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# The Routledge International Handbook to Welfare State Systems

*Edited by Christian Aspalter*

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# Contents

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<i>List of tables and figures</i>	<i>x</i>
<i>Notes on contributors</i>	<i>xiv</i>
<i>Foreword</i>	<i>xxvii</i>
<i>Preface</i>	<i>xxix</i>
1 Introduction <i>Christian Aspalter</i>	1
2 Ten worlds of welfare capitalism: an ideal-typical perspective <i>Christian Aspalter</i>	15
3 Future welfare: an uneven race to the top and/or a polarized world? <i>Peter Abrahamson</i>	41
4 The Australian welfare state system: with special reference to welfare conditionality – the case of the income management system <i>Philip Mendes</i>	71
5 The American welfare state system: with special reference to asset- and means-tested social assistance programs <i>Peter Abrahamson</i>	87
6 The Cuban welfare state system: with special reference to universalism <i>Carmelo Mesa-Lago</i>	106
7 The Mexican welfare state system: with special reference to conditional cash transfer systems <i>Gabriel Martínez</i>	122
8 The Chilean welfare state system: with special reference to social security privatization <i>Silvia Borzutzky and Mark Hyde</i>	138

## Contents

9	The Brazilian welfare state system: with special reference to the outcomes and performance of the welfare state system <i>Christian Aspalter</i>	155
10	The Nigerian welfare state system: with special reference to the challenges of developing a social security system <i>Bruce Josephson</i>	178
11	The UK welfare state system: with special reference to the mental health care system <i>Paul Taylor and Jason L. Powell</i>	191
12	The Swedish welfare state system: with special reference to inequality and the redistribution paradox <i>Joakim Palme</i>	203
13	The French welfare state system: with special reference to youth unemployment <i>Tom Chevalier and Bruno Palier</i>	216
14	The Belgian welfare state system: with special reference to “targeting within universalism” <i>Bea Cantillon, Diana De Graeve and Natascha Van Mechelen</i>	229
15	The German welfare state system: with special reference to the old-age pension system <i>Karl Hinrichs</i>	244
16	The Austrian welfare state system: with special reference to the long-term care system <i>Kai Leichsenring</i>	258
17	The Swiss welfare state system: with special reference to education policy <i>Jean-Michel Bonvin and Stephan Dahmen</i>	274
18	The Russian welfare state system: with special reference to regional inequality <i>Markus Kainu, Meri Kulmala, Jouko Nikula and Markku Kivinen</i>	291
19	The Turkish welfare state system: with special reference to human capital development <i>Adem Yavuz Elveren and Tuba I. Agartan</i>	317

20	The Israeli welfare state system: with special reference to social inclusion <i>John Gal</i>	332
21	The Indian welfare state system: with special reference to social policy and the burden of disease <i>Christian Aspalter</i>	347
22	The Indonesian welfare state system: with special reference to social security extension in the development context <i>Jörg Michael Dostal and Gemati Ekacita Naskoshi</i>	365
23	The Singaporean welfare state system: with special reference to public housing and the Central Provident Fund <i>Youyenn Teo</i>	383
24	The Chinese welfare state system: with special reference to aging of society and social policy <i>Carmel K.M. Lee</i>	398
25	The Hong Kong welfare state system: with special reference to new initiatives in social assistance provision <i>Joe C.B. Leung</i>	419
26	The Taiwanese welfare state system: with special reference to its universal health insurance system <i>Yih-Jiunn Lee and Yeun-Wen Ku</i>	433
27	The South Korean welfare state system: with special reference to the future of social insurance systems <i>Jinsoo Kim and Christina Hießl</i>	451
28	The Japanese welfare state system: with special reference to financing health care, pensions and long-term care in a super-aged society <i>Christian Aspalter and Hubert Liu</i>	469
29	Lessons from around the world: by way of conclusion <i>Christian Aspalter</i>	487
	<i>Index</i>	492

# Tables and figures

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## Tables

2.1	Advantages and disadvantages of ideal-typical and real-typical methodology compared (in general comparative social policy)	18
2.2	Ideal-typical worlds of welfare capitalism: mapping ideal-typical welfare regimes (in the Weberian sense)	20
3.1	Total public social expenditure (% of GDP 1990–2010 and estimates for 2045)	42
3.2	Health and old-age coverage (latest year) (% of total population and population 65+)	43
3.3	Latin American states according to degree of welfare gap (2012)	50
4.1	Principal income security payments: pensions	73
4.2	Principal income security payments: allowances	73
4.3	Principal income security payments: family payments	74
5.1	EITC income limits and maximum credit amounts	95
5.2	Eligibility for the Supplemental Nutrition Assistance Program and monthly income (in US\$)	97
6.1	Health care indicators in Cuba (1989 and 2006–2013)	109
6.2	University enrollment in school years in Cuba (1989/1990, 2007/2008 and 2013/2014)	110
6.3	Pensions financial imbalance, pension real value and population aging in Cuba (1989 and 2008–2013)	114
7.1	Value of subsidies in <i>Oportunidades</i> human development program (2013)	129
8.1	Health conditions prioritized under Chile's universal health care plan	144
9.1	Comparing the first five “ideal-typical” welfare regimes	158
9.2	Unequal access to health care across Brazil (by region): the case of no attending doctors	161
9.3	Comparison of welfare outcomes in Latin America	165
9.4	Types of social assistance benefits and services	171
14.1	Evolution of the at-risk-of-poverty rate (AROP) (pre- and post-transfer), absolute poverty reduction through social transfers, according to household work intensity (WI), plus the proportion of work-poor and work-rich households and indicators of average earnings and median income, Belgium (ECHP 1994–2000 and SILC 2004–2010)	234
15.1	Expenditure on selected items of social protection as percentage of GDP	247
15.2	Combined contribution rate (employer + employee) to social insurance schemes	248

