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REPORT FROM THE COMMISSION

Social protection in Europe

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Foreword

The challenges facing the Member States of the Community in respect of social protection lie at the heart of the debate on competitiveness, growth and employment. The way in which these challenges are tackled will have a decisive impact on the future of European society.

Clearly, the choice of priorities, the organisation and the methods of funding social protection are matters for each individual Member State. As the Commission has repeatedly stated, there can be no question of harmonising social security systems which are rooted in the culture, institutional structures and organisational procedures of each country.

However, the Member States are all facing similar problems: adverse demographic trends — particularly the dramatic changes evident in the labour market — changes in family structures and the phenomena of social exclusion and poverty which they generate. Moreover, differences in levels of social protection can hamper, or even distort, freedom of movement.

It is for this reason that in 1992 the Council considered a new approach — the convergence of social protection objectives and policies (Council Recommendation 92/442/EEC of 27 July 1972) with the aim of establishing common objectives as a guide for national policies, while at the same time leaving the Member States a completely free hand to operate and decide how to finance their own systems. On this occasion the Council stressed the importance of exchanging information and the results of studies so that debate could be enhanced and new ideas promoted.

This first report is an initial contribution to this exchange and to the encouragement of further study, with the intention of making it easier for Member States and social protection organisations to obtain the information they need to help them define the options open to them and the action they intend to take. This report should, therefore, be seen as supporting, and closely related to, the annual *Employment in Europe* report. The interaction between these two areas is one of the key factors determining economic and social progress in the Community. Furthermore, article 2 of the Treaty on European Union states that the Community must ensure "...a high level of employment and social protection...".

This first report adopts a three-fold approach. First, it sets out a concise description of the situation as regards social protection in the Community, considering features which are in common and aspects where there is divergence between the Member States. In addition to a description of each system and its underlying philosophy (Chapter 1) the report provides comparative data on the rates of benefit payable, in particular cases which are regarded as especially indicative (Chapters 4 and 5).

Secondly, the report examines the changes that have occurred in the national systems since the early 1980s — the trends in expenditure on social protection and its funding (Chapter 3), a review of the main changes in legislation with the aim of identifying the direction of policy in the Member States which essentially face similar constraints (Chapter 2).

Thirdly, the study considers a number of the most serious problems currently facing systems of social protection. What is the economic impact of social protection (Chapter 6)? How can Member States best channel their efforts to increase their control over health expenditure (Chapter 7)? What is the effect of a second job on the social benefits a couple receives and how can social protection and economic activity be better reconciled (Chapter 8)? How have the various systems of social

protection responded to the increasing importance of atypical socio-demographic cases (career breaks, broken families, etc.) (Chapter 9)?

By so doing, this first Report does not intend to be exhaustive. Future issues of the Report will need to cover other aspects which it was not possible to include here (such as the protection of non-wage earners or the systems to help and encourage receivers of minimum income allowance to enter the labour market) as well as those which need further analysis (ie the relationship between social protection and employment, the management of health expenditure, etc.). At the same time, the future issues of this Report will have to provide the most complete information possible on the reforms introduced in each Member States.

The Community's action in setting common objectives as a guide for national policies should clearly boost the exchange of information on the effectiveness of particular national policies, while common assessment criteria are implicitly established by the Council recommendation. An indication of the potential for each Member State to benefit from the experience of others will be the main contribution which the Community can make as regards social protection.

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Summary of main points

Differences and similarities

Differences between Member States in expenditure on social protection have narrowed over the past 15 years as, on the one hand, spending in the Southern countries of the Community has risen substantially and, on the other, spending in the most Northern countries (Belgium, Germany, Netherlands and Denmark) has stabilised. In 1991 (the most recent year for which data are available) statistics compiled by Eurostat using the common ESSPROS system show that transfers, in cash and in kind, effected through the channels of social protection ranged from just under 20% of GDP in Portugal to just over 32% in the Netherlands. The difference in net terms is probably smaller since the taxes and social contributions levied on the benefits themselves are significantly higher in countries where benefits are also relatively high.

A comparison of Member States as regards both the funds assigned and the levels of benefits and the criteria governing their availability reveals marked differences in the various areas of social protection.

In the case of *retirement pensions* the difference between Member States varies considerably depending on whether the average amount of benefit actually paid to pensioners is taken or some theoretical calculation of the replacement rates (ie benefit levels in relation to former earnings). The average retirement pension ranges from a little under half of GDP per head in Portugal, Ireland and Spain to around three-quarters in France, the Netherlands, Italy and Greece. Calculations based on the rates in operation on a given date indicate, however, that theoretical retirement pensions, expressed as a proportion of the final wage are in fact no lower in Spain or Portugal than those in France, Italy or the Netherlands. The difference in expenditure on retirement pension is attributable more to variations between Member States in the numbers of men and women reaching retirement age with incomplete contribution records — notably because some schemes have not yet reached maturity — than to differences in the theoretical formulae used to calculate pensions.

Comparisons are more difficult as regards the other main area of social protection, namely health care (which averages 25% of expenditure throughout the Community compared with 37% for retirement pensions), where quantitative indicators of access to treatment of different sections of the population are difficult to devise. Leaving aside Germany and the Netherlands, where the wealthiest people can opt out of national health insurance schemes, all Member States have systems of social protection which cover everyone against the risk of illness as well as most, if not all, of the cost of their treatment. The (all too few) studies carried out on access to health care show that although the needs of the very poor are generally greater than those of the better off, all the systems operated in the Member States can be said to conform more or less to the principle of "equal treatment for equal needs".

For *unemployment benefits*, the differences between Member States are more striking. In Denmark, Belgium and the Netherlands, the unemployed receive benefit amounting on average to between 70 and 80% of GDP per head as compared with only 10% in Italy (where, however, dismissed workers can receive other forms of compensation) and Greece and just over 20% in Portugal and the UK. In this case, the variations can be explained not only by the numbers of unemployed receiving benefit but also by the benefit levels, which are significantly lower in Italy, the UK and Greece than elsewhere.

Considerable differences are also evident as regards the benefits paid to wage earners who suffer *illness* or *invalidity*: a wage earner falling ill continues to receive full wages in Belgium, Germany, Greece and Luxembourg; someone earning the average wage in industry would receive three-quarters in Denmark, Spain, Netherlands and Portugal, approximately two-thirds in France, half in Italy but only one-third in Ireland and the UK. Similar differences also exist as regards invalidity benefits.

The widest differences concern *family allowances*. For each young person under 20, the level of allowance in 1991 amounted to less than 1% of GDP per head in Spain and Greece; in Belgium and France it was more than 8%, in the UK 9%, in Luxembourg 11% and in Denmark no less than 12%.

Social minima

There are also differences, of varying importance, as regards minimum social allowances — in other words the minimum benefits paid to those who have no income and who are not entitled to contributory benefits. A single person reaching retirement age who has no income can obtain a *non-contributory retirement pension* in every Member State, though it is relatively modest in Greece (10% of GDP per head), Italy (16%), and Portugal (21%). In other Member States, levels are similar when expressed in terms of national wealth — around 30% of GDP per head in Belgium, Spain, France and the UK, 35% in Denmark, Luxembourg and Ireland and 40% in the Netherlands.

Similarly, an adult *unable to work* (total invalidity) is also entitled to receive a non-contributory allowance in all Member States. Again its level is modest in Greece (16% of GDP per head) and Portugal (21%); however, it is around 30% of GDP per head in Germany, Spain, France and the UK, 40% in Ireland and the Netherlands, 50% in Italy and Luxembourg, 55% in Denmark and 65% in Belgium.

An adult able to work but without any income is not entitled to any *minimum income* allowance in Greece, Portugal, Spain or Italy, though in the latter two countries, when living in certain regions, they may receive social assistance which is a sort of minimum income. Provided the person is available for work they can receive benefit of this kind in the other Member States, though it is relatively modest (a little over 20% of GDP per head) in France and the UK, slightly higher in Belgium and Germany (around 30%), higher still in Luxembourg and Ireland (more than 35%) and highest of all in Denmark and the Netherlands (40%).

Common constraints

The policies followed by Member States over the past 15 years have been subject to two major constraints: persistently high levels of unemployment despite substantial job creation between 1985 and 1990 and the need to keep down public deficits or even, in a number of cases, to reduce them. In addition to these general constraints, there are two specific challenges facing social protection: coping with demographic imbalance from the beginning of the next century, which threatens the funding of pension schemes, and containing the explosion of costs of health care while, at the same time, maintaining the quality of care and providing access to everyone.

All Member States have sought new sources of income by raising contribution rates. Two countries, Belgium and France, have also raised the ceiling on contributions and established new types of contribution in order to enlarge the income base for social protection. However, the constraint on increasing charges on businesses so as not to jeopardise competitiveness and promote employment has led a number of Member States to cut, and in some cases even to abolish, certain contributions and to make up for the loss from the national budget (notably, Germany and the Netherlands).

The other approach was to try to cut expenditure. Despite the problems created by reassessment of established rights, cuts in benefits have been imposed, either directly by adjusting levels downwards or indirectly by tightening the conditions for obtaining benefit. The rules for indexing benefits have also been made less favourable, either by abandoning index-linking to wages or by temporary suspension of indexing in line with retail prices (Belgium, Germany, Denmark, Greece, Luxembourg and the Netherlands).

In the case of *unemployment benefits*, the persistence of high rates of unemployment has led Member States to modify their systems significantly, either by lowering replacement rates or by imposing tougher conditions for entitlement to benefit, by, for example, extending training periods (Germany, UK) or by increasing the period over which contributions have to be paid, particularly for older workers (Belgium, Denmark, Germany, Spain and France). Early retirement schemes introduced at the end of the 1970s and the beginning of the 1980s, designed to free jobs for the young, have proved to be very costly and some Member States (Denmark, for example) sought to reduce their importance at the end of the decade.

On the other hand, entitlement to unemployment benefit was extended to young people entering the labour market for the first time and special measures were introduced for this group (Belgium, Denmark, France, Netherlands and Portugal). More generally, action was taken in all Member States to combat unemployment — the unemployed, especially the young, were obliged to accept temporary jobs in the public sector (Denmark, France), part-time working (Belgium, France), geographical mobility (Italy) and the creation of new firms (Belgium, Denmark, Ireland, Italy) were encouraged and measures were taken to provide income support for the lower paid (UK) and to help the long-term unemployed to find work (Belgium, France, UK).

Persistently high levels of unemployment have not made it easier to adapt *retirement pension schemes* to the demographic changes. Besides the reforms introduced as a result of the Community Directive on the equal treatment of men and women as regards social security (79/7/EEC), the main topic for debate has been the age of retirement. A significant change has occurred over the past 10 years in this respect: initially early retirement from the labour market was encouraged, but then, once the threat to the financial stability of pension schemes became clear, most Member States have sought, on the contrary, to put back the effective age of retirement, either by progressively increasing the legal age or by increasing the number of years of contributions necessary to qualify for a full pension.

At the same time, in a number of Member States the method of calculating pensions has been adjusted to enable, in particular, more flexible retirement arrangements to be developed (Belgium), and, progressively, part-time working to be combined with a partial pension (Denmark, Germany) in line with the Council recommendation of 10 December 1982 (82/857/EEC), as well as to allow periods of inactivity when bringing up small children in the calculation of pension entitlement (Germany, France, Luxembourg).

The concern about the prospective ageing of the population in European countries early in the next century has, however, not led many Member States to implement policies aimed at increasing the birth rate. *Family allowances* have hardly been considered a priority and their share of expenditure on social benefits has fallen in the Community as a whole by more than 30%. By contrast, maternity benefits have improved (Denmark, Spain, France, Ireland, the Netherlands and Portugal) and benefits designed to allow parents to take time off work during the first few years after their children are born have been introduced (Germany and France), with the aim of better reconciling working careers with family life for parents of young children.

In the case of *health care*, the past decade has been marked by two major phenomena. The first was the introduction in the countries in the South of the Community of national health systems enabling everyone to receive free treatment. At the same time, however, often drastic measures were taken and/or extended in all Member States to limit the cost of health care, patients being asked to contribute to the cost of treatment, drugs and medical equipment; far-reaching reforms were also adopted in a few Member States to introduce market forces in health service management to a greater degree (Netherlands, UK).

A number of Member States have, moreover, been concerned by the strong rise in the numbers receiving *invalidity pensions* and by the fact that this type of benefit tends to be used as a means of retiring from the labour market by those not entitled to unemployment benefit or not able to obtain an early retirement pension. The reform introduced in the Netherlands to remedy the problem was to make employers bear more of the cost of allowances paid to those unable to work for reasons of illness or invalidity and to give them a finan-

cial incentive to employ disabled people. The UK, for its part, introduced an allowance specifically to enable the disabled to meet the additional cost of working.

The overall effect of the measures taken by Member States has been to contain expenditure on social protection. Contrary perhaps to popular belief, social spending in 1991 in the Community as a whole was little different in relation to GDP than it had been ten years earlier. Indeed in five of the Member States — Belgium, Denmark, Germany, Ireland and Luxembourg — expenditure relative to GDP was lower in 1991 than it had been in 1981. In other Northern countries, moreover, the increase was relatively small and mainly linked to higher levels of unemployment in the later year. It was, therefore, only really in the South of the Community where social protection systems were still being developed that any substantial growth in spending relative to GDP occurred.

Selectivity and targeting

During periods of recession when resources are scarce and needs many, there is a great temptation to concentrate benefits more on the most needy. The tendency to cut insurance benefits and replace them with benefits which are means-tested has been a major feature of the policies followed in the UK over the past 10 years. The same is also true of other Member States, mainly for family allowances and housing benefits. In the Netherlands, a special system has been set up to pay benefits to the sick, the invalided, the unemployed or the elderly with income less than the social minimum level — a level which is relatively high compared with other Member States.

In general terms, besides the fact that means-testing is often difficult to administer, this targeting of benefits seems to have proved difficult to operate in countries with Bismarckian-based systems, where the link between contributions paid and entitlement to benefits is deeply rooted. Labour market conditions have nevertheless prompted most Member States to direct benefits at guaranteeing minimum income to the neediest and, in particular, the unemployed: following Germany (1961), the Netherlands (1963), Belgium (1974), Denmark (1974) and Ireland (1975) — where such system were already in operation — Luxembourg (1986) and France (1988) all introduced a guaranteed minimum income level while the UK radically reformed its system (1988).

At the same time, non-contributory minimum allowances have been established or developed, especially for the elderly and single-parent families. Spain, Greece, Italy and Portugal, which have no general system for guaranteeing income, have introduced non-contributory, means-tested retirement pensions. Spain and Portugal have also set up social assistance benefits for the unemployed who have exhausted their entitlement to insurance benefits. In addition, Germany, France and Luxembourg have introduced means-tested benefits specifically for single-parent families.

Privatisation — few actual examples

The past 10 years have also been characterised by intense debate on the future of social protection and, in particular, on the scope for, at least partial, privatisation in certain areas. The UK has shown the way, first by making it easier to opt out of national supplementary pension schemes in favour of company pension schemes (1976) and then by encouraging personal saving schemes (1986). However, there have been only a few real reforms in the direction of privatisation in other Member States: in Belgium, for example, industrial accident insurance has been transferred to the private sector but is still strongly regulated (1988); very recently, Italy seems to have gone in the same direction, at least so far as health care is concerned. In addition, a number of Member States (Belgium, France) have introduced incentives for personal saving, through tax relief for old-age pensions, but have stopped short of allowing people to opt out of paying contributions to national insurance schemes.

Overall it cannot be said that national social protection schemes have been slimmed down in any major way in recent years, a fact also confirmed by Eurostat statistics. On the contrary, there is even evidence of social

protection being extended to cover new categories (in Germany, Greece, Spain and Portugal).

Convergence of objectives and policies

The role of social protection in the operation of developed industrial societies is sometimes misunderstood because attention is riveted on financial problems. Social protection is, however, an effective means of ensuring the necessary solidarity between those who receive an income from work and those who are prevented from working because of their age, their state of health or because they are unable to find a job. In an economic context in which the combination of rapid technological progress and fierce international competition can be a cause of social exclusion and poverty, social protection is a powerful force for social cohesion and it is well known how much social cohesion — contributes to a country's competitiveness.

The impact of social protection on competitiveness and job creation is a cause of much discussion and debate, particularly in periods of slow growth when it is often necessary to increase social contributions in order to contain financial deficits. Although, on the basis of the statistics available, no discernible association can be identified between either the level or the growth of social spending in Member States, on the one hand, and their trade performance, employment or unemployment, on the other, it should be acknowledged that taxing the use of labour in the production process might be detrimental to achieving an adequate labour content of growth.

The importance of social protection has, moreover, been explicitly recognised by the Community since the Treaty of Rome. The Treaty of Maastricht, stipulates in Article 2 that the "Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing the common policies or activities referred to in Articles 3 and 3a, to promote throughout the Community a harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, the high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States."

By its adoption on 27 July 1992 of a recommendation to Member States on the convergence of social protection objectives and policies (92/442/EEC), the Council of the European Communities has clearly set out Community policy in this area: to promote the convergence of policies in Member States around common objectives whilst fully respecting the independence and diversity of systems in operation in each Community country.

