Welfare in an idle society?
Reinventing retirement, work, wealth, health, and welfare.
Austria as a case in point

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Introduction

This short article is about making welfare society sustainable for the 21st century1. What design is required to turn social security into a lasting human institution and civilizing achievement? It attempts at reinventing rather than privatizing social security in general, and pensions in particular. It seems the welfare state is one of the great achievements of

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1 Il riassunto è a cura di Maria Parente.  
1 For an extensive reasoning see B. Marin, Welfare in an Idle Society?, 2012 (forthcoming).
20th century social advances, albeit one greatly in need of a profound overhaul. This modernization of welfare amounts to nothing less than re-thinking its basic philosophy, core concepts, fiscal base, organizing principles, policies and programmes. Notably, this applies to the pension schemes and their manifold and intricate interfaces with labour markets, health insurance, disability welfare, social policies, and other social security institutions.

The focus is on re-designing social security to cope with global ageing and to guarantee a viable 21st century pension future. Both, demographic developments and financial market risks could threaten social and pension insurance, at varying mixes and degrees in different systems. But in many European countries, Austria included, the most imminent menace is neither financial market risks nor population ageing (whether deriving from longevity, low fertility, or scant immigration). To the contrary, demographics per se presents many more opportunities than threats and dangers. Pensions and social security systems are eroded, instead, by insufficient activity and employment rates to adjust for accelerating demographic and economic challenges.

Thus, the focal point of this contribution is less on imbalances between old and young, but on imbalances between the active and the inactive, between work and non-work over the lifetime, and between working, earning and contributing classes and dependent groups (Karl Renner's Erwerbsklassen vs. Versorgungsklassen) at any given point in time.

How generous and sustainable is a welfare state with low levels of activity? How petty must a pay-as-you-go pension and social security system turn with insufficient paid work, when dependent population groups constitute a majority, and most people now spend most of their lifetime out of work? How much idleness is sustainable within an advanced welfare society? How many years of unemployment, non-employment, long-term sickness, disability or invalidity pensions or other paid and unpaid, voluntary and involuntary out-of-work periods are consistent with what welfare standards and pension duration? How much social insurance and old-age pension is affordable with more than 18 years of non-contributing periods during working age and more than 25 years of retirement on average, as is the case in Austria? For the EU-27, 100 million non-employed people need to be added to the 25 million unemployed to make up the overall pool of out-of-work potential or labour slack.

The contribution sets out the main public choices countries in the heart of the continent are confronted with. In a first choice, Continental Europe may be moving towards either a North-Western or a South Eastern and Mediterranean Europe. North-Western Europe has much more in common than is conventionally perceived by frequent accounts of an alleged antagonism between Anglo-Saxon liberalism and Nordic Social Democratic hegemony, both deeply rooted and independent from changing government complexions. Indeed, there is what I call an underlying liberal-socialist consensus, an Anglo-Scandinavian or Swiss way of work and welfare societies, though with quite different work and welfare mixes. Later, a second choice between going Swedish or going British with respect to pensions will present itself.

Work societies are characterised by a primacy of formal market (system of national accounts – SNA) production and paid work, creating ample riches in order to aliment more or less generous welfare and social security «from cradle to grave». But providing safety nets
and minimum living standards «below which no one should be allowed to fall» in the sense of William Beveridge can only be sustained if the animal spirits of entrepreneurship, capitalist enterprising, pervasive innovation and productivity increases are left unfettered, and if economic competitiveness and high employment rates are maintained. The alternative for Continental Europe to this highway towards North-Western Europe would be drifting even further towards the low-work country profiles of South-Eastern, Balkan, and Mediterranean societies, with a prevalence of informal and household (non-SNA) production, early labour market exit pathways – and correspondingly shabby – or shady – benefit regimes.

Global ageing challenges and 21st century Austrian pension future

Modernizing social security around 70 to 140 years after its inception needs at the same time to go back to the original welfare state principles away from Bismarck towards Beveridge (its principal inventor, who thoroughly disliked the term), and to go radically beyond these principles in order to renovate and reconstruct the welfare state edifice.

