RETIREMENT INCOME POLICIES AND WELFARE STATE RETRENCHMENT:

A COMPARATIVE STUDY OF CANADA, SWEDEN AND THE NETHERLANDS

by

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Abstract

The purpose of this study was to examine the effects of welfare state retrenchment on the retirement income system in Canada during the years 1980-2000. In order to provide perspective on the Canadian experience, this study also examined the effects of retrenchment on the pension systems in the Netherlands and Sweden. The theoretical foundation for this study was supported by Esping-Andersen's (1990) welfare-state regime typology (liberal, conservative and social-democratic). To address retrenchment, this study incorporated Rice and Prince's (2000) model of retrenchment strategies. It was hypothesized that: 1) there is a link between regime type and retrenchment strategy pursued; and, 2) the liberal regime (Canada) will be more likely to experience retrenchment than either the conservative (the Netherlands) or social-democratic (Sweden) regimes. Contrary to these predictions, it was found that while all three countries did experience retrenchment, the Netherlands experienced the most retrenchment.

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Chapter 1. Introduction

1.1 Pensions and income security in a changing world

During the last century, significant developments have been made throughout advanced capitalist economies in reducing social risks such as poverty, unemployment, and income loss in old age (Esping-Andersen, 1999). Supported by strong economic growth following the Second World War, industrialized nations have decreased the social and economic consequences of retirement from the labour force (Bonoli, 2003). This has been achieved through the introduction, or in some cases enhancement, of the state's role in the provision of social insurance and social services as well as the establishment of social rights, and the redistribution of wealth through progressive taxation (Esping-Andersen, 1999; Iverson and Cusack, 2000; Garrett and Mitchell, 2001). Also important is the redistribution of income over an individual's life-cycle (Lindbeck, 1994). According to Esping-Andersen (1999;15), the greatest achievement of the immediate post-War welfare state has been "its capacity to lessen economic insecurity during people's inactive years." The term welfare state is typically used to describe the structures and activities (i.e. programs) of governments that provide for or promote the well-being of its population.

Beginning in the 1980s and continuing to the present day, countries have been under pressure to reform or retrench their welfare programs due to changes in their demographic profiles (Esping-Andersen, 1999) and in the global economic climate (e.g. increased mobilization and the integration of capital, labour, and production or globalization) (Scarbrough, 2000; Pierson, 1996). The term retrenchment is a broad term typically used to describe recent attempts to change the welfare state (Green-Pedersen, 2001; Scarborough, 2000). Welfare state retrenchment is used in this project to refer to policy decisions ranging from relatively minor changes, such as limiting access to programs or decreasing program benefits, to eliminating programs or changing a nation's policy-formation framework, such as the abandonment of a full employment policy (Rice and Prince, 2000). Programs related to retirement, such as public pensions, unemployment and disability insurance, constitute the focus of this paper. These programs have been under particular scrutiny by neo-liberal politicians and organizations such as the World Bank and the International Monetary Fund (Chand and Jaeger, 1996). Such organizations argue that a typical pension system necessitates high payroll taxes to pay for current retirees. Other faults attributed to pension systems include: 1) incentives for early retirement have led to decreased labour productivity and contributed to escalating pension liabilities (private and public); 2) there are weak links between benefits and contributions; 3) public pensions lead to declines in long term savings; 4) there are inequitable intra-generational and inter-generational transfers; and 5) most systems have a large implicit pension debt that adds to a nation's fiscal burden (James, 1998). This focus on pensions is not unwarranted since, together with health care, these two categories comprise the largest social expenditures for welfare states. Recent estimates calculate that, on average, OECD countries spend 7.5% of GDP on public old-age pensions (MacKellar and McGreevey, 1999). Changes, even small ones, to pension systems are likely to have a more profound impact on the fiscal picture of a nation than more substantial changes to smaller welfare programs such as unemployment, labour programs or child benefit programs.

A related argument of pension systems is that the financial costs will not be sustainable once the comparatively large baby-boom cohort (those born between 1946 and 1965) begins to retire (OECD, Economic Outlook, 2001; The Economist, July 19, 2003). Additional factors identified as contributing to the "crisis" of the welfare state are: 1) the effect population aging will have on dependency ratios (i.e. a higher proportion of the population not participating in the paid labour force); 2) government debts and deficits; 3) the globalization of trade and integration of financial markets; and 4) slower economic growth (Bonoli, 2003; Gee, 2000; McDaniel, 1997; Myles, 2000; Ross, 2000). It has also been argued that the welfare state has experienced "overshooting", in that public spending levels or costs are too high and that the "returns" or benefits (e.g. lowering poverty rates further) are increasingly marginal (Lindbeck, 1994). These beliefs have been challenged by those who believe that the welfare state is in fact sustainable in its present form and that only relatively minor adjustments are required (Gee, 2000; McDonald, 2000; Denton and Spencer, 1997). Their position contends that, although the welfare state may face challenges, it is the neo-liberal ideological framing of the consequences of population aging and debt reduction that has created a false crisis regarding the future of the welfare state (MacKellar and McGreevey, 1999).

1.2 Rationale for the Study

Several informative accounts of the challenges facing the Canadian pension system have been written (Denton and Spencer, 2000; McDonald 2000; Myles, 2000; Rice and Prince, 2000). There have also been a number of comparative studies that have evaluated pension reform in developed countries (Disney and Johnson, 2001; Pierson, 1996; Borsch-Supan and Miegel, 2001). However, few studies have examined the process of pension or retirement income reform from a Canadian comparative perspective that specifically addresses the role of population aging. This project will attempt to help fill this gap noted by a number of other researchers (Chappell and Penning, 2000; Maddox, 2000; O'Connor, 1998a; Olsen, 1998).

1.3 Purpose of the Study

This study proposes to evaluate in a comparative perspective, Canadian retirement policy retrenchment by comparing the Canadian situation over the past twenty years with the experiences of the Netherlands and Sweden. It is hoped that by taking a comparative approach, a more balanced assessment of the strengths and challenges facing the Canadian pension system will be provided. The fundamental purpose of this project is to provide the reader with an understanding of whether the retrenchment process has affected the retirement experience for Canadians, and if it has, is the change in keeping with what has occurred in other countries? Of interest is how retrenchment has affected measures of pension quality (e.g. coverage, eligibility requirements, replacement rates) and income distribution (inequality and poverty rates) (Huber and Stephens, 2000). This project will analyze cross-national data to test aspects of Gosta Esping-Andersen's (1990) theory on welfare state development and retrenchment. Specifically, Esping-Andersen's (1990) typology of liberal, conservative and social-democratic regime types will be applied to these countries and their respective retrenchment processes will be assessed using Rice and Prince's outline of retrenchment strategies. As a part of this analysis, this paper will examine how retrenchment has affected the de-commodifying capability of pension systems in Canada, the Netherlands and Sweden. De-commodification is a concept that describes the degree to which an individual's need to rely on the market for financial security is ameliorated through the social welfare system (Esping-Andersen, 1990). This work will also explicate the reasons why a particular country may have been able to implement changes to their pension policies while another has been less successful.

Although Canada is frequently compared to the United States, this study has chosen to compare Canada with Sweden and the Netherlands for two reasons. First, each of the three countries belongs to a different regime type, whereas the United States and Canada tend to be categorized as liberal regimes. Second, it has been observed that in comparative studies, the primary dimensions under study (i.e. retrenchment of retirement income systems and regime types), should be as different as possible while the other aspects should be quite similar (i.e. OECD members with mature welfare systems) (Goodin et al., 1999, Rothstein, 2001). This approach in comparative methodology has been called a "most different design" approach to policy analysis (Rothstein, 2001). By combining a quantitative analysis of aggregate data with a qualitative examination of policy changes, this study will elucidate the implications of recent events in pension systems. This study will also attempt to contribute to existing theoretical explanations of why policy changes have or have not been made.

This study recognizes that that there are a number of other major policy arenas in the modern welfare system (e.g. housing, health and education) and that these forms of non-cash benefits can have a substantial role in reducing inequality throughout the life course (Heady et al., 1997). In order to provide a thorough examination of the welfare state, this study will need to also consider both social security and social service programs (Olsen, 1998). Programs that are frequently used as vehicles for early retirement, such as disability and unemployment programs, will also be included. This study also acknowledges that retirement policies are inevitably affected by policies ostensibly targeted at younger cohorts. For example, education policies, such as state paid tuition costs for post-secondary education or the expansion of places in universities, will affect the numbers of people attaining higher levels of education. This, in turn, will influence both an individual's earning power (micro-level) and a nation's labour productivity (macro-level). It is, however, beyond the scope of this paper to incorporate a comprehensive discussion of all policy domains, and therefore, the focus will be on retirement income programs.

Chapter 2 Literature Review

2.1 The development of pension systems

The right to access social security has been recognized as a fundamental human right by the 1948 Universal Declaration of Human Rights, by the European Union in its Charter of the Fundamental Rights of Workers and in various national constitutions (Dixon, 1999; Walker and Maltby, 1997). Following the Second World War, an important social problem facing developed nations, and European countries in particular, was the large number of older adults living in poverty (Palmer, 2002). Two of the principle goals of a pension system are to ensure adequate income in old age and to ensure stability in income before and after retirement from the labour force (Atkinson, 1995; Bonoli, 2003). Features unique to this time period (1950s-1960s) such as relatively consistent, strong economic growth, high fertility rates, and a male-dominated work force, shaped pension systems and supported their expansion. Yet, countries differed in their approach to providing income security in retirement, typically opting for one of two generalized types of systems. The first is referred to as a Bismarck-styled or social insurance approach. Countries that have modeled their systems after this approach include Germany, Italy and the Netherlands. Social-insurance systems typically provide a public pension for those who qualify but emphasis is placed on an individual's work history, and benefits are based on past contributions (Bonoli, 2003). The second approach is commonly referred to as a Beveridge-styled pension system or universal system. This type of system typically provides transfers or services on a flat-rate, universal basis and is tax-financed. Examples of countries using this approach include Canada, Sweden and the United States. Although pension systems have typically been assigned to one of these two categories, features unique to each country have meant that pension systems have evolved in different ways and many have, over time, evolved to incorporate elements of each type into their own distinctive system. According to Dixon (1999, p. 58), "the way a society views social security for the aged and its underlying dominant values is, of course, a crucial factor in the evolution of statutory old-age social security provision within that society".

Current pension systems in the developed world are predominantly based on a traditional male work pattern. Patterns of employment and of retirement have however changed over the past couple of decades as nations make the transition to a post-industrial labour market (Bonoli, 2003; Guillemard, 1997; McDaniel; 1995). The traditional male breadwinner model of school, work and retirement is being replaced by patterns of employment that include later entry into the workforce, serial employment, increasing levels of part-time work, as well as gradual and early retirement (McDaniel, 1997; Reday-Mulvey, 2000). Moreover, the significant increase in the employment levels of women beginning in the 1960s and 1970s has in large part driven these different patterns of labour. However, policies that were developed during the formation of the modern pension system, as well as the policies of the 1960s-1970s that were formulated during the consolidation of the welfare state, were not designed to meet these new patterns of work and retirement (Palmer, 2002). Atypical forms of employment, combined with concerns about the anticipated costs to the public purse of supporting future retirees, have led many counties to reconsider and in some cases retrench, their retirement income systems (Adema and Einerhand, 1998; Bonoli, 2003).

This project will review and describe some important concepts that are frequently used in discussions of retirement income systems. As a part of this review, the main features of the Canadian, Dutch and Swedish retirement income systems will be provided.

2.1.1 Population aging and dependency ratios

The aging of the population, due to decreasing fertility rates and increasing longevity, is in many ways one of the greatest achievements of the past century. It reflects improvements in public health care, education and social security. However, the counterpoint to this is the belief that an ageing population will impose an unaffordable burden on the welfare state. In order to ensure that benefits will be there for future generations, and to avoid "bankrupting" the state, it is argued that social welfare programs must be reformed (Adema and Einerhand, 1998). This argument typically relies on dependency ratios to support its predictions. There are two principle methods of calculating dependency ratios 1) dividing the number of people active in the labour force by either all those 65 and over (old-age dependency ratio) or by all those under a certain age (15 or 20 usually) which gives a youth dependency ratio; or 2) performing the same calculation as above but combining the populations aged below 15 or 20 and above age 64 to form the denominator. One of the concerns with using the latter type of dependency ratio is that it assumes that all those between the ages of 15 or 20 and age 65 are employed. A further problem is that it underestimates the number of people under 20 or over 64 working either full- or part-time. It also does not take into account fluctuating trends such as delayed entry into the workforce due to higher education, unemployment, disability trends (particularly in the Netherlands), and early retirement. As such, it is likely that this approach actually underestimates the ratio of workers to retirees. Dependency ratios however, do not necessarily reflect what will happen in the future. Improvements in such factors as health (e.g. a compression of morbidity rates) or labour productivity (e.g. an increase in the number of years spent in the labour force) could mitigate the effects of an aging population on social spending despite increases in life expectancy.

