

The Universal Welfare State: Theory and the Case of Sweden

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In the existing literature on welfare state typologies, the concept of the universal welfare state is not defined precisely enough to allow for comparisons of universality over time and between countries. In this paper, I discuss some problems with the way the term ‘the universal welfare state’ has been used and I suggest possible solutions. Among other things, I propose that the term ‘universality’ be used to describe the provision of a specific welfare benefit independently of individual income and/or other individual characteristics. It should also be used to describe the coverage of welfare benefits rather than their size. Based on the theoretical discussion, a number of possible indicators of universality are applied to the case of Sweden in the 1990s. The conclusion is that, despite its economic crisis, universality in Sweden did not decrease.

The universal welfare state continues to be a popular topic among social scientists. Research in this area has generated a large literature spanning numerous issues. For example, some authors argue that the degree of welfare state universality in a society is positively linked to levels of trust (Rothstein, 2002), social capital (Kumlin and Rothstein, 2003) and to the possibilities for poverty relief (Korpi and Palme, 1998). Despite this large and growing body of work, the research literature lacks a clear-cut and non-ambiguous definition of ‘the universal welfare state’. This causes problems, not only for theoretical research, but also for empirical investigations such as cross-country comparisons and evaluations of changes in universality over time.

In this paper, I review the literature on welfare state classifications and discuss a number of problems with the way the term ‘universality’ is used. For example, it is used both to describe the size and coverage of benefits and to describe welfare states and welfare programs. To amend these problems, I formulate a number of questions that, if explicitly answered, allow measurable indicators of universality to be constructed. To illustrate this, I apply the theoretical discussion to the case of Sweden and evaluate the universality of the Swedish welfare state during the 1990s. A number of authors have pointed to Sweden as an example of the universal welfare state in practice (Stephens, 1996; Cochrane and Clarke, 1993; Esping-Andersen, 1990). But that research was carried out before or even during the economic crisis of the 1990s, a crisis that struck Sweden with an impact considerably larger than in many other countries. To examine whether this led to changes in the degree of universality during the 1990s, I contrast the actual situation in Sweden with theoretical models of universality. The deviations are used to identify indicators of universality that are followed during the 1990s. The results indicate that universality was roughly constant during this period.

In the next section, the literature on welfare state typologies in general, and the universal model in particular, is reviewed and analyzed. A brief discussion of the so-called 'paradox of redistribution' (Korpi and Palme, 1998) and the politics of the welfare state is also included here. In the third section, the case of Sweden during the 1990s is studied.

The Universal Welfare State in Existing Literature

There is some confusion regarding the appropriate labels for different types of welfare states. For example 'universal', 'social democratic', 'institutional', 'comprehensive', 'encompassing' and 'Scandinavian' describe roughly the same thing. Rothstein (1998) points out the correspondence between universal and institutional welfare states, Sainsbury (1991) notes the equivalence between institutional and comprehensive welfare states, and Stephens (1996) claims that social democratic and institutional welfare states are equivalent.

In this paper, I will use the term 'universal', except when referring to other sources (when the original label is used). This seemingly crude choice is made after mature consideration.¹ Ascribing different meanings to different labels would likely cause more confusion than the assumption that all labels refer to roughly the same thing. Furthermore, other labels may be more difficult to interpret or might send thoughts in very specific directions. For example, the terms 'social democratic' and 'Scandinavian' are based on party politics and geography; but however obvious this may seem from a historical point of view, there are no clear theoretical arguments why this type of welfare state is more social democratic than, say, liberal or more Scandinavian than, say, North American.² As will be shown, it can also be argued that the term 'universal' is in some sense appropriate with regard to what it reasonably refers.

A Literature Review

The literature review that follows is based both on classics in the field and on recent research where the concept of the universal welfare state is studied or at least implicitly defined. The contributions covered are Titmuss (1974), Esping-Andersen (1990), Sainsbury (1991, 1996), Stephens (1996), Korpi and Palme (1998), Rothstein (1998, 2001) and Timonen (2001).

The classification of different types of welfare states has been a big research topic for social scientists at least since the work by Titmuss (1974), who makes a distinction between three ideal types of welfare state: the 'marginal' (typical for Anglo-Saxon countries), the 'industrial achievement' (typical for Central European countries) and the 'institutional' (typical for the UK and Scandinavia). His institutional model (sometimes referred to as the 'institutional redistributive' model) combines the principles of comprehensive social provision with egalitarianism and guarantees benefits to all citizens or residents. Thus, the welfare state provides a set of welfare services and benefits that everybody enjoys on an equal basis. The current standard reference is Esping-Andersen (1990), who identifies three different models, similar to those identified by Titmuss: the 'corporatist', the 'liberal' and the 'social democratic'. Sweden is an example of the last model:

a mix of highly de-commodifying and universalistic programs ... manual workers come to enjoy rights identical to those of salaried white-collar employees ... All strata are incorporated under one universal insurance system, yet benefits are graduated according to accustomed earnings ... All benefit; all are dependent; and will presumably feel obliged to pay. (Esping-Andersen, 1990, p. 27)³

The Esping-Andersen study is the basis for the main part of the contemporary discussion on welfare state typologies. For an example and a discussion of welfare state comparisons, see Cochrane and Clarke (1993).

Whereas Titmuss and Esping-Andersen work with three different models, Sainsbury (1991) uses a duality between the 'residual' and the 'universal' models. The differences between these two models are described in ten dimensions (Table 1).