These common objectives are defined in the text of the recommendation in terms of three essential tasks of social protection:

- to guarantee to anyone legally residing in a Member State a level of income in keeping with human dignity and to give them access to the system of health care existing in the Member State;

- to help further the social integration of everyone legally resident within the territory of the Member State and the integration into the labour market of those who are in a position to exercise a gainful activity;

- to provide wage earners when they stop working at the end of their careers or if they are forced to interrupt them because of sickness, accident, maternity, invalidity or unemployment, with a replacement income which will maintain their standard of living in a reasonable manner in accordance with their participation in appropriate social security schemes.

These basic tasks of social protection serve to some extent to reconcile the two main traditions around which the social security schemes in the Member States of the Community have been constructed:

- that, on one hand, which has its origin in the enterprise and which confers on employees, in exchange for the payment of contributions, the right to receive a replacement income, calculated in relation to their former salary, when they stop working

either permanently or temporarily;

- that, on the other, based on the notion of national solidarity, which assures any needy inhabitant of a country a flat-rate benefit funded either by national social security schemes or directly by the state budget.

This synthesis of the two traditional models — the "Bismarck" and the "Beveridge" — can also serve to define the outline of a European model of social protection, a model which would include the guarantee of a minimum income to all of its citizens, ensure their integration into society and the economy and provide them with the means of maintaining their income at a reasonable level in relation to their earnings when they are unable to work.

Social protection and integration

At the same time as it adopted its recommendation on convergence, the Council also adopted a recommendation "on common criteria concerning sufficient resources and assistance in social protection systems" (92/441/EEC), which sets out certain principles with regard to the recognition of this right and its implementation. These principles include the recommendation that "every person who does not have access individually or within the household in which he or she lives to sufficient resources is to have access to such right subject to active availability for work or for vocational training with a view to obtaining work in the case of those persons whose age, health and family situation permits such active availability or, where appropriate, subject to economic and social integration measures in the case of other persons".

The importance of including these social protection mechanisms in a general policy aimed at preventing exclusion has been recognised by all Member States in the Community as a major, even priority, element of their policies in this area. At the same time, views about the way in which they should be included has changed little. For many years, emphasis was placed on the need to prevent social protection having disincentive effects. The aim was — and still is — to avoid the receipt of unemployment or invalidity benefits, or more generally, means-tested benefits, diminishing the interest and, therefore, the efforts of recipients to regain financial independence through gainful employment.

Today, account is being increasingly taken of the fact that simply looking for a job does not necessarily ensure finding one and that the system of social protection must itself adapt to this new situation of job scarcity. It is, therefore, more important to link the payment of social benefits to active policies to prevent exclusion: the social exclusion of the invalided or disabled, the economic exclusion — which in turn leads to social exclusion — of the long-term unemployed and of anyone else unable to be integrated into the labour market.

A three-way adaptation

This adaptation of systems of social protection is taking place in a difficult context where the constraints imposed are not just economic but also political. On the one hand, the systems themselves are being called into question by some who doubt their effectiveness and even legitimacy, because of the excessive cost they impose on national economies. On the other hand, the depressed state of the economy in the early 1990s and the need for budgetary consolidation directed at achieving sustainable public deficits and debt positions — which are also required in the run-up to economic and monetary union — force all Member States to find a new balance, both in the short and medium-term, between revenue and expenditure on social protection.

The extent to which Europeans are attached to their national systems of social protection is, however, striking. Responding to the question posed as part of a Eurobarometer survey in Spring 1992 on whether the State should continue to offer everyone a wide range of social security benefits even if it meant increasing taxes and contributions, 66% of the Community population replied "yes" and only 27% "no". When asked whether they agreed that social security was too expensive for society, and that therefore benefits should be reduced and contributions lowered, 55% (as against 36%) replied that they did not. It is also clear that the great majority in most Member

States consider that the unemployed, the elderly, the sick or invalid and the poorest are inadequately protected by society.

In adopting its two recommendations in 1992, the Council stated its ambition to retain, adapt and if necessary extend social protection in Member States. This adaptation can probably be achieved in the following three ways.

The first imperative is for each system to take greater account of the changes affecting European society, in the form of:

- the age structure of the population, which will force pension systems to adapt;
- increased life expectancy, which will lead to new claims on social protection by the elderly;
- the instability of the labour market, which will cause increasingly frequent interruptions to working careers;
- the persistently high level of unemployment, which will call for improved coordination between financial support for the unemployed and active measures to help them find employment;
- the emergence of new forms of poverty and exclusion, which will necessitate the implementation of the basic right of everyone to have enough income to live in a way compatible with human dignity;
- changes in the structure of families, which make it necessary to question the justification for derived entitlements;
- equality between men and women as regards social security.

The second imperative, as mentioned in the recommendation on convergence, is that social protection systems should be managed with maximum efficiency, having regard to the rights, needs and circumstances of those concerned, and with maximum effectiveness in terms of organisation and operation. On the one hand, it appears more than ever necessary to eliminate the obstacles to employment, which might be caused by the way in which social protection is funded. This must, however, take account of the fact that the structure of finance cannot be considered independently of the structure of benefits and that a balance, specific to each Member State, must be retained between contributory and non-contributory benefits so that the people who in one way or another are called on to finance the costs of social protection remain involved. On the other hand, the costs of operating social protection systems must be controlled in the knowledge that strong management is essential to maintain the confidence of people involved.

The third imperative relates to what might conveniently be called the paradox of social protection, namely the fact that social security systems cannot alone assure the social security of the people they cover and that they can only ever strive to reduce their insecurity. Accordingly, a country which allocates a large proportion of its GDP to social protection does not necessarily have a good social protection policy as a result. High expenditure might be due, for example, to short-comings in the procedures for paying unemployment benefit or health care expenditure being out of control. An optimal policy in this area would be one where the fewest people had to rely on social transfers and where others in need could obtain replacement income on a sufficient scale, accompanied, where possible, by incentives and help to find a job.

One of the aims of social protection is to transfer income to those recognised by society as having the right not to work, either because of their state of health or simply because of their age. However, social protection must also be aimed at supporting those willing to work but unable to do so either because they cannot find employment or because of family obligations. This gives rise to the idea that *social protection systems must increasingly include ways of managing without it*, such as prevention, combating exclusion and active employment policy.

This is probably the greatest challenge facing Member States in this area in the next few years. It is the aim of the Community, and of this report on *Social protection in Europe* in particular, to support and extend action taken by Member States to confront this challenge.

Chapter 1 Social protection systems in the Community: similarities and differences

Social protection in the sense of the State assuming ultimate responsibility for the health and welfare of its citizens is very much a European invention. The systems of protection which now operate in all Member States began to evolve in the latter part of the 19th Century in a number of European countries, as a response to the new, and large-scale, social problems created by the rapid process of industrialisation, combined with the increasing concentration of people in towns and cities. Beginning in Germany in the 1870s, governments throughout Europe, accepting the principle — and indeed necessity — of state intervention to tackle these problems, gradually took action to alleviate the poverty and hardship caused when workers, deprived of access to the land, became incapable of working and earning a wage.

The initial focus of social policy was, therefore, on providing relief in cases of sickness, industrial injury, invalidity and old-age, generally through the introduction of legislation compelling employers and employees to insure against these eventualities. It took some time after this, however, for the principle of universal support for all members of society, irrespective of whether or not they were — or had been — in employment, to be accepted. It was not until the inter-war years in some countries and the early post-war years in others that measures were introduced to provide health and welfare assistance to all their citizens and to try to ensure that everyone had access to at least a minimum level of subsistence.

In the Northern countries of Europe, such a universal system of income maintenance and the provision of health care had been established by the 1960s and subsequent efforts have been directed at rationalisation and consolidation of the disparate aspects of support, which had often developed in a chaotic and piecemeal way. In the less developed and poorer Southern parts of the Community, systems with more or less complete coverage are still in their infancy.

Although the social protection systems which now exist in Member States differ in detail, in the way they are financed and in the scale of support provided, their main features are very similar. This is partly a result of their common ancestry. It also, however, reflects the fact that they are attempting to tackle the same kinds of problem and have to contend with similar social and economic developments, a fact which has been reinforced by the process of closer integration.

All Member States provide their citizens with income support during old-age, sickness, invalidity, maternity and unemployment, as well as when caring for children, and provide access to free, or highly subsidised, health care.

Apart from the scale of support, the main differences, which partly reflect differences in the way national systems have evolved and variations in the political and institutional structures of the different countries, relate to:

- the extent to which support is earnings-related as opposed to flat rate;
- the prevalence of means-testing to determine entitlement to support and the amount to be paid;
- the extent to which there is a right to a guaranteed minimum level of income;

- the extent to which benefits in kind (eg health care) are available to all at the time and the place they are needed;

- the form in which revenue to finance the system is raised and, in particular, the importance of contributions from employers and employees as against general taxation;

- the role of employer and employee representatives in managing the system in relation to the role of the State;

- the role of private sector institutions in providing support and services as compared with the public sector.

In broad terms, Member States can be divided into four main groups so far as the basic characteristics of social protection systems are concerned: those where insurance principles predominate and benefits are closely related to contributions; those where the insurance principle is less firmly entrenched, where benefits are more related to needs and finance comes more from general taxation; those which occupy an intermediate position; and those where the system is still in its infancy.

In practice, however, this division is somewhat arbitrary since in all Member States insurance principles apply to some extent and in each case part of the system is directed at ensuring basic needs are met. The dividing lines between the groups are, therefore, extremely blurred and are tending to become more so over time as the same pressures for change push governments to modify systems in similar ways. Nevertheless for summary purposes the division is of some use.

The first group includes Germany, France, Belgium and Luxembourg — and might also include the Netherlands and Italy which are included in the third group below — all of which have systems based predominantly on conventional insurance principles, focused largely on those in employment and aimed principally at maintaining levels of income when a person is no longer able to work or when they retire. Those in work — both employees and self-employed — pay a proportion of their earnings into an insurance fund and these contributions entitle them to receive benefits, both in cash and in kind, when they are in need. At the same time, the payments employees make into the fund are supplemented by contributions made on their behalf by employers.

In most cases what people are entitled to receive is related to their earnings when in work — health care and family allowances being the principal exceptions — and, therefore, related to the amount contributed either by themselves or by their employers. Accordingly, the system operates both to maintain income levels when a person falls ill, becomes incapacitated, loses their job or retires and to link benefits to contributions. In large measure, therefore, the systems serve to redistribute the income of individuals over their lifetimes so that fluctuations in what they have to spend are reduced and periods of potential hardship are avoided.

Though there are differences in the way that schemes are administered, in the role in their management played by the private institutions and the two sides of industry — the social partners — and in the division of contributions between employers and employees, the systems in these countries are essentially similar. In all four cases, while contributions are the main source of revenue, this is supplemented from general taxation.

In all four cases also, the insurance-based scheme is complemented by social assistance available to those in need who, because they have not contributed sufficiently, or at all, to the insurance fund, are not eligible for benefit or who have exhausted their entitlement by drawing all the benefits they are eligible to receive. In all of these countries, the state takes responsibility for ensuring that no-one's income falls below a minimum guaranteed level irrespective of the employment status of the person concerned and of the contributions made in the past.

This assistance is financed from general taxation in all of the countries and its payment is subject to means-testing, in the sense that the income available to a household — or its means of support — is assessed in order to determine the level of support which needs to be provided.

The provision of health care in these countries is also based on insurance principles, with services being financed from contributions in the same way as cash benefits, though in this case, with everyone having access to services irrespective of the

contributions paid. Services are mainly supplied by the private sector with charges being reimbursed by the State.

The second group of countries includes those, such as the UK, Denmark and Ireland, where the insurance principle is less firmly entrenched. In all these countries, general taxation is a more important source of finance than for the first group of countries and benefits tend to be less closely linked to contributions. Nevertheless, the systems which prevail in these three countries are less similar than for the first group of countries.

In particular, the UK and Ireland rely much more on employers' and employees' contributions for financing social protection than Denmark, where contributions account for a very minor part of funding and where most revenue is raised from general taxation, especially from taxes on income. On the other hand, in Denmark social benefits are very much related to earnings when in work, as in the first group of countries, whereas in the UK and Ireland, they tend to be predominantly flat rate (reflecting the influence of Beveridge whose ideas about universal entitlement to a subsistence level of income — at least for those who were or who had been in employment — were the basis for the British welfare state developed immediately after the War).

In Denmark, therefore, the system aims at maintaining levels of income when a person is not working and since taxes paid tend to be related to income, there is an effective link between payments into the social protection system and benefits receivable. In the UK and Ireland, on the other hand, the system aims at providing a minimum level of support. Only in the case of earnings-related pensions, most of which are administered by private pension funds, is there any link between the amount of contributions paid and the amount of benefit received in the UK, whereas in Ireland, unemployment benefit also includes a limited earnings-related element. Nevertheless in both countries, entitlement to benefit still depends on the contributions record of the person concerned.

In cases where there is no entitlement to benefit, where it is insufficient for the needs of individuals or family units, or where entitlement has been exhausted, people have to fall back on social assistance, eligibility for which in the UK and Ireland depends on being out of work for a legitimate reason — because of being ill, disabled, injured, having a baby or being unable to find employment — and having income, and accumulated savings, below a specified level. In both the UK and Ireland, social assistance is paid at rates which are normally lower than social benefit rates — though in the UK, the difference is marginal — and, in practice, the main difference between benefits and assistance in the two countries is that the former is paid automatically, while the latter is means-tested.

In the UK, Family Credit is available for those in low paid or part-time work with children. In Denmark, the system attempts to ensure that everyone is guaranteed a minimum level of income.

As in the first group of countries, health care in Denmark and the UK is part of the social protection system and is available to everyone free of charge (except for drugs) irrespective of their contributions record. In both cases, however, the service is supplied mainly by the public sector rather than by the private sector as in the first group of countries. In Ireland, on the other hand, free health care, apart from treatment in hospital which is provided free of charge to most people, is only available to those on low incomes.

The third group of countries includes those with social protection systems somewhere between the first two groups, namely, the Netherlands and Italy. This division, as noted above, is largely a matter of degree and in their main features, the Netherlands and Italy are not so different from the first two groups of countries.

In the case of Italy, in particular, contributions, especially those paid by employers, are just as important a source of finance as in France or Belgium, and benefits, apart from family allowances, are very much related to income. The unemployment benefit system, however, is much less developed than in most other Member States, with only low rates of benefit being payable as of right. As a result a great deal of reliance is placed on the *Cassa Integrazione Guadagni* (fund for the integration of earnings) which is essentially a scheme intended to cover partial or temporary unemployment.

Moreover in Italy, unlike in the first two groups of countries, the system of social assistance for those not

eligible for benefits is not designed to ensure that everyone is guaranteed a minimum level of income. It is operated by local government, along with social services and health care, and varies somewhat across the country.

In the Netherlands, by contrast, the social — or "general" — assistance system is extremely well developed and is intended to cover everyone with an inadequate level of income irrespective of their status, including those receiving social benefits if these are insufficient to raise their income to what is defined as the subsistence level — or "social minimum". This system complements the social insurance scheme under which, as in other countries, both contributions and benefits are related to income.

The fourth group of countries consists of Spain, Portugal and Greece where the systems are similar in kind to those in other Member States but less well developed. All three rely relatively heavily on contributions from employers to finance social benefits, though health care in Spain and Portugal, in particular, is largely financed from taxation. In all three cases, the standard types of benefit are earnings-related as are contributions.

A relatively high proportion of people, however, are not eligible for benefit and rely on social assistance, in the form of a minimum level of pension or flat-rate invalidity allowance, for example, but at comparatively low rates. In neither Spain, Portugal nor Greece is assistance designed to guarantee a minimum level of income.

In summary, all Member States have some form of social insurance scheme under which the amounts paid and received are to a greater or lesser extent related to income. In the UK and Ireland exceptionally most benefits are flat rate, reflecting the philosophy that they should be based on need rather than income. In other countries, only child or family allowances tend to be flat rate, though in a number of cases they vary with the number and even the age of the children (in Belgium, France, Luxembourg and the Netherlands).

In all countries, all those in work whose income is above a minimum level, as well as employers, contribute to the funding of social benefits, partly in order to engender a feeling of solidarity, though what is received in most cases bears some relationship to what has been contributed. Although the self-employed are included in the contributory schemes throughout the Community, only in Denmark and Luxembourg are they eligible for unemployment benefit.

In all Member States also, social insurance is supplemented by social assistance to cover those who do not qualify through their employment — and contributions — record for benefits. This is designed in most countries to bring income up to a specified minimum level and is, therefore, subject to means-testing to determine the amount of assistance. In a number of countries, however, especially in the South of the Community, social assistance is still discretionary and, as a result, does not necessarily ensure that no-one falls below a subsistence level of income.

A minimum level of health care throughout the Community is available to virtually everyone, irrespective of income or contributions and in most countries, the majority of services are supplied either free of charge or at a highly subsidised rate.

More detailed information about the social protection systems operating in each of the Community countries is set out below.

Germany

The German social protection system is based on social insurance principles for those in employment and earning more than around 250 ECU a month. In addition, social assistance provides minimum benefits for those in need.