2.1.2 The three pillars of retirement income

The sources for income in old age include public and private pensions, disability and unemployment insurance benefits, social assistance, employment income, and income from private assets (including rent from housing). The ratio or proportion of income from each source will vary between countries as well as over time as pension systems change. The World Bank in its influential 1994 publication "Averting the Old-Age Crisis" identified three structures or "pillars" which in part or in combination form the basis of contemporary retirement income systems (Borsch-Supan, 2001). The first pillar provides a redistributive, tax-financed basic pension that may be universal or targeted (James, 1998). The goal of this pillar is to provide a minimum guarantee of income to retirees. It should also be noted that, supplementary pensions some provincial governments in Canada. The second pillar is an earnings-related savings plan and is mandatory or in some instances may be quasi-mandatory (e.g. the Netherlands utilizes collective bargaining between employers and unions) (Jonker, 2001; Palmer, 2002). The intent behind the second pillar is to provide an income-based supplement to the first one and to serve as an income replacement mechanism after retirement.

Table 1 Pensions in Canada, the Netherlands and Sweden

	First pillar: Public pensions	Second pillar: Public/private pensions	Third pillar: Public/private pensions
Canada	OAS (basic pension), GIS (supplement), SPA (spousal supplement) Provincial supplements	C/QPP (earnings related) RPPs RRSPs	Insurance Private investments
Netherlands	AOW (basic pension)	Occupational pensions (earnings-related)	Insurance Private investments
Sweden Old system:	Basic pension	Occupational pensions ATP (earnings related) Supplement for those without ATP	Insurance Private investments
New system: (1999)	Basic Pension	Premium pension (NDC) (earnings related) Occupational pensions	Insurance Private investments

Finally, the third pillar typically comprises private assets including private pension, life insurance, and private savings. It is voluntary in nature and only those who are better off financially are able to contribute significantly to this pillar. The emphasis each country places on the different pillars varies significantly, although the income replacement levels are generally similar (Borsch-Supan, 2000). Taken together, this model has been identified by James (1998) as a type of co-insurance that diversifies the risk of retirement through linked but separate savings vehicles.

2.1.3 Methods of pension financing

There are two basic ways in which pensions are financed. The first method is commonly referred to as a pay-as-you-go (paygo) system. In this type of system, contributions from current workers are used exclusively to finance the benefits of current pensioners (Borsch-Supan, 2001). Borsch-Supan (p.8-9) observes that in the ideal model, "expenditures always equal income; neither is there a reserve built up from excess income, nor are debts incurred due to excess expenditures." Governments can however alter this balance by collecting more than is necessary for expenditures as was the case with the Canadian Pension Plan (CPP) during the period 1966-1983 (Hoffman and Dahlby, 2001). The ratio of workers to retirees is a key factor in the sustainability of paygo pension systems. This ratio is affected by and dependent on four demographic variables: mortality, fertility, migration, and labour force participation rates (Brown, 1997). The ability of governments to alter the dependency ratio is limited. Governments are hardly likely to seek changes to mortality rates and there have been a few (unsuccessful) attempts to alter fertility rates. Higher immigration levels of educated, working-age migrants may have some impact, but is often fraught with political challenges (e.g. opposition from trade and professional organizations as well as voters). Labour force participation rates are the main variable over which governments have some degree of leverage. For example, active labour market programs (i.e. policies aimed at increasing employment) and raising the retirement age can increase employment levels. Lowering pensions or increasing contribution levels are also options, albeit unpopular ones.

Paygo systems are typically used to finance basic state pensions as well as some employment-based public pensions. In the Netherlands the basic state pension, Algemene ouderdomswet or AOW, is funded by a payroll tax on taxable income earned by those under the age of 65 (de Vos and Kapteyn, 2001). In Sweden the earnings-related ATP pension that was in place until the year 2000 was based on a paygo formula. The Q/CPP in Canada is also an example of an employment-based paygo pension plan with the difference being that it is partially funded. Excess contributions are placed in a fund with the stated objective of earning higher returns, thereby limiting the need to institute unpopular reforms (Dahlby, 1998). Paygo pension systems have been identified as being vulnerable to changes in dependency ratios as is the situation with an ageing population, where fewer workers support more and more retirees.

The second method of financing is a fully-funded or pre-funded system. Unlike paygo systems, fully funded or pre-funded retirement systems retain assets and place those assets into investment vehicles. Contributions are not equal to expected benefits due to discounting on the expected rate of return on investments (Dahlby, 1998). Nevertheless, funded pension plans are not entirely problem free. For example, capital withdrawn from the market by pensioners may not be replaced or the premium base of the plan may decrease compared to the insured pension rights of current retirees (Bovenberg and Meijdam, 2001). Plans that are fully funded typically belong to the occupational or private pension domain (OECDb, 2000). Pre-funded private occupational pension plans are widespread in the Netherlands and to a lesser degree in Canada, but are much less common in Sweden where the public pensions (state and occupational) have formed the bulk of retirement income.

2.1.4 Defined contribution and defined benefit pension plans

Just as pension systems vary in the way that they are financed, they also differ in the ways in which they pay out benefits. Defined contribution (DC) pension plans are similar to savings schemes and may be voluntary or compulsory, private or public. Contributions are typically split between the employee and the employer. Upon becoming eligible for benefits, a retiree receives his/her past contributions plus any capital returns in the form of either a lump sum or more commonly an annuity (MacKellar and McGreevey, 1999). Two strengths of this type of plan are that it is more transparent than a defined benefit plan (i.e. there is a link between contributions and benefits) and it is conducive to a high rate of national savings (James, 1998). From an employer's perspective a DC plan decreases the company's pension liabilities. A significant weakness of DC pensions is the risk to the individual contributor. As DC pensions are based on past contributions and market returns and are not guaranteed by employers, the plan holder is left open to the risk of an inadequate pension as a result of either insufficient contributions or poor market performance.

Defined benefit (DB) pensions are more or less guaranteed pensions that are based on criteria such as final salary or a percentage of annual salary (e.g. 2 per cent) per year of employment. DB plans are usually financed on a paygo basis but they may accumulate a capital reserve by collecting an excess of contributions as compared to benefits paid out (MacKellar and McGreevey, 1999). Although management and administration costs are generally lower in a DB plan, there is a weaker link between contributions and benefits and risks are higher for employers and current employees who must support current retirees (James, 1998). The benefit for the beneficiary is that entitlements are more or less known and are not as, though not completely, vulnerable to the vagaries of the investment markets as individual DC pensions.

2.2 Theoretical approach used in this project

The theoretical framework that will be used in this paper is a comparative political economy approach. Traditionally, the primary focus of political economic study has been an examination of the ways in which state and market institutions interact either at the national or international level (Howlett et al., 1999). This macro-level approach has been criticized in welfare state research for failing to recognize the importance of the family or household and particularly the changing role of women in society (Esping-Andersen, 1999; Mahon, 2001; O'Connor, 1998). Rice and Prince (2000) and McDaniel (1995) observe that any analysis of changes to government pension policies must pay special attention to gender as women are more dependent on government transfers and thus more affected by policy changes. In his most recent work on welfare capitalism in post-industrial societies, Esping-Anderson (1999) acknowledges this omission in his earlier (1990) edition and argues that in fact the household is of primary importance in any attempt to understand post-industrial economies.

The next two sections in this chapter will outline Esping-Andersen's regime typology as applied to welfare state development and retrenchment. Following these sections, there will be an overview of Rice and Prince's model of welfare state retrenchment.

2.2.1 Theory and the welfare state

While the shape of welfare expansion varies among countries, patterns or "worlds" of welfare development have been identified as far back as the 1950s by Titmuss (Dixon, 1999) and more recently by authors such as Esping-Andersen and

Castles (Esping-Andersen, 1999; Goodin et.al., 1999; Obinger and Wagschal, 2001; Castles in Olsen and O'Connor, 1998). This type of analysis, which looks for common patterns of development, service delivery, or funding across welfare states, has made a significant impact on comparative welfare state research (Obinger and Wagschal; 2001). Esping-Andersen writes that, "a welfare regime can be defined as the combined, interdependent way in which welfare is produced and allocated between state, market, and family" (Esping-Andersen, 1999, p. 34-35). Three distinct welfare regime "worlds" have been identified by Esping-Andersen: 1) liberal (e.g. Canada, United States, and Great Britain); 2) conservative (e.g. the Netherlands, Germany); and, 3) social-democratic (e.g. Sweden, Denmark). In his seminal work "The Three Worlds of Welfare Capitalism" (1990) Esping-Andersen argues that each of these regimes follow discernable patterns in the delivery of social goods and that one can better understand welfare regimes by comparing the different welfare worlds. Esping-Andersen (1998) stresses that, while it is his belief that nations clearly cluster into three regimes, no single country is a pure example. For example, in "liberal" Canada, there is a relatively strong redistributive element to the pension system, when compared to other liberal regimes such as Great Britain or the United States.

Esping-Andersen's typology groups nations into regimes on the basis of three factors that together form the key principles of social citizenship. First, there exists in each state social rights (Esping-Andersen, 1998). De-commodification is a central concept in differentiating the social rights found in the three regime types (O'Connor, 1998). It refers to the state's "granting alternative means of welfare to that of the market" and it "may refer either to the services rendered, or to the status of a person, but in both cases it signifies the degree to which distribution is detached from the market mechanism" (Esping-Andersen, 1998). The degree to which these social rights de-commodify individuals and their need to rely on the market varies among the three regime types. With its emphasis on universal programs, the social-democratic regime-type has traditionally experienced the highest levels of de-commodification. The Swedish model of the welfare state is perhaps the best known of the three countries in this study, and along with the other Nordic countries, Sweden's approach to welfare provision is the most de-commodifying. Sweden's generous social security system, an active labour market policy and comparatively large public service sector constitute the core elements of this system (Wandensjo, 2001). High employment levels reflecting active labour policies and comparatively high levels of taxation have historically been used to finance these policies. In contrast with the social democratic approach, the liberal regime emphasizes the private market as being the preferred provider for welfare needs. An emphasis on means-testing and minimal benefits in residualist states depresses their de-commodifying effect. Canada is typically placed into the liberal regime cluster on the basis of moving towards a means-tested approach to social security and low replacement levels of programs (e.g. unemployment and disability insurance). Yet as Olsen (1998) observes, there are aspects of the Canadian social service system (health care and education) that are clearly universalistic and social-democratic in nature. Social-insurance based countries, many of which are identified as conservative regimes, typically provide relatively high entitlements but they are usually tied to contributions and therefore paid employment. Thus, in tying benefits to work in the paid labour force, this type of system will adversely affect certain segments of society, perhaps most notably women who are more likely to be employed part-time and to engage in non-paid labour (e.g. child-rearing, care for older family members). The Netherlands, although not a perfect example of the conservative state is typical in that, while its social security transfer system is quite generous, its social service system is comparatively limited.

Second, there is social stratification within the welfare state such that the type of welfare system that the state pursues will affect an individual's status within society. For example, in conservative, Bismark-styled nations, there is a history of privileged welfare benefits for civil servants as well as certain workers' societies or guilds (today's unions). In both liberal and social-democratic nations that have adopted a universal, Beveridge-style welfare system, the emphasis is on equality of benefits throughout society. In such a system, flat-rate, modest benefits are provided to all regardless of class or one's relationship to the market. With the increasing numbers belonging to the middle class, these individuals tend to seek to improve their position through private insurance and extra benefits in the labour market. According to Esping-Andersen, this situation is occurring in Canada and has eroded the spirit of universalism and has led the poor to rely increasingly on the state (Esping-Andersen, 1998).

Third, there is the relationship between the state, market, and the family or household. The social rights held by individuals and their relationship to the state will affect the relationships they have with the market. Thus, in a conservative or corporatist regime that emphasizes the traditional family system, pension benefits to the main breadwinner will likely be generous, but services such as day care or other family services will be underdeveloped. In the social democratic regime, the relatively generous provision of day-care and maternity benefits has enabled women to participate more fully in the paid labour force (O'Connor, 1998). Typically the liberal-styled nation holds that the market place is the ideal provider of social services or insurance benefits and may promote this belief through measures such as privatization of services or tax credits that encourage family-based care.

2.2.2 Welfare regimes and retrenchment

It is Esping-Andersen's (1999) argument that a welfare regime typology is a useful tool for understanding not only welfare state development, but that it is also able to explain current retrenchment policy directions. Esping-Andersen observes that, "the divergent kinds of welfare regimes that nations built over the post-war decades, have a lasting and overpowering effect on which kind of adaptation strategies can and will be pursued" (Ibid, p.4). According to Esping-Andersen, the class character and class coalitions of welfare states is central to an understanding of why some countries are experiencing a larger backlash directed at welfare spending than others (Esping-Andersen, 1998).

2.3 Residual, integrated, and institutional retrenchment

Borrowing from Pierson's (1994) explanation of retrenchment, Rice and Prince (2000) identify three retrenchment strategies that governments have used to respond to changing conditions confronting their welfare systems: 1) residual; 2) integrated; and, 3) institutional retrenchment. These three strategies, which may be aligned with Esping-Andersen's regime typology, will provide a framework for this study's analysis of pension retrenchment.