In order to develop new guiding principles of sustainable welfare societies of the 21st century beyond state paternalism and laissez-faire Darwinism, sustainability and inter-generational equity of human development and social security should be conceptualized and social feasibility should be distinguished from political desirability and other fuzzy concepts. This entails to outline a social investment and human resource perspective to public policy, based on the premise that self-financing investments at the expense of current consumption are more legitimate uses of public finance than debts for consumptive purposes, not to mention the coverage of chronic underfunding of social security and pension deficits.

«Pension» is the most important category of paid non-work, distinguished from other work and income status in job-holding societies. Work/non-work imbalances threaten pensions and welfare sustainability; and Austria belongs in an international cluster of low-work countries, where work levels are incommensurate with standards of living, wealth and welfare. A «pension» may be defined either as an annuity, or as lifetime pension wealth, or as the lifetime contribution rate vs. pay-off claims, or as a replacement rate of retirement income. Depending on the definition chosen, in each case other groups (men or women, more or less qualified employees, or earlier or later generations) benefit most from a given pension design.

Why pensions are so crucial? Public pensions are by far the single most important title of wealth in people's lives (in Austria 525,000 to 608,000 $ on average), exceeding many times the private savings of average persons and even of relatively easygoing middle class households. They are the single most important transfer payment by the state and its most weighty social expenditure and most controversial public policy field. The impact of the financial crash and the economic crisis on pensions can be particularly severe. Moreover, prevalent defined-benefit pension promises almost inevitably create chronic disappointments and popular dissatisfaction and widespread worries about old-age security, additionally reinforced by a rife pension illiteracy.

A basic hitch and source of major complicacies is the chronic and structural under-
funding of pensions in many countries, where up to one in three pension rights are not covered by contributions already today – and where deliberate misconceptions and ideological screensmoke have developed around this chronic and rapidly expanding structural deficit. In Austria, all-round invalidity pensions, gender-unequal eligibility age, and other prevalent early exit pathways, the lack of actuarial fairness and neutrality are among the main reasons why the pension system has become an almost unique outlier in early labour market exit.

Today, 90% of Austrians retire before the age of 65, and 70% before the legal retirement age, which is almost uniquely lower than in most other OECD countries. Thus far, there has been no turnaround yet, unlike what has been observed in almost all other OECD countries since the early 1990s. This unbowed early retirement wave is even more of concern in view of Austria’s top rank and fast progress in further life expectancy gains among already long-living countries – and in view of the greater demographic burdens. Problems here include the rapid pace and scale of societal ageing, the historical timing and later peak of the ageing process, the low fertility prevalence, and either insufficiently strong or presumably socially unacceptable high immigration rates.

From the demographic point of view, all approaches, without any exception, converge on the insight that a significant increase in actual (chronological, not prospective) retirement age and (beyond the years 2020 to 2025) also in legal retirement age will be indispensable in order to cope with population ageing. The only open question is precisely what effective and what mandatory retirement age – if any at all! – are required to keep the equilibrium of any pay-as-you-go system between those dependent on support and those in work and gainful employment, contributing to system maintenance and the preservation of living standards of groups assisted beyond their own contributions.

Doomed to fail – or robust, fair, and sustainable?
Reinventing social security, welfare, and self-governance

The traditional juxtaposition and World Bank categorization of pay-as-you-go vs. fully funded capital-based systems of pensions and the proposed mix of three pillars, I argue, no longer holds, neither analytically and empirically, nor normatively and politically. It also does not fit the hybrid Austrian case, which is pretty exceptional in comparative terms. But it is not just this country’s uniqueness of a dominant, encompassing and both basic safety net and earnings-related «first-cum» pillar that asks for a different new taxonomy. Therefore, I would focus the attention on the more relevant opposition of defined-benefit vs. defined-contribution («beitrag-» vs. «zahlungs-/leistungsdefinierte») systems, exploring in great detail the potential and the limits of the («Swedish») non-financial or notional defined-contribution system (NDC), based on a PAYG scheme. This supposedly combines the best of both traditional pension worlds, in that it can withstand the dual threat of demographic developments and simultaneously avoid financial market risks normally associated with financial instead of virtual pre-funding.

