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Twelve National Protection Systems

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Twelve National Protection Systems

The development of extensive systems of social protection to support and assist people in need has been a prominent feature of European societies over the post-war years. The systems which have been established differ in terms of their organization and methods of funding, reflecting cultural, historical and institutional differences between the Member States. Nevertheless, they share a common characteristic of protecting all those who require support, whether temporary or on a longer term basis. It is the universal nature and the extent of this support, and the scale of redistribution of income entailed, which distinguish systems of social protection in Europe from those in other parts of the world. The historcal context, in which these systems were developed, differs from Member State to Member State. However, in all the Member States, social protection systems were set up in a context both of relatively low rates of activity, especially for women, and low unemployment They were not designed for the current imbalance between demands for and supply of jobs.

The Member States can be divided into four groups:

- the three Scandinavian countries where social protection extends to all citizens as of right and everyone is entitled to the same basic amount, with those in paid employment receiving additional, earnings-related benefits, and where only unemployment insurance is separate from the State-run integrated system and voluntary rather than compulsory;

- the UK and Ireland, where coverage is virtually universal (though the national health system in Ireland is only fully accessible free of charge to those in low incomes), where flat-rate basic amounts are also the norm, though on a lower scale, and there is extensive use of means-testing;

- Germany, Austria. France and the Benelux countries, where the insurance principle is more evident, where benefits are mostly earnings-related and, together with health care, are linked to a greater extent to employment and to contributions and vary in some degree between occupational groups (though in the Netherlands, a number of universal schemes, for pensions especially, have been established) and where gaps in coverage are filled by an extensive social assistance scheme;

- Italy, Spain, Portugal and Greece, where attempt to establish universal systems is more recent and systems are a mixture of fragmented, occupational and insurance-based income maintenance schemes, with relatively generous pension formulas, but with gaps in coverage, as noted above, and national health services, which are not yet fully universally accessible except in Italy.

The scale of expenditure

In general, expenditure on social protection tends to be much higher in the north of the Union than in the south. In the Scandinavian countries, where coverage is universal and benefits relatively generous, total expenditure on social protection amounts to over 30% of GDP (33% in Denmark in 1993; around 35% in Finland and slightly less in Sweden).

In the Netherlands, spending is also high as compared to other Member States in relation to the level of real income per head (around 33% of GDP in 1993 as against 31% in Germany and France where income per head is higher). In the UK and Ireland, on the other hand, where relatively modest flat-rate benefits are the norm and, in the former especially, where a relatively high proportion of payments are subject to means testing, expenditure is comparatively low in relation to income per head (27% of GDP in the UK, 21,5% in Ireland).

Similarly in Italy, where there are more gaps in the system than in Northern Member States with comparable levels of income per head, spending is also low (just under 26% of GDP in 1993), as it is in Greece and Portugal, where systems are still being developed (16,5% of GDP in 1993 in the former, 18% in the latter).

The pattern of spending

Old-age pensions are the largest element of spending throughout the Union - apart from Ireland where the relative number of elderly people is less than elsewhere - accounting for some 43% of total spending in 1993, followed by health care and sickness benefits, which together absorbed around 24%, invalidity benefits 9% and unemployment compensation 7%. There are significant differences, reflecting variations in need of support; eligibility; rate of benefits paid and level of service produced.

The growth in expenditure

Over the long-term, expenditure on social protection has tended to increase relative to GDP. In 1970, expenditure amounted to 19% of GDP over the Union as whole (Spain, Portugal and Greece not included). By 1980, the proportion had risen to 24%, and by 1993, to just under 28%.

The increase has by no means been uniform across the Union. Unlike in the 1970s, when most countries experienced significant growth of expenditure relative to GDP, between 1980 and 1990, spending rose by only one percentage point in relation to GDP (from 24% to 25%). In four countries - Belgium, Germany, Ireland and Luxembourg - expenditure was lower relative to GDP in 1990 than in 1980. Only in the countries where systems were being developed - Greece, Spain, Italy and Portugal - plus France, did the increase amount to more than 2 percentage points in relation to GDP. Moreover, in the second half of the 1980s when the European economies were recovering from recession, expenditure declined relative to GDP in the Union as whole, though it continued to rise in the four Southern Member States, as well as in Denmark, where economic growth slowed down. Over the three years 1990 to 1993, spending on social protection went up as a proportion of GDP as their economies went into recession, in 7 countries - Denmark, Spain, France, luxembourg, Portugal, the UK and Finland - by around 3 percentage points or more. This rise was largely due to the marked slowdown in GDP growth, or, in some cases, a fall in GDP.

The pattern of financing

In Germany, France and Belgium, two-thirds or more of the revenue levied to fund social protection comes from contributions, with employers being responsible for around 60% of these. In Greece, the proportions are similar, while in Spain, Italy, the Netherlands and Luxembourg contributions remain the main source of finance but taxes are more important. In the UK and Ireland, more revenue comes from taxes than from contributions, while in the Scandinavian countries, taxes predominate and revenue from contributions is small. There has been a wide shift from contributions to taxes as a source of finance for the social protection systems.