Table 2 Three types of retrenchment: residual, integrated, and institutional*

Type of retrenchment	Characteristics	Regime type	Example countries
Residual	1) Programmatic- cuts and decreased access 2) Systemic- alter fiscal and institutional practices 3) Paradigmatic- change of guiding principles in the formation of policy	Liberal	Canada, United States, United Kingdom
Integrated	Re-mixing the delivery of services; devolving authority Privatization	Conservative	Netherlands, Italy, France, Germany
Institutional	Incremental reforms	Social-democratic	Sweden, Denmark, Norway, Finland

*Adapted from Rice and Prince (2000).

2.3.1 Residual retrenchment

The first reform method is termed the residual strategy, which, as shown in Table 2, may be undertaken in the following ways. Using programmatic retrenchment, programs may be cut or access to them limited through greater restrictions built into the program. Systemic retrenchment on the other hand, is directed at altering institutional and fiscal practices. This method attempts to change and shape the broader political environment in which actors and institutions interact so as to make possible future cutbacks and residualization of the welfare policy system (Ibid., p.111). The third type of residual reform is labeled paradigmatic retrenchment, which Rice and Prince describe as a "weakening or dropping (of) support for guiding principles that serve as the basis for policy action" (Ibid., p.112). An example of this type of reform would be the abandonment by most nations of Keynesian economic policy, which promoted state intervention in the economy. These three types of residual reform have been associated primarily with the reform approach taken in Canada, the United States, and the United Kingdom.

2.3.2 Integrated retrenchment

A second strategy, the integrated approach, is also referred to as a mixed or social economy of welfare. According to Rice and Prince, "there are two primary ways that a mix is attained: by changing the governing body responsible and by contracting out with other sectors" (Ibid., p.119). In the first scenario, responsibility for the delivery of services is generally devolved from higher to lower levels of government. Problems in maintaining previous standards may emerge if this transfer of responsibility is not accompanied by adequate funding sources. In the second situation, contracting out services, governments seek to expand the role of non-public actors in the delivery of social welfare services and programs. Two concerns about this type of retrenchment are that recipients may lose their entitlement rights if these rights are not guaranteed, and that the private sector is not bound by the same types of protective regulations found in the public sector. Privatization, deregulation, non-expansion of services or programs, and changes to tax policies are further types of integrated retrenchment. This mixed approach to changing social welfare has been most prominent in countries such as the Netherlands, Germany, France, and Italy.

2.3.3 Institutional retrenchment

The third strategy, institutional reform, attempts to maintain the existing system as much as possible while implementing only small incremental reforms (Ibid., p.123). There are three premises behind this strategy. The first premise is that the welfare system provides stability in society and this allows for the development of a capitalist market economy. Second, because capitalist markets create inequality and the conditions for social unrest, welfare programs are a necessary counterbalance. Third, by redistributing resources through welfare programs, governments enhance their political support from the low- and middle-income electorate. The Scandinavian nations of Sweden, Denmark, Norway, and Finland have used this approach in meeting recent challenges to their welfare systems.

It should be noted that while there are general identifiable patterns in the strategies used in each country, most countries have used a combination of retrenchment strategies in their reform efforts. To facilitate the comparison of the types of retrenchment that have occurred, this project will utilize Rice and Prince's model of the three types of retrenchment (residual, integrated, and institutional) in conjunction with Esping-Andersen's regime typology. It is believed that this will provide structure to the comparison among the three countries, and clarify what types of retrenchment have occurred over the past two decades.

Chapter 3. Research Questions, Hypotheses and Methods

3.1 Research questions and hypotheses

There are two related purposes for this project. The first is to provide a comparative overview of steps taken to reform retirement income systems in the three countries under study. Of interest is how these reforms have affected the quality of pensions (e.g. access, coverage). This will be accomplished by combining an analysis of pertinent OECD data with a review of retirement income policies during the period 1980-2000. The second purpose of this project is to discover whether the paths of retrenchment that these countries have followed are consistent with Esping-Andersen's regime typology and/ or Rice and Prince's types of retrenchment model.

The connecting point for these aims is to clarify the extent and patterns of retrenchment that have occurred during the period 1980-2000. Ideologically based arguments from both the left and the right can obscure the facts of retrenchment. As a part of this analysis, it is necessary to determine whether pension programs (including disability and unemployment insurance) have been subject to retrenchment. This will necessitate responses to the following specific questions about key trends: a) Has retrenchment had an impact on government net social spending (spending after taxes) (OECD, 2001)?; b) Is there a discernable trend in age-related (i.e. directed at specific age groups) spending during the period 1980-2000?; c) Has the age of retirement changed over time?; d) Has there been a shift in policy direction during the time period (1980-2000) such as moving from a universal-based system to one that is income tested or targeted?; e) Have policy changes affected one gender more than the other?; and, f) Has there been a change in the sources (public vs. private) of retirement income? Answers to these questions will assist in determining whether reforms to retirement income systems have had an impact on income security for current and future retirees. To answer these questions, this study will analyze data on: 1) indices on poverty and the relative risk of poverty by age category; 2) population growth projections; 3) employment patterns and labour participation levels; 4) dependency ratio projections; and, 5) government social spending variables.

Specific hypotheses in this project are:

Hypothesis 1: It is expected that there is a link between a regime type and retrenchment strategy. As outlined by Rice and Prince, it is expected that the liberal regime (Canada) will predominantly use a residual approach, the conservative regime (the Netherlands) will use an integrated approach and, the social-democratic regime (Sweden) will use an institutional approach.

Hypothesis 2: It is expected that the liberal regime (Canada) will be more likely to experience retrenchment than the conservative (Netherlands) or social-democratic (Sweden) regimes. It is therefore expected that the de-commodification ability of the liberal regime will have weakened more than in the conservative or social-democratic regimes.

The first hypothesis is operationalized as follows: 1a) It is predicted that the liberal regime (Canada) will be more likely to use residual retrenchment strategies such as the cutting and targeting of programs and pension benefits. 1b) The conservative regime (the Netherlands) will be more likely than the two other regimes to use a mixed social welfare approach to retrenchment, while the social-democratic regime (Sweden) will have attempted to maintain its programs and benefits. It is expected that changes made in all three countries will be consistent with a trend of retrenchment rather than expansion or improvements of their pension systems. These associations assume that the historical pattern of welfare provision will influence each country's approach to retrenchment.

Hypothesis 2 contends that, since program changes are inherent to a residual retrenchment approach, it is expected that the Canadian welfare state will have experienced more substantial social security and service cuts than either the Netherlands or Sweden.

3.2 Methods

In order to determine trends in the retrenchment of retirement programs across Canada, Sweden and the Netherlands, specific variables will be examined over the time period 1980-2000. This time period has been chosen as it provides a sufficient period over which trends can be discerned and it covers the differently timed recessions in the three countries.

The research methods for this project will include two approaches. The first will entail a trend analysis based on aggregate data compiled by the OECD. This method and source has been used extensively in research concerning welfare state retrenchment (e.g. Bonoli, 2003; Disney and Johnson, 2001;Garrett and Mitchell, 2001; Palmer 2002). The second approach will involve an analysis of retirement policy developments during the period 1980-2000. This will entail an examination of the effect policy changes have had on pension quality measures.

The data that this project uses is taken from the following OECD occasional papers and statistical releases:

1) Ageing and Income - Financial Resources and Retirement in 9 OECD Countries(OECD, 2001). This publication compared the impact of public policy on the retirement income systems in nine OECD countries and examined the challenges each is facing. This includes the increasing imbalance between time spent in the workforce and in retirement, changes to the sources of income in retirement, and the challenge of ensuring adequate income in old age.

2) Net Social Expenditure 2nd Edition (Adema, 2001). This publication provides one of the first internationally comparable data sets in tabular form on net public and private social expenditure in 18 OECD countries.

3) Trends and Driving Factors in Income Distribution and Poverty in the OECD Area (Forster and Pellizzari, 2000). This publication examines trends in income distribution and poverty in 21 OECD countries.

4) Growth, Inequality and Social Protection (Arjona et.al., 2001). This examines the role of social spending on economic growth.

5) OECD Historical Statistics 1960-1997 and 1970-2000 (OECD,1999, 2001). These publications provide economic indicators for OECD members.

6) Labour Force Statistics 1979-1999 (OECD, 2000). This publication provides employment and other labour force statistics.

7) The Retirement Decision in OECD Countries (Blondal and Scarpetta,1998). This examines the motivating factors for retirement in selected OECD countries.

These sources contain data on measures that have been used elsewhere by researchers to determine trends in pension policies, income-replacement rates, economic indicators, and welfare regime types (e.g. Esping-Andersen 1999; Pierson, 1996; van Kersbergen, 1995). Data provided allow for the comparison of measures across countries. In cases where data are not directly comparable, a note to this effect will inform the reader.

It has been observed that there are difficulties in measuring retrenchment, since it is a complex phenomenon (Pierson, 1996). One example is where spending levels appear to be increasing but are in fact associated with exogenous variables such as rising unemployment or an aging population. Retrenchment may be occurring but because more people are in need of government assistance, spending is going up. This could lead the observer to the false conclusion that retrenchment is not taking place. In this case it is necessary to utilize per capita measures and rates of change. A second concern is that by examining data or changes in a given year, indirect and long-term changes are likely to be overlooked. For example, several countries (e.g. Sweden, the United States) have altered their pension systems by raising the age of entitlement to pension benefits. However, the effects of this policy change may not be observed for years to come - the timeline for the full implementation of the United States' reform won't occur until 2027. It is therefore important to examine multiple points in time. For these reasons, this project will also include a discussion of the potential future effects of past policies.

This project will use some of the measures of pension quality that Esping-Andersen and Myles proposed as tools for comparing pension systems (Huber and Stephens, 2000). The specific measures that will be examined include: a) length of qualifying period for benefits; b) the individual's share of pension financing; c) pension coverage; d) methods of pension indexation; e) degree of means testing; f) degree of flexibility of retirement; and, g) qualifications needed for retirement. These measures will be used to highlight the effects of retrenchment on pension systems.

The correspondence rules for determining support or not for hypotheses will be the ordering of the individual states on a continuum based on measures such as income in retirement and age of retirement. Countries will also be compared over time beginning in 1980 and ending in 2000. In order to establish whether retrenchment has occurred on a spending measure such as net social spending, ranking will also be done but spending rates are compared with inflation rates and population size. If spending increases over time but does not keep up with inflation or population changes, this could be held to be an example of retrenchment. It may also be the case that spending has shifted from one program to another. It should be noted that a higher ranking in terms of spending does not necessarily mean that a country's system is more generous or redistributive. This project will also heed the advice of others (e.g. Esping-Andersen, 1998) that spending levels and relative positions of more or less, higher and lower, do not necessarily reflect the true situation in a country. It may be that some of the transfers to the individual are later "clawed" back through taxation thus lowering the end amount of the transfer. As well, social-democratic countries have a more generous public social service sector that provides services that must be purchased in the private sector in other countries. For this reason, the three countries of interest will be compared to themselves in addition to each other. By comparing the pension system in each country at around 1980 and then again at

2000, a clearer picture of the effect of changes may be produced, particularly from a policy perspective.

The second approach will utilize Rice and Prince's (2000) typology of retrenchment in order to determine whether there has been change in policy direction, and if so, which category of retrenchment it falls into. It is believed that by using both a quantitative analysis and a qualitative policy analysis, this project will provide a clearer picture of what has taken place over the past two decades.

Social welfare in general, and pension policies specifically, are multi-faceted phenomena that interact with endogenous and exogenous variables such as unemployment, monetary and fiscal policy, demographic changes, and, supranational organizations such as the European Union and the North American Free Trade Act (NAFTA). Although it is impossible to discuss all of these issues, the discussion section of this paper will examine how such variables have affected, and will continue to affect, the three countries abilities to either retrench or maintain their pension systems.

Chapter 4. Results

The results from this study are presented in two sections. The first section consists of quantitative tables. A more detailed analysis is deferred to chapter 5. The second section reviews the policy changes that have occurred during the years 1980-2000.

4.1 Demographic profiles

We will begin with a profile of population aging in each country. Population aging is one of the most significant demographic phenomena to occur during the past century.

Table 3 shows that between 1981and 2001, the percentage of the population age 65 and over has risen steadily in Canada (31.2%) and the Netherlands (17.2%).

Table 3 Percentage of population 65+ as a percentage of total population, 1981-2001

	1981	1986	1991	1996	2001
Canada	9.6	10.5	11.5	12.1	12.6
Netherlands	11.6	12.3	12.9	13.4	13.6
Sweden	16.5	17.5	17.7	17.5	17.7

Source: OECD, Labour Force Statistics, 2002.

The situation in Sweden is somewhat different: significant growth in the older adult population pre-dated 1981 and the percentage of the population 65 and over was already higher in 1981 (16.5%) than either Canada (12.6%) or the Netherlands (13.6%) in 2001. Although Sweden has experienced the aging of its population earlier than either Canada or the Netherlands, it is expected that all three will have a roughly similar proportion of older adults in 20 years. Demographic projections for the year 2030 estimate that the percentage of the population 65 and over will be 22.6% in Canada, 25.6% in the Netherlands, and 25.5% in Sweden (see Table 4).