The customary antagonism of public against private, pay-as-you-go against capital-based and fully funded, and their traditional combinations, is overcome by the more signi-
ficant opposition of defined-benefit vs. defined-contribution. In the new, unconventional NDC, the latter is to be organized as the first, not the second pillar; public, not private; mandatory, not voluntary and optional; PAYG, not capital-based, yet still virtually pre-funded; notional or non-financial, not exposed to financial market fluctuations; universal and unisex, not group- and gender-specific as that of private commercial providers; comprehensive by combining basic security with earnings-related and contribution-based status rights; and by definition actuarially neutral, not redistributive – except to the extent of tax-financed and state-provided pension credits as politically defined additional benefits.

In the new, 21st century pension world, really existing retirement systems seem to move ever more towards either defined-contributions and actuarial neutrality in both the first, public, social insurance PAYG pillar as well as in the second and third, private and funded pillars; or towards the opposite scheme of a pure Anglo-Saxon type basic safety net, flat-rate, non-contributory, more or less «progressive» or «socialist», a transfer benefit to all aged persons, a radically redistributing (and therefore ever more reduced and minimalist) «demogrant» («Volkspension»); supplemented by capital-based private insurance provisions. This is in contrast to the classical Beveridge conception of a strict contributivity, i.e. flat-rate benefits and flat-rate contributions in social insurance, underpinned by national assistance.

Sweden, the archetype of a modern, social democratic welfare state regime, by inventing and implementing the notional defined-contribution (NDC) pension model has made a radical shift towards a basically non-redistributive, earnings-related, pure mandatory savings and social insurance scheme over the life cycle. Conservative Austria, in contrast, evokes the same normative guiding principles of equivalence and contributory justice («Beitragsgerechtigkeit»), but de facto oscillates between strengthening the relationship between contributions and benefits on the one hand, and undermining it through dozens of doubtful practices, from maintaining clientelist privileges over ever raising «floors» and indexation of minimal pensions («Ausgleichszulagen») to lowering «ceilings» for reduced benefit valorization and «solidarity sacrifice» requirements.

As evolved over time, the Austrian pension system is of Bismarckian tradition, but quite unique in its mix as well as in organizing and financing principles. It does not combine what usually constitutes the first and the second/third pillar in most countries – a public PAYG, defined-benefit scheme providing basic income by strong redistribution; and a private, capital-based, earnings-related pillar plus a contribution-defined pure savings pillar. Both conventional pillars as such do not exist in this country. Instead, the strongly dominating social insurance pension system («Pensionsversicherung») comprises into one (occupationally fragmented) pillar what is differentiated into two complementary pillars elsewhere. Social insurance Austrian-style marries a flat-rate social assistance poverty relief payment/supplement («Ausgleichszulagen»), which is neither a personal nor a universal right, with a work-related, contribution-based insurance formula, which is contributory, but not fully defined contributions.

In the near future, several Continental European countries will have to decide whether «going Swedish» or «going British and British abroad» (Irish, Canadian, Australian, New Zealand) is closer to their own traditions, aspirations, and to realistic opportunities and pathways of innovation. (My own preference is clearly the Swedish option.)
As the Swedish model of a systemic pension reform towards a notional defined-contribution system (NDC) in the early 1990s has met with worldwide attention and attraction, we can ask whether and in what dimensions NDC is close to «best practice» and wherein it could serve as a yardstick of pension modernization and standard of social progress. Apart from relatively uncontested economic and fiscal gains, its comparative advantages, I argue, are primarily of a political nature: political desirability, feasibility and sustainability; its function as fairness standard, anti-corruption device and promotor of pension literacy; as a functional differentiation of welfare trigger; as better risk management; and as a core component of any «pension constitution», integrity and autonomy of the overall social security systems against short-sighted political interventions on a day-to-day base.

As the World Bank has recently discovered NDC as well, we should bear in mind that the supposedly «ideal» type of NDC combination is far from being ideal as intended. Among other things, it tends to reinforce instead of diversifying the risks inherent in supplementary funded, capital-based schemes, which, however, play only a minor role in the Austrian context. Yet, what is most relevant in this country are basic safety nets and invalidity benefits. Thus we need an effective, guaranteed minimum social pension instead of the «zero pillar» as proposed by the World Bank, taking into account that the whole complex of disability welfare and invalidity pensions is the most decisive lacuna in World Bank reasoning. In lieu thereof, a significant policy shift is needed on invalidity pensions.