Social insurance

The pension insurance scheme is mandatory for employees and a number of other groups, like certain of the self-employed. Anyone not insured compulsorily can apply for voluntary coverage. The scheme provides cash benefits in cases of retirement and death, the amount of benefit depending on the number of years of insurance and average income in relation to the average income of all those in employment, the level being adjusted each year in line with the current average net wage.

Occupational pension schemes are also important, covering around 65% of those in employment and giving an

average benefit of some 200 ECU a month.

In the event of invalidity, people may be eligible for earnings-related benefits from either the pension insurance scheme or the industrial accident insurance scheme, depending on the cause.

All employees with earnings below a specified amount (around 30 thousand ECU a year) have to belong to the health Insurance scheme which also covers pensioners, students and certain other groups in need of protection, as well as many of the self-employed. The scheme provides both health care and cash benefits if a person is unable to work (80% of earnings up to a maximum amount), though the first six weeks of incapacity are covered by the employer. It also provides maternity care and cash benefits for a specified period during pregnancy and after childbirth.

The organisation of the scheme is complicated, with around 1 200 self-governing funds, each of which determines its own rate of contribution (which varies between 8% and 15%), half being paid by the employer, half by the employee. The public scheme covers 92% of the population, the other 8% being covered by private health insurance schemes.

Membership of the industrial accident insurance scheme is also mandatory for employees and certain self-employed. It is administered by the Employers' Liability Insurance Associations — public self-governing institutions in each branch of industry or trade. The scheme provides services in cases of industrial accident or occupational illness as well as invalidity benefits and widows' pensions, the rate varying according to the perceived scale of risk.

The unemployment insurance scheme, administered by the Federal Employment Agency, provides benefits amounting to 63% of net wages (68% for those with children) for a period of between 6 months and around 2 years depending on the length of employment and the age of person concerned. The scheme also provides a variety of measures to prevent job losses happening or to help people back to work. As with health insurance half the rate of contribution is paid by employers.

Family allowances vary with the number of children and may be reduced if the income of parents exceeds certain limits. Parents are entitled to take "education leave" of up to three years for each child and to receive an allowance of some 300 ECU per month for a maximum of 18 months.

Social assistance

Social assistance provides a minimum level of income for anybody not covered by social insurance schemes — or who has exhausted their entitlement — who is in need and who is unable to earn a living. Besides receiving basic allowances, recipients are also eligible for health care and other social services.

France

The social security system in France consists of a number of so-called "legal schemes" (*régimes légaux*) and various supplementary forms of action.

The legal schemes

The legal schemes are the basis of the system. There are many of them and each has its own system of finance and allocation of benefits, in each case related to the earnings or contribution record of members, though none of them include protection against unemployment. They can be divided into four categories:

- the "general scheme" (*le régime général*) for employees in industry and services who are not members of special schemes covers old-age, sickness, maternity, invalidity, death, industrial accidents and occupational diseases and family allowances. It also provides insurance for those not included in any compulsory scheme for health care. Funding comes essentially from employers' and employees' contributions (only the former for industrial accidents, occupational diseases and family allowances).

- the "agricultural scheme" (*le régime agricole*) covers farmers and agricultural workers. Contributions finance only 20% of benefits, other funds coming from special taxes (on cereals,

tobaccos and so on, as well from VAT), and state subsidies;

- "special schemes for employees", in the case of a few occupations (professional soldiers, miners, railway workers, for example), cover their members against all risks, but in most cases provide only partial coverage and leave other risks to be covered by the general scheme (as in the case of civil servants and electricity and gas workers). A number of special schemes are managed directly by employers (eg SNCF or Electricité de France);

- "independent schemes for the self-employed" include only pensions and sickness and maternity benefits;

Supplementary schemes

Supplementary programmes aim at either filling the gaps left by the legal schemes or paying supplementary benefits:

- supplementary pension schemes (*les régimes complémentaires de retraites*) are compulsory for all those in the general and agricultural schemes. They are regulated by collective agreements and are administered by employer and employee representatives. Everyone insured is entitled to a supplementary pension in addition to that received under the general scheme. Although there is a large number of different schemes, they are grouped into two large organisations: the *Association générale des institutions de retraites de cadres* (AGIRC) and the *Association des régimes de retraites complémentaires* (ARRCO);

- unemployment protection is excluded from the social security system in the French sense and was initially limited to assistance benefits. It is now compulsory for all employers and employees, is regulated by collective agreements and funded by employers' and employees' contributions. There are two parts, both administered jointly by employers' and employees' representatives: the insurance scheme, financed by contributions, and a solidarity scheme, funded by the State, which provides benefits to the unemployed not entitled to insurance benefits;

- social aid is provided by the state and is funded by central and local government. In 1988 the *revenu minimum d'insertion* was established to guarantee a minimum level of income to the poorest and to help them back into work and society;

- the mutual insurance companies (*mutuelles*) are private non-profit making organisations, administered by their members and funded by their contributions, to provide supplementary benefits in case of sickness, maternity, old age, invalidity or death.

Belgium

The Belgian security system is divided into four schemes, one for civil servants and public service personnel, one for wage earners, one for self-employed and a residual scheme for all those not economically active who require assistance. The largest scheme, covering around 2 million workers, is that for wage earners, though the 800 thousand or so public sector workers enjoy the highest benefits.

Wage earners

Under the scheme for wage earners, created at the end of World War 2, contributions are calculated as a percentage of earnings up to a maximum level and the rate of benefit is set typically at around 60% of wages up to this maximum. In 1982, the maximum level was abolished for contributions, but maintained for benefits. At the same time a guaranteed minimum level of benefit was established. Industrial injuries and occupational illness are covered by private insurance companies.

The system is managed by a combination of private and public institutions, with the latter being responsible for administration and the collection of contributions and the former for the payment of benefits (except pensions). The public institutions involved are independent of government and are managed by a committee of trade unions and employers' representatives.

A distinguishing feature of the Belgian system is that invalidity is treated as a prolongation of sickness, rather than in the same way as retirement, and benefits become payable after one year of incapacity for work (at a rate of 60% of the previous wage) regardless of the contributions record.

A second feature is that the unemployment compensation system is part way between an insurance and an assistance scheme giving comparatively low benefits (much lower than for sickness or invalidity) without limitation on duration of receipt (except when unemployment is abnormally long and the beneficiary has other sources of income).

Thirdly, family allowances are considered part of social insurance and are financed partly by employers' contributions. Belgium was the first country to introduce compulsory family allowances and still has one of the highest rates in the world.

Self-employed

The scheme for the self-employed was created later than that for wage earners, in 1967, with a similar system of management and organisation. The scheme, however, is intended to provide only a basic level of protection against old age, sickness and invalidity, partly because contributions are lower.

In the case of health care, only serious illnesses (essentially those requiring hospital treatment) are covered, though subsidised voluntary insurance is available for cases of less serious illness. In the case of family allowances, the rate of benefit for the first child is substantially less than for wage earners, but it is the same for other children.

Sickness and invalidity benefit is flat-rate and actually lower than the means-tested minimum level of assistance. Before 1984, pensions for the self-employed were also flat-rate, but since then they have been related to earnings in the same way as for wage earners.

The contributions paid by the self-employed are proportional to income, though based on earnings three years previously rather than current earnings.

Public sector

Social benefits for public service employees largely come directly from the state and contributions are paid only for health care and pensions. Benefits have been historically higher than for wage earners, though health care benefits, family allowances and the rules governing entitlement to pension are now much the same (except that pensions are based on earnings at retirement instead of over the contributions period as a whole).

Social assistance

The residual scheme for the non-economically active was developed in a piecemeal way and is administered by a variety of institutions, including local as well as central government. It began with a minimum pension for the elderly in 1967, was extended to include invalidity allowances for the disabled and family allowances and was completed in 1974 with a minimum income allowance for everyone. All of the payments are means-tested and financed from general taxation.

Luxembourg

The social protection system is insurance-based as in neighbouring countries.

Social insurance

Under the pension insurance scheme, pensions, like contributions, are related to earnings when in work and, to a lesser extent, to the time spent in work. For private sector employees, the same rate of benefit and contribution applies to everyone, while for public sector employees there is a non-contributory scheme which provides a more generous level of benefits.

The normal retirement age is 65, but early retirement with payment of pensions is possible from 60 onwards or in certain circumstances from 57. Pensions are increased automatically in line with inflation whenever it exceeds 2.5% and are adjusted regularly in line with salaries.

Sickness benefits in the event of incapacity for work are payable at a rate of 100% of earnings, while in the case of health care, the cost of treatment is reimbursed by sickness funds (each of which operates the same

level of benefits and contributions) or, when the costs are high, paid for directly.

In the case of maternity, women are entitled to 8 weeks' leave before childbirth and 8 weeks after and to receive benefit equal to their salary, up to a maximum of 5 times the social minimum wage. Women who are not in work receive a lump sum.

Benefits in the event of industrial injury vary according to the degree of incapacity for work as well as earnings in the year preceding the accident (up to a maximum of 86%).

Entitlement to unemployment benefit is conditional on having worked for at least 26 weeks during the preceding year. Benefit is linked to the wage when in work (80% of gross wages up to a maximum amount, 85% for those with families) and is payable for one year, with a possible extension in the case of those who have particular difficulty in finding employment and older workers. Special schemes exist to help the self-employed and young people unable to find a first job.

Family allowances are paid to those looking after children, the amount varying with the number of children and their age. A special benefit is also paid annually to cover the costs of starting a new school year. In addition, parents who educate young children can claim an education benefit.

Social assistance

A means-tested system of social assistance aims to guarantee a minimum level of income to every household, on condition that the head of the household has been resident in Luxembourg for 10 years, is over 30 years old, is available for work and is willing to participate in programmes of social reintegration. Conditions are less stringent, however, for those incapable of working, people with children, the elderly and other disadvantaged groups.

Denmark

Under the reforms introduced in the 1970s, all social benefits are managed and distributed by special social services (*sociale udvalg*) in local authorities (*Kommune*). Protection against industrial injuries, however, is still under the control of private insurance companies, while unemployment insurance funds are administered by the trade unions (though independent of them).

Benefits

The Danish system of pensions is typically Scandinavian, tax-financed, flat rate basic pensions being supplemented by contributory pensions. Pensionable age is 67. If family income is below a certain level, or if special circumstances apply, a supplement is payable. Between 67 and 70, 60% of earnings are deducted from the pension if the person is still working. The amount of additional contributory pension depends on the number of years for which contributions have been paid and the profits earned by the pension fund.

In addition, there is also a "partial pension" scheme, under which a flat-rate benefit is paid for each hour by which working time is reduced, so long as the reduction is more than 25%.

Invalidity is treated as a case of early retirement and is payable to anyone whose earnings are reduced by 50% or more. it can also be given for "social" reasons, such as in the case of a widow with children or to someone who has difficulty in finding a job. The amount receivable is calculated in the same way as for old-age pension.

Sickness benefit is paid to both employees and self-employed at a rate of 90% of earnings in the previous year up to a maximum level, for a period up to one year. Benefits are also payable for up to 5 days a year to employees whohave to take care of a sick child. Maternity benefits are payable for 6 weeks before and 8 weeks after childbirth at the same rate, any difference between this amount and net wages being paid by the employer. When entitlement to maternity benefits ends, beneficiaries can claim daily benefit for another 16 weeks.

Workers wishing to receive unemployment benefit have to enrol with an insurance fund. This is voluntary. Benefits are payable at a rate of 90% of previous earnings (subject to a ceiling), the exact amount and the rate of contributions being deter-

mined by each fund individually, for a period of up to 2 years (according to the contributions record and age).

Those over 60 can receive a pre-retirement benefit up to the age of retirement (67), equal to the normal unemployment benefit for the first 2 years and 80% thereafter. During this period, beneficiaries can continue working on a part-time basis.

The self-employed can enrol under the same terms and conditions as employees.

A large part of expenditure goes on active labour market policies, with each member being guaranteed an offer of employment after being out of work for six months.

Family allowances are tax-free and are paid to the mother at a flat rate for each child, with a higher rate for children over 7 and for single parents.

Health Care

Health care is provided by a national health service and is largely free of charge in the case of both general practitioners and hospitals. In the case of dental care, half the cost is charged to the patient, while half the cost of drugs is also paid by the recipient.

Financing

More than 80% of the cost of the social protection system, social insurance plus social assistance, is financed from general taxation. Around half the expenditure on social assistance is financed by central government, half by local authorities.

For pension insurance and short-term benefits (sickness and maternity) 25% of the finance comes from local authorities and 75% from a national fund, financed to a small extent by employees' and employers' contributions and to a much larger extent by central government.

In the case of unemployment insurance, funding comes partly from members (who pay a flat-rate contribution) and partly from employers (whose contributions are based on the value-added of the enterprise), but mostly from the state.

The UK

Social Insurance

Employed and self-employed are covered by the UK social insurance scheme. Part-time employees earning below a specified lower earnings limit are excluded. Contributions are paid on an earnings-related basis by both the employee and employer, with an upper limit for employees but not employers. The self-employed, who are covered for all benefits except unemployment and earnings-related pensions, pay on a flat-rate basis below a certain income level and on an earnings-related basis above this.

Those who belong to private occupational or personal pension schemes — to which both employers and employees typically contribute — can "contract out" of paying contributions for an earnings-related state pension.

Entitlement to social insurance benefits, as elsewhere, depends on a person's contributions record.

Short-term benefits, for sickness or unemployment, are paid at a flat rate, while in the case of retirement, invalidity and widows' pensions, an earnings-related supplement is payable on top of flat-rate benefits if the person concerned has not contracted out. Additional allowances are normally paid for adult dependants in the case of all social insurance benefits and for child dependants in the case of long-term benefits.

Non-contributory benefits

There are a number of benefits which are neither dependent on previous contributions nor subject to a means-test. These have been expanded considerably in recent years and cover occupational injuries, child benefits, disability payments and statutory sick and maternity pay (which employers are responsible for administering).

Means-tested payments

The main means-tested payment is income support which is payable to everyone whose income and savings are below prescribed

levels, except those working 16 hours a week or more, or education. Payments are flat rate with increases for dependents and for certain contingencies (such as disability, single parenthood or old age).

Those in low-paid employment with families can also claim support to supplement their income (and so give a financial incentive to work). Similar support has recently been extended to the disabled. In addition, there is a Social Fund which provides limited discretionary grants and loans.

Finally, there is a means-tested housing benefit to cover part of the cost of accommodation.

Funding

The social insurance system is funded by employers' and employees' contributions, while non-contributory and means-tested schemes are largely financed from general taxation, with contributions from employers in the case of the statutory sickness and maternity pay schemes.

Health Care

Every UK resident is entitled to free health care (including general practitioner and hospital treatment) through the National Health Service, although some payments are required in the case of prescribed drugs.

Ireland

Social Insurance

The social insurance scheme covers all employees and self-employed and has recently been extended to include part-timers earning above a minimum amount.

Entitlement to benefits depends on having a satisfactory contributions record, except in the case of occupational injuries, for which contributions are paid by employers only.

Benefits are normally flat rate with increases for adult and child dependents, though a limited earnings-related element applies to unemployment benefits (which has been reduced in recent years) and maternity allowances.

Social Assistance

Social assistance is designed to bring the income of the old, the incapacitated or the unemployed up to a subsistence level (though there is no independent calculation of this level).

Payment is means-tested and, in recent years, has been extended to those unable to work because of having to care for children (single parents) or disabled relatives. Payments are flat rate with increases for dependents as in the case of insurance benefits, though they are normally set at lower levels than these.

In addition, a supplementary welfare allowance is payable to anyone (except those in full-time work, those involved in a trade dispute and students) whose means are insufficient to meet their needs.

Flat-rate child benefits are also payable at a modest level to everyone with dependent children.

Funding

The social insurance scheme is funded by contributions from employers (64% of the total in 1990), employees (26%) and the self-employed (4%) as well as by the State (6%). As in other countries, the occupational injuries scheme is financed entirely by employers and social assistance (38% of overall spending on welfare) and child benefits (9% of total spending) entirely by the State. In total, 53% of social welfare expenditure was financed from general taxation in 1991 and 32% from employers' contributions.

Health Care

Health care in Ireland is separate from the social insurance system and entitlement to services is means-tested. Free access to medical care, with the exception of hospital treatment, is mainly restricted to those on low income (35% of the population). Hospital treatment is free for around 85% of the population while limited charges apply to others. Expenditure is financed mostly from general taxation and only to a small extent by employers' contributions.

The Netherlands

The Dutch social security system is divided into four main schemes: an employee and a general insurance scheme, a scheme specially for civil servants and supplementary social services.

Employee insurance schemes

The employee insurance scheme covers unemployment, temporary and permanent incapacity for work and medical care (in the case of serious illness). The scheme is compulsory for everyone in employment, except those earning above a certain level of income who can elect to join a voluntary scheme so far as health care is concerned. Unemployment, sickness and disability insurance benefits are paid at a rate of 70% of previous earnings. While entitlement to unemployment and sickness benefit is of limited duration, disability benefits are payable until retirement age. Contributions are related to earnings up to a certain limit.

General social insurance

The general insurance scheme, introduced in the late 1950s, covers old age, death, invalidity, family allowances and medical care. In principle, it covers everyone resident in the Netherlands. As in the case of the employee scheme, contributions are compulsory and related to earnings up to a certain limit.

