the waiting period is left to the discretion of programme administrators based on the circumstances of each case.

Countries are also restricting claimants' ability to cycle back and forth between unemployment insurance benefits, training places, and temporary job placements (e.g. in public works schemes). Before recent reforms in Denmark, for example, eligibility for unemployment insurance was virtually unlimited, with short spells in publicly-offered jobs or training slots renewing eligibility for a further, relatively long, period of unemployment insurance benefit. This automatic re-eligibility has now been abolished.

Risk sharing

The scope for moral hazard in claims for unemployment, sickness and disability benefits can also be reduced by changing the way in which insurance risks are shared between the programme as a whole, individual claimants, and their employers. There is concern in several countries (e.g. the United States, Canada and Denmark) that social insurance programmes are providing employers with a low-cost means of adjusting their labour force to routine, predictable changes in demand (e.g. during seasonal downturns), allowing them to offer "voluntary" layoffs in these and other circumstances (see, for example, Raynauld and Vidal, 1994).

The incentives on employers and employees to limit their claims on insurance can be strengthened if these participants face a greater share of the costs of each episode of benefit support, and possibly also if benefit and contribution rates automatically adjust according to the frequency of claims. Such measures might also improve incentives on employers and employees to pursue stable employment and “good health” practices in the workplace.

Possible measures include.

- Introducing (or increasing the number of) uncompensated “waiting days” at the beginning of each episode of unemployment, sickness or invalidity (although basic, targeted support through social assistance might be made available in the case of hardship).
- Giving employers greater incentives to monitor insurance claims. In Spain and Sweden, for example, responsibility for around the first two weeks of each period of sick leave has been shifted from the public social security scheme to employers
- “Experience-rating” employers according to their use of unemployment insurance and basing employers’ contributions on this rating (as in the United States). This would give employers with fluctuating demands for labour a stronger incentive to seek contractual arrangement with employees that allowed employment numbers, hours and earnings to be adjusted more readily to changes in labour demand. Such measures might cause difficulties in regions where seasonal (and other fluctuating) activities predominate (although overall earnings are not necessarily low in such circumstances). However, redistributive objectives in these cases might be administered and funded more transparently through “solidaristic” components of social policy (*e.g.* involving direct regional redistribution and possibly broader-based funding sources), rather than allowing the insurance-related features to be weakened ²⁰
- Strengthening the linkage between employees’ level of entitlement and their employment/contribution record (as suggested in the Jobs Study: OECD, 1994a). For example, a limit could be placed on the number of claims an individual can make in a single reference period; and there could be a limit on total benefits received in a given period.

Entitlements

There is wide variety across countries in replacement rates provided by the main social insurance programmes. Looking at the overall averages for unemployment benefits, net replacement rates for many European countries tend to be around 55 per cent or above, while rates in the mainly-English-speaking countries are generally around 40 per cent or lower (although the United Kingdom is some-

what higher, at 51 per cent; Table A1, final column). Particularly high net replacement rates – of around 70 to 80 per cent – are found in Denmark, the Netherlands and Sweden. However, replacement rates at this level (or even higher) are much more widespread in the case of first-year benefits for single people and those with dependent spouses, as indicated in the more detailed breakdown in Martin (1996). Benefits at this level raise significant concerns about the strength of work incentives that can be maintained in these circumstances.

Limitations on the duration of wage-related benefits, particularly in the case of unemployment insurance, may be an effective tool both for containing programme spending and for reducing work disincentives. There is widespread evidence (c.f. Atkinson and Micklewright, 1991, and Blondal and Pearson, 1995) that the length of unemployment spells may be affected more directly by changes in the duration of benefits than by changes in benefit levels, although the role of the latter is far from negligible and may be subject to long lags (Scarpetta, 1996; OECD, 1994a). Some studies (e.g. OECD, 1993; OECD, 1994a) indicate a positive association between rates of long-term unemployment (*i.e.* lasting one year or longer) and benefit duration.

