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Social Policy in Settled and Transitional Countries: A Comparison of Institutions and Their Consequences

Olli Kangas

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Olli Kangas
Department of Social Policy
University of Turku
SF-20014 Turku, Finland
Olli.kangas@utu.fi

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1. INTRODUCTION[1]

In all societies people seek shelter against such risk where their livelihood is for some reason endangered. Childhood, sickness, accidents, and old age are classical examples of social risks that a society somehow must encounter. A society that does not take care of its vulnerable members is not a sustainable one. Therefore, some kind of collective risk pooling and collective safety nets are necessary for a society to sustain itself. However, the degree of collectivism and the institutional set-ups of safety nets vary greatly between different points in time and between different places. Questions of public policy are more or less conflictual political issues of distribution of resources: who gets what under what conditions, e.g., in which way and to what extent the free play of market forces should be modified by statutory involvement. Because of this chronological and geographical variation it is hard to find the one or "the best" institutional solution to social problems and, consequently, there exist various welfare state models each having been based on different political configurations, each of them defining social problems differently, and each of them trying to find their own solutions.

Because of this variation, there also is a multitude of accounts and classifications of social policy models. Probably one of the most famous ones is developed by Richard Titmuss (1974) who, in his "Social Policy", made a distinction between three ideal types of welfare state: the marginal (typical for the Anglo-Saxon countries), industrial achievement (typical for the Central European countries), and institutional models (typical for the United Kingdom and the Scandinavian countries). Recent social policy discourse has revitalized this trichotomy. The revitalization can be seen in two partially overlapping areas.

First, researchers have tried to unravel the way in which advanced welfare states cluster in terms of their social policy solutions (e.g. Esping-Andersen, 1990; Castles and Mitchell, 1990; Kangas, 1994; Ferrera, 1996). In particular various income transfer schemes have been in focus here. The research community has tried to categorize similarities in the insitutional set-ups in income transfer systems in different countries. Central questions here have been such as: Who gets what and on which terms? What is the level of benefits? Who is entitled to benefits? How are benefits financed? Lots of articles have been published on these topics (e.g., Korpi 1989; Esping-Andersen 1990; Palme 1990; Kangas 1991; Wennemo 1994; Carroll 1998).

[1] The paper was presented at a seminar "Elaboration of national strategy for poverty eradication in Estonia", the 15.-17. June 1998. I wish to thank Dagmar Kutsar and Avo Trumm for their comments and for providing the Estonian data to me. I also wish to thank Antti Parpo for excellent research assistance.

Second, the possibilities offered by a number of comparable databases, especially by the Luxembourg Income Study (LIS), have stimulated numerous studies of the distributional consequences of different ideal types of social policy (see e.g. Smeeding, O'Higgins and Rainwater, 1990; Fritzell, 1991; Mitchell, 1991; Ritakallio, 1994; Kangas & Ritakallio 1998). Here the central questions have been as follows: In which countries or groups of countries have social policy programs achieved the most equal income distributions? In which countries do social policy programs most effectively alleviate poverty?

Empirical analyses of the institutional set-ups and distributional consequences of different welfare state models have mainly been based on comparisons of a number of advanced OECD countries. Comparisons including post-communist countries have been quite rare. However, there is a growing need for such enterprises. First, there are scientific reasons: How do the models constructed to describe the development of social policy in the Western world fit into the "Eastern"[2] world. Second, such comparisons would provide important information on the similarities and differences between "western" and "eastern" countries. The latter task is politically important, especially now when many of the former socialist countries are applying for the membership of the European Union. Third, such comparisons would provide useful data for policy makers in countries in transition from socialism to capitalism. For example analyses on consequences of different social policy solutions would be useful guiding lines when weighing up various policy options. Different social policy models derived from international comparisons may serve as a fruitful base-line from which new alternatives in national policy-making in the transitional countries can be contrasted and evaluated. This is what the present study aims to do: to place the experiences of transitional economies in a "western" frame of reference.

The structure of our study is as follows: Firstly, we describe the data used in this study. Secondly, in order to set the study of social policy in a wider frame of references it is fruitful to inspect economic development in post-socialist countries and in western nations. Thereafter follows a section on institutional arrangements guaranteeing social protection in case of old-age, sickness, childbirth, and unemployment. Fourthly, in addition to institutional set ups we are interested in analyzing the effectivity of those institutions. Effectivity will be measured by using some standard methods in this field of study: income distribution and poverty. Moreover, we will study the effectivity of social transfer systems to alleviate poverty in various countries. Fourthly, and lastly, we are interested in the costs of social security. What are the total costs and how is the burden divided between different sources of financing? What

[2] "Eastern" here does not pertain to geographical entities: many of the "eastern" countries are to the west of some of the "western" countries.

is the proportion of the insured, employers, and the public sector in the financing of social security in different countries?

2. Data and Methods

Data on macroeconomic indicators is mainly derived from various international publications. Information on the institutional set-ups of social policy schemes is partially based on the Social Citizenship Indicators Project (SCIP) housed at the Swedish Institute for Social Research, University of Stockholm (led by Professor Walter Korpi and Associate Professor Joakim Palme). SCIP contains data on various income maintenance programs in the major OECD countries. Data is also collected from national sources – especially so for the post-socialist countries – and from the Social Security Programs Throughout the World published by the U.S. Department for Social Security and Administration.

Income distribution data is obtained from the Luxembourg Income Study (LIS) that contains commensurate information from over 20 countries. Each country's data-set includes accurate information on 2,000 to 16,000 households' income and income formation, i.e., how much of their income consists of salaries, capital or business income and various kinds of received and paid redistributive sources. Also, for each household, information is available on the essential structural features, such as the type of household, age of provider, number of children, and numbers of wage earners or recipients of other incomes, as well as educational attainment, profession and social group of the provider. For most countries, there is also a prodigious amount of cross-sectional data (for the United States, for example, there is cross-sectional data from the years 1969, 1974, 1979, 1986, 1991 and 1994). In practice, the LIS databank makes it possible for income distribution, poverty, or, say, income-equalizing effects of socio-political schemes to be compared flexibly and accurately through the use of micro-level data. (see Smeeding, O'Higgins & Rainwater 1990; http:lissy.ceps.lu/ineq.htm). Estonia is not (yet) a member in the LIS database and we utilized the national Household Budget Survey conducted in 1997 by Statistics Estonia (Kutsar, Trumm & Oja 1998). Therefore the Estonian data is not fully comparable with that of the other countries.

There are also some other problems dealing with the comparability of data. First, data used for the inspection of income distribution is derived from the beginning of the 1990s (except the Estonian data that was compiled in 1997) and data does not properly reflect the present day situation in the transitional countries. There is also a discrepancy between our institutional indicators and poverty measures. The former pertain to the mid-1990s and the latter to the early 1990s. Therefore, the results on income distribution and poverty must be regarded as

a heuristic device to show what was the base-line from which the post-socialist countries began to develop towards fully-fledged market economies. There may also be some problems in the very concept of income. When we are comparing settled economies with economies in transition we may especially easily run into great problems. In some countries monetary resources are more or less completely registered, whereas in some other countries registers are of poor quality. A qualified guess is that e.g., the Nordic databases are more comprehensive that those for the transitional economies. In many transitional economies numerous other resources than money play an important role in the coping strategies of citizens. Moreover, we can assume that a substantial deal of monetary resources are channeled through non-official routes, especially so in the most wealthy strata of society. Therefore, comparisons presented later on must be read and interpreted very cautiously. Another qualified guess may be that the differences in register-keeping and registering incomes affect e.g., the level of poverty more but not profile (who the poor are) of poverty to such an extent. This being said, we can get at least some indicative results on the functioning of social policy in different countries.

3. Economic situation in Transitional and in Western countries

Big transformations have big consequences and quite often positive transformations may also have strong negative side-effects. At an economic level, previous economic structures and previous divisions of labor in production and international trade may be essentially changed causing transitional problems until new structures and institutional arrangements for economic recovery are created and are properly working. At a societal level, important social bonds, functioning social fabrics – either attached to social security or other aspect of human life or relations to economic institutions – may be destroyed and it will take decades until the destruction is recovered from and proper social institutions are in place which allow society to function.

