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SOCIAL SECURITY FOR THE AGED: INTERNATIONAL PERSPECTIVES

A WORKING PAPER PREPARED FOR A HEARING ON "INTERNATIONAL PERSPECTIVES ON THE ECONOMICS OF AGING," AUGUST 25, 1969

SPECIAL COMMITTEE ON AGING
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CONTENTS

	Page
Foreword	v
Introduction	vii
I. The concept of social security	1
II. Principal approaches	1
A. Social insurance—the "Earned Right" approach	1
1. Frequent shortcomings of the social insurance method	2
a. Less than universal coverage	2
b. Inadequacy of benefits	2
c. Erosion of benefits and loss of status	2
2. Possible ways of meeting these shortcomings	3
a. Coverage extension devises	3
b. Entitlement and benefit protective measures	4
(1) Waiver of contribution with preservation of benefit rights	4
(2) Retirement protection in case of work accident, other disablement or inability to find work	4
(3) Technical and conceptual modifications of benefit-earnings relationship	5
c. Minimum income guaranties	5
d. Provisions and programs helping to stabilize the family budget	7
(1) Regularizing allowances for special needs	7
(2) Prepayment arrangements for health care	7
(3) Provisions to keep housing costs in line with income	8
(4) Extended help with dependent children	9
e. Safeguards against erosion of benefits, and parity levers	9
(1) Planned adjustment techniques	9
(2) Levers of socioeconomic parity	10
B. Social assistance—A right to benefit, but conditional on proof of need	11
1. Program characteristics and applications	11
2. Conditioning factors	12
C. Universal pensions—An unconditional minimum income guarantee upon attainment of age	12
1. Program characteristics and applications	13
2. Universal pensions within the context of the social security fabric	13
III. Further alternatives, with special reference to the older worker	14

FOREWORD

Earlier this year, the U.S. Senate Special Committee began its study of "The Economics of Aging: Toward a Full Share in Abundance." Testimony taken on April 29 and 30 provided an excellent survey of the field and suggested additional lines of inquiry. Since that time, individual subcommittees have conducted hearings on specialized subjects,[1] and witnesses have provided valuable insights and recommendations for committee study.

The Committee has already issued two other working papers[2] and one fact sheet[3] in conjunction with its hearings thus far. On the pages that follow, Prof. George Rohrlich has provided a new working paper to be used in connection with a hearing on August 25 by the Committee on Aging.

That hearing, made possible by the cooperation of the sponsors of the Eighth International Congress on Gerontology (Washington, D.C., August 24–29, 1969), will deal with international perspectives on the economics of aging. Witnesses will represent several nations and will compare national programs for economic security of the elderly.

Professor Rohrlich has the gratitude of the Committee on Aging for making such a substantial contribution to its studies. His willingness to share his wide range of knowledge about international approaches to social security has provided the committee another invaluable source-book for its studies.

HARRISON A. WILLIAMS,
Chairman, Special Committee on Aging.

[1] "Consumer Aspects of the Economics of Aging," Ann Arbor, Mich., June 9, 1969; "Health Aspects of the Economics of Aging," Washington, D.C., July 17–18, 1969; "Homeownership Aspects of the Economics of Aging," Washington, D.C., July 31 and Aug. 1, 1969; and "Suburban Aspects of the Economics of Aging," Paramus, N.J., and Cape May, N.J., Aug. 14–15, 1969.

[2] "Economics of Aging: Toward a Full Share in Abundance," March 1969. "Health Aspects of the Economics of Aging," July 1969.

[3] "Homeownership Aspects of the Economics of Aging," July 1969.

SOCIAL SECURITY FOR THE AGED: INTERNATIONAL PERSPECTIVES

(By George F. Rohrlich, Professor of Political Economy and Social Insurance, Temple University School of Business Administration)

INTRODUCTION

A ground swell of protest against all forms of dependence marks our time. A fierce desire for emancipation from societal constraints and from traditional limitations deemed no longer necessary or acceptable animates important sectors of the young and the underprivileged in this country and elsewhere. Though avowed objectives differ, one common denominator is the assertion of a *rightful* claim. Another common quality attaches to the substance of the demands. Despite their varied garb and points of attack, they would appear to be manifestations of the age-old quest for fulfillment of the basic human needs for wherewithal and dignity.

The aged, though suffering large-scale deprivation as evidenced by the highest incidence of poverty of any group, at least in the United States, are second only to children of young ages—who, in turn, comprise the largest absolute number of poor amongst all segments of the population—in their inability to back their claim to "a full share in abundance" with public displays of power and threats of disruption. Nevertheless, the proposition that "Poverty Anywhere Is a Threat to Prosperity Everywhere" [1] holds true *mutatis mutandis*, even if the concatenation of cause and effect is not as direct and, therefore, not as obvious as in some other cases in point.

