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Social Safety Nets Primer Notes

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Social Safety Nets in OECD Countries

The focus of the note is on non-contributory social programs for low-income households or other vulnerable groups in OECD countries. These programs, typically referred to as social safety net (SSN) programs in developing countries, are labeled welfare programs in the US and social assistance programs in the European Union. This note covers 28 countries belonging to the OECD, and refers to an in depth review of SSN programs in the US and nine European Union countries prepared for a course on "Social Safety Nets in OECD Countries." The accompanying course materials have been developed by a team from the Urban Institute (for the US) and the University of Maastricht (for nine European Union countries). The material on US welfare policies also draws on Lindert (2005), and the review of reforms in OECD countries from Abt (2003).

Level of SP and SSN Spending

The OECD countries redistribute a large share of their GDP through social protection (SP) programs, about 19% of GDP in the European Union, and 9% of GDP in the US. On average, 85% of this spending is associated with social insurance programs: pensions for old-age, disability or dependents, and contingency for temporary loss of work due to unemployment, illness or maternity. Non-contributory social assistance programs account for 15% of the total – with high variance across countries. In the EU-15, spending on social assistance programs averages 3% of GDP. In the US, means-tested welfare programs account for 2.2% of GDP; adding the cost associated with providing health insurance for the low income households – Medicaid –the total bill of the welfare programs goes up to 4.4% (in 2000, see Lindert, 2005).

Table 1. Social Protection Spending in OECD Countries, 2001

% of GDP

	All	Old Age	Survivors	Disability	Active LM	Unemployment	Family	Housing	Others
Australia	10.1	4.1	0.2	2.2	0.1	1.0	2.4	0.1	-
Austria	19.1	10.3	2.7	2.3	0.1	0.8	2.4	0.1	0.4
Belgium	18.5	8.6	2.6	2.2	0.7	2.2	1.9	-	0.3
Canada	8.4	4.8	0.4	0.8	0.4	0.8	0.9	-	0.3
Czech Republic	12.5	6.7	0.9	3.0	0.1	0.2	1.5	0.1	-
Denmark	15.4	6.5	-	2.7	0.2	3.0	1.5	0.7	0.8
Finland	15.6	7.1	0.9	3.1	0.3	2.0	1.7	0.3	0.3
France	17.4	10.4	1.5	1.7	0.4	1.6	1.5	-	0.4
Germany	15.9	10.8	0.4	1.6	0.3	1.2	1.1	-	0.5
Greece	16.5	12.6	0.8	1.6	-	0.4	1.1	-	-
Hungary	13.3	7.4	0.3	2.5	0.3	0.4	1.9	0.5	0.1
Iceland	8.4	4.1	0.6	1.8	-	0.2	1.2	0.1	0.4
Ireland	7.9	2.4	0.8	1.3	0.4	0.7	1.4	0.5	0.5
Italy	18.7	12.6	2.6	2.0	0.2	0.6	0.6	-	-
Japan	9.1	6.4	1.2	0.6	0.1	0.5	0.3	-	0.2
Korea	2.4	1.1	0.2	0.3	0.1	0.2	-	-	0.5

Emil Tesliuc prepared this note as part of the materials used in the World Bank training course, "How the Rich Protect Their Poor: Social Safety Nets in OECD Countries."

	All	Old Age	Survivors	Disability	Active LM	Unemploy-ment	Family	Housing	Others
Nether-lands	13.7	5.7	0.7	4.0	0.4	1.3	0.7	0.4	0.6
New Zea-land	11.6	4.7	0.1	2.8	0.1	1.1	2.1	0.6	0.1
Norway	11.6	4.6	0.3	3.9	-	0.4	1.9	0.2	0.3
Poland	18.0	8.5	2.1	5.4	-	1.0	0.9	-	-
Portugal	13.3	7.6	1.5	2.4	0.1	0.9	0.7	-	0.2
Slovak Republic	12.1	6.5	0.2	2.1	0.2	0.5	1.4	0.1	1.1
Spain	13.2	8.1	0.6	2.3	0.4	1.3	0.3	0.2	-
Sweden	14.6	6.8	0.6	3.8	0.2	1.0	1.8	-	0.4
Switzer-land	18.3	11.6	1.6	3.0	0.1	0.5	1.1	-	0.5
United Kingdom	13.7	7.7	0.6	2.2	-	0.3	1.5	1.5	-
United States	8.0	5.2	0.8	1.1	0.2	0.3	0.1	-	0.3