Pensions and invalidity benefits are related to the net minimum wage (100% in the case of married couples, 90% for one parent families and 70% for single persons), while child benefits are payable for each dependent child at a rate which increases with the number and age of the children.

Supplementary social services

Supplementary social services are financed entirely from general taxation and payment of benefits is subject to a means-test. As part of these services, municipalities have an obligation to grant assistance to anyone not able to meet the costs of subsistence. Under certain circumstances, this may extend to foreign nationals living in the Netherlands and Dutch people living abroad.

The subsistence level is set at the same level as general insurance benefits and depends, in the same way, on marital status and personal circumstances.

Schemes for civil servants

Civil servants are covered by separate schemes which are generally more generous than for other people.

Italy

The Italian system is divided into three distinct sectors, social insurance (*previdenza*), health care (*sanità*) and social assistance plus social services (*assistenza e servizi sociali*).

Social insurance

Social insurance covers all employees and provides protection against the usual risks. The self-employed are also covered, though they have only limited protection against maternity and occupational injuries and are not covered at all against unemployment or sickness — at least not so far as income support is concerned. Insurance schemes are administered by a number of separate agencies and funds, largely on an occupational basis. There are more than 50 different pension funds, the most important being the INPS (National Institute for Social Insurance), which is governed by representatives of trade unions, employers and the self-employed as well as the Ministry of Labour, and has more than 17 million members.

Health care which used to be similarly fragmented is now provided by the National Health Service, coordinated centrally by the Ministry of Health, but with regional and local administration of services. The service covers the whole of the resident population.

Since the 1970s, social assistance and social services are provided by local authorities which have wide

autonomy and which normally coordinate social services with health care through the local units of the NHS. Coverage is universal and need-related.

Benefits and services

Benefits are earnings-related and generally payable at a rate of 80% of previous wages for a period of 6 months.

Pensions are calculated as 2% of previous earnings multiplied by the number of years of contribution up to a maximum of 80%, with a retirement age of 55 for women and 60 for men (which will be progressively raised to 60 and 65 by 2002). Public employees are entitled to claim a pension, regardless of age, after 20 years of service. Since 1990, the self-employed also have earnings-related pensions, calculated on the same basis as for employees. All benefits are indexed to the cost of living and until 1992 were linked to the minimum contractual wage in the industrial sector.

Invalidity benefits and widows' pensions are calculated on the same basis.

Family allowances are flat-rate, though dependent on income and the number of children and payable to all employees, those receiving unemployment benefit, pensioners and farmers.

The standard rate of unemployment benefit is only 20% of previous earnings, payable for a maximum of 180 days per year. Higher benefits (80%), however, are available for special groups of workers (such as those in construction) and or in special circumstances, while, those partially or temporarily unemployed can receive support from the *Cassa Integrazione Guadagni* (Fund for earnings integration), at relatively high rates (80% or more). This was used extensively in the 1970s and 1980s to compensate for the inadequacy of unemployment benefits. In 1991, a new benefit was introduced, termed "mobility indemnity", linked to CIG benefits but at a generally lower rate and with a maximum duration of 3 years without the guarantee of a job at the end.

Sickness benefits are in principle payable for 6 months at a rate of two-thirds earnings (50% for the first 20 days) though, in practice, contractual regulations foresee automatic wage continuation for up to one year with no waiting period.

As well as social insurance benefits, discretionary cash support is available through local government. Although there is no minimum guaranteed level of income in Italy, the support in many regions is effectively universal and a wide range of social services and forms of personal assistance is available.

Through the NHS, basic care is provided free of charge by family practitioners as is hospital treatment, though since 1993, those on higher income are required to pay an annual flat-rate fee for the former, while specialist treatment by consultants is subject to a charge, with concessions for certain people.

Financing

Contributions represent the main source of finance for social insurance benefits and health care, although general taxation in the case of health care has become increasingly important. Social services and assistance are financed largely from general taxation.

Contributions are paid mainly by employers, who bear the entire cost of unemployment, maternity and industrial injuries insurance as well as of family allowances. Employers also pay for most of health insurance and for two-thirds of pension contributions.

The state also contributes to financing insurance funds, both by making *ad hoc* interventions to reduce labour costs in periods of economic recession and by paying *ad hoc* transfers to cover deficits. Such transfers have increased enormously since the mid-1970s, particularly in respect of pension funds.

At the same time, the state has increased its rate of contributions to the health budget to meet growing financial strains and has introduced user charges and a supplementary tax on personal incomes (at a rate of 4–5%) to provide additional finance.

Spain

Under the Spanish social protection system, there are three levels of benefit — the contributory scheme, the voluntary scheme and the assistance scheme — while at the

same time, there is universal access to health care.

Contributory system

The social security system covers all those engaged in economic activity — including seasonal workers, domestic servants, students and the self-employed — as well as their families. Under certain circumstances, it also covers Spanish people living abroad and foreigners living in Spain.

Though the system is different for those working in industry and services as opposed to agricultural workers and other groups, the differences are small and have narrowed over time. The method of funding and the benefits, however, differ for public sector employees.

Social assistance

Part of the social security budget goes on assistance to those whose income falls below a certain level. A minimum pension is payable to those in need irrespective of their contributions record, while assistance is also provided to the unemployed who have exhausted their entitlement to benefit. In addition, there is free access to health care for those who cannot afford to pay and a range of social services covering health and safety at work, training, retraining of handicapped people and assistance for the elderly.

Outside the social security budget, there is a range of allowances for the old, the sick and the disabled who are not eligible for contributory benefits. Regional authorities have also established different systems for guaranteeing a minimum level of income or for reintegrating people back into society.

Administration and finance

While central government is responsible for managing the social security system, local authorities have responsibility for social services and, in some cases, health care.

The funding of the system comes from employers' and employees' contributions (the rate for the former being 5 times that of the latter) and general taxation. Contributions are proportional to earnings above a minimum level and below a maximum level. In 1990, some 30% of expenditure was financed by taxation (as compared with only 4% in 1976).

Since 1986, finance from taxation has mainly been directed to health care and minimum pensions, which are universal, non-contributory forms of assistance, leaving contributions to fund social insurance benefits.

Health care

Health services are provided free of charge to virtually everyone, although with certain exceptions — pensioners, for example — there is a charge for drugs. The effort of achieving virtual universal coverage over the 1980s combined with tight budget constraints led to the emergence of long waiting lists for particular kinds of treatment.

Portugal

The social security system in Portugal consists of an insurance-based contributory scheme and a means-tested non-contributory scheme. In addition, there is a special scheme for public service employees and for higher income groups.

Contributory scheme

The contributory scheme covers all employees and the self-employed against all the usual risks, except accident at work and unemployment in the case of the self-employed. Health care is provided by the national health scheme. In the case of employees in industry and commerce, contributions are calculated on total earnings (without any ceiling), with employers paying over twice as much as employees.

Entitlement to benefit is dependent on having paid contributions for a minimum period, which differs according to the kind of benefit involved. In some cases, the amount payable is related to income.

Pensions depend on contributions and are related to previous earnings, though with a guaranteed minimum amount, while unemployment benefits are paid at 65% of the previous wage (70% to 100% of the minimum wage according to the

number of dependents in the case of the social assistance scheme).

Sickness and maternity benefits are also related to previous earnings and are subject to a minimum payment (a percentage of the guaranteed minimum wage).

Family benefits are paid at a flat rate, though a higher allowance is paid for the third child and subsequent children if family income is less than 1½ times the minimum guaranteed wage.

The scheme is funded largely by contributions which accounted for two-thirds of revenue from this source, while the state contributes 7% of total income.

Social assistance

The non-contributory scheme covers all nationals resident in the country not covered by any insurance scheme and also extends to refugees. Benefits are means-tested and flat rate, covering pensioners, invalids, orphans, widows and children.

The scheme is financed in principle from general taxation, though in practice it is partly funded from contributions, the revenue from which exceeds expenditure on contributory benefits. In 1989, non-contributory benefits accounted for only 6% of total social security expenditure, while social services and administrative costs accounted for 10% between them. The remaining 84% of expenditure went on contributory benefits.

Health care

The National Health Service, established in 1979, is separate from the social security system, is funded largely by the state and provides health care free of charge to pensioners, children under 12 and the unemployed. Other groups pay a fee for visiting doctors to cover part of the cost of treatment.

Greece

In Greece, there are four basic insurance schemes — or sickness funds: for wage earners in urban areas (IKA), farmers in rural areas (OGA), the self-employed and civil servants. Together they cover around 90% of the population. In addition, there are some 90 supplementary schemes, so that the social security system as a whole is extremely fragmented.

The financing of the funds varies greatly. The biggest, IKA, covering 45% of the population, is funded from contributions of employers and employees, though these also go towards financing other funds, such as OGA, a non-contributory fund covering 33% of the population and the civil servants' fund (not directly contributory and one of the wealthiest). The largest funds are not self-governing, but managed by government appointees.

Deficits of the funds, which at present in the case of IKA amounts to around 25% of current outlays, are financed by Government.

Social assistance

There is no system, at present, in Greece for ensuring that incomes do not fall below a minimum level, although there is a universal non-contributory pension for all those above 65.

Types of benefit

A variety of rules apply to payment of retirement pension, even within the same insurance fund. The most general principle is that women retire at 60 and men at 65, but many people in the past have retired much earlier. Because of demographic trends, however, restrictions have been imposed on early retirement.

Pensions are calculated on the basis of previous earnings and, in principle, the contributions paid. Because, however, the largest funds are often not self-governing and forced to contribute to the financing of the government's social policy, pensions paid to the insured rarely reflect the contributions paid.

Eligibility for sickness benefits, which are paid partly by employers as well as by the insurance funds, depends on the length of time in employment. In cases of prolonged illness an employee insured with IKA is entitled to receive benefits for up to two years and thereafter disability pension, calculated according to the extent of invalidity.

The Greek system is characterised by a high importance of invalidity pensions (in the case of IKA around half

of pensions are for invalidity), reflecting the inadequacy of support through other means. Since 1992, however, severe restrictions have been imposed on entitlement.

For those covered by the insurance funds, maternity benefit is payable for two months before childbirth and two months after. Mothers are also entitled to one year's maternity leave and to reduced working hours on previous salary for the first two years of child care (four years for civil servants).

Unlike elsewhere in the Community, family allowances are wage related (1% of monthly salary for every dependent). Families with four and more children receive special assistance (in the form of tax exemptions and special privileges).

The OAED (Manpower and Employment Organisation) is responsible for paying benefit to those who become unemployed. Entitlement to benefit is dependent on the length of time in employment, lasts for up to one year and is related to previous earnings (40–50% of the former wage), with an increase of 10% for each dependent (up to a maximum of 70% of previous earnings). OAED is also responsible for finding work for the unemployed. Three-year training courses are available for those aged 15 to 18 and vocational training schemes for older workers.

Health care

Health care is covered by the insurance funds, with each providing a somewhat different level of entitlement and service and with employers paying half of the contributions. Until 1992, access to NHS hospitals and health centres was free, but since then charges have been introduced for treatment and drugs. Those — relatively few in urban areas — who are not insured are entitled to health care through the social welfare system.

Chapter 2 Recent reforms in social protection systems in the Community

The period 1980 to 1992 in the Community was characterised, in the first half of the 1980s by slow economic growth, in the second half, by recovery and in 1991 and 1992 by the renewed onset of recession. The two dominant economic features in most Member States were high unemployment and a persistent tendency towards public sector deficits. These made it more difficult to extend or even maintain systems of social protection in the Community, as did two other common features of this period: the ageing of the population and the continuous rise in the costs of health care.

These developments affected all Member States, though their incidence and the measures taken in response varied from country to country. In particular, there was a clear difference between the more advanced countries in the North with their well-established and highly developed social security systems and the less advanced countries in the South which are still in the process of developing and extending their social protection schemes. There was also a difference in the policies followed by countries with basic pension schemes and national health services and those with insurance-based schemes. Combating the effects of economic recession, however, was a common concern throughout the Community.

A decade of crisis policy

In the face of problems created by high unemployment and fiscal deficits, governments generally have been uncertain about the most appropriate policies to pursue. Since 1975, a large number of measures have been taken in all Member States to combat unemployment and to bring down budget deficits. Between 1985 and 1990, the Community succeeded in creating large numbers of jobs while budget deficits were reduced. Since then, however, efforts have been less successful and at the time of writing, both the rate of unemployment and the scale of budget deficits over much of the Community are as high now as at any time over the past 15 years.

Why is this so? Part of the answer lies in the fact that high unemployment itself tends to push up budget deficits by reducing tax receipts and adding to government expenditure, while efforts to cut deficits can depress economic activity in the short-term, whatever the potential longer-term benefits of a sustainable budget position for growth of output and employment.

Similarly, the costs of health care have tended to go on rising despite a range of efforts to contain them, while measures taken in a number of countries to counterbalance the ageing of the population by raising the birth rate have also failed. Increased family allowances, parental leave, improved child care facilities, and so on seem to have done little to persuade women to have more children and average family size has gone on shrinking. For policy-makers, a dilemma has been whether to encourage older people to stay in work longer and so contribute to economic output or whether, on the contrary, to encourage early retirement and so relieve the pressure in the labour market caused by lack of jobs.

The indexation of social benefits

All countries in the Community apart from Ireland have established formal procedures for adjusting social benefits to increases in the cost of living. In the three Benelux countries as well as in Greece, there is a single system of indexation for both wages and benefits. In the other countries, the indexation of benefits operates separately from that of wages (if wages are indexed at all — and different arrangements apply to different kinds of benefit). In Ireland there is no formal obligation to adjust benefits for inflation, though benefits are reviewed once a year and are usually uprated at that time.

In most countries, indexation is based on the official consumer or retail price index. In Germany, however, contributory benefits, such as pensions or unemployment compensation are uprated in line with net wages, though social assistance is linked to the price index. Similarly, in the Netherlands, the minimum wage, to which all social benefits are linked, is indexed in terms of the average wage, while in Portugal, the value of unemployment benefits is related to the minimum wage rather than the price index.

Systems of double indexation, in terms of both wages and prices, have been implemented in a number of countries at certain times but have not been operated for very long, largely because of the costs involved. Only Luxembourg has maintained a double indexation system, though with a provision for reviewing the costs entailed every five years.

In most countries, for most contributory benefits, indexation is automatic and governments have limited or no discretion over the extent of uprating. In Portugal and Spain, however, governments can negotiate the scale of the adjustment with the trade unions and in the Netherlands, the government can reduce or refuse to allow the adjustment because of special circumstances. Moreover in several countries, such as Belgium in 1984, 1985 and 1987 and Denmark in 1983 and 1984, uprating has been suspended in particular years because of financing problems.

In countries where indexation is based on wages, the reference period tends to be a year, but not necessarily the current year. In Germany, the basis of adjustment is the change over the preceding year, while in Luxembourg it is the change over the preceding three years or more. In the Netherlands, on the other hand, the basis is the current year, with projections made at the beginning of the year of the expected increase in wages and adjustments made in the middle and at the end to align the uprating with the actual increase.

All of this has led to a spate of reforms to social protection systems, with the common aim of attempting to contain costs while trying to cope with an expanding demand for assistance. This, in turn, has given rise to a widespread trend towards increased selectivity, a greater use of means-testing and, in some cases, the privatisation of services, with the expressed intention of improving efficiency and cutting the costs of provision.

Increasing revenue

In a number of Member States, efforts have been made over the past decade to increase the revenue available for social expenditure. In Belgium — in 1982 — and in France — in 1984 — this was achieved by abolishing the income ceiling on contributions, while in virtually all countries, the rate of contribution has been raised, especially in respect of unemployment protection. At the same time, new contributions and ear-marked taxes have been introduced in Belgium, France and Denmark (for example, the 1% capital contribution levied in France in 1988, the general social contribution of 1.1% on taxable income more recently and the so-called "labour market contribution", or "social VAT", in Denmark also in 1988), while in Germany as well as in a number of other countries, such as the UK, government subsidies to social insurance schemes have been reduced.

On the other hand, from time to time there have also been reductions in contributions in some countries, such as in France, Belgium and Italy, in an attempt to reduce labour costs and promote employment. In most cases, these were accompanied by an increase in direct state funding of social spending and some shift from employers' contributions to general taxation. In Germany, pension supplements for dependents, formerly financed out of pension contributions, were replaced in 1984 by a special family benefit financed out of general taxation, while in the Netherlands, state financing of family allowances replaced their funding by contributions in 1988. In a number of countries also, social contributions paid by employers were reduced by introducing national health services in place of health insurance schemes.

Reducing expenditure

Efforts made to contain or reduce expenditure on social protection have been even greater. Although there has been some resistance to cutting rates of benefit, as opposed to achieving a similar effect on spending by more indirect means such as reducing entitlement, cuts have occurred in a number of countries. In the Netherlands, between 1983 and 1987, disability and unemployment benefits were systematically reduced from 80% of previous earnings to 70%, while unemployment benefits were also cut substantially in Ireland in 1983 and in Belgium in 1987. Family allowances were reduced in

In countries where indexation is based on prices, a monthly index is normally used. In Belgium and Luxembourg, benefits are uprated whenever the price index reaches a certain value. In other countries, uprating occurs annually — in January in Spain and (for family allowances and unemployment benefit) in Portugal, in April in the UK, in July in Germany, in December in Portugal for pensions. In the Netherlands, as noted, there is a provisional uprating in January and an adjustment to this, if necessary, in July.