Measures for the alleviation of the avoidable burdens of old age, notably methods to assure that the common material needs of the aged are met, exist in sundry varieties. The choices between them will be governed partly by preference and in larger part by financial and institutional constraints. This working paper outlines, in little more than skeleton form, the main approaches developed to date, some of their strengths and limitations. It is necessarily schematic, so as to fit existing varieties into relatively few clearly distinguishable categories, and far from exhaustive. The aim is to provide a broad general orientation, rather than a detailed guide, to the array of social security measures that benefit the aged. It is hoped that the paper may provide a usable framework and point of departure for discussion.

[1] Art. 1 of the Declaration of Philadelphia adopted by the International Labor Organization meeting in its 26th session in Philadelphia on May 10, 1944.

I. THE CONCEPT OF SOCIAL SECURITY

"Social Security" has been called a new name for an old aspiration.[1] In the broad and inclusive sense in which that term was first used in the United States Social Security Act of 1935, and more fully developed in the British Report on "Social Insurance and Allied Services" (Beveridge Report) of 1942, it stands for the effective protection against want in certain common contingencies of life, such as old age and invalidity, work-disabling sickness, etc., entailing the loss or substantial reduction of normal income or giving rise to special needs.

In the years since, something else that is new, besides the name, has become part and parcel of the concept of "social security". It is the scope and quality of protection that have come to be associated with programs of this type, to wit: the expectation that such protection be available in all the common contingencies; to all persons exposed to them; pursuant to standards that are socially acceptable; and as of right.

This four-fold test of the adequacy of protection applies to the working of the social security fabric in its entirety. Whether the desired result is achieved by a single program or by means of two or more programs, each catering to different needs or groups of persons, is not of the essence. What counts is the total protection offered by the system as a whole.

II. PRINCIPAL APPROACHES

Three different techniques have been worked out and have stood the test of time: social insurance, social assistance, and universal pensions. These are used as alternatives or in combination with one another and, quite frequently, are supplemented by various other measures. The peculiarities, strengths and weaknesses of each of these main types of program are highlighted in the following, with special reference to the needs of the aging.

A. Social Insurance—The "Earned Right" Approach

Social insurance is the most common among the methods used to achieve social security, both for income maintenance purposes and to assure the availability of needed services, notably medical and allied care. Based on the general principle of insurance, to wit: the pooling

[1] International Labor Office, "Social Security—A Worker's Education Manual," Geneva, 1958, first lesson.

33-339 O—69——2

of resources with a view to leveling risks among large numbers of participants, as well as over extended periods of time, it shares with other forms of insurance certain characteristic features. Among these are long-range financial planning with emphasis on contributory financing and, related thereto, stated conditions for the receipt of benefits as a matter of *earned* right, much as a participant in a commercial or mutual insurance program has a legal right to the insurance paid for if and when the insured event materializes.

As instruments of public policy, social insurance programs put presumptive general needs and the realization of other broad-gaged socioeconomic objectives ahead of individual equity considerations where these may conflict. This is readily apparent from the preferential treatment which is usually given to lower-income earners, to beneficiaries with families, and so forth. Nevertheless, their basic insurance character imposes certain constraints on programs of this kind which limit their adaptability to the exigences of social policy.

1. FREQUENT SHORTCOMINGS OF THE SOCIAL INSURANCE METHOD

a. Less than universal coverage.—One such limitation is the difficulty of achieving truly universal coverage of all persons exposed to the risks referred to. This follows from the common requirement of a person's substantial and extended participation in the labor force as a condition of his entitlement to benefits.

b. Inadequacy of benefits.—Another difficulty is to assure the adequacy of benefits in all cases—even according to minimum criteria of acceptability. This may be due to either one of two circumstances. One is the frequent occurrence of illness and unemployment which lowers the earnings creditable for benefit purposes. The other, even more serious, situation that may give rise to inadequate benefits, despite a reasonably continuous work history of the claimant, is that of the marginal worker whose earnings have been consistently very low. In these instances, where income from work is barely enough to meet minimum needs in the first place, the substitute income provided by social insurance which is usually designed to meet only a fraction of normal earnings is bound to be inadequate.

The same problem of the inadequacy of benefits presents itself, even at sustained higher earnings levels, when insurance benefits designed to meet the *presumptive* needs of the *average* person or family must be stretched to meet *above-average* needs. Such needs may arise chiefly from severe and prolonged illness of the beneficiary or because of an unduly large number of family members continuing to depend on him.

c. Erosion of benefits and loss of status.—Yet another difficulty encountered in many social insurances, notably those financed exclusively from insured persons' and their employers' contributions and without government subsidy, is the phenomenon of back-sliding. The problem presents itself in one or both of the following two variations: (1) a loss in the real value of benefits (in terms of their purchasing power or their cost-of-living relationship) due to a general rise in the prices of consumer goods (as evidenced by reference to the Consumer Price Index), and (2) a relative decline in the socioeconomic position of those retired and of other social insurance beneficiaries vis-a-vis the bulk of the economically active population. This phenomenon is even more widely observable than the first, due to the sustained climb in real wages and levels of living over the past several decades. Where gains in economic productivity cause current earnings of employed and self-employed persons to rise faster than price levels, those no longer economically active—even if their substitute incomes do keep up with price changes—are bound to fall increasingly behind.