16.1	Average monthly pension payments by professional categories (2013)	261
16.2	The Austrian Long-Term Care Allowance 2014	265
16.3	The development of home care services in Austria (mid-1990s to 2013)	266
16.4	Development of residential care: places in care homes (2000–2013)	267
18.1	Expenditure for social functions by tier of government as a percentage of total expenditure, 2006	294
18.2	Regional disparities in social development indicators, 2012	296
18.3	Categories of typology and threshold values, national mean in parentheses	302
19.1	The structure of the social security system in Turkey before the reform	318
21.1	History of important social policy legislation and regulation in India	348
21.2	Comparison of life expectancy (LE) at birth in developing and not yet developing countries over time	354
21.3	Comparison of maternal, infant and under-5 mortality rates in developing and not yet developing countries over time	354
21.4	Comparison of some major causes for the burden of disease (lack of improved drinking water/sanitation and use of solid fuels) in developing and not-yet-developing countries over time, part 1	355
21.5	Comparison of some major causes for the burden of disease (underweight children aged $\leq 5$ ; alcohol consumption and prevalence of smoking among adults aged $\geq 15$ ) in developing and not-yet-developing countries over time, part 2	355
22.1	List of abbreviations	367
22.2	Number of pension fund participants	371
22.3	Share of total population covered by Indonesian health insurance programs	372
22.4	JAMKESMAS benefits	373
22.5	Population aged 15+ based on working status	376
22.6	Population aged 15+ based on main job status	376
22.7	Population aged 15+ based on main working sector	377
24.1	Diversity in China	399
24.2	Health risk factors in China	410
25.1	Profile of CSSA cases in 2001, 2005, 2011 and 2014 (%)	422
26.1	Social insurance systems in Taiwan	434
26.2	A brief overview of social insurance in Taiwan (unit: 1,000 people)	436
26.3	Contribution shared by the government, employer and the insured (%)	441
26.4	The continuation of social protection in Taiwan	445
27.1	Changes in the government expenditure on social welfare, 1970–2013 (percent of the general budget of government)	452
27.2	Portion of social insurance in public social welfare expenditure (1990–2013)	453
27.3	Application of minimum wage system (persons)	460
28.1	Past development of social policy in Japan	471
28.2	Comparison of health care outcomes and health care expenditures (selected countries)	479

## Figures

6.1	Evolution of the real pension in Cuba (1989–2013)	115
6.2	Decline of social assistance in Cuba (2006–2012)	116

## Tables and figures

6.3	The cost of social welfare in Cuba (2006–2013)	117
7.1	Percentage of population in poverty under the income dimension (1992–2012)	126
7.2	Unemployment rate by educational level	133
7.3	Population with incomes below the welfare line and the minimum welfare line (2012)	134
7.4	Income tax plus employee and employer contributions less cash benefits, single persons, 100% of average earnings	135
8.1	Health expenditures as percentage of government expenditure	142
9.1	Reduction in poverty after public cash transfers according to OECD poverty definition (in %)	168
14.1	The labor force, the employed and number of hours worked, Belgium (1950–2012)	233
14.2	Public and private per capita health care expenditures, in constant euros 2005 (2004–2012)	236
14.3	Maximum share of co-payments as a function of income (2002 and 2015)	238
14.4	Expenditures of the maximum billing and co-payments as a share of expenditure before and after maximum billing (2003–2013)	239
16.1	Share of older people with assessed care needs as a percentage of the population and public expenditure (selected European countries)	259
16.2	Long-term care public expenditures: health and social components (as share of GDP, 2011, or nearest year)	260
16.3	Development of 24-hour care: number of beneficiaries with public subsidies (2008–2013)	269
17.1	Persons receiving first-pillar and second-pillar benefits, 1925–2010 (in millions)	276
17.2	Percentage of 65+ in the whole population (1900–2010)	277
17.3	Distribution of health insurance premiums paid for adults over 25, by canton of affiliation (2011)	278
18.1	Absolute and per capita GRP in regions of Russia in 2012	299
18.2	Federal subjects of Russia by GRP per capita in 2012	300
18.3	Life expectancy at birth in Russian regions in 1996 and 2012	301
18.4	Fertility rate in Russian regions in 1996–2012	303
18.5	Classification of Russian regions based on GRP per capita and life expectancy and fertility rate (2012)	304
18.6	Classification of Russian regions based on GRP per capita and life expectancy and fertility rate on a map (2012)	306
18.7	GRP per capita in 1996–2012 (log-scale)	311
20.1	Social protection as a percentage of GDP in Israel and the OECD mean (2000–2013)	335
20.2	Poverty levels of diverse population groups in Israel (2012)	340
21.1	Distribution of causes of death among children below 5 years of age (% of total causes of death), in 2000	356
21.2	Distribution of causes of death among children below 5 years of age (% of total causes of death), in 2012	356
26.1	Old-age allowance in Taiwan (2013)	440
27.1	Trend of welfare expenditure by types (1990–2013)	454
27.2	Trend of the poverty rate (1990–2013)	457



27.3	Trends of the Gini coefficient of income distribution in Korea (1982–2013)	458
27.4	Composition of monthly household income of employees in urban areas (1982–2014)	459
27.5	Comparison of the minimum wage and minimum living cost (MLC) (1988–2015)	461
27.6	Relationship of the minimum unemployment benefit, minimum wage and minimum living cost (1995–2015)	461
27.7	Relationship of the public pension and other social security benefits (1993–2013)	462
28.1	International comparison of social expenditures as % of GDP in selected countries (in 1995 and 2014)	472
28.2	The development of social expenditures in Japan (% of GDP; 2000–2016)	480
28.3	Fiscal indicators for Japan (% of GDP; 2000–2016)	481

# The Swedish welfare state system

## With special reference to inequality and the redistribution paradox

*Joakim Palme*

There is a strong notion of exceptionalism associated with the concept of a Swedish welfare state model, both internationally and in the country itself (Palme, 2015). The model has been associated not only with the character of social welfare policies as such but also with people's egalitarian living conditions. In addition, the way in which decisions have been made in a research-based and rational fashion is supposed to have contributed to the "modern" character of the system, including its continuous adaptation to changing structural conditions. The Swedish model has often been seen as the clearest case of a Scandinavian social democratic welfare state model, and while the imprints of a social democratic ideology are obvious, it is also clear that other ideas and interests have made their marks.