In a number of countries, the reference period is the preceding year — mostly the year up to the latest month for which data are available — rather than the current one, which can sometimes moderate the impact of indexation. In the UK, the annual uprating in April is based on the annual change in the price index up to the preceding September — some 7 months earlier. In Belgium, benefits are increased only when the average level of the price index for the last four months is more than 2% above the level when they were last increased. In Portugal, on the other hand — as in the case of the Netherlands — pensions are uprated each December in line with the projected change in prices over the subsequent year. In addition, in Ireland the annual review of benefits tends to be based on expected inflation over the coming year rather than the rate over the past year.

Slow growth coupled with high inflation in the 1980s caused automatic systems of indexation to be called into question. There was a widespread view that indexation led to excessive increases in public expenditure, with adverse effects on inflation and the budget balance. This led to a number of reforms of varying kinds.

For example, in Greece, in 1982, the basis for indexation was changed from the minimum wage to prices, with uprating three times a year, at a declining rate the higher the level of benefits. In Spain, in 1985, indexation of pensions was changed from being discretionary to being automatic and in 1989, the possibility of negotiation with trade unions was introduced. In the UK, in 1980, the indexation of long-term benefits was changed from being based on either prices or wages, according to whichever was the higher, to being based on prices alone and, in 1983, the reference period became the previous year instead of the current one. In Germany, in 1992, the basis of indexation was changed from gross to net wages in order to avoid benefits rising faster than net wages.

Belgium from 1982 and in Spain in 1985, while maternity benefits were cut in Ireland in 1984. In the UK, the state earnings-related pension was reduced in 1986 from 25% to 20% of earnings (the definition of which also became less favourable) and widows' (or widowers') pension was cut from 100% of the employee's pension to 50%.

In the Southern Member States, in particular, the emphasis of policy has been on restricting entitlement to benefit rather than on cutting the rate. In Greece, for example, the maximum age for receiving family benefit was reduced in 1983, while the number of years of contributions required to qualify for old-age pension was increased in Portugal in 1982, in Spain in 1985 and in Greece in 1991. In the same years in all three of these countries, the definition of invalidity was made more restrictive in order to curb eligibility for benefit.

However, the tightening of entitlement conditions has by no means been confined to the South. In Belgium, for example, the earnings from employment which could be combined with receipt of old-age pension have been reduced, while in Denmark, the period which people need to work in order to qualify for old-age pension has been increased and in France as well as Belgium, limits have been imposed on the total income receivable from multiple pensions.

The indexation of benefits has also come under pressure. Introduced in most countries during the 1960s and 1970s to protect the real value of benefits in the face of inflation, by the 1980s they had widely come to be seen as a threat to budgetary consolidation and a factor perpetuating inflation (see Box, pp. 32–33). In Belgium, automatic indexation was suspended in 1984, 1985 and 1987, in Denmark from 1982 to 1985, in Greece in 1983 and in Luxembourg in 1984.

In Germany, the automatic indexation of pensions due on January 1st, 1983 was delayed until July and in 1984, the reference basis for indexing pensions (and other long-term benefits) to wages was changed in order to delay its effects; in 1992, it was changed again to allow for the much greater effect of taxes and social contributions on wages than on benefits.

In the Netherlands, the automatic indexation of benefits was suspended altogether for most of the 1980s and was eventually replaced by a new system allowing the Government to take account of special circumstances. In the UK, the indexation of long-term benefits to either prices or wages, depending on which was increasing the most, was replaced in 1980 by simple indexation to prices.

Despite this, in most parts of the Community automatic indexation of benefits has survived the pressures of the past decade and seems to have become entrenched as a basic principle of social security. Indeed, in Spain and Portugal, where it had not existed beforehand, it was introduced during the 1980s and, as elsewhere, it has since become established.

Unemployment benefits

In periods of high unemployment, unemployment insurance schemes are typically subject to two opposing forces: a reduction in entitlement to benefit and an increase in the period over which benefits need to be paid. A number of countries have reacted to this by reducing the benefit rate while at the same time increasing the duration of entitlement.

This was true of the Netherlands in 1987, when benefits were cut to 70% of previous earnings, but in certain circumstances it became possible to draw benefit for up to 5 years. In Germany, the rate of benefit was cut from 68% to 63% of previous earnings in 1984/85, but the maximum duration was extended to 1 year and in 1987 to 832 days. In Spain, the maximum benefit rate was reduced from 220% of the minimum wage to 170% in 1984 and the duration of entitlement was increased from 18 months to 2 years (in 1992, the benefit rate was cut from 80% of previous earnings to 70% and from 70% to 60% after six months).

In a number of Member States, the extension of the period of entitlement to benefit was applied, in particular, to older people. This was the case:

- in France in 1981, where a special benefit was introduced later in 1985 for those who have exhausted their right to benefit (improved in 1990/91 by the addition of a special retraining

benefit at the end of the period of entitlement);

- in Spain, where in 1984, workers over the age of 55 became entitled to receive benefits up to the age of retirement (which also applies in Denmark and Belgium);

- in Greece, where in 1990/91 the period of benefit entitlement was extended for those aged 50 or more.

At the same time, pre-retirement benefits have been introduced in many European countries with the aim of encouraging older workers to free up jobs for the younger unemployed. These originated in France and Belgium in 1974–75 when unemployment first began to rise and were later adopted by Spain in 1981, Ireland in 1985 and Italy and Portugal in 1991, as well as by Germany specifically for the self-employed in the new Länder in the same year.

By the early 1990s, however, there were signs of a change in attitude towards such programmes in many parts of the Community and, under pressure from demographic trends which were tending to push up their cost, a number of countries, such as Denmark, began to raise the minimum age at which people became eligible for pre-retirement benefit.

While the UK has been the leader in imposing stricter conditions on entitlement to unemployment benefit, particularly during the period 1988 to 1990, it has by no means been alone in pursuing this policy. Most countries have reduced the numbers eligible for benefit since 1980 by lengthening the period over which contributions need to be paid in order to qualify for benefit (eg Germany in 1982) or by strengthening controls against abuse (eg Belgium in 1992).

In the less developed Member States, however, the concern has been to improve benefit systems exposed as being inadequate by rising unemployment rather than to tighten them. Spain established a contributory unemployment benefit scheme in 1980 and extended its scope in 1984, while Portugal changed from flat rate to earnings-related benefits in 1985. At the same time, in some parts of the Community — in France, Belgium and Portugal, for example — benefit entitlement has been extended to school-leavers, who were hit disproportionately hard by unemployment in the early 1980s and who were seen as a particular problem group.

More generally, in most countries, a range of special measures were implemented in the 1980s to reduce unemployment, targeted especially on the young and, often with the support of the Community, focused on training. These measures did not necessarily add to expenditure — indeed their purpose was partly to reduce outlays on social protection — but shifted spending from income support to job creation. Denmark has probably gone further than other countries in promoting employment, guaranteeing all the unemployed under 25 a subsidised job within two weeks of application for benefit and, in 1992, imposing an obligation on the unemployed to accept public sector employment at 30 hours a week for a wage equal to the unemployment benefit.

Other measures adopted include encouraging the unemployed to set up in business for themselves (eg in Ireland in 1983, Belgium in 1984, Denmark in 1985 and Italy in 1991); persuading industry to cooperate in training schemes and to offer jobs on completion of training (France in 1987); improving the position of part-time workers in order to make such employment more attractive to the unemployed (in Belgium and France); and introducing a special mobility allowance to make it easier for workers to move from one enterprise to another (Italy in 1991/92).

Long-term unemployment, which increased dramatically during the 1980s, was another focus of policy and, in many parts of the Community, special programmes were developed to assist those who had been out of work for a year or more. Most recently, in the UK, for example, it became compulsory in 1991 for all long-term unemployed to follow "Restart" courses, while in Belgium and in France, special guidance programmes were introduced in 1992 with the aim of reintegrating the long-term unemployed into the labour market.

Family allowances

Concern about falling birth rates in parts of the Community has led to a series of improvements and increases in family benefits. This has

particularly been the case in France where policy has been directed at encouraging larger families and where benefit rates were increased in 1981 and again in 1982, when for a family of three children they amounted to one third of the average wage. It was also true of Belgium, where further improvements to a system already among the most generous in Europe were made between 1987 and 1989.

At the same time, improvements have also been made in family allowances in less developed parts of the Community, but more to alleviate the problems of large families than to encourage people to have more children. In Ireland, benefits were increased for the fifth child in 1989 and the fourth child in 1991, and in Greece, payments were increased for the third child in 1990/91.

Policy has also been directed at improving maternity benefits since 1980, not only out of a concern for demographic trends, but also to improve the position of women and make it easier for them to combine a working career with raising a family. In many Member States, the period of payment of maternity benefit has been extended (in France in 1980, Denmark in 1981 and 1984, Ireland in 1981, Portugal in 1984, Spain in 1989 and the Netherlands in 1990), while in Belgium maternity benefit was introduced for self-employed women in 1990.

A new development in some countries has been the introduction of parental or "education" benefits. These already existed at the beginning of the 1980s in Germany, but were modified in 1985 to apply to either the father or mother and have been improved further since 1989. In France, an *allocation parentale d'éducation*, at a rate of 50% of the minimum wage, was introduced in 1982 for anyone interrupting employment to take care of a child, payable up to the age of three. This was improved in 1985 and again in 1987, when a special allowance was introduced to help working mothers pay for child care at home (*allocation de garde d'enfant à domicile*). In Luxembourg, an education benefit was introduced in 1989.

On the other hand, there has also been an opposing tendency in some countries to rationalise family benefits and reduce their scope. In the Netherlands, the maximum age for receipt of benefit has been reduced to 18. In Spain, birth grants and family benefits for spouses were abolished in 1985, the rate of family benefit was frozen and tax allowances were introduced as the main means of assistance.

Policy towards older people

Concern about growing demographic imbalance has also led to the implementation of a large number of measures affecting older people. The 1980s were characterised by increasing anxiety about the future of pension systems, largely because of the continuing growth in the number of pensioners in all parts of the Community. The rising cost of meeting pension commitments was aggravated by the high levels of unemployment, which encouraged governments to look to early retirement as a means of freeing up jobs for young people.

In general, the objective of relieving pressure for jobs on the labour market was accorded priority in the 1980s, with early retirement schemes being introduced over much of the Community. More recently, however, concern has shifted much more towards the cost of pensions, and in a number of countries the emphasis has switched to reducing the number of pensioners.

Thus, for example, in France the age for entitlement to full pension was reduced from 65 to 60 in 1982 for workers with a satisfactory contributions record, while in Germany, Belgium and other countries early retirement schemes were introduced around the same time. The tendency to lower the pensionable age persisted in Belgium and Luxembourg in the 1990s, with workers in the former being given the option of taking their pension at any age between 60 and 65 and in the latter being allowed to retire at 57, as long they had accumulated sufficient years of contributions.

However, in Germany, the reform of pensions in 1989 means that the pensionable age will gradually increase from 60 to 65 in the case of men and in Italy, under the reforms of 1992, the same will occur over future years. Moreover, in Greece various forms of early retirement were abolished in 1990.

At the same time, a partial pension, allowing workers to combine part-time work with a partial benefit and so relieve pressure on the labour market at lower cost (as well as providing for a more gradual transition from work into retirement), was introduced in Denmark in 1987, in France in 1988 and in Germany in 1989.

While attempting to contain costs, governments have also faced pressure to equalise the treatment of men and women following the Directive of the Council of Ministers in December 1978. Their response has generally been to downgrade entitlements. In 1985, for example, the German *Rentenreform* gave each surviving spouse a pension of 60% of that of their deceased partner, while in the Netherlands, following pension reform, each surviving spouse became entitled to receive 50% of the pension. (In the Netherlands, there is now a proposal to reduce costs further by replacing the existing pension by a survivor's benefit where need can be established, made up of 30% of the minimum wage — 50% if there are children — for the first 6 months and then 40% up to 65. The proposal is revolutionary in that it applies not only to spouses but also registered cohabitants of either sex.)

Survivors' benefits were abolished completely in Denmark in 1987 together with all derived rights in the social security system, while in 1982 in France a pension for widows in their own right was introduced instead of their husband's pension being transferred to them.

Other measures taken to contain costs include:

- the reduction in the earnings-related pension by 5% in the UK in 1986, coupled with a change in the earnings basis of calculation from the best 20 years to the average over the whole period of contributions and the introduction of concessions making it easier for people to opt for private instead of state pensions;

- the switch in 1985 in Spain from pensions being calculated on the basis of earnings over the last 5 years to earnings over the last 10 years, combined with the introduction of a minimum period of 15 years of contributions to qualify for a pension;

- the lengthening of the minimum qualifying period for pension entitlement from 5 to 10 years in Luxembourg in 1987.

Health Care

The upward pressure on the costs of health care, which all countries have experienced since 1980, has led in most cases to restrictions on entitlement to treatment and the introduction or extension of charges. Examples include the German health reforms of 1988/89 which imposed higher charges on patients, while attempting to contain the costs of drugs, and other measures, with similar aims, introduced in 1992; the imposition in France of a budget limit on hospital treatment coupled with a flat-rate fee for patients for each day spent in hospital; and the effective charging for hospital treatment introduced in Luxembourg in 1983. These and other attempts to contain health care costs are examined further in Chapter 7 below.

At the same time, in the Southern Member States, access to health care has been improved and extended over this period. In Italy, a national health service available to everyone had been introduced in 1978 and the same course was followed by Greece in 1983, Spain in 1986 and Portugal by 1988. However, the increased cost resulting from this move has led to the introduction of extensive charges for patients in Italy, especially in 1989, while in Portugal, there was some reprivatisation of services in 1992/93 and in Greece, charges for treatment and drugs were introduced between 1991 and 1993 and private practices were allowed in NHS clinics.

Selectivity and minimum protection

At times when finance is scarce and demand for assistance is expanding, a natural tendency is for governments to turn towards more selective policies focused on those who are most in need of social protection. While rates of social insurance benefit have been reduced and rules on entitlement have been tightened, basic means-tested benefit schemes have been improved and extended to target priority groups.

As a result, there has been a general shift from insurance-based — and earnings-related — benefits to means-tested payments because of deliberate policy action on the part of government as well as because of increased numbers of people in need falling outside the scope of the social insurance system. This is most obvious in the case of the UK, where the importance of means-tested benefits has risen to higher levels than in other Member States. Here, moreover, entitlement to benefit for low income groups has been progressively restricted, with supplements for special needs being replaced by discretionary loans from the cash-limited Social Fund.

A similar trend towards means-testing is also evident in Italy where since 1988 household income has become a determinant of the amount of family allowance received,

On the other hand, in most countries economic recession has led governments to improve benefits for the least privileged who are affected most. In Germany, for example, the rates of benefit for single-parent families and the elderly have been increased. The right of everyone to a minimum level of income was introduced in Luxembourg in 1986 (following the example of Belgium in 1974) and in France in 1988. In Denmark, public assistance was changed in 1987 from a discretionary scheme to one based on individual rights, with levels of payment being fixed in amount instead of being determined by individual assessment.

Even in the less developed parts of the Community, protecting the weakest groups has been a common aim of policy, as witnessed by the increase in minimum pensions in Greece in 1982.

In addition, new programmes, directed at special needs, have been developed in a number of countries. In the Netherlands, for example, entitlement to family allowances for those over 18 was abolished in 1986 and replaced with study grants and loans, while in 1991, a scheme was introduced giving everyone under 21 and every school-leaver under 26 a right to a temporary job at the minimum wage. Similar measures aimed at better integrating young people into society, and into the labour market, have also been taken in a number of other countries.

The elderly and the handicapped have also been targeted in a number of countries, a common aim being to reduce expenditure on institutional care. One response has been to keep these people so long as possible in their own home by developing specialised services and awarding them grants or tax concessions to employ people to assist them. Examples are the "maintenance at home" programme in France and the *Pflegegeld* (caring benefit) in Germany, which enables someone caring for a seriously disabled person to receive a benefit in the same way as those unable to work.

Privatisation

Although the privatisation of social security has been much discussed, there have, in practice, been few concrete examples of this kind of action. In the UK, for example, proposals for reform of social security were published in 1985, the aim being to "reinforce personal independence, rather than extend the power of the State; to widen, not restrict people's opportunity to make their own choices; to encourage, not discourage, earnings and saving" (*Reform of Social Security, Cmnd. 7517*, HMSO 1985). In the Netherlands, reforms were introduced in 1983 with similar aims of reducing public expenditure and adapting the social security system to increased numbers of unemployed and elderly. In France, reforms were proposed around the same time in the *Livre blanc de la protection sociale* of June 1983 and in 1987 an extensive process of national consultation took place on social security in the form of *les Etats Généraux de la sécurité sociale* in 1987. In Ireland, the Commission on Social Welfare report was published in 1986.

A common feature of all these plans is a professed commitment to a universal system of social protection combined with proposals to restrict the provision of support. Nevertheless, these reports have not generally been followed by action. The share of social security in GDP has been reduced in few countries and in most it has risen since 1980 (see Chapter 3).

