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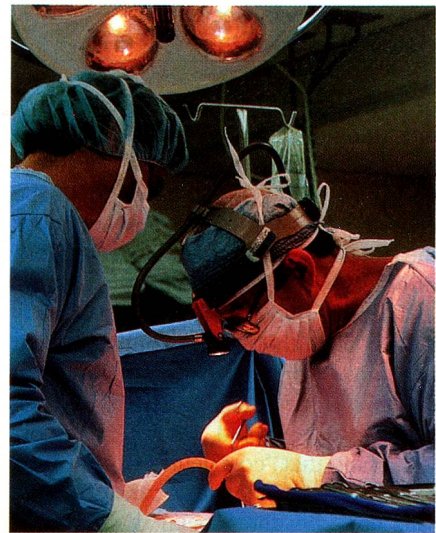
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# ture of the welfare state

For several years now the unemployment insurance scheme has been in deficit, the old-age and survivors' pension scheme will soon be so and the health care system is also sick. How is it with the future of the welfare state Switzerland? Must we expand it or reform it? There is a need for action, but there is much controversy about the direction it should take. We too wish to face up to this controversial subject by presenting two contradictory concepts as well as an interview with the minister responsible for social security.



How much top-class medicine can we afford and how much do we wish to afford? The steep rise in the cost of health care needs urgent answers. (Photo: Incolor)

## New avenues for social policy

**E**very year between 13 and 18 million people die throughout the world from the consequences of poverty, and the number of unemployed is at present estimated at 120 million. These are only two striking examples

*Gerhard Schwarz \**

from the catalogue of human misery. This year's United Nations Social Summit reminded us that social questions are more than ever facing us with a challenge which urgently requires response. But at the same time, this international event was unable to replace the worn-out therapies of yesterday. We can only regret this.

By clinging to these old recipes we are unable to turn back from the blind alley in which the western welfare states – including Switzerland – find themselves today. If we try to work out soberly just where our social policies have gone fundamentally wrong, in other words why many of the recipes have not achieved the original objectives

set down or have even caused damage, we come across at least four problem areas. Considered without prejudice, these do indeed provide us with opportunities for a political breakthrough, and we may see the outline of a new social contract.

### Back to the principle of need

The first basic error was the departure from the principle of need. We talked about social policy, but we meant large-scale redistribution. It was not the struggle against poverty which was the objective, but a more equitable distribution of income, which – quite unjustifiably – was considered as equivalent to justice. Many of those who profit from this system do not in any way depend on such redistribution but are nevertheless happy to take advantage of it. This is what makes it so difficult to depart from the status quo. And it is at the cost of the really needy. This is true not only today, but the problem is at its most serious when we look to the future – because this is where we have to worry about the limits on voter readiness to finance transfer payments through extra charges. The system as it is does not

provide social cement for a society breaking asunder, but on the contrary drives a wedge between those who pay and those who receive.

The second basic error – also involving a confusion between poverty and inequity – is to consider the economy and social security as in contradiction to each other, creating a situation where social repair is required. But the fact is that inequality of income distribution is inextricably part of the market economy. It is precisely in this inequality – in the opportunity to obtain a high income by providing goods and services sought after in the market and in the possibility of rising and falling within the system – that the high level of efficiency of a competitive economy lies.

The more efficiently the market economy is arranged, the greater will be its aggregate product and the more prosperity will be created for all those who are capable and willing to perform efficiently. And the more means will then be available to support those who, to a greater or lesser extent, are

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## A genuine social security system needed

be the result of the business activity of one individual or his family. To what real extent, for example, did the direct efforts of Bill Gates contribute to the amount of his fortune? And where does the rest come from, if not from the work of others?

There is no lack of riches in today's world; it is their redistribution which has not worked. Unfortunately the debate has never been couched in these terms in Switzerland, where the authorities claim that "cost neutrality" must be respected in the social security system, thus applying the "social moratorium" *de facto*. However, the few statistics available lead us to conclude that in fact this country is not doing "too much" in the social field.