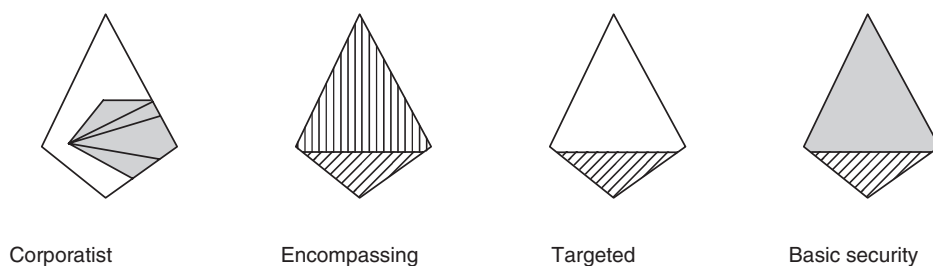
It is evident that the universal model is more precisely defined in some dimensions than in others: a high income share devoted to social purposes as opposed to a low income share, and 'adequate' rather than 'meager' benefit levels, are examples of qualitative descriptions rather than precise definitions. Note also the somewhat circular definition of the universal model as a model where the dominant programs are universal. Sainsbury's description of the universal model is very close to Stephens (1996) explanation of the institutional model: 'The institutional model combines citizenship benefits equal for all citizens with income security for the working population in cases of temporary (illness, unemployment) or permanent (retirement, work injury) interruption of work' (p. 34). Stephens also states that 'Broad, usually universal, coverage, high income replacement rates, the scope of citizenship rights, and service intensity are four of the basic institutional parameters of the Scandinavian welfare states. ... Additional dimensions are liberal qualifying conditions for benefits' (p. 34).

Many of the characteristics used by Sainsbury and Stephens also appear in the encompassing model in Korpi and Palme (1998). Here, a number of ideal-type

Table 1: The Residual and Universal Model (according to Sainsbury, 1991)

<i>Dimension</i>	<i>Residual model</i>	<i>Universal model</i>
Social purposes' share of national income	Low	High
Level of benefits	Meager	Adequate
Range of statutory services and benefits	Limited	Extensive
Population covered	Minority	Majority
Importance of programs preventing needs	Non-existent	Substantial
Dominant type of program	Selective	Universal
Role of private organizations	Large	Small
Ideology of state intervention	Minimal	Optimal
Need-based distribution as a value	Marginal	Secondary
Type of financing	Contributions fees	Taxation

Figure 1: Four Ideal Types for the Organization of Social Security (according to Korpi and Palme, 1998)



Note: The four-sided illustrations represent the social structure of society; the vertical distance represents different incomes (with low-income earners at the bottom), and the horizontal distance represents a cross-section of the population at different income levels. Heavier dashed shading indicates flat-rate (basic) benefits. Light grey shading indicates income-related benefits. Angled lines in the corporatist model indicate insurance programs organized separately for different occupational categories. Finally, blank areas represent non-covered population.

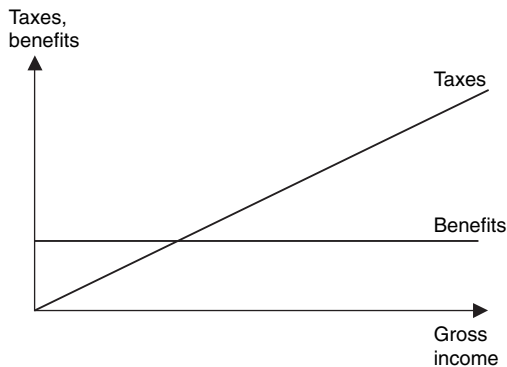
models of ‘social insurance institutions’ are described: ‘targeted’, ‘corporatist’, ‘basic security’, ‘voluntary state subsidized’ and ‘encompassing’. These are illustrated using graphical conceptual models (four examples of which are given in Figure 1).

Korpi and Palme (1998) argue that because the encompassing model covers the entire population with either flat-rate benefit or earnings-related social insurance, it crowds out less egalitarian institutions (such as market insurance). Therefore, the encompassing model is the most redistributive of the ones depicted. This is known as the ‘paradox of redistribution’ because of the somewhat counter-intuitive finding that the system, in which low-, middle- and high-income earners are equally entitled to benefits, is the one where low-income earners in some sense gain the most. By adding public consumption to the flat-rate and earnings-related benefits of the encompassing model in Figure 1, we obtain a standard description of the universal welfare state divided into three parts:⁴

- (1) publicly produced, universally available services (such as health care, education, the care of children and the care of the elderly);
- (2) a system of universal flat-rate benefits tied to citizenship (such as basic pension or child allowance);
- (3) mandatory social insurance (such as earnings-related pensions, sickness pay or parental insurance).

Rothstein restates the paradox of redistribution by noting that ‘it is states that tax everyone “the same” and give everyone “the same” that best redistribute income’ (2001, p. 219). This statement is illustrated with a model of the universal welfare state, where proportional taxes finance universal benefit programs. He defines universal programs as ones that cover the entire population without consideration of ability to pay. He also states that universal benefits and services are characterized by the fact that individuals ‘receive *on average* the same sum in the form of cash benefits or subsidized public services’ independently of their income (p. 219). A

Figure 2: The Universal Welfare State as Proportional Taxes and Flat-Rate Benefits (based on Rothstein, 1998, 2001)



numerical example, corresponding to the model depicted in Figure 2, illustrates the redistributive mechanisms of the universal welfare state (Rothstein, 1998, p. 147; 2001, p. 218).

Rothstein (2001) emphasizes the fact that the set-up with flat-rate benefits and proportional taxation has a large redistributive effect, despite the lack of progressive taxation. Finally, he also asserts that Sweden and a few other countries can be labeled as universal welfare states:

Speaking from an institutional perspective, what best characterizes the Swedish and the other Scandinavian (and some other North European) welfare states, is that most programs are universal, not selective. This means that social programs such as old-age pensions, health care, child-care, education, child allowances, and health insurance, are not targeted to ‘the poor’ but instead cover the entire population without consideration of their ability to pay. (Rothstein 2001, p. 218)

The sources reviewed illustrate that the term ‘universal welfare state’ is used differently by different authors, yet roughly refers to the same thing. As will be shown, a number of questions must be answered before the term is precise enough to be used for comparisons over time and between countries.

Universal Welfare States or Universal Welfare Systems?

Both Esping-Andersen (1990) and Sainsbury (1991) use the somewhat circular argument that universal welfare states are welfare states with universal welfare programs. To make sense of this, universality must be understood primarily as a characteristic of welfare programs. As noted by Rothstein (1998), a welfare state can consist of several different programs with varying degrees of universality. Following this line of reasoning, more-universal welfare states are states where universal programs play a bigger role (as measured, for example, by their share of total public expenditures). The universal welfare state thus becomes an ideal type,

and in practice we do not expect to see welfare states consisting of exclusively universal programs.

Universal Welfare Programs: A Matter of Size or Coverage?

