

**REGULATING-FOR-WELFARE:  
A COMPARATIVE STUDY OF  
"REGULATORY WELFARE REGIMES"  
IN THE ISRAELI, BRITISH AND  
SWEDISH ELECTRICITY SECTORS**

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## Regulating-for-Welfare

**Abstract:** The regulatory state and the welfare state are two institutions which seldom meet. The regulatory state is seen as focused on market failures and trust-busting, while the welfare state is said to shield citizens from the negative redistributive effects and externalities of the market. This paper explores the relations and boundaries between the welfare state and the regulatory state in the electricity sectors in the UK, Sweden and Israel. It demonstrates the emergence of social policy in a place where such policy should, according to conventional wisdom, not exist at all: within the context of liberalized, privatized and (de)regulated electricity sectors. This paper finds that the boundaries between the regulatory state and the welfare state are blurred in the two countries with liberal welfare regimes (Israel and Britain), but not under the social democratic regime of Sweden. The implications of these findings are then discussed with the aim to better understand the limits of the neoliberal project.

## Regulating-for-Welfare

This paper stands at the junction of what are usually considered two separate fields of study: the politics of regulation and the politics of the welfare state. It aims to analyze the interaction between distributive and regulatory politics in the context of economic liberalization, specifically focusing on the Israeli, British and Swedish electricity markets. This discussion is grounded in Majone's (1994, 1997) powerful thesis on the transition from the "positive state" to the "regulatory state". This transition, argued Majone, signified a fundamental change in western governments' involvement in the economy since the 1970's: a shift from direct involvement, often through the ownership of nationalized industry, to the regulation of privatized and liberalized markets. This is a change, suggests Majone, not only in the form of public intervention in the economy, but also in its goals: from income redistribution and macro economic stabilization to market regulation.

If Majone's suggestion is indeed valid, the advent of the regulatory state may signify a change in both style and substance of governance: from welfare to efficiency. While the positive state intervened in the economy directly in order to achieve a variety of social, political and economic goals, the regulatory state uses rules, regulation and oversight in order to correct market failures and promote economic efficiency. The rise of the regulatory state is especially evident in the network utilities, such as electricity, gas, water and telecommunications. In the "positive state", the utilities were often state owned monopolies run according to national (and political) priorities rather than according to market pressures and signals. This allowed the state to use the utilities to pursue a wide range of other social and political aims, including income redistribution and regional development (Armstrong, 2001; Hoerning and Valletti, 2002; Crew and Kleindorfer, 2002), nurturing infant industries (Levi-Faur, 1999) and promoting national security (Chick, 2007).

In the regulatory state, on the other hand, these sectors were typically transferred to private ownership, and the rules of the game changed to emphasize either regulation-for-competition or complete deregulation (Levi-Faur, 1999). When utilities are privately owned, often by a multinational corporation, and when (international) competitive pressures greatly influence pricing and services, incentives for the management and shareholders of these private companies to pay for the pursuit of social or national goals are obviously diminished. The new regulatory state, whose main goal according to Majone is enhancing efficiency and correcting market failure, can address only some of the issues the positive state once handled directly.

The question is, therefore, which of these issues do policy makers still choose to address, and how. The answer to this question varies: In some cases, the goals themselves became obsolete, for instance due to technological advances, as in the case of attaining full geographical coverage in telecommunications (Armstrong, 2002, and see Milne, 1998). In other cases, existing goals were integrated into the new regulatory order. For example, matters of national security are stipulated in legislation and license agreements, even when the utilities in question are now privately owned.<sup>1</sup> However, a more interesting case, and the one on which this paper focuses is that of politically or socially important policy goals incompatible with the basic tenets of the new regulatory regime. In this case, policy makers make choices that reflect their priorities and underlying beliefs.

One such goal, incompatible with the new regulatory regime yet still politically and socially salient, is that of welfare and income redistribution through the utilities. The accepted view of this issue is that the utilities and other state owned enterprises “were not part of the welfare state as it is conventionally understood”, and their privatization, as Deborah Mabbett argues, “had little direct effect on the welfare state”, other than in terms of indirect strains on social provision (Mabbett, forthcoming in 2011: 3). Never the less, this paper argues that the importance of welfare aspects in the utilities is greater than understood thus far, especially in the

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<sup>1</sup> In Israel, the owner of an electricity service provider must be an Israeli citizen, and some positions in the company need security clearance by the state (Electricity law, 1996). In this case, what was once achieved through direct ownership is now achieved through regulation and instruments such as Golden Shares.

aftermath of economic and regulatory reform. In fact, it may even be argued that in some cases, welfare considerations play a more significant role in the regulatory state than they did in its predecessor.

Welfare considerations played a role in the positive state, for instance, in various arrangements of preferential prices for certain sectors which were typically funded through cross subsidization (for example: lower rates paid by rural consumers, cross subsidized by urban consumers). While these arrangements can be seen as a way to ensure all citizens can afford basic services, this can also be seen as a means of income redistribution between different sectors of society, according to social or political criteria.

However, arrangements based on cross subsidization are only economically sustainable when the market is controlled by a monopoly. In a competitive market, “cream skimming”, in which service providers tend to focus on the more lucrative portions of the market, is expected to undermine the viability of this arrangement. Furthermore, cross subsidizing also runs counter to the principles of economic efficiency on which the regulatory regime is founded, as pricing according to anything but marginal cost leads to inefficient resource allocation.<sup>2</sup> A more economically efficient way to handle issues of welfare and income redistribution is through direct cash transfers, not through the price mechanism (Rosen, 2005).

In addition, at least according to Majone’s perspective, the regulatory state, as opposed to the positive one, focuses on efficiency, not on redistribution. Welfare is to be achieved through well functioning markets, and regulators are supposed to deal with market failure, not with social fairness or equity. How, then, can the regulatory state handle these welfare issues?

One regulatory solution that has been suggested and implemented to deal with this problem is that of the universal service obligation (USO): a set of state dictated standards regarding certain basic services (such as telephone and electricity) assuring that adequate levels of service will be provided at affordable prices to all citizens,

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<sup>2</sup> About the shift from average cost to marginal cost pricing in the electricity sector see Chick, 2007.

once the service in question is provided by the private sector. Much of the existing research about the issue of the USO, and indeed, about the regulation of social issues in the utilities, is focused on technical issues of setting up and funding this arrangement. (Armstrong, 2001; Hoerning and Valleti, 2002; Crew and Kleindorfer, 2002).

However, assuring adequate service at affordable prices is only the most basic of many possible social goals and dilemmas faced by the state in this field. Even in a functioning regulatory regime in which suppliers meet all regulatory demands, socially unacceptable conditions may still exist. Citizens may still face high energy bills or disconnection due to an inability to pay, without this indicating any kind of economic inefficiency. The state, however, may find these kinds of situations socially unacceptable. At the same time, the concept of the USO does not address other non economic goals policy makers may still strive to attain through the utilities.

Introducing social issues into a liberalized regime creates what we might best call a “regulatory welfare regime” (RWR). A working definition of this notion would include the measures taken by the state – directly or via other parties - in a certain sector in order to achieve welfare goals, through the use of rule making and regulatory instruments. To explore this option, this paper assesses the emergence and consolidation of a regulatory welfare regime in the electricity sector in three countries and raises the following three research questions: First, what are the characteristics of the new regulatory welfare regimes in the electricity sectors in Israel, the United Kingdom and Sweden? Second, what underlying principles govern the new regulatory welfare regimes in electricity in these three countries? Third, what forces and actors shaped these new regulatory welfare regimes in the electricity sectors in these three countries?