2. POSSIBLE WAYS OF MEETING THESE SHORTCOMINGS

To cope more fully with acknowledged socioeconomic needs, a number of remedial or alternative measures have been developed and tested.

a. Coverage extension devices.—One method used repeatedly in this country and elsewhere to bring under the protective umbrella of social insurance older workers who, presumably, did not have sufficient opportunity to acquire substantial wage credits during their working lives is to lower coverage requirements for certain designated categories, thus "covering in" initially uncovered groups. The limitations of this method are effectively illustrated in the most recent of a long series of "blanketing-in" measures adopted in the United States with respect to old-age insurance coverage for the oldest age cohorts among those previously left out. On the one hand, entitlement to benefits continues to be tied to the fulfillment of the "quarters of coverage" (that is at least minimum earnings in covered employment) requirement—albeit of only three such quarters. On the other hand, the scale of benefits to which these categories of beneficiaries have become entitled is severely reduced, roughly corresponding to the lowered eligibility conditions.

Thus, some aged persons, namely those who cannot meet even the new minimum coverage requirements, continue to remain uncovered. And for those who were effectively "blanketed-in" by this legislative amendment, the size of benefits cannot purport to meet presumptive needs, even in the absence of any aggravating circumstances. Moreover, the rationale of this type of coverage extension is self-limiting in that any widely inclusive program approaching maturity (that is, having been in operation the full length of the average person's working life) will have extended the opportunity for participation to virtually all one-time members of the labor force still living. Still left out will be those with merely marginal paid employment or not in paid employment or self-employment at all, such as certain handicapped persons, widowed or divorced housewives, and others.

An alternative approach that transcends this limitation is to make coverage compulsory for all residents of working age, whether or not they are or ever have been either in paid employment or gainfully self-employed. This method has been adopted in a number of national social insurance systems, for example, those of the Netherlands and of Switzerland. Obviously, this technique does make it possible to achieve universal coverage in that it drops the prerequisite of substantial and recent or, in fact, any paid work on the part of the insured.

Philosophically, these schemes can be viewed as broadening the rationale of the "earned-right-to-benefit" concept in that they put unpaid (family) employment on a par with paid work; at the same time they abandon the "deferred-earnings" character of social insurance benefits in respect of those beneficiaries who are neither paid nor unpaid workers. As regards the mode of financing, the conventional insurance mechanism can be said to operate to the extent that the money needed to meet the extra cost is derived from government contributions on behalf and in lieu of those exempt from contributing (the low-income persons in the Netherlands scheme). It undergoes further modification with government assuming a more substantial part of the cost in the form of regular subsidization from income tax and other general revenue sources, either to meet any deficits (Netherlands), or to defray a stated percentage of total costs on a regular basis (Switzerland).

b. Entitlement and benefit protective measures.—The search for ways of assuring and protecting eligibility for benefits, notably (although not exclusively) at the lowest earnings levels where it is most in jeopardy, has produced several techniques that have become standard features of many social insurance programs.

(1) Waiver of contributions with preservation of benefit rights.

One such device already referred to is the exemption of the lowest income earners from the burden of their own share of contributions and assumption thereof by the government. More common are provisions whereby persons employed but not at work due to an accident or illness and those temporarily unemployed are excused from paying contributions without forfeiting contribution credits for the period of their temporary absence from work. This is done, for example, in the United Kingdom, and is a safeguard against possible lapse of entitlement to retirement and certain other social insurance benefits.

In countries with a national health insurance program (rather than a National Health Service, as it exists in Great Britain, where every resident is entitled to care without reference to payment of contributions), the principal function of the excusal from payment of contributions is to preserve for the work-disabled sick and the unemployed their entitlement to insured medical care.

(2) Retirement protection in case of work accident, other disablement or inability to find work.

Lacking or inadequate retirement protection may be due to imperfect coordination between different branches of a given social insurance system, or to the underdevelopment of one or more of these branches. The former situation is typified where a surviving but partly disabled work accident victim forfeits some or all of his retirement protection by reason of his inability or lowered ability to work or to find work and pay contributions. This gap in protection is plugged in several national systems, for example that of Austria, by waiving the otherwise required length of coverage and contributions stipulations for entitlement to benefit.

The second type of gap in effective retirement protection referred to above is encountered when persons with a partial disability from whatever source or persons who, though not disabled, are or appear prematurely aged, cannot find remunerative work. Both types of contingency are provided for in the more advanced social insurance systems. Disability benefits for partial (one-half or two-thirds) loss of earning capacity to work are paid in Belgium, Czechoslovakia, Denmark, France, Germany, Greece, Italy, and other nations' social insurance programs. In Japan, workers with substantial retirement credits may qualify for their old-age pension regardless of age 3 years after they sustain an injury or illness that leaves them with a serious disability.

In the event of prolonged unemployment, too, some countries grant the right to full retirement benefits at an earlier than the regular retirement age. Austria and Germany, for example, make retirement pensions available 5 years early (for example, at age 60 for men and 55 for women) to persons who have been unemployed for a year. Austria grants such early retirement pensions also without stipulation as to length of unemployment to persons aged at least 60 and 55 years respectively and not currently working who have been insured for a very long time (35 years), pending resumption of gainful work or attainment of regular retirement age.