Source: OECD (2004) Benefits and Wages

The Architecture of SSN Systems

Spending on social protection programs is larger, in both absolute and relative terms, in the OECD compared to developing countries. Within OECD countries, however, there is considerable heterogeneity in terms of the level and composition of the social protection spending, and the role of the social safety nets. In spite of this heterogeneity, one can distinguish two models:

- The SSN-dominated, or Anglo-Saxon model, found in the US, UK, Australia, New Zealand, and Canada. In these countries, there is less reliance on social insurance instruments (pensions, health, unemployment insurance), and greater use of targeted support to deserving poor.

- The residual SSN-model, found especially in continental Europe. Specific for continental Europe is the substantial role played by social insurance instruments. In this second model, the net is woven based on universal/generous family benefits and residual means-tested programs for the poor (the net of last resort).

While the relative share of non-contributory spending is greater in Anglo-Saxon countries, the coverage and the extent of redistribution through social protection programs are greater in continental Europe. Higher spending levels and coverage translate in larger reduction in poverty and inequality in continental Europe compared to Anglo-Saxon countries. The size and role of the SSN programs depends heavily on the other components of the social protection system; to some extent, there is some degree of substitutability between pensions, unemployment benefits and social assistance programs. The expansion of the social insurance system in continental Europe, relative to Anglo-Saxon countries, transformed SSN interventions into residual programs, less important in terms of the volume of spending or number of beneficiaries, but very important to ensure that the net is tightly woven for the poor or vulnerable households.

What factors seem to explain the divergent paths followed by Anglo-Saxon vs. European countries in terms of social protection spending?

Alesina and Glaeser (2004) look at the differences between the size of the welfare state (publicly financed education, health and social protection) in the US and the EU, and investigate a wide range of factors that might be associated with the different levels of spending. Surprisingly, their research finds no correlation between economic factors postulated as important by different theories, such as differences in pre-tax inequality; efficiency of the tax system, social mobility, and the propensity to spend on the welfare state. Much of the gap in spending seems to be explained by differences in political institutions (type of political representation, federalism vs. national states, the system of checks and balances), racial fragmentation, or beliefs about the nature of poverty (laziness vs. lack of opportunity).

Type of Programs

For the program practitioner concerned about a particular type of program or policy, OECD coutries provide a large number of examples or potential models (Table 2). While program rules differ substantially from country to country, most OECD countries operate the following types of social transfers:

◆Minimum income programs: government provided minimum income financial assistance for people without resources. Typically, these programs top up family or individual income up to a certain threshold set nationally or regionally. These last-resort safety nets can have a major impact on both the extent and the intensity of financial poverty. At the same time, the conditionality on resources, including employment income, reduces any short-term gains of attempts to escape poverty by pursuing other income sources.

◆Housing benefits: support for housing-related costs of various forms: cash benefits, other financial assistance (e.g. low-interest loans) and benefits in-kind (e.g. subsidized housing).

◆Family benefits (universal or means-tested): benefits directed towards families with children, with the existence of a family being the main eligibility criterion.

◆Benefits for lone-parents attempt to mitigate the high poverty risk for lone-parent households, triggered by reduced opportunities to share breadwinning, care and other domestic responsibilities and a lower overall earnings potential. They take the form of cash benefits or tax reductions.

◆Employment-conditional benefits for able-bodied individuals: In an attempt to ensure that at least some incentive to work is maintained, many OECD countries allow benefit recipients to work a certain number of working hours without stopping eligibility or taxing the full amount of the income earned while re-entering employment. These programs take the form of cash benefits, tax credits or reduced rates on social contributions.