The next section presents the theoretical and analytical framework in which the answers to these questions are grounded. The second section presents the initial development of the regulatory regimes in the Israeli, British and Swedish electricity sectors since liberalisation, and the subsequent introduction of social measures. The third section systematically categorizes and compares the social measures introduced into the RWR’s in the electricity sectors in all three cases. The fourth section

examines the causes for the formation of distinct regimes in each of the cases. The fifth section offers several conclusions.

## 1. Theoretical and Analytical Framework

It is possible to distinguish between two separate logics of regulation: economic and social (Eberlein, 1999). The economic focuses on enhancing economic efficiency and correcting market failures, especially following sector privatization and liberalization. According to this line of reasoning, Regulation attempts to either protect and nurture competition in the market (regulation-*of*-competition) or create competition where it does not exist (regulation-*for*-competition) (Eberlein, 1999: 4; Levi-Faur, 1998). This is the reasoning Majone's regulatory state is 'supposed' to follow: promote competition where possible, and otherwise act as a proxy for a competitive market, through such measures as price capping (Cf. Littlechild, 2002).

The second, social, logic, is to promote social and political goals that competitive markets do not fulfill. Furthermore, such regulation may even serve to correct or compensate for politically or socially undesirable results of efficiently functioning markets. In practice, argues Eberlein, both kinds of logic, the economic and the social, not only coexist but may also conflict.

Thus, any analytical understanding of a regulatory welfare regime must begin by asking what basic logic underlies the actions and decisions made by policy makers: do they mostly follow an economic, efficiency enhancing logic, or do they sacrifice efficiency in order to achieve social goals? In a more refined manner, the question is how they balance social and economic goals via regulatory instruments.

A second level of analytical understanding has to do with the logic underlying the welfare aspects of the regulatory welfare regime. This is based upon Esping-Andersen's (1989, 1990, 1999) distinction between three different models of welfare policy: the social democratic (Nordic), the liberal (Anglo-Saxon), and the corporatist (continental). Although the validity and accuracy of this influential typology has been extensively debated, this typology has proven remarkably durable (Taylor-Gooby,

2004:12), and continues to play a major role in the study of comparative social policy (Scruggs and Allan, 2008).<sup>3</sup>

Building on Esping-Anderson's basic framework, and following Hicks and Kenworthy (2003), this paper juxtaposes the underlying logics of the social democratic and liberal models, as two possible logics of welfare policy the RWR's in electricity may follow. This is as these two logics "seem clearly to represent, not qualitatively different orientations, but rather opposite ends of a single pole" (Hicks and Kenworthy, 2003).<sup>4</sup> While the social democratic end of this dimension is based on citizenship rights, characterized by universal welfare benefits and state provision, the other (opposite) liberal end is characterized by more limited and targeted (means tested) state provision, specifically encouraging private market systems for welfare provision (Taylor-Gooby, 2004: 13). This can be seen as equivalent to the distinction made by Richard Titmus between an "institutional" welfare state, which acts to minimize the market's impact on life chances, and a "residual" welfare state, which aims to provide no more than a "safety net" for the poorest citizens (Pierson, 1995: 15).

Following Bonoli (1997), another question that is asked is not only what principles underlay the design of the regulatory welfare regimes (how?), but also how generous the level of spending is (how much?). Thus, both the extent of benefits awarded (high level or limited), the extent of targeting used (universal vs. means tested benefits), and the general basis for receiving benefits (citizenship based rights

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<sup>3</sup> In general, the typology has been criticized on empirical, theoretical and philosophical grounds. Thus, several further 'worlds' of social welfare have been suggested (a Mediterranean and an Antipodean), alongside elements of welfare policy (such as work injury programs) which the original typology did not include. Other criticism argued that the typology focused too narrowly on the single male breadwinner, striving to incorporate gender into the analysis. Other criticism focused on the (lack of) explanatory power of the very concept of the 'ideal type', while others duplicated and scrutinized Esping-Anderson's empirical methods and results. For a general review and assessment of the debate regarding the typology see Arts and Gelissen (2002). See also for example Bonoli (1997), Hicks and Kenworthy (2003), Gal (2004), Scruggs and Allan (2006, 2008).

<sup>4</sup> The use of this dimension excludes the third, conservative dimension, as the underlying principles of this dimension deal mainly with status maintenance for workers. This is a dimension with little relevance to the issues relevant to social measures in the electricity sector, as will hopefully become clear. In addition, the choice of two opposite welfare state logics (the liberal and the social democratic) simplifies the analysis and fits the limited number and variety of case studies.

vs. need based charity) are relevant in understanding the position of the RWR along the liberal/social democratic continuum.

Two of the countries whose electricity sectors are compared in this study are generally considered typical examples of their respective welfare regime: Sweden of the social democratic model, and the UK of the liberal one. Israel, on the other hand, has not been definitively categorized, but will be considered here, following Doron (2003), as holding at least some Liberal characteristics.<sup>5</sup>

Once the characteristics of the RWR's in electricity will be analyzed and compared, it will be interesting to understand the relation between the principles found in these newly emerging RWR's, to the existing general welfare regime categorization of each of the countries in which these RWR's are located. This is especially interesting since recent research (Scruggs and Allan, 2008) has raised questions about the very cohesiveness of the concept of a "welfare regime", arguing that contrary to the accepted notion, welfare state programs may in fact be independent of each other even within the same country, rather than being systematically interrelated. The current paper may offer a chance to examine the relation between the principles that these new welfare programs follow, and the existing welfare policy legacies (and regime categorization) in each country.

### **The Explanatory Framework**

While several theoretical frameworks could be used to explain the development and formation of RWR's at the sector level, such as the public and private interest theories of regulation (Croley, 2007; Stigler, 1971), these theories may prove too generalized to be useful in the context of this paper. Instead, it may be more useful to focus on theories explaining change in social policy, and specifically in welfare state development. In this context, one can point to two major and interrelated discussions

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<sup>5</sup> Gal (1998) likens Israel to the UK, as similar to the liberal model, while Stier et al. (2001) categorize it as conservative. Gal (2004) describes Israel as a hybrid case of social policy, owing to the tendency by different scholars to ascribe it to different welfare regimes. Doron (2003), argues that since the early 1990's Israel has been undergoing a transformation from a social democratic to a liberal style of welfare regime

on these topics in the last decades: the welfare state expansion debate, and welfare state retrenchment debate.

The welfare state expansion debate tries to explain the growth of the welfare state during the thirty years following the Second World War. Two main schools of thought explained this phenomenon: the “power resource” approach, and historical institutionalism. The first used the relative strength of labor unions and of the political left to explain the relative development (or lack of development) of the welfare state in different countries. According to this approach, the welfare state “is an effect of labor mobilization”. (Pierson, 1995; Beland and Shinkawa, 2007; and see, for example, Korpi, 1983; Esping-Anderson, 1985; Korpi and Palme, 2003). Conversely, historical institutionalism focused on the structure of political institutions as a major explanatory factor in understanding the development of the welfare state, suggesting that “established policies and formal political institutions constrain trajectories of policy development” (Beland and Shinkawa, 2007: 360). Two main elements feature prominently in such institutional analysis: the structure of formal political institutions, and state bureaucratic capacities (Pierson, 1995. see also Skocpol and Weir, 1985).

