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Lower unemployment benefits and old-age pensions is a major setback in social policy

Abstract

The Swedish welfare state has been subject to a substantial re-organization in recent decades, not always recognized in the international literature. Almost every area of social policy have changed, often in the downward direction and with potential far-reaching consequences for the social sustainability of the Swedish welfare state. In this research note, I discuss significant changes to Swedish social policy and place the reorganization of the Swedish welfare state in an international perspective. Focus is on old-age pensions and unemployment benefits. Both areas are characterized by significant changes.

Keywords: social policy, cutbacks, welfare state

THE SWEDISH WELFARE state has attracted considerable attention in the social policy literature. In contemporary sociology and related social sciences, Sweden is often considered an archetypical case of a social democratic welfare state regime, where all (or nearly all) citizens receive high degrees of social protection through state legislated programs (Esping-Andersen, 1990). This social democratic model is often contrasted against the liberal welfare state regime, which by comparison places stronger emphasis on market-based provisions. Recent decades have presented new challenges to the Swedish welfare state and with far-reaching consequences for the organization of social policy. Both the provision of cash benefits and services have changed. Whereas cash benefits in many instances have been subject to cutbacks, elements of new public management, marketization and reforms to strengthen user choice characterize many service areas (Fritzell et al., 2013). This nearly complete overhaul of the Swedish welfare state is not fully recognized internationally.

In this research note, I discuss changes to Swedish social policy and place the reorganization of the Swedish welfare state in an international perspective. Is Sweden moving away from the social democratic welfare state regime? It is not possible to provide a comprehensive analysis of all changes that have been introduced to the Swedish welfare state. Due to the prominence of cash benefits for the pooling of risks

and resources that traditionally have characterized Swedish social policy, focus is on income replacement in areas of old age and unemployment. Developments in both these areas have been exceptional and to some extent symbolize the metamorphosis of the Swedish welfare state. Most of the empirical evidence presented below comes from research carried out by sociologists in the Swedish Institute for Social Research (SOFI) at Stockholm University. At SOFI, considerable efforts have been devoted to analyze the role of distributional conflict for the development of social citizenship – broadly interpreted as bundles of specific rights and duties associated with the expansion of welfare states in the post-World War II period. This includes the development of new research infrastructures to facilitate comparative analyses and to reorient the empirical study of welfare state development from crude measurements of aggregate social expenditures to more refined institutional analyses on the actual content of social policy (Ferrarini et al., 2013).

Changing social policy

For much of the post-war period, Sweden has been at the top of the equality league. However, similar to many other countries, Sweden has experienced major challenges in the most recent decades, in part caused by increased fiscal constraints, a return of mass-unemployment and demographic developments, such as aging populations and refugee immigration. In this period, income differences in Sweden widened and social policies have in many instances been scaled back or substantially reorganized (Bäckman and Nelson, 2017).

To illustrate some of these changes to social policy, Figure 1 shows net replacement rates in old age pensions and unemployment insurance for the period 1990–2015. In order to situate Sweden in an international perspective, for each program I also show averages for 17 longstanding OECD countries. All this data is from the Social Policy Indicators Database (SPIN), www.sofi.su.se/spin. Replacement rates reflect the extent to which normal living standards are protected through legislated rights to economic compensation. They are calculated by relating the net benefit (after taxes and social security contributions) of a typical type-case to the net wage of the same household type. Benefits reflect those provided to a production worker earning average wages and for ease of presentation the type-case is assumed to be single without children. For each program, entitlements are expressed as percentages of an average production worker's net wage.

In the mid-1990s Sweden introduced a new multi-tiered pension system with a funded component. This new pension system introduced elements of individual risk-taking and linked parts of pension entitlements to macro-economic developments. For example, it is mandatory for all citizens to invest the funded component on the stock market. The new income pension may also automatically be reduced during economic downturns. It was generally assumed that this measure of economic stabilization in the pension system would never be used, but it has already lowered benefits twice since the most recent global financial crisis beginning in 2007/2008. Since