◆Childcare benefits: financial support for families with small children requiring care is available in a multitude of different forms: direct cash benefits, tax breaks, or subsidies paid to the providing institutions. Support may be available to all children of a certain age, or may be conditional on having children in certain types of childcare such as those provided by approved institutions or specially qualified individuals.

Table 2. Non-contributory Social Transfer Programs

	Guranteed Minimum Income	Housing Benefits	Family Benefits		Lone-parent Benefit	Employment conditional Benefits	Childcare Benefits	
			Universal	Means-tested			Non-parental Care	Parental Care
Australia	Y	Y	-	Y	Y	Y	Y	Y
Austria	Y	GMI	Y	-	-	-	-	Y
Belgium	Y	-	Y	-	-	Y	Y	-
Canada	Y	GMI	-	Y	Y	Y	Y	-
Czech Republic	Y	Y	-	Y	-	-	-	Y
Denmark	Y	Y	Y	-	FB	-	Y	-
Finland	Y	Y	Y	-	FB	Y	-	Y
France	Y	Y	Y	Y	Y	Y	Y	Y
Germany	Y	Y	Y	-	T	Y	Y	Y
Greece	-	Y	Y	-	-	-	-	-
Hungary	Y	Y	Y	-	FB	-	-	Y
Iceland	Y	Y	Y	Y	Y	-	-	-
Ireland	Y	GMI	Y	-	Y	Y	-	Y
Italy	-	Y	-	Y	-	-	-	-
Japan	Y	GMI	-	Y	Y	Y	-	-
Korea	Y	GMI	-	-	Y	-	Y	-
Luxembourg	Y	GMI	Y	-	T	-	Y	Y
Netherlands	Y	Y	Y	-	T	Y	Y	-
New Zealand	-	Y	-	Y	Y	Y	-	-

	Guranteed Minimum Income	Housing Benefits	Family Benefits		Lone-parent Benefit	Employ-ment conditional Benefits	Childcare Benefits	
			Universal	Means-tested			Non-paren-tal Care	Parental Care
Norway	Y	Y	Y	-	Y	-	Y	-
Poland	Y	Y	-	Y	CCB	-	-	Y
Portugal	Y	-	-	Y	T	-	-	-
Slovak Republic	Y	Y	Y	Y	-	-	-	Y
Spain	Y	-	-	Y	T	-	-	-
Sweden	Y	Y	Y	-	Y	-	-	-
Switzerland	Y	GMI	Y	-	-	-	-	-
United Kingdom	Y	Y	Y	-	-	Y	Y	-
United States	-	Y	-	Y	-	Y	Y	-

Notes: "Y" indicates that the specific benefit or tax credit exists in this country. Where no specific housing or lone-parent benefit is available, "GMI" (guaranteed minimum income), "FB" (family benefit) or "CCB" (childcare benefit) indicate that housing or lone-parent specific provisions exist as part of these schemes. "T" indicates different tax provisions or specific tax allowances for lone parents where no other benefits are available.
Source: OECD (2004) Benefits and Wages

For each type of program, OECD countries exhibit strong variation in terms of design features. Here, we illustrate this heterogeneity for one type of program, guaranteed minimum income. As apparent in Table 3, GMI programs differ substantially in terms of determination of the qualifying income threshold (national vs. regional), generosity of the system (the level of benefit per member), and elements taken in consideration when administering the means-test.