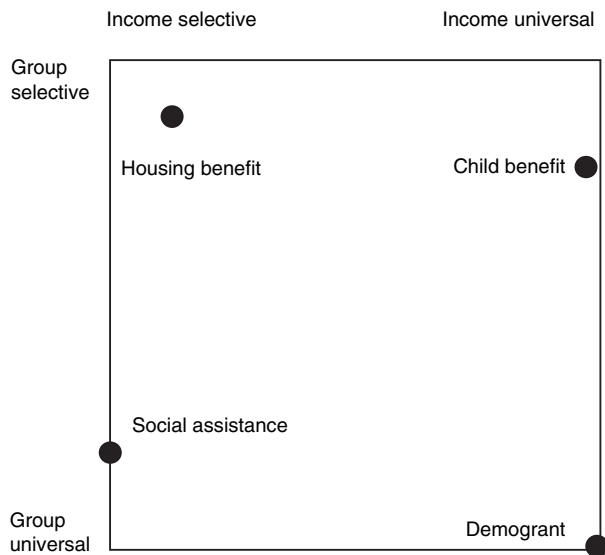
A number of authors define universality in terms of both benefit levels and benefit coverage. This causes problems, because the choice of benefit level is separate from the choice of what groups should be covered by the benefits. Such a definition also makes it difficult to make comparisons between countries and over time; for example, which is more universal *ceteris paribus*, a country where benefits cover all citizens but at a very low level, or a country where the benefit levels are substantially higher but only cover two thirds of the population? This illustrates the problems that arise when too many dimensions are included in one term. The simplest solution is to discriminate between universality of benefits and the size of benefits, using universality as a characteristic of benefits with high coverage, independently of the size of benefits.

Universality of What?

If universal welfare programs are universal because they provide a specific benefit to all citizens of the welfare state, what is the benefit provided? Superficially, this question may seem trivial, but the answer is not always clear. Is subsidized hospital care a universal welfare benefit? Not if the benefit is the care itself: publicly funded hospitals only provide treatment to those who need it (although the determination of needs is debatable). Most would argue that the relevant benefit in this case is not hospital care itself but rather access to it.⁵ In many cases however, it is less clear what the relevant benefit is. In fact, the primary purpose of particular welfare programs is often subject to political disagreement. Universality cannot be evaluated without making assumptions about what is the relevant benefit. When we allow benefits to be abstract (such as access to health care rather than health care itself), Rothstein's definition of universal welfare programs as programs where 'all individuals receive on average the same sum in the form of cash benefits and/or subsidized public services' is clearly too narrow.

Independently of What?

A frequently occurring theme in the literature is that universality is about granting all citizens of the welfare state benefits independently of certain characteristics. Once the relevant benefit is defined, the question that must be answered is 'independently of what?' In theory, a certain benefit can be granted independently of many different dimensions. However, the literature shows that some dimensions are considered to be more important for universality than others. For example, all authors agree that universality is increased when benefits cover a bigger proportion of the population. Another important type of independence is that benefits are granted independently of individual income or ability to pay. Because these two types of independences stand out very prominently, it is worth discussing the difference between them thoroughly.

Figure 3: Classifying Welfare Programs According to Two Types of Universality

Note: Child benefit is group selective (only families with children under 18 are eligible) but income universal (all families receive the benefit regardless of the parent(s) income). Housing allowance is tested against income but also against rent, household composition and area. Social assistance is income tested, but all citizens are at least partly entitled (but even if all citizens are entitled to social assistance, this might still exclude refugees or immigrants – thus most, if not all, actually existing benefits fall short of true group universality). Demogrant, given that all are entitled, is an example of a benefit that is both income universal and group universal.

Suppose that benefit *X* is granted to all citizens whose income is below a certain limit. Then, for all citizens, *X* is independent of all dimensions except income. To illustrate the opposite, suppose that benefit *Y* is granted to all persons who fulfill a number of different criteria, none of which include personal income. Then *Y* is independent of income. Policy *X* might be a law stating that everybody without income shall be offered shelter for the night during the winter. Policy *Y* might be a law stating that everybody from working-class families who studies to be a physician shall receive a scholarship worth a certain amount from the state. Are these benefit programs universal or not? The question can be answered by making a distinction between income universality and group universality. Programs where the benefit is independent of income – but possibly conditioned on a number of other personal characteristics – can be called ‘income universal’. Programs where benefits are conditioned only on personal income can be called ‘group universal’. The distinction between income universality and group universality simplifies the classification of a number of (actually or theoretically) existing welfare programs. The distinction also relates to the two-dimensional conceptual illustrations in Korpi and Palme (1998), where universality can be limited in two ways: by excluding certain incomes and by excluding certain groups from benefits. Figure 3 illustrates how

the distinction between income universality and group universality provides a framework for analyzing the components of the welfare state.

A Matter of Policy Intentions or Policy Outcome?

Finally, an important question to ask is whether universality is used as a characteristic of policy intentions or policy outcome. This is especially important if universality is evaluated over time, because the two do not necessarily move in the same direction. For example, more generous qualifying rules for social insurance may indicate policy intentions towards increasing group universality. But if this policy measure is introduced just before a recession, the outcome may still be decreased coverage of social insurance, if the policy measure was not enough to offset influence from other negative economic circumstances.⁶

Universality, Social Insurance and the Paradox of Redistribution

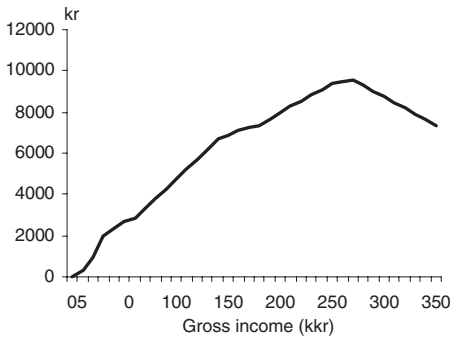
As noted in the introduction, Korpi and Palme (1998) observe that universal systems enhance the possibilities for poverty relief. Their result is referred to as the ‘paradox of redistribution’, because of the somewhat counter-intuitive finding that systems where benefits are not targeted towards low-income earners are the ones where low-income earners gain the most. The standard theoretical explanation of this finding is that universal – as opposed to targeted – systems receive broad political support and generate more egalitarian outcomes than competing market institutions. The following example demonstrates how this works in a setting where proportional taxes finance benefits defined as ‘income replacement ratios’ – a situation similar to many modern welfare states, including Sweden’s.

