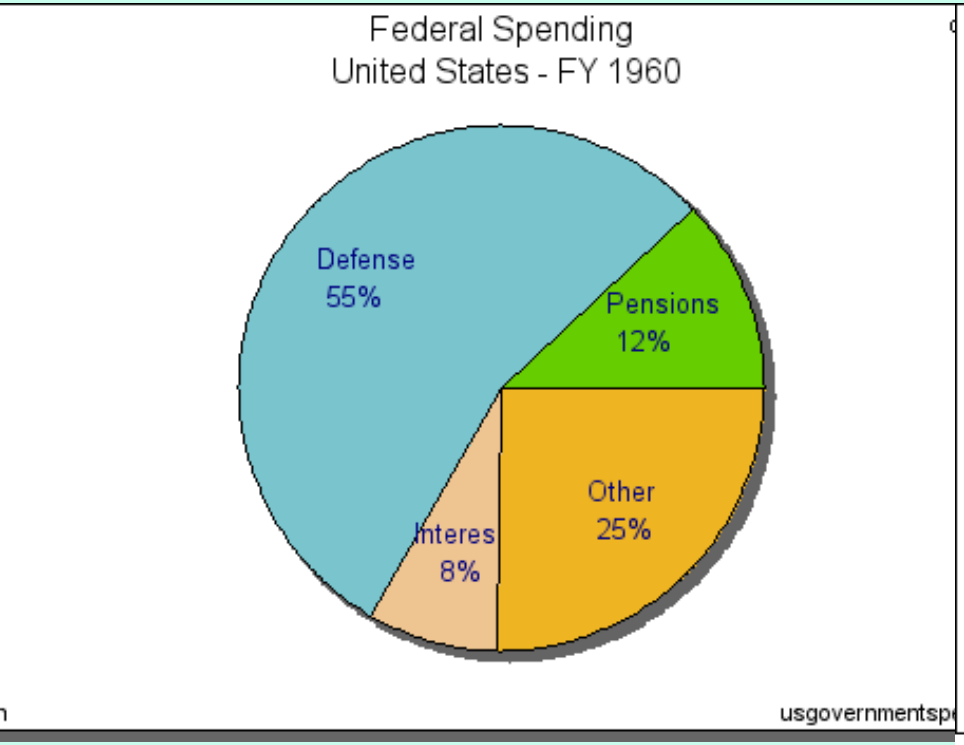
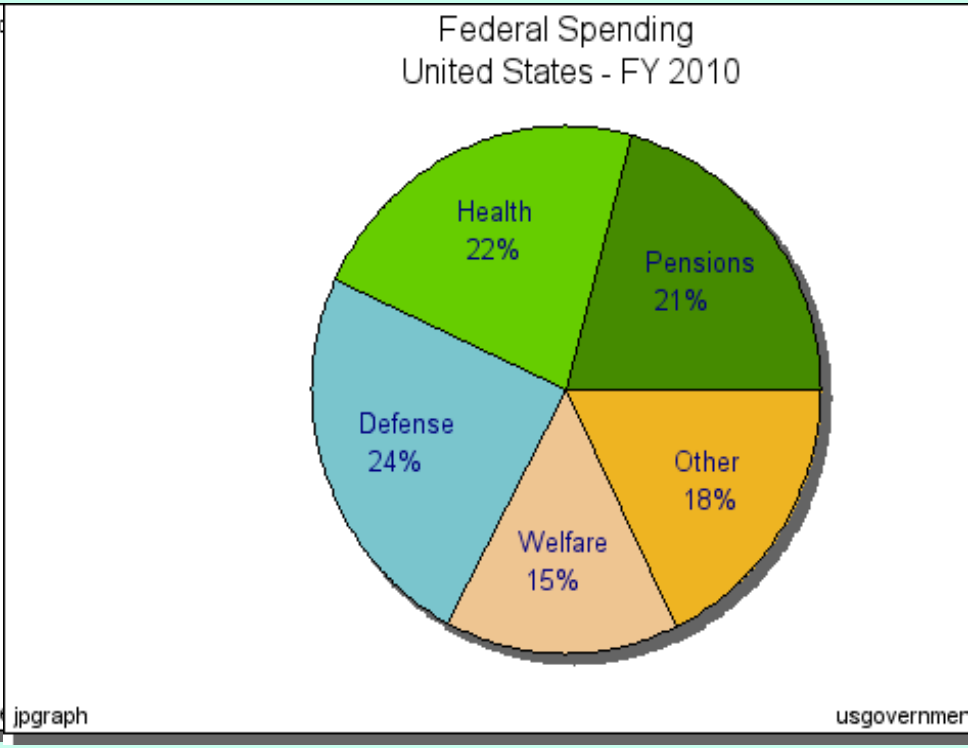
Social insurance

- Social Insurance = government transfers based on events which cause a loss of e
- Examples are unemployment, disability, pension, health benefits...
- Social insurance is the biggest and most rapidly growing part of government spending
- Government spending has shifted towards social security and health insurance in particular.
- Expected increase in social spending causes worries about future solvability.

Social insurance





Social justice and insurance

- **Social justice is achieved when people are provided with complete insurance whereby people who fare well in life fully compensate those who do not fare well – because of the full compensation, after the e transfers predicated on insurance, all people have equal ex-post es.**
- **The definition of social justice is therefore ex-post equality:**
- **With future e uncertain, insurance protects against the possibility of having low e in the future.**
- **Achieving social justice is the reason for having social insurance.**

Social justice and insurance

- Social insurance pools risks of risk-averse individuals
  - Unemployment: loss of earnings due to involuntary unemployment
  - Disability: loss of earnings due to injuries/disabilities
  - Social security annuity: loss of earnings at old age
  - Health: risk of health shocks/expenses

Outline (part I)

- Theory of social insurance
  - Social welfare
  - Leaky bucket of redistribution
- Inequality: Measurement and trends.
- Impact of social spending on inequality.
- Part II:
  - Europe vs. US
  - Moral hazard

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