Over the Union as a whole, the share of revenue raised from taxes rose from 27,5% to 29,5% between 1990 and 1993, with only Belgium and the Netherlands showing the reverse tendency. Moreover, this was accompanied by a parallel shift away from employers' contributions to these being levied on the person being protected, with only Portugal experiencing a shift in opposite direction. The shift has to a large extend been a temporary response to increased unemployment and have taken the form of a reduction in employers' contribution if firms take on the long-term unemployed, the young and other "hard to place" people from the unemployment register, though rates have also been reduced in respect of the low-paid in a number of countries to stimulate job creation for the less skilled and younger members of the work force (as in Belgium, France, Ireland and the UK).

However, there is little sign of any fundamental change in the method of financing and in most countries contributions remain the major source of funding, largely because of the wish to retain the insurance-based nature of the system.

RECENT RESPONSES TO ECONOMIC PRESSURE

Measures affecting pensions

In most Member States, the emphasis has switched during the first half of the 1990s from active encouragement of earlier retirement - including, in some cases, reducing pensionable age as well as increasing income support for those no longer working - to containing the growth of expenditure on pensions. In five Member States, the official age of retirement has either been increased or is in the process of so being. In Germany, the retirement age will be progressively increased from 63 for men and 60 for women to 65 for both between the years 2001 and 2012, while those opting for early retirement will have their pension reduced by 3,6% for each year before the official age that they leave work.

In Greece, the age of retirement was also raised for women as well as men to 65 as part of the reforms introduced in 1992 to make the pension system more coherent. In Portugal, the retirement age for women is in the process of being raised from 62 to 65 (by six months each year beginning in January 1994) to match that of men, while in the UK, it is planned to bring the retirement age for women into line with that for men over the period 2010 to 2020 (though only for those aged under 44 in 1995).

Similarly, in Finland, the retirement age for public sector employees has been increased from 63 to 65 to match that of those working in the private sector. In Italy, where the retirement age is now 62 for men and 57 for women, it is planned to move progressively to 2008 to a flexible situation where both men and women can retire any time between 75 and 65. In a sixth Member State, France, while the age of retirement has been kept at 60, the number of years of contributions required for entitlement to a full pension has been raised from 37,5 to 40, which, in practice, has much the same effect as the policy followed in the five countries listed above, especially for those remaining in training or education into their 20s.

Although these changes will tend to reduce social protection expenditure in future years, it does not necessarily follow that the number in retirement will diminish. Despite the general change in policy away from encouraging early retirement, the number leaving the working force before reaching pensionable age have risen at a higher rate since 1990 than before, largely because of the increase in redundancies and the difficulties of finding alternative employment for those who lost their jobs in the recession.

There has also been a tendency to take more direct action in reducing the scale of benefits paid, taking the form, in particular, of changing the basis on which pensions are based and/or uprated. In France, from 1994, the basis for determining the amount of pensions receivable has been changed from the earnings received over the 10 years of employment when these where the highest to the best 25 years, while both reference earnings and the pensions paid are now revalued or uprated on the basis of price increases rather than wage rises. Similarly, in Portugal, from the same year, the basis of calculations has been changed from earnings in the best five of the last 10 years to those in the best 10 of the past 15, and the minimum contributions' requirement to qualify for any pension was increased from 120 months to 15 years.

Incentives to look for work

Few would seriously claim that the operation of the social protection systems and the scale of benefits available are the cause for the present high unemployment in the Union. Nevertheless, unemployment compensation have contributed to the problem by preventing wages from falling to a level low enough to stimulate demand for relatively low skilled labour. The amount of unemployment benefits paid and other additional social support transfers can create a situation where it is more beneficial not to work, or not try to increase the salary earned.

The movement from passive towards more active measures has mostly been targeted towards the long-term unemployed. In France, special placement initiatives were taken in 1992 in "Programme 900.000". In Belgium, a plan to monitor all long-term unemployed of 45 and below was introduced in 1993. In the UK, "Restart" interviews were introduced to provide systematic assistance and advice to those who had been long-term unemployed.

In Denmark, the "Employment Opportunities" plan was developed with the aim of offering a job to all the unemployed who were still without work after one year. In the latter country, as well as in Germany, France, Finland and Sweden, wage subsidies have been significantly expanded in the 1990s, to stimulate increased job creation. However, there is a question mark about their effectiveness as means of expanding the number of unemployed overall.

Subsidies to encourage job creation do not necessarily have to take the form of expenditure. The same effect can equally be achieved through reducing charges on firms, by revealing employers in part or in total of the need to pay social contributions.

Reforms in health care

In all Member States, expenditure on health care has grown significantly in real terms since 1980. The level of spending tends to be higher in countries with insurance-based schemes than in those with tax-financed national health systems, Although the different situation in the Member States a major focus in all of them have been to establish effective incentives for achieving a better use of the available resources.

In nearly all countries, there is some tendency to adopt what might be termed a "contractual" approach, though the way in which this has been used differs significantly between the Member States. In broad terms, this is simply a way of organizing the prevision of care. In France, and in some degree in Spain, contracts are essentially being used to contain costs by limiting budgets.