Before elaborating disability welfare and invalidity pensions, it is a quintessential query to answer whether social security is, as conservative or neo-liberal critics claim, doomed to fail in principle or whether it can be reinvented and re-designed in a robust, fair, and sustainable manner. Clearly, living longer and working shorter defines the limits of a sustainable welfare society. Here, a core concern is how to create effective incentives for companies to extend working life. Conventional and innovative approaches are presented: the traditional debates about the seniority principle and the steepness of age-wage-curves, the questions of experience rating and a bonus/malus-system not just for employees but also for employers, or the pros and cons of tightening or loosening employment protection for workers aged 55-65 can be discussed.

Within this debate, two new, innovative incentives for enterprising firms and employees could be outlined and discussed in view of their impact: first, a model of «age-specific risk-rating» of – totally constant! – social security contributions with a non-prime-ager bonus model. Here, the basic idea/key concept and policy proposal is an age-specific out-of-work-risk-related redistribution of social insurance contributions over the working life cycle, with a constant overall social security volume. All members of the labour force are rated for their social insurance contributions by – apart from earnings, of course – the compound out-of-work (unemployment plus non-employment) risk over the working life cycle. This would make the fringes and out-of-work risk groups of non-prime age workers, both early entrants and so-called «older» workers much less costly for employers’s payroll taxes. At the same time, extra income from reduced social security contributions would accrue to the very young («Generation Prekariat») and even more so to those «older» workers currently retired, should they stay on their jobs. Both employers and employees would have strong and immediately tangible real income and cost reduction incentives to go on working/to recruit younger and retain «older» workers in the workforce.
In order to protect the social security system against an important shortfall in receipts (expectable to be at least a billion Euro) due to a partly most significant reduction in contributions of non-prime age workers (up to almost 94%) must either be compensated by an increase in contributions of prime-age workers (of a few percentage points) or by an additional employment (of a few percentages of the labour force) – or a combination of both. In order to be on the safe side, a minor increase in prime-age workers contributions should be implemented a priori to fully compensate for shortfalls by age-specific risk groups, to be later reduced or returned to the extent that additional employment would certainly result from such measures. But as the fundamental uncertainty about the realistic range not to speak of exact numbers of expectable job creation can hardly be overcome, it is important to keep the suggested sequencing.

Secondly, I introduce the Chamber of Commerce (WKÖ) «win-win-win»-idea of incentives for people and companies who agree not to use the first possible exit pathway to retire. The key idea was to share the benefits of not taking-up entitlements to retirement at the earliest possible convenience between employers and employees (each 25%) and the pension insurance, paying out respective bonuses while saving 50% of unclaimed benefits itself. Despite its prima facie plausibility, there are many most intricate problems involved in implementing such a proposal, with particular reference to overall saving potential, deadweight costs, accounting balance and required take-up rates for a self-sustaining finance of all postponed early retirement gateways. Both innovative models show remarkably strong and immediately tangible effects for both employers and workers to postpone retirement, but a variety of potential objections to them should be discussed and assessed as well.

Invalidity pensions – or disability insurance?

In Austria, 75 to 80% of men who retired between the year 2000 and 2010 tried to do so by an invalidity pension («Invaliditäts-», «Berufsunfähigkeits-», «Erwerbsunfähigkeits-pension»). About half of them got the benefit rejected, another half awarded. 60% of male farmers, for instance, succeeded to retire as invalids in 2009. The average invalidity period of all workers/pensioners is 3.9 years during working age, that of invalidity pensioners 10.8 years, i.e. 9.8 years for women and 12.6 years for men during working age. Expenditures for invalidity pensions were more than twice as high as the costs of unemployment at the peak times of highest unemployment.

Austria, again, is an outlier in many respects. It displays higher invalidity rates in the transition to retirement than almost any other EU-27 or OECD country, with the exception of Hungary; it covers more than twice the share of people in need of care («Pflegebedürftigkeit») than Belgium and significantly more than neighbouring Germany (despite much lower disability prevalence rates than the latter country); and it provides more generosity both in care allowances («Pflegegeld») and more generosity in coverage, which most European countries treat as a trade-off, preferring one or the other instead of both etc.