Table 3. Key Design Features of GMI Programs

	Maximum amount, % APW			Threshold	Features of the means test		
	Household head	Spouse	Children		Income disregards	Benefit withdrawal rate	Benefits excluded
Australia	-	-	-	-	-	-	-
Austria	19	12	6	N	-	1	Family
Belgium	23	8	4-10	N	Y	1	Family
Canada	16	12	4-5	R	-	0.75	-
Czech Republic	24	17	13-17	N	-	-	-
Denmark	31	31	10	N	Y	1	-
Finland	16	11	9-12	N	Y	1	-
France	20	9	0-9	N	Y	1	Family/Housing
Germany	11	9	5-10	N	Y	1	Family
Greece	-	-	-	-	-	-	-
Hungary	16	-	-	NG	-	1	-
Iceland	31	25	-	R	-	1	Family/Housing
Ireland	24	16	3	NG	-	1	Family
Italy	16	9	7-8	R	Y	1	-
Japan	24	13	6-7	R	Y	1	-
Korea	16	10	9-10	N	Y	1	-

	Maximum amount, % APW			Threshold	Features of the means test		
	Household head	Spouse	Children		Income disregards	Benefit withdrawal rate	Benefits excluded
Luxembourg	36	18	3	N	Y	1	Family
Netherlands	30	13	-	N	-	1	Family/Housing
New Zealand	-	-	-	-	-	-	-
Norway	30	7	4-16	NG	-	1	-
Poland	21	-	-	N	-	1	-
Portugal	20	20	10	N	Y	1	Family Housing
Slovak Republic	17	12	8	N	-	1	-
Spain	27	3	3	R	-	1	Family
Sweden	16	11	7-12	NG	-	1	-
Switzerland	22	12	6	NG	-	1	-
United Kingdom	14	8	10	N	Y	1	Housing
United States	5	4	4	N	Y	1	EITC

Note: Average Productive Wage (APW) is the average wage of a blue-collar worker in the manufacturing sector in each country. The income threshold can be determined nationally (N), under national guidelines (NG), or regionally (R).
Source: OECD (2004) Benefits and Wages

Factors that Triggered the Need for SSN Reform

Various pressures across OECD countries have driven social protection policy reform in a few common directions. Traditionally, social safety nets were designed to protect against old age, short-term (or a low level of long-term) unemployment, disability and low income. Recently, however, several overarching factors have substantially affected social protection policy regimes, including:

◆Increasing long-term unemployment, partially as a result of severe labor market change. The globalization of production caused a reduction in the amount of unskilled jobs within the OECD. Consequently, much of the population adversely affected by these job losses have come to rely on safety nets. Unlike previous economic downturns, however, this structural change in the economy has led to longer-term claims on unemployment benefits. Time limits on social insurance in many countries have led to greater dependence on social assistance.

◆Population aging in many countries has led to increasing dependency on not only social insurance, but targeted social assistance benefits for the low-income elderly. However, the greatest challenges in terms of aging remain in the future, as OECD populations continue to live longer and birth rates drop.

◆Changing family structures, particularly the growth of single parent families and single youth families, have led to increases in the dependency on social assistance.

◆Funding and delivery tensions between central and local authorities. In various countries, regional governments are demanding more authority over the financing and administration of social protection benefits. This has created problems in many areas where the regions with the strongest tax bases have the least need for social protection services, leaving poorer regions with greater fiscal difficulties to cover the needs of their populations.

These changes do not affect only developed countries. Aging and the dissolution of traditional kinds of family support system are increasingly affecting the middle-income countries and, to a lower extent, low-income countries. In confronting these issues, developing countries can learn from the successful experiences in OECD countries.

Policy Issues on the Social Safety Net Agenda in OECD Countries

The aforementioned pressures have bread a wide realm of debates among policymakers and stakeholders about how social protection policy might be reformed in response. The most common discussions across OECD countries have involved the two following issues:

◆work incentives, and their relation to social protection reform, and demographic and family structure shifts.

◆social exclusion or "new poverty," as a result of changing conditions on the labor market, and demographic and family structure shifts.

Work Incentives

Increasing unemployment has led to a discussion of the role of social assistance—primarily for the able bodied unemployed—in aggravating joblessness through the creation of disincentives to work. Among the several issues spurring social policy reform, this debate has been the most prominent, by far. Policymakers in many countries have voiced concerns about the theoretical "welfare trap" whereby recipients of SA benefits find it in their interest not to enter the labor market, increasing pressure on the social protection system, while reducing overall productivity.