This seems to be precisely the case in the collapse of the communist regime. The shift of the political regime initiated a social avalanche that swept the old away and at least in the short run the change in economic rule led to great economic problems. The first experiences of the sweetness of capitalism that so many under socialism had dreamed of appeared to be very sour.

In all transitional countries the GDP level fell in the wake of the regime shift. However, there are substantial differences between the countries. The Polish economy adapted to the new situation most rapidly and Poland is the only post-socialist country where the GDP level was higher in 1995 than in 1990. In fact the Polish economic growth during the 1990s

has been impressive and only in Ireland and Norway has the GDP per capita grown more rapidly. Consequently, the Polish GDP level has not deteriorated either in comparison to the richest country (Luxembourg) or to the international median. There is however, no improvement either. All other transitional economies have lost both their relative and absolute positions and the gap between the richest and the poorest countries has increased from 1990 to 1995, as indicated by the dispersion coefficients displayed in Table 1.

The regime shift hit the Baltic states, Ukraine and Russia more severely than the Central European socialist countries. In Ukraine the GDP fell between 1990 to 1995 by as much as 52%, in Latvia, Russia, Lithuania, and Estonia the corresponding figures were 46%, 38%, 37% and 32% respectively. Consequently, these countries also lost proportionally to the international median: in 1990 the Ukrainian GDP level was 26% of the median whereas five years later it was as low as 12%. In comparison to Luxembourg the Ukrainian level fell from 15% in 1990 to 7% in 1995.

In most poverty research the poverty line is set to 50% of the national median. Here in our international comparison we can tentatively apply the same procedure and define all those nations as poor whose GDP level remains below 50% of the cross-national median. This heuristic device shows that all other post-socialist countries except the Czech Republic could be classified as poor.

The economic decline has been less severe and the recovery more rapid in those post-socialist countries that were more loosely interwoven in the Soviet economy. Those countries that were formally part of the Soviet Union, especially the Baltic states and Ukraine, faced the deepest dives in their economic development. However, there is some light at the other end of the tunnel. In the mid-1990s most of the transitional economies were doing much better than in the early 1990s. Only in Russia and Ukraine the GDP continued to fall from 1995 to 1997. In all other transitional countries included in our study the GDP growth was positive varying from 6% in the Slovak Republic to 2.2% in Latvia. (IMF 1997, 27). Also the Ukrainian situation seems a bit better and the pace of the decline is decreasing: in 1995 the decline was -12.0%, in 1996 -10.0% and in 1997 -3.0%. (IMF 1997, 27). Interestingly enough, despite the rapid relative growth rates in some transition economies for example, Poland in comparison to Luxembourg, the absolute differences in wealth between these countries have continued to expand.

Table 1. Real GDP per capita (US$PPP) indicators in Post-Communist and Western Countries 1990-1995.

	Year		Relation to median		Change
Country	**1995**	**1990**	**1995**	**1990**	**90-95,%**
LUXEMBOURG	34004	32971	1,76	1,78	3,1
USA	26977	25297	1,40	1,37	6,6
SWITZERLAND	24881	25904	1,29	1,40	-3,9
NORWAY	22427	19357	1,16	1,05	15,9
DENMARK	21983	20268	1,14	1,09	8,5
JAPAN	21930	20860	1,14	1,13	5,1
CANADA	21916	21585	1,14	1,17	1,5
BELGIUM	21548	20566	1,12	1,11	4,8
AUSTRIA	21322	20122	1,10	1,09	6,0
FRANCE	21176	20492	1,10	1,11	3,3
GERMANY	20370	19800	1,06	1,07	2,9
ITALY	20174	19191	1,05	1,04	5,1
NETHERLANDS	19876	18681	1,03	1,01	6,4
AUSTRALIA	19632	17772	1,02	,96	10,5
UK	19302	18518	1,00	1,00	4,2
SWEDEN	19297	19788	1,00	1,07	-2,5
FINLAND	18547	19668	,96	1,06	-5,7
IRELAND	17590	14271	,91	,77	23,3
NEW ZEALAND	17267	15855	,89	,86	8,9
SPAIN	14789	13943	,77	,75	6,1
PORTUGAL	12674	12074	,66	,65	5,0
GREECE	11636	11112	,60	,60	4,7
CZECH REP.	9775	11369	,51	,61	-14,0
SLOVAKIA	7320	8681	,38	,47	-15,7
HUNGARY	6793	7148	,35	,39	-5,0
POLAND	5442	4988	,28	,27	9,1
RUSSIA	4531	7277	,23	,39	-37,7
ESTONIA	4062	5929	,21	,32	-31,5
LITHUANIA	3843	6129	,20	,33	-37,3
LATVIA	3273	6043	,17	,33	-45,8
UKRAINE	2361	4897	,12	,26	-51,8
Range	31643	28074	1.64	1.52	75.0
Mean	16023	15824	-	-	-3.6
Median	19297	18518	-	-	4.2
Coefficient of variation	.51	.45	-	-	-

Source: Data for all countries is derived from UNDP 1998; *German pre-1995 data is derived from IMF 1997, 148.

4. INSTITUTIONAL SET-UPS

The starting point of this section is to place some post-socialist countries (e.g., the Czech Republic, Estonia, Hungary, Poland, the Slovak Republic, and Ukraine) in a wider EU perspective and to analyze to what extent social policy programs in these countries are different or similar when compared to the present EU member states. Thus, we want to study the institutional set ups of social policy, i.e., in which ways social security programs are constructed in different countries. What are the institutional differences and similarities between the nations in the east and west?

4.1. Institutional set-ups in pensions

All people are getting older. Therefore, in all societies there have been and are social institutions that try to counter the problems of elderly people. These social institutions vary greatly in time and in place. The institutional variation of the present schemes (for developmental patterns in time, see Palme 1990) is depicted in Table 2. The schemes are differentiated according to the form of financing (contributory vs. non-contributory/tax-financed schemes), the form of benefit delivery (means-testing, flat-rate and income-related), and the form of insurance (public pension, private pensions or mandatory savings). As a rule, fully-fledged pension programs are carried through the public sector (as e.g., in Sweden, Germany, Estonia), but in some cases employment related schemes are organized through the private sector by private insurance companies that are responsible for carrying the fully legislated pension programs (e.g. in France and Australia). In some countries the whole pension security is totally channeled through the private sector savings. Table 2 includes only those schemes that are mandatory by law, i.e., all collectively bargained earnings-related supplementary pensions (e.g., such huge collective/occupational pension schemes as in Sweden and in the Netherlands) are left out of the inspection.

According to Table 2 it is possible to discern various groups of countries. In Estonia and the Netherlands pension security consists solely of basic pensions that are paid on a flat-rate basis. These pensions are financed through pension insurance contributions. In the "Nordic model" of pension policy contributory pensions guarantee flat-rate basic amounts that are supplemented by income-related pensions. In addition to the "traditional" Nordic countries, the Nordic model is fortified by Luxembourg, Lithuania, and Poland. In the U.K.

and Latvia there also is a means-tested non-contributory part supporting the worst-off pensioners.

The “Central-European” path consists of contributory and income-related pensions that are supplemented by social assistance-type amounts if the contributory pensions are nil or very low. The most typical representatives of this group are Germany and the Southern European countries. Of the transitional economies Hungary and Ukraine belong to this work-merit based club of nations. There is also another, “extended” variant of the above-mentioned Central-European path: In some countries (Belgium, the Czech Republic, Canada, France, Italy, and the U.S.) employment-related pension are supplemented by means-tested pension programs.

South-East Asian countries on one hand and the South American nations on the other form their own distinct groups of pension policy. Mandatory savings in public institutions are typical for such countries as Indonesia, Malaysia and Singapore, whereas mandatory private savings supplement earnings-related pension schemes are dominant in South America.