CHALLENGES FACING THE WELFARE SYSTEMS

The impending demographic time-bomb

The ageing of the European population will undoubtedly increase expenditure on pensions and lead to bigger demand for social service. The major expansion in potential expenditure does not come until after 2005, when the post-war baby boom generation begins to retire in large numbers. In 2015, the population aged 65 and over is likely to represent 30% of that of working-age and in 2025, 35,5%. Whereas in 1995 there are 4-5 people of working age to support each person of retirement age, in 30 years time, there will be less than three. In some countries, italy in particularly, it will be around 2,5. If average pensions remains unchanged relative to average income, this alone will add almost 5,5% of GDP to the cost of social protection over the next 30 years in the Union as a whole. At the same time, the large expansion in the numbers of elderly people is likely to impose increasing demands on the health care and social service systems.

The ease of achieving the transfer to those above retirement age and the strain imposed on future generations of working-age will depend critically on the underlying growth of the European economies between now and then and what happens to jobs. In recent years, the effective dependency ratio has risen substantially, not because of the ageing of the population but because of earlier retirement and increasing unemployment, both the result of reduced job availability. Fewer people in employment have had to support increased numbers not in work, both above and below retirement age.

If job availability through GDP growth could be expanded over the next 30 years to reduce unemployment back to the levels of early 1970s and to accommodate a continuing increase in the participation of women in the work force, as well as perhaps a reversal of the trend towards early retirement, this would more than offset the dependency ratio of the ageing of the population and make it easier to effect the income transfer required. If on the other hand underlying GDP growth does not improve and job availability remains low, then any significant transfer will present· serious problems, irrespective of how pension schemes are funded in the meantime.

High unemployment, slow economic growth

The second, more acute, problem is the persistence of high unemployment combined with the depressed rate of long-term economic growth which it reflects. This means high levels of expenditure on income support for those not able to find a job and on active labour market measures for improving their employability and preventing their social exclusion, on the other, reduced income for funding expenditure because of the smaller numbers in work. This latter effect has been reinforced by increased participation by the young coupled with early retirement among older people. The growing emphasis on getting people into work has been a common feature of policy in recent years in most member States. This has taken the form of improvements in the employment services to provide more effective help on job search, but also of increased subsidises to employer or lower social charges levied on them (which have an equivalent effect). For the most part, these have been targeted on the long-term unemployed, young people or other "hard-to-place" groups.

Rising cost of health care

A third factor threatening to push up expenditure, which has been a no less important focus of policy concern, is the rising cost of health care which stems not only from the greatly increased numbers of people living to an old age but also from advances in techniques and know-how which make it possible to treat previously incurable conditions as well as from a marked tendency for the demand for health care to increase as income rise. In all Member States, expenditure on the health service has grown significally in real terms since 1980. Total expenditure on health care averaged 8,5% of GDP in the Union in 1993. The scale of spending, however, varies significantly between Member States from about 10% of GDP in France to only 4% of GDP in Greece. In general, the level tends to be higher in countries with insurance-based schemes - the Benelux countries, Germany and Austria - than in those with tax-financed national health systems (though Italy and Finland are major exceptions).

Working women

A forth factor is the increasing participation of women in the labour market, which has been a consistent trend in most Northern parts of the Union for the past 20-30 years, but which dates back only to the 1980s in many of the Southern Europe as well as Ireland (in Greece and Spain, the activity rate for women of 25-45 was still below 60% in 1994 and in Ireland, below 55%), Although there are signs of the upward trend coming to an end in the Scandinavian Member States, where activity rates of women have reached a level only slightly below that of men (in Denmark, 84% of women aged 25-49 were economically active in 1994), it still has some way to go in other countries, There will, therefore, continue to be a growing need for the provision of support facilities which enable women to pursue working careers while bringing up children. The same tendency, moreover, gives rise to pressure for the development of arrangements within social protection systems which avoid penalising women for interrupting working careers to take care of children.

Modern families

A fifth factor is the changing structure of the traditional family unit and the growth in importance of "atypical" households, such as lone parents, divorcees or cohabiting couples, which also involve a need for the modification and· extension of social protection systems to provide specific support, as well as for the development of individual in place of derived rights for the women concerned.

Open economies

A sixth factor is the increased openness of Union economics which has lead to the intensification of competition and the growing necessity to maintain competitiveness on world markets. This has, in turn, restricted the scope for independent action in Member States and imposed greater pressure to contain production costs and to avoid policies which could push these up, including, in particular, the growth of social protection expenditure and the higher charges which might fall on business as a result.

The payers' protest

The seventh factor is the significant growth in number of people dependent on social protection which has exulted from the developments listed above, particularly from the emergence of long term unemployment as a major feature of the labour market and the significant numbers who stand little chance of finding a job. This growth in dependency and the financial burden on the reduced number who has to finance the associated expenditure, threatens to undermine popular support for the maintenance of systems of social protection in their present forms.