In theory, the greater the benefits provided to the unemployed person, the lower their incentive to (re)enter the workforce. As such, debates have concerned the levels, duration, and requirements of benefits to the unemployed, as well as other features of the system that might contribute to long-term unemployment. At the same time, however, these debates have occurred with the changed contexts of demography and family structure. Increasing single parent and single youth households have pushed issues of childcare support and incentives to marry into the policy debate around work incentives.

Major issues in the debate about work incentives include:

◆Duration of benefits: social insurance benefits often have time limits, after which they may drop to lower, social assistance levels. Until recently, social assistance levels were almost always indefinite. Traditionally, however, a few OECD countries have had time limits on SA benefits for young people, including Austria, Denmark, and Italy.

◆Conditions for forfeit of benefits: rules by which recipients lose their benefits vary widely. Some countries have traditionally allowed for some members of the household to work, providing benefits for other individuals, rather than the household unit. Other countries allow recipients to perform part-time work without losing their claims. Others. However, do not allow for any part-time work to accompany benefit receipt.

◆Job search requirements: most countries implicitly assume that benefit recipients are actively looking for work, whereas other employ stringent tests to determine job search activity. In a few countries, single parents are not required to work in order to receive benefits until their children have reached a certain age. In the certain U.S. states, General Assistance, the cash benefit of last resort, is simply not offered to able-bodied single adults or couples without children, under the assumption that they should be active in the labor market.

◆Levels of benefits: some countries offer low cash benefits, such as Texas (US) and Greece; other low cash with additional tied benefits, such as the UK; and others, such as Australia, offer relatively high cash benefits.

◆Tax structures: beneficiaries in many countries who re-enter the workforce find that their "effective marginal tax rate"—the amount they lose in benefits upon labor market re-entry—can be very high in comparison to their new earnings.

◆Differences between social insurance and social assistance: some OECD countries, such as the US, make the differences of social insurance and social assistance very clear, so as to incentivize use of the SI system, and, consequently, the active labor market. Benefits such as Unemployment Insurance (UI) and Disability insurance (SSDIB) are paid out at much higher rates than social assistance benefits such as Temporary Assistance for Needy Families (TANF) Supplemental Security Income for the Disabled (SSI). Cultural forces have also distinguished between the two types of benefits, and a significant stigma is attached to being a receiver of SA benefits. Australia, on the other hand, only offers social assistance benefits. As such, there are no advantages to being "paid in" in terms of benefit levels, nor are any social stigma forces at work.

◆Availability of training opportunities: some countries, such as Sweden, offer intensive job training and insertion programs to the unemployed. Other countries are more lenient in their labor market interventions. Arguments in favor of reforming social assistance benefits are often accompanied by new training opportunities, most of which allow the beneficiary to continue receiving benefits.

It is important to note that these issues, which have been put forth as evidence of disincentives to work, are largely untested. One major study did find a relationship between increased duration of benefits and long-term unemployment. Nevertheless, some consensus has emerged within and across countries that reform along these lines would ease dependency on social assistance, and push more benefit recipients into the active labor market.

Policy Responses Surrounding Work Incentives

In response to increasing concerns about work incentives, many OECD countries have reformed their social protection systems, and social assistance, in particular, in order to develop more efficient work incentives. These reforms have generally taken the form of positive support to encourage labor market participation, or cuts in the existing support system, in order to discourage use of and prevent long-term dependence on social assistance. Positive supports to work include:

◆Extending possibilities for part-time work: occasional work is recognized as a gateway into full-time jobs. By not canceling benefits for recipients who enter part-time work, many countries hope to ease the transition into the labor market. Canada, the UK, and the US state of Minnesota are among those who have instituted this reform.

◆Changing benefit delivery from the household to individuals: a policy whose intentions are similar to allowing for part-time work. In countries that deliver benefits to the household, individual members can be discouraged from working for fear of the risks to the rest of their household. Countries such as Australia and Canada now allow other individuals in the household to receive benefits while only the worker loses hers.