(3) Technical and conceptual modifications of benefit-earnings relationship.

Since cash benefits under old-age retirement programs are regarded as a substitute for regular work income, their adequacy depends on the one hand on how the tie-in to past earnings is accomplished, and—for those pensioners willing and able to work and to find remunerative work—on whether and to what extent such gainful employment disqualifies them from benefits.

On the first count, the technique of averaging past earnings over long and distant periods is giving way, increasingly, to measures less fraught with a downward bias. The newer gages reflect what are presumed to be the beneficiary's highest earnings years, typically the most recent years: for example, in France the last 10, in Chile and Hungary the last five, in Austria the last five or those between ages 45 to 50. Italy, in 1968, amended its old-age, invalidity and survivors' insurance program so as to compute benefits on average earnings for the last 3 years. Another factor that enters into the computation is the length of time the beneficiary worked in covered employment. This usually determines what percentage of average earnings the benefit amount will be. After a full working life of insurance coverage (40 years), the new Italian benefit formula provides for 65 percent of past average earnings, as defined. This ratio is slated to go up gradually to 80 percent. Such high ratios are not uncommon in other continental European countries. Moreover, in order that pensioners may be able to afford seasonal vacations or recreation, extra monthly pensions are paid in some of these countries, once a year (for example in Italy) or twice (in Austria)—corresponding to holiday bonuses payable to active workers.

On the second count, that is, with regard to pensioners' earnings from current work, several national social insurance systems permit retention in full of both the pension and the work income (for example, France, the German Federal Republic, Ireland, Luxembourg, the Netherlands, Rumania, Switzerland, Uruguay), while others reduce the pension by no more than a fraction (in Italy, an appeal has been taken to the constitutional court against a recent economy measure abolishing for old-age pensioners—but not for invalidity pensioners—a provision whereby pension benefits can be reduced by no more than one-third on account of concurrent earnings.)

c. Minimum income guaranties.—The predicament of old-age pensions too low to meet essential needs, despite built-in weighting of benefit scales in favor of low-income earners under most social insurance programs, has given rise to secondary income supports. While these must be regarded as supplementary measures, rather than part and parcel of the respective social insurance schemes proper, there is clearly discernible an ever more pronounced effort on the part of some governments to wipe out any invidious distinction between the different programs by assimulating the supplementary benefits to the social insurance benefits. This has been sought to be achieved especially by endowing such benefits with the character of a right, dependent only on the fulfillment of certain stated (mostly statutory) conditions, and by minimizing the degree of discretionary authority involved in determining eligibility and making the award.

Among the earlier attempts of providing a minimum income, the French pattern continues in effect in France and in several countries outside of Europe that follow its lead. France itself came to establish minimum benefits on the premise that no contributory old-age insurance benefit ought to fall below the amount of the allowance that was payable to those retired persons who had formerly been wage earners but who have not established sufficient credits to be eligible for insurance benefits and whose income is below certain specific amounts. This is achieved by reference to a national minimum wage standard (*salaire minimum interprofessionnel*) which serves as the lowest base for benefit determination purposes. In addition, the French have established a so-called "National Solidarity Fund," financed from general revenues, out of which supplemental benefits are paid to all social insurance beneficiaries whose regular social insurance benefits fall below stated amounts.

The United Kingdom, more recently, has moved toward a virtual merger of its social insurance and its noncontributory cash benefit programs. This changeover in Britain is perhaps as remarkable in the way in which it came about as it appears to be effective in producing results. Originating from a "deep concern" over the failure of many needy aged, believed to number in the hundreds of thousands, to apply for allowances under the National Assistance Act then in effect and an open letter by the then Minister of Social Security dated July 12, 1965, soliciting applications for such "financial help given as of right, and I stress 'as of right,' to those whose income is below certain standards"—which proved to be of little avail, the Government proposed and the Parliament enacted in 1966 a "New Supplementary Benefits Scheme" to take the place of the former National Assistance program. The avowed aim was to end "the sharp distinction which now exists in the administration of contributory and means-tested benefit" and to "provide a form of guaranteed income for those who require such a benefit over a long period." [2]

The new "supplementary pensions for people over pension age" are payable to men over 65 and women over 60 not in full-time work (comparable "supplementary allowances" are payable to those of younger age). Incomes below the guaranteed amount are supplemented up to the guaranteed level, with extra allowances for rent, usually in the full amount thereof, a standard allowance for incidental expenses, and lump-sum payments for exceptional requirements. Applications, referred to as "claims," are made in writing; interviews are held at the claimant's option either in his home or at a local office. Supplementary pension benefits are paid together with the (contributory, social insurance) retirement pensions on one order book cashable at the Post Office. Awards are made by a Supplementary Benefits Commission within the Ministry of Social Security. Its decisions may be

[2] Ministry of Social Security Bill 1966, Explanatory Memorandum by the Minister. Queen's Printer, London, May 1966. Cmnd. 2997.

appealed by claimants dissatisfied as to benefit award or any condition attaching thereto, or as to amount, to an independent appeal tribunal. Awards to people over pension age are expected to be renewed annually unless their circumstances change significantly during the year.

