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Book Review

Welfare and Old Age in Europe and North America

Bernard Harris, Ed.
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In *Welfare and Old Age in Europe and North America*, editor Bernard Harris has assembled ten studies on the history of mutual-aid societies. In his introduction, he proffers Marcel van der Linden's definition of mutual aid societies: "associations formed voluntarily for the purpose of providing their members with financial assistance in case of need" (p. 1). This is a help to the novice or lay reader who is not familiar with the history of social insurance and might naturally assume that such phenomena would not exist in the absence of the modern welfare state, even though Harris' compilation reveals that not all mutual-aid societies were voluntary.

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According to Harris, renewed interest in mutual-aid organizations has been on the rise in Great Britain since the early 1990s and has been driven not just by the predictable posturing on the Tory side of the political aisle, but also a willingness among Labour politicians to acknowledge the steady failings of the British welfare state since the end of World War II. While Harris, unlike some of the contributors to this volume, points out that mutual aid organizations were hardly so full of shortcomings that their alleged failings led to a clamor for the establishment of welfare states, he certainly is no libertarian, writing that "… it may be dangerously premature to suggest that the mutual organizations of the late-nineteenth and early twentieth centuries offer a realistic model for the reform of welfare services in the twenty-first century." (p. 7)

No doubt, compared to the U.S., Britain was laying the foundation of the welfare state early with the National Insurance Act of 1911. In the U.S., food stamps, Medicaid, and Medicare did not arrive until a very late 1964–1965. While U.S. Social Security had been around since 1935, the age of eligibility had deliberately been set to average life expectancy, 65 years of age in 1935, precisely to make benefits difficult to collect. It was only over decades that Social Security evolved into a universal "right to retirement."

Given that even "respectable" neoconservatives such as Charles Murray and Marvin Olasky see Lyndon Johnson's mid-1960s Great Society as an effort to fix something that was not broken, the American experience demonstrates that it is hardly "dangerously premature" to propose returning to a fully private social safety net operated by charities, churches, and fraternal organizations. What is amazing is the number of initiatives and efforts these organizations still undertake in the shadow of a huge welfare state. Indeed, these efforts, and the huge demand for them, are, if anything, yet another testimony to the complete failure of the modern welfare state.

The first study, by John Benson, attempts to solve the mystery of why mine workers in the English coalfields of Northumberland and Durham counties had a tendency to purchase injury insurance while those in North Staffordshire mostly did not. Coal-industry historians, at least the ones able to spend even a few seconds away from endlessly demonizing mine owners, usually attribute

insurance purchases to the relatively high worker risks and earnings in the mining industry. Delightfully, Benson bulldozes these and other wrong reasons. First, he tackles the shibboleth of risks. The Northumberland and Durham Miners' Permanent Relief Fund had a much larger membership than the North Staffordshire Coal and Ironworkers' Permanent Relief Society, yet with the exception of 1859–1863 (when just Northumberland was only slightly more unsafe than North Staffordshire), North Staffordshire suffered more fatalities than Northumberland and Durham from 1864 to 1890, where the data end.

Benson finds his answers in Northumberland and Durham. The towns of these two counties were isolated and thus autonomous with a strong sense of self-reliance. The miners had to work to provide a decent living to workers and owners alike, as there were few other options. In non-isolated North Staffordshire, the mines were one industry among many, and thus the relationship between workers and owners was far less cooperative. In the end, it was a difference in mine cultures and owner-labor cooperation.

Timothy Guinnane, Tobias Jopp, and Jochen Streb analyze the costs and benefits of size in the German *Knappschaften*. The authors counterintuitively aim to prove two theses in this chapter: that *Knappschaft* (KV for short[1]) size and moral hazard are positively correlated, and that *Knappschaft* size and actuarial risk are negatively correlated. KVs were first formed in mining communities in the Urz and Harz mountains and not only provided short- and long-term sickness insurance and pensions but also propagated traditional culture, including religion. From their beginning circa 1260 they were charities. In 1300 and 1359 local codes made them compulsory (p. 28). After this they were incorporated into the Prussian state as part of its mercantilist policy. In 1883, Bismarck made old established KVs part of the German social security system. In 1923 all KVs were merged into one large national fund. The alleged design flaws of the KVs were disparate size and the lack of separation between pension and health insurance. These flaws supposedly made it difficult for the optimal-size organization to come about: attacking moral hazard in health insurance required

[1] KV is short for *Knappschaftsverein*, which the authors assure us is synonymous with *Knappschaft*.

a smaller KV while effectively managing actuarial risk required a larger organization (p. 31).