Table 3 shows how the percentage of the population of each country is growing older and that Sweden, with 17.7% of its population over 65, currently has the highest proportion of older adults of the three countries being examined here. Looking below to Table 4, it is further evident that the populations of these countries is getting older, but that they are doing so at different rates. Sweden's total population is growing at a rate much slower than Canada's and at approximately half the rate of the Netherlands.

The reasons behind population ageing, increased life expectancy and decreased fertility rates, have been well documented (Brown, 1997; OECD, Economic Outlook 69, 2001). Table 4 provides more details on the effects that these phenomena are expected to have on populations in the year 2030 in 9 OECD countries. In all countries life expectancy at birth is expected to rise by approximately 2 years for women and 3 years for men. As a result of past increases in life expectancy, lower fertility rates and the aging of the baby-boom cohorts, the number of seniors is projected to increase as a percentage of the population. As is also evident in Table 4, the oldest-old (those 80+) is the fastest growing cohort. In Canada and the Netherlands the percentage of the population aged 80 and over will roughly double while in Sweden the increase is expected to be lower (5.0% to 8.4%) but resulting in a higher overall percentage of the population than in the other two countries.

It was noted earlier in this study that one of the concerns regarding an older population is that a higher percentage of the population will be relying on a decreasing base of workers to support them in retirement. This is reflected in the final column in

Table 4 Estimates and projections: life expectancy, percentage of the population 65+ and 80+, traditional old age dependency ratio for 9 OECD countries

	Life expectancy at birth Men	Women	Percentage of the population 65+	Percentage of the population 80+	Traditional old age dependency ratio*
Canada					
2000	76.3	82.1	12.8	3.1	18.7
2030	79.0	84.7	22.6	5.9	37.3
Finland					
2000	73.5	81.0	14.9	3.4	22.2
2030	78.2	84.6	25.3	7.7	43.5
Germany					
2000	74.3	80.5	16.4	3.6	24.0
2030	77.7	83.3	26.1	6.8	43.3
Italy					
2000	75.4	81.5	18.2	4.0	26.9
2030	78.4	84.1	29.1	8.5	49.1
Japan					
2000	77.0	83.1	17.1	3.7	25.0
2030	79.4	85.5	27.3	10.2	46.0
Netherlands					
2000	75.3	80.9	13.8	3.3	20.2
2030	78.1	83.7	25.6	6.9	43.0
Sweden					
2000	76.7	81.2	17.4	5.0	27.1
2030	80.0	84.5	25.5	8.4	43.4
United Kingdom					
2000	74.9	80.2	16.0	4.2	24.6
2030	78.0	83.3	23.1	6.5	38.3
United States					
2000	73.8	80.3	12.5	3.3	19.0
2030	77.5	83.2	20.6	5.1	33.6
Unweighted average					
2000	75.2	81.2	15.4	3.7	23.1
2030	78.5	84.1	25.0	7.4	42.0

* Traditional dependency ratio is the ratio of the population aged 65+ to population 16-64.

Source: Ageing and income, OECD, 2001.

Table 4 which displays traditional old age dependency ratios.In the year 2030, the ratio of those in the working-age population will decrease as a proportion of those under 16 and over 64. This translates into approximately a 3:1 ratio in Canada and 2.5:1 in the Netherlands and Sweden. Although there will be a smaller proportion of the population

16-64, several factors need to be considered. First, not all those aged 16-64 are employed. People in this age cohort may be out of the workforce due to unemployment, under-employment, educational training, disability or as a result of family obligations. Changes to all of these factors, singly or together, could mitigate the effects of a higher dependency ratio. Second, it is not possible to predict how future retirees will experience old age. Improvements in health and concomitant increases in longevity may on the one hand lead to an increase in the dependency ratio, but, at the same time, it may lead to an increase in the number of older adults able to continue in the workforce. This may then have the effect of delaying or decreasing pension liabilities while at the same time, improving labour productivity. Third, government policies related to retirement as discussed in chapter 2 (e.g. raising retirement ages or promoting active labour policies) could be designed to offset the changing ratio of workers to non-workers. A final point to note concerning dependency ratios is that the proportion of workers to non-workers projected in Table 3 is not without historical precedent. In the 1950s the high proportion of the population under the age of 16 meant that the total dependency ratios in industrialized countries was as high or in some instances higher, than current future dependency ratio projections (Gee, 2000).

4.2 Public social spending on older adults

One measure that may be used to provide an indication of public spending on older adults is public social spending, which includes old-age cash benefits, survivor benefits, and services for the elderly and disabled (OECD, 2001). Table 5 provides the reader with the following information: 1) that with the exception of the Netherlands, social spending as a percentage of GDP has increased since 1980; 2) spending figures are the highest in the social-democratic country, Sweden, lowest in the liberal country, Canada; and, 3) as a percentage of GDP, the Netherlands is the only one of the three that has seen a decrease in spending. These observations provide partial support for this projects hypotheses. According to Esping-Anderson's regime typology, it would be expected that the liberal regime (Canada), would spend the least amount while the social-democratic regime (Sweden), would spend the most amount per GDP on seniors. Despite a decrease in spending over the period 1980-1997, the Netherlands still spends a higher percentage of its GDP on the retired population than does Canada. This table however does not appear to support hypothesis 2 which predicted that the liberal regime would be more likely to experience retrenchment than both the conservative (Netherlands) and social-democratic regimes (Sweden).

Table 5 Public social spending towards the retired population, 1980-1997 (percentage of GDP)

	1980	1985	1990	1995	1997	1980-1997 Percentage change
Canada	3.0	3.8	4.3	4.8	4.8	60%
Netherlands	7.4	7.9	7.7	5.8	5.6	-24%
Sweden	9.2	9.8	10.3	12.3	12.7	38%
OECD	7.2	7.9	8.3	9.0	9.1	26%

Source: Arjona et.al.,OECD, 2001.

From a policy perspective, Table 5 is notable in that the Dutch government issued a memorandum in 1982 with the stated intention of maintaining the high standards of spending and care that were provided in the 1970s (van den Heuvel, 1997). By 1983, with the country in the midst of a devastating recession, the government abandoned this policy. Care-policy and budgeting, including unemployment and disability, was decentralized and an increased emphasis was placed on individuals having responsibility for their own needs.

There are several things however, that this table cannot tell us. First, it is not necessarily the case that the overall amount of spending has gone down. During this time period, GDP has increased, thus spending per capita may in fact have gone up, or it may indeed have decreased per capita due to a higher number of retirees. Second, this table does not account for differences in tax systems. For example, some countries may provide higher levels of cash transfers but then tax a higher proportion of that transfer back to the government. Finally, this table does not allow for assessment of how individual retirees have faired over the 1980s to 1990s. Although spending as a percentage of GDP has gone up, other than in the Netherlands, how that spending is distributed is unclear. In order to find out whether a country's social spending is becoming more or less redistributive, it is necessary to look at inequality indicators that are examined later in this section.

In order to get a better understanding of how public transfers to seniors were affected by reform measures during the 1980s and 1990s, it is useful to examine transfers to all age groups. Table 6 presents total public transfers to all age groups and looks at the percentage change from the mid-1980s to mid-1990s. For Canada the largest decreases in spending were directed at those between 18 and 40, perhaps reflecting changes made to unemployment insurance (now known as employment insurance) in the early 1990s. The Swedish case indicates that spending has decreased by 3.2% for the 65-74 age category and by 3.0% for those over 75, despite the fact that these cohorts have increased in size (see Table 3).

Table 6 Percentage allocation of total public transfers across age groups, entire population, mid-1980s to mid-1990s

	0-17	18-25	26-40	41-50	51-65	65-75	75+
Canada, 1995	32.4	7.6	17.1	9.5	5.9	2.3	25.3
% Change 1985-1995	1.4	-3.3	-4.2	2.5	0.2	0.5	3.0
Netherlands, 1995	15.0	8.1	14.7	11.2	19.7	19.2	12.1
% Change 1984-1995	-2.1	-3.8	-1.7	1.7	1.1	2.4	2.4
Sweden, 1995	16.9	5.3	13.8	7.2	16.7	26.1	14.0
% Change 1983-1995	1.7	0.6	1.3	2.3	0.2	-3.2	-3.0
Avg.16 OECD mid90s	17.9	8.4	14.0	8.8	19.0	18.9	13.0
% Change mid80s-90s	-0.8	-0.9	-0.5	1.7	-1.0	0.2	1.4

Source: Forster and Pellizzari, OECD, 2000.

In the Netherlands, the pattern is almost the reverse of the Swedish experience with the percentage of public transfers decreasing for those aged 40 and under, while increasing for those 41 and over. Thus findings in Table 6 do not provide support for this project's hypotheses. The percentage of public transfers to those aged 65 and over increased in both Canada and the Netherlands at the expense of those 40 and under, while in Sweden those 65 and over experienced a decrease in the percentage of public transfers received. It was predicted that retrenchment would be most likely to occur in Canada, whereas this table indicates that the only country to retrench transfers to older adults was Sweden.

Social security transfers in Table 7, below, include social security benefits for sickness, old age, family allowances, social assistance grants and unfunded employee welfare benefits paid by general government (OECD, 1999). It was observed earlier that transfers do not necessarily reflect the relative generosity of a state's welfare system. Nevertheless, the overall trends in Table 7 indicate that social security transfers as a percentage of GDP have declined the most in the Netherlands, followed by Sweden, and are slightly higher in Canada over the time period 1974-2000. The last column in Table 6 is also informative in that it provides the reader with an easy snapshot of the peak years of social security transfers across the three countries and in the OECD. In all cases the highest level of spending occurred in 1992 and 1993. These two years coincided with relatively high levels of unemployment and national recessions that necessitate increased levels of spending on unemployment benefits. It is also noteworthy that up until the 1990s, social security transfers in the Netherlands were much higher than the other countries. This reflects a social insurance approach found in conservative regimes and may be evidence of the so-called "Dutch disease" the Netherlands experienced during the 1970s-1980s (Aarts et.al., 1996). The Netherlands went from spending almost double the OECD average in 1974 to 11% less than the OECD average in 2000.

Table 7 Social security transfers as a percentage of GDP, 1974-2000

	1974	1989	1992	1996	2000	Peak year (1989-2000)	Percentage change 1974-2000
Canada	7.8	10.7	14.3	12.9	12.4 *	1993 (14.5)	59%
Netherlands	20.7	24.7	26.4	14.8	11.9	1993 (26.6)	-43%
Sweden	14.3	19.4	23.4	20.3	18.3	1992 (23.4)	28%
Total (avg.) OECD	10.5	12.6	13.7	13.1	13.2*	1992 (13.7)	26%

Source: Historical Statistics, OECD, 2001.
* 1998 data for Canada and the OECD.

Again, the findings taken from Table 7 do not support either hypotheses which held that Canada would experience residual retrenchment, in this instance cuts in transfers, to a greater degree than either Sweden or the Netherlands. While all three countries experienced a decline from their peak years, only the Netherlands spent less in 2000 than it had in 1974.

4.3 Net social expenditure

Adema (2001) has observed that it is not possible to determine "social effort" by solely examining public cash transfers and social services. In order to understand the full picture of social spending, a country's taxation system and support of private social benefits must be taken into account.

A recent publication by the OECD (Ibid.) allows for international comparisons of spending indicators. Line 1 in Table 8 refers to gross public social expenditure which is the total amount spent by government before taking into account direct and indirect taxation, social contributions, and taxable benefits. Net total social expenditure on line 13 accounts for all of these factors. With such a limited number of time points (1993, 1995 for the Netherlands and Sweden and 1995 and 1997 for Canada), it is not possible to make a definitive argument with respect to the direction of spending or policy trends. However, this table allows for several observations on the spending patterns of the three countries. For example, in all three countries net total social expenditure decreased (in ascending order): 9% in the Netherlands (1993-1997); 10% in Canada (1995-1997); and, 14% in Sweden (1993-1997). Sweden still expends a higher percentage of its GDP (30.6%) on social expenditures than either the Netherlands (24.0%) or Canada (21.8%).