The few examples of privatisation of social security include, in the UK, the possibility of opting out of the state system of earnings-related pensions and choosing a private pension scheme instead (an option which was introduced, in fact, by a Labour

Government in 1976, though it was extended significantly in 1986 by the Conservative Government). In the Netherlands, there was the abolition of voluntary social health insurance for the self-employed and the elderly who, if not eligible for compulsory insurance, have now to subscribe to a private insurance scheme to cover their medical expenses. In Belgium, certain benefits payable in the event of industrial accidents were transferred in 1988 from the public Fund for Industrial Accidents to private insurers. In Italy, it became possible from 1993 for those on higher incomes to opt out of the national health service. These, however, are just about the only examples which can be cited.

Nevertheless in almost every Member State, reforms have been introduced to reduce the growth of government spending on public health care or unemployment. In many countries too, as noted above, the indexation of benefits to the cost of living and wages has been weakened. Where such steps have been taken — for example, requiring employers to pay employees who are sick for a longer period, as in Denmark and the Netherlands, or reducing benefit rates as in many countries — they have tended to be followed by an expansion of private insurance schemes. This in a sense can be regarded as a form of privatisation.

There are, however, examples of shifts in policy in the opposite direction. In a number of countries, the scope of social security has been extended (to artists in Germany and Portugal, for example, and to other groups in Greece and Spain) and some benefits have been improved (family allowances in Belgium, Italy and Ireland, for example, and minimum pensions in Greece, Belgium, Italy, Spain, Ireland and Germany).

Although in every country there are tax advantages in respect of private insurance, these already existed long before 1980 and have not generally been extended since then. On the contrary, there has been some tendency to reduce tax concessions on insurance premiums. An exception to this, however, was the campaign for "pension saving" launched by the French and Belgian Governments in 1988 to encourage people to take out their own private pensions by offering tax concessions for approved plans. This example was followed by the Italian Government in 1993.

The expansion of private insurance schemes over recent years is partly the result of attempts to control wage increases either by law or through collective agreements. One response of employers who are not allowed to pay their workers the wages they wish is to choose indirect means of payment, such as increasing pensions or providing them with private health insurance. Such a response can also be a means of reducing social contributions and taxes on wages.

Towards convergence?

There is no clear evidence of convergence of social protection systems in the Community since 1980. While a number of changes have worked in the same direction in specific areas (such as increases in charges for health care and drugs and limitations on expenditure), others have worked in opposite directions (reductions and improvements in benefit rates, restricting and extending entitlement). Even within the same country, there are examples of conflicting changes — of, for example, governments trying to relieve the imposition on employers, while at the same time increasing the rate of contribution or introducing new charges in an effort to obtain more revenue to fund expenditure. In certain cases, such as over the pensionable age or means-testing, governments have alternated between increases and reductions.

Nevertheless, there has certainly been a convergence of the problems to be solved, partly because all countries have had to confront the social and financial problems posed by slow growth and higher unemployment, partly because of common demographic trends, and partly because of similar cost pressures. Although the scale of these problems may differ, they have affected all Member States in some degree and have imposed similar pressures for changes in social protection arrangements throughout the Community.

Thus whereas the social protection systems themselves may retain their own characteristics, reflecting their historical development and national preoccupations, the social and economic environment in which they function is becoming increasingly similar. All Member States face the same kinds of challenge.

First, they must adapt their systems of social protection to match the changing circumstances and exclusion processes arising from long-term unemployment and the increasing difficulties of long-term integration into the labour market. This adaptation means establishing a guaranteed minimum level of resources for all those out of work, but also encouraging social and economic integration. Facing the ageing of their populations, Member States will also need to find an acceptable compromise between the interests of the people in employment and those of pensioners and a balance between statutory and supplementary schemes. They will have to attempt better to manage their expenditure on health care. Finally, Member States will need to adapt their systems to the progressive change in the composition of families and lifestyles. This not only means changing the requirements to qualify for benefits, but could also create new social protection needs, for the care of elderly dependents, in particular.

In the last fifteen years, Member States have implemented a number of reforms, in order to adapt their systems to crisis constraints. In order to encourage convergence, the Council Recommendation of 27 July 1992 has established common objectives intended to serve as guidelines for national policies and for adjusting social protection to meet changing needs. As Member States become aware of the strong links which exist between them and as information about what is going on in other countries is improved, it is reasonable to believe that they will seek long-term solutions in similar directions.

Chapter 3 Social protection expenditure and its financing

In 1991, expenditure on social protection amounted to as much as 26% of Community GDP. This means that for each person living in the Community, 4000 ECU (3994 to be precise) was spent on health care, sickness and invalidity benefits, old-age pensions, maternity benefits, family allowances, unemployment compensation and housing assistance.

In relation to GDP, the differences are much smaller (Graphs 1 and 2), reflecting the fact that spending on social protection varies with the level of economic development. Differences, however, remain significant, expenditure relative to GDP being higher in general in those countries where income per head is also relatively high, indicating that as economic development takes place proportionately more resources are devoted to social protection.

The system of social protection is most extensive in Denmark, the Netherlands and, to a lesser degree, France which have similar levels of income per head. On the other hand, in relation to their income per head, Italy and the UK spend slightly less than the Community (unweighted) average on social protec-

Variations between Member States

There are substantial differences in expenditure, however, between Member States. In terms of purchasing power standards (PPS), average spending per head in 1991 on social protection ranged from an estimated 1500 ECU in Greece to nearly 5800 ECU in Luxembourg, a difference of almost four times (Graph 1). Nevertheless, for six member States — five of the six other Northern countries, excluding the UK, plus Italy — social expenditure per head averaged between 4000 and 5000 ECU.

1 Social protection expenditure per head and in relation to GDP, 1991

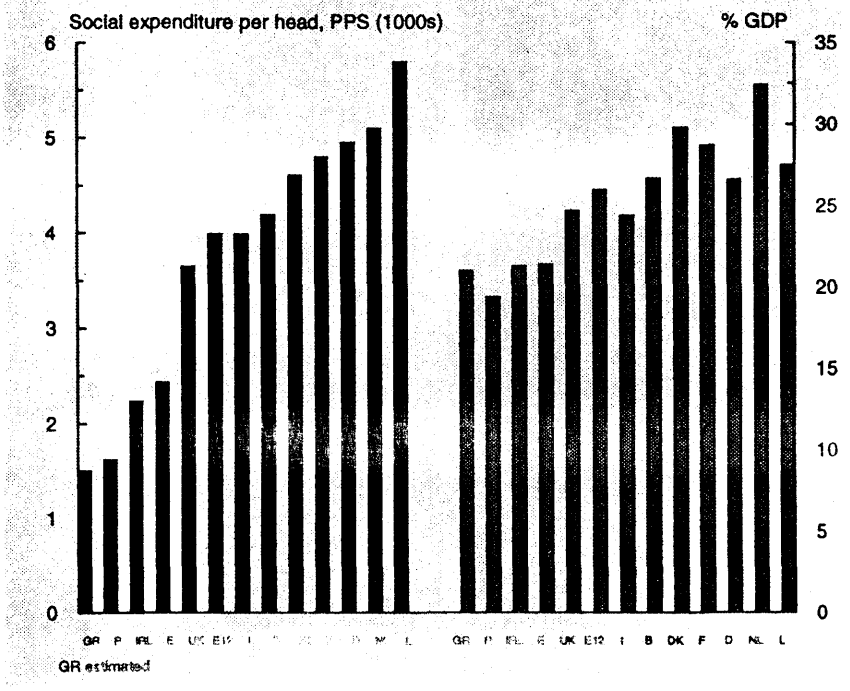
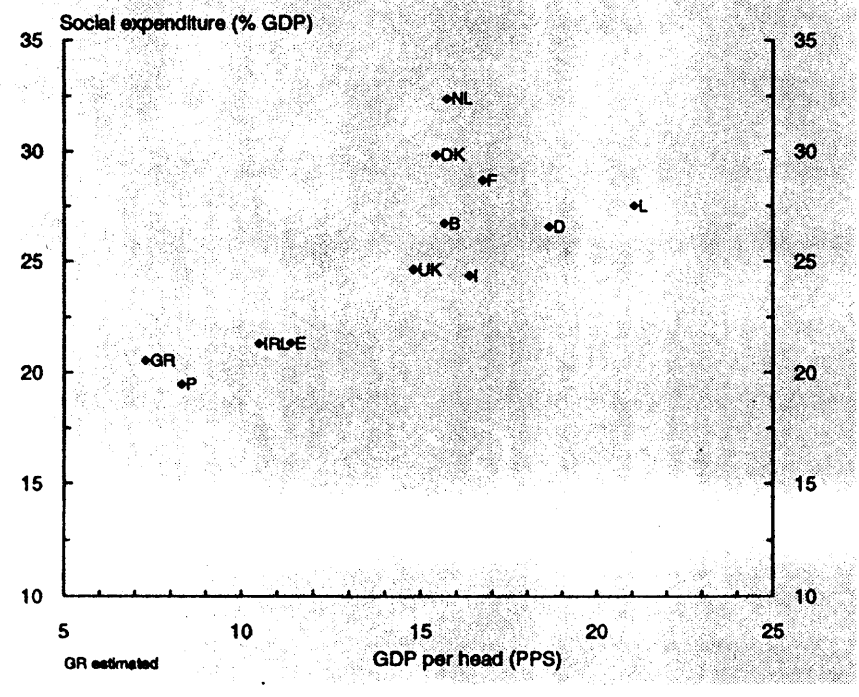


Table 1 Current social protection expenditure as % of GDP, 1970–1991

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR12
Total social expenditure													
1970	18.7	19.6	21.5	na	na	19.2	13.2	17.4	15.9	20.8	na	15.9	na
1975	24.2	25.8	29.7	na	na	22.9	19.7	22.6	22.4	26.7	na	20.1	na
1980	28.0	28.7	28.7	12.2	18.1	25.4	21.6	19.4	26.5	30.8	14.7	21.5	24.4
1983	30.8	30.1	28.2	17.2	19.5	28.3	24.1	22.9	27.2	33.2	16.1	23.9	25.3
1986	29.4	26.7	28.1	19.4	19.5	28.5	24.1	22.4	24.8	30.9	16.3	24.3	26.0
1989	26.7	29.8	27.5	20.7	20.1	27.6	20.2	23.1	25.2	31.0	16.6	21.9	25.2
1991	26.7	29.8	26.6	na	21.4	28.7	21.3	24.4	27.5	32.4	19.4	24.7	26.0
Social expenditure excluding unemployment compensation													
1970	18.2	19.2	21.3	na	na	19.0	9.4	17.4	15.9	20.2	na	12.5	na
1975	22.7	23.6	28.7	na	na	22.2	17.8	22.2	22.4	25.2	na	19.1	na
1980	25.6	25.7	27.9	11.9	15.4	24.3	20.1	19.0	26.1	28.2	14.3	19.9	23.1
1983	27.5	26.1	27.1	16.8	16.5	27.0	21.1	21.2	27.3	29.1	15.9	21.6	24.5
1986	26.5	24.1	26.8	19.0	16.3	27.1	20.9	21.8	24.6	27.7	15.9	22.3	24.3
1989	24.3	26.7	26.3	20.4	17.1	26.1	17.7	23.1	25.1	28.3	16.3	21.1	23.8
1991	24.6	26.3	25.7	na	17.7	27.0	18.6	24.0	27.2	29.9	19.0	23.6	24.6

Source: Eurostat, Social protection expenditure and receipts 1980–1991, Luxembourg, 1993

2 Social protection expenditure and GDP per head, 1991



tion, as do the four less developed Member States — Spain, Ireland, Portugal and Greece.

Change in expenditure, 1980 to 1991

The increase in expenditure on social protection relative to GDP, which was a major feature of the 1970s, continued up until 1982/1983. Since then, spending has tended to stabilise. More precisely, over the period 1986 to 1989 (Table 1), when economic conditions were favourable in the sense that output was expanding and unemployment falling, social protection

expenditure rose by less than GDP in most Member States. Between 1989 and 1991, however, the reverse was the case in all Member States except Germany, where spending continued to fall relative to GDP reflecting the continued expansion of the German economy, and Belgium and Denmark, where it remained constant.

Differences across the Community in expenditure on social protection diminished over the 1980s, as spending rose most rapidly in those countries where it was relatively low in relation to GDP. (The coefficient of variation in the ratio of social protection expenditure to GDP, which measures divergence from the average, was 0.25 in 1980, but only 0.15 in 1991, indicating a significant convergence in levels.)

Average social benefits per head increased by most in the Southern Community countries between 1980 and 1991. In terms of constant prices, they more than doubled in Portugal, and rose by over 70% in Italy, by 65% in Greece and by almost 60% in Spain. On the other hand, the increases in Belgium, Germany, the Netherlands and Denmark were much smaller, only ranging from 15% to 25% (Graph 3).

Expenditure by function

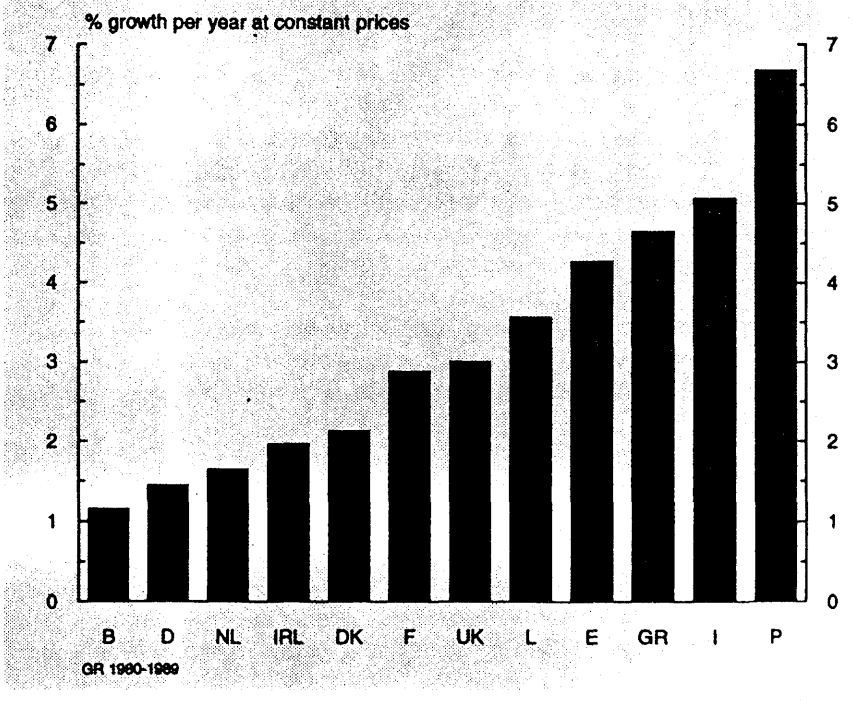
The distribution of expenditure by main function, defined according to the Eurostat common system of classification, (ESSPROS — European system of integrated social protection statistics), reveals a number of national differences (Table 2 and Box p. 44).

While old-age/survivors' pensions are the largest item of expenditure in all Member States, their share of total spending is almost twice as high in Greece (68% of total benefits in 1991) and Italy (61%), on the one hand, than in the Netherlands (37%), Portugal (37%), Denmark (36%) and, especially, Ireland (31%) on the other.

There are also substantial differences in the importance of sickness-invalidity-occupational injury benefits, which account for 45% of total spending in Portugal and the Netherlands (where invalidity benefits alone account for 22% of the total as against an average of 9% in the Community as a whole), but for only 22% in Greece and 28% in Denmark.

Similarly, the share of spending going on maternity/family allowances ranges from 13% in Ireland and 12% in Denmark to less than 2% in Spain and Greece, while the share going to unemployment benefits and the placement, vocational guidance and resettlement of workers ranges from almost 19% in Spain and 16% in Denmark and Ireland to less than 2% in Greece and Italy and under 1% in Luxembourg. On the other hand, housing benefits account for much the same proportion of expenditure in all countries except the UK (6% as compared with a Community average of 2%).

3 Growth in social protection expenditure per head, 1980-1991



Social protection by function

The statistics published by Eurostat distinguish between 11 functions:

Sickness: comprising allowances intended as full or partial compensation for the loss of income resulting from stopping work; payments covering all or part of the cost of medical care; expenditure on public health services, insofar as it relates to reimbursement of costs or provision of medical care; other forms of social assistance relating to sickness.

Invalidity/disability: meaning the inability to engage in any work to a prescribed extent or to lead a normal social life, either permanently or for a prolonged period, and covering invalidity and disability pensions; remuneration paid to the disabled when they engage in work adapted to their handicap in sheltered workshops; medical care specifically granted to invalids or the disabled because of their condition; expenditure on functional, occupational and social rehabilitation; other forms of social assistance.

Occupational accidents and diseases: covering pensions, allowances, compensation payments and other cash benefits granted to those affected; specific medical care; expenditure on functional, occupational and social rehabilitation, and other forms of social assistance for those affected.

Old age: covering pensions paid to those who have reached a certain age as well as the cost of accommodation in nursing and old-people's homes and early retirement pensions.

Survivors: the death of a spouse or parent who when alive contributed to the income of the household and covering pensions and allowances paid to surviving relatives, pensions reverting to next-of-kin and death grants and funeral expenses.

