Miguel Sanchez-Romero, Pieter Vanhuysse and Robert I. Gal:
Historical Reconstruction of the Emergence of the Welfare State

We depart from two useful concepts, asymmetric statistical visibility and transfer conversion.

ASYMMETRIC STATISTICAL VISIBILITY. People need to smooth out the discrepancy between their labour income and consumption paths over their life cycles. They have to consume while they are children or old, but their labour income is concentrated in their working years. This problem is universal, and all societies, irrespective of income level, religion, ethnicity, or other characteristics, address it by reallocating resources from cohorts currently of working age to those currently in childhood or old age. Resource reallocations are mediated by market actors, such as private pension funds and insurance companies; families, such as parents raising their children or grown-up children supporting their old parents (and sometimes the other way around); and the welfare state, such as pay-as-you-go pension schemes, which collect contributions from people of working age and redistribute it among pensioners, or tax-financed education and healthcare systems, which tax mostly the working-aged and finance services for children and mainly to older persons.

Market actors and welfare states connect large groups of people who do not necessarily know each other. In contrast, familial transfers connect small groups of related individuals. Market actors and welfare states are intermediaries; in the familial transfer system no outsiders are involved. Large-group arrangements organised by an intermediary entail administration and bookkeeping. Such arrangements leave an information trace and are (relatively) easy to collect data about. In contrast, familial transfers are not documented. The parties involved usually cannot tell the value of such transfers. Consequently, asset-based reallocations and public transfers are more visible for the statistical system than familial transfers. Gal, Vanhuysse and Vargha (2018) call it asymmetric statistical visibility.

TRANSFER CONVERSION. To illustrate transfer conversion, imagine a parent who stays home to raise her children herself. Her unpaid labour of caring for them is like transferring her time to them. If she, alternatively, takes up paid labour and hires home care help, her original time transfer will be transformed into a money transfer between her and her children via an intermediary. The direct parent-child transaction will be mediated through a market transaction between the parent and the hired carer. The size of the overall transfer package may or may not change, but its institutional composition does. If, in a third scenario, the parent works and sends her children to public daycare or kindergarten, her market income and the taxes she pays will increase, while her time transfers decrease. The original at-home time transfer will now be transformed into a parental tax that can finance public services for the child. Again, the overall package may be largely unaffected, even though its composition changes significantly. Vanhuysse, Medgyesi, and Gal (2023) call such a process, when institutional rearrangements affect the composition of reallocated resources more than their overall value, a transfer conversion.

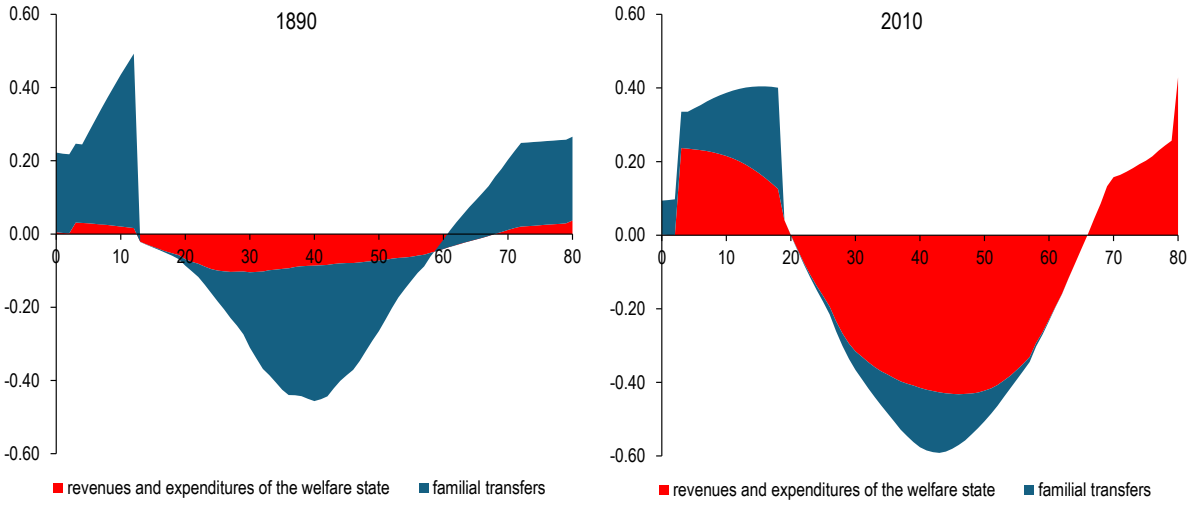
Asymmetric statistical visibility frequently hides the conversion process. Following the above example, public statistics measure the costs of public daycare but do not account for the value of domestic time transfers (and often ignore the extra taxes the government collects from the now-working parent). What is statistically detectable from this process is an increase in labour force participation and higher government spending on childcare. The conversion of time transfers and the fact that it is still the same parent transferring resources to the same children through another channel – the government – does not come up.

In more general terms, the rise of a welfare program is statistically visible, while the parallel decrease of a familial transfer remains undetected. A welfare program appears to emerge from scratch, while in reality it could be the outcome of a transfer conversion. In even more general terms, the concept of transfer conversion raises the question of whether the rise of the welfare state is the emergence of something new or the conversion of something old into something new.

Based on Sanchez-Romero, Lee, and Prskawetz (2020) and Sanchez-Romero, Schuster, and Prskawetz (2024), this paper applies a complex model of employment, wages, demography, household structure, growth, and time allocation to reconstruct the age composition of familial and public transfers. The model is fed with current age profiles, and retrospective data on demography, wages and national accounts aggregates. We use Swedish data for its exceptional qualities; the results reflect the historical realities of a Sweden-like country (but not exactly Sweden, due to the limits of theoretical reconstruction).

The results extend our previous understanding of how the welfare state might have emerged (see the charts below). There appears to be a near-complete transfer conversion in old age, whereby the support of cohabiting older parents by their grown-up children is replaced by taxes collected from the generation of grown-up children and redistributed among the generation of now separately living parents. On the other hand, the taxes paid by the working-age generation only added, though quite significantly, to, but did not replace, familial transfers flowing from working-age parents to children.

Net public and familial transfers in 1890 and 2010 (model results using Swedish data)



Note: to facilitate intertemporal comparison, transfers are rescaled by the average per capita labour income of people aged 30-49.