The fate of the Swedish model has evoked particular attention in the globalization context, which has a lot to do with its history of the highest levels of taxation in comparison to other advanced industrial nations (Palme, 2012). Here it is important to recognize that the post-war welfare state expansion went in tandem with a free trade strategy from the political side and a national economy dominated by large export firms experiencing an ever-deeper global integration. There are even those who claim that globalization has been a critical driver for welfare state expansion in small states (Katzenstein, 1985). Hence, the "old" conventional wisdom of the golden age used to be that the welfare state would go hand in hand with globalization.

The neoliberal "turn" meant that this mindset was fundamentally challenged. The view that a Swedish kind of welfare state model is a heavy burden to bear and, consequently, will not be sustainable in the future became increasingly and widely expressed (e.g. Langby, 1984). The crisis of the 1990s, and the cutbacks and reforms introduced as a consequence, led to the fact that also the supporters of the model began to see the end of it (e.g. Lindberg, 2000). Still, in the wake of the present political crisis of European integration, not only has the future of the European Social Model come into focus, but a number of studies have also identified Sweden and the other Scandinavian countries as best performers by combining low poverty and inequality, on the one hand, with high employment rates and strong growth records, on the other hand.

More recently, Swedish taxation levels have come down significantly, and various welfare state programs have been changed and reformed, and in some respects retrenched (Ferrarini *et al.*, 2012). Furthermore, inequalities have increased also in Sweden (Björklund and Jäntti, 2011). This makes an analysis of the real problems and potentials of the Swedish model relevant and

important beyond its borders. What appears to be of particular relevance is to discuss the underlying redistributive strategy of the Swedish welfare state model, which has been associated with the notion of a “paradox of redistribution.”

The chapter starts with an outline of the historical emergence of the model and its current benefit package. It then discusses the current trends and challenges. A special section is devoted to the “paradox of redistribution” and the trends in inequality. The concluding section discusses the future challenges to the Swedish welfare state model.

## Major characteristics of the Swedish welfare state system

### *Historical development trajectories*

Sweden has followed a rather distinct path in the development of social policy institutions, and this has led to a specific combination in terms of the coverage and level of benefits (Kangas and Palme, 2005). In social security, there have been two different points of departure; one is the old poor law system and the other is the various forms of voluntary organizations (such as friendly societies). From these two origins, the Sweden followed a Nordic-type pathway in social security to be described in this chapter. The universalism of these reforms of cash benefits also came to influence the subsequent expansion of social services.

The first pension law from 1913 was universal in its inclusion of everyone in a contributory system, but it is worth pointing out that it primarily delivered *targeted* benefits, that is it retained the asset- and means-testing (AMT) principle of the poor laws but expanded coverage to the large majority of the elder population. When after World War II means testing was abolished in the pension system, we can speak of the institutionalization of a basic security model similar to the Beveridge model in Britain with its flat rate benefits. It was, however, tax financed, which is different from the principle of social security contributions in the Beveridge model. The universalization of the pension system was accompanied by the introduction of universal child benefits. In the late 1950s, with the introduction of earnings-related benefits within a universal framework, the basic security programs became encompassing, aiming at both basic and income security. This is different from the Continental European tradition of state corporatist social insurance, with its separate administration of social protection for different categories in the labour market (see Korpi and Palme, 1998).

The introduction of state subsidies to voluntary programs in sickness (1910) and unemployment insurance (1934) can be said to represent another starting point: the voluntary state-subsidized model. In 1955, sickness insurance became universal and the earnings-relatedness was expanded in a stepwise fashion, which led the development path to the encompassing model also here. The unemployment insurance system in Sweden still bears strong features of the voluntary state-subsidized model (Kangas and Palme, 2005).

The development of the social services and health care in the Swedish welfare state has a special history. Benefits in kind are separated from cash benefits both administratively and financially. The coverage and level of expenditures on services is also what makes Sweden (together with Denmark) stand out among the advanced welfare states. The universal provision of social services in Sweden is, by and large, a post-war phenomenon (Béland *et al.*, 2014). Sweden established a universal health care system in the mid-1950s. It was followed by the expansion of elder care and childcare services. Step by step the policies for disabled persons have become part of the universal system of social protection (Palme, 1999). In this context it also appears warranted to underline the importance of full employment and active labour market policy, as well as the “dual-earner model” for the character of the Swedish welfare state model.

In family policy, Sweden is hence a good example of how the male-breadwinner model has been transformed into a dual-earner model (Ferrarini, 2006). It is evident that this has required policy changes in a number of respects. The fact that women, over the post-war period, have taken part in education at different levels, to a higher and higher degree, is one important factor behind their massive entrance on the labour market. Another important factor was the abolishment of joint taxation of spouses, which improved incentives for married women to enter paid employment. Moreover, childcare and care for elder persons are important both as resources for women with care responsibilities and as providers of employment opportunities. The importance of the way both the social support and tax systems came to be based on the individual should not be underestimated and stands in sharp contrast to the traditional male-breadwinner design in other parts of Europe. That the different reforms put emphasis on women's independence is clear from the fact that the benefits in all the supportive systems introduced were being paid to the mothers. For unmarried mothers, Sweden has developed special supportive programs. The underlying assumption has been that the woman could provide for herself and meet a substantial part of her children's expenses (Wennemo, 1994).