These and other considerations led the Jobs Study (OECD, 1994a) to argue that wage-related insurance benefits should last a year, at most. Beyond this, individuals may be eligible for social assistance benefits, generally at lower rates than unemployment insurance, and subject also to stricter requirements regarding work-testing, job placements, and other eligibility and entitlement conditions.

A further possibility is for benefit levels to be steadily reduced as duration of the unemployment insurance claim increases (as in France). Recipients would then face an increasing financial incentive to seek and accept work as their unemployment spell lengthened. This incentive could be further strengthened if it were combined with the sort of measures outlined earlier to counter repeat spells of unemployment (or other sorts of claim) – for example, where receipt of current benefits affects future eligibility and/or entitlements.

Social assistance

A fundamental concern in the area of social assistance is to provide "adequate" benefits, but to minimise the incentives and opportunities for long-term dependency. Despite generally lower levels of benefit, the potential for dependency problems is, in several respects, greater under social assistance than social insurance programmes.

- Social assistance is generally available for an unlimited duration. Recipients tend to be long-term unemployed (who have exhausted their social insurance), or those who have very limited or non-existent work histories (and are ineligible for social insurance). Their employability and potential market

earnings will often be low so that the earnings' replacement rates offered by social assistance may in reality be quite high (*see* Table A6).

- The means-testing that accompanies social assistance benefits implies that recipients face very high effective marginal tax rates – often 100 per cent or more – over some range of earned income (OECD, 1994a, Chapter 9).

There may be only limited scope for reducing dependency through cuts in benefit levels alone (Atkinson and Micklewright, 1991 and Moffitt, 1992), and reducing effective marginal tax rates from around 100 per cent to 70 or 80 per cent (the extent of reform that OECD countries have introduced or are considering) may not, in itself, make significant difference to the work effort of many beneficiaries. Nevertheless, such measures may form an important part of a wider range of reforms directed at improving incentives to take up work. For example, increased participation by lone mothers may depend not just on direct financial incentives, but also on the availability and costs of child-care services, and several countries have emphasised the role of such support (e.g. the United Kingdom, Australia, Denmark, Sweden). Australia has introduced separate income-testing of family members, particularly in order to reduce the strong work disincentives that can often face the spouse of an unemployed person (OECD, 1994a; OECD, 1996a; OECD, forthcoming; and Saunders, 1995). As discussed below, several countries have introduced in-work benefits to boost the market earnings of the low-paid and widen the gap between market and transfer earnings.

Case management

One key to curtailing dependency in the presence of weak financial incentives to work may lie in increasing the intensity of benefit administration, particularly through “case management” of benefit recipients. This approach involves co-ordinated application of the following four elements: screening and categorisation of claimants; regular review and monitoring processes; appropriate training and job placement programmes; and effective sanctions.

Screening and categorisation

Careful initial assessment of social assistance claimants is important in that this allows the most appropriate combination of incentives, requirements and programmes to be put in place at an early stage – e.g. stringent requirements for the able-bodied unemployed to seek and be available for work, and to participate in training and other programmes to enhance employability; or rehabilitation for the disabled. Further, as social assistance benefits are generally means-tested, spending can be minimised and desired incentives maximised through accurate measurement of claimants' income, assets and alternative sources of support.

The scope and effectiveness of means-testing can be enhanced through benefit administrations making use of advances in information technology which permit the matching of different administrative records. In Sweden, these include information from other social security programmes (e.g. housing support, and insurance-based programmes); the tax records of SA claimants; employer records; and asset registers (e.g. share registers, housing information, and car registration records (OECD, 1994a; CEC and MISSOC, 1994). In Australia, data matching between the Department of Social Security, the Australian Tax Office, the Child Support Agency, and land titles has been intensified in the 1990s (Mitchell *et al.*, 1994). Complementing these procedures have been such reforms as the introduction of a uniform social security number (the Netherlands) and more stringent reporting requirements on employers (France).