Invalidity pensions are the single most important early exit pathway in Austria and a track of ever increasing importance in other countries as well. But what does disability mean, how is it defined, classified, measured, how are entitlements awarded? There are
inevitably fuzzy boundaries and complexities inherent in the assessments of impairments, handicaps and disabilities, from the strange old world of «bone rates» of «abnormality or loss» or so-called Baremas to alternative methods of assessing disabilities.

Modern disability welfare displays an inherent ambiguity which makes it quite unclear whether it has been a success story or rather a political fiasco or disaster. However, success or failure of modern disability welfare is in many ways crucial for the future of welfare states and welfare societies. As an important component of social expenditures, invalidity pensions are decisive for the fiscal pressures on the the financial sustainability of the welfare state.

What do significant increases in invalidity pensions for the working age population reflect under conditions of improved health and more disability-free life expectancy and a compression and postponement of morbidity? What does a steep rise in incapacity recipiency rates simultaneously with a reduction of chronic and occupational diseases, accidents and work injuries actually signal? How can moral hazard in disability welfare become contagious, how can it attract self-selection more than other welfare benefits?

Obviously, the comparative cost advantage of social insurance systems over private market insurance can only be realized by its capacity to contain moral hazard and abuse of benefit arrangements, as in a system of socialized disability welfare not only individually unbearable risks, but also abuse, fraud and waste tend to be socialized, making for rising costs and contribution requirements of the overall system.

In Austria and other countries, disability welfare has obviously been a success during the last decades: an emancipation of people with disabilities, a trend towards integration and normalization, to independence and self-determination could be observed. This applies to most areas, from integrated schooling and assisted employment over new forms of mobility support, public accessibility and new housing, to the award of care attendance allowances («Pflegegeld») for disability-related additional costs of living, most generous income maintenance programmes in many countries, and a comprehensive anti-discrimination legislation.

But as much as the latter displays inherent paradoxes, disability welfare expansion could also be seen as a potential welfare failure, rather than an unquestionable success of social policies. As with spending on unemployment, hospitals, prisons, or pharmaceuticals, more spending on sickness, accidents, work injuries and disabilities may signal less welfare for each disabled person and for society at large. Indeed, the very expansion of pension dependency of persons in working age and the steep increase in disability expenditures over the last decades – apart from a puzzling misallocation of disability benefits – contrast sharply to a series of generally favourable social and health conditions. Why do disability recipiency rates for working age populations and costs expand in spite of improved health and increased life expectancy?

The deficiency of modern disability welfare is a triple failure. It is, first, the failure to contain the case load, the inclusionary auto-dynamics and the fiscal burden at «reasonable» (merely traditional) previous levels of invalidity prevalence and costs; or at benchmarked levels of comparable, advanced welfare societies, overall disability-related programme expenditures as the only prices signalling overdose. Secondly, the failure to deliver the kind of benefits most needed by disabled persons. Lastly, it is the failure to focus and target disability benefits on those disabled people most in need of support.

Welfare in an idle society?
The fact that disability policy attains none of the main goals of disability welfare is not accidental, but an inevitable by-product, an unintended but unavoidable consequence of a purposeful and successful generous support and income compensation policy. The OECD reports that on average one in three (between one in six and one in two) disability benefit recipients do not classify themselves as disabled. This means that millions of Europeans, self-declared as not disabled, are using the disability track as the easiest and most attractive exit-path from the labour market under conditions of chronic stress, job insecurity, threatening structural unemployment, or even more so under revealed preferences for lasting leisure.

There is a conspicuous gap between successful income compensation and failed employment integration for persons with disabilities. Together with a substantial inflow of successful new claimants to invalidity entitlements, this has generated, on balance, an uncontrollable expansion of invalidity benefits and costs over the last decades. The European underemployment malaise seems to have shifted from mass unemployment to a massive non-employment, of which widespread invalidity has become a major current. There is no demographic, no medical or epidemiological explanation, but only a labour market, health and social policy explanation for this new phenomenon of a perverse success of European invalidity policies.