This finding is consistent with Esping-Andersons's regime typology (i.e. that the social-democratic regime will experience the highest level of social spending while the liberal will experience the lowest level of spending). Table 8 does not however support hypothesis 2 that held that retrenchment would be most likely to occur in Canada. While all three countries experienced retrenchment in the form of a decrease in net total social

Table 8 Taxes and social spending in Canada, the Netherlands, and Sweden and (percentage of GDP at factor cost)

	Canada		Netherlands			Sweden		
	1995	1997	1993	1995	1997	1993	1995	1997
1 Gross public social expenditure	22.5	20.7	32.0	28.8	27.1	41.9	37.3	35.7
(-) Direct taxes and social contributions	1.8	1.7	6.0	4.9	4.4	5.7	5.1	4.4
2 Net cash public social expenditure	20.7	19.0	25.9	23.9	22.7	36.3	32.2	31.3
(-) Indirect taxes	1.4	1.3	2.8	2.5	2.4	3.5	3.0	2.8
3 Net direct public social expenditure	19.3	17.8	23.2	21.4	20.2	32.8	29.2	28.5
(+) TBSPs similar to cash benefits	0.7	0.6	0.1	0.0	0.0	--	--	--
(-) Indirect taxes	0.1	0.1	0.0	0.0	0.0	--	--	--
4 Net TBSPs similar to cash benefits	0.6	0.6	0.1	0.0	0.0	--	--	--
(+) TBSPs towards current private benefits	0.4	0.4	0.1	0.0	0.1	--	--	--
5 Net TBSPs (not including pensions)	1.0	0.9	0.2	0.0	0.1	--	--	--
6 Net current public social expenditure	20.4	18.7	23.3	21.5	20.3	32.8	29.2	28.5
7 Gross mandatory private social expenditure	0.0	0.0	0.4	0.8	0.8	0.6	0.4	0.4
(-) Direct taxes and social contributions	0.0	0.0	0.1	0.3	0.3	0.2	0.1	0.1
(-) Indirect taxes	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0
8 Net current mandated private soc. expenditure	0.0	0.0	0.2	0.4	0.5	0.3	0.2	0.2
9 Net publicly mandated social expenditure	20.4	18.7	23.5	21.9	20.8	33.1	29.4	28.7
10 Gross voluntary private social expenditure	5.3	4.8	4.3	4.4	4.7	3.4	3.3	3.0
(-) Direct taxes and social contributions	1.2	1.1	1.0	0.9	0.9	0.7	0.6	0.7
(-) Indirect taxes	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.3
11 Net current voluntary private soc. expenditure	3.8	3.5	3.0	3.1	3.3	2.3	2.3	1.9
12 Net current private social expenditure	3.8	3.5	3.2	3.5	3.8	2.7	2.6	2.2
13 Net total social exp.	24.1	21.8	26.5	25.0	24.0	35.5	31.7	30.6
14 TBSPs towards pensions	2.7	2.5	--	0.6	1.2	--	--	--

Source: OECD, Net Social Expenditure, 2001.

expenditure, Sweden experienced the largest decrease (14%) contrary to what was predicted.

4.4 Sources of income in retirement

It was observed earlier that there are several sources of income after age 64: working income, public and private pensions, and private income from investments, and insurance. This section examines the income of older adults during the period 1980-2000.

4.4.1 Disposable income of older adults

One way to ascertain how older age groups are faring in retirement is to compare their disposable income over time with those in younger age groups. Table 9 provides data that compares the disposable income that retirees in two age categories, 65-74 years and 75 and over, receive as a percentage of working age groups. This table provides information as to how incomes have changed over time, from the mid-1970s to the mid-1990s, and how seniors' incomes have increased as a percentage of working age incomes. It should be noted that in Table 9, working age population refers to workers aged 20-64 (OECD, 2001).

The general trend for both Canada and Sweden is that from the mid-1970s to the mid-1990s, the disposable income levels for retirees increased as compared to all age groups. For example, in the mid-1970s, Canadians aged 65-74 had a disposable income that was 55% of the income of all working age groups. In the mid-90s, the same group had achieved an income that was 98% of all working age groups. These changes reflect the maturation of Canada's public and private pensions. The increase was less dramatic in

Table 9 Disposable income (percent of total) of 65+ and 75+ as a percentage of working age groups, mid-70s, mid-80s and mid-90s

	Canada			Netherlands			Sweden		
	mid-70s	mid-80s	mid-90s	mid-70s	mid-80s	mid-90s	mid-70s	mid-80s	mid-90s
Age 65-74									
All ages	55	91	98	92	93	90	77	87	95
18-25	63	89	99	84	89	93	93	117	160
26-40	49	88	98	93	91	86	70	83	96
41-50	51	78	87	86	85	79	65	74	80
51-65	69	82	87	81	83	81	71	76	76
Age 75+									
All ages	49	84	94	93	84	79	60	68	78
18-25	56	83	95	84	80	82	72	92	130
26-40	44	82	94	93	82	76	54	65	78
41-50	46	72	83	86	77	69	50	58	65
51-65	62	76	83	82	75	71	55	60	62

Source: Ageing and income, OECD, 2001.

Sweden, likely due to a pension system that was already well established by the 1970s, nevertheless, it too shows a clear pattern of rising incomes as a percentage of working age groups. It is interesting to observe that while those 75 and over in Sweden have experienced a 30% increase in the percentage of their disposable income, they have fallen behind their Canadian counterparts. Canadians 75 and over in the mid-1990s had a disposable income that was 94% of all working age groups, an increase of 92% from the income they had in the mid-1970s.

Of particular interest is that the disposable income of Dutch seniors as compared to all working age groups actually decreased for those aged 65-74 and those 75 and over. From the mid-1970s to the mid-1990s, those 65-74 had their disposable income shrink 2%, whereas those 75 and over decreased by 15%. During this time period Dutch society experienced some significant cuts to programs and a significant restructuring of their economy and social services. It is also likely however, that the private pension sector had some impact on disposable income levels as the majority of income in retirement in the Netherlands comes from private sources.

This table again does not provide clear support for the hypotheses in this study. It would have been expected that the smallest increases or even decreases in income would have taken place in Canada. This clearly was not the case, Sweden overall experienced smaller increases, albeit from a higher starting point, and the Netherlands actually saw the disposable incomes of both cohorts decrease as compared to all ages.

Table 10 presents the relative importance of public transfers as a percentage of disposable income. It is apparent that in Canada, reflecting a liberal state approach, the share of non-pension transfers (e.g. disability or unemployment benefits) to all income deciles as a percentage of disposable income, is significantly lower than in either Sweden or the Netherlands. In Canada (1995) public transfers account for only 15.1% of disposable income for the working age population who are in the three bottom deciles, while in the Netherlands public transfers accounted for 50.4% of income, and in Sweden they accounted for 62.7% of income. The same holds true, to a lesser degree, for pension transfers: in Canada 84.9% of income originates from public pension transfers for those in the lowest deciles, in the Netherlands the percentage is 92.7% and in Sweden it is 96.2%.

Contrary to what was predicted in this study, the Netherlands was the only one of the three countries to experience a decrease in total average transfers to both age categories. During the period 1985-1995, the share of public transfers in disposable income decreased by 3.4% for the working-age population and by 1.2% for the retirement-age population. In both Canada and Sweden public transfers increased as a proportion of disposable income in both the working-age and retirement-age populations (average total columns).

Table 10 Share of public transfers in total disposable income for three income groups: non-pension transfers (working-age population) and pensions (retirement-age population), mid-1980s to mid-1990s

	Non-pension transfers (working-age population)				Old-age pension transfers (retirement-age population)			
	3 bottom deciles	4 middle deciles	3 top deciles	Total (Avg.)	3 bottom deciles	4 middle deciles	3 top deciles	Total (Avg.)
Canada, 1995	15.1	7.2	3.0	6.3	84.9	57.2	29.0	48.2
% change, 1985-1995	0.8	0.3	0.3	0.4	-1.2	0.9	4.4	3.3
Netherlands, 1995	50.4	16.0	6.4	16.9	92.7	68.2	35.3	57.4
% change, 1985-1995	0.4	-4.9	-2.3	-3.4	-0.8	-0.9	-0.9	-1.2
Sweden, 1995	62.7	29.8	14.3	27.9	96.2	113.9	112.3	109.7
% change, 1985-1995	22.3	9.3	2.3	7.8	6.6	-3.6	5.7	2.5
Unweighted avg. (16) mid-1990s	32.1	12.0	4.4	11.4	80.6	70.4	45.3	59.9
%change, mid-80s-mid-90s	7.0	1.7	0.1	1.7	-1.0	1.4	5.7	3.5

Source: Forster and Pellizzari, OECD, 2000.

Table 11 further clarifies the roles of public transfers and private pensions after retirement. Private pensions generally comprise a significantly higher proportion of income for younger seniors. This reflects the inception date of private pension systems, their coverage and maturity, and the fact that the 60-64 cohort typically uses private pension funds or savings to facilitate early retirement. The heavy reliance of the Dutch cohort on private pensions for early retirement (i.e. prior to 65) is clear in that 97.5% of their income comes from private pensions. For both Canada and Sweden the 60-64 cohort is not relying as heavily on private pensions (less than 50%), reflecting first, the lower rates of private pension coverage in these two countries, and second, the accessibility of public funds for early retirement which are not available in the Netherlands.

Table 11 Means-tested benefits, private pensions and percentage of recipients' income (percentages, mid-1990s)

		With means-tested benefits	Percentage of beneficiaries' avg. disposable income	With private pensions	Percentage of beneficiaries' avg. disposable income
Canada	60-64	17.6	29.6	38.8	46.1
	65-69	15.9	10.0	59.1	37.6
	70-74	18.7	7.8	57.3	37.9
	75+	29.4	6.9	47.5	35.2
Netherlands	60-64	11.6	45.1	54.8	97.5
	65-69	--	--	73.6	56.0
	70-75	--	--	77.4	50.3
	75+	12.9	9.3	66.4	43.9
Sweden	60-64	10.5	19.5	59.0	39.5
	65-69	15.7	14.2	89.4	27.5
	70-74	24.9	15.2	83.4	22.9
	75+	41.7	17.9	71.1	23.8

Source: OECD, Ageing and Income, 2001.

It is important to compare the role that means-tested income plays in the incomes of older adults. Such a comparison provides information on the degree to which older adults in the different regimes rely on the state for their pension income. It should be noted that this table examines means-tested benefits as opposed to income-tested benefits that are based on annual income. Surprisingly, overall, the role of means-tested benefits and private pensions is less important in Canada than in Sweden (means-tested benefits) and than private pensions in the Netherlands. In the first case, it should be noted that means-tested or social assistance is not available for older Dutch adults in the same way as in Canada or Sweden (they are however, qualified to receive other benefits such as housing allowances not reflected in this table). It has already been observed that private pensions play a more significant role in the Netherlands than in either Canada or Sweden. Another interesting figure from this table is that Sweden has a higher proportion aged 70 and over receiving means-tested benefits than either the Netherlands (75 and over) or Canada. It may be that Sweden has a lower income threshold for qualifying for benefits, but it is still interesting as means-testing is a strategy more typically employed by liberal regimes. It is also notable that higher percentages of retirees in the Netherlands and Sweden have private pensions than in Canada. For example, of those 65-69, 73.6% of Dutch retirees and 89.4% of Swedish retirees have private pensions while only 59.1% of Canadian retirees have private pensions. This would not have been predicted by this study's hypotheses. Based upon the regime-types discussed earlier, it was expected that the Canadian data would reflect the highest reliance on both means-tested benefits and private pensions. Although this table does not clearly indicate signs of retrenchment, it does reflect Esping-Andersons's observation quoted earlier that no one country is purely one regime-type.

4.4.2 Disability and unemployment benefits

As noted earlier, disability and unemployment benefits are also avenues to retirement. Changes to disability and unemployment programs occurred in all three countries during the 1980s and 1990s. The country that faced the most pressing challenges in the early-1980s was the Netherlands. As a way to deal with rising unemployment in younger population in the post-War era, the Netherlands, like many other conservative nations, pursued a policy of promoting early retirement through disability programs (Aarts et.al., 1996). As unemployment and disability programs expanded, benefit replacement levels increased, and non-medically based pensions were allowed, the number of persons applying for benefits rose dramatically (Einerhand et.al., 2001).

Table 12 Replacement ratios of disability and unemployment schemes, 1961, 1975 and 1995

	Disability schemes			Unemployment schemes		
	1961	1975	1995	1961	1975	1995
Canada	0.139	0.239	0.331	0.154	0.167	0.179
Netherlands	0.656	0.800	0.700	0.028	0.390	0.525
Sweden	0.632	0.771	0.744	0.025	0.140	0.144

Source: Blondal and Scarpetta, OECD, 1998.

Table 12 provides the reader with a clear example of the higher replacement rates for both disability and unemployment schemes found in social-democratic and conservative countries as compared to liberal countries such as Canada. With respect to disability schemes, in 1961 the income replacement ratio in Canada was 13.9%, in 1975 it was 23.9% and in 1995 it was 33.1%, an increase of 138% over the 1961 ratio. In the Netherlands the income replacement ratio was at a much higher level in 1961 than in Canada: in 1961 65.6% of income was replaced, in 1975 it rose to 80% and then decreased to 70% (1975-1995 decrease of 12%). This cut in benefit levels was again a part of the Dutch government's attempts to discourage soaring levels of disability pensions (Bovenberg and Meijdam, 2001). Swedish disability schemes are also comparatively generous when compared to Canadian schemes: in 1961 the replacement ratio was 63.2%, in 1975 it was 77.1% and as in the Netherlands, it decreased slightly to 74.4% in 1995 (1975-1995 decrease of 3%). Although both the Netherlands and Sweden have much more generous replacement ratios than Canada, from this study's perspective it is interesting that they are the ones that experienced cuts to their disability schemes. This was not predicted by the hypotheses that stated that Canada, as a liberal regime, would have been more likely to experience cuts than either the conservative or social-democratic regimes. Despite Swedish and Dutch attempts to reform their disability programs in the 1980s and 1990s, inflow rates (per 1,000) for those 60-64 continue to be significantly higher in both Sweden (31.6) and the Netherlands (60.0) when compared to either Canada (4.1) or the OECD average (14.1) (OECD, Sweden, 2001).