Maternity: covering all cash benefits paid during pregnancy and on the birth or adoption of a child; allowances to offset the loss of earned income, special allowances paid during pregnancy or after childbirth, expenditure on medical care for mothers and children, other forms of social assistance given to expectant mothers or mothers of newborn children.

Family: covering all cash benefits granted for dependent children or, where the legislation provides, for other members of the family; benefits in kind in the form of food, clothing, holiday accommodation and household assistance; expenditure on family planning and other forms of social assistance for children and the family.

Unemployment: covering benefits for partial or complete unemployment; wages and salaries paid for occasional and temporary work organised by public authorities, insofar as these replace unemployment benefits, and other expenditure on social assistance to the unemployed.

Placement, vocational guidance and resettlement: covering administrative costs incurred by placement or vocational guidance offices; removal and installation allowances for the unemployed who have agreed to move house and work in another area; payments compensating for loss of earnings due to absence from work because of receiving vocational training.

Housing: covering payments made on behalf of certain categories of household — in particular, those with limited income — in order to help pay for accommodation.

Miscellaneous: benefits which either relate to areas other than those covered by the above functions or cover a number of functions simultaneously: assistance for the destitute, expenditure on combating poverty, expenditure directed at children and juvenile delinquents (reintegration, etc.), benefits for victims of war or natural disasters, and so on.

Table 2 Division of social benefits by function, 1991 (%)

	EUR12	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK
Sickness	25.4	23.4	18.5	30.0	10.3	27.0	26.2	28.2	24.4	24.0	22.3	31.1	20.4
Invalidity, disability	8.9	8.7	8.7	8.6	11.7	7.7	5.7	7.0	6.5	11.8	22.4	11.8	11.6
Occupational accidents and diseases	2.1	2.1	0.8	3.2	0.1	2.3	2.1	0.6	2.3	3.1	(1)	1.9	0.9
Old age	37.4	34.1	36.4	29.8	56.9	31.2	37.4	24.5	50.0	32.6	31.5	30.1	42.2
Survivors	8.3	11.5	0.1	12.0	11.4	9.7	7.6	6.7	10.9	16.2	5.4	6.6	1.0
Maternity	1.0	0.9	1.8	0.8	0.3	0.9	1.7	2.2	0.4	1.5	0.4	0.9	0.8
Family	6.4	8.0	10.3	6.0	1.4	0.6	8.2	10.6	3.6	9.5	5.5	5.4	9.6
Placement, vocational, guidance, resettlement	1.3	1.7	4.4	2.2	0.0	0.7	0.9	2.2	0.1	0.2	0.0	2.5	1.9
Unemployment	5.6	8.7	12.0	3.7	1.8	17.9	6.1	13.5	1.8	0.6	8.3	2.3	4.4
Housing	1.8	0.0	2.5	0.7	0.9	0.7	2.7	2.6	0.0	0.2	1.1	0.0	5.7
Miscellaneous	1.8	1.1	4.5	3.0	5.2	1.3	1.4	1.9	0.0	0.3	3.2	7.5	1.5
Total	100	100	100	100	100	100	100	100	100	100	100	100	100

(1) *NL invalidity/disability also includes occupational accidents and diseases.*

Source: see table 1

Old-age pensions

The differences between Member States and the trends over time within countries can be analysed by distinguishing the main factors influencing outlays on benefits (Table 3). So far as old-age pensions are concerned, it is of interest to distinguish between demographic factors (old people as a proportion of total population), the extent of old-age protection (those in receipt of an old-age pension) and the level of this protection (the average value of old-age pensions). Unfortunately, in practice, while there are some data on the number of pensions received, there are none on the number of people receiving them. In general, those in retirement receive several different types of pension, and there is a lack of information on

4 Average old-age pension in relation to GDP per head, 1980 and 1991

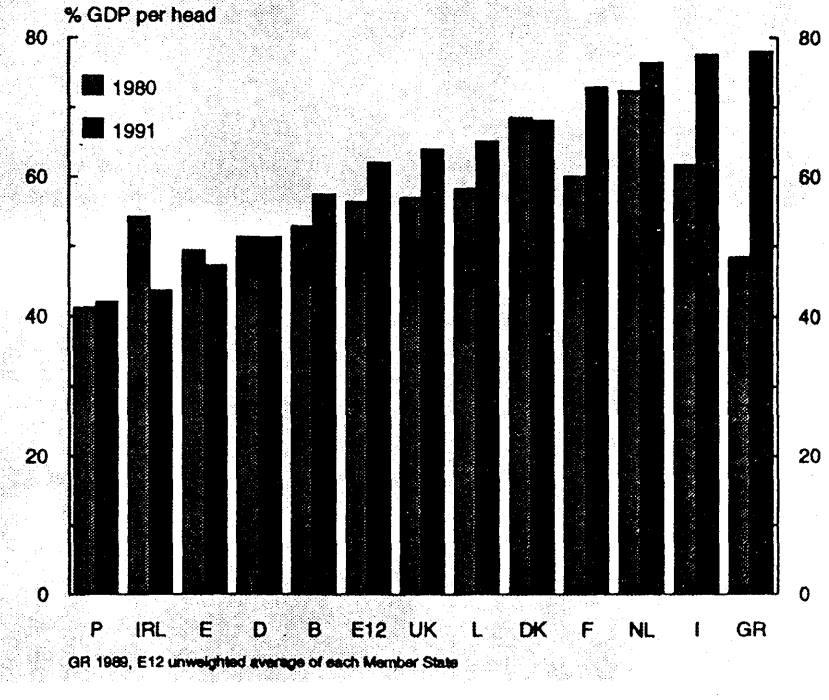


Table 3 Factors explaining expenditure on old-age pensions

		Old-age pensions (% GDP)	Population aged 65 and over (% total)	Average pension (% GDP per head)
Belgium	1980	7.6	14.4	52.8
	1991	8.6	15.0	57.4
Denmark	1980	9.8	14.4	68.4
	1991	10.6	15.5	68.0
Germany	1980	8.0	15.6	51.3
	1991	7.6	14.9	51.2
Greece	1980	6.3	12.9	48.5
	1991	10.6	13.6	78.0
Spain	1980	5.4	10.9	49.6
	1991	6.4	13.5	47.3
France	1980	8.5	14.1	60.0
	1991	10.2	14.0	72.8
Ireland	1980	5.8	10.7	54.2
	1991	5.0	11.4	43.8
Italy	1980	8.3	13.3	62.1
	1991	11.5	14.9	77.6
Luxembourg	1980	7.8	13.4	58.2
	1991	8.6	13.3	65.0
Netherlands	1980	8.1	11.4	70.6
	1991	9.8	12.8	76.4
Portugal	1980	4.3	10.4	41.3
	1991	5.5	13.2	42.1
UK	1980	8.4	14.8	56.9
	1991	10.0	15.6	63.9

Source: Eurostat, Social protection expenditure and receipts 1980–1991, Luxembourg 1993; Demographic statistics, Luxembourg 1992.

their aggregate amount and how this is changing over time.

The following decomposition is all that is possible, but it is nevertheless informative:

$$\frac{OAP}{GDP} = \frac{POP65+}{POP} \times \frac{OAP / POP65+}{GDP / POP}$$

where OAP = total old-age pensions
GDP = gross domestic product at market prices
POP 65+ = population of 65 and over
POP = total population

Expenditure on old-age pensions relative to GDP is therefore given by the proportion of old people in the population multiplied by the average pension (defined as total expenditure on pensions divided by the population of retirement age) in relation to GDP per head.

Old-age pensions relative to GDP increased between 1980 and 1991 in all Member States except Ireland and Germany where expenditure declined. In 1991, expenditure was highest in Italy, where it was 11.5% of GDP, and in Denmark and France, where it was over 10% of GDP. In these three countries, spending was around twice as high as in Ireland (5% of GDP), Portugal (5.5%) and Spain (6.4%), the countries where expenditure was lowest.

Demographic factors explain only a very small part of these differences. Except for Ireland, where the proportion was much less than the average, those aged 65 and over varied between 13% and 15.5% of total population in 1991 in all Member States, the proportion increasing only modestly over the 1980s (except in France, Germany and Luxembourg, where it fell).

By contrast, the average value of old-age pension varies widely between Member States. In 1991, it amounted to over 75% of GDP per head in Greece, Italy and the Netherlands, and just under 75% in France as compared with less than 45% in Ireland and Portugal and under 50% in Spain (Graph 4).

Between 1980 and 1991, the average pension declined slightly in relation to GDP per head in Spain and markedly in Ireland. It remained broadly constant in Ger-

Table 4 Factors explaining expenditure on unemployment benefits

		Unemployment benefits (% GDP)	Population 15–64 (% total)	Activity rate (%)	Unemployment rate (%)	Average unemployment benefit (% GDP per head)
Belgium	1980	2.4	65.6	63.0	7.9	74.7
	1991	2.2	66.6	63.1	7.2	72.6
Denmark	1980	3.0	64.7	80.3	6.5	89.7
	1991	3.5	67.2	83.6	8.9	69.1
Germany	1980	0.9	66.3	68.5	3.2	59.8
	1991	0.9	67.6	70.7	4.4	45.0
Greece	1980	0.3	64.0	55.9	2.8	30.5
	1991	0.3	66.6	59.4	6.8	12.2
Spain	1980	2.7	63.3	57.1	11.1	67.9
	1991	3.7	67.0	58.8	15.9	58.3
France	1980	1.0	63.7	68.2	6.3	38.1
	1991	1.7	65.4	65.7	9.4	41.1
Ireland	1980	1.6	58.8	62.3	7.3	60.7
	1991	2.7	61.4	61.5	16.4	44.2
Italy	1980	0.4	65.8	60.8	7.5	13.7
	1991	0.4	68.9	61.8	9.9	9.7
Luxembourg	1980	0.1	67.9	64.1	0.6	53.8
	1991	0.2	68.1	64.0	1.6	23.4
Netherlands	1980	1.7	66.2	57.7	6.0	76.3
	1991	2.6	68.3	67.8	6.9	80.2
Portugal	1980	0.4	63.0	70.5	7.7	10.6
	1991	0.4	66.0	79.1	4.0	20.5
UK	1980	1.7	64.1	74.4	5.6	63.3
	1991	1.0	65.1	75.4	9.3	22.6

Source: Social protection expenditure and receipts 1980–1991, Luxembourg 1993; Demographic statistics, Luxembourg 1992; Labour Force Survey: results, Luxembourg, 1992

many and Denmark and rose in the other Member States, especially in Greece, Italy and France. For the Community as a whole, the (unweighted) average rose from 56% of GDP per head in 1980 to 61% in 1991. However, differences between Member States widened over the same period (the coefficient of variation rising from 0.15 to 0.20).

Unemployment benefits

Outlays on unemployment benefits (UNB) in relation to GDP can be analysed in a similar way by distinguishing the following factors (Table 4):

- the age structure of the population: the proportion of total of working age (15–64 years) (POP15–64/POP);
- the activity rate: active population as a proportion of the population of working age (POPACT/POP15–64) (the activity rate is affected by both cultural, particularly in the case

of women, and economic factors — the rate tending to increase as economic conditions improve);

- the unemployment rate: the number of unemployed as a proportion of active population (UN/POPACT);

- the average level of protection for the unemployed: the average benefit received by each person unemployed in relation to GDP per head.

These in combination give the following identity:

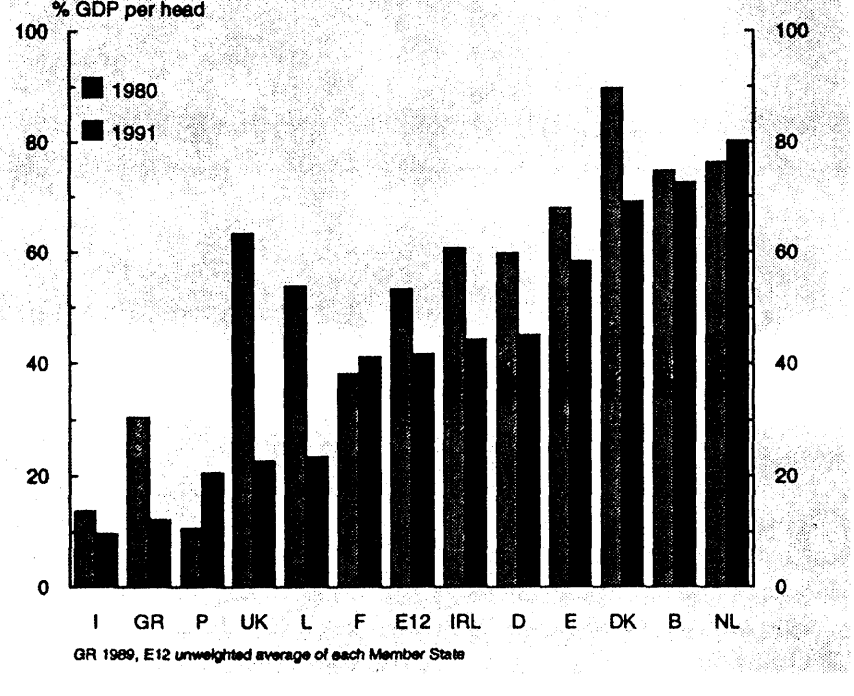
$$\frac{UNB}{GDP} = \frac{POP15-64}{POP} \times \frac{POPACT}{POP15-64} \times \frac{UN}{POPACT} \times \frac{UNB/UN}{GDP/POP}$$

Total unemployment benefits in relation to GDP vary widely between Member States. In 1991, they amounted to less than 0.5% of GDP in Greece, Italy, Luxembourg and Portugal, around 1% in Germany and the UK, 1.5% in France, over 2% in Belgium, Ireland and the Netherlands and as much as 3.5% in Denmark and Spain.

In some cases, the low level of expenditure is due to a low rate of unemployment (Germany and Luxembourg), while countries with the highest expenditure are those with high unemployment (Ireland and Spain) or, in the case of Denmark, a high rate of activity and, therefore, relatively large numbers of unemployed in relation to population. However, expenditure is also closely related to the average level of protection for the unemployed, which differs widely across the Community (Graph 5).

The average level of protection can be further decomposed into two factors — the proportion of the unemployed receiving benefit and the average value of the benefit received. Unfortunately, given the data available, these two factors cannot be clearly distinguished. Nevertheless, countries can be grouped broadly into those giving good protection to a small number of unemployed (Greece, Portugal and Spain), those providing benefits for most of the unemployed but at lower rate relative to former income (Belgium, Denmark, Germany and Ireland) and those falling somewhere between the two.

5 Average unemployment benefit in relation to GDP per head, 1980 and 1991



GR 1989, E12 unweighted average of each Member State

Expenditure on unemployment benefits increased relative to GDP in most Member States. In Germany, Greece, Italy and Portugal, however, it remained broadly unchanged, while in the UK it declined substantially. The increase in unemployment in all Member States except Belgium and Portugal was the main reason for the increase that occurred, the average value of unemployment benefits falling in all Member States except France, the Netherlands and Portugal — in some cases (Ireland, Luxembourg and the UK) substantially. Over the Community as a whole, the (unweighted) average of unemployment benefit fell from 53% of GDP per head in 1980 to 42% in 1991, while at the same time the difference between Member States widened significantly (the coefficient of variation rising from 0.45 to 0.57).

Family allowances

Overall expenditure on family allowances can be decomposed into a demographic factor (young people under 20 as a proportion of total population) and the average amount of family allowances received for each person under 20 (Table 5).

Spending on family allowances varies considerably in relation to GDP across the Community. One group of countries — Greece, Italy, Portugal and Spain — spent less than 1% of their GDP on family allowances in 1991; a second group — Germany and the Netherlands — spent between 1.5% and 2% of GDP; while in a third group — Belgium, Denmark, France, Ireland, Luxembourg and the UK — family allowances amounted to over 2% of GDP.

Spending relative to GDP fell between 1980 and 1991 in most Member States and increased only in Denmark, Ireland, Luxembourg and Portugal. The fall that occurred can largely be explained by the decline in the number of young people under 20 in proportion to total population, which was some 10–20% over the 1980s.

In 1991, the average family allowance per person under 20 amounted to over 12% of GDP per head in Denmark, but to under 0.5% of GDP in Spain (Graph 6) — a difference of 30 to 1. The ratio of average family allowances to GDP per head fell between 1980 and 1991 in seven Member States — Belgium, France, Germany, Greece, Italy, the Netherlands and Spain — and increased in five, the overall difference between Member States widening (the coefficient of variation rising from 0.51 in 1980 to 0.57 in 1991).