◆Employment conditional benefits: in a direct attempt to incentivize work, many countries have offered various benefits to those in the labor market. These policies take the form of one-time cash bonuses (Ireland, UK); or wage supplements to low earners (US, UK), which can take the form of regular payments or annual tax credits; or temporary terms of complete benefit receipt during full-time work (Canada). Some countries have instituted these programs for the first-time, while others have eased eligibility levels or extended their benefit levels. In addition those previously mentioned, Australia, Italy and New Zealand have also instituted these programs, each in the form of tax credits.

◆More help in the job search: the UK, Switzerland, and the US have reformed their systems to offer more effective assistance to job-seekers. Such interventions have included making labor market information more available or improving job training.

Methods to discourage social assistance dependency include:

◆Reduced benefit amounts: as a result of widespread fiscal pressures, almost all countries have reduced their benefit levels, with Denmark, Finland, Sweden, cutting the most. However, the relative generosity of countries compared to one another has changed little. Almost uniformly, countries have attempted to reduce benefit replacement ratios (benefits/earnings*100) in an attempt to make the earnings benefits of work more salient.

◆Reduced duration of benefits: various countries have reduced the duration of benefits to recipients. In most cases, this has involved only social insurance, which end sooner, dropping the recipients benefits to SA levels. The US, however, has placed strict time limits on even SA benefits.

◆More rigorous tests of active work-seeking: Finland and the Netherlands, among other countries, have added stricter enforcement mechanisms to their requirements that benefit recipients be looking for work.

Social Exclusion

Some OECD countries, particularly those in continental Europe, have raised the issue of "social exclusion" in their approach to policy reform. Social exclusion has been defined as "a multi-dimensional socio-economic conception of deprivation," as compared to poverty, "a lack of adequate income or insufficient material resources to satisfy basic needs." Using social exclusion rather than poverty as a basis for defining need usually means targeting more recipients for social assistance, as means-testing shifts from only income and material resources to the "access to full participation in the community."

There exists a general consensus across the OECD that social cohesion is necessary for economic growth. As such, policymakers have made the concept of social exclusion integral to their social assistance policy reforms. The debate around the issue has centered on three issues related to social assistance policy:

◆The relative nature of social exclusion: unlike poverty, which is traditionally defined as absolute—one is either poor or not poor—social exclusion is a relative condition, which takes into account the standard of living of the entire society. As a result, some have argued that social assistance benefits need to place less emphasis on absolute poverty lines, and more on social integration.

◆The mechanisms that produce exclusion: exclusion may involve the curtailment of rights or differential treatment of certain individuals by the range of social institutions within a given community. Some policymakers have argued that overly generous social assistance can produce exclusion through the development of an "underclass" mentality, with little emphasis on the personal responsibility to find work.

Others have used this concept to argue that social assistance needs to be more generous so as to provide standards of living that allow individuals to more fully participate in the community.

◆The dynamics of exclusion: debate has surrounded the trends that provoke exclusion in the future, which can include unemployment, parenthood and family structure, or other circumstances.

These debates have been fueled by an increasing public policy emphasis on the importance of social capital. As policymakers focus on the value of social networks and relationships, they seek to identify the phenomena that separate social groups and decrease these endogenous sources of development.

Policy Responses Surrounding Social Exclusion

There exists considerable debate over what constitutes satisfactory social inclusion. Some countries believe that full-time paid employment is enough, whereas others are more concerned with covering a range of needs, including adequate housing, healthcare and access to social institutions. Strategies for reducing social exclusion include many of the “positive” policies discussed in the previous section on work incentives, and combine support to low-wage workers, such as employment conditional benefits, and active labor market interventions, such as training programs and insertion schemes.

The World Bank Social Safety Nets Primer series is intended to provide a practical resource for those engaged in the design and implementation of safety net programs around the world. Readers will find information on good practices for a variety of types of interventions, country contexts, themes and target groups, as well as current thinking on the role of social safety nets in the broader development agenda.

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