In sum, pension programs in post-socialist countries do not follow a single pattern. Instead they have chosen different routes: the Baltic States, and perhaps Poland, too, belong to the “Nordic model” which tries to combine basic security and work-merit components of the pension security, whereas Ukraine, Czech Republic, Slovakia and Hungary are more closer to the “Central-European” model with an emphasis on work-merit pensions, possibly supplemented by means-tested benefits targeted to those with very small or no employment-related pensions.

Table 2. Institutional arrangements of pension schemes in various countries in 1997.

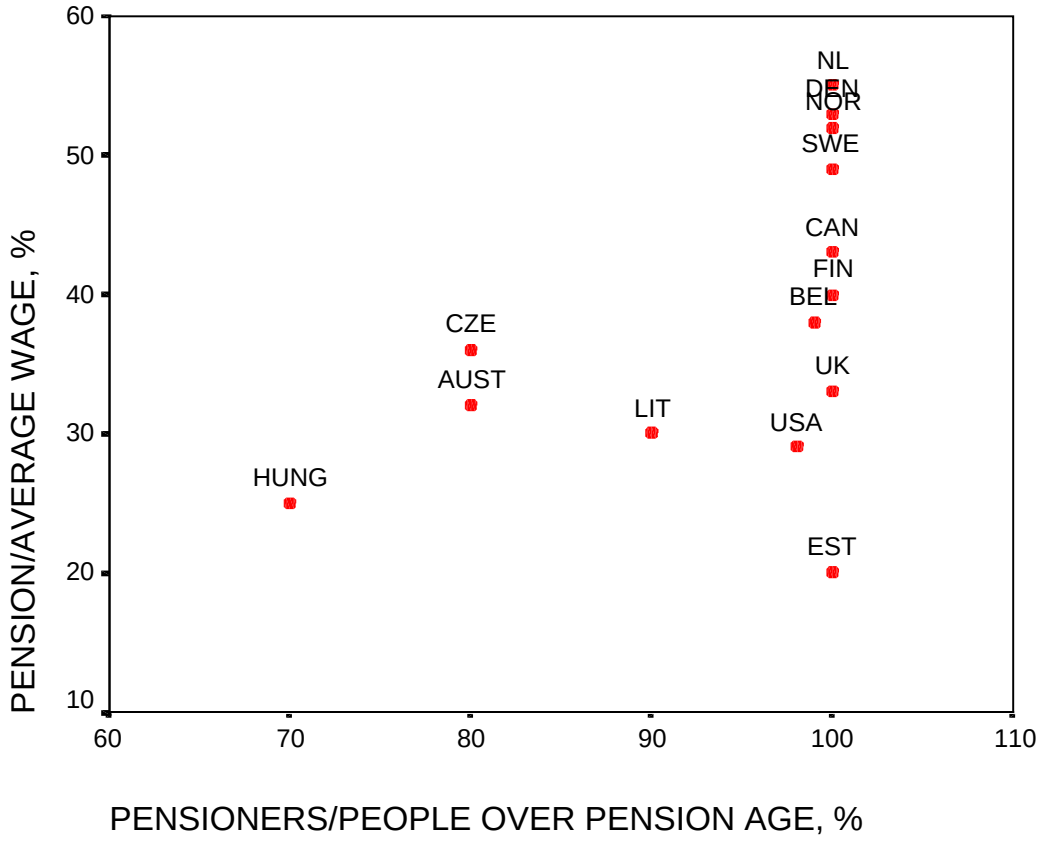
COUNTRY	CONTRIBUTORY		NON-CONTRIBUTORY		MANDATORY PRIVATE PENSIONS	MANADATORY SAVINGS	
	FLAT RATE	EARN-INGS-RELATED	MEANS-TESTED	UNIVERSAL FLAT-RATE		PUBLIC	PRIVATE
ESTONIA	X[3]						
NETHERLANDS	X						
FINLAND	X	X					
LUXEMBOURG	X	X					
NORWAY	X	X					
POLAND	X	X					
SWEDEN	X	X					
LITHUANIA	X	X					
LATVIA	X	X	X				
UK	X	X	X				
DENMARK	X		X	X			
GERMANY		X					
GREECE		X					
HUNGARY		X					
PORTUGAL		X					
SPAIN		X					
UKRAINE		X					
BELGIUM		X	X				
CZECH REP.		X	X				
SLOVAKIA		X	X				
USA		X	X				
ITALY		X	X				
CANADA		X	X	X			
FRANCE		X	X		X		
AUSTRALIA			X		X		
ARGENTINA		X					X
CHILE		X					X
COLUMBIA		X					X
INDONESIA						X	
MALAYSIA						X	
SINGAPORE						X	

(source: U.S. Department of Social Security Administration 1997)

[3] In Denmark and Estonia work-merit pensions are not related to the claimant's previous income but to the number of years worked.

Pension schemes in different countries may be very similar in the institutional set-ups or in the construction of their pension programs but the generosity of the programs may be very different, e.g., two countries may both guarantee basic non-contributory flat-rate benefits to every elderly citizen (as in the Netherlands and Estonia) but the benefit level may be very different. One way to try to make benefits levels comparable over time and across nations is to relate social benefits to the average income level. This has been done in Figure 1 (data for the OECD countries is derived from the SCIP data base; estimates for pensions in post-socialist countries are calculated from Statistical Yearbook of Lithuania 1994-1995, 37 and 106; Statistical Handbook of Hungary 1995, 53 and 77; Statistical Yearbook of the Czech Republic 1996, 266, and 598-599). The x-axis displays the actual take-up ratio or the ratio of pension receivers to the number of persons over the normal pension age, whereas the vertical y-axis depicts the level of basic pension as a proportion of the average net wage.

Figure 1. The replacement level (net basic pension/average net wage, %) and take-up ratio (pensioners/persons above the pension age, %) of basic pension in 1995 in selected countries.



As suggested in Table 2, pensions are universally provided in Estonia, the Nordic countries, in the U.K. and the Netherlands. Therefore, the take-up ratio for these countries is 100% but the countries differ essentially when it comes to the level of benefits. Basic pension security is very high (50% or more) in the Netherlands and in Denmark, Norway, and Sweden. In Canada, Belgium and Finland pensions correspond to 40% of the average wage. Estonian pensions are also universally delivered but the pension level is low in comparison to other countries. In Hungary, the Czech Republic and Lithuania the basic security is higher than in Estonia but the take-up ratio is somewhat lower.

Table 3. Target level in employment-related pensions and years required to obtain full benefit.

Country	**Working years required for full pension**	**The target level of pensions (% of previous income)**
Australia	Depends on superannuation program	
Austria	45	Max. 80
Belgium	40	60
Czech Republic	25	65 (1995)
Denmark	40	A flat-rate benefit, about 5% of average wage
Estonia	Not specified	About 37% with 40 years in employment
Finland	40	60
France	37.5	50
Germany	45	66
Greece	Not specified	30-70%, varying inversely with income
Hungary	42	75
Italy	40	55
Netherlands	No legislated employment-related pensions; a developed occupational pension system	
Norway	40	55
Poland	25	25
Portugal	40	Max. 80%
Slovakia	26	66
Spain	35	100
Sweden	Old system: 30 New system: 40	Old system: 65 New system: 60
UK	20	About 30
Ukraine	25	55
USA	40	50

(source: U.S. Department of Social Security Administration 1997)

In addition to basic pensions, there are supplementary earnings-related pensions that are fully legislated in many countries. The pension amount in these supplementary schemes is determined on the basis of the years worked and income received. In most countries the length of the work career entitling the claimant to full benefit is about 40 years. In the post-socialist countries there seems to be a tendency to guarantee full employment-related pensions in a shorter period of time, especially so in Ukraine. However, there are strong pressures on these countries to bring the eligibility conditions closer to the Western nations.

3.2. Institutional set-ups in family support

In addition to elderly people, children are the most vulnerable group in all societies. Despite the fact that a child's need for shelter is a universal phenomenon, there are many institutional solutions to this universal issue. In industrialized societies the direct financial support for families with children has been mainly instituted in two different ways: there are maternity leaves supporting the mother and the baby and there are various income transfer schemes called child or family allowances guaranteeing some extra support for child-rearing families. In this section we briefly inspect what the level of maternity benefits and child allowances is and for how long time they are payable. In Figure 2 a number of countries are rank-ordered according to the benefit levels paid from the maternity insurance systems. In addition to benefit levels (gross benefit/gross wage) the figure also depicts the duration (in weeks) of the benefit period.