The second debate regarding welfare state development has to do with welfare state retrenchment beginning in the 1970’s. This development in social policy is not as readily explained by the two theoretical frameworks used to explain welfare state expansion. This, argues Pierson (1995), is not surprising, as retrenchment is different than expansion in both goals and historical context. Thus, the power resource approach has difficulties in explaining welfare retrenchment: Although organized labor’s strength was significantly diminished in both the UK and the US, the welfare state remained relatively unscathed, despite Thatcher and Reagen’s best efforts.

In order to be useful for the analysis of welfare state retrenchment, the focus of institutional analysis must also shift. For example, the institutional features most relevant to understanding expansion may be less relevant when it comes to retrenchment. The question of administrative capacities, “can we administer it”, is very relevant when the goal is to expand the welfare state, but becomes less so when the goal is to dismantle it.

Besides historical institutionalism, other theoretical approaches have also been employed in the research of welfare state retrenchment, including industrialism (which argues that economic and demographic change is the root cause of modern welfare state development),<sup>6</sup> and the “force of ideas” approach, focusing on changes in political discourse as the key to understanding changes in policy (Beland and Shinkawa 2007).

As goals and context shift, so do the factors important to understanding the causes for social policy. In the current context, it seems that regulatory welfare might fit under either debate. Introducing welfare measures into the regulatory regime in electricity seems like a form of welfare state expansion. However, it has been employed as the welfare state in general (and even programs intended for the beneficiaries of regulatory welfare) is undergoing cutbacks and retrenchment. As adding welfare measures to the electricity sector can be associated with both welfare retrenchment and expansion, theoretical approaches from both debates will later be employed in the attempt to analyze and explain the design of the RWR’s in this sector.

## **2. Development of the regulatory regimes in electricity**

After reviewing the theoretical and analytical background, the next section compares the historical development of the electricity sectors in Israel, the UK and Sweden, as well as the subsequent introduction of social measures into these sectors.

### **2.1 The regulatory regime after liberalization in Israel, the UK and Sweden**

Although liberalization and privatization of the electricity sector in Israel have been on the policy agenda for years, this sector is today still dominated by one supplier, the

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<sup>6</sup> For a similar approach see Milne, 1998.

Israel Electric Corp. (IEC), a vertically integrated government owned monopoly.<sup>7</sup> The Electricity Law, passed in 1996, laid the groundwork for the future formation of a competitive market. The law also founded the body responsible for regulating the electricity market, the “Public Utility Authority – Electricity” (PUAE), in charge of setting the electricity tariffs, setting and ensuring compliance with standards for quality of service, and licensing electricity providers (the electricity law, 1996: paragraph 30). To date, the PUAE is still a regulator of one company - the state owned monopoly. This peculiar state of events has been referred to as the paradox of a “regulatory regime without liberalization” (Levi-Faur, 2000).

The guidelines for pricing set in the electricity law reflect the principles of economically efficient regulation. Prices are to reflect (marginal) cost of each individual service, and cross subsidization is specifically forbidden. Thus, although prices are set by the state, they are market oriented. Furthermore, any rate reduction set by the state must have a funding source in the state budget, and cannot be funded by raising electricity rates (Electricity Law, 1996: paragraph 31). According to an authority official, the PUAE understood this as specifically forbidding it to consider any form of social or welfare considerations in setting electricity prices (Shay, 2004). This was also the position taken by the courts on the subject (Elbashan, 2008: 154).

In the UK, before liberalization, the electricity and gas industries were nationalized and publicly owned. The liberalization process in these sectors began when the 1986 Gas Act privatized the incumbent, British Gas, followed by the Electricity Act of 1989, which began the process of separating the “natural monopoly” components of the sector (mainly transmission and distribution), from those which can be run in a non monopolistic manner, namely generation (Chick, 2007).

This was done by Forming and privatizing several power generation companies, and forming a transmission company owned by the now privatized local distributors. Initially, separate regulators were formed for gas (OFGAS) and electricity (OFFER). Following the Utilities Act of 2000, these were merged, forming

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<sup>7</sup> About the founding and nationalization of the IEC see Levi Faur, 2002. On the failure to privatize the Israeli electricity sector, see Czamanski, 1999.

OFGEM - the Office of Gas and Electricity Markets (Boscheck, 1994; Ram, 1995; Böllhoff, 2005).

The initial role of OFFER followed the logic of economic efficiency. According to Waddams-Price (2001), this agenda was set by the Conservative government in response to the dubious reputation the nationalized industries enjoyed as far as efficiency was concerned. In electricity, the main concerns facing the regulator were ensuring open access to the electricity grid and regulating prices (Böllhoff, 2005). This regulatory model, adopted in gas and electricity alike, has been referred to as an “economist’s dream”, as it “separate[d] analysis of efficiency and distribution; that is, the size of the cake and how it is distributed” (Waddams Price, 2001: 167).

In Sweden, the electricity market was historically divided between different electricity manufacturers and distributors and between public (state and municipal) and private ownership. (Amundsen and Bergman, 2003: 123, Damsgaard and Green, 2005: 3; Midttun et al., 2003: 140-2). The largest of the energy production companies was the vertically integrated state owned Vattenfall, which served as a “key energy policy instrument” by the state (Amundsen and Bergman, 2003:123), through which prices and investment were controlled. The “electricity industry in Sweden operated as a largely self-regulating ‘club’” dominated by Vatenfall, precluding the need for formal regulation (Damsgaard and Green, 2005:3).

Electricity markets in the Nordic region were restructured during the 1990’s. Alongside the UK, the Nordic countries were the pioneers in this field, before the 1999 EU directive on the subject came into effect. In Sweden this started in 1994 with the Electricity Market Law and later with the 1998 Electricity Act, which intended to introduce competition at the generation level. Transmission and distribution were separated from generation and sale (retailing) of electricity (NEMESYS, 2005, Bjornsson, Crow and Huntington, 2004).

While privatization played a major role in the restructuring of electricity production in the UK, this was not the case in Sweden. On the one hand, in Sweden there already existed a “mixed economy” of private and public ownership. Secondly, while privatization and creating a ‘stock holders society’ was an aim of the Thatcher

government, the main goal in the Nordic reforms was increasing efficiency and lowering prices (Midttun et Al: 133).

In 1998 an independent regulator of this newly liberalized sector was established, the Swedish Energy Agency (STEM). In 2005 the Energy Markets Inspectorate (EI) was created, Becoming independent in 2008. While the Energy Agency (STEM) focuses on general issues of energy policy, the inspectorate deals with the efficiency of electricity markets. Neither deal with redistributive or social welfare issues (STEM, 2009; EI, 2009).

In all three cases, then, the electricity sector were reformed, putting in place regulatory regimes which seem to fit Majone's description of the regulatory state's focus on economic efficiency. Of the two principle justifications of regulation suggested by Eberlein, efficiency and social welfare, Efficiency, not redistribution, was the regulatory agencies' main concern. However, over time, as the next section demonstrates, this only remained the case in Sweden.