It is noteworthy that during the first (part-) year of operations under the new plan, the Ministry certified 300,000 new aged beneficiaries out of a larger number of new applicants.[3] Since the financial improvements over the former National Assistance benefits are relatively modest, most of this increase must be ascribed to the new approach, notably the more businesslike award procedures and the unobtrusiveness of the payment.

d. Provisions and programs helping to stabilize the family budget.— Even where benefit amounts do meet average requirements at acceptable minimum levels, and even for beneficiaries drawing higher than minimum pensions, the adequacy of the cash benefit may be in jeopardy by virtue of above-average needs.

(1) Regularizing allowances for special needs.

Where exceptional, and especially short-term, conditions cause such a typical financial straits, subsidiary help quite commonly has been made available in most advanced countries on proof of need in each individual case. Though of necessity involving an element of official discretion, such financial assistance over and above the (guaranteed) minima can be freed from the vicissitudes of local finance by open-ended national funding (as, for example, in Britain).

The occurrence of this, nevertheless precarious, situation can be avoided or at least reduced in those instances where the above-average need is due to causes that present themselves with sufficient frequency so as not to be considered out of the ordinary. Under the new British "Supplementary Benefit Scheme," such frequent and recurrent special needs as requirements for particular diets or extra fuel are lumped together as "long-term additions" to a standard amount. Individual determination can thus be limited to those instances where special needs are in excess of that amount.

(2) Prepayment arrangements for health care.

Far-reaching provisions of this generalized type have been made in virtually all the leading industrialized nations, and many others, with regard to the single potentially most serious threat of an intermittent nature or of uneven incidence to the stability of the family budget—notably among the aged—that of ill health. To obviate its unbalancing effect on family finances, most fully developed social insurance programs provide comprehensive protection through insured medical care not only to the economically active persons of all ages and their dependents (frequently at reduced rates for those continuing to work past retirement age—namely, in France), but they also extend the same protection free of any contribution by the insured to those retired (and to those unemployed). This is the case, for example, in all of the countries of the European Common Market (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands). The duration of the entitlement to insured medical care is unlimited in five of these countries (all but Italy) and to insured hospital care in two (Belgium and France). The insured is not liable for any coinsurance or "deducti-

[3] Ministry of Social Security, Annual Report, 1966, London. Queen's Printer, July 1967. Comnd. 3338, p. 50 ff.

bles" in Germany, Italy and the Netherlands, while the coinsurance ranging up to one-fourth of doctors' charges in the other three countries is subject to certain reductions for pensioners.

The most comprehensive and also most universal health protection—for the aged, as well as for all other residents—is, of course, that currently available in the United Kingdom under that country's National Health Service. Funded for the most part from general revenues and to a lesser extent from contributions by and for those covered, the NHS makes available all medical and allied services and facilities free of any direct costs, except minor service fees for selected services, such as prescriptions, and very low charges levied for eyeglasses, dental treatment and dentures, medical and surgical appliances (prostheses), etc. Hospitalization for any condition, including psychiatric, is free of charge.

Aside from its mode of financing, the absence of any eligibility conditions and of any limitation on services or accommodations judged medically indicated, one further characteristic that distinguished the NHS from most health insurance programs is the emphasis on preventive as well as curative care.

(3) Provisions to keep housing costs in line with income.

Unlike the need for health care which may impose unduly heavy burdens at times (although the average burden is heavier for the aged than for the population as a whole in any event)—unless the incidence is leveled and the cost relieved by social insurance or other measures—the need for housing is ever-present. Though it tends to be lower for lesser cost may take a bite out of the reduced incomes of pensioners which is unduly high.

Therefore, many countries pursue a policy of enabling pensioners (as well as certain other population groups, such as families with children, and low-income households generally) to obtain housing at prices below market rates. The aim of these policies is to stabilize housing costs for these groups or keep them to a stated fraction of income, while making sure that access to such lower cost housing will not have been gained at the expense of the quality of housing thus made accessible.

Policies of this type are common in the Norse countries and in other parts of Europe. Denmark may serve as example. In addition to fostering general housing programs through various government aids, such as low-cost loans or loan guaranties to cooperative and other builders, tax exemptions for 20 years and more, and subsidies to apartment house owners to enable them to charge lower rents, Denmark has taken special measures to reduce housing costs to old-age and disablement pensioners. These, for the most part, take the form of direct subventions so calculated as to keep pensioners' housing costs to about one-sixth of their pension. Such costs are, of course, considerably below those prevailing on the housing market. This current policy has taken the place of an earlier one aimed especially at enabling local authorities to build special housing projects for the aged. One major reason for the policy shift was the desire to avoid in future that certain accommodations would be readily recognizable as belonging to special groups.

Under the West German housing aid program, families with incomes below stated amounts (the larger the bigger the family) receive housing subsidies whereby housing expenses are kept below a percentage of total family income ranging from 24 percent downward to 7 percent. Such housing subsidies are used as a leverage for minimum housing standards in that the aid is denied in support of condemned, dilapidated and otherwise inadequate housing.