With a captive membership, KVs, unlike British Friendly Societies, did not have to worry about adverse selection. Moral hazard, though, was a problem on the health insurance side in terms of workers feigning continued injury or sickness (39). This behavior was easier to detect in small KVs. On average, small KVs had 6.13 sick days per member while medium and large ones had 7.03 and 7.5, respectively (p. 39). KVs that experienced rapid growth in the number of sick days per member were usually those in which employers paid more of the costs of insurance and individual production crews were larger in size. Making matters worse were the Reich regulations of 1887 and 1905 which increased both sick-day compensation and the length of the compensation period (p. 41).

On the pension side, the authors found a significant negative relationship between KV size and the variance of the average claim in KVs that had up to 999 members. In KVs that had up to 199 members, 1 percent growth caused a variance reduction of 61 percent. For those with up to 999 members, variance reduction was about 32 percent. Beyond 1,000 dues-paying members, no economies of scale could be found, thus minimum efficient scale begins at about 1,000. For health insurance, it is 5,000, as a significant negative relationship is found below that.

From these figures it can be inferred that about half of KVs did not have enough members. While the authors conclude that political pressure applied to small KVs to get them to merge with larger ones was reasonable, they refreshingly conclude that beyond the minimum-efficient scale of 1,000 to 10,000 members, there was no good reason for all of them to have been eventually nationalized into one state firm or *Reichsknappschaft*.

The most delightful chapter in the book is Paolo Tedeschi's analysis of the development of mutual-aid societies (*Società di Mutuo Soccorso'* or SMS for short) in the Brescia and Bergamo states of Eastern Lombardy Italy from 1860 to 1914. During this time, the number of SMSs expanded from 7 to 494 (p. 48). Not a single SMS permanently closed during this period, and SMSs that encountered financial difficulty were either rescued by other SMSs or the larger cultural or political movements to which the

SMS belonged. For the Eastern Lombardy of the period, this was Catholicism or socialism.

SMSs sprang from many different types of socioeconomic relationships: some were begun by factory owners for religious or altruistic reasons. They could include workers from just a single trade (musicians to steelworkers) to all different occupations residing in the same town. The latter type constituted the majority in the Eastern Lombardy.

SMS benefits included sickness and disability insurance, retirement benefits for workers and surviving spouses, layoff insurance, and health benefits by SMS-affiliated physicians. Going against feminist presumptions, SMSs in predominantly female industries provided pregnancy benefits at labor and for a month afterward.

The relationship between the SMSs and the state was usually a confrontational one. The state wished to control SMSs because its leaders were envious of the loyalty they inspired in their members. SMSs were happy to take benefits from the state but not to be controlled by it in any way or provide any information about their members or finances to the state (p. 60).

The Eastern Lombardy case is important because it provided a template for Catholic SMSs in terms of dealing with the social problems associated with the macroeconomic transformation from an agricultural to industrial economy. The great successes of SMSs in this endeavor, along with the desire to fight the expansion of the Catholic and socialist movements, prompted the government to lay the foundation for the welfare state (p. 61). World War I and the fascist movement in Italy sounded the death knell for the SMSs (p. 62).

The best chapter of the book is unfortunately followed by the worst. Unlike the others before and after it, Margarita Vilar Rodríguez and Jerònia Pons Pons' contribution has no introduction, no explicit statement of thesis, and no conclusion. The chapter seems to ramble from one topic to another with at least a tangential connection to the topic of health insurance in Spain from 1870 to 1942. The magnitude of disorganization is incredible for a work supposedly produced by two authors.

Friendly societies in Spain first appeared in the early 1800s out of orders first formed in the Old Regime. Supporters and workers founded more of them and member fees provided most of the

revenue. The societies were focused on meeting urban needs and, along with labor unions, they gained prominence and influence under the Law of Associations of 1887 that remained in place until the Spanish Civil War of 1936–1939 (p. 75).

According to the authors, the Treaty of Versailles (1919), the founding of the International Labor Office (1919), the Washington Conference (1921), and the founding of the International Social Security Organization (1927) all drove state involvement in social insurance in Spain's economy. World War I and the Great Depression also played a role. Before the Spanish Civil War, industrial-accident benefits (1900, 1933), old-age benefits (1909, 1922), pregnancy benefits (1923, 1931), and unemployment benefits (1932) had either legislative or regulatory backing, unlike health insurance which remained fully private until 1936 (p. 83). The authors believe the state left health insurance in the private sector for so long because, in addition to fighting opposition from physicians and private insurance firms, it had insufficient resources to tax and regulate it (p. 84). This ended in December of 1942 when the Franco dictatorship implemented mandatory sickness insurance because it desired to increase the state's control over workers.