## **2.2 The introduction of social measures**

In Israel, efforts by Legislators from several political centre-right parties resulted in 2007 in the introduction of a "social tariff amendment", awarding a discounted electricity tariff to elderly citizens receiving an income support benefit. This benefit was to be funded and distributed by the IEC, through cross subsidization of the electricity tariffs paid by the general public. This approach, at odds with the original principles of the 1996 law which specifically forbids cross subsidization, was opposed at the time by the treasury ministry, the PUAE and IEC, on grounds of economic efficiency. As one IEC official put it: "I, as an economist am telling that this is wrong, it is wrong for the electricity rates to subsidize the entire country" (Committee for inquires by the public, 26.3.08). As an alternative, the IEC suggested (and implemented) technological solutions to aid consumers in financial difficulty, such as prepaid electricity meters or a limited current fuse as alternatives to disconnection from service.

In the UK, the role of the regulator was re-examined after the new Labour government came to power in 1997, resulting in a 1998 green paper (Department of

Trade and Industry [DTI], 1998). Although Labour basically retained the market structure and regulatory principles put in place by its conservative predecessor, the regulator's role was modified to include a concern for fairness, alongside the focus on efficiency. Following the Utilities act of 2000, the primary duty of the newly unified OFGEM became the protection of consumer interests, and consumers on low incomes were added to the list of consumers who are to receive special consideration from the regulator, alongside such groups as the elderly and the chronically ill (Waddams Price, 2001: 178). OFGEM was tasked with aiding the government in achieving its social goals (especially in eradicating what was termed “fuel poverty”), within the framework of a competitive market (Department of Trade and Industry, 2004: 1).

Unlike in the other two cases reviewed, the role of the regulator in Sweden has not been changed to include social welfare considerations. These remain an issue for social services. As a “prominent member” of the Swedish energy agency (STEM) put it:

[W]e have no arrangements for people with low income. . . . We have no social tariffs in Sweden, not at all. If you cannot pay your electricity bill — if you are a poor family and need milk for your children, you cannot ask the store for a price reduction because of being poor. If you are poor, you should rely on the social welfare system, not the electricity market”. (in Rubinstein Reiss ,2009: 121)

### **3. Varieties of regulatory welfare regimes**

Above, a puzzling phenomenon was observed. The electricity sectors in three different countries were reformed at roughly the same time, according to the same basic principles of economic efficiency. However, in two of these cases, in Israel and

the UK, the regime later changed to include new principles and targets, while in another, in Sweden, this did not occur.

In order to try and explain this puzzle, these three cases (or regulatory welfare regimes) will now be compared in detail, and the social measures employed in each case will be categorized under one of three possible layers: Basic consumer protection, assistance-for-electricity and assistance-through-electricity.

In order to better define and understand the extent and type of social action taken in the RWR's, different kinds or 'layers' of social measures are identified. More specifically, three layers of social action can be identified in the liberalized electricity sector. The first layer is the extent of consumer protection guidelines set by the regulator, mostly focusing on disconnection from service due to non payment or economic hardship. The second is the extent of financial and other assistance offered or administered by the regulator to consumers having trouble affording their electricity bills. The third layer is welfare transfers given to poor citizens through regulation of the electricity sector. Following Levi-Faur's (1998) categorization of different kinds of market regulation ("of competition" and "for competition"), these layers may be categorized according to their underlying purpose. Thus, the second layer of assistance may be termed *assistance-for-electricity*, and the third can be *assistance-through-electricity*.

### **3.1 Basic consumer protection**

The first layer, common to all cases studied, focuses on the conditions under which consumers can be disconnected from service due to non payment. Typically, this kind of regulation dictates that even once a consumer failed to pay a bill, suppliers must wait a certain period of time (3-4 weeks) before disconnection, and warn consumers before doing so. Service may also not be terminated if the charges are disputed, or once payment is made (for a detailed comparison see table 1)

Despite the similarity between the disconnection guidelines in the cases reviewed, several features differentiate between them, indicative of the reasoning unique to each regime. In the UK, certain consumers cannot be disconnected from service at all during the winter (OFGEM, 2006). These consumers include the elderly,

the disabled and the chronically ill. In Sweden, on the other hand, social Services are to be notified in the event of a consumer defaulting on payment. Social services may then choose to intervene and pay the consumer's debt, thus preventing disconnection (Electricity Act, 1998; Natural Gas Act, 2005; District Heating Act, 2008)

In Israel and in the UK, there exist not only the formal disconnection guidelines mandated by the state, but also guidelines drafted by the service providers. In both cases, the guidelines by the service providers are more lenient than the official regulation. However, in Israel, these guidelines are informal, and not endorsed or regulated by the state (Meeting of economic Committee, 14.02.07). In the UK, on the other hand, the regulator requires service providers to develop their own disconnection guidelines which should exceed the regulatory minimum requirements. These guidelines then become binding, as OFGEM holds service providers to the guidelines they drafted. OFGEM encourages providers to adopt an active, holistic approach to minimizing consumer debt and disconnection, with the aim of never knowingly disconnecting a vulnerable consumer (OFGEM, 2006, 2008).<sup>8</sup>

Another issue in this regard is that of consumers with a poor credit history. These pose a risk to service providers, as they are likely to default on payments. In both the UK and Israel, prepaid meters are offered to such consumers as a way for them to avoid disconnection and debt. At the same time, this solution shifts risk and responsibility away from the state and service providers: such consumers can no longer be officially disconnected, as charging the meter becomes a matter of their own choice and responsibility.

In Sweden, on the other hand, rather than using prepaid meters (as metering is not common in Sweden), service providers may require a deposit from consumers with bad credit. As with disconnection, social services may intervene and provide for the payment of this deposit as well (Vattenfall, 2008).<sup>9</sup>

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<sup>8</sup> No such informal guidelines were found in Sweden

<sup>9</sup> In the UK, a deposit may also be required of a consumer with bad credit. However, it is forbidden to require such a deposit if the consumer agrees to a prepaid meter.

In Israel, another technological measure serves as an alternative to disconnection: a low current fuse, which allows some electricity be used for a few crucial appliances at a time. This measure was introduced by the IEC, but encouraged by legislators, who saw it as a kind of a “safety net” for truly vulnerable consumers: “... for emergencies, something that can never be disconnected” (MK Amnon Cohen of Shas, the economic committee meeting, 22.06.05). The typical consumer envisioned by MK Cohen to benefit from such a fuse was a single mother struggling to feed her family, which could use it for a refrigerator and an inhaler machine, but not for such luxuries as watching TV (the economic committee meeting, 22.06.05).

In the UK (and, to an extent, in Israel), the first layer of the regulatory welfare regime is then narrowly targeted at certain sections of society, providing a residual “safety net” for the very poor, ensuring some consumers will have service regardless of payment. Social policy is delegated to and funded by the service providers. In Sweden, on the other hand, service providers are not required to provide a similar ‘safety net’: it is social services, and not the service providers who fund and execute social policy.

### **3.2 Assistance-for-electricity**

The second layer of assistance, Assistance for electricity, consists of measures aimed at assisting consumers struggling with the cost of electricity, and on solving problems specific to the energy sector. In the UK, these measures are focused around the concept of “fuel poverty”. The fuel poor are those spending upwards of a certain percent of their income (10%) on energy bills. This concept has appeared in Israel briefly, usually in reference to relevant experience from the UK (Tzadik, 2007). However, this concept is entirely absent from the Swedish regime and discourse.