Consider a society where all individuals are subjected to some risk of temporarily losing their income, and assume that the risk is higher for people with lower income. The idea of social insurance with income protection is to tax everybody and to provide income replacement benefits to those who lose their income. If the tax and replacement rates are the same for all, there will still be a redistributive effect because of the inverse relation between income and risk: people with high income and low risk will subsidize people with low income and high risk. Now suppose that it is also possible for individuals to buy income insurance from private insurance firms. High-income earners may be tempted to buy such insurance in order to avoid the costs caused by groups with higher risks. The problem for high-income earners is that private insurance may be expensive for another reason: it is costly for firms to discriminate between risk groups.⁷ The upshot of this may well be that high-income earners prefer social insurance despite the fact they will be net payers to the system.

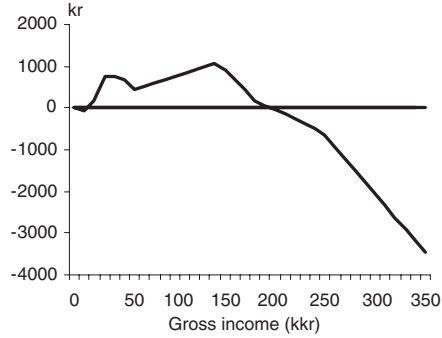
In this simple setting, the paradox of redistribution is clearly not a paradox: high-income earners support social insurance because it provides the insurance benefit more efficiently than the alternatives available on the private insurance market. If, however, policy-makers try to increase the redistribution by targeting benefits away from high-income earners, it may eventually lead to a situation where a majority prefers to abandon the social insurance in its entirety. If the alternatives available on the private insurance markets are less redistributive, this example

Figure 4: Swedish Sickness Benefit from Three Different Perspectives

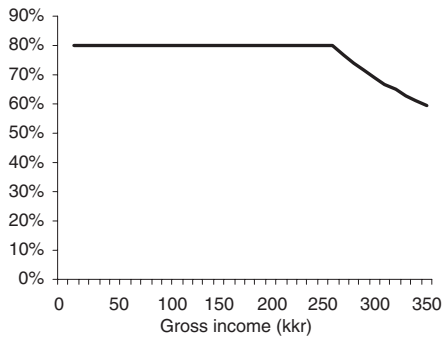
a. Monetary gross benefit



b. Benefit net of contribution



c. Replacement rate



Note: Based on RFV (1995, 1996). Assumptions: The replacement rate is 80 percent for all incomes below 7.5 basic amounts (approximately 275 kkr). The insurance is financially balanced by a mandatory fee at four percent paid on all incomes below the upper benefit limit. This is an approximate description of Swedish sickness benefit in the 1990s.

works as a simple and intuitive explanation of the paradox of redistribution. At this point, two things must be noted. First, an adverse effect on the support for social insurance, similar to the one caused by decreased benefits for high-income earners, could also result from attempts to increase the redistribution using progressive taxes. Thus, to evaluate universality over time in order to spot signs of decreasing political support for large social insurance systems, we must look both for increased targeting of benefits and for increased progressivity of taxes. Second, it is not necessarily the case that risk varies inversely with income. The direction of the redistribution will be from low-risk groups to high-risk groups, and this may or may not coincide with vertical income redistribution from rich to poor. For short-term social insurance, such as Swedish sickness benefit shown in Figure 4, the inverse correlation between risk and income is prominent. This is evident from

Figure 4b, which shows that the benefit net of contribution is negative for high-income earners. This means that the system redistributes from high-income earners to low- and middle-income earners, and the reason is that the number of sick days per year is lower for people with higher income. Note that this conclusion cannot be obtained by looking only at monetary payouts (Figure 4a). A third perspective of the same benefit is given in Figure 4c, where the benefit is described from a pure insurance perspective. Here, the relevant benefit is the safety of protection against income losses. This safety is enjoyed regardless of whether or not the income loss occurs.

From the insurance perspective, the system is fairly universal: it deviates from income universality only because an upper benefit limit prevents high-income earners from receiving the same degree of income protection.⁸

This discussion shows that for each welfare program, the degree of universality depends on how the benefit is defined and, in particular, that the insurance perspective and the monetary perspective lead to very different conclusions regarding universality. This observation has some important implications. For example, Timonen (2001) argues that when Finland and Sweden linked earnings-related benefits more tightly to contributions in the 1990s, they diminished the role of universal benefits. This is true from a monetary perspective, whereas the insurance perspective may well yield the opposite conclusion. If the purpose of the benefit is to provide insurance against income losses, there should indeed be a tight link between benefits and income. This argument can be pushed even further: benefits targeted towards low-income earners are still universal according to the insurance perspective if the insurance is thought of as agreed upon before the realization of earning abilities. More generally, the entire welfare state can be said to insure hypothetical unborn persons against various risks that are realized when born. This is the position taken by Sinn (1995).

Regardless of the reason for examining universality, the questions pointed to in this section must be dealt with in some way. Using the case of Sweden during the 1990s, I will illustrate in the next section how a number of specific indicators of universality can be identified and followed over time.

The Case of Sweden

By the end of the 1980s, Sweden seemed to be a remarkable example of the possibility of combining a high tax level (in 1989, tax revenue peaked at 56 percent of GDP) with a very high employment rate (the average unemployment rate during the period between 1987 and 1990 was 1.6 percent according to national statistics). The price for this achievement in terms of lower economic growth seemed to be small or even non-existent: depending on the period of measurement, economic growth in Sweden was equal to, or only slightly below, the OECD average. But the picture changed rapidly from 1990. In three years, open unemployment in Sweden increased from below 2 percent to almost 10 percent, whereas the EU average increased from 8 to 11 percent. Several factors contributed to this development. In addition to the international economic downturn, Sweden suffered from a financial crisis in the banking sector, which led to the government bailing

out three banks by an amount equivalent to about 4 percent of one year's GNP. Furthermore, private consumption fell steeply as household saving rates increased from -5 percent in 1988 and 1989 (in other words, households accumulated debts) to 10 percent in 1994. Lindbeck (1997) discusses these and a number of other factors in more detail.