At the same time, despite boosting incapacity benefits expenses, not just a few handicapped persons, but an unbelievable 53 to 56% majority of those severely disabled and most in need of support may have been deprived of support (in Europe, certainly not in Austria!). Thus, due to the fuzzy, elusive nature of disability, we find almost inevitably all kinds of exclusion and inclusion errors: erroneous admissions or false inclusions as much as wrong or unjust exclusions, that is non-disabled persons with benefits and (even severely) disabled people without benefits, for whatever reasons of non-take up. But it is the very size of both these shares which determines the quality scale or failure rate, that is the overall performance of the disability welfare system. According to OECD figures, this mismatch is quite shocking, when a clear majority of severely disabled people in Europe is not awarded an incapacity benefit whereas more than 40% of disability recipients are self-declared non-disabled.

In sum: modern disability and invalidity policies have been so successful that they constantly risk to become self-negating and self-destructive. They attract literally millions of seemingly non-deserving beneficiaries while depriving neediest disabled non-recipients from disability benefits. They allow for a conspicuous gap between successful income compensation and failed employment integration. They allow work to wither away for people with disabilities and to make it pay less for them than for people without impairments, despite the fact that work through gainful employment only guarantees a full and equal participation in social life in job-holding societies. They award many more people permanent pensions than they place in rehabilitation or employment programmes.

In Austria as in so many EU countries, disability and invalidity policies are not able to effectively create employment through activating programmes. Everywhere, they exclude exactly those persons most in need for occupational re-insertion, i.e. above 45 years of age where inflow rates are highest, most systematically from return to work programmes – the great age-mismatch between disability inflow and vocational rehabilitation offer. Thus,
they are completely writing off broad middle-aged cohorts of persons with partial impairments and whole generations of so-called elderly workers having gone through longer spells of unemployment. They invite massive claims for invalidity pensions and illness-related pre-retirement for ever-younger cohorts and frequently even grant early retirement under false disability labels. They have resigned that invalidity expenditures and non-employment costs for disabled people within generally more healthy populations have become many times the unemployment expenditures.

They have accepted widespread paid non-employment of employable persons with (partial) disabilities. They take it for granted that extremely low outflow rates (below 1% on average) for even partial disability tend to make invalidity benefits, once granted, a lifelong welfare dependency. They even tend to channel social problems of long-term unemployment, social assistance and non-employment through the invalidity track, thus making disability a major entrapment for surplus labour populations. They thereby not just misallocate resources at a grand scale but misdirect and reduce energies and work capacities at large. They demoralize and misguide – to the extent these mismatches become widely visible and publicly debated – disabled and non-disabled citizens alike, corrupt norms of solidarity and reciprocity by inviting opportunistic behaviour and widespread abuse of social rights, and threaten to undermine the legitimacy of welfare entitlements and welfare state arrangements altogether. Though disability welfare policies obviously have done also much good, they certainly could do much better in terms of welfare value for programme money spent, both from the point of view of persons with disabilities, in particular those with severe impairments, and from the perspective of society at large.

As a consequence, the deeply ambiguous paradigm shift which has occurred during the last decades must be followed-up by a shift towards a more coherent employment-oriented equal opportunity model. Whether this is to be seen either as an evolutionary development, as a consequent continuity and completion of the social model or rather as another radical break, another paradigm shift – away from a system which is becoming unsustainable both in terms of fiscal affordability as well as in terms of social effectiveness, fairness and legitimacy – towards a new synthesis is a minor question of interpretation. What is crucial is that the normalization and mainstreaming of disability inherent in the social model finally moves away from modelling disability benefits primarily according to a lifelong retirement pension scheme without return option, and moves instead more towards job search, job return and other (re-)start programmes.

The philosophy underlying these re-insertion and re-integration programmes will value economic independence and full social integration of persons with impairments. It will make all efforts for providing regular employment opportunities for disabled people, and, above all, to make them as equal as possible. As a consequence, today's large numbers and population shares of disability income benefit recipients in working age will simply not be tolerated and seen as a collective welfare failure to be remedied – a failure of public health care and prevention, of social services, of accident prevention, of labour market and of disability policies – and not as a sign of welfare success.