The expansion of entitlements to benefits in both cash and kind has been accompanied by growing costs. This has been fueled first by the aging of the population and then by increased unemployment as well as other needs (Palme *et al.*, 2003; Kangas and Palme, 2007). However, the costs of the transfer systems in Sweden do not really diverge from the Western European pattern, not even when it peaked in the 1990s (Adema and Ladaïque, 2005). Several factors have contributed to that. The fairly high formal pension age and actual retirement age, as well as the (until the 1990s) low unemployment rates are two examples. The high labour force participation rate among women is another important factor. If we look to the social services, however, the costs have been high by comparison. More recently, the expenditure levels have, however, hovered around the EU average (Eurostat, 2016).

There used to be a heavy reliance on general taxation for the Swedish system of social security. This was true for the universal benefits as well as the subsidies to voluntary insurance. The municipalities have always had a strong financial responsibility for social assistance and care of different vulnerable groups. However, the introduction of earnings-related benefits in the 1950s was based on employers' social security contributions, which marked a major shift in funding. These contributions from employers have moreover funded labour market policies and childcare services. In the 1990s, insured persons' social security contributions were introduced to cope with the public deficits and now go to the pension system. The expansion of health care and other social services were made possible by increased local taxes paid to the counties and municipalities. In addition, the state contributed to this sector with roughly one-fifth of the total expenditures. Apart from the voluntary unemployment insurance, which was administered by the trade unions, the administration of the social insurance system was the responsibility of the public authorities at the national and local levels (Palme *et al.*, 2003).

### ***Benefit package***

The pension system in principle covers the entire resident population in Sweden (Palme, 2005). Residents in the working-age population either earn entitlements by having an income from work (or social insurance) or by getting entitlements to future basic benefits just by being residents. Among the elder persons, the statutory system pays out a mix of different benefits including income pension, funded benefits, guarantee pensions and old-age income support (for newcomers). Survivor's benefits are paid to children and surviving spouses below pension age. The old widow pension system, which is being phased out, still pays out benefits. The pension

system is administered by a special government authority, the Pension Agency, which pays out not only old-age pensions and survivor's benefits but also housing benefits to pensioners.

Income-related pensions are based on notional defined contributions (NDC) and lifetime earnings, but pension entitlements are also earned for parental leave, sick leave, studies and compulsory military service. Pension contributions are shared by employers and employees, employers paying the larger share. Income pensions rely on both pay-as-you-go financing (PAYG) and funding. Sixteen percent of the gross income goes into the notional defined contribution accounts (NDC), following the PAYG principle, and 2.5 percent goes into fully funded individual defined contribution accounts (FDC). Pension accrual and pension payouts are automatically adjusted to wage growth and life expectancy. The retirement age is flexible starting at 61, and the size of benefits is adjusted on an actuarial basis. Individuals have the right to work until they are 67 but can continue to contribute if they stay employed. Individuals with a low-income pension receive a guarantee pension which provides a basic benefit without means-testing. The old-age income support is aimed at those who are new residents to Sweden and is subject to means testing.

In 2014, more than 2.1 million old persons received an old-age pension and most of them got some form of income-related pension. Altogether 786,000 persons got part of – or the whole – pension from the guarantee benefit component. By 2014, 1.2 million retirees had also started to get a pension from the funded component of the system but only 19,000 received old-age income support. Total expenditures amounted to SEK 287 billion. The average benefit including part time pensioners was SEK 137,000 per year (PM, 2016a).

Over time, work accident benefits have been merged with sickness cash benefits for temporary absence, and only when it comes to permanent injuries does the system offer extra compensation. Following the pension reform of 1994–1998, the sickness cash benefit system has also been merged with the other disability benefits (Palme, 2005). This has been part of a series of reforms that have removed other reasons than work incapacity due to ill health as reason for rewarding benefits, such as labour market status or age. It should be noted that there have been remarkable and partly unexplained variations over time in the paid sickness absence rates which has generated recurrent debates. The sickness and work accident insurance provides replacement rates of 80 percent of earnings. Compensations are lower in case of long or permanent disability. There is a guaranteed basic level for disabled persons below pension age that do not have, or have modest, work/earnings histories (Ferrarini *et al.*, 2012; Försäkringskassan, 2016a).

The unemployment benefit system continues to be based primarily on the Ghent system, that is on voluntary state-subsidized insurance where independent insurance funds are administered by the trade unions. In addition to these funds, uninsured unemployed persons can claim a basic benefit if they have fulfilled the work requirements. The unemployment benefits have tended to be less encompassing in terms of middle-class inclusion. The generosity has also tended to be less so for average earners (Ferrarini *et al.*, 2012).

In 2015, the ceiling for the unemployment insurance was increased for the first time in many years, from SEK 18,700 to SEK 25,025 monthly. The 80 percent replacement rate applies to the first 200 regular working days of unemployment, whereafter the benefit is reduced to 70 percent. The basic duration of benefits is 300 working days. For parents who have children under the age of 18 the duration can be extended by 150 days. Those who remain unemployed are referred to active labour market programs. Insured persons aged above 25 are entitled to an earnings related “activity grant.” For insured persons a flat rate benefit is paid by the Social Insurance Agency. Persons aged between 18 and 25 are eligible for a “development grant” when participating in a labour market program. The proportion of those who are unemployed that actually receive a benefit is very low, which has to do with the fact that they are newcomers

to the labour market either because they are migrants or youth. This is no surprise seen in the light of the large increase in refugee migration (Fritzell *et al.*, 2016). It can be argued that the active labour market policy is part and parcel of the Swedish welfare state model. Historically, the ambition was to spend 75 percent on active labour market policies (ALMP) and 25 percent on cash benefits when it comes to employment-related public expenditures. With the mass unemployment of the 1990s this changed. It is also remarkable how much the ALMP expenditures have decreased in the 21st century. Compared to other countries Sweden has changed from being uniquely generous to being more average (Palme and Cronert, 2015).