Bernard Harris, Martin Gorsky, Aravinda Guntupalli, and Andrew Hinde tackle the topic of health insurance and welfare reform in England and Wales in the period 1870–1914. They examine the relationship between the friendly societies and the rise of the modern welfare state in the early 1900s. The first friendly society in the U.K. was founded in Bethnal Green in 1687, and the first law defining and controlling society activities was enacted in 1793 (p. 89). Early on, the societies were centered around local ale houses but then grew into national organizations divided into many different courts and lodges across the nation appealing to different interests and objectives. Most offered benefits for illness and death, the latter including funeral expenses (p. 90).

The first problem the societies had to contend with was that rates of illness usually began to spike for men after 50 years of age. The other problem was a rise in sickness, especially in the late 1870s and late 1890s (p. 91). One theory is that this was the result of adverse selection.

Regardless of reason, at the time the increase in age-related illness claims and their increasing cost as a burden on the balance sheets of friendly societies influenced attitudes in favor of state health insurance and social security. The societies favored a tax-funded state system because to them it would not compete with the societies and it would relieve the societies of some of their financial burdens (p. 101). The societies opposed national health insurance, but some of their leaders looked for state intervention to lighten the cost of illnesses that lasted longer than one year (103).

Nicholas Broten re-examines Bentley Gilbert's 1965 thesis that English friendly societies were insolvent by the early 1900s when the U.K. state pension system began operating. According to Gilbert, the poor financial condition of the friendly societies led anywhere from a lack of opposition to even support of a state takeover of social insurance in the form of the Old Age Pensions Act (OAPA) of 1908. Throughout the 1800s, Gilbert held that two problems increasingly plagued the friendly societies. First, increased competition among societies for new members prevented them from increasing dues or reducing member benefits. Second, increases in the life expectancies of members led to markedly higher and thus unsustainable levels of benefits.

The first problem with Gilbert's thesis (according to Broten) is his simultaneous acknowledgment of a competitive environment and his failure to understand how it would have motivated the societies to seek other sources of revenue than membership dues, such as reserves held in interest- and dividend-earning financial securities. The second problem is that Gilbert's thesis relied on misleading data supplied by nineteenth-century statisticians (p. 107).

Broten's analysis of the Ancient Order of Foresters refutes Gilbert's thesis that the societies were in financial difficulty, because for the Foresters, membership was strongly aligned with age, which to some extent, made its financial viability a bit tricky. Across eight Forester chapters, Broten tested the degree of risk loading (how well dues covered claims) and the probability of ruin (probability of claims being greater than income and assets in a given year). All but one chapter in Ipswitch had positive measures of risk loading. The probability of ruin was calculated first on the basis of income with no assets included and second, on the basis of income consisting only of membership dues. Again,

the only Foresters chapter to show financial difficulty was the one in Ipswitch (pp. 118–119) with the rest in very sound condition. What led some of the members of the societies to support a state replacement is, to Broten, a question with many possible but no definitive answers.

J.C. Herbert Emery examines the U.S.'s rejection of national health insurance during the early twentieth-century progressive movement. From 1883 to 1920, a number of European governments successfully enacted mandatory health insurance (MHI). During this time, progressive reformers in the U.S. saw workers' compensation programs implemented and eighteen states consider MHI systems, so that the reformers had hoped that MHI would be implemented across the U.S. Instead, it went down in unequivocal defeat. Scholars such as Anderson claim that public diffidence gave power to physician and insurance interests to kill MHI. Others asserted that American workers were not only ignorant of their economic needs but were led to reject MHI as a socialist program contrary to American principles (p. 121).

Against the grain of these explanations, Emery believes that MHI was viewed as unnecessary because of the greater earning power of U.S. workers. In his previous work, Emery showed that not only were private alternatives affordable but earning power increased between the late 1800s and 1920 (pp. 122–123). He was also able to find disparate savings rates across states that explained why some states considered MHI while others did not. In this chapter, Emery shows that MHI was likely adopted in Belgium and Germany earlier than in France, Switzerland, the U.K., and the U.S. because the increased cost of voluntary insurance was much higher in the former nations than the latter (p. 123).

Pilar León-Sanz investigates health insurance provided by *La Conciliación*, a mutual-aid society in Pamplona in the twentieth century. *Sociedad Protectora de Obreros La Conciliación* was founded in 1902 and until 1984, mirrored the evolution of the health and social insurance system in Spain over the period. From its founding until the Spanish Civil War (1936–1939), *La Conciliación* evolved from a mutual-aid society to a workers' association to a mutual-insurance association. Into the decade of the 1950s, the organization continued offering direct medical benefits and discounts.

León-Sanz sees as an important cause of the decline of *La Conciliación* and other societies the steady increase in the age of its member base and the increase in the costs of illness associated with it. Interestingly, León-Sanz believes that unlike so many other societies, *La Conciliación* escaped insolvency "due to, on the one hand, its meticulous management; on the other, due to the low cost of the medical attention it offered" (p. 165). León-Sanz believes that while its coverage of primary care and house calls was valuable, its limitations to only one city and one type of worker made it difficult to appeal to a new generation and thus ended the viability of its operations.

