THE POLITICAL ECONOMY OF SOCIAL SECURITY

Edited by:

B. A. GUSTAFSSON University of Göteborg Sweden

and

N. Anders KLEVMARKEN
University of Göteborg
Sweden



1989

NORTH-HOLLAND AMSTERDAM · NEW YORK · OXFORD · TOKYO

Contents

1.	The Political Economy of Social Security	
	Editor's Introduction and Summary Björn Gustafsson and N. Anders Klevmarken 1. Unemployment and demographic change 2. Distributional issues 3. The feasibility of transition and stability 4. Economic incentives and the impact of changes 5. Complements and alternatives to a pay-as-you-go system 6. Concluding remarks Acknowledgments References	1 3 4 5 6 7 8 8
2.	 Social Change and the Development of the Financial Situation of the Social Security System in the Federal Republic of Germany Hans-Jürgen Krupp The Discussion of the Financial Stability of the Social Security System in the Federal Republic of Germany Elements of the Social Security System in the Federal Republic of Germany The Adjustment of the System to Changes in Growth and Employment The Effects of Changes in the Age Structure and in Employment Patterns Aspects of Reforming the Social Security System References 	11 12 14 16 23 27
3.	 Voting Models of Social Security Determination Robin Boadway and David Wildasin 1. Introduction 2. Model of Voting for Social Security with Fully-Specified Capital Markets 2.1. Household Savings Behavior 2.2. Voter Preferences over β 2.3. Majority Voting Equilibria 3. Demographic Effects on Majority Voting Equilibrium 4. Issues in Public Choice Models of Social Security 5. Appendix Acknowledgements 	29 31 33 34 36 38 42 46 49

References

viii Contents

4.	Redistribution Effects of Social Policy in a Lifetime Analytical Frame-	
	work Ann-Charlotte Ståhlberg	
	1. Introduction	51
	2. A brief presentation of the Swedish social insurance system	53
	3. Life cycle studies	54
	4. The empirical analysis	55
	4.1. The retired generation	55
	4.2. The working generation	55
	5. The results	56
	5.1. Intergenerational redistributional effects	57
	5.1.1. The retired generation	57
	5.1.2. The working generation	57
	5.2. Intragenerational redistributional effects	58
	6. Conclusions	60
	7. Appendix	62
	Acknowledgements	65
	References	65
5.	The Annuity Value of Social Security	
Э.	Michael D. Hurd	
	1. Introduction	67
	2. The Effect of Annuities on Utility	68
	2.1. A Utility Model with Annuities and Bequests	70
	2.2. The Marginal Rate of Substitution	72
	3. Estimation	75
	3.1. Estimation of a Consumption Model	76
	3.2. Estimation of the MRS	78
	4. Conclusion	81
	Acknowledgements	82
	References	82
6.	Conversion Policies for Public Pension Plans in a Small Open Economy	
	H.A.A. Verbon	
	1. Introduction	83
	2. The indifference condition	85
	3. Conversion policies in closed and small open economies	86
	4. The costs of conversion policies in a small open economy	88
	5. A diagrammatic illustration	92
	6. Qualifications and concluding remarks	93
	References	95
7.	On the Stability of the Social Security System	
	Bernard M.S. Van Praag and Remco H. Oostendorp	
	1. Introduction	97
	2. The labor market	98
	2. The employer financed naviac you go system	100