The first five years of the 1990s were also eventful from a political point of view. The social democratic government had a crisis in 1990 when the finance minister of 8 years suddenly resigned. Suffering from this loss and from increasing signs of economic problems, the social democrats lost the 1991 election and a right-wing coalition government was installed. In 1994, however, the social democrats won again. Did these economic and political events cause significant changes in the degree of universality of the Swedish welfare state? Clasen and van Oorschot (2002) show that, theoretically, forces working in both directions can be identified. On the one hand, cheaper and more targeted systems might appear more attractive in times of economic stress. On the other, universal systems might be politically more stable – because when a majority benefits from the welfare state, only a minority will support substantial cutbacks. There is no consensus on the extent to which the governments in power between 1990 and 1995 intended to change or preserve the structure of the welfare state. According to the political opposition, the right-wing government in power between 1991 and 1994 was guilty of neo-liberal cutbacks; but according to the government, cutbacks were necessary to preserve the welfare state.⁹

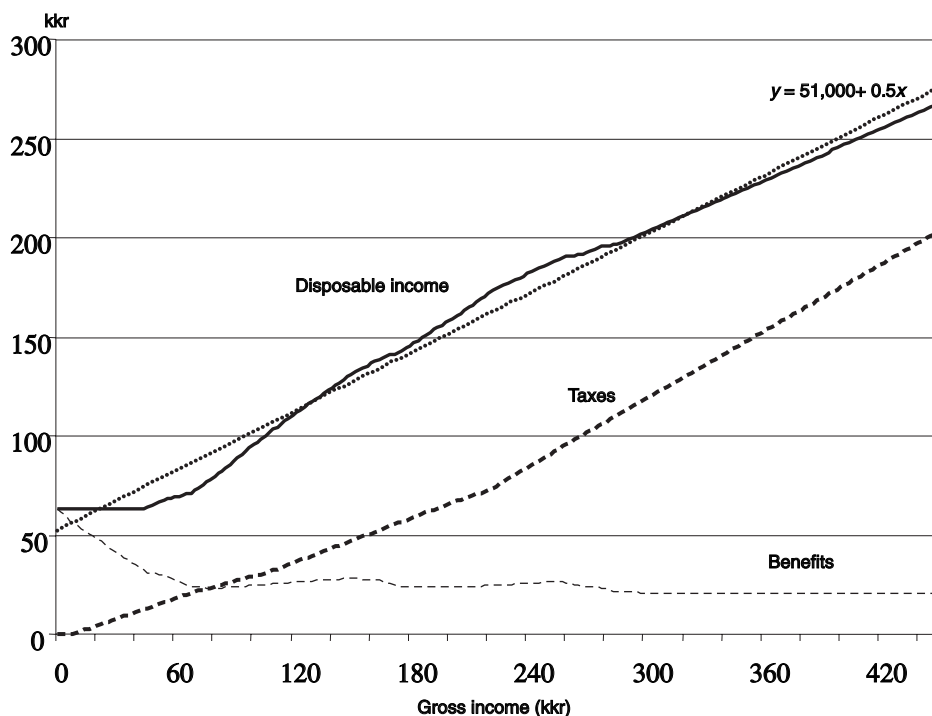
To examine the question empirically, we must find indicators of universality that can be compared over time. This will be done in two steps. First, I will identify differences between the actual situation in Sweden and the simplified model based on proportional taxes and flat-rate benefits. Second, I will use these differences to find indicators of universality that can be studied over time. Of course, I do not expect a perfect fit between the theoretical model and the actual situation in Sweden. For one thing, the relevant benefits may differ from the monetary flows included in the calculations. However, calculating an approximation of the actual distribution of taxes and benefits makes it possible to identify measurable indicators of universality.

Taxes and Transfers

The Swedish system of taxes and transfers in 1995 is illustrated in Figure 5. A first observation is that the authors (including Rothstein, 1998; Stephens, 1996; Cochrane and Clarke, 1993; and, to a lesser extent, Sainsbury, 1991) who point to Sweden as a prominent example of a universal welfare state are right. The monetary redistribution of the Swedish welfare state can be described by a net tax curve, which mathematically can be approximated as an affine tax schedule on the form $y = kx + m$, where y is income after tax and transfers, m is the average transfer given to people with no income and $1 - k$ is the marginal effective tax rate (including the effect of reduced benefits).

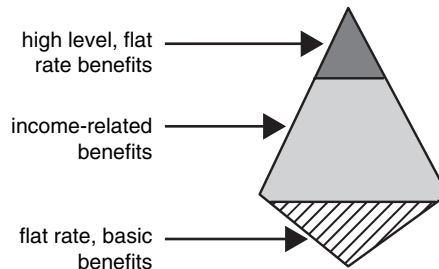
When described in this way, Sweden is indeed fairly close to the simplified model of universality. An affine net tax curve with an intercept at approximately 50 kkr

Figure 5: An Approximation of the Monetary Redistribution Effects of the Swedish Welfare State



Note: Taxes include all major sources of revenue for the public sector: personal income tax, wages taxes (both calculated according to rules) and consumption taxes (levied proportionally). Benefits include all monetary transfers, including pensions (calculated according to average payout in different income intervals). Further details can be found in Bergh (2003).

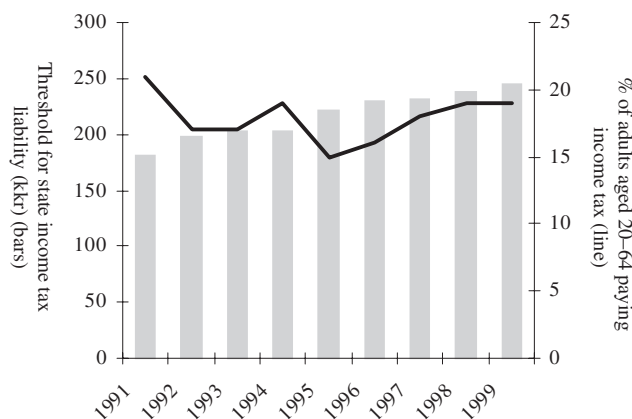
and a marginal effective tax rate at 50 percent seems to be a good approximation of the monetary redistribution in the Swedish system. These parameters are almost identical to those obtained by Roemer (2002).¹⁰ This approximation of the Swedish system excludes some relevant features. Roemer (2002) points out that the fit is good and that very little is gained by moving from affine to quadratic tax schemes. However, looking at the curve in Figure 5, it is obvious that this was not to be expected; a more complex mathematical expression would be needed to describe the curve for disposable income. We must bear in mind that the shape of this curve stems from explicit policy choices. The lower horizontal part of the curve is a result of Sweden choosing traditional means-tested social assistance where benefits are fully reduced against work income, rather than low-wage subsidies or negative income tax systems as the main method to support the poorest. The upper kink in the curve is due both to progressivity in the income taxation and to the income-related social insurance schemes having upper benefit limits.