The universal child benefits continue to be a cornerstone of the Swedish welfare state model. In 2016, a monthly child benefit is equal to SEK 1,050 (less than 10 percent of an average net wage). The universal benefits are paid at a higher rate for the third child and at an even higher rate for the fourth and subsequent children. As argued earlier, the modernization of family support has been guided by the ambition to support gender equality and a “dual earner model.” This includes various social services but is also evident in the design of cash benefit programs. Parental leave benefits replaced the maternity leave benefits already in 1974. From 2016, parents have the right to up to 16 months of paid leave; 3 months only provide comparatively low flat rate benefits. Of the 13 months of earnings-related benefits (80%), 3 months are reserved for the mother and father respectively. The rest of the earnings-related leave period can be divided freely between the parents. The 3 months’ leave with flat rate benefits have to be divided equally. Here it deserves to be emphasized that the system also provides earnings-related benefits for the care of sick children (Försäkringskassan, 2016b), and that not only the social insurance system but also the tax system, with separate taxation of spouse income, are guided by an individualized logic which stands in contrast to the male-breadwinner logic in some of the Continental European countries (Tallberg *et al.*, 2010).

Despite the encompassing nature of the Swedish welfare state model, the targeted benefits continue to play an important role for redistribution and poverty alleviation. Housing benefits are important but have been in effect become a targeted system for two categories of Swedish households: old-age pensioners and lone-parent families (even if other groups may be eligible). Housing benefits may make up a substantial part of the net income of old-age pensioners with only a guaranteed pension and living in rental housing (PM, 2016b). For lone parent households, housing benefits may be as important as the universal child benefits, or even more important (Försäkringskassan, 2016c).

Social assistance benefits are paid by the municipalities, but there are national regulations and guidelines. The level of benefits has increased in absolute terms over the past two decades, but the price indexing has meant that benefit levels have been lagging behind wages and quite substantially so (Kuivalainen and Nelson, 2011). The benefit levels are not high enough to lift a long-term social assistance recipient over the usual definitions of poverty lines. The number of social assistance recipients has been fairly stable in recent years. A high proportion of the recipients are foreign born (Fritzell *et al.*, 2016).

The Swedish health care system gives all residents irrespective of nationality access to full health care services (Socialstyrelsen, 2014). The system is basically administered by about 20 county councils and primarily financed out of local taxes to these counties (80%), supplemented by state subsidies (17%) as well as user fees (3%). The decentralized management implies that there are important local variations in how the health care is organized, including the user charges. However, children up to the age of 18 do not pay any user fees and maximum ceilings apply for the adult population: SEK 1,100 per year for outpatient care in 2016. Since the early 1990s, there has been a trend towards decentralization of the care of patient groups with more or less permanent caring needs. Thus, the care of elder persons, disabled and psychiatric patients

has become the primary responsibility of the municipalities both in terms of administration and financing. Some of the actual care is however provided by the hospitals under county council supervision. There are also attempts to achieve national steering of the system, which also opens up for different political priorities. In 2010, for example, a consumer choice model was imposed on the counties by the center-right government (Fritzell *et al.*, 2016).

The costs of the health care system have been remarkably stable over the past decades, with only a slight tendency to increase, and have recently been over 9 percent of GDP, which is close to the EU and OECD averages (Socialstyrelsen, 2014). Behind the stable costs there have been a lot of changes in the organization of the health care sector, above and beyond the aforementioned decentralization. Inspired by “New Public Management,” purchaser-provider models were introduced early on. This has to varying degrees been complemented by the introduction of private providers of services. Since the early 1990s, the historical reliance on hospital care and the weak role of primary care has gradually been shifted, and today Sweden has among the fewest hospital beds per 1,000 inhabitants. The number of treatments has however continued to increase thanks to increased use of day surgery and so forth. Private insurance has increased, partly through the expansion of collective workplace-based insurance policies, and represents about 10 percent of total health care expenditures (Hartman, 2011).

The elder care system in Sweden was developed and expanded early by international comparison. It has also gone through substantial restructuring over the past decades (Palme *et al.*, 2003). This has not only resulted in increased private provision of publicly provided services but also in a concentration of services to those with great caring needs. Still, Sweden has a comprehensive public elder care system and the two main forms of municipal elder care are “home help services” and “institutional care.” Fees for elder care are subject to maximum ceilings, and this applies to both home help services and institutional care. In 2013, 23 percent receive home help and 15 percent receive different forms of institutional care of the population above 80 years of age (Fritzell *et al.*, 2016).

Policies to the disabled are not only about providing cash benefits but not least about various kinds of benefits in kind. This is not a new phenomenon. Sweden has a long tradition of integrating the disabled in broader programs of benefits of both cash and in kind. For example, home help services have been delivered for the disabled in much the same way as for elder persons. A new reform launched in the mid-1990s deserves to be mentioned because of its innovative nature and sizeable costs (Palme *et al.*, 2003). The new program offered a nationwide program of supplying funding for personal assistants providing 24/7 services to severely disabled persons. This has been a game-changer in terms of providing a different quality of life and independence for some of the most vulnerable members of society. It has also been associated with increasing costs amounting to almost SEK 30 billion in 2015 (Försäkringskassan, 2016d).