Review and monitoring processes

Containing the risk of dependency requires that there be regular reviews of the eligibility and entitlement status of benefit claimants, and on-going monitoring of their compliance with job-search and other requirements. There is wide variability amongst OECD countries in the *form* of reporting requirement faced by beneficiaries (e.g. signing on in person, or use of postal procedures); the regularity of reporting (ranging from several times per week to only once every two or three months); and in the scheduling of more intensive interviews, especially for the long-term unemployed (e.g. from several times per year, to once every three years).²¹ There is, however, considerable evidence that more intensive contact with and monitoring of beneficiaries help to shorten unemployment duration, identify non-serious claims, improve the targeting of benefits, and achieve net savings in overall costs (OECD, 1991). For example:

- In Australia, the annual general review of eligibility and entitlements of claimants in 1990/91 resulted in 7½ per cent of recipients having payments cancelled, around 10 per cent having them reduced, and a similar share having them increased. In addition, savings appear to have been realised following the deployment of mobile review teams (Mitchell *et al.*, 1994).
- Simply calling claimants in for personal interviews has resulted in a significant number of claimants being struck off the register for failing to show up: nearly 5 per cent in France during 1987, and around 8 per cent in New Zealand in 1990²² (OECD, 1991). Following interviews of the long-term unemployed in France in 1992, 16 per cent of claimants were taken off the register – some due to special factors such as retirement, but others for not fulfilling eligibility criteria (OECD, 1993).
- When the long-term unemployed in the United Kingdom were required to attend a one-week course covering re-orientation and job search, around

9 per cent of those scheduled to attend stopped claiming benefits (OECD, 1994a).

Programmes and job placements

Case management also links the above monitoring processes with compulsory participation for benefit claimants in training, employment, and other active labour-market programmes (ALMPs). Such participation may also involve the use of subsidies, bonuses, and other types of financial incentives for benefit recipients and/or employers, designed to increase the employability of targeted groups (e.g. the long-term unemployed).

Although there is much uncertainty regarding the role and effects of ALMPs, recent surveys (e.g. OECD, 1994a; and OECD, 1996b) generally conclude that they are more likely to be cost-effective and successful with respect to improving re-employment prospects of participants under conditions where

- there has been frequent contact between the public employment service and the unemployed, both to ensure that the latter are "job ready" and to monitor their progress in seeking employment;
- the unemployed are provided with focused counselling and assistance with respect to training, job-search, and employment placements;
- training is closely targeted: requirements need to be clearly identified and then matched with particular training programmes; in contrast, training of a general nature appears less likely to be effective.

Evidence and arguments regarding the effects of specific financial incentives to improve the employment prospects of the unemployed are also mixed but, as above, there may be a role for well-targeted programmes in this area. For example, Atkinson and Micklewright (1991) cite some positive results on unemployment duration from the use of re-employment bonuses in the United States and Australia (where the unemployed are offered a lump-sum bonus on securing a job). However, they suggest that generous, widely-available bonuses may produce significant moral hazard problems. Similarly, there are risks of significant deadweight and substitution costs if generally available wage subsidies are made available to employers who hire the unemployed. Such problems have been observed in Australia and Ireland (OECD, 1994a). However, there is growing interest in a range of OECD countries in wage subsidies which are targeted on the long-term unemployed or members of high-risk groups (such as youths and older workers).

Finally, it is particularly difficult to determine what role, if any, should be played by direct public-sector job creation in the array of ALMP measures. The general tendency in OECD countries over the past 10 to 15 years has been to de-emphasise the use of public-sector job creation, partly because these schemes can

be costly to run in comparison with simply paying benefits, and also because of evidence suggesting that their longer-term impact in reducing unemployment (*e.g.* by helping participants find secure private-sector employment) was generally insignificant (OECD, 1994a; Fay, 1996; OECD, 19966).