Unemployment schemes show a somewhat different pattern with Canada having the most generous program in 1961 at 15.4% with ratios of .28% in the Netherlands and .25% in Sweden. By 1975 however, the Swedish ratio had increased to 14% and the Dutch had increased to 39% as compared to Canada's 16.7%. In 1995 the ratio had risen to 52.5% in the Netherlands, an increase of 1775% over the 1961 ratio; in Canada the ratio was 17.9%, an increase of 16% over 1961; and, in Sweden the ratio in 1995 was 14.4%, an increase of 476%. It is apparent that neither Sweden nor the Netherlands placed much emphasis on unemployment schemes as tools for replacing income in 1961. Of the three, only the Netherlands has seen the replacement ratio reach levels of over 50% of income influencing perhaps, the decision of more Dutch workers to use unemployment insurance to fill the gap between retiring from work and collecting a pension (Ibid.).

4.5 Poverty rates and the relative risks of poverty

It was observed earlier in the literature review that one of the greatest challenges facing western democracies following the Second World War was the high rate of poverty among older adults. The relative risk of being impoverished in old age was substantial prior to the introduction of public pensions and other social assistance measures. One method of studying inequality is by looking at poverty rates and the relative risks for being in poverty at different ages.

From the mid-1980s to the mid-1990s, 4% of the poor population in the Netherlands were aged 65 and over reflecting a decrease of 0.9% over the ten year span. This decrease was less pronounced than for other age groups except for those under 18. In Canada those 65 and over comprised 2.8% of the poor population, a decrease of 5% from the mid-1980s and in Sweden the share was 7.9% of the population, a decrease of 8.9%. These data would seem to indicate that all three countries are doing a better job than the OECD average where those 65 and over comprised 17% of the poor population in the mid-1990s. However, the share is the lowest in Canada, followed by the Netherlands and then Sweden. It is also the case that Canadian seniors have a lower risk (.25) of being poor than their counterparts in either the Netherlands (.29) or Sweden (.46). In terms of poverty rates, the seniors in the Netherlands fare slightly better with a rate of 1.9% of the population 65 and over, Canada follows with a poverty rate of 2.5% and Sweden has the highest rate of the three at 3%. Something that does stand out is that although the rate is the lowest in the Netherlands, it actually increased by 0.6% during the mid-1980s to mid-1990s unlike in Canada where it decreased by 6.7% and Sweden where it decreased by 2.4%. These rates are still substantially lower than the OECD average of

Table 13 Poverty rates, shares and relative risk indices, by age groups, mid-1980s to mid-1990s

	Poverty rates					Shares in the poor pop.					Relative risk index				
	< 18	18-25	26-50	51-65	65>	< 18	18-25	26-50	51-65	65>	< 18	18-25	26-50	51-65	65>
Cda., 1995	14.2	13.6	9.0	10.9	2.5	33.3	14.5	35.6	13.8	2.8	1.38	1.32	0.88	1.06	0.25
1985-1995	-1.6	2.0	-0.2	-0.9	-6.7	-1.5	-0.3	6.3	0.5	-5.0	0.02	0.33	0.08	0.04	−0.55
Neth,1995	9.1	16.1	4.9	2.1	1.9	31.6	27.6	31.1	4.7	4.0	1.44	2.56	0.78	0.33	0.29
1984-1995	5.8	9.1	2.2	0.4	0.6	5.8	-2.9	-0.5	-2.8	-0.9	0.38	0.30	−0.09	−0.22	− 0.11
Swed., 1995	2.7	38.6	3.2	2.3	3.0	9.4	59.6	17.5	5.6	7.9	0.42	6.03	0.50	0.36	0.46 -
1983-1995	-0.3	10.9	0.3	-0.8	-2.4	-1.9	11.7	1.4	-2.1	-8.9	0.08	1.36	0.02	−0.16	− 0.44
OECD (18)															
mid-1990s	11.8	13.3	7.9	9.0	13.9	27.7	17.0	26.8	11.5	17.0	1.07	1.59	0.74	0.83	1.33
Mid-80s-90s change	1.1	2.9	0.8	0.3	-1.5	-0.8	1.6	3.9	-1.2	-3.1	0.07	0.31	0.0	-0.03	- 0.31

Source: Reforms for an ageing society, OECD, 2000.

13.9%. Despite the fact that the poverty rate went up marginally in the Netherlands (0.6%) for those over 65, the relative risk of being in poverty for all three countries and the OECD average decreased from the mid-1980s to the mid-1990s. From a long-term perspective it is interesting to note the high rates of relative poverty in the 18-25 cohort. Extended time spent in university, college or other training has meant that young adults are taking longer to enter the work force. Given that pension systems have a minimum amount of years worked in order to qualify for a pension and that in some instances this time is being increased, this longer time in training may have an impact on their retirement decision.

The findings in this table do not support the hypotheses in this study. It was predicted that, as a result of retrenchment during the 1980s and 1990s, the liberal regime (Canada) would have been the country most likely to experience an increase in poverty rates for older adults. One problem with this table is that it does not provide a category for the older old (75+ or 80+). As they are not generally as well off financially as those 65-74, this might mean that the rate of poverty would be even lower in the 65+ category, but that the rate would likely be higher in an older age category. A second concern with this table is that it does not divide the categories by gender. Women, particularly older women, have been identified as being one of the highest-risk groups for living in poverty (Gee and Gutman, 1995).

4.6 Labour force participation

Labour force participation rates have been identified as crucial to the paygo pension system (Brown, 1997). This is because contributions to paygo pensions come from those who are active in the labour market. The ratio of beneficiaries to workers will determine the contribution rate.

Table 14 Male, female and total labour force, as a percentage of population 15-64

	1980	1985	1990	1995	2000
Canada					
Male	86.1	84.9	84.3	81.6	82.3
Female	57.2	62.8	67.6	67.5	70.3
All persons	71.0	73.9	76.0	74.6	76.3
Netherlands					
Male	79.0	75.8	79.9	80.9	83.7
Female	33.4	40.9	53.1	59.0	65.2
All persons	56.5	58.6	66.7	70.1	74.6
Sweden					
Male	88.0	86.1	84.9	80.3	79.7
Female	73.0	78.3	80.4	75.8	75.5
Total	80.6	82.2	82.7	78.1	77.6

Source: Labour Force Statistics, OECD, 2000, 2002.

Brown identifies the following demographic variables as affecting the balance of this ratio: mortality, fertility, migration, and labour participation rates.

As was discussed in the literature review, migration and labour participation rates are practically and realistically the only two of these variables over which governments have some control. Thus, it is imperative that governments concerned about future pension obligations seek to maximize employment levels. One of the hallmarks of the Swedish model of welfare was a policy of full employment coupled with an active labour market policy. These policies are largely responsible for the consistently higher rates of employment, at least until the recession of 1992-1995 as compared to Canada and the Netherlands.

It is interesting to observe in Table 14, the difficulties that Sweden has had in regaining its high levels of employment. In the latest year available in Table 14, 2000, the labour participation rate in Sweden was only 1%-3% higher than in the other countries. It is, however, noteworthy that female participation rate in Sweden continues to be higher than in either Canada or the Netherlands, although the rate has slipped over the past 10 years from a high of 80.4% in 1990 to the recent low of 75.8%. Not only are more women participating in the workforce, women comprise a higher percentage of the total labour force. Again, the increase is the most significant in the Netherlands reflecting a trend of higher female employment, particularly of married women, which began in the 1970s (Groot and Pott-Butter, 1993).

Looking below at Table 15, of particular concern for Sweden is the fact that over the 1990s, the labour force actually shrunk by 0.4%. Predictions up until 2004 did not anticipate that there would be substantial growth. Low labour force growth rates may be of concern if it is not compensated for through improvements in other productivity factors. Possible avenues to improve productivity include investments in human capital and technology (Cheal, 2000).

Table 15 Growth rates in the labour force various years, averages, and projections (percentage change)

	Average 1981-90	Average 1991-2000	2001	2002	2003	2004
Canada	1.7	1.2	1.5	2.6	1.8	1.3
Netherlands	1.1	1.7	1.5	1.2	1.1	1.0
Sweden	0.6	-0.4	1.3	0.1	0.2	0.2
OECD avg.	1.3	0.9	0.8	0.7	0.7	0.8

Source: OECD, Economic Outlook, 2003.

Together Tables 14 and 15 provide some indication of future retirement decisions from the point of view of both the individual and government. It was just observed that from the government's perspective, if employment levels fall too low, more people would require government assistance. Labour productivity would need to be addressed as well. From an individual's perspective, more women in the workforce could translate into lower rates of poverty in older adulthood. Lower rates of male employment however could conversely lead to higher rates of poverty in future retired male cohorts.

4.7 Transition to retirement

In the review of the literature an outline of the alternatives to full retirement at 65 was discussed. This included: early full retirement; part-time and partial retirement with reduced pensions; disability pensions; and finally, unemployment benefits. These alternate avenues, in combination with mature retirement income systems, have enabled older workers to leave the workforce at significantly younger ages than in the past.

Table 16 provides estimates of age of retirement over the past 40 years. During this time period the official age of retirement was lowered from 67 to 65 in Canada in 1967, and from 67 to 65 in Sweden in 1976. The age of retirement remained the same in the Netherlands, however the rules for early retirement via a disability pension changed in the 1970s. This was in large part due to the governments' attempts to reduce youth unemployment by encouraging older workers to exit the workforce. It is not therefore, surprising that the age at exit from the workforce is lower in the year following the reduction as workers are able to obtain a full pension at an earlier age. Although all three countries have experienced a trend of earlier age of retirement, it is more pronounced in the Netherlands and to a lesser extent, Canada.

Table 16 Estimates on average age of transition to retirement among older workers

	1960	1970	1980	1990	1995	Decrease 1995-1960
Canada						
Male	66.2	65.0	63.8	62.8	62.3	-3.9
Female	64.3	63.0	60.5	59.3	58.8	-5.5
Netherlands						
Male	66.1	63.8	61.4	59.3	58.8	-7.3
Female	63.7	62.9	58.4	55.8	55.3	-8.4
Sweden						
Male	66.0	65.3	64.6	63.9	63.3	-2.7
Female	63.4	62.5	62.0	62.4	62.1	-1.3

Source: Blondal and Scarpetta, 1998.

The part-time pension in Sweden that allowed older workers to work reduced hours was eliminated in 2001 (Wadensjo, 2001). The last year in which Swedish workers were able to opt into the part-time retirement plan was 1998. It is expected that this policy change will result in an increase in the number of people delaying retirement. Early retirement is one of the most significant trends in many OECD countries over the past couple of decades. A primary reason for this is the disincentive in retirement income systems to continue working due to diminishing returns for continued employment. In both Sweden and Canada it was calculated by Blondal and Scarpatta (1998) that there would be no increase in the synthetic replacement rate for a 55 year-old male if he opted to postpone retirement for 10 more years. In other words, according to their calculations, such an individual would have no incentive to remain in the workforce and would rationally choose to retire. This would be of concern to contemporary governments that are seeking to discourage early retirement due to its effects on labour productivity and costs to public pensions.

The data in Table 16 do not provide evidence of retrenchment. If there had been program retrenchment, the hypotheses of this study would anticipate that the age of transition to retirement would be rising rather than decreasing. The OECD in their publication Reforms for an Ageing Society (2000, p.13), note that "while the scale of reform varies considerably from country to country, the unambiguous thrust of policy is to now encourage later and, in some cases, more gradual transitions from work to retirement". More recent data may provide evidence that the trend of early retirement is abating. For example, changes to the partial-pension system in Sweden are relatively recent, further analysis in five or ten years might show a different picture.

4.8 Summary of findings

The data analyzed in this study do not support the hypotheses. It was argued in hypothesis 1 that there is a link between regime type and retrenchment strategy such that a liberal regime (Canada) would choose a residual approach such as cuts to programs and spending. It was also expected in hypothesis 2 that the liberal regime would be the most likely to experience retrenchment. Contrary to what was expected, social transfers directed to older adults increased in Canada (Tables 5,6,7 and 8). The evidence found here suggests that the conservative regime, the Netherlands, was the country that experienced the most cuts in terms of social transfers directed to older adults. For example, as a percentage of GDP, Dutch social security transfers decreased by 43% during the time period 1974-2000 (Table 7). In Canada social security transfers increased by 59% and in Sweden they increased by 28% while the OECD average was 26%. The figures were similar in terms of general social spending towards the retired population during the period 1980-1997 (Table 5). The Netherlands again stood out as the only country under study that saw a decrease (24%) in spending as a percentage of GDP. This compares with Canada which experienced a 60% increase, Sweden which saw a 38% increase, and the OECD average which increased by 26%.