The idea of fuel poverty again demonstrates the liberal approach taken by the legislator in the UK. Poverty is defined in specific, issue oriented terms, and assistance is given specifically in order to solve this issue. Rather than allowing the poor to set their own priorities with regards to spending assistance money, the state decides how and for what purpose assistance money shall be spent.

One clear example of this practice is a program called “direct fuel”, where a portion of an existing income benefit is paid directly by the state to the energy supplier. This program does not add anything to an existing benefit the welfare recipient receives from the state, it simply routes some of it to the energy supplier (National energy action, 2009). This can be seen as a way to allow consumers with bad credit or no bank account access to direct debit form of payment, which is cheaper than the prepaid method. However, it may also be argued that this approach indicates that the UK legislator assumes that fuel poor consumers are not so much unable to pay their bills, as they are unwilling to. This stands in contrast to the social policy in Sweden, where assistance is calculated so that it should be sufficient to cover basic living costs, but paid in cash, so as to allow the recipient choice as to how it will be spent (Social Services Act, 2001).

A second example of assistance for electricity in the UK is discounted rates set by service providers. Similarly to the informal disconnection guidelines, the extent of the social discounts and the terms of eligibility are set independently by each service provider, although encouraged and often according to targets set together with OFGEM. Typically, these programs are narrowly targeted, aimed at the most vulnerable segments of society. Another form of assistance offered by energy suppliers are various trust funds offering financial aid to consumers struggling with energy related debt. These funds are financed by energy suppliers themselves, alongside third sector and charity organizations.

A third example of assistance for electricity is energy efficiency improvement programs financed by the state. These programs, such as “warm front” take a direct approach to minimizing energy bills, sending teams of specialists to consumers homes to repair and improve energy efficiency (through insulation, better heating systems, etc.). As with “fuel direct”, the state decides for consumers what sort of assistance they require, and actually goes ahead and implements (and funds) this assistance.

### **3.3 Assistance through electricity**

Assistance through electricity, the third layer of assistance, is comprised of indirect welfare transfers that utilize the electricity sector as a distribution platform and/or as a funding source. This kind of assistance was only found in Israel, where it includes a

state mandated discount awarded by the service provider to senior citizens who are also already receiving an income support benefit from the state. This is a fifty percent discount on the first 400 KWH a month (Social Tariff Amendment, 2007).

While assistance *for* electricity targets consumers specifically having trouble affording energy bills, assistance *through* electricity is in this case granted according to one's age and economic situation, regardless of whether the cost of electricity is an issue for that individual. In fact, it can be argued that the 2007 social tariff amendment carries the characteristics of any other welfare benefit, such as a child or pensioners benefit: its rate and eligibility conditions are set in legislation, and the exact list of recipients is even transferred directly by the state to the service provider. The difference between the social tariff and other benefits (such as the child support benefit) is in the fact that it is both funded and distributed by the service provider (through cross subsidization of electricity rates of the general public), rather than being funded by the state budget and distributed by social security. A representative of the Israeli treasury summed this point up well when discussing different suggestions for a social tariff program:

The way we see this, it's a little bit like walking in circles and reaching the same place, which is [welfare] transfer payments. It's a kind of taxation, no matter how we call it – through the electricity tariffs, through the income tax [or] through the social security [payments] we all make every month ...” (economic committee meeting, 14.2.07).

It is interesting to note that the cross subsidization of rates exists in Israel not only in the third but also in the first layer of assistance, in the guidelines for disconnection. In both the UK and Israel, prepaid meters are offered as an alternative to disconnection. However, in the UK, prepaid consumers pay rates up to 70% higher rates than direct debit consumers (Financial Advice, 2008), while in Israel, prepaid consumers pay the same tariffs as direct debit consumers. It is ironic to note that The IEC objected to the cross subsidization entailed in the 2007 social tariff amendment,

but is essentially cross subsidizing the cost of prepaid consumers at the expense of the general public.

### **3.4 Underlying principles of welfare policy and regulation**

Comparing the regulatory regimes in these three countries shows a distinct difference in both the regulatory and the welfare policy principles employed in each one of the cases. Thus, the regime in the UK is characteristic of liberal (residual) welfare reasoning, offering targeted, limited assistance to certain vulnerable groups, specifically those considered most socially deserving: poor consumers which are also elderly disabled or ill, or families with children. The state encourages and requires market based solutions through the service providers, and both state and supplier run programs follow the same liberally oriented welfare principles.

Policy in Sweden, on the other hand, follows a Social democratic (institutional) pattern: there are no specially targeted programs or social tariffs offered only to certain groups (Rubinstein Reiss, 2009). The state, through social services, not the service providers, may assist consumers who are having trouble with energy costs. Existing general welfare benefits are intended to cover basic living expenses, including energy costs alongside other day to day expenses.

The Israeli RWR, though not as fully developed as the one in the UK, seems to follow similar, liberally oriented principles. However, it includes only a small number of measures, focuses on a much smaller amount of recipients, awarding relatively low levels of assistance. It has also taken a more etatist approach than that in the UK, explicitly designating the extent of benefits and their recipients, and using the state owned energy supplier as a both a policy instrument and a source of funding.

As far as the principles of regulation go, it may be noted that the strictest adherence to the normative economic model is found in Sweden, following Majone's (1997) view according to which regulation is intended to increase economic efficiency. The UK seems to mix economic and social principles of regulation, as Eberlein (1999) describes. In the UK there is an effort to pursue social goals through the use of economically efficient tools, such as the use of self- and co-regulation rather than coercive measures. In Israel, social considerations were inserted into a

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formerly strictly economically efficient regulatory regime, in a manner that quite blatantly contradicts principles of economic efficiency.

Table 1 (below) summarizes the three layers of regulatory welfare assistance:

**Table 1: Layers of regulatory welfare**

	Characteristics	Israel	UK	Sweden
<b>Layer I:</b> <b>Basic</b>  <b>consumer</b> <b>protection</b>	<b>Formal Disconnection guidelines</b>	Disconnection after 21 days and written notice. Supplier may disconnect service or install prepaid meter / limited current fuse.	Disconnection after 28 days followed by a 7 days notice. A payment arrangement and a prepaid meter must be offered as an alternative to disconnection.  Certain vulnerable consumers may not be disconnected during the winter.	Disconnection after Three weeks and written notice. Notice is also to be sent to social services, which may intervene and pay debt.
	<b>Informal Disconnection guidelines</b>	Disconnection only after several unpaid bills and 300 NIS of debt. Disconnection not automatic: subject to managerial discretion	“Safety net” run by suppliers, including increased waiting time and notices before disconnection.  Conditions vary between suppliers. The aim is to never knowingly disconnect vulnerable consumers.	Not available
	<b>Options for consumers with bad credit</b>	1. Prepaid meters - same tariff as direct credit users.  2. low current fuse	1. Prepaid meters - tariff up to 70% higher.  2. If consumer refuses a prepaid meter, deposit may be required.	Companies may require a deposit (deposit might be taken care of by social services, if need be).
<b>Layer II:</b> <b>assistance</b> <b>for</b>	<b>Assistance for consumers having trouble</b>	None	1. “Warm Front”: advice and funding for home insulation / energy	None

<p><b>electricity</b></p>	<p><b>with their energy bills / in debt</b></p>		<p>efficiency.</p> <p>2. “Social Tariffs” offered by suppliers.</p> <p>3. Trust funds provide financial assistance to consumers in debt.</p> <p>4. “Direct fuel”: directing a portion of existing income benefit directly to energy supplier.</p>	
<p><b>Layer III: assistance through electricity</b></p>	<p><b>Assistance for the poor</b></p>	<p>State mandated 50% discount on first 400 Kwh for elderly citizens on income support benefit.</p>	<p>None</p>	<p>None</p>

## 4. Explaining Varieties of Regulatory Welfare Regimes

After reviewing the characteristics and underlying logics of the RWR’s in the three case studies, there now remain two main questions. The first question is why the Swedish case differs from the Israeli and British ones, in choosing not to specifically implement social measures. The second question relates to the differences between Israel and the UK: why did each choose a different path with regards to the assistance for or through the electricity sector. In what follows I present three theoretical explanations and then apply them in order to provide an answer to these two questions.