Public job schemes may play a very limited role as a selective, last-resort measure once the other options outlined above (including training, job subsidies, etc.) have been used and, after a reasonable time-span, proved ineffective. Such schemes may help to preserve basic work habits and deter non-serious claimants,²³ but are unlikely to be adequate in themselves in promoting a return to regular employment. Job measures would then be limited to the long-term unemployed and other hard-to-place groups (such as those with partial disabilities). This approach to job creation has been used in Australia, accompanied by wage subsidies (Saunders, 1995); occurs at the municipal level in Denmark and Norway; and is incorporated in some of the recent proposals for broader welfare reforms in the United States, Germany and Sweden.

Sanctions

In the case of both social assistance and social insurance programmes, a number of Member countries have applied tougher sanctions in cases where recipients fail to meet eligibility conditions. Some of these were noted above, including ineligibility for benefits or longer waiting periods facing those who leave jobs voluntarily. In addition, sanctions in the form of suspensions or reductions in benefit entitlements may be applied to beneficiaries who are not actively searching for jobs, and to those who do not accept or retain placements in jobs or training programmes arranged through public employment services (OECD, 19966). However, the actual level of enforcement appears to vary significantly both across and within countries. In the Netherlands, for example, the effectiveness of sanctions and of work-testing more generally has been criticised because of lack of co-ordination and co-operation between the various parties concerned (OECD, 1994c); in Finland, increasing case loads have limited the scope for effective oversight; and there is widespread evidence of significant geographic variation in access to benefits: in Canada, for example, the degree of enforcement of sanctions varies across and within provinces, with Quebec appearing to be the only province that applies sanctions in a systematic manner (Eardley *et al.*, 1996).

In-work benefits

The use of additional financial support for low-income earners may provide an important complement to other policy measures discussed here. The growing interest in the use of in-work benefits is indicated by recent developments in the United Kingdom, where the minimum number of weekly hours of work required to qualify

for Family Credit was reduced from 24 to 16 hours in 1992 (particularly to help lone parents seeking part-time work); and in the United States, where the expansion of the Earned Income Tax Credit (EITC) has been a central, broadly-supported element in the current Administration's welfare reform agenda. A general review of these schemes is provided in OECD (1996a).

Such programmes can produce a complex array of labour-market incentives (see, for example, OECD (1994a); OECD (1996a); OECD (forthcoming); and Haveman (1996) for a more detailed assessment). Tax credits or wage subsidies on low earnings can provide a further incentive for welfare recipients to take up even low-paid jobs that might be available. However, the introduction (or increase) in this sort of targeted transfer implies that as benefits are withdrawn at higher income levels, individuals with incomes in that range face higher effective marginal tax rates and may reduce their labour supply.

In a recent assessment of the expansion of the EITC programme, Dickert *et al.* (1995) find that this reform should increase labour-market participation and decrease participation in transfer programmes, (although the results in most cases are rather small).²⁴ They also suggest that overall transfer spending could potentially decline as a result of the EITC expansion.

While encouraging, such findings need to be treated with caution – in part, because of the sensitivity of this sort of analysis to the particular model specifications and data sets that are used, and also because programme details and implications are likely to differ widely across countries. It is also likely that these approaches have to be supplemented with more specific measures targeted on the most vulnerable groups, such as those noted earlier for lone parents and spouses of the unemployed. More broadly, adjustments in tax and transfer arrangements to target support on low-wage workers may play an important role in relation to *distributional* objectives, even if their impact on labour-market behaviour is less clear (Moffitt] 1992)

improving programme administration and co-ordination

Particular difficulties in controlling transfer expenditures appear to arise when programmes are administered by one level of government (*e.g.* locally) and funded by another (*e.g.* centrally). In such cases, local case workers may have little incentive to be cost conscious, and hence to implement stringently work tests and other "requirements" designed to contain programme expenditures. Alternatively, there may be an incentive for programme administrators to move some (particularly the expensive) clients to different budgets, for example where local "make-work" schemes qualify beneficiaries for (centrally financed) unemployment insurance (OECD, 1994d). For example, provinces in Canada have an incentive to shift beneficiaries from social assistance programmes (which are administered and partially

funded at the provincial level) to unemployment insurance (which is federally funded) (OECD, 1994*d*; Raynauld and Vidal, 1994).

