Welfare Regimes and Organization of the Transfer Systems in 25 EU Countries

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Abstract

The economic life cycle and its financing strongly depend on country-specific institutional and cultural settings. Therefore, it can be expected that the cross-country differences in intergenerational flows are connected with the differences in the welfare regimes. Previous research on transfer and welfare regimes is limited, because it focuses mainly on either private or public transfers or it takes into account only certain age groups. This paper uses the National Transfer Accounts (NTA) methodology that enables comprehensive measurement of intergenerational transfers, as well as it takes into account all the age groups. Our analysis provides comparable NTA results for 25 EU countries from 2010 and links welfare and inter-age reallocation regimes. We perform cluster analysis based on five indicators, measuring importance of different types of age reallocations and differences in gender equality promotion. We end up with three different groups of countries showing a clear north-south division of countries.

Key words: National Transfer Accounts, Welfare regimes, Intergenerational transfers, Gender, Europe

1 Introduction

The generational contract is the most important and continuous dimension of contemporary welfare systems. Much of the recent debate related to the generational contract focuses on the public dimension only (see e.g., Albertini, Kohli, & Vogel, 2007). However, to fully understand how population ageing affects welfare systems, the private dimension should be taken into account as well. In the last decade, few scholars have recognized the importance of private transfers and their link to the welfare regimes. Those studies, however, lack a comprehensive inclusion of both private and public transfers. The majority of studies connect transfer and welfare regimes by focusing mainly on private transfers (e.g., Albertini & Kohli, 2013; Albertini et al., 2007). Some studies take into account both public and private transfers (e.g., Brandt & Deindl, 2013; Mudrazija, 2016), but they limit their focus only to certain age groups. They use data from the Survey of health, ageing and retirement in Europe (SHARE), including only individuals aged 50+. Therefore, these analyses omit transfers from younger parents to their children, which are the most significant flows of household private transfers (e.g., Gál, Vanhuysse, & Vargha, 2016).

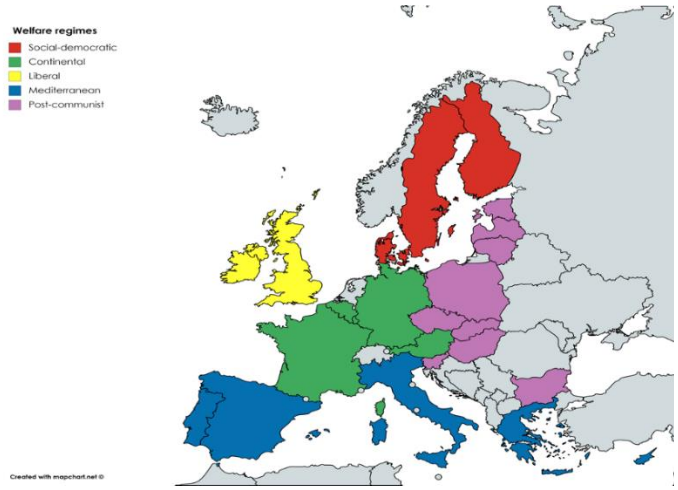
In this paper we use the National Transfer Accounts (NTA) methodology to comprehensively measure gender- and age-specific reallocations in a form of private and public transfers and asset-based reallocations (ABR), resulting from interaction with capital and financial markets. By using harmonised micro and macro data sets for the same year (2010), we produce highly comparable NTA results for 25 EU countries for the first time. The NTA results enable us to comprehensively measure the main characteristics of intergenerational relations and to link them with typical characteristics of different welfare regimes.

2 Typology of welfare regimes in Europe

The most widely used Esping-Andersen's (1990) typology of welfare regimes distinguishes between conservative, liberal, and social-democratic welfare regimes. Moreover, in the European context, (1) researchers usually separate Mediterranean countries from other conservative countries by adding the Mediterranean regime (Leibfried, 1993); (2) there exists an ongoing debate weather post-communist countries should form a distinct group of their own or not (e.g., Beblavy, 2008;

Fenger, 2007; Rys, 2001). Figure 1 shows groups of countries that based on past literature usually fall into specific welfare regime.