Childcare services have continued to grow also during the “retrenchment era” of the Swedish welfare state history. This means that the system has become more or less universal (Béland *et al.*, 2014). The guaranteed entitlements to childcare are linked to the length of the paid parental leave period which is longer than 1 year. In 2012, 50 percent of 1-year-olds were enrolled in subsidized childcare. Eighty-nine percent of 2-year-olds are enrolled and almost 95 percent of those aged between 3 and 5. There has furthermore been an increasing emphasis on pedagogical content of these services (Fritzell *et al.*, 2016).

In brief, the Swedish welfare state provides all residents with an extensive system of benefits from the cradle to the grave. It contains some old kind of policy instruments, some reformed components and also some new policy measures. In a comparative perspective, the costs of the system do not stand out as exceptional anymore. The funding of the system seems manageable but is of course challenged, in the short run by large waves of refugee migrants and in the longer



run by the aging population. On top of that, there are gaps and other shortcomings of the system in terms of achieving the intended social objectives. What deserves further deliberation is how the political economy of the Swedish welfare state has been affected by the various incremental changes that can be observed in the different programs. This is what we turn to in the following section, first concerning the current trends in the reform work and then their implications for the Swedish strategy of redistribution.

## Current trends: big reforms and policy drift

Starting with the 1991 tax reform (“the tax reform of the century”), there has been a number of important reforms of the Swedish welfare state. Social services, old-age pensions, and active labour market policies stand out as the clearest examples. There have also been areas where “non-decisions” have been more dominant, such as with sickness insurance. It is obvious that the changes during the latest two decades have been affected by international factors on an ideational level, but they can also be seen as responses to endogenous reform needs as well as to changes in political power (Palme, 2012).

The tax reform was, indeed, in many respects comprehensive: broadening the tax base and reducing progressivity (Palme, 2012). It is clear that there were strong domestic pressures for reforming the tax system. The reform however followed the international pattern of reducing progressivity in order to improve work incentives and a broadening of the tax base. The design of the reform got some domestic influences intended to secure the redistributive effects of the tax system: more redistribution (primarily via family policies) despite less progressivity on the revenue side.

The more recent abolishment of wealth and inheritance taxes, as well as a restructuring/reduction of property taxes, suggest that it is becoming more difficult to tax capital even if it remains doubtful whether these changes were actually necessary (especially property tax). It is not all that clear that the EU membership has had any (real) direct effects. The lowering of value-added taxes on some products in 1995 is a good example of referrals to the EU membership in the domestic debate, but the question remains open if this argument was used as a strategic positioning in domestic political bargaining. The corporate tax is particularly affected by what is happening in the remaining parts of EU. At the same time it is obvious that the changes in the tax system are still largely determined by domestic party policy positions (Tallberg *et al.*, 2010).

The pension reform of 1994–1998 was driven by a national recognition of that the time was ripe for a reform because of both economic and social policy reasons (Palme, 2005). The international trend in the private pension sector also made an imprint on the Swedish reform: there was a move from a “defined benefit formula” (DB) to a “defined contribution formula” (DC), which was given a specific national interpretation in the NDC accounts. The NDC accounts can be seen as a response to the critique of the poor cost control and incentive structure in the old DB system. The fully funded individual NDC accounts, with the option of private fund management, were part of the reform compromise and a clear expression of the political priorities of the center-right parties. The reform may not have solved all issues once and for all, but it has put the system on a more financially sustainable ground given the future demographic challenges associated with the aging of the population. The reform was also built around a very broad political coalition.

In 1992, an important reform in the social services introduced a possibility for profit-seeking private firms to be providers of publicly funded social services (across the board). The reform was driven by a domestic political desire to introduce choice and private entrepreneurship in the public sector. It was likewise influenced by the global spread of “New Public Management”



as well as by neo-liberalism. One question is if it will deliver increased middle-class support because of individual choice or if it will imply a forbearance of an “exit” from the welfare state of these groups to more pure private solutions. There are other hot political issues around the role of profit-seeking firms in this sector. It is, for example, genuinely unclear if the economic efficiency has been improved (Hartman, 2011). Questions have also been raised around the quality of provisions in the elder care as well as in the health care sector. In the education system concerns are deepening around increased segregation and decreasing student performance (Anderson *et al.*, 2010).

Over a long time period, it appears that both sickness and unemployment insurance have been drifting away from the Swedish model's core feature of adequately insuring a large majority of the population within the statutory or state-subsidized insurance programs (Ferrarini *et al.*, 2012). In sickness insurance, the ceiling for benefit purposes has been indexed to prices. When it was introduced in the 1960s, more than 90 percent of the population had earnings below that ceiling. In 2012 a full-time employee with average earnings in manufacturing will have earnings above the ceiling. It should be noted here that the Social Democratic government eventually had increased the ceiling in 2006, but when the center-right government came into power later the same year it was immediately lowered again. The highest benefit in unemployment insurance has traditionally been more modest than in sickness insurance (compensation loss of earnings up to around what an average full-time employee would earn). For a few years during the first part of this century the highest benefit was increased for short-term unemployed, but that was also abolished by the center-right coalition when it came into power. Hence, a combination of decisions and “non-decisions” have contributed to a kind of *drift* (see Streeck and Thelen, 2005) of these social insurance program in terms of their coalition building potential between low- and high-income earners. The red-green coalition government elected in 2014 has raised unemployment benefits and has expressed ambitions to do the same with sickness/work accident benefits.

The development in the labour market has to be interpreted in contrast to the early 1990s employment crisis. Towards the end of the 1990s the unemployment rate did not just go down but the employment rate was also raised (Palme *et al.*, 2003). Following the quick recovery of the end of the 1990s and the first 2 years of the 2000s, there was a backlash in 2002. This was followed by a slower upturn, extending towards the mid-decade, which was perceived by some as “jobless growth.” During the fall of 2006, the employment rate increased quite dramatically which was further stimulated by tax reductions and other governmental subsidies geared towards employment in 2007. The number of permanent employment contracts increased after some time of decline. Following the global financial crisis in 2008, unemployment went up but has started to come down again despite a high inflow of refugee migrants.