In terms of poverty rates and risk it is also apparent that Canada, contrary to what was hypothesized, was the country that saw the greatest decrease in shares, rates and risks of poverty (Table 13). It was also interesting to observe that means-tested benefits and private pensions play larger roles in retirement income in Sweden and the Netherlands than they do in Canada. This was not expected given that as a liberal regime, Canada would be expected to rely more on means-testing and non-public retirement income than the conservative or social-democratic regimes.

Chapter 5. Discussion of findings

The term retrenchment is a broad term typically used to describe recent attempts to change the welfare state (e.g. Green-Pedersen, 2001; Scarbrough 2000). Concerns about the sustainability of the welfare state emerged in the 1970s and early 1980s. Following the long economic boom of the post-war years, events such as the shake-up of the world economy that followed the OPEC oil crisis in 1973 (McBride and Shields, 1993), and the subsequent slow-down in economic growth (early 1980s, early 1990s, late 1990s and early 2000s), has led many to believe that the welfare state is failing (Clayton and Pontusson, 1998; Rice and Prince, 2000; van Kersbergen, 2000). The reasons for, and the extent of, the crisis have been hotly debated. Those on the political left and the political right have criticized the welfare state for what each side has seen as the welfare state's failures (Rice and Prince, 2000). The left has argued that the welfare state's achievements have fallen short with regard to mitigating poverty or improving equality and social rights. Citing moral hazard arguments, the right has claimed that the welfare state has gone too far in redistributing income which has led to market inefficiencies such as rising unemployment and decreased savings and investment (Heady et al., 1997).

As noted earlier, since the 1980s, there has been a renewed criticism of the welfare state with pensions coming under particular scrutiny (The Economist, Feb. 16, 2002; van Kersbergen, 2000). Recent pressures on welfare regimes include economic globalization, population aging, and the shift to a post-industrial economy (Esping-Andersen, 1999). International organisations such as the International Monetary Fund and the World Trade Organization have pushed national governments to adopt fiscally conservative policies many of which may conflict with a universal, comprehensive, and publicly-funded welfare system (Gee, 2000; Ross, 2000). Despite a considerable amount of evidence demonstrating that population aging is not the cause of the crisis (Esping-Andersen, 1999) and that the associated costs should be manageable (Carriere, 2000; Denton and Spencer 2000), the belief still persists that welfare spending on retirees is out of control (Adema and Einerhand, 1998; McDonald, 2000; The Economist, Feb.16, 2002). This is not to say that the welfare state in general, and pension systems more specifically, are not facing challenges (Garrett and Mitchell, 2001). However, it is argued by Esping-Andersen (1999) that the true crisis, if it really does exist, lies in the interaction between the welfare state, labour markets, and the family or household that together form the welfare regime. From this point of view, it is the broad "institutional framework that has come to regulate our political economies" (Op.cit.,p.5) which is being challenged. This perspective lends itself to an analysis of the challenges facing welfare regimes in the context an aging population. For example, government policy has a strong influence on when an individual will retire. Household pressures influence when and whether a person, particularly women, is able to first enter the workforce and the type of work she is able to choose. For example, many women with family responsibilities may opt to work part-time or withdraw from the paid work force despite the fact that this may jeopardize future retirement income (McDonald, 2000). Let us examine these issues in the context of this study's findings.

5.1. Retirement, early retirement, and part-time retirement

Retirement represents the transition out of the paid labour force. Although it has become a part of contemporary society, it was not until after the Second World War that the retirement age (e.g. 65) became institutionalized with the emergence of comprehensive retirement income systems (Palmer, 2002). Retirement may be facilitated either through direct exits such as public and private pension programs or through indirect avenues such as disability and unemployment programs. The latter programs have been used as vehicles for early retirement in OECD countries and in particular the Netherlands (Bovenberg and Meijdam, 2001).

Early retirement may take several forms: full retirement, partial retirement or part-time retirement. All are influenced by incentives including early retirement packages in the workplace, government programs, unemployment statistics, as well as personal factors such as health and affordability. Disincentives to early retirement include a reduction in benefits, the number of additional years work-related contributions will contribute to net pension wealth, and the income replacement rate of benefits (OECD, 2002). An alternative to a full and often abrupt exit from the workplace is through partial or part-time retirement (Wadensjo, 2001). Latulippe and Turner (2000) have identified three types of partial or part-time retirement, sometimes referred to as gradual retirement (Reday-Mulvey, 2000). The first type allows partial retirement but an earnings test is applied. In the second type, partial retirement is granted with no earnings test. Finally, the third type of approach utilizes special pensions or schemes. In Canada it is possible to retire fully and receive a partial public pension after the age of 60 with no earnings test or to receive full government pensions while still working part-time after age 65. Private occupational pensions may also allow for early retirement based on a formula of age and years of employment and contributions. In the Netherlands, it is possible to receive an early pension after the age of 55 if the employer provides for it or there is a collective agreement (VUT) between employers and unions (Guillemard, 1997). Unlike Canada and Sweden, there is no public occupational pension plan in the Netherlands and there is no provision for early retirement through the universal public pension. Early retirement in the public sphere has typically been accommodated through unemployment and disability programs. While these routes to early retirement are also used in other countries, the high numbers of early retirees in the Netherlands on unemployment and particularly on disability pensions during the 1980s led many observers to state that it had become the "Dutch disease" (Aarts, Burkhauser and de Jong, 1996).

Part-time and partial pensions are separate terms in Sweden that have been used to describe two types of early retirement. Special partial pensions were a significant avenue for early retirement for those 60 and over in Sweden during the period 1976-2000 and had a high take-up rate (Wadensjo, 2001). As a result of the reform of the Swedish pension system in 1994, no new partial pensions were granted after 2000. Part-time pensions continue to be available in Sweden under a different scheme. Early, full retirement is also possible in Sweden both through private occupational arrangements and through the public pension system.

Despite these changes to retirement programs, it was shown in Chapter 4, Table15, that the actual age of retirement in most countries has been lowered significantly over the last four decades. This is the case not only during the 1960s and 1970s but it continued to be so during the 1980s and 1990s. Using the data found in Table 14, it was not yet obvious that governments are pursuing a policy of gradual retirement or of delayed retirement (Reforms for an ageing society, OECD, 2000), however all three countries are reviewing these issues.

5.2 Revisiting theories of welfare state retrenchment

Many of the theoretical approaches that were developed in order to understand welfare state development have had an influential impact on the retrenchment literature. For this reason, a brief overview of the three most dominant theoretical models as well as Esping-Anderson's three worlds of welfare development is outlined below. This will be followed by an examination of our results linked to the hypotheses.

The first theory, structural functionalism, asserts that the welfare state emerged gradually as a response to high levels of economic growth, industrialization, urbanization, and demographic change. Olsen and O'Connor (1998) observe that adherents to this theoretical approach place particular emphasis on "the dramatic expansion of the elderly population which resulted from increasing longevity and lower rates of infant mortality". The resulting social and economic consequences of these processes coupled with economic surpluses paved the way for the modern welfare state (Scarborough, 2000). Structural functionalism is sometimes referred to as "logic of industrialism" or modernization theory. Differences in welfare state effort are explained by looking at "economic development and its demographic and social organizational differences" (Huber and Stephens, 1998). It is also believed by some structural-functionalists that as they develop, countries will become increasingly similar or converge and that left and right politics will become irrelevant (Olsen and O'Connor, 1998).

A second influential explanation for welfare effort is political class or power resources theory. The principle contentions of this theory are that the strength of left parties in government and worker mobilization (i.e. union strength and levels of unionization) are the main catalysts for welfare state effort (Huber et al., 1993). Thus, a country like Sweden, in which politically leftist governments have traditionally combined with strong worker mobilization, the welfare state has grown to a greater extent than in a country such as Canada where neither factor has been as strong. Finally, there is the state-centered field of explanations that emphasize the state and its institutions, political elites, and the policy-making abilities of the bureaucracy as the basis for welfare state development (Huber et. al., 1993; Scarborough, (2000).

Institutional explanations of why retrenchment has occurred may not be very helpful in explaining how and why retrenchment happened in the Netherlands. According to Green-Pedersen (1998) the desire of the leftist parties to return to government through a coalition with the governing party, forced them to abandon their opposition to cuts to the welfare state. Economic explanations are also unsatisfactory as retrenchment occurred during both good (1990s) and bad (1980s) economic times (ibid.).

The usage of a typology approach, as used in this study, to understanding welfare systems has been the subject of criticism (Esping-Andersen, 1999; Pierson, 1996; Headey et. al., 1997). Arguments have been made that Esping-Andersen's classification of certain countries is erroneous and ignores other possible regimes (Headey et. al., 1999). It has also been observed that such an analysis fails to address the complexities and nuances of national welfare systems. Despite these criticisms, this method of classifying welfare regimes was used in this project as it enables the comparison of different countries' approach to welfare provision and retrenchment that more specific theories do not. It goes beyond the comparison of individual aspects of a welfare system, such as political party power or class-based power, and encourages an examination of the broader determinants of welfare effort. Likewise it is believed that this theory was able to provide a framework for an analysis of how retirement income systems have been subject to retrenchment.

Esping-Andersen's position that welfare state development and retrenchment can be understood by using his regime typology has been countered by Pierson's "new politics of the welfare state" (Pierson, 1996). Unlike Esping-Andersen, Pierson believes that the retrenchment of the welfare state is fundamentally different from welfare state expansion (Ibid.). The development of the welfare state in Pierson's view is unrelated to events unfolding now in the post-development phase of the welfare state. According to Pierson, while the expansion of the welfare state was a period when politicians could claim credit for extending benefits, the current trends in retrenchment offer no such opportunities for gaining electoral advantage. Thus, in the context of a retrenching welfare state, politicians are engaged in a game of blame avoidance i.e. they will attempt to avoid blame for cuts to the welfare state all together or will attempt to lay the blame for welfare retrenchment elsewhere. Ways in which this may be achieved include: 1) playing off one group of beneficiaries against another; 2) developing reforms which will compensate for lost benefits to politically important groups; and, 3) lowering the visibility of reforms (Ibid., p.147). Despite the attempts of neo-liberals, both in and out of office, to retrench the welfare state during the 1980s and 1990s, it is Pierson's contention that fundamental changes to the welfare state have not taken place. There are two reasons for this: first, the welfare state is resilient and as the status quo, it is difficult to make more than incremental reforms. Second, there are potentially high political costs associated with retrenchment. Social programs have developed strong supporters, both recipients and providers, and these groups once activated may become powerful opponents to change. Together, these two factors form the core of Pierson's contention that the welfare state is resilient to welfare retrenchment. The findings in this study both support and refute Pierson's arguments. In support of his argument of the difficulties in retrenching the welfare state is the evidence found in this study that overall, incomes after retirement and rates of poverty have not worsened despite claims that welfare states are retrenching their pension systems. Another point is that Sweden managed to implement a new pension system that is radically different from its old system.

van Keesbergen (2000) raises two issues with respect to Esping-Andersen's and Pierson's conclusions regarding the resiliency of the welfare state in the face of pressures to reform. First, most of the data that they use to support their arguments predate 1990. van Keesbergen observes that the situation is likely to have changed and that it is necessary to reevaluate reforms using more recent numbers. Second, he argues that institutionalists such as Esping-Andersen and Pierson fail to recognize changes that have occurred as their "arguments tend to be biased so heavily towards conceptualizing and theorizing the institutional mechanisms of persistence and resistance (path dependency, lock-in, electoral hazard, etc.) that evidence of institutional change and fundamental transformation is difficult for them to recognize (Ibid., p. 26)

5.3 Retirement income policy and three types of retrenchment

It has been shown that all three countries have experienced some degree of retrenchment with respect to their retirement income systems. As noted earlier, it is difficult to gauge how large an effect these changes have on the primary functions (income replacement and minimum income levels) of their respective systems. It is also difficult to forecast the effects that these changes will have on the long-term sustainability of the three systems. For example, the use of "salami-tactics", that is, an incremental or institutional approach, involves a whittling away of the public pension system over the long-term. van Keesbergen observes (2000, 28), "radical transformation does not necessarily result from radical measures" meaning that over time, small changes can have a cumulative effect resulting in profound changes to a program or system. Therefore it may be difficult to discern the impact of relatively small adjustments, particularly over a relatively short time period. In order to clarify the changes that have occurred, Table 18 outlines examples of the reforms each country has implemented within the framework of Rice and Prince's typology of retrenchment. It should be noted that some of the reforms listed in Table 18 are indirectly related to the pension system. Abandoning a full employment policy, a paradigmatic change that occurred in Sweden during the 1980s-1990s may not be obviously related to pension policies. However, the effect this change has on the labour force or the length of an individual's work history, two of the many variables that are affected by this policy change, obviously are related to pension issues.

The first question that needs to be addressed is related to the prediction in hypothesis 1: that the retrenchment strategy chosen will be related to regime type. A connected concern is whether, and to what extent, pension systems have become less generous and comprehensive over the past two decades. The second hypothesis argued that the liberal regime, Canada, would be more likely to have experienced retrenchment than the other two regime types. These hypotheses will now be examined based on the findings in Chapter 4 and the literature researched in this study.