Analysis of the advantages and disadvantages of alternative levels of financing is complex, and beyond the scope of this paper. However, there are some indications that decentralised administration of transfer programmes may be more effective than central control in assessing and responding to client needs (e.g. OECD, 1994*a*; OECD, 1995*6*; Gramlich, 1989). A number of countries have moved to decentralise their programmes and to increase the authority and discretion available to agencies at the local level (e.g. Denmark and Sweden).

CONCLUSIONS

A key finding from the analysis of social transfers in this paper is that spending on insurance programmes (rather than social assistance) determines most of the difference in overall spending across countries. For these programmes (but for assistance programmes as well) it seems to be policy and administration-related dimensions of transfer payment systems which explain cross-country differences (both growth over time and in spending levels) rather than, for example, differences in underlying population characteristics or in the risks that programmes cover. Moreover, the evidence presented here suggests that the conditions of eligibility may be the more important factor in accounting for the increases in spending over the earlier post-war period, and the slowdown in growth in the 1980s. This finding is supported by cross-country comparisons of transfer programmes: overall spending differences are driven not so much by differences in average benefits as by the eligibility conditions which determine the number of beneficiaries. This appears to be particularly the case for programmes dealing with incapacity for work and also for broader social assistance. Eligibility conditions are nevertheless very diffuse, with the key rules affecting who can receive benefits differing from programme to programme (and there are some countries where entitlement conditions may also play an important role).

For insurance programmes, there is no call for a reduction in the population coverage: widespread access is an explicit and important objective of policy, and it seems unlikely that private arrangements would provide full cover for many risks in their absence. Nonetheless, there may be scope for remodelling the insurance "contract" to reduce moral hazard and the distorting effects on the labour market. Reducing replacement rates (and lowering maximum benefit ceilings) where these are significantly higher than the OECD average should help restrain spending and also improve labour-market incentives. But for many insurance-type programmes, gains are more likely to be found in tightening-up eligibility conditions. For both insurance and assistance programmes, increased monitoring of beneficiaries and of their fulfilment of eligibility criteria is a key direction of reform. Tighter eligibility

requirements and reduced entitlements are likely to force some additional persons on to social assistance. For these individuals, there may be a worsening of incentives as they face higher effective marginal tax rates. However, this needs to be balanced against improved incentives facing the rest of the labour force

Supporting measures can also help alleviate negative incentive effects, particularly in the area of social assistance. In-work benefits can help at the margin to encourage the take-up of jobs. Increased case management also appears essential, both to reduce the risk of moral hazard (forexample, through the risk of sanctions if there is inadequate job search), and to create conditions which improve the chances of finding work (forexample, through training). Such approaches risk being costly, however, especially in an environment where individual programmes are administered by different agencies and levels of government and where institutional incentives may not encourage active collaboration. Hence, improvements in administrative procedures and programme co-ordination are also important if increased expenditures on case management and in-work benefits are to be offset by the cost savings achieved through reduced numbers of claimants over the longer term.

While this paper has focused on possible reforms to current social transfer programmes, the most effective anti-poverty measures over the longer run would be improvements in employment growth and overall economic performance. In this context, the regulatory reform of labour markets has been widely discussed as a key element (OECD, 1994a). Such reforms, designed to encourage and permit a return to regular employment, would offer the best prospect of reducing benefit dependency and providing sustainable improvements in living standards.