#### 4.1 The power resource approach

According to the reasoning behind the power resource approach, welfare state expansion is a result of labor mobilization, unionization and the power of the political left (Beland and Shinkawa, 2007). As a result, we might expect welfare expansion, such as the introduction of social measures into the electricity sector, to be coupled with (or even preceded by) a resurgence of organized labor. However, the opposite actually seems to be true: unionization rates and density have dropped in all three countries in recent years, most sharply in The UK and Israel. In Sweden, where union density is still the highest in the western world, social measures were *not* introduced into the regulatory regime.<sup>10</sup>

As for political representation of the working class, in the UK, regulatory welfare reform was indeed conducted by the Labour party. In the Israeli case, on the other hand, such reforms were carried out by center-right parties. In addition, the blurring of traditional left/right dichotomies in both Israel and Blair's "New Labour" make it still more difficult to make any sweeping claims in this regard.

In Sweden, where there has been little development in regulatory welfare, power has been held predominantly (since 1982) by the social democratic party, interrupted between 91'-94' and since 2006 by center-right coalitions. However, these shifts in power seem to have had little impact on the inclusion of social considerations into the electricity sector.

The absence of a clear connection between the power of labor and the political left and the introduction of social measures into the electricity sector is perhaps not surprising when the nature of these measures is considered. Thus, the regimes implemented in Israel and in the UK are of a residual nature: means tested and narrowly targeted. This, as Pierson suggests, is exactly how a conservative government would design its welfare policy, directed specifically at the poorest parts

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<sup>10</sup> This decline was steepest in Israel: membership dropped from about 80% during 1960's to the 1980's to 45% in 2000 (Levy, 2006). A similar drop can be seen in the UK: from a high of about 50% union density, to 29% in 2002. In Sweden, on the other hand, unionization density is the highest in western world, at 82% (in 2002), a small drop from a height of 88% in 1998 (Lesch, 2004).

of society, not at the middle class: “if conservatives could design their ideal welfare state, it would consist of *nothing but* means-tested programs” (Pierson, 1995: 6, italics in the original).

Although these programs appear as though they were designed by the political right, the political leanings of the party in power does not seem to be the deciding factor here: such schemes were implemented by both right and left parties, and (in Sweden and the UK) not implemented when the right was in power.

#### **4.2 Industrialism: what makes Sweden different?**

Another possible explanation for the differences seen above might be drawn from the demographic and economic approach known as Industrialism (Béland and Shinkawa, 2007: 360). Thus, it might be hypothesized that social measures would be implemented in countries where electricity tariffs or consumption levels are relatively high. We might then expect to find that prices and consumption levels in The UK and Israel are higher than in Sweden.

The data, however, does not support this hypothesis. In recent decades, prices followed a similar direction in both UK and Sweden, most recently rising in both countries after 2003 as fuel prices soared. (Amundsen and Bergman, 2003; Energy Market Inspectorate, 2006:25; Damsgard and Green, 2005:4, Amundsen et al, 2006; Mackerron, 1998). However, electricity prices in Sweden are actually as much as a third higher than they are in the UK (Goerten and Clement, 2006), and household consumption of electricity in Sweden is more than double that in the UK, due largely to the use of electricity in residential heating (IEA, 2007: 664 ,719).

Despite the fact that electricity consumers in Sweden can be seen as worse off than their British counterparts, social tariffs, as well as the issue of “fuel poverty” arose in the UK alone. This point is only made clearer when the price of electricity in Israel is examined. In 2000/1, the Israeli state set tariffs were slightly lower than those

in the UK.<sup>11</sup> An explanation focusing on the cost of electricity or on its necessity to citizens lives does not seem to be enough in order to explain these phenomena.

While electricity tariffs and use patterns may not explain the variance in the development of the RWR's, the comparative level of social expenditure, may not be so easy to dismiss. Thus, in 1999, while social measures were being introduced into the UK electricity sector, 19% of the British population lived in households with a disposable income below the poverty threshold (60% of median income), while in Sweden, this was true of only 9% of the population, the lowest figure in Europe (Eurostat, 2003). In Israel, in 2007/8, around the time the social tariff amendment was legislated, about 23.6% of the population was defined as poor (income below 50% of national median: Andebeld, Gotlieb and Fruman, 2009). This implies perhaps a simpler solution to the questions raised above: poverty in the UK and Israel is more common, thus making efforts to combat poverty in the utilities almost a necessity.

However, this explanation may be overly simplistic, taking for granted that poverty rates can cause state action. However, it is actually the other way around: poverty rates are at the same time also already the result of a chosen social policy, of taxation and transfers. Thus, in 1999, the rate of population at risk of poverty before social transfers in the UK (30%) and in Sweden (28%) is rather similar. It is social policy that differentiates between these two countries (EUROSTAT, 2003).

A comparison of public social expenditure in Sweden and in the UK over the last few decades demonstrates this point: understandably, the level of public social expenditure in Sweden is the highest in the OECD (alongside France), and has been consistently higher than that in the UK, which is half of what it is in Sweden. The level of public social expenditure in Israel is the lowest of the three (OECD, 2008).

Based on this comparison, the argument can be made that low rates of social expenditure can be seen as conducive to the introduction of social measures into the electricity sector, as in the UK and Israel. In Sweden, where a well funded, comprehensive system of social welfare exists, this was not necessary.

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<sup>11</sup> About one US cent lower, in ppp terms, 11.5 as opposed to 10.5 in 2000. see Olzwer, 2003.

In more general terms (requiring further substantiating) it may be suggested that lower levels of social spending are conducive to the development welfare institutions outside the realm of the ‘traditional’ welfare state. These institutions may differ from traditional welfare policy tools in not relying on the state budget, and by turning responsibility for the attainment of welfare goals over to the business and third sectors.

The question remains, however, what causes variation in the development of these new forms of welfare in different countries. Why did Israel choose the path of assistance through electricity, and the UK choose Assistance for electricity? What lead policy makers to choose one pattern of social policy over another?

### **4.3 Historical Institutionalism: Explaining variation between Israel and the UK**

A theoretical perspective based in historical institutionalism may offer a solution to the question posed above. In the Swedish case, it may be argued that high levels of social spending eliminated the need for ad hoc, sector based welfare solutions. This social spending stems from the long standing historical commitment to a social democratic model of welfare policy that exists in Sweden. As social spending was significantly lower in the UK and Israel, regulatory welfare regimes developed in their electricity sectors. However, in either of these two cases, these regimes developed along a different path, according to existing state institutions, traditions, capabilities and obstacles faced by policy makers.