During the employment crisis of the 1990s, active labour market policies were expanded massively even if some of the programs contained very little in terms of training (Palme *et al.*, 2003). The recovery at the turn of the century meant a dramatic decrease of the number of people enrolled in targeted labour market activity. Simultaneously, the quality of the labour market programs in place was increased. However, for the past decade, the active labour market policies have been responding less to the changes in unemployment. In the wake of the financial crisis, Sweden faced severe challenges such as very high youth unemployment. The Swedish Fiscal Policy Council (2010), appointed by the government, has addressed the need to enhance the active labour market policy programs. The weak position of the foreign-born labour population on the Swedish labour market is also a case of great concern, especially in the light of large waves of refugee migration. Here it deserves to be pointed out that Sweden introduced a labour migration regime for non-EU citizens to get a temporary work permit if they have a labour contract.

In this context it should be noted that the introduction of earned income tax credits effectively reduced the net replacement rates of social insurance benefits (Palme and Cronert, 2015). The benefit duration has also been subject to various restrictions. Of special interest is the increase of an insured person's contribution to the earnings-related part of the unemployment insurance administered by the trade unions. The motivation given by the government was that such a contribution would penalize excessive wage demands from the unions that increases unemployment in that branch. The result was a dramatic decline in the coverage of the unemployment insurance but also in union density, from 80 percent to below 70 percent. This suggests that small changes may have large effects on power relations (intended or not).

The changes over recent decades hence appear to be of an incremental nature (Streeck and Thelen, 2005) rather than of a paradigmatic kind. However, the gradual shifts in the interest formation around various social policy systems seem big enough to trigger political processes that in the longer run may alter the welfare state model in more fundamental ways and have repercussions for social and economic inequalities in a broader sense.

### Trends in inequality and the paradox of redistribution

The focus has so far been on policy and policy changes. Because the understanding of the Swedish model often is referring to equality per se, it appears warranted to reflect on the trends in poverty and inequality. The heyday of the Swedish model is here often set to around 1980, when Sweden saw an "all-time low" in inequality with a Gini coefficient of family income distribution even below 0.2 (Palme, 2006). The understanding of this achievement can be informed by a policy logic that is sometimes labeled as the "paradox of redistribution": the more we target the benefits at the poor only and the more concerned we are with creating equality with equal public transfers to all, the less likely we are to reduce poverty and inequality (Korpi and Palme, 1998).

From this follows that the successful redistributive strategy of the Swedish model was based on the inclusion of the middle class in the system of social protection, not only as taxpayers but also as potential benefit recipients, and that this had paved the way for a mobilization of generous provisions for vulnerable groups such as the unemployed, disabled, elder persons and families with children. When it comes to insurance programs for sickness and unemployment, it should be emphasized that broad systems are beneficial in redistributive terms for low-income people because they have higher risks for both sickness and unemployment.

Since then, however, Sweden has followed an international trend of rising inequalities (Björklund and Jäntti, 2011). The increase during the 1980s was fairly modest and partly driven by increased earnings inequality. The 1990s was marked by a deep economic crisis during the first part of the decade and an economic recovery during the second half. Interestingly enough, inequality did not go up during the crisis but instead during the recovery (Palme *et al.*, 2003). The increase was partly driven by a strong increase in the wage premiums for managers primarily in the private sector. The most important driver, however, was capital income (Björklund and Jäntti, 2011). Because these analyses include real gains on the stock market, yearly fluctuations are quite significant.

The first part of the 2000s was signified by stable inequalities. The second part of the decade is marked by a dramatic increase and, again, income from capital is the main driver whereas earnings inequalities remain surprisingly unchanged (Björklund and Jäntti, 2011). Whereas employment increased up to the global financial crisis, households without employment income are lagging behind significantly. By 2009 the Gini coefficient of income distribution for Sweden reached the level that was recorded for the US in 1980 (Björklund and Jäntti, 2011), and it has

continued to increase. Overall, the most important factor behind the inequalities is what happens with the top incomes – the right tail of the distribution.

However, especially since 2007, relative decline of incomes in the lowest decile – the left tail of the distribution – is contributing not only to increased relative poverty rates but also to overall inequality (Fritzell *et al.*, 2014).

Hence it is clear that the increased inequalities in market incomes, both earnings and capital income, have contributed to increased inequality. How have policy changes over the recent decades modified or amplified the trend towards increased income inequality?

We can get some information by looking at the redistributive effect of the tax/transfer system: the effects were on roughly the same levels during the 1990s and early 2000s (Palme, 2006) but have declined over the past decade (Palme and Cronert, 2015). What policy changes have contributed to this decline?

We can observe that social insurance benefits tend to be less generous in the 21st century than they were in 1980. This is evidenced by the formal replacement rates in the most important social insurance program nowadays being 80 percent rather than being 90 percent as in 1980. As mentioned earlier, the middle-class inclusion has also suffered from the fact that an increasing part of the labour force has earnings above the ceiling for benefits purposes. A number of basic benefits in the system have also been lagging behind due to the price indexing. A clear example of this is found with the social assistance scale rate, which has not only lagged behind but also fallen below the standard poverty lines such as 50 median income or “At Risk of Poverty” (AROP), which is the one used in European Union comparisons (Kuivalainen and Nelson, 2011; Marx and Nelson, 2013; Palme and Cronert, 2015). The income situation of those outside employment has also affected by introduction and expansion of earned income tax credits. One effect is that they also effectively lower the replacement levels of social insurance and other kinds of benefits. Other changes in the tax system, such as the abolishment of inheritance and wealth taxes as well as the lowering of real estate tax, appear to have fueled this development by increasing top as well as average incomes (Fritzell *et al.*, 2016). In the tax/transfer system, the Swedish welfare state model hence struggles with its old recipe of combining middle-class inclusion and generosity towards vulnerable groups.