NOTES

1. Because most policy concern has been voiced over expenditure control, most of the attention of this paper is focused on publicly provided cash benefits. The role of other potentially important policy instruments – for example, tax expenditures, benefits in kind and labour-market measures – is by-and-large not covered here. This can distort cross-country comparisons.
2. The US unemployment insurance system, where premiums paid by employers are risk-rated, is an exception here.
3. Data for the period 1960 to 1980 were drawn from OECD National Accounts data and the analysis contained in Saunders and Klau (1995). From 1980 on, the data came from the Social Expenditure (SOCX) data file recently constructed by DEELSA. National Accounts data, which are on an accruals basis, are not always fully consistent with the cash-based data presented in the SOCX data file.
4. For a more detailed examination of some of the implications of these effects for total transfers, see Adema *et al.*, 1996, who show that the differences across six countries in the share of total social transfer spending in GDP narrows sharply once these factors are taken into account and in some cases changes the ordering. Differences across countries can reflect a large number of factors in addition to benefit rates on entitlements, *e.g.* the age structure of the population; use of tax expenditures rather than transfers; and regulatory arrangements (*e.g.* mandating employers to provide benefits). Possibly the most important single factor distorting comparisons of spending across countries is the tax position of benefits. Countries which tax benefits must pay a higher pre-tax benefit to reach the same after-tax benefit in a country which does not tax. The majority of countries do tax benefits to a certain degree, but there are important differences in tax treatment and the impact can be very different depending on the tax structure. For example, in countries which have a high tax burden, and which collect a large portion of total taxes through direct taxes, the clawback of benefits through the tax system will be more important. This is the case for Denmark, the Netherlands, Norway and Sweden, all of which are high-spending countries.
5. The calculation used the following formula:
$$\text{EXP/GDP} = (\text{TG/POP} \times \text{RES})$$
where $\text{RES} = (\text{EXP/TG})/(\text{GDP/POP})$, *i.e.* the expenditure per target group member normalised by per capita GDP. EXP = expenditure per component; POP = working-age population and TG is the target group. Target groups were, for example, the unem-

ployed for unemployment benefits and the employed for disability and sickness benefits. Tables concerning these changes are available from the authors on request.

6. The breakdowns for each country reflect arbitrary decisions on how to classify programmes. The definitional difficulties are greatest in the areas of income-related child-care benefits which could be classified in either category (e.g. Aid for Families with Dependent Children in the United States). In general, the classification used in the SOCX data file (OECD, 1995a) has been followed. The data on social assistance in Figure 1 have been drawn from Eardley *et al.* (1996) as the SOCX data file does not distinguish between assistance and insurance-type spending even though many of the programmes classified in the "other" category in Table 2 are of an assistance nature. Thus, in Figure 1 insurance spending is the net amount after deducting family benefits and assistance spending from the total.
7. Social assistance and family benefits are often intermingled (particularly when the latter are income-tested), as larger families often tend to be poorer once income is adjusted for family size. There may be some double-counting where the estimate of social assistance includes income-tested family benefits, for example for AFDC benefits in the United States. In this case, the relative importance of insurance-based spending (the residual) will be underestimated.
8. Unemployment was already increasing in North America, the United Kingdom, Australia and New Zealand, but the full effects of the recession had not yet been felt in Europe. The level of spending increased further to reach an estimated OECD average of 2.1 per cent of GDP in 1993. Particularly sharp increases have been seen in Finland and Sweden. Furthermore (as noted above), unemployment assistance benefits are included in these data where such programmes can be separately identified. In contrast, the basic income support provided (particularly to long-term unemployed) through general assistance programmes (e.g. in France, Canada and the Nordic countries) is not included.
9. Although this is not the case for New Zealand. But the average benefit rate is higher.
10. Values of more than 100 per cent are possible where definitions of those able to receive benefits differ from the criteria used to define who is unemployed (e.g. using sample surveys).
11. Note that data for social assistance are drawn from Eardley *et al.*, 1996 and include spending – such as unemployment assistance – which is also included in insurance programmes in Table 1. See note 6. The United States is unique in this group, however, because of both the less-than-comprehensive cover of cash benefits (which are not usually available to able-bodied individuals without children), and the relative importance of in-kind benefits (particularly food stamps and medical cover through Medicaid).
12. Further, there are no statutory provisions for sickness benefits in the United States, although seven States have introduced them. In Switzerland, the Federal Government stipulates insignificant cash benefits and no canton has made sickness benefits compulsory. Maternity benefits do not exist in the United States and are not recorded in Australia (where they are income-tested) and in New Zealand where they are limited to lone parents.