Figure 6: A Conceptual Model of the Swedish Welfare State

The consequence of these features of the Swedish system is that the disposable income curve is divided into three segments, where the steeper slope indicates a lower marginal effective tax rate. The effect of the Swedish system is that the implicit marginal effective tax rate is high for low and high incomes and lower for middle incomes.¹¹ The upper limits in the social insurance systems can be illustrated using the conceptual models introduced by Korpi and Palme (1998): for persons with income above the upper limit, the benefit acts as a flat-rate benefit at a high level (Figure 6).

Public Consumption

Public consumption includes publicly provided services such as health care, child-care, education and care for the elderly. It also includes public goods such as defense, infrastructure and possibly spending on culture and religion. It would be possible to study the extent to which people use different types of public consumption in different income intervals, including the use of public consumption worth a certain amount as a pecuniary benefit. However, this approach comes with several caveats, such as the lack of market prices, lack of data on usage and the implicit and incorrect assumption that education costing the government x dollars is equivalent to a cash transfer of x dollars from the individual's point of view. Theoretically, the redistributive effect of public consumption is unclear. If public consumption consists mainly of flat-rate benefits, used to the same extent by high- and low-income earners, then public consumption will contribute to the redistributive effect shown in Figure 2. On the other hand, if public consumption is used more by people with high incomes, it may weaken the redistributive effect of the welfare state. Empirical evidence of the redistributive effect of public consumption is mixed. Sinfield (1978) and Le Grand (1982) argue that public consumption weakens the vertically redistributive effect, whereas Saunders (1991) argues the opposite. The complexity of the issue illustrates that a number of welfare programs do not serve mainly as income redistributive devices, and therefore it is both hard and possibly pointless to evaluate them from a monetary redistributive perspective.

Figure 7: The Proportion of Adults Paying Income Tax to the State (1991–99)

Source: Data provided by Martin Karlsson at Swedish Taxpayers' Association (www.skattebetalarna.se)

Indicators of Universality

A number of possible deviations from universality in Sweden have been identified: the targeted welfare benefits; the non-coverage of social income insurance for low and high incomes; and the progressive state income tax. Based on these observations, the following indicators (Figures 7–11) will now be discussed in more detail:

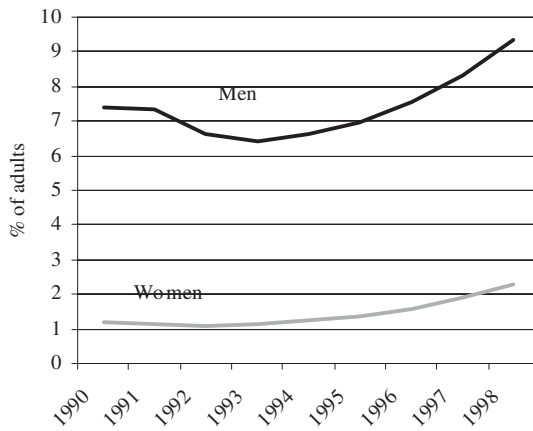
- the share of persons paying income tax to the state
- the share of persons with income too high to receive full pension rights
- the share of persons with insufficient income for pension rights
- the share of the population receiving social assistance
- the share of households receiving housing allowance

Share of Persons Paying Income Tax to the State

Personal income tax is often assigned the task of increasing income equality. It can only do so by taxing people differently in both absolute and relative terms. Thus, progressive taxes can be regarded as a deviation from income universality.¹² As shown previously, the political support for universal social insurance depends on both universality of the income protection benefit and universal financing using proportional taxes.¹³ Treating increased tax progressivity as decreasing universality is also consistent with Rothstein's (2001) version of the paradox of redistribution shown in Figure 2.

A tax reform in 1990 and 1991 took Sweden much closer to a proportional tax system, and since then most people pay almost exactly proportional income tax only to municipalities. High-income earners are also required to pay income

Figure 8: The Proportion of Adults Exceeding the Upper Limit for Full Pension Rights (1990–98)



Note: 'Adults' are people aged 20–64.

Source: Data provided subject to availability by Anna Westerberg at National Board of Insurance (RFV).

tax to the state, and therefore face a higher marginal tax rate. The curve in Figure 7 illustrates that the share of the adult population that were in the higher marginal tax bracket was more or less constant during the 1990s. Because this indicator reflects the actual outcome and not just policy intentions, it is also interesting to study the threshold income above which people must pay income tax to the state. As shown by the bars in the figure, this threshold has been adjusted upwards several times, suggesting that the political intentions have been to avoid having an increasing number of income earners with marginal tax rates well above 50 percent. Therefore, we can conclude that proportional taxes continue to be a good approximation of the Swedish tax system and that there is no sign of decreasing universality in this indicator.