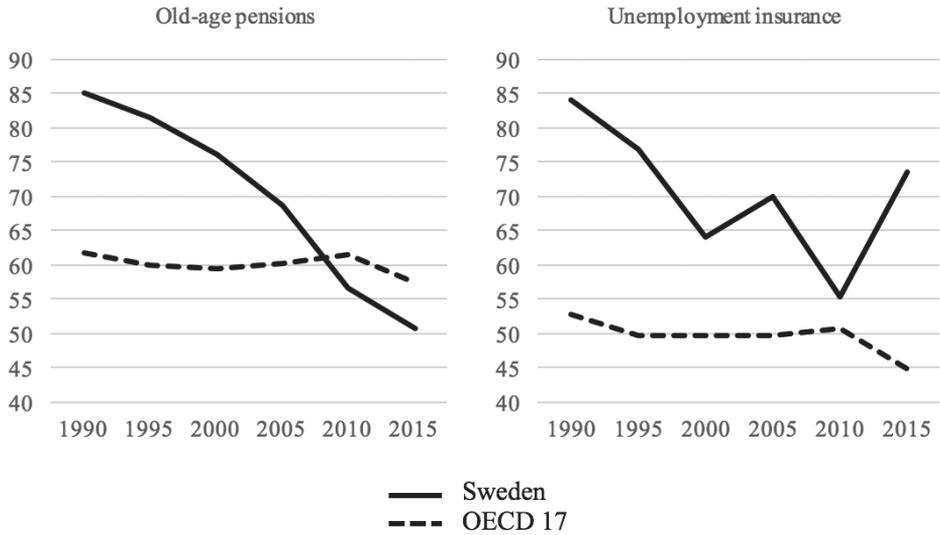


Figure 1. Net replacement rates in old-age pensions and unemployment insurance in Sweden and 17 OECD countries (average), 1990–2010. Source: The Social Policy Indicators Database (SPIN).

1990, when replacement rates in most social insurance programs peaked in Sweden, pension entitlements have declined substantially. In 2015, the net replacement rate of the Swedish old-age pension was down by about 40 percent from its levels in 1990. Notably, income replacement in the Swedish old-age pension is nowadays even below that of many other OECD countries.

Unemployment benefits have also undergone substantial changes in Sweden. Cutbacks to unemployment insurance were introduced during the deep economic recession in the first half of the 1990s, including a reduction of the formal rates of income replacement and non-decisions to avoid updating of income ceilings for benefit purposes to wage increases. This downsizing of social protection continued well into the 2000s, not least as part of government policy-packages to increase work incentives by the introduction of an earned income tax credit for those in gainful employment. At average wage levels, unemployment insurance replacement rates declined by more than a third in Sweden between 1990 and 2010. For higher wage earners replacement rates have deteriorated even faster. Relative to the development of wages, the maximum unemployment benefit was halved during this period (Ferrarini et al., 2012). Notably, these developments made the Swedish system of unemployment benefits less generous, also by international standards. However, it should be noted that income replacement in the Swedish unemployment insurance program were somewhat restored in 2015 when the income ceiling for benefit purposes was raised.

Besides these changes to income replacement in unemployment insurance, also eligibility criteria and financing have been modified, often restricting access to social insurance. According to estimates from the Swedish government, the share of the unemployed eligible for earnings-related unemployment benefits has declined substantially in Sweden, from 80 percent in the beginning of the 2000s to about 40 percent in the mid-2010s. Meanwhile, the number of beneficiaries and expenditure of social assistance have increased. Against the backdrop of cutbacks in the public programs, occupational and private insurances against losses in work income – which previously was almost absent in Sweden – have become more prominent. Figures from the OECD show that private social expenditure as a percentage of GDP more than tripled over the last three decades in Sweden. The corresponding increase in public social expenditure was only about 10 percent.

Concluding discussion

Due to the changes introduced in major cash benefit programs, Sweden has dropped in international rankings of welfare state generosity. Compared to its equal peers (i.e. longstanding OECD countries), Sweden occupied the top positions considering both unemployment and pension net replacement rates in 1990. Two decades later, in 2010, replacement rates in unemployment and old age pensions in Sweden were substantially lower. Whether Sweden still can be described as the archetype of a social democratic welfare state regime is questionable. In areas of central relevance for the pooling of risks and resources in the welfare state, Sweden has moved much closer to the liberal regime than what is commonly recognized in the literature.

In the short-term, changes to Swedish social policy may increase inequalities. To some extent, developments in this direction can already be observed. According to the OECD, income inequality has grown more in the Sweden than in most other rich countries, albeit from a low starting level. Not all of this increase in income inequality can be attributed changes to social policy. Nonetheless, the two trends in benefits and incomes raise concern. In the long-term, substantially eroded social benefits may impact negatively on the possibilities to encourage cross-class alliances in defence of a large welfare state, thus threatening the social sustainability of publicly provided social protection. This implies that it may prove very difficult in the future to restore the system and move the Swedish welfare state closer to its social democratic origin.

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