Contents	ix
Contents	ıх

	 Stability, discrete q-distributions, and price and wage flexibility Voluntary labor withdrawal 	103 106
	6. A numerical evaluation	108
	7. Discussion and conclusion	110
	Acknowledgements	111
	References	111
8.	A Macroeconomic Analysis of Employer-Contribution Financed Social Security	
	Edward E. Palmer and Mårten Palme	
	1. Introduction	113
	2. The Model	114
	2.1. General Summary of the Model	114 115
	2.2. Components of Aggregate Demand	120
	2.3. Wages and Prices 2.4. The Demand for and Supply of Labor	124
	2.5. Pensions and the Disposable Income of Households	125
•	3. Results of Simulation	128
	4. Final Comments	133
	5. Appendix	134
	5.1. Equations of the Model.	134
	5.2. Definitions	139
	References	140
9.	Unemployment Benefits and the Labor Market, A Micro/Macro Ap-	
9.	proach	
9.	proach Peter ten Hacken, Arie Kapteyn and Isolde Woittiez	1/12
9.	proach Peter ten Hacken, Arie Kapteyn and Isolde Woittiez 1. Introduction	143
9.	proach Peter ten Hacken, Arie Kapteyn and Isolde Woittiez 1. Introduction 2. The micro model of labor supply	144
9.	proach Peter ten Hacken, Arie Kapteyn and Isolde Woittiez 1. Introduction 2. The micro model of labor supply 3. The micro/macro model	144 148
9.	proach Peter ten Hacken, Arie Kapteyn and Isolde Woittiez 1. Introduction 2. The micro model of labor supply 3. The micro/macro model 4. Simulation of alternative social security policies	144 148 152
9.	proach Peter ten Hacken, Arie Kapteyn and Isolde Woittiez 1. Introduction 2. The micro model of labor supply 3. The micro/macro model	144 148
9.	proach Peter ten Hacken, Arie Kapteyn and Isolde Woittiez 1. Introduction 2. The micro model of labor supply 3. The micro/macro model 4. Simulation of alternative social security policies 4.1. Macro effects 4.2. Micro effects	144 148 152 153
9.	proach Peter ten Hacken, Arie Kapteyn and Isolde Woittiez 1. Introduction 2. The micro model of labor supply 3. The micro/macro model 4. Simulation of alternative social security policies 4.1. Macro effects	144 148 152 153 155
9.	proach Peter ten Hacken, Arie Kapteyn and Isolde Woittiez 1. Introduction 2. The micro model of labor supply 3. The micro/macro model 4. Simulation of alternative social security policies 4.1. Macro effects 4.2. Micro effects 5. Concluding remarks	144 148 152 153 155 159
9.	proach Peter ten Hacken, Arie Kapteyn and Isolde Woittiez 1. Introduction 2. The micro model of labor supply 3. The micro/macro model 4. Simulation of alternative social security policies 4.1. Macro effects 4.2. Micro effects 5. Concluding remarks 6. Appendix A. The Specification of Preference Formation	144 148 152 153 155 159 161
	proach Peter ten Hacken, Arie Kapteyn and Isolde Woittiez 1. Introduction 2. The micro model of labor supply 3. The micro/macro model 4. Simulation of alternative social security policies 4.1. Macro effects 4.2. Micro effects 5. Concluding remarks 6. Appendix A. The Specification of Preference Formation Acknowledgements References Effects of Extended Unemployment Compensation in Sweden	144 148 152 153 155 159 161 164
	proach Peter ten Hacken, Arie Kapteyn and Isolde Woittiez 1. Introduction 2. The micro model of labor supply 3. The micro/macro model 4. Simulation of alternative social security policies 4.1. Macro effects 4.2. Micro effects 5. Concluding remarks 6. Appendix A. The Specification of Preference Formation Acknowledgements References	144 148 152 153 155 159 161 164
	proach Peter ten Hacken, Arie Kapteyn and Isolde Woittiez 1. Introduction 2. The micro model of labor supply 3. The micro/macro model 4. Simulation of alternative social security policies 4.1. Macro effects 4.2. Micro effects 5. Concluding remarks 6. Appendix A. The Specification of Preference Formation Acknowledgements References Effects of Extended Unemployment Compensation in Sweden Anders Björklund and Bertil Holmlund	144 148 152 153 155 159 161 164 164
	proach Peter ten Hacken, Arie Kapteyn and Isolde Woittiez 1. Introduction 2. The micro model of labor supply 3. The micro/macro model 4. Simulation of alternative social security policies 4.1. Macro effects 4.2. Micro effects 5. Concluding remarks 6. Appendix A. The Specification of Preference Formation Acknowledgements References Effects of Extended Unemployment Compensation in Sweden Anders Björklund and Bertil Holmlund 1. Introduction	144 148 152 153 155 159 161 164 164
	proach Peter ten Hacken, Arie Kapteyn and Isolde Woittiez 1. Introduction 2. The micro model of labor supply 3. The micro/macro model 4. Simulation of alternative social security policies 4.1. Macro effects 4.2. Micro effects 5. Concluding remarks 6. Appendix A. The Specification of Preference Formation Acknowledgements References Effects of Extended Unemployment Compensation in Sweden Anders Björklund and Bertil Holmlund 1. Introduction 2. The Basic Facts 2.1. Unemployment Insurance 2.2. Cash Benefits (KAS)	144 148 152 153 155 159 161 164 165 166 166
	proach Peter ten Hacken, Arie Kapteyn and Isolde Woittiez 1. Introduction 2. The micro model of labor supply 3. The micro/macro model 4. Simulation of alternative social security policies 4.1. Macro effects 4.2. Micro effects 5. Concluding remarks 6. Appendix A. The Specification of Preference Formation Acknowledgements References Effects of Extended Unemployment Compensation in Sweden Anders Björklund and Bertil Holmlund 1. Introduction 2. The Basic Facts 2.1. Unemployment Insurance	144 148 152 153 155 159 161 164 165 166

x Contents

	4. The Data	172
	5. Estimation Results	172 173
	6. Evidence on Search Effort	173
	7. Concluding Remarks	179
	8. Appendix	180
	Acknowledgements	183
	References	183
11.	Is Abuse a Problem in Social Insurance?	•
	Kari Lantto	
	1. Introduction	185
	2. Workers	186
	3. Insurer	188
	4. Should a benevolent insurer deter abuse?	190
	5. Effects of changes in the social welfare function	192
	6. Dependence on health conditions	193
	7. Conclusion	193
	Acknowledgements	194
	References	194
12.	Contractually Determined Insurance Schemes for Manual Workers	
	Per Gunnar Edebalk and Eskil Wadensjö	
	1. Introduction	195
	2. Main features of the contractual insurance schemes	196
	2.1. Employment group life insurance	196
	2.2. Severance pay	196
	2.3. Supplementary sick pay	197
	2.4. Special supplementary pension	197
	2.5. Supplementary work injury insurances	197
	3. Why contractual insurance?	197
	3.1. The workers and contractual insurance schemes	199
	3.2. The employers and contractual insurance	201
	3.3. The State and the contractual insurances	202
	4. Effects of contractual insurance	203
	4.1. Contractual insurances and member recruitment	203
	4.2. Economic effects of contractual insurance	204
	4.3. Effects on the national social insurance system	207
	5. Conclusions	209
	Acknowledgements	209
	References	210
13.	Public and Private Partnerships in Social Security: Recent UK Policy	
	John Creedy and Richard Disney	
	1. Introduction	211
	2. The Growth of Social Security Expenditure	212

Contents	хi

2.1. The short run	213
2.2. The long run	217
3. Assessing the Motives for Reduced Public Provision	219
3.1. Expenditure and public choice	219
4. Public and Private Pensions	221
4.1. The main proposals	221
4.2. An evaluation	223
5. Statutory Sick Pay	226
5.1. The nature of the scheme	228
5.2. The financial impact of SSP	229
5.3. Moral hazard and SSP	230
6. Conclusions	232
References	234
Index	237

.