The variation in benefits is substantial. In the majority of countries the benefits correspond to the previous income, i.e., the replacement level is 100%, while the benefits can be as low as 30% of previous income in the U.K. for example. With the exception of the Czech Republic, all the transitional countries guarantee benefits that exceed the international mean (84%).

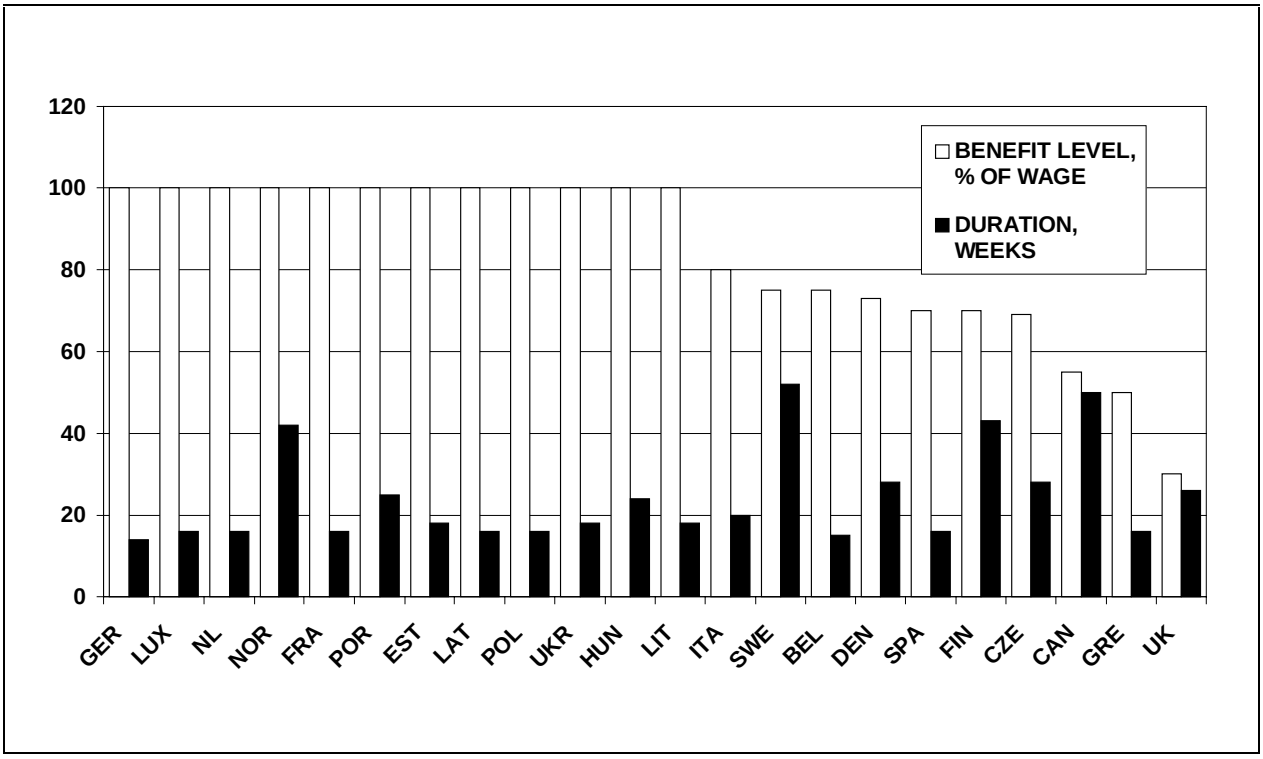
The average duration of benefits is 24 weeks. Again the average hides substantial cross-national differences: in Germany the benefits period is as short as 14 weeks. In most of the Central-European and post-communist countries benefits are payable for 16 weeks. In Estonia the benefit period is two weeks longer (18 weeks). The four Scandinavian countries have extended the benefit period to one year or very close to it.

In principle we can separate two main groups of countries. In the first one, typical for Central Europe, benefit levels are high but the period which the benefits are payable for is short as exemplified by Germany and Luxembourg. In the other group of countries benefits

may be lower but they are payable for a longer period of time as in the Nordic countries. In their maternity benefit systems transitional countries are much closer to the Central European pattern than the Nordic model. Contrary to all the other countries, in the United States there exists no statutory maternity allowance system at all.

Maternity allowances are one aspect of support to families with children. In most countries there also exists a system of child allowances that are payable for children under a certain age limit (Table 3). The most frequently used age limits are 18 years of age – applied in nine countries – and the age limit of 16 that is in use in eight countries, whereas the limit of 17 years is applied only in one country and the lowest age limit, 15 years, is used in the Czech Republic, Portugal and Latvia. In many countries higher age limits are applied for students.

Figure 2. Maternity allowances in selected countries in 1997; benefits/previous wage and duration of the benefit period in weeks.



In the majority of countries the child allowance system is universal, i.e., the benefits are payable automatically to everyone under the specified certain age limit. In a few countries (the Czech Republic, Lithuania, and Ukraine) benefits are means-tested and targeted to the most needy ones. In some Central and Southern European countries allowances are available only for those families whose heads are participating in paid labor.

To facilitate international comparisons we have calculated benefits for a family with two children, each child entitled to allowances. Allowances are then related to the average wage paid in respective countries. As indicated in Table 4 there is a huge variation in compensation levels of allowances. Benefit levels vary from 0,3% in Greece to 16% in Norway. Benefits are over 10% of the average wage in Norway, France, Belgium, Finland, Luxembourg, and Italy. At the other end of the continuum we find the Anglo-American countries with low benefit levels which indicates that families in these countries may be at greater risk of poverty. (The hypothesis will get qualified support later in this paper when we inspect closer distributional consequences of social insurance programs in various countries.) The post-socialist countries are close to the international mean (8.2%).

Table 4. Institutional structure of child allowances and benefit levels (benefits/average wage, %) for a family with two children, 1997.