Figure 1. *Welfare regimes in EU countries*



Sources: *Esping-Andersen, 1990; Leibfried, 1992; Fenger, 2007; Ferragina & Seeleib, 2011.*

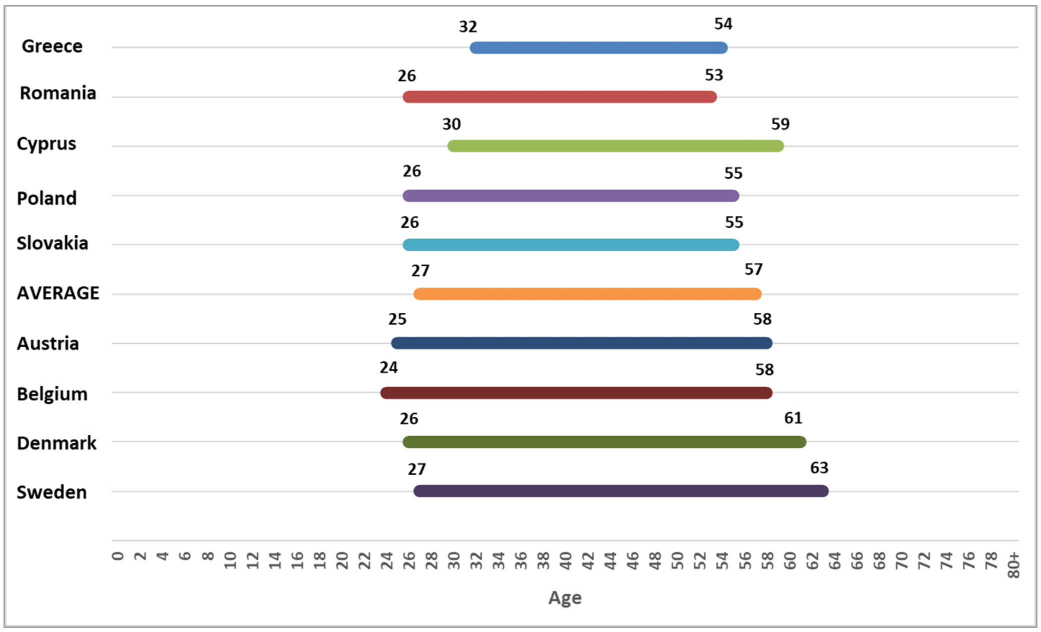
3 Methodological framework

We calculate five different indicators based on NTA results that, in our opinion, capture the main differences and/or similarities of the transfer systems in Europe. The NTA methodological framework used in this paper enables us to measure precisely the age periods in which individuals are economically independent and thus able to support the dependent individuals. The first two indicators present the intersection age at which young/old individuals become/are still independent, as their labour income exceeds consumption. The third and fourth indicators measure the importance of publicly provided transfers relative to the transfers provided through the familial system for the young (i.e. market transfers that mainly flow from parents to their children) or through the market in the form of ABR for the elderly. With fifth indicator, we measure women's economic independence. We look at the share of labour income that women transfer to dependent individuals in total transfers provided by both genders. The differences and similarities among the countries are first presented descriptively. Secondly, groups of countries are formed using the hierarchal cluster analysis.

3 Results

European countries differ substantially in the length of the life cycle surplus (LCS), i.e. age span at which individuals' labour income exceeds their consumption. Figure 2 shows that the LCS becomes positive already at the age of 24 in Belgium, but only at the age of 32 in Greece. Further, individuals in Romania and Greece stay economically independent only up to the age of 53-54, whereas Danish and Swedish individuals are economically independent up to the age of 61-63.

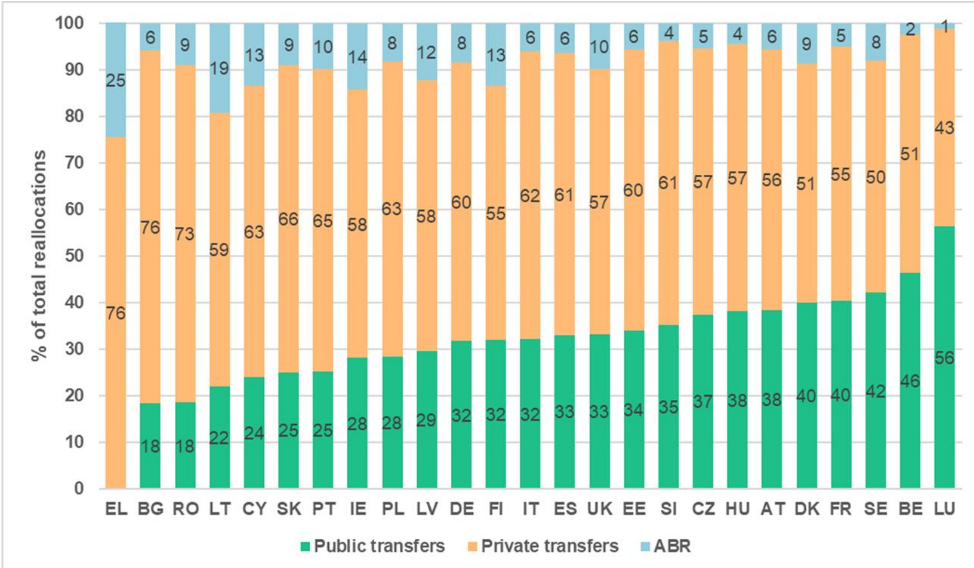
Figure 2. *Age span in which people are net supporters (labour income exceeds consumption), EU countries, 2010*