## At the back of the queue

In fact the reverse is shown by international comparisons of social security costs according to the Eurostat system. Apart from old-age pensions and perhaps now unemployment insurance too, Switzerland's social efforts in relation to its gross domestic product are substantially weaker than the European average. In addition, "Comparaisons Internationales", published by the Canton Geneva Department of Economic Affairs, also shows an expenditure advantage in favour of Switzerland which is by no means negligible.

The fact is that in our country the total of compulsory charges (direct and indirect taxation plus social contributions) amounts to less than 34% of GDP, part of which is capitalised in pension funds. Only the United States (28%) does less than Switzerland, while Germany – a country which is far from impoverished – is at 39%.

In addition, according to the Federal Social Insurance Office, so-called "social costs" – the income of insurance institutions – represent 24% of GDP. But this calculation includes the substantial interest on the capital, which cannot be assimilated to a "cost", as well as transfers from one type of insurance to another. If these two items are excluded, the share of "social costs" in GDP falls to 20%.

In consequence it appears that society as a whole could pay for social security – or more precisely social redistribution – which would protect everyone from the vicissitudes of life. Even more important, it would be rea-

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unable to measure up to the efficiency standard.

## Private assistance discredited

The third basic error lies in the wide-ranging depersonalisation of social assistance, in its anonymity as an umbrella covering everyone without distinction. This started when somewhere along the line the idea cropped up that it was undignified to have to worry about assistance and go out and look for it. In this way, private assistance through the family, the neighbourhood and the circle of friends, as well as through assistance organisations and the churches, was discredited and replaced. At the same time, government social assistance became as widely spread as possible and was elevated to the status of a right. The price which had to be paid to avoid "disgrace" for those receiving alms has become simply too high from today's point of view.

The fourth – and perhaps the most decisive – basic error was that from the very beginning a veil was cast over the



sonable to expect from rich Switzerland a proportionally greater effort. ■

<sup>1</sup> As an indication, Canton Geneva provides a minimum income for old-age, survivors' and disability pensioners, as well as for the unemployed no longer entitled to unemployment insurance benefits, of about Sfr. 25,000, including rent and health fund premiums. For its part, the Trades Union Federation of Canton Geneva has calculated that Sfr. 50,000 per year are necessary for a single person to live modestly according to normal standards.

<sup>2</sup> See also on this subject the article by Heinz Allenspach, former head of the Central Union of Swiss Employers' Associations, in "Vie Economique" (May 1996). The author mixes up the receipts and expenses of social insurance and on this basis warns that the latter spent about Sfr. 115 billion in 1995, even though the Federal Social Insurance Office calculated real expenditure of Sfr. 84 billion in 1994. This error of Sfr. 30 billion was taken up blithely by the press and employers' organisations.

cost of the welfare state, not least with the objective of more easily obtaining a consensus. It is no longer possible to discover who are the net winners and who are the net payers in the great redistribution game, and above all how great are the net sums involved. And indeed more or less every possible precaution is taken to prevent the truth being made known.

## Effective costs unclear

The problem stems from the fact that much of the redistribution process understood as social aid takes the form of so-called assistance in kind, i.e. by the attribution of low-cost housing, by access to culture, education and health care subsidised equally for all, by reduced charges for services, etc.

The process continues in the field of social insurance, which because of its so-called solidarity component has more in common with an umbrella than an insurance scheme. It is reflected with particular clarity in the so-called employers' contributions. These lead to a situation in which no employee has any idea of how much he really earns or how much he costs his employer. He does not get any feeling of the huge cost of the social security network as a whole.

These errors are of course almost always based on the best of intentions. In many cases it is true that the choice of the path – when interpreted from the point of view of the time in which it was first taken – appears not only comprehensible but even correct. But it is nevertheless true, and this is becoming increasingly clear, that the welfare state of today has not only financial but also, and more particularly, social defects which are grounded in its basic concept and cannot be eliminated through mere tinkering. The fact that it may be justified historically should not prevent us from questioning it from the bottom up. The whole social equation is too important to be layered over with taboos.

We all know more with the benefit of hindsight, goes the old saying. We should make good use of hindsight now, at a time when we still have a certain amount of room for manoeuvre left. We must take the opportunity to seek new avenues for our social policy, to pay equal attention to the requirements of sustainability, self-responsibility and assistance for the weaker among us. ■