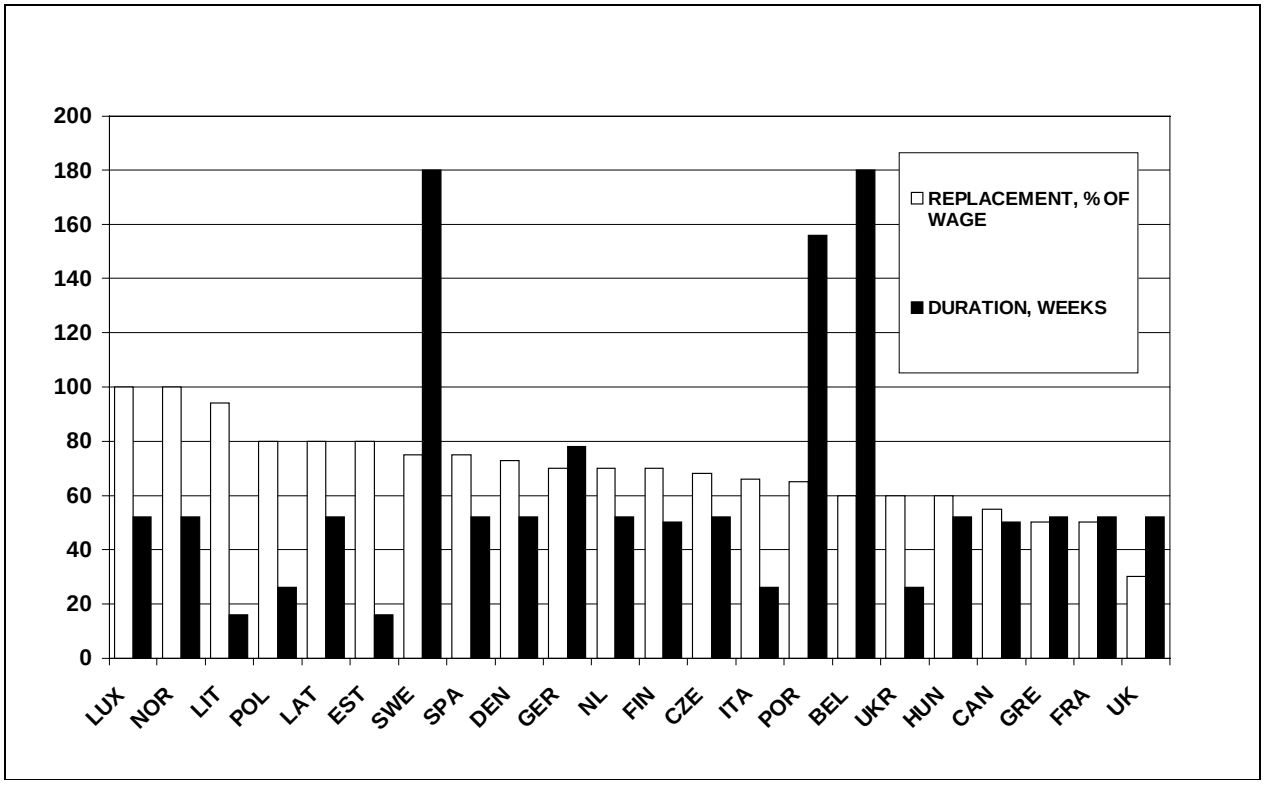
COUNTRY	AGE LIMIT	UNIVERSAL	MEANS-TESTED	EMPLOY-MENT-RELATED	BENFITS /APW, %
AUSTRALIA	16 (students 18)	X			3,2
BELGIUM	18 (students 25)			X	11
CANADA	18				6
CZECH REP.	15 (students 26)			X	8,8
DENMARK	17	X			8,3
ESTONIA	16 (students 19)	X			8,3
FINLAND	16	X			11
FRANCE	18 (students 20)	X			14,4
GERMANY	18 (students 27)	X			9,6
GREECE	18 (students 22)			X	0,3
HUNGARY	16 (students 20)	X			6
ITALY	18			X	10,1
LATVIA	15 (students 20)	X			7,8
LITHUANIA			X		No data
LUXEMBOURG	18 (students 27)	X			11
NETHERLANDS	18 (students 25)	X			7,5
NORWAY	16	X			16
POLAND	16 (students 20)	X			6
PORTUGAL	15 (students 25)			X	7
SPAIN	18			X	3,8
SWEDEN	16 (students 20)	X			7,5
UK	16 (students 19)	X			6,6
UKRAINE	16 (students 18)		X		9,6

(source: U.S. Department of Social Security Administration 1997)

3.3. Institutional set-ups for sickness insurance

Early forms of sickness insurance were based on voluntary arrangements covering only a limited number of people. Gradually, when the state began to financially support these funds or instituted an obligatory scheme, the coverage rate began to rise more rapidly. In his study of the development of sickness insurance in 18 OECD countries Kangas (1998) found that after the second world war the average coverage rate increased from 45 in 1950 to 76 in 1995. However, these averages conceal a huge variation between nations. The four Scandinavian countries (Denmark, Finland, Norway, and Sweden) form a group with universal coverage of the labor force. Indeed, at least as regards the scope of sickness insurance, it seems to be justified to speak of a very distinctive Scandinavian cluster. In the rest of the OECD countries, the average coverage rates vary from 52 percent in Japan to 91 percent in Canada (SCIP). Unfortunately comparative figures for the economies in transition are available only for Hungary and the Czech Republic which come close to the Scandinavian block with their coverage rates of 95% and 89%, respectively (Statistical Handbook of Hungary 1995, 46; Statistical Yearbook of the Czech Republic 1996, 270, 596).

Figure 3. Replacement level of sickness allowances and duration of benefit period in selected countries in 1997.



Since our data on the replacement level and the duration of benefit periods is more extensive we mainly concentrate on those indicators of sickness insurance (Figure 3). Countries are ordered according to gross replacement rate at the average income level (source: U.S. Department of Social Security Administration 1997). The duration of the benefit period is expressed in weeks which the benefits can be collected for. If the benefit period is unlimited, as in Sweden and Belgium, the upper duration is artificially set at 180 weeks. In the other end of the continuum we find Estonia and Lithuania with their benefits period of 16 weeks.

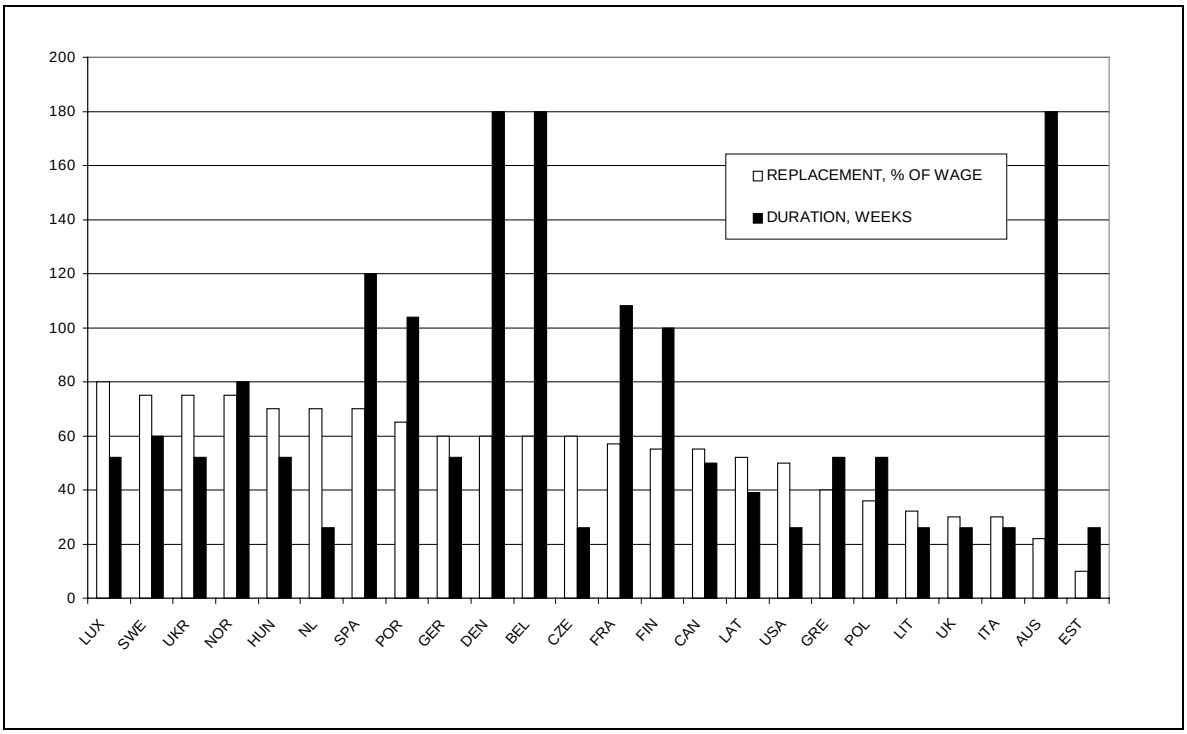
The average replacement rate for countries included in Figure 3 is 66%. Two countries (Luxembourg and Norway) offer lavish allowances corresponding to 100% of previous income, whereas in the U.K. the benefit level remains below 40% of gross income. Some of the transitional countries (Lithuania, Estonia and Poland) guarantee compensations that clearly exceed the international average, whereas benefits in the other transitional countries are close to that. All in all the "transitional pattern" in sickness insurance consists of relatively high benefits combined with a limited period of time for which the benefits are payable.

3.4. Institutional set-ups in unemployment insurance

As in the case of sickness insurance we lack comparable data on coverage of unemployment insurance. Therefore, we must restrict our comparison to the gross benefits levels and duration of benefit period (Figure 4). In Figure 4 the duration is set to 180 weeks for those countries that do not apply any time limit for benefits purposes. The mean for the countries included in the inspection is 71 weeks with the above-mentioned maximum of 180 weeks in Belgium, Denmark and Australia and minimum of 10 weeks in Estonia. In all transitional economies the duration of unemployment insurance lags behind the international mean, most notably so in Estonia.