Table 18 Examples of retrenchment: Rice and Prince's three types of retrenchment during the 1980s-1990s

	Examples in Canada	Examples in the Netherlands	Examples in Sweden
Residual	Yes	Yes	Yes
Programmatic	• Income-testing of OAS	• Cuts to disability programs	• Cuts to disability programs
Systemic	• Pension indexation changes	• Pension indexation changes	
Paradigmatic	• Abandonment of Keynesian policies	• Decreased adherence to Keynesian policies	• Abandoning a full employment policy
Integrated	Yes • Increase in the proportion of retirement income coming from private resources	Yes • Increased emphasis on private savings vehicles through taxation changes	Yes • Private pension component in the new pension system
Institutional	Yes • Cuts to the CPP; maintaining core programs	Yes • Maintaining core programs	Yes • Maintaining core programs

The first question is difficult to assess. Overall, the relative risk of poverty has fallen for older adults in all three countries. At the same time, overall spending trends show that public spending levels have decreased in the Netherlands (see Tables 6 and 7). Using household data to examine how income components change over time (1970s-1990s), the OECD (Reforms for an ageing society, 2000) notes that average household earnings have fallen steadily for all three countries. This, they observe, is a reflection of both earlier retirement ages and the fact that fewer older adults are living with younger relatives (who have higher incomes than older adults on average as they are in the labour force). Nevertheless, the post-government transfer rate of poverty among older adults has been significantly reduced in the industrialized capitalist societies when compared to pre-welfare state levels (Esping-Andersen, 1999; Goodin et al., 1999). This was clearly shown in Table 12 where the risk of poverty among those aged 65+ continued to decrease during the 1980s and 1990s. In addition to a poverty reducing function, retirement income programs have also been designed to ensure that there is some continuity in pre- and post-retirement income. Yet, in all three counties there is a discernable trend, to varying degrees, towards retirement income systems that place a greater emphasis on private sources of pensions. In Canada and the Netherlands, there is a trend toward employer pensions that are based on a defined contribution system rather than on the more generous defined benefit system. In Sweden the new pension system is based on an individual's working career. To the degree that these changes alter the current pension systems, with concomitant decreases in the role of public pensions, the de-commodifying effects of state transfers may be in jeopardy. As more importance is placed on contributions that are contingent on a person's work history, there is an increased risk of poverty in old age for the individual. So called "drop-out" periods (e.g. for education or to care for young children) for the public work-related pensions in Canada and Sweden might decrease the risk but not entirely. Female retirees who are more likely to work part-time, experience gaps in their work histories, and work in lower paying jobs, face further challenges in building up enough pension benefits. It should be remembered though, that men also are experiencing less certainty in the work place and therefore are likely to face some of the risks that have traditionally been associated with female work patterns. Based on the numbers provided in Table (15), it does not appear to be the case that changes to pension systems have increased the numbers of seniors in poverty or their relative risk of falling into poverty. As noted earlier, one concern is the high number of those under the age of 18 and 18-25 in poverty as this may have a negative impact on their ability to accrue enough public and private pension benefits.

One method of pension reform is lengthening the reference period that is used tin determining the value of a basic state pension. For example, in 1995 Sweden extended the residency requirement from 30 to 40 years for a full basic pension (Blondal and Scarpetta, 1998). A related measure is lengthening the contribution period required to receive a full work-related pension. As well, altering the reference period for a work-related pension is another method of retrenching. For example, basing a pension on "live-time earnings" (adjusted) rather than "best years earnings" will reduce the value of the benefit as most people earn their highest salaries in the years immediately prior to retirement (Palmer, 2002).

Another step that was mentioned earlier is raising the official retirement age. The strategy behind this reform is twofold: first, by extending working years, this policy may lead to an increase in labour productivity; and second, it delays the take up of benefits. Of the countries under consideration, only Sweden has changed the ages of benefit entitlement (from age 60 to 61 for a reduced old age pension). Gradual retirement policies with flexible retirement ages may also encourage potential retirees to remain in the workforce part-time (OECD, Economic Outlook 72, 2002). This approach may help curtail early retirement leading to a possible boost in labour productivity and to delay the take-up of pension benefits through early retirement (Reday-Mulvey, 2000). Reducing early retirement, particularly when they are funded by benefits provided through disability and unemployment programs, has been a strategy throughout the 1990s in the Netherlands and Sweden, and to a somewhat lesser degree in Canada (Einerhand et al., 2001). On the other hand, early retirement has been encouraged by pension and taxation systems that serve as a disincentive to continue working (OECD, 2002). Pay-roll taxes and a diminishing increase in the amount of benefits beyond a minimum retirement age are two influential variables that may lead an individual to opt for early retirement. To counteract this situation some countries, including Sweden, have altered the pension system so as to increase the link between contributions and benefits. Despite attempts at curtailing early retirement, this study (Table 15) did not find evidence that age at retirement increased during the period 1980-1990.

Another way that governments have reduced the liability of pension systems is to change indexation formulas. By adjusting pensions according to the rate of inflation as opposed to wages or by only partially-indexing pensions, countries are in effect lowering their pension liabilities as well as the value of the pension benefit over time (Palmer, 2002). In 1989 Brian Mulroney's Conservative government fundamentally altered the universal-based element of the OAS by introducing income thresholds such that higher income seniors saw their benefits erode or disappear through "clawbacks" (Myles and Street, 1995). Because of changes to the method of indexation, more and more seniors will find themselves losing OAS benefits. Myles and Street note that as a result of these changes, the pension function of the OAS is decreasing while at the same time more emphasis was being placed on the private provision of pension income. The data used in this project did not specifically address this issue. In order to do so, a more detailed analysis of sources of income stratified by income deciles would have been required.

Research elsewhere has shown that the Netherlands has experienced more retrenchment of its welfare state when compared to other countries (Green-Pedersen, 1998). The findings of this study, which looks at the narrower topic of pension or retirement income retrenchment, also appear to support this finding but are not definitive. This may be because of the difference in variables under analysis or because this study looked at retrenchment during a different time frame. The Netherlands was one of the first countries to begin to retrench its welfare state beginning in the mid-1980s. It has been argued by Green-Pedersen that political party coalitions were a deciding factor in both the development and retrenchment of the Dutch welfare system. Canada followed the Netherlands in retrenching, with reforms beginning in the late-1980s, while Sweden did not begin to make or propose changes until the early-to-mid-1990s. Reforms such as changes to pension indexation in Canada and the introduction of a new pension system in Sweden (effective as of 1999) were not reflected in the data examined in this study. As it was observed in the summary of Chapter 4, this is likely due to the fact that the time frame under analysis is too recent. In order to capture the effects of policy changes in the 1990s it would likely be necessary to re-examine the data collected in five, ten or even 20 years.

There has also been a trend over this time period for significantly higher rates of female labour participation in the Netherlands. In contrast, Sweden, which since the 1970s has had comparatively high rates of female participation, actually saw the levels there fall slightly (along with male participation rates). Although the majority of women in the Netherlands are involved in part-time work, recent government policies have attempted to ensure that the benefits available to full-time workers are also available to part-time employees. This means that they will be less vulnerable than their counterparts elsewhere. This step could in fact be seen as an expansion of the welfare state within the private domain. As the Dutch are heavily reliant on private pensions, this bodes well for future retirees, particularly women. Supporting working mothers- and in many cases now, working fathers- through the public pension system, as is the case in Canada and Sweden, decreases the risk of poverty after retirement. Finally, according to the results in this study, supplemented by findings elsewhere, there is evidence that changes have been made to disability and unemployment programs. For example the percentage of income replaced was lowered in Sweden as well as in the Netherlands (and subsequently raised again later) in an effort to decrease inflow rates into their disability schemes.

The ability of national governments to exercise exclusive control through public pension systems and regulation of private pensions has, in recent decades, become increasingly difficult. Globalization and the internationalization of markets have resulted in an economy wherein the traditional work-retirement pattern of the mid-twentieth century is increasingly obsolete. National retirement policies may also be subject to the laws or regulations of supra-national organizations. This is the case for the Netherlands and Sweden who, as members of the EU, must shape their policies according to the social-welfare policies of the EU (Walker and Maltby, 1999). This study has shown that during the period 1980-2000, the risk of poverty and incomes for those aged 65 and over improved in Canada and Sweden. Although this was not true in some cases for the Netherlands, the levels there were nevertheless better than the OECD average.

Challenges – social and economic - associated with an aging population will necessitate policy decisions that are forward-thinking and based on current and future retirement patterns rather than patterns of the past. For example, flexible retirement or revisiting mandatory retirement ages may alleviate the fiscal concerns that surround projected dependency ratios.

Chapter 6 Summary and Conclusions

The purpose of this study was to examine the effects of welfare state retrenchment on the retirement income system in Canada during the years 1980-2000. By comparing the Canadian experience with the experiences in the Netherlands and in Sweden, it was shown that Canada was not alone in facing challenges to its retirement income system during this time period. Essentially, the structural frameworks of the universal public pension benefit systems in these three countries have been left intact. This study has shown however, that there have been some fundamental changes made to the pension systems in Canada, the Netherlands, and Sweden. Contrary to what was hypothesized however, the most significant changes to retirement income systems occurred in Sweden. The incorporation of notional accounts into the Swedish pension system reflects a move away from a universal-based system. The de-commodifying aspect of the Swedish pension system is weakened by notional accounts in that it strengthens the relationship between employment-based contributions and benefits. It was hypothesized that the liberal regime in this study, Canada, would be the most likely of the three to experience retrenchment, specifically a residual approach. This project found evidence that Canada's public pension system did experience residualist retrenchment – e.g. the claw-back of OAS benefits above an income threshold. The data used here indicated however, that the Netherlands through decreased social transfers (Table 7) and social spending (Table 8) experienced the biggest social spending cuts of the three countries. This finding is consistent with research elsewhere that has shown that "the Dutch welfare state has experienced significant retrenchments within the last two decades" (Green-Pedersen, 2001). Thus, according to the data used in this project, the most significant retrenchment was found to have occurred in the Netherlands. Again, this is contrary to what was predicted but an important finding in its own right.

With respect to the question of how pension retrenchment will impact female retirees, the data in Table 14 showed that with the exception of Sweden, female employment levels have risen steadily. This would suggest that female retirees might experience greater financial security provided that they are able to take advantage of private and public pension programs without being penalized through a claw-back of universal public pension benefits. It would also depend in part upon future educational opportunities resulting in higher-paying jobs. Also of importance to female retirees are the drop-out periods allowed by the Canadian (CPP) and Swedish (NDC) pension plans for women who, as noted earlier, are less likely to have a traditional full-time employment history and are more likely to have to provide care for children or other family members.

Answers to the question of pension quality are mixed. For example, the length of residency required to qualify for a universal pension increased in Sweden but all three maintained the same official age of retirement (65). This may change in the near future in Sweden and it has been discussed in both Canada and the Netherlands. Such a change could have both positive and negative consequences. On the positive side it would provide flexibility for those who wish to continue to work and are able to do so. It would also allow those whose pension credits are not sufficient for a comfortable retirement to continue to contribute to their pension plans. As well, public and private pension plans would save money by delaying pension uptakes. On the negative side, raising the age of retirement may force retirees who are no longer capable of working to stay on in the workforce if other benefits such as disability pensions are not adjusted.

There are several limitations to this study. The data used could have been more extensive and the selection of different data sets might have led to alternate conclusions. More detailed micro-economic data such as that collected for the Luxembourg Income Study would allow for a more detailed analysis of variables such as income levels and sources of income as well as poverty levels. Future study in this area would also benefit from a more extensive data field in terms of length of period under study. This study would also be strengthened by increasing the number of countries selected for comparison and by including more time points. Nevertheless, times-series cross-sectional data is not without it's own weaknesses and must be supported by appropriate statistical techniques (Beck and Katz, 1995). Progressing from this study, future research would benefit from the incorporation of a more sophisticated statistical method for the analysis and interpretation of the data.

Esping-Andersen's (1990,1999) welfare regime theory provided the structure for the comparison of the three countries under study. Combined with the retrenchment typology outlined by Rice and Prince (2000), it was possible to examine retrenchment using a comparative approach. It has been observed however that a power resources approach to understanding welfare state effort or retrenchment in the context of globalization may overlook the changing balance of power between the state, capital and labour (Olsen and O'Connor, 1998). Such an approach also tends to overlook the importance of state structures and political parties. In the case of Canada, the presence of a federal system has had a significant impact on the way that the welfare state developed.

It is also likely that this federal political system, wherein the two levels of government share responsibility for the funding and delivery of Canadian social welfare, has influenced welfare-state retrenchment in Canada. With respect to the importance of political parties to welfare-state retrenchment, Green-Pedersen (1998) stresses that no other explanation satisfactorily explains why the Netherlands has experienced the highest levels of retrenchment as compared to other countries. Future research stemming from this project may benefit from an analysis that incorporates these aspects, state structures and political parties, into its theoretical framework.

The arguments surrounding population aging are unlikely to wane in the near future. It is important however that those on either side of the political spectrum appreciate the fact that although demographics play an important role in shaping a society, demography is not destiny (Cheal, 2000). Just as one generation of younger adults differs from the next, influenced by events unique to that cohort, the same is true for the older adults of tomorrow.

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