Sources: *Istenič et al., 2017; own calculations.*

Further, our results show that the dependency of the young is to a higher extent financed by private family transfers than by public transfers. The extended role of the family is especially emphasized in Mediterranean countries (e.g., Greece, Portugal, Cyprus) and in some post-communist countries (e.g., Bulgaria, Slovakia, Lithuania). On the other hand, children in social-democratic countries (e.g., Sweden, Denmark) and in some post-communist countries (e.g., Hungary, Slovenia, Estonia) depend more extensively on the state (see Figure 3).

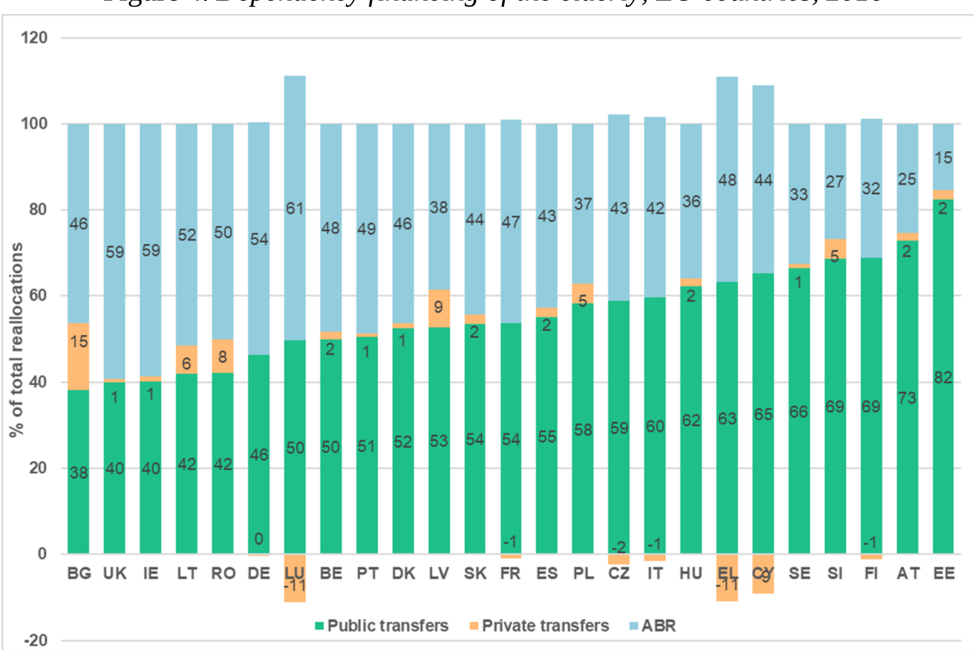
Figure 3. *Dependency financing of the young, EU countries, 2010*



Sources: *Istenič et al., 2017; own calculations.*

Figure 4 reveals that dependency of the elderly is in most countries predominantly financed by public transfers. This is especially pronounced in social-democratic (e.g., Finland, Sweden) and some post-communist countries (e.g., Estonia, Slovenia). In contrast, in the UK, Ireland, Luxembourg, and Germany, private ABR prevail.