In comparison to sickness insurance, replacement rates for unemployment insurance are much lower (66% and 55%, respectively) indicating stronger legitimacy for sickness benefits (see Väisänen 1991). In Luxembourg, Norway and Sweden the replacement level is close to 80% of previous wage. Of the transitional countries, Ukraine and Hungary guarantee unemployment compensations corresponding to 70% of income, which is clearly above the international mean. In the other post-socialist countries benefits are lower than the median. In Estonia the compensation level is only 10% of the previous wage.

Figure 4. Replacement level of unemployment allowances and duration of benefit period in selected countries in 1997.



A serious problem with the comparisons presented above is that the figure does not say anything about the coverage of the schemes: who is entitled to benefits, how wide is the coverage of the schemes. In most settled economies unemployment insurance works like insurance. A claimant pays either social security contributions or membership fees to an unemployment fund and gets a formal right to benefit. In most transitional economies unemployment insurance is not formally established, the eligibility criteria are unclear, and the coverage of schemes are very limited. Despite the fact that the programs appear at first glance to be of good quality (as expemplified by the Ukrainian case) they actually cover only a tiny part of the labor force and may lack any practical importance.

5. THE FINANCING OF SOCIAL SECURITY

The analyses above have concentrated on entitlements or on those social rights social security programs guarantee to citizens in different countries. Our inspection has been focused on the sunny side of social security: who gets what? The darker side of the coin is that somebody must also pay for those benefits: the better the benefits, the higher the tax rate. In principle there are three main options for collecting revenues: general taxes, employees' social security contributions, and employers' social security contributions. Most social insurance programs

are financed through social security contributions and since we were mainly interested in the social insurance programs we will take a closer look at those contributions. (Table 5).

TABLE 5. Gross tax burden (% OF GDP), personal income tax for single worker (% of wage ate the average wage level) and social security contribution rates (employees: % of wage; employers: % of pay-roll), 1997.

COUNTRY	TAXES AND SOCIAL SECURITY CONTRIBUTIONS/GDP (%) 1994	PERSONAL INCOME TAX RATE	SOCIAL SECURITY CONTRIBUTIONS		
			INSURED PERSON	EMPLOYER	TOTAL
Australia	29.9	22.7	1	0	1
Belgium	46.6	27.4	13	25	38
Canada	36.1	22.2	6	8	14
Czech Rep	47.3	10.0	13	35	48
Denmark	51.6	36.0	0	2	2
Estonia	?	25.0	0	33	33
Finland	47.3	29.5	12	15	27
France	44.1	8.9	15	35	50
Germany	39.3	21.0	20	21	41
Greece	42.5	1.9	12	24	36
Hungary	41.0	18.1	12	45	57
Italy	41.7	18.1	11	43	54
Latvia	?	?	1	37	38
Lithuania	?	?	1	23	24
Luxembourg	45.0	13.4	15	13	28
Netherlands	45.5	5.8	45	11	56
Norway	41.2	21.9	8	14	22
Poland	43.2	18.0	0	48	48
Portugal	33.0	7.1	11	27	38
Spain	35.8	13.5	6	32	38
Sweden	51.0	28.8	6	30	36
Ukraine	About 45	?	1	37	38
United Kingdom	34.1	17.4	14	20	34
United States	27.6	18.2	8	10	18

Sources: OECD 1996 and 1997; Ukraine: a personal correspondence with Ms. Maria Linovitska, EU Tacis office, Kyiv

International comparisons (e.g., OECD 1997) reveal huge variations in the aggregate tax levels between nations. Total tax revenues exceed 50% of the GDP in Denmark, whereas taxes are as low as 19% in Mexico (not displayed in the Table). In addition to Denmark, total tax burden is heavy in Sweden, Finland, the Czech Republic, Belgium and the Netherlands, whereas the most Anglo-American countries have considerably lower tax rates.

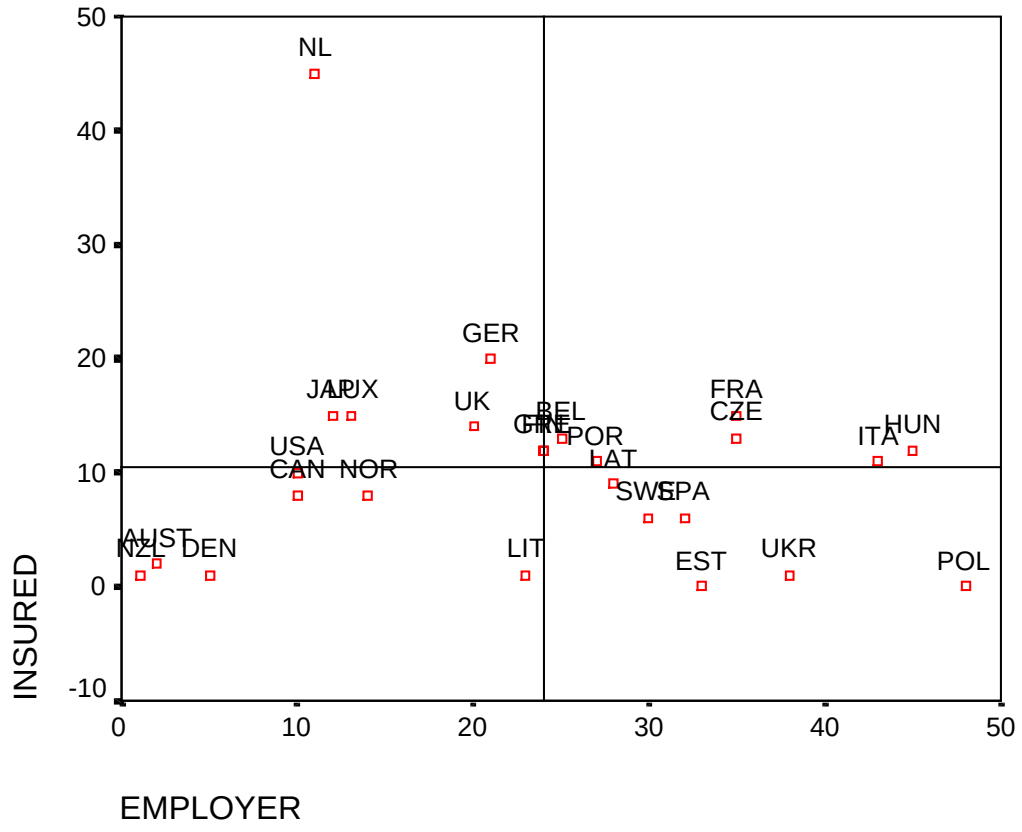
Countries in transition are medium (Hungary and Poland) to high (Czech Republic) tax nations.

As such the total tax burden does not tell that much about the distribution of taxes: How they are collected and how they are divided to direct taxes imposed on income and social security contributions. In some countries there is heavy reliance on direct taxes. High direct taxes are held as a trademark of the Scandinavian welfare state and indeed, this seems to be true. In all the Nordic countries the personal tax rate at the average income level is over 20%, in Denmark as high as 36%, in Finland and Sweden about 30%, and in Norway 22%. Also in Australia, Belgium, Canada, Estonia (a single tax rate of 25%), and Germany the tax rates exceed 20%. Unfortunately we have no data on income taxes for Ukraine, Lithuania, and Latvia. Poland (18.0%) and the Czech Republic are the only post-communist countries included in OECD (1997) tax statistics. Direct taxes are high in the former (18.0%) and low in the latter (10.0%) country. In a number of countries direct taxes are very low, like in Greece (1.9%), Korea (1.9), Mexico (4.8%) and the Netherlands (5.8%). The Dutch case is very interesting: the total tax burden expressed as a percentage of the GDP is very high but the direct tax rate is very low – something that suggests high social security contributions (see also Figure 5).