(4) Extended help with dependent children.

Few persons of retirement age have to care for small children of their own. However, their grown children may still be engaged in advanced education or training and, for this reason, may not be fully self-supporting. Also, pensioners may have charge, for a variety of reasons, of some of their grandchildren.

In either event, the availability of children's allowances is important. Programs granting specified sums to the parents or other persons in charge of children up to a stated age as a matter of right are in effect in all European countries, Canada, and many more. Under the provisions of some of these programs, payment of the allowance is kept up in respect of children continuing to pursue their education or training for a gainful occupation up to age 27 (Netherlands), 26 (Italy), 25 (German Federal Republic and Luxembourg) and to age 20 or over in several more.

e. Safeguards against erosion of benefits, and parity levers.—Any reduction in the real value of benefits may become a serious threat to the well-being of large numbers of social insurance beneficiaries—the majority of those deriving all or most of their current income from this source. Even with stable benefits (in terms of purchasing power), such beneficiaries may find themselves losing ground in terms of levels of living vis-a-vis their active counterparts from the very moment they first receive their pension. The first-named danger has materialized repeatedly in the wake of general consumer price increases accompanying monetary depreciation by declared or undeclared (creeping) inflation. The latter hazard, too, has been experienced even more commonly as past earnings taken into account for benefit purposes nearly always fail to represent fully contemporary earnings levels and reflect very inadequately any long-term growth in real earnings.

(1) Planned adjustment techniques.

Long experience with adjustment of benefits *ad hoc*, that is, whenever their loss in value has become serious enough to warrant an upward change in the opinion of the lawmakers—though far better than no adjustment at all—has brought home certain shortcomings. Unless such increases are made retroactive, which is not always practical, or else exceed the rate of devaluation of benefits that has taken place ("leapfrogging" technique), the pensioners are left to absorb permanently at least some part of the intervening loss. Legislative mandates to review the situation within certain intervals (for example, every 5 years, as in the general pension programs in Japan, Switzerland, and the United Kingdom) has done little to remove either timelag or uncertainty of the adjustment.

It is with a view to minimizing both of these drawbacks, that a number of countries have established programed adjustment techniques. These involve systematic trigger devices and either semiautomatic or automatic escalation mechanisms signaling any significant change in the real value of benefits and leading to a prompt adjustment respectively. This is accomplished by some form of index linking, that is, the designation of some economic indicator (usually a price or wage index) with the stipulation that certain specified point changes should give rise to a change in benefits all across the board. In some instances such changes take effect *automatically*, that is, without any further action by the legislature (for example, in Belgium, Chile, France, Israel, the Netherlands, Sweden, and in the United States, the civil service retirement and Armed Forces retirement systems). In other countries (for example, Austria and West Germany) legislative approval *is* required (*semiautomatic adjustment*).

One type of indicator used frequently is some official price index, with a specificaton of the minimum change and duration necessary to set the adjustment process in motion (for example, in Belgium, a 2.75-percentage-point change in the retail price index sustained over a period of 2 months; in the U.S. civil service retirement system a 3-point change in the Consumer Price Index sustained over at least 3 consecutive months). Alternatively, a wage index is used with similar thresholds for the triggering action (for example, in the Netherlands, a 3-percentage-point change sustained for 6 consecutive months). France and Sweden dispense with one of the two criteria. In France the adjustment is made every year once, on a given date, to reflect whatever percentage change is indicated by the movement in covered earnings. In Sweden an adjustment is made in any month in which the official cost-of-living index registers a change of 3 percentage points from the reading at time of last adjustment.[4]

(2) Levers of socioeconomic parity.

"Parity"—in the sense of a person's socioeconomic status or attainment—may suffer an impairment at or after retirement despite the maintenance or restoration of the benefit's constant purchasing power. If this happens, the retirement system falls short of what might be called "dynamic stability." To prevent this, the system's performance must be geared to flexible benchmarks that reflect the changing standards of well-being in the particular society.

To some extent such a dynamic tie-in with changing levels of living is achieved by recurrent adjustment of benefits in light of changes in wage levels. The dynamic quality of this adjustment is reduced, however, insofar as the wage base used for benefit calculation and the wages used for the calculation of change are restrictively defined.