13. In some countries, permitted sick days off may have come to be considered simply as extensions of paid holidays. In other cases, for example Sweden, they may have been considered – at least up until the recent reforms – as part of broader social goals, such as work-sharing (Bjorklund and Freeman, 1994) and allowing parents to combine economic activity with child-raising (Esping-Andersen, 1990).
14. The data generally cover programmes for early retirement for labour-market reasons, and exclude actuarially-neutral early retirement within existing old-age pension systems. However, in some cases, data can also include certain special programmes of early retirement under old-age pensions, particularly special arrangements for declining industries or in the public sector (France, Italy, Austria, Denmark, Finland and the Netherlands).
15. Flexible pension arrangements which allow people to retire early on an actuarially reduced benefit exist in the United States, Germany, France, Canada, Belgium, Finland, Greece, Spain and Sweden, while long-service pensions which permit early retirement after a minimum of 35 to 40 years of contributions are found in Germany, Italy, Austria, Belgium and Greece.
16. For a more detailed description, see OECD (1995c).
17. Where the hiring of an unemployed worker is required for a subsidy to be paid – for example, the French *Contrats de solidarité* – firms have been able to lay-off higher-cost older workers (which could otherwise be difficult because of their seniority), and replace them with younger workers at a lower wage. The impact on overall employment and unemployment is likely to have been weak, even though firms were required to hire an unemployed worker: normal turnover would probably have permitted many firms to adjust to their desired level of employment in a relatively short period of time in any case. Such programmes thus are of low efficiency in terms of their objectives. Moreover, they may (at least for a time) have reduced pressures for other, more important and far-reaching, reforms to labour-market arrangements.
18. A fundamental review of the objectives and structure of current transfer programmes is clearly important for longer-run policy consideration, but is beyond the scope of this paper.
19. Although the scope for net savings is diminished to the extent that caps are also applied to the contributions' base.
20. There is a trend (particularly in Europe) towards governments distinguishing between the "solidarity" and "insurance" elements of their social security programmes – the former covering the redistributive aspects of schemes, and the latter focusing on the income-maintenance elements (CEC and MISSOC, 1994).
21. Some country detail of these requirements are provided in Tables 7.8 and 7.9 of OECD (1991).
22. In both cases, some claimants may later have been reinstated (e.g. when their eligibility was verified), implying some costs associated with "churning" individuals through administrative procedures. Overall savings from more intensive contact with claimants still appear likely however – as suggested by the Australian evidence cited in the previous

paragraph – and by the high costs if even a few per cent of total transfer payments are misdirected (as noted in OECD, 1994a).

23. Even if short-term job placements, subsidies, etc. lead to some “cycling” of the unemployed between spells on job schemes and spells on unemployment, this may be preferable to prolonged unemployment for a hard core of benefit recipients.
24. The probability of working increases by 3.3 per cent for lone parents and by somewhat less for primary earners in two-parent families. However, this positive effect on hours is partly offset by the responses of those persons (80 per cent of EITC recipients), who may reduce hours because they fall into income ranges where benefits are flat or withdrawn as income rises (*i.e.* where income and substitution effects act to reduce the incentive to work).

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