The average contribution rate for the insured is 10% but the variation is huge. In Denmark and Australia employees do not pay any social security contributions –revenues needed to finance social security in these countries are collected through taxes – whereas the Dutch insured must pay as much as 45% of their income. In Estonia, Poland, Ukraine, and Lithuania the insured fees are negligible, whereas in Hungary, Latvia, and Czech Republic they slightly exceed the international average.

On average, employers' fees correspond to 25% of the pay-roll, but also here there is a substantial variation from zero in Australia to almost 50% in Poland. Interestingly enough in all transitional economies employers are rather heavily burdened by social security fees which seems to be a historical legacy from the socialist era when the employer was responsible to organize social policy and also pay all costs for social insurance programs (cf. Piirainen 1998). If we exclude the extreme Dutch, Australian, Danish, and New Zealand cases, a slight trade of between the employers' and employees' financial burdens emerges from Figure 5.

Figure 5. Employees' social security contributions (% of wage) and employers' social security contributions (% of pay-roll)



4. EFFECTIVITY OF SOCIAL SECURITY PROGRAMS

In his turn-of-the-century study on poverty in York, Seebohm Rowntree (1901) observed that poverty is linked to age and family formation in a cyclical fashion. The first poverty cycle a person experienced was ”childhood”, when his/her parents had many dependents to feed and when the earnings of one person was not enough to meet the needs of many. Poverty eased when the young person left home and began to earn her/his own living. Economically, the situation became worse again when she/he got married and had children of her/his own. This family phase continued until the children grew up, began to contribute to the family income, and, then, one by one left home. An economically easier period thus started also for the parents, what could be termed as the 'empty nest phase'. This stage lasted until old-age brought on a lower capacity for work. Because of inadequate pension systems at the turn of the century, for most people leaving the labor force in the ”old-age phase” meant a transition to more or less persistent poverty.

Earlier comparative studies based on cross-sectional data (e.g. Hedström & Ringen 1987) have observed that age differences in poverty has evened out in many countries for which LIS data exist. Strictly speaking the age-based studies do not precisely correspond to Rowntree's idea of life-cycles. The issue has been dealt with e.g., by Kangas & Palme (1998) who utilized possibilities offered by the LIS-data base and constructed life-cycles on the basis of age and the number of children in families. Unfortunately we do not have access to such data for all the transitional countries and therefore we are obliged to use age groups as proxies for life-cycles. The impacts of the type of household will be studied a little bit later.

For space considerations in most articles on poverty only one indicator has been used. For the same space limitations we are also here obliged to be satisfied with one poverty line. In order to avoid problems connected with the use of one single poverty rate (be it 40%, 50% or 60% or whatever else) we first calculated poverty rates according to the 40%, 50%, and 60% poverty lines. Thereafter the three separate poverty measures were merged into a single index by counting averages for them (Table 6).

Table 6. Poverty rates (mean for 40%, 50%, and 60% poverty lines) according to age groups in some Western and Post-socialist countries.

COUNTRY	**-25**	**25-34**	**35-44**	**45-54**	**55-64**	**65+**
AUSTRALIA	20,6	13,6	11,4	7,5	12,9	14,4
CANADA	28,9	13,3	11,1	8,5	11,1	3,3
USA	35,2	23,4	17,3	11,0	14,0	15,2
UK	26,4	17,2	15,6	8,4	7,4	8,2
FINLAND	18,0	3,2	3,4	3,9	4,3	5,8
GERMANY	34,6	12,4	9,4	3,9	5,5	5,1
SWEDEN	29,3	4,5	3,9	3,1	2,3	3,3
NL	19,5	6,9	5,5	4,2	4,8	2,5
POLAND	11,4	13,7	14,4	12,4	9,2	6,8
CZECH REP.	7,7	3,1	1,4	0,9	0,8	1,0
HUNGARY	16,6	10,0	12,3	12,1	8,7	5,1
SLOVAKIA	8,7	3,2	2,1	1,9	1,4	1,2
SPAIN	14,0	10,1	10,7	11,5	10,1	8,3
ESTONIA	11,5	8,4	9,5	6,5	5,7	5,2
Mean	*20,2*	*10,3*	*9,1*	*6,9*	*7,0*	*6,1*
Std.dev.	*9,3*	*5,9*	*5,1*	*7,0*	*6,6*	*5,2*

The overall picture depicted by Table 4 is that the traditional poverty cycle attached to age has disappeared in most countries. The mean for all countries almost linearly decreases from 20.2% for the youngest age group to 6.1% for the elderly. However, the general picture hides important cross-national differences. In the settled Western economies the youngest age

groups are the most exposed to poverty, especially so in the U.S, Germany and Sweden[4]. This is mainly because the entrance of the youngsters to the labor market is prolonged due to the expansion of higher education and students are almost by definition poor in terms of income.

In transitional economies the situation is different. In none of the post-socialist countries does the poverty rate of those below 25 years of age exceed the international mean (20,2%). The main explanation is that in transitional economies youngsters have income from work as well as other factor incomes more than in Western countries. Moreover, some analyses of the relative winners and losers in the socio-economic transformation suggests that the youngest age groups have benefited most from the transformation (Zagorski 1998). Surprisingly enough, neither are the elderly in post-socialist countries exposed to poverty. Their poverty rates are very low e.g., compared to the Anglo-Saxon countries (with the exception of Canada) that display a U-curve in their age related poverty rates.

Not only are there differences between nations in their actual poverty rates but also the effectivity of the income transfer schemes vary greatly from country to country and between age groups. Table 7 shows how effectively social policies in different countries or groups of countries have been able to aid the groups at risk of poverty. The poverty alleviation effect, R, is simply pre-transfer poverty rate minus post-transfer poverty rate divided by pre-transfer poverty rate and multiplied by 100. The higher the value of R in Table 5, the larger the proportion of the population that has been lifted above the poverty line by income transfers: a value of 100 means that all pre-transfer poor have been assisted and a value 0 indicates that none have risen above the poverty line.

The general story in Table 7 is that in all countries the effectiveness of the income transfers improves when moving from the young to the old. In all countries elderly people are the most vulnerable and most in need of transfers and in most cases they will be very effectively helped: the mean for all the countries is as high as 90.4% (compared to 38.5% for the youngest age bracket) and the variation among nations is very low compared to variation in the younger age brackets which indicates that social security programs aiming to help the elderly are more homogenous than social protection for young. If we inspect overall reduction coefficients for each country we can see that the former Czechoslovakia performs pretty well followed by Finland and Sweden. The United States and Spain display the lowest overall poverty reduction rates.

[4] In the Swedish case, we have a measurement error related to the fact that the data is organized according to the tax record. In these records all persons above 18 form households of their own even if they live with their parents.

Table 7. The role of income transfer systems in poverty reduction in different countries in different poverty lines (poverty reduction coefficient, R).

COUNTRY	-25	25-34	35-44	45-54	55-64	65+	Mean
AUSTRALIA	29,0	33,9	39,0	48,5	54,3	79,5	47,4
CANADA	30,8	30,1	36,8	42,2	55,7	95,3	48,5
USA	13,4	4,7	8,6	18,6	42,2	76,6	27,4
UK	36,7	9,9	17,1	48,8	79,6	89,6	46,9
FINLAND	50,6	79,8	73,7	64,3	89,3	93,6	75,2
GERMANY	28,8	29,5	39,5	50,8	72,6	92,5	52,3
SWEDEN	31,1	56,6	75,2	69,4	89,6	96,2	69,7
NL	50,2	20,9	41,6	67,5	86,8	94,9	60,3
POLAND	51,4	25,6	21,3	33,3	71,7	87,3	48,4
CZECH REP	58,8	83,0	85,7	80,2	96,5	98,3	83,8
HUNGARY	38,0	45,3	32,5	33,0	67,5	90,0	51,1
SLOVAKIA	57,7	71,7	83,7	79,3	93,3	96,8	80,4
SPAIN	29,4	16,2	11,5	17,4	51,3	82,2	34,7
ESTONIA	32,6	33,1	11,6	26,7	84,3	93,0	46,9
Mean	*38,5*	*38,6*	*41,3*	*48,6*	*73,9*	*90,4*	*55,2*
Std.dev.	*13,2*	*25,3*	*27,6*	*21,2*	*17,4*	*6,7*	-

Not only are there remarkable differences in the coefficient of poverty reduction but there also is a huge variation in the initial level, i.e., in pre-transfer poverty from which social transfers try to help people. As a rule in all age brackets pre-transfer poverty is lower in post-communist nations than in the West. For example, among the elderly pre-transfer poverty according to the 50% poverty line is below 60% in all post-communist countries whereas it is as high as 91% in Finland, 86% in Sweden, 85% in the Netherlands, 77% in the United Kingdom, and 64% in the United States (calculated from the LIS). The results indicate that in settled economies with stable social policy programs people rely more on social security transfers, whereas in the transitional period they also try to seek other means to secure their livelihood. In uncertainty it is not clever to put all your eggs in the same basket.