Share of Persons with Income Too High to Receive Full Pension Rights

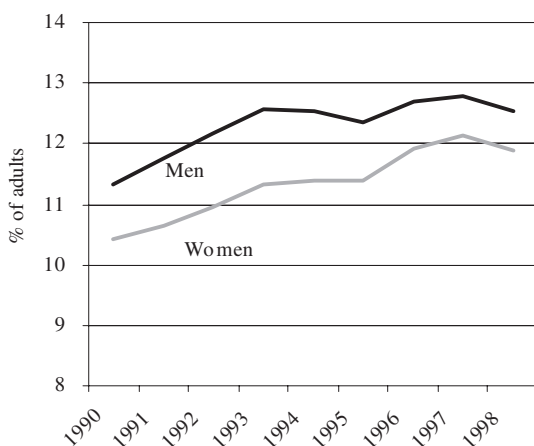
If it is deemed reasonable to evaluate social insurance from an insurance perspective, the share of persons with income higher than the upper income limit for replacements can be used as an indicator of income universality, as more people above this limit means more people are excluded from the income-security benefit. Figure 8 shows data for the largest social insurance, the pension system, but the limit is the same for sickness benefit and a slightly lower limit exists for the unemployment benefit. Arguably, the indicator shown in the figure should therefore be considered as an important one. An increasing trend is evident, especially for men.¹⁴ For the income-securing social insurance systems, there seems to be a case for arguing that income universality decreased during the second half of the 1990s. This means that it was not the economic crisis of the early 1990s, but rather the

subsequent upturn, that had an adverse effect on universality. From 1999 onwards, the increasing trend should be much weaker. The reason is that the index determining the upper limit is now based on an income index, rather than being price-based, as was the case during the 1990s. As discussed in RFV (1999), the price-based index resulted in real wage growth pushing more individuals above the limit and thus decreasing coverage. This change highlights the importance of distinguishing between policy outcome and policy intentions. It is possible to argue that the increasing trend shown in Figure 8 merely reflects real wage growth and that the policy intentions have been to keep income universality stationary.

Share of Persons with Insufficient Income for Pension Rights

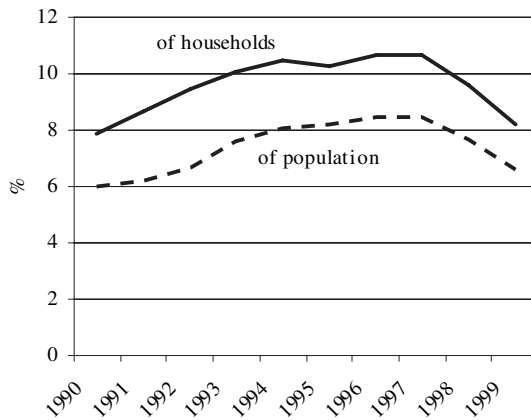
If the state aims to provide income-related pension rights to everyone, including groups with a weak connection to the labor market, more people with insufficient income for pension rights is an indication of decreasing universality. Low and sporadic incomes do not increase pension rights, and this indicator shows how many people are excluded from income-related pension for this reason.¹⁵ The major determinant of this indicator, of course, is the state of the market, but unemployment benefits also generate pension rights. Therefore, a universal welfare state should, in theory, pass through an economic downturn without a significant increase in this indicator. As shown in Figure 9, this was not the case for Sweden. The indicator rose during the downturns in 1996 and 1997 and (less surprisingly) during the crisis in the early 1990s. Although the indicator in both cases fell back during the subsequent economic upturns, an increasing trend is evident. This is, of course, an interesting finding, but it is important to note that the concept on which this indicator is based¹⁶ was abolished in the late 1990s with the introduc-

Figure 9: The Proportion of Adults with an Income Too Low for Pension Rights (1990–98)



Note: 'Adults' are people aged 20–64.

Source: Data provided subject to availability by Anna Westerberg at National Board of Insurance (RFV).

Figure 10: The Proportion of the Population Receiving Social Assistance (1990–99)

Source: Socialstyrelsen, *Socialbidrag 1999* (www.sos.se).

tion of a new pension system. The lower limit for incomes yielding income-related pensions rights is considerably lower in the new system.¹⁷ Arguably, this change reflects policy intentions of increasing income universality.

Share of the Population Receiving Social Assistance

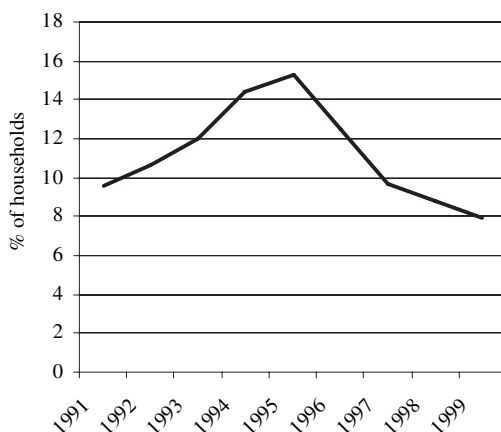
A higher share of the population receiving social assistance means higher reliance on income-selective benefits. As shown in Figure 10, the trend for this indicator was increasing until it fell rapidly in the last years of the 1990s. Note the similarity between Figures 9 and 10: this illustrates how people left the income-securing social insurance systems and ended up receiving social assistance during the recession.

Share of Households Receiving Housing Allowance

Apart from social assistance, housing allowance is the only substantial income-tested benefit in the Swedish system. As shown in Figure 11, the share of households receiving housing allowance displays a pattern similar to the share of households receiving social assistance – the difference here being that the trend reversed two years earlier, in 1995. For both indicators, the most important factor is the general economic situation. But the 1990s also contained some explicit policy decisions aimed at decreasing the use of both of these benefits.

Policy Analysis

When studying indicators over time, as done above, only the combined effect of policy intentions and other factors are visible. It is also possible to study policy intentions only. Marklund (1997) classifies changes in the social insurance

Figure 11: The Proportion of Households Receiving Housing Allowance (1991–99)

Source: Statistics Sweden (SCB).

programs administered by the National Board of Insurance as expansionary or contractive and shows that, from 1968 to 1996, the number of contractive policy changes only exceeded the number of expansive ones in 1973, 1993, 1995 and 1996. Thus, the economic crisis of the 1990s seems to have triggered contractive policy measures in order to dampen public expenditures. Given the distinction between benefit size and benefit coverage, this does not tell us anything about the degree of universality in terms of income coverage and group coverage.

Examining the same data as Marklund, and completed with the years 1997–1999, reveals no trend in universality. Table 2 shows that for almost each year it is possible to find policy changes towards both increasing and decreasing universality. The count-based method used by Marklund is not used here, as it does not weigh each change according to the size in terms of money or people affected.

Concluding Discussion

One of the main points in this paper is that identifying the benefit provided by certain welfare programs is much more complicated than deeming who receives the benefit and who does not. The task is made even more complicated by the fact that different disciplines of social science are prone to use different perspectives when studying welfare benefits. From the mainstream economic view, the insurance perspective is dominant. Even social assistance and redistributive taxation can be viewed as an insurance against being born with insufficient earning capacities. From this perspective, the issue of universality is essentially meaningless. If the welfare state is mainly an insurance institution, and if it is impossible to opt out of the welfare state, then all welfare states are universal and the concept of universality is drained of its content.