In the UK, the new Labour government came into power in 1997, with an agenda of change with regards to regulation utilities. However, the changes the Labour government made to these sectors were certainly not dramatic. Market structure and regulatory principles were retained, simply adding social protection to the regulator’s duties.

One reason for the relatively mild social action taken by Labour in this field may have to do with energy prices being relatively low at the time, alleviating

political pressure on this matter (Mackerron, 1998). Another reason can be that working within the existing regulatory framework, adding social measures to the regulator's duties represents Labour's "attempt to find a 'Third Way' policy for the utilities" (Jones, 2000: 27).

It should also be considered that adding social responsibilities to OFGEM in the UK actually meant reverting to a historically familiar policy path. As Conrad and Waddams Price (2001) show with regards to the gas sector, nationalized industry was for years responsible for catering to social and national interests, while also expected to provide adequate service and maintain financial viability. This is, ironically, also what OFGEM is called upon to do. Assistance-for-electricity measures founded in the electricity sector can be seen as a 'revival' of this policy tradition, finally formalizing practices that existed (but were never really very well formulated or effective) before liberalization (Sauter, 1998, Prosser, 2000).

What made Labour's policy possible at the time was that the regulator itself was in a position to take on such additional social tasks: well established, staffed and funded. Thus, When Labour formed OFGEM out of the two existing energy regulators, the newly formed agency had a staff of 380 employees, reduced by 2001 to 300 (OFGEM, 2001). This may not have been the case if the energy sector in the UK at the time had still been regulated by the lean, 'watchdog' oriented regulatory bodies set up in the energy sector a decade earlier. In 1985, the Director of Gas supply (DGGS), for instance, initially had a staff of just 32 and a budget of 3 million GBP (Parker, 2009: 374).

In fact, when compared to its Israeli counterpart, OFGEM is a veritable giant: in 2001, The PUAE had only 17 employees, increased by 2007 to 29 (Ministry of Finance, 2001, 2007). In 2009, the PUAE's budget was 15 million NIS, while OFGEM's budget was 42.2 GBP, roughly 18 times higher, with an average staff of 310 (Ministry of Finance, 2009; OFGEM, 2009). Although surely an unfair comparison, it still may be indicative of the relative standing of the regulatory agencies in either country.

While the solution found in the UK for the inclusion of social issues in the regulatory agenda may no longer be considered an 'economist's dream', the British

type of assistance-for-electricity it is still mostly in line with a market and efficiency oriented regime. This however was not the case in Israel, where assistance-through-electricity ignores efficiency considerations in favor of redistributive ones. What accounts for this difference?

The historical background for the introduction of assistance-through electricity in Israel was a sustained period of welfare budget cutbacks, beginning in the mid 1990's. Doron (2003) places these cutbacks within the framework of a general shift in the Israeli welfare regime from a social democratic to a liberal, "American style of welfare", making welfare benefits more selective and means tested. In recent years, levels of public expenditure in Israel have been lowered from a 'European' standard to an 'American' one (Dahan, 2009). This trend reached its "zenith" during Prime Minister Sharon's government formed in 2001 (Doron, 2003:4). Subsequently, from 2002 - 2005, the average sum of income support per family decreased (in real terms) by 15%, and the child support benefit was slashed by 45% (National Insurance institute of Israel, 2005, Doron, 2003).

The shift away from universal welfare benefits was accompanied, according to Doron, by a "successive increase in the social welfare and social security system of clientelistic related patterns [of ...] political party patronage". This seems to be in line with what happened in the electricity sector, as MK's from three different political right and centre parties, (Shas, the Likud, and Yisrael Beytenu) all suggested different bills seeking to benefit the poor, which comprise a large part of these parties' constituencies. Later, the implementation of the 2007 amendment was vigorously followed up by MK's from these parties (Committee for inquires by the public, 09.03.08; 26.03.08; 19.5.2008).

After the level of welfare spending was cut, any notion of raising the level of the child allowance and other such welfare benefits would have been met with strong opposition by both political and administrative players, specifically by the treasury. This opposition, coupled with the clientelistic pattern of welfare politics described by Doron, led policy makers to search for new avenues for welfare spending. The electricity sector served as (one) suitable outlet.

The electricity sector was chosen as a way to circumvent the treasury's tight grip on the state budget, and its refusal to accommodate any additional welfare spending. As an international comparison shows, the budget department in the Israeli treasury holds an especially tight grip on budgetary spending (Ben Bassat and Dahan, 2006), so that funding such a bill through the general state budget would probably not have passed or been implemented. Using the electricity sector and funding the benefit through the IEC was seen as kind of a "free lunch": raising levels of welfare spending without having to obtain the treasury's approval. As an IEC official put it, "It's just like MK Kachlon [an initiator of the amendment, H.H] said, [...] he can't deal with the treasury ministry, so he took the route of [using the] electric rates" (Committee for inquiries by the public, 26.03.08).

In addition, subsidizing services for welfare purposes is rooted deeply in Israeli political culture. As the PUAE official mentioned, the electricity prices were in the past used to solve "all kinds of sectoral" issues (Knesset economic committee meeting, 14.2.07). Even today, part of the entitlements given to handicapped army veterans are in the form of a discount on different utilities: telephone bills, heating and air conditioning stipends, etc (Ministry of Defense, 2009). This form of subsidization goes back, in fact, to the early days of statehood, when it was the dominant policy for welfare transfers. Since the early 1980's, however, this kind of subsidy has been on the decline, while direct cash transfers replaced it as the dominant welfare policy measure (Dahan, 2008). This policy tradition was then revived in the electricity sector, when the more efficient option of funding this arrangement through the state budget was not available.

Another institutional aspect to consider in explaining the different paths taken by policy makers in Israel and the UK is the different Market structures in these countries. Since the electricity sector in Israel is a regulated public monopoly, policy makers could consider the idea of using the state owned IEC in order to fund a benefit for the elderly poor to be a viable policy option. As the literature on the issue of 'cream skimming' shows, Using the electricity sector as an instrument of direct state policy is much easier to do when the service provider is not under competitive pressures, and when its main stock holder is the state itself, rather than in the context of a privatized competitive market, as in the UK.

## 5. Conclusions

This paper aimed to understand the impact the transition from the positive state to the regulatory state (Majone, 1997) had on the social policy exercised in the electricity sector in three countries: Israel, The UK and Sweden. After the privatization, liberalization and re-regulation of the electricity sector in these countries, state control of these sectors shifted from the political to the regulatory arena, and economic efficiency, rather than social equity, were to be the focus of the regulatory regime. As time passed, however, Social considerations became part of the electricity sectors in Israel and in the UK (but not in Sweden), forming distinctive regulatory welfare regimes at the sectoral level.

In order to capture the distinctive features of these regimes, this paper differentiated three ‘Layers’ of social protection in the electricity sector: a basic layer of consumer protection regulation, a second layer of assistance-for-electricity, and a third layer of assistance-through-electricity. Thus, in all three countries, a basic layer of consumer protection exists, minimizing disconnection from service due to economic hardship. Later on, two additional layers of social assistance were introduced: assistance-for-electricity, aiming to help vulnerable consumers with their electricity expenses, and assistance-through-electricity, using the electricity sector as a platform for issuing a welfare benefit for vulnerable citizens. The first of these two last layers was developed in the UK, and the second is found in Israel.