The inspection above in Tables 6-7 was based on age brackets. An alternative and a complementary picture can be obtained by calculating poverty rates according to family types as has been done in Table 8. Again we can distinguish special patterns between nations or groups of nations. In the West (with the exception of the Netherlands) households consisting of one member are more exposed to poverty than in the East. In the Anglo-American countries all kinds of households with children experiences more problems than in the Nordic countries and the Czech and Slovak Republics. Also in Germany and in the Netherlands single-parenthood considerably increases the probability of being poor, whereas the Finnish and Swedish single parents fare well comparatively (poverty rate less than 5%). In other household

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This leads to somewhat misleadingly high levels of poverty reported for Sweden.

types with children the Scandinavian cluster is fortified by the Czech and Slovak Republics, while Hungary, Poland, and Estonia have more in common with the Anglo-American block.

Table 8. Poverty according to the type of household (average for the 40%, 50%, and 50% poverty lines).

COUNTRY	**1A**	**2A**	**1ACH**	**2A2CH**	**2A3CH**
AUSTRALIA	13,0	8,3	33,7	8,6	20,4
CANADA	11,1	4,9	35,4	8,7	19,7
USA	16,3	7,0	49,0	10,6	26,1
UK	7,7	5,7	31,6	12,1	27,5
FINLAND	10,6	2,7	4,4	2,2	6,5
GERMANY	8,4	3,5	39,8	6,5	17,0
SWEDEN	12,6	1,8	4,7	3,1	7,4
NL	5,7	3,0	24,6	4,1	11,0
POLAND	3,2	4,9	15,5	8,3	26,6
CZECH REP.	1,6	0,6	9,4	1,6	4,0
HUNGARY	4,4	6,6	11,4	10,0	22,2
SLOVAKIA	2,4	0,9	6,8	1,9	4,6
SPAIN	6,2	6,7	16,3	6,9	21,7
ESTONIA	7,8	5,4	14,0	10,1	14,2
Mean	*7,9*	*4,4*	*21,2*	*6,8*	*16,4*
Std.dev.	*4,4*	*2,4*	*14,4*	*3,6*	*8,4*
1A = household of one person; 2A = household of two persons; 1ACH = single-parent household; 2A2CH parents with one or two children; 2A3CH = parents with three or more children					

As in the case of poverty in different age groups it is useful to see to what extent the results on poverty among different family types presented in Table 8 are affected by social security transfers. This kind of inspection will give us a snapshot of the efficiency of family policy programs in different countries. As can be seen in Table 9 the effectiveness varies greatly between countries and within countries between different family types. Family policies seem to work most effectively on one hand in Finland and Sweden and in the former Czechoslovakia on the other. Precisely in the same way as in the case of age-specific poverty rates the most ineffective support systems fort families can be found in the Anglo-American countries and Spain. Poland, Hungary, and Estonia are located somewhere in between these two extremes.

Table 9. The role of income transfer systems in poverty reduction (average for 40%, 50% and 60% poverty lines) in different countries (poverty reduction coefficient, R).

COUNTRY	1A	2A	1ACH	2A2CH	2A3CH
AUSTRALIA	70,6	67,7	43,1	64,5	30,5
CANADA	69,6	80,3	21,5	39,0	27,8
USA	60,4	74,7	17,7	65,1	46,7
UK	86,0	83,4	49,9	7,5	13,8
FINLAND	77,3	91,0	86,6	77,2	76,3
GERMANY	70,9	84,3	15,7	43,7	42,6
SWEDEN	75,1	95,3	88,0	66,4	81,7
NL	88,4	89,8	56,9	41,1	15,5
POLAND	50,9	71,5	31,5	2,1	4,7
CZECH REP.	90,7	96,0	66,5	82,4	85,5
HUNGARY	83,8	64,8	55,9	26,1	50,5
SLOVAKIA	64,1	92,9	71,9	77,4	85,5
SPAIN	46,3	68,3	42,7	2,2	-
ESTONIA	93,0	89,8	61,3	42,4	45,3
Mean	*73,4*	*82,1*	*50,7*	*45,5*	*42,3*
St.dev.	*14,5*	*10,9*	*23,6*	*28,0*	*31,7*
Explanations of the headings see Table 8.					

6. TRANSITIONAL COUNTRIES IN A COMPARATIVE PERSPECTIVE

The aim of the present paper was to compare social policy programs and their consequences in terms of poverty and poverty reduction in Western countries and in post-socialist countries. To place the post-socialist countries in the prevailing welfare state typologies is a bit of a hazardous task. Neither the Western nations no the post-communist countries form a single homogenous group.

There is a large variation when it comes to the institutional set-ups of social policy programs. In their pensions schemes the Baltic states have much in common with the Scandinavian pension model with basic pensions possibly supplemented by earnings-related pensions. In Ukraine, the former Czechoslovakia, Hungary and Poland the pension security follows the Central-European pattern more closely with an emphasis on earnings-related schemes.

In the Nordic countries maternity allowances follow their own distinct pattern: moderate benefits that are payable for a long period in time, whereas the Central European pattern, attached to the post-socialist countries, is built on high income replacement rates com-

bined with shorter benefit periods. The same also goes for the sickness insurance programs in the transitional countries.

The financial structure of the post-socialist social policy does not follow a single pattern. In some countries the tax rate is very high, as in Poland and the Czech Republic but relative low in Estonia. However, in one dimension the transitional countries are pretty similar. As a legacy from the socialist period employers are rather heavily burdened by social security fees.

In our analyses we also paid some preliminary attention to poverty levels according to age groups and family types. The post-socialist countries seem to perform pretty well in this comparison. Especially in the Czech and the Slovak Republics relative poverty is very low, even surprisingly low. The same goes to some extent Estonia, too. Together with Finland and Sweden these post-socialist countries form a class of their own. The results are supported by some national studies analyzing poverty in Estonia and the Czech Republic more deeply (Kutsar, Trumm & Oja 1998; Vecernick 1996).

So far, so good. Why then, should we be worried about the poor situation in the transition economies? Their social security programs seem to work very well or at least satisfactorily, locating in between the Scandinavian and American extremes. However, the is picture perhaps not that sunny. First, it is probable that the income register data is more sparse in economies in transition. It means that income differences between the rich and the poor are much wider than that displayed by the official statistics and consequently, relative poverty will be much higher, too.

Overall inspection of the economic development in different countries indicated that differences in the absolute living-standard/economic well-being have increased between the Western world and economies in transition. In 1990 the income level in the transitional economies corresponded to 35% of the median for the 31 nations studied. Five years later the corresponding ratio was only 24%. Thus, there is the problem of absolute and relative measurement of poverty (see e.g., Einasto 1987; Kangas & Ritakallio 1998). The problems arose immediately when we related the average income level in the settled economies and in the transition economies. According to Table 1, e.g., the Estonian real GDP per capita is US$ 4 062, whereas if is as much as US$ 26 977 in the United States. Furthermore, the overall relative poverty rates in Poland and Hungary are a bit lower than in the United States but the median income from which the national poverty lines are derived in those two post-socialist countries is only about one tenth of the U.S. median (US$ 1700, and US$ 14 000, respectively). The American poor would be rich in those countries. The problem revolves around

relative and absolute poverty. In the rich western countries poverty is to a greater extent relative, whereas in the transition economies its character is more absolute.

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