One method of calculating retirement credits which comes very close to achieving the desired parity leverage is that used in the Swedish supplementary (employment-related) pension program. Under this program, retirement credits for each year of covered employment are expressed not in dollar terms but in "pension points." The value of each point may vary from year to year, depending on the "base amount" (that is, the minimum taxable and creditable earnings—an amount which varies with the cost-of-living index, see above). Each person covered under the program is given the number of pension points that reflect his earnings relative to the "base amount." The

[4] For more details, see Proceedings of the Sixth International Congress for Labor Law and Social Security (Stockholm, 1966). Almquist & Wiksell, Stockholm, 1968, vol. I, General Reports, agenda item I, "Legal Aspects of the Calculation of Social Security (Social Insurance) Benefits, in Particular as Regards Changes in the Cost of Living and the Level of Wages," pp. 46–67.

parity leverage is limited by the maximum taxable and creditable earnings limit which is 7½ times the base amount. It ceases to operate altogether from the award of benefits, after which time adjustments in benefit amount are made only with reference to changes in the cost of living rather than earnings levels.[5]

Methods very similar to the Swedish one are used in the West German general pension scheme and, within certain financial and other constraints, in some of France's special (supplementary) pension programs for persons in public and private employment.[6]

B. Social Assistance—A Right To Benefit, but Conditional on Proof of Need

In countries where social assistance constitutes the first line of defense against the common contingencies, its aim is to provide benefits broadly comparable to those furnished under first-line programs of social insurance to any and all residents for whom the contingency in question (old-age retirement, invalidity, and so forth) has materialized and whose incomes or means fall below certain stated amounts.

1. PROGRAM CHARACTERISTICS AND APPLICATIONS

Like social insurance, social assistance programs are so conceived as to give rise to a legal entitlement. In contrast to social insurance, however, this right is in no way related to specific contributions or taxes paid by, or on behalf of, the claimant in past periods. As in older forms of public assistance, a proof of need is stipulated in each case. Unlike these older versions of "public aid", "relief" or "assistance", however, the social assistance method reduces to a minimum the extent of administrative discretion by local (or national) officials and, by also making it independent of the fortuities of local financial conditions, seeks to free the entitlement to benefit from the uncertainties commonly associated with other public assistance programs.

Social assistance benefits are intended to be devoid of any taint of charity. Consequently, the test of means or need conforms, as much as possible, to objective and uniform criteria pertaining to the applicant's situation, without regard to that of other family members except the spouse. Even though eligibility depends on individual need, shortcuts are used by resorting to standard measures where this can be done with impunity.

One national program of old-age security that rests squarely on social-assistance principles is that of Australia. There, all men 65 or over, and women age 60 and up, of limited incomes and means who have resided in the country continuously 10 years or longer are eligible for a flat-rate pension (or for a reduced pension if either their income or property exceeds certain limits). The effect is to guarantee them a minimum income either from the pension alone or from other sources combined with a pension.

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[5] For more details see *op. cit.*, National Reports: Sweden (4).

[6] For more detail see *op. cit.*, *ibid.* France (III) and vol. I, pp. 57–58, and Paul Fisher, "Old-Age and Sickness Insurance in West Germany in 1965." U.S. Government Printing Office, Washington, D.C., 1966, pp. 6–9 and 13–21. The West German system of benefit adjustment after retirement is geared to wage levels. However, index-linked adjustment is not automatic but depends on legislative approval and is subject to modification in each instance.

A similar system is in effect in New Zealand for aged persons 60 or over (age 55 for unmarried women unable to work) and resident for the 10 years preceding. In New Zealand, however, this program is overlaid by a universal old-age pension program (see below), whereby attainment of age 65 and fulfillment of the same residence requirement gives rise to an unconditional right to a flat pension equivalent to the maximum amount payable under the social assistance (pension) program.

2. CONDITIONING FACTORS

In attempting to assess the potential role of the social assistance method as an income guaranty for old-age security, one must have regard not only to the program design but also to the setting in which it operates. Thus it would appear that in Australia, where this approach has a long history as the sole means of providing old-age security (as well as financial protection in the event of invalidity, survivorship and unemployment) the means-test approach is widely accepted.[7]

In Britain, by contrast, where National Assistance (a program of social assistance) was widely used after the war to supplement social insurance benefits, the memory of antecedent programs descended from the "Poor Law" and of the "less-eligibility" that stigmatized their beneficiaries appears never to have vanished completely.[8]

Thus, social assistance has not everywhere gained acceptance on a par with that accorded to social insurance. There is, no doubt, a common aversion on the part of any group of people—but perhaps especially the aged—to see themselves singled out as "in need" of benefits, especially when comparable benefits are available unconditionally to others.

Nevertheless, a comprehensive social assistance scheme does afford the certainty of benefit once need is shown and can thus play an immensely valuable role as a "last line of defense" in assuring a modicum of security to those aged (and all others) who for one reason or another fall through the mesh of social insurance or those—hopefully exceptional cases—who require supplementation of their social insurance benefits.

C. Universal Pensions—An Unconditional Minimum Income Guarantee Upon Attainment of Age

The universal old-age pensions approach seeks to free the right to benefit from any and all qualifying conditions other than proof of age and verification that the claimant has been a longtime resident. (In some countries where the residence requirement is relatively short, he must be a citizen; for example, in Denmark, Iceland.) Where social assistance confines eligibility for benefits to those who prove actual need, and social insurance usually ties payment of benefits to presumptive need (as in the case where an aged person is substantially retired from work), the universal pension approach simply extends the presumption of need to all those who have attained the age of eligibility. (Several social insurance programs do the same when the

[7] Not only is there no hesitancy to resort to the program, there is pressure from the taxpayers to liberalize the means test so as to allow larger numbers of them to take advantage of it. See T. H. Kewley, "Social Security in Australia: The Development of Social Security and Health Benefits from 1900 to the Present." Sydney, Sydney University Press, 1965, pp. 293–301.