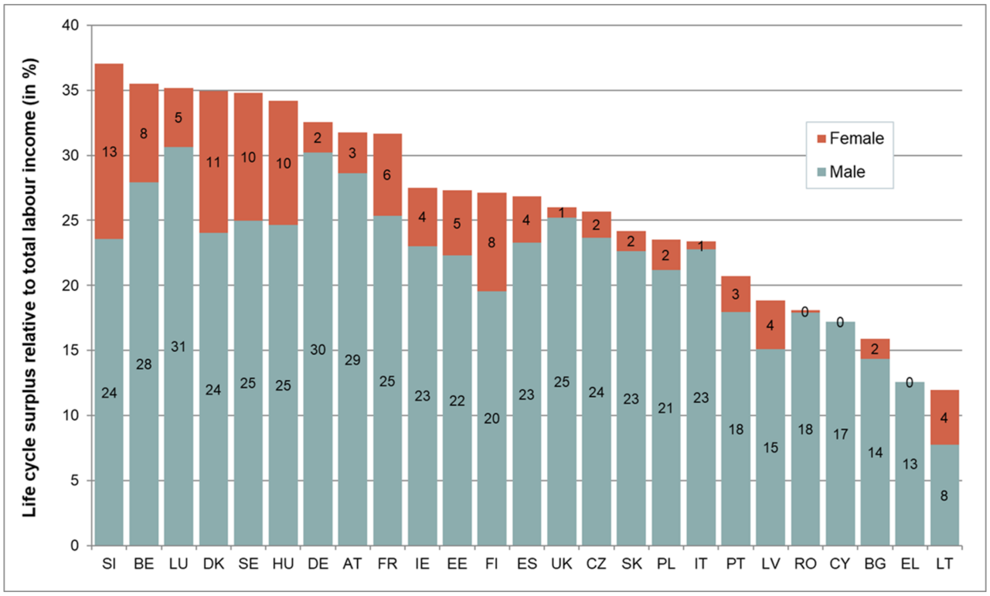
Figure 4. *Dependency financing of the elderly, EU countries, 2010*



Sources: *Istenič et al., 2017; own calculations.*

Further, Figure 5 shows that the contribution of working-age women is the highest in the countries where gender equality is traditionally promoted, such as social-democratic countries (e.g., Denmark, Sweden) and some post-communist countries (e.g., Slovenia, Hungary). On the other hand, promotion of traditional gender roles is especially pronounced in Mediterranean and conservative countries (e.g., Germany, Austria).

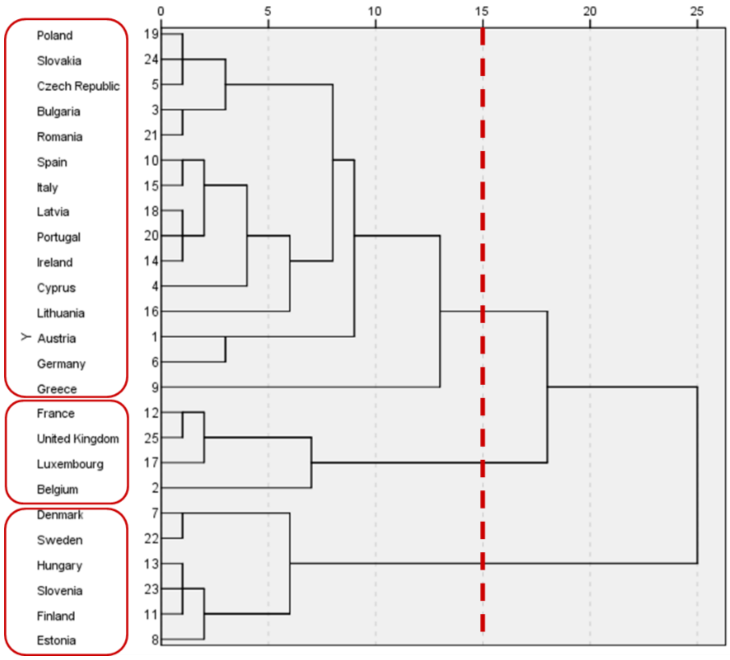
Figure 5. *Life cycle surplus for males and females, EU countries, 2010*



Sources: Istenič et al., 2017; Sambt et al., 2017.

Besides descriptively presenting the values of five NTA indicators, we perform hierarchal cluster analysis. Figure 6 reveals three different groups of countries. Our results show a clear connection between inter-age reallocation and welfare regimes in Europe, meaning that the differences in the transfers systems can be well explained by the differences in the welfare regimes. There is a clear north-south division of countries, with the welfare state being strongest in Nordic countries. Further, post-communist countries do not form a separate group, but rather belong to different groups of traditional welfare states. Two groups of post-communist countries can be identified: (1) post-communist countries that form the group with conservative and Mediterranean countries and (2) post-communist countries that form the group with social-democratic countries. Moreover, our results indicate that there is no clear distinction between Mediterranean and conservative countries.

Figure 6. *Inter-age reallocation regimes in EU countries*



Sources: *Istenič et al., 2017; own calculations.*

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