The capacity of social policy insurance to form the basis of coalition building between different groups in society not only appears to be in decline but also to be close potential tipping points when majorities of the working population will have to turn to private solutions in order to be adequately insured. While the effects of external factors at times have been undeniable, for example during the crisis of the 1990s, there is little to suggest that the development in the 2000s is determined by other factors than domestic political priorities.

An understanding of the redistributive effects of the Swedish welfare state should include benefits in kind. Redistribution can be achieved also in systems that are funded with flat taxes, such as the Swedish local social services. Rothstein (1998) illustrates this in a straightforward manner: a 30 percent tax rate on a high-income person earning SEK 1 million per year raises SEK 300,000 in taxes to spend on social services and health, while the same tax rate implies that only SEK 30,000 is raised from a low-income person earning SEK 100,000. So even if a high-income earner may consume slightly more of the social services, it still means that you can redistribute substantial sums of money via systems of this design. This policy logic still applies, but may of course be affected by a privatization of the funding of services. Even if such tendencies can be observed in the health care sector, the main privatization story in Sweden is that of private provision of publicly funded services.

It also appears warranted to point to the equalizing effects of social services in a gender perspective. Social services related to children and elder persons also make it possible for women,

who tend to end up with the primary caring responsibilities, to combine care work with earning a market income. This equalizes the incomes of men and women but also tends to equalize household incomes. This is but one example of the potential of a Swedish kind of welfare model to affect what has been labeled “pre-distribution inequality” (Hacker, 2011). We can see the “social investment approach” to social policy as a perspective that also includes policy instruments associated with the distribution of human capital, ranging from early childcare education to lifelong learning, and hence aimed at affecting the market incomes as another way of extending the perspective on the welfare state as a strategy of equality (Morel *et al.*, 2012) and a key for understanding how equality can go together with high growth (Sapir, 2003).

In one important respect, the paradox of redistribution can be argued to follow the same logic in the social services and education/training parts of the welfare state, as in social insurance: it is based on the idea that you can affect the willingness to pay taxes for redistributive purposes by including the middle class as benefit recipients only as long as the broad majority finds the adequacy of provisions sufficiently good.

## Discussion

The Swedish welfare state model has evolved over more than a century and continues to change. The changes are influenced by a changing environment where the ongoing globalization, as well as Europeanization, not only are imposing pressures and constraints but also offer opportunities. In addition, the policy institutions mature and evolve according to their own logics, and when policies interact with population change in different forms, this has repercussions for the reform work. The Swedish development illustrates how political decisions and non-decisions gradually reshape the different policies by introducing new elements or just by letting the programs drift. That social security institutions are dependent of political decisions makes the relative strengths of the different political parties crucial for the fate of the Swedish model.

Here there have been some important changes in how the political parties on the center-right have framed and pursued their welfare state policies. The most dramatic change has been recorded with the Conservative party (*Moderata Samlingspartiet*). Starting in the early 1980s, the party took a strong neoliberal orientation. That changed only in the 21st century with a changed rhetoric and, to some extent, policy proposals. It started with their economic policy proposals during the fall of 2003: they abandoned their old tax-cutting/systemic-change approach for a much more stepwise strategy only proposing small changes and also advocating evaluation of all policies and policy changes. The other three parties on the center-right suddenly appeared to be to the right of the Conservative party. This was further reinforced by a change in the tax policy of the Conservative party, as it abandoned its proposals of cutting taxes primarily for the rich in favor of tax cuts for the low- and middle-income earners. Partly as a response to this, and partly as a response to the increasing awareness on the future demographic pressures on public spending, the other center-right parties now appear to follow a tax-freeze strategy.

The only clear example of policy proposals from the political center-right that have been tied to increased taxes is linked to the “Great Pension Reform,” where the insured person’s contribution to the fully funded part of the system can be seen as a tax increase. When we compare the actions of the center-right coalition and the Social Democratic government of the early and mid-1990s there are a lot of similarities, but there is also a clear difference in terms of the Social Democrats increasing a great number of taxes while the center-right coalition did the opposite. This contributed to the fact that the Social Democrats were more successful in balancing the budget. It is of course more of an open question how they will respond to the future challenges.

In the short term there are some important decisions to be made about the content and funding of the social insurance system: sickness, unemployment and work-accident insurance. The priority of the government elected in 2014, led by the Social Democrats, has been to improve unemployment insurance. This happens at the same time as the public finances are pressurized by large waves of refugee migration. In the longer run, the increased costs of an aging population are at stake and will inevitably lead to various kinds of adaptations.

The future of the Swedish model is not only dependent on statutory policies but also on what happens on the labour market between the social partners. Labour and management tend to be discussed in terms of negotiated solutions and these constitute an important feature of the Swedish model. This is not to argue that the underlying conflicts in society have been eliminated but rather that compromises have been viewed as a means of reducing open conflict and thereby promoting growth and securing the tax base of the welfare state.

Finally, the Swedish case is interesting as the exemplar of a universal and encompassing welfare state. The question is whether we are witnessing the end of this (in)famous model. Is it possible to maintain such a welfare state in a globalized economy with mass migration and an aging of the population? Is it easier to compensate the aging of the population by increasing the immigrant part of the labour force? Will there be a political majority that desires this? The Swedish model is at important political crossroads, although this appears to be almost like a constant state of affairs.

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