[8] See above, Sec. A, c.

pensioner reaches some higher age.) Thus, eligibility for a universal pension benefit presupposes neither the cessation of gainful employment nor proof of insufficient income.

1. PROGRAM CHARACTERISTICS AND APPLICATIONS

The universal old-age pension is one of several types of "demogrant", that is, an across-the-board categorical subsidy. (Children's or family allowances and general maternity grants are other examples.) These programs constitute a counterpart, in the area of cash benefits, to the general public service schemes (that is, the British National Health Service, referred to above) in the area of service benefits. In some countries universal pension programs have evolved from or have succeeded to social assistance schemes (that is, in Norway and, most recently, Canada.)

Universal pension benefits normally constitute flat amounts per aged person (Canada) or couple (New Zealand), or a flat amount with supplement for the wife (Norway) or for the wife and child (Sweden). The age of eligibility is frequently higher than under most social insurance and social assistance schemes, for example, age 70 in Norway, age 67 in Denmark (but 62 for women), Iceland and Sweden. Canada used to start payment of universal old-age pensions at age 70 but would, on proof of need, pay social assistance benefits from age 65. With the adoption of an earnings-related old-age insurance pension in 1965, and the phasing out of the social assistance program, the eligibility age for the universal pension has been lowered annually so as to attain age 65 in 1970.

Several universal pension schemes are linked to a cost-of-living (or similar) index whereby benefits are adjusted, usually automatically, to price changes (for example, in Canada, Denmark, Finland, Iceland, Sweden). Thus an effort is made to keep the guaranteed income adequate for minimum needs. (In Canada a transitional income-tested supplement is to achieve this goal until the new earnings-related pension can do it.)

2. UNIVERSAL PENSIONS WITHIN THE CONTEXT OF THE SOCIAL SECURITY FABRIC

From the aged person's point of view, unconditional entitlement on attainment of age may well be the most desirable form of old-age security. In terms of the level and adequacy of this unconditional guarantee, however, overall financial considerations are likely to have a bearing. Clearly, total costs of such a program are bound to be higher than if those with substantial earnings were disqualified from benefits (as under most social insurances), and much higher than under an income-tested benefit scheme.

Universal pension amounts may, and frequently do, compare favorably with minimum and, sometimes, average social insurance benefits; also with social assistance benefits. They are not likely to attain the upper ranges of the benefit scale which are provided for in income-related social insurance schemes. Moreover, some countries require that, where benefits from other noncontributory (that is, tax-financed) programs are also available, the person entitled to both benefits be given a choice whereby he may pick the higher but must forgo the other benefit (New Zealand) or that the other benefit be reduced (Norway). Increasingly, however, countries with a flat-benefit universal pension scheme have superimposed upon it a graduated, income-related contributory (social-insurance type) pension program (Canada, Norway, Sweden), with the explicit aim of providing better than minimum retirement standards by means of cumulating benefits from both programs.

III. FURTHER ALTERNATIVES, WITH SPECIAL REFERENCE TO THE OLDER WORKER

It would be neither justified nor realistic to gage by the familiar adage "the past is merely prologue" the considerable array of measures developed to date and applied in different countries to the end of assuring the essentials of life in the common contingencies, including (but not confined to) old age. On the other hand, the search for new and possibly better ways of achieving legitimate socioeconomic objectives must never cease.

Among some of the many current proposals for new approaches, at least two would appear to have a special relevance for the older worker: one is the possible (indirect) subsidization of low-wage earners, the other the much debated all-inclusive minimum income guaranty. Generally speaking, older persons have already made most of their contributions to the common weal, and the moral or economic expectation that they engage in gainful employment applies much less to them than to any other group of working age, except the disabled. Any true choice between continued work and retirement can be said to present itself, however, only when both opportunities are in fact given the older worker to permit him the exercise of his or her choice free from one-sided constraints. Thus, while the older person approaching—though not having attained—retirement age (sometimes referred to as the "prematurely aged person") should not necessarily be expected to work, by the same token, society should not deny the opportunity for gainful employment to those among them who are able to work and who desire to do so. On either count, it would seem, a reasonable case can be made for the inclusion of such older workers, say those aged 55 and up, among the very first segments of society to whom minimum income guarantees and in respect of whom employment or wage subsidies are to be extended *simultaneously;* the latter because of the known difficulties many older workers experience in obtaining employment, the former because of the virtual absence of a "moral hazard" (since any possible work dis-incentive effect is not too relevant in their case).

To allay possible fears of the effect of this on full employment or wage levels, the subsidy might be made subject to automatic suspension whenever unemployment rises and remains for a stated period above a stated percentage. At such times older workers might be pushed out of the labor market to the advantage of the younger members of the work force, but without serious hardship to themselves as they would be eligible for the GMI.

If the interest of society requires both maximum participation in the labor force and economic security for those not working, this combination of work-incentive and economic-security measures could be applied to no other group with more social justice, or at a lesser economic risk.

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