R.A.A. Vonk examined the dominance of non-profit health insurance in the Netherlands. The *Zorgverzekeringswet* (ZZ for short, or Health Insurance Act) of 2006 repealed the ban on for-profit firms operating in the health-care sector of the Netherlands. Progressives trumpeted apocalyptic predictions: access to care would be much more difficult and the quality of care would decline. The problem with this thesis according to Vonk is that almost all of the health-insurance firms operating in the Netherlands at the time of the Act were non-profit firms. His chapter seeks to explain why.

Non-profit sickness funds had a very strong influence on for-profit health insurance in the Netherlands. As incredible as it now seems, in the beginning for-profit firms comprised most of the market. From 1910 to 1930, for-profit firms began to resemble sickness funds, which had been around much longer. According to Vonk, for-profit insurance had many disadvantages that the sickness funds avoided. Capitation fees allowed sickness funds to shift costs to physicians. Commercial firms ran into resistance when they enacted measures to counter adverse selection and moral hazard. They were disliked by the government and, not surprisingly, by physicians.

In 1941, state health insurance was enacted by the Sickness Fund Decree. While the Decree harmed the private industry, it recognized and grudgingly tolerated it. After the end of World War II, the strategy of the sickness funds and the sympathetic government was to effectively annex the private for-profit industry. Making profit in health care was widely criticized and a campaign to achieve universal access further spurred the annexation. When in 1968 for-profit firms abandoned rejecting applicants on the

basis of excessive risk, universal access was effectively achieved as the government saw it. During a period of skyrocketing costs in the 1970s, private insurers were forced to re-price their policies based on risk and impose deductibles. In response to such a lack of "social solidarity," the government nationalized private insurance in the 1980s.

In 1991, the decision to allow a small mutual insurance firm to create a sickness fund was the end for private insurance, as insurance firms began to merge with sickness funds (p. 184). From 1990 on, commercial insurance firms sold off their health-insurance lines. Hence the ZZ of 2006 lifting the ban on for-profit activity was meaningless since it no longer existed anyway (p. 187).

D. Rigter's chapter covers how Belgians approached health and old-age risks and how their government responded in terms of the laws and regulations it enacted (p. 189). The Le Chapelier Law (1795–1866) banned compulsory membership in organizations in an effort to promote free markets (p. 190). A royal decree in 1820 ordered cities to create incentives for the creation of voluntary insurance organizations. Mutual-aid organizations that had been part of the guilds banned by the Le Chapelier Law had to be separated and open to applicants that were not part of the original guild. Local governments monitored the new insurance funds.

In 1827 a royal decree ordered local regulation of welfare funds meaning that they were exempt from the Le Chapelier Law. Three years later, in 1830, life insurance became regulated by the state, with health insurance, pensions, and funeral funds still free of state regulation. After Belgium won independence as a new nation, the Mutuality Law of 1851 installed a commission for the societies which issued reports regarding the societies' alleged shortcomings (p. 195). A law enacted in 1894 loosened regulations for state recognition and raised the subsidy levels coming from governments on all levels (p. 196).

In 1944 a full mandatory social-insurance system was enacted in Belgium. Premiums were a percent of each worker's wage and paid for by workers and employers (p. 199). The Leburton Act of 1963 split sickness insurance away from disability insurance, expanded coverage, and nationalized physicians as part of the executive branch of the national government (p. 200). In 1990,

local societies were banned and only ones national in scope were authorized to become providers of mandatory health insurance. Private competition only remained in voluntary, supplemental insurance (p. 201).

Recently there have been discussions of regional decentralization toward the Dutch and French regions of Belgium. Each region would be more free to spend funds how it saw fit but also more responsible for efficient and effective spending of the money. Refreshingly, Rigter admits that the current state-run system, like the supposedly "obsolete" mutual societies of old, is afflicted with the problems of increasing life expectancy and skyrocketing costs.

Welfare and Old Age in Europe and North America is a fascinating account of the rise of the welfare state in continental Europe and the U.K. The inclusion of North America in its title is misleading because it certainly does not discuss the mutual-aid-to-welfare-state transitions of Canada or Mexico but only offers a theory in one contribution as to why mandatory health insurance failed to be enacted in the U.S. early in the twentieth century. Regardless of the views of its contributors both in favor of and against the welfare state, it is apparent from most of the chapters in the volume that states took on the role of providers of social insurance to gain greater control of their citizens. Wars and false expectations of the alleged miraculous powers of the state were catalysts in facilitating this takeover, rather than there being an obvious or catastrophic failure of private mutual-aid societies. The nation of Greece and the U.S. city of Detroit are poignant recent reminders that governments can become insolvent as well.