Table 2: Examples of Policy Changes Affecting Universality

<i>Year</i>	<i>Examples of increased universality</i>	<i>Examples of decreased universality</i>
1990	More incomes valid for sickness pay	More income-tested support for poor pensioners
1991	Some selective tax deductions abolished	More selective pension supplement
1992	More general insurance against work injuries	Special benefit for single parents
1993	More general rules for earning pensions rights	Reduced health care fees for some early retired
1994	Mandatory unemployment insurance introduced	Continued use of income-tested housing benefit for retired
1995	–	Mandatory unemployment insurance abolished
1996	Income-tested housing benefit abolished for some households	–
1997	More general rules for granting early retirement	Income-tested wage tax reduction introduced
1998	More general unemployment insurance	Some selective labor market programs introduced
1999	New pension system covering more low incomes	–

Used mainly by economists, the insurance perspective has played only a minor role in the discussion of redistribution and welfare state typologies among political scientists and sociologists. Thus, two theoretical extremes can be identified. On the one hand, it is possible to argue, using an insurance perspective, that all welfare states are universal. On the other, it is possible to argue that all deviations from handing out an equal amount of money to all citizens of the welfare state are examples of targeted, non-universal welfare benefits. The fact that these two positions are equally (un)reasonable illustrates that a more precise definition of the universal welfare state is called for.

A number of questions have been posed, and it has been argued that answering these will make the evaluation of universality more meaningful. To sum up, the following is suggested:

- (1) Universality should be used as a characteristic of welfare programs, and a completely universal welfare state would be a welfare state consisting only of universal programs.

- (2) When categorizing welfare programs in the universal–non-universal dimension, it must be made explicit what welfare benefit the program is assumed to provide.
- (3) When analyzing the provision of the chosen benefit, it must be made clear whether universality is taken to mean that the benefit is provided independently of individual income or independently of some other individual characteristic – or both.
- (4) In applied research involving the examination of universality over time or between countries, the difference between policy intentions and policy outcome should be acknowledged and preferably discussed and dealt with in some way.

The empirical study of Sweden during the 1990s illustrates the importance of the above points. Among other things, it has been shown that income universality and group universality often move in opposite directions, and that conclusions based on policy outcome do not necessarily coincide with conclusions based on policy intentions. In all, the empirical examination reveals no evidence of decreasing universality. On the contrary – when both policy outcome and policy intentions are taken into account, the total impression of all the indicators studied is that the level of universality is strikingly stationary. This finding should perhaps not surprise us, because it is in line with two previously well-known mechanisms. First, when the major benefit programs include the middle class among those who benefit, the resilience of the universal welfare state is expected: voting to preserve the welfare state will be in the narrow self-interest of a majority of the voters. Two recent theoretical accounts of these mechanisms are Moene and Wallerstein (2001) and Hindriks and De Donder (2003). Second, Goodin and Le Grand (1986) have identified several forces of ‘creeping universalism’, where programs originally targeted to the poor are infiltrated by the middle class. In fact, Le Grand and Winter (1986) showed that the conservative government in Great Britain in the early 1980s favored government services that were extensively used by the middle classes. This is in accordance with the empirical findings in this paper. It is true that most programs in Sweden are not targeted to the poor, but they do not cover the entire population regardless of ability to pay either. Instead, many of the major components of the Swedish system are targeted to the middle class to varying degrees, excluding both low- and high-income earners. We need not be particularly speculative to suggest that this bias towards the middle class contributed to the resilience of the universal welfare state during the economic crisis of the 1990s.

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Notes

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1 Including correspondence with an anonymous researcher in the field.

- 2 For example, the liberal party in Canada could reasonably be said to advocate this type of welfare state. The different meanings of political labels in different parts of the world are also arguments for choosing labels other than political ones.
- 3 The term 'de-commodification' refers to the degree to which individuals or households can uphold a socially acceptable standard of living independently of market participation.
- 4 For example, this description appears in Rothstein (1998), Sainsbury (1996), Stephens (1996) and Timonen (2001).
- 5 In Sweden, the law actually states that the purpose of publicly funded health care is to provide equality of access (Steen Carlsson and Lyttkens, 1997).
- 6 The distinction between intentions and outcome is discussed by Clasen and van Oorschot (2002) under the labels 'legal perspective' and 'volume perspective'.
- 7 It is well known that if private firms cannot observe risks, a private insurance market may not exist at all or will offer low-risk groups incomplete insurance (see, for example, Kreps, 1990).
- 8 Deviations from group universality are not visible in Figure 4. Although Swedes need to register at the insurance office, it is rare that people are excluded from sickness benefit for these reasons.
- 9 Among the biggest changes introduced during this period were a new pension system and the lowering of the replacement rates for the sick, unemployed and parents to 80 or 75 percent of previous earnings. Another big change was the extended use of private providers within publicly financed education, health care, childcare and care for the elderly. For a more detailed description, see Stephens (1996).
- 10 Their values are a marginal tax at 0.52 and an intercept at 47 kkr. Note that the marginal effective tax rate is $(1 - k)$ when the affine equation is $y = kx + m$.
- 11 Actually, the implicit marginal effect for low-income earners receiving social assistance is above 100 percent, because wage taxes are also collected from people receiving social assistance who also work.
- 12 As far as group universality is concerned, personal income tax in Sweden is fairly universal: the tax liability of a person is determined mainly by income, and there are only a few tax exemptions based on other criteria.
- 13 In Sweden, the distinction between mandatory social insurance contributions and taxes is theoretically justified by the symmetry between contributions and benefits. In practice, the symmetry often breaks down and mandatory social insurance contributions are just another name for taxes.
- 14 The gender difference is caused by men, on average, having higher wages and working longer hours than women.
- 15 Note that exclusion from the income-related pensions system does not imply exclusion from the basic pension.
- 16 PGI (*pensionsgrundande inkomst*).
- 17 The lower limit decreased from one basic amount to the basic deduction, which in 1998 meant from 37,100 to 8,700 SEK.

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