In Sweden, the regulatory regime seems to adhere strictly to economic principles, leaving social considerations largely to other players. Although some non economic issues (mainly environmental issues) are part of the Swedish regulator’s responsibilities, this is not the case with regards to welfare. As for social policy principles, when social concerns are addressed in the Swedish regime, this is done in a manner coinciding with the principles of social democratic welfare policy.

In the UK, social regulation now plays an increasingly large part on the regulatory agenda. However, the regulator aspires not to achieve these goals at the expense of economic efficiency. The regulator aims to use market tools and incentives in order to achieve social policy goals. As far as social policy is concerned, the

assistance programs put in place by the regulator are of a liberal, residual nature, aiming to assist only the very poorest consumers.

In Israel, an initially strictly economically oriented regulatory regime has been compromised in recent years, as a cross subsidized program of social rates for the elderly poor was introduced with little regard for efficiency implications, using economically inefficient cross subsidization of tariffs. The welfare policy principles this regime follows are, as in the UK, of a liberal nature.

Trying to explain this variance in the design of the regulatory welfare regimes, it was found that while the industrialism approach helps explain the differences between Sweden and the other countries studied, historical institutionalism offers insight into explaining the differences in the design of the regimes in Israel and the UK. Thus, it is surmised that low levels of social expenditure (as in Israel and the UK) can be seen as conducive to the introduction of social measures into the electricity sector. In Sweden, where there are high levels of social expenditure stemming from a firm commitment to a social democratic welfare policy, the need for ad hoc sector specific welfare measures did not arise.

In Israel, after welfare spending was slashed, policy makers looked for new avenues of social spending. They found what they were seeking in the electricity sector, creating a welfare benefit for the elderly poor which is funded and administered by the IEC. This allowed legislators to circumvent the state budget, over which the treasury, which opposes increasing welfare spending, holds a tight grip.

In the UK, adding social considerations to the regulator's responsibilities was the Labour's 'third way' of introducing change and increasing social equity in the electricity sector without dramatically changing the sector's structure. The existence of well established, funded and staffed regulatory bodies in the British energy sector facilitated this transition. In both cases, the introduction of social measures into the electricity sector can actually be seen as a re-introduction, as subsidizing services for welfare purposes (in Israel), and balancing social consideration with economic considerations by nationalized industry (In the UK) are both policy traditions which predate the liberalization of the electricity sector in either country.

One conclusion drawn from these findings is that welfare policy and state traditions are decisive factors in the design of the regulatory welfare regimes: as a whole, the RWR's follow a similar logic to that of the general welfare regime in each country. This is to be expected when considering that of the two elements in the regime, regulation and welfare principles, the latter are deeply entrenched in society (Pierson, 1996). The basic logic that has underlay welfare policy for decades is evident not only in the design of traditional welfare institutions, but also as new forms of regulatory welfare emerge.

This point may be addressed also from a different perspective. As the literature on "regulatory capitalism" demonstrates (Levi Faur, 2005), regulatory regimes have spread globally following the same basic prescription of liberalization, privatization, and the formation of an independent regulatory agency. However, the findings of this paper show that the distributive aspects of these regimes are not as uniform. Regulatory welfare seems to be a local adaptation of the global phenomenon of regulatory reform, heavily influenced by local state traditions.

This leads us to another conclusion about the manner in which different capitalist systems create distinctive regulatory and redistributive structures. If indeed the regulatory state is "on the rise", and the welfare state is "on the run", then it would seem that the more traditional welfare retreats, the further regulatory welfare advances. The findings of this paper suggest that where social spending has come under the harshest attack, the use of regulation to achieve welfare goals became more common. This phenomenon can be seen as a return of welfare through the 'back door'.

Ironically, it is not clear if this is the trade off the proponents of liberalization expected. The neoliberal pattern of liberalization, privatization and re-regulation was usually coupled (as in the UK and in Israel) with an increasing pressure on welfare institutions and expenditure. At the same time, however, this pattern inadvertently offered policy makers a new (regulatory) channel through which to address the self same issues traditional welfare now fell short of handling. Regulatory welfare, it seems, is a sort of a stowaway of neoliberal reform: appearing alongside the economic steps taken, offering a solution to problems the neoliberal prescription did not address.

Indeed, offering a solution to problems which *were no longer supposed to exist*, once market forces (or the famed “trickle down” principle) would finally kick in.

The irony is, then, that regulatory welfare actually undermines the basic principles of efficient economic regulation. Especially in cases where prices are discounted or manipulated in order to benefit certain groups, or assistance is given in kind, rather than cash, regulatory welfare is quite an inefficient way to assist vulnerable consumers / citizens. Pending further research, it is possible to suggest that a well developed welfare regime (as in Sweden), is in fact a facilitating factor in promoting economically efficient regulation of competitive markets.

This point explains what might have been seen as an apparent paradox of regulatory welfare, in which the UK, a liberal welfare state, implemented a far more elaborate regulatory welfare regime in electricity than social democratic Sweden. The rather simple solution to this paradox seems to be that where existing welfare institutions are still sufficient, there is no need for elaborate and inefficient regulatory welfare.

Policy makers introducing social measures into formerly efficient regulatory regimes seem to be cutting off their nose in order to spite their face. This is perhaps since the prospect of increasing the level of general social spending is politically worse (and more expensive) than sacrificing economic efficiency in regulation of the utilities.

The connection between strong welfare institutions, on the one hand, and economic efficiency, on the other, may be in line with findings of Cameron (1978) and Rodrik (1998), which describe and explain a positive correlation between a country's openness to international trade and the size of its government. According to Rodrik, this is because government spending plays a role in mitigating citizens' exposure to the risks of openness to trade. In advanced countries, this increased spending is manifested in the welfare state. According to Iverson and Stephens (2008), this spending does not result in economically adverse affects, as there is no trade off between “relatively egalitarian and redistributive welfare states”, and economic growth or international competitiveness (Ibid: 605).

According to the case studies in this paper, an opposite connection may also be true. High levels of social spending (and strong welfare institutions) may allow the state to pursue economically efficient policies even when they might pose a social risk, such as the privatization of basic utilities. In the absence of such spending, however, policy makers find themselves eventually compromising economic efficiency as well. This is in line with Rodrik's own prediction, as he concludes that "scaling governments down without paying attention to the economic insecurities generated by globalization may actually harm the prospects of maintaining free trade" (Ibid: 1029).

Put simply, regulatory welfare provisions run contrary to basic principles of economic regulation, are an inefficient way to assist those in need, and are administered by agencies which are for the most part neither designed, equipped or intended for such purposes. This is a testament to the lengths policy makers will go to in order to avoid making the supposedly "rational" choice, when political, ideological, or other practical considerations are on the line.

Based on the tentative results of this paper, and subject to the limitations of the small number of cases studied, it may be argued that although a theoretically unlikely concept, regulatory welfare is a possible trajectory for the future development of the welfare state, especially where social spending has come under attack. Cheap to maintain and relatively uncontroversial, regulatory welfare offers policy makers a 'lite' welfare policy alternative. However, although regulatory welfare is geared towards solving specific problems, it is too limited in scope to actually solve the issues it tackles. It may help the poor, but it cannot address poverty itself. Regulatory welfare is the appropriate instrument for a state in which social problems are managed, not solved: a far cry from the optimism of the 'positive state' of the mid twentieth century.

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