Table 5 Factors explaining expenditure on family allowances

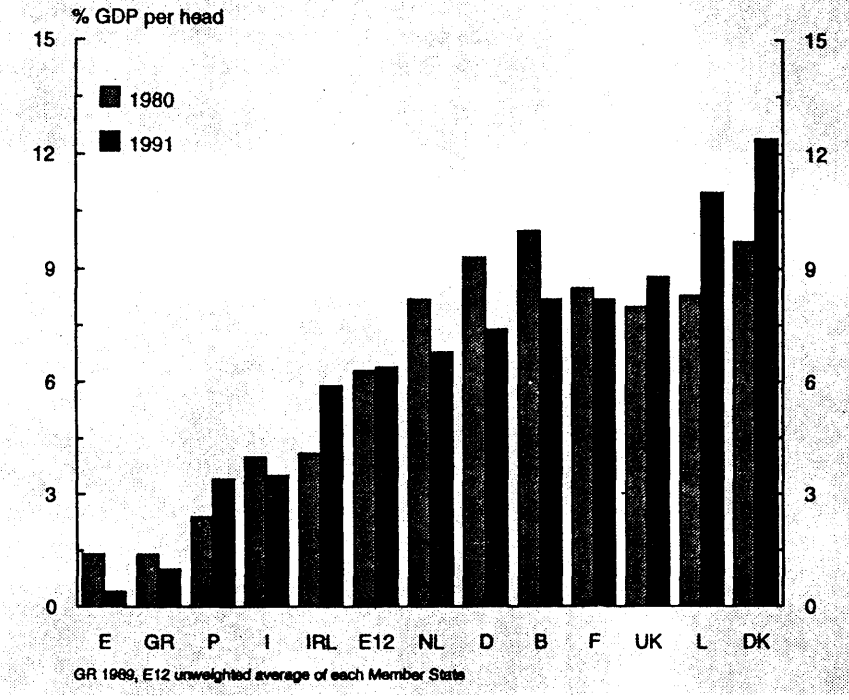
		Family allowances (% GDP)	Population under 20 (% total)	Average allowance (% GDP per head)
Belgium	1980	2.8	28.4	10.0
	1991	2.0	24.5	8.2
Denmark	1980	2.8	28.7	9.7
	1991	3.0	24.1	12.4
Germany	1980	2.5	26.8	9.3
	1991	1.5	20.9	7.4
Greece	1980	0.4	30.3	1.4
	1991	0.3	26.3	1.0
Spain	1980	0.5	34.4	1.4
	1991	0.1	27.8	0.4
France	1980	2.6	30.2	8.5
	1991	2.2	27.3	8.2
Ireland	1980	1.6	40.0	4.1
	1991	2.2	36.6	5.9
Italy	1980	1.2	30.6	4.0
	1991	0.8	23.8	3.5
Luxembourg	1980	2.2	26.7	8.3
	1991	2.5	22.9	11.0
Netherlands	1980	2.6	31.3	8.2
	1991	1.7	25.0	6.8
Portugal	1980	0.9	36.9	2.4
	1991	1.0	29.3	3.4
UK	1980	2.4	29.4	8.0
	1991	2.3	25.9	8.8

Source: Eurostat, Social protection expenditure and receipts 1980–1991, Luxembourg 1993; Demographic statistics, Luxembourg 1992

Financing: the beginnings of convergence

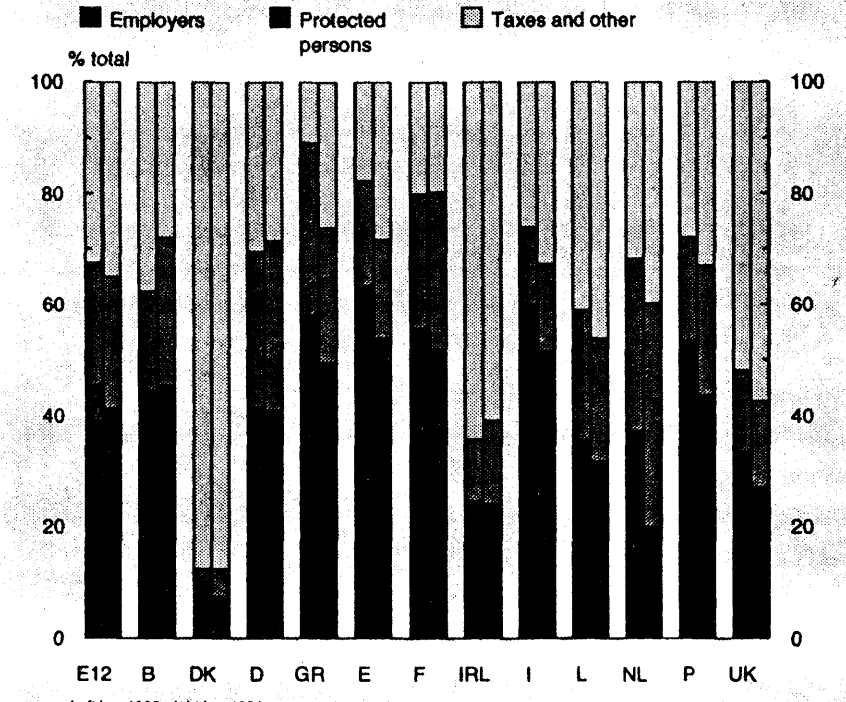
The means of financing social protection differ widely be-

6 Average family allowance in relation to GDP per head, 1980 and 1991



GR 1989, E12 unweighted average of each Member State

7 Structure of social protection receipts, 1980 and 1991



Left bar 1980, right bar 1991

tween Member States, especially as regards the importance of contributions from government, whether central or local, which come from taxation. The latter are small in France and Greece (20% or less of total receipts in 1991), as well as in the Netherlands, Belgium and Germany (25% or less) and large in Ireland (60%) and Denmark (81%).

There is, however, some sign of convergence (Graph 7). Between 1980 and 1991 in all Member States, except Belgium, there was a downward trend in the proportion of social protection expenditure financed by employers' contributions, amounting in the Community as a whole to 4 percentage points (45% to 41%). This was offset by an increase in the importance of contributions either from employees and others receiving protection (in France, Germany and Ireland) or from government (in Greece, Italy, Luxembourg and Spain) or from both (in the Netherlands and Portugal).

As a result of these differential trends, the distribution of total social contributions as between employers on the one hand, and those protected (wage-earners, self-employed and others) on the other, have become more similar across the Community, the proportion of contributions paid by employers ranging between 57% and 67% of the total in nine of the 12 Member States. In Spain and in Italy, however, employers were responsible for paying 76–77% of contributions, while in the Netherlands, they paid only 33% with those receiving protection, in contrast to all other Community countries, contributing the largest share.

Gross or net benefits?
The distorting effect on comparisons of taxes on benefits

Any rigorous comparison of social protection expenditure should take account of the fact that in some Member States benefits are subject to income tax and/or deductions for social contributions. Since the situation varies from one country to another, this affects comparisons at any given point in time. Equally, changes made in individual Member States on taxing benefits or deducting social contributions can distort trends over time.

To correct for this, benefits should ideally be calculated in net terms, after deduction of tax or social security contributions. Unfortunately, the information needed to do this is not at present available in most Member States, so more summary information must suffice.

Table 6 indicates the tax treatment of social security benefits in Member States as at 1 July 1992. Overall, it appears that long-term benefits (old-age or invalidity pensions) tend to be regarded as taxable income more than short-term benefits. However, in practice, the existence of specific tax rules (in Belgium) or tax exemptions (in Germany, Greece, Portugal and Spain) means that this distinction is not clear-cut.

Table 7 indicates that the practice of deducting social contributions from benefits is much less widespread. In some Member States — Denmark, Ireland, Italy, Portugal and the UK — no contributions are deducted from benefits. In the others, some benefits are subject to health insurance contributions — which again are more often long-term (old-age and invalidity pensions) than short-term benefits (sickness and unemployment).

How important are these taxes on benefits? According to estimates produced by the Netherlands Statistical Office, total direct taxes and social contributions amounted to over 20% of the social benefits received by households each year — or to around 5% of GDP. The total net expenditure on social protection in the Netherlands, therefore, represented not 32% of GDP in 1991, as shown in the ESSPROS statistics (Graph 1), but 27%.

This is probably an extreme case. In the Netherlands all social benefits, except family allowances, are subject to income tax and recipients of old-age, invalidity and survivors' pensions and of social assistance are liable for national insurance contributions. Similarly, those receiving benefits under the occupational insurance scheme — because of sickness, unemployment or invalidity — are treated as wage-earners and must pay contributions to the national insurance and occupational insurance schemes.

The difference between total gross and net benefits is probably smaller in the other Member States. It may, however, be significant in some countries (perhaps 1–2% of GDP), particularly in Belgium, France and Luxembourg. More investigation of this point is required to improve comparability between Member States.

It is interesting to note that the majority of Member States have made reforms over the past ten years, which have had the effect of increasing deductions from benefits. In 1984, Belgium made unemployment and invalidity benefits taxable and since 1980 has required old-age pensioners to pay health contributions. In Germany, health insurance contributions have been payable on pensions since 1983 at the same rate as on earnings. A similar reform was introduced in France in 1980 and in Italy in 1991. In France, in 1982 health insurance contributions became payable by those receiving unemployment benefit, and since 1991 the new "general social security contribution" has been payable on all incomes, including social security benefits (with exemptions for the lowest old-age pensions and unemployment benefits). In the UK, unemployment benefits were made taxable in 1982.

Table 6 Tax treatment of social benefits in the European Community (July, 1992)

	B (1)	DK	D	GR	E	F	IRL	I	L	NL	P	UK
Sickness	+	+	-	+ (3)	+	+	-	+	+	+	-	- (9)
Unemployment insurance	+	+	-	-	-	+	-	-	+	+	-	+
Basic old-age pension	+	+	+ (2)	+ (3)	+	+	+	+	+	+	+ (8)	+
Supplementary old-age pension	+	+	+	+ (3)	+	+	na	+	+	+	+ (8)	+
Means-tested old-age pension	+	na	-	-	-	-	-	-	+	na	+ (8)	-
Occupational accident or disease	+	+	-	na	+	-	- (6)	+/- (7)	+	na	-	-
Family	-	-	-	+ (3)	+	-	-	-	-	-	-	-
Maternity	+	+	-	+/- (4)	+	-	-	+	+	+	-	- (10)
Invalidity	+	+	+ (2)	+ (3)	-	+	+	+	+	+	+ (8)	-
Survivors	+	na	+ (2)	+ (3)	-	+	+	+	+	+	+ (8)	+
Social assistance	+	+	-	-	+ (5)	-	-	-	-	+	-	- (11)

+ Benefit treated as taxable income - Benefit not treated as taxable income na not applicable (benefit does not exist)

(1) *In Belgium, all benefits (except family benefits) are treated as taxable income but in a different way from other sources.*

(2) *In Germany, the basic old-age pension is taxable in theory but not in practice. If a person retires at the age of 65, only 24% of their benefit will be treated as taxable income wich is generally too small to be taxable. This also applies to survivors' and invalidity pensions.*

(3) *In Greece, as part of the new tax law of October 1992, all income below 1 million Drachmas per year is exempt from tax and anything above this, up to a ceiling of 2.5 million Drachmas per year, only at a rate of 5%. Above this, the tax rate is 30%.*

(4) *In Greece, the ad hoc maternity allowance covering hospital costs is exempt from tax, whereas regular maternity benefits are taxable.*

(5) *In Spain, social assistance is taxable in theory, but in fact, as this is means-tested, recipients are always below the tax threshold.*

(6) *While no tax is payable on the main occupational injury benefit in Ireland, in some cases long-term benefits are liable to tax.*

(7) *In Italy, temporary occupational injury benefits are subject to tax, whereas permanent benefits are not.*

(8) *In principle, pensions (old-age, invalidity and survivors') are taxable in Portugal. However, amounts up to 1.25 million Escudos (married couple) or 1 million (single) are exempt from tax. In practice, this means that the minimum pension (General Scheme), social pension (Non-Contributory Scheme) and other flat-rate pensions are tax-free. This exemption covers all pensioners not in receipt of other income. If they receive other income, a specific deduction rule is applied.*

(9) *Although sickness benefit in the UK is not taxable, people temporarily off work due to illness receiving Statutory Sick Pay are taxed.*

(10) *Maternity benefit in the UK is not taxed, but those receiving Statutory Maternity Pay are taxed.*

(11) *None of the means-tested social assistance benefits in the UK are taxable except, in the case of Income Support, if the claimant is unemployed or on strike. In these cases the benefit is paid in full, since the income level of the means-test is almost always below the weekly tax threshold. However, benefits paid are included in the claimant's annual income and may be taxed if this rises above the annual tax threshold. Additions for children are not taxed.*

Table 7 Contributions payable on social benefits in the Community (July, 1992)

	B (1)	DK	D	GR	E	F	IRL	I	L	NL	P	UK
Sickness	-	-	-	+	+	-	-	-	+	+	-	- (3)
Unemployment insurance	-	-	-	-	-	+	-	-	+	+	-	-
Basic old-age pension	+	-	+	+	-	+	-	+	+	+ (2)	-	-
Supplementary old-age pension	+	-	+	-	-	+	-	+	+	+ (2)	-	-
Means-tested old-age pension	-	-	-	-	-	-	-	+	+	na	-	-
Occupational accident or disease	+	-	-	na	+	-	-	-	+	na	-	-
Family	-	-	-	+	+	-	-	-	-	-	-	-
Maternity	-	-	-	-	+	-	-	-	+	+	-	- (3)
Invalidity	+	-	+	+	-	-	-	+	+	+	-	-
Survivors	+	-	+	+	-	+	-	+	+	+	-	-
Social assistance	-	-	-	-	-	-	-	-	+	+	-	-

+ Contributions payable on benefit - No contributions payable on benefit na not applicable (benefit does not exist)

(1) *In Belgium, contributions on benefits are only payable if the benefits are above a certain level.*

(2) *In the Netherlands, pensioners are exempt from paying contributions to the General Scheme for old-age, death and invalidity.*

(3) *In the UK, those receiving Statutory Sick or Maternity Pay pay social contributions.*

Chapter 4 The scale of social protection in Member States

The Community's policy on social protection, endorsed by all Member States, was set out in the Council Recommendation of 27 July 1992. This makes clear that the aim of the Community is to promote the convergence of policies in Member States in pursuit of a common set of objectives whilst respecting the independence and diversity of systems in operation in each country.

These common objectives are defined in the Recommendation in terms of three key aims:

- to guarantee to everyone legally resident within the territory of a Member State a level of resources in keeping with human dignity;
- to give them, regardless of their resources, the chance to benefit from the system for the protection of human health existing in the Member State;
- to help them to be properly integrated into society and to try to ensure that all who are able to work have reasonable access to the labour market;
- to provide to everyone who either wishes to stop working because of their age or is forced to do so because of ill-health, invalidity, pregnancy or unemployment with a level of income which will, to a reasonable extent, maintain their standard of living in accordance with the contributions they have paid into social security schemes;
- to examine the possibility of introducing and/or developing appropriate social protection for the self-employed.

The concern here is to assess how far these objectives are currently being achieved by examining the benefits which are payable in each Member State in the event of someone retiring, falling ill, becoming unemployed and so on. In the first part of the chapter, after considering health care, estimates are made of the level of benefit which a typical worker is entitled to receive under the national systems in operation and this is related to average earnings in the country in question. In the second part, an attempt is made to assess the actual effect of social protection systems on the income of households which are in need of support.

This second exercise is a far more difficult task since the amount of assistance which is provided in practice depends on the often complex system of regulations governing entitlement and can only really be estimated on the basis of surveys of household income. It is liable to give very different answers from the first exercise which only considers standard cases, which in reality may not necessarily be typical of those relying on social security.

In the following chapter, examples of policies to help people into work are examined in respect of four Member States to see what kind of measures are being taken to meet the objective of social and economic integration.

Health care

What is not examined here in any detail is access to health care, which is a particularly difficult issue to evaluate. While all systems of health care now in operation in Member States provide treatment to virtually everyone in need, irrespective of their income or record on contributions, what remains to be verified is how far the objectives stated in the Council Recommendation on Convergence of Social Protection as regards high quality of

Table 8 Benefits received at retirement as a % of average net earnings of manual workers in manufacturing

	Contributory pension	Minimum benefit	
	Personal rate	With adult dependent	Personal rate
	% average net earnings		
Belgium	73	80	47
Danmark	60	77	52
Germany	77	69	39
Greece	107	114	8
Spain	97	98	32
France	88	83	46
Ireland	42	62	35
Italy	89	89	19
Luxembourg	78	77	46
Netherlands	49	67	49
Portugal	94	98	30
UK	44	59	31
EC Average	75	81	36

service and of equality of access to treatment are being met.

Preliminary estimates suggest that death rates vary significantly across the Community, in terms of both the total and from particular causes. (The overall death rate between the ages of 5 and 64 was 129% of the Community average in Scotland over the period 1980 to 1984, but only 79% of the average in Greece, while, for example, the perinatal mortality rate was only 69% of the Community average in Denmark, but 169% of the average in Portugal.) The difficulty is that these differences, of course, cannot wholly, or even mainly, be ascribed to differences in the standard of health care. Diet and lifestyles are almost certainly more important, especially with regard to the overall death rate.

Very provisional research on equality of access to treatment indicates, first, as is well known, that the poor have greater need for health care than wealthier members of society insofar as they are more prone to ill-health (because of the environment — in the broadest sense — in which they are forced to live). Secondly, it tends to show that the provision of health care is related much more to need than to income, in that proportionately more expenditure is devoted to poorer groups than richer ones throughout the Community. At the same time, it reveals little difference between Member States in the extent to which the different health care systems in operation meet the equity objective. Differences in the methods of delivering health care, on the one hand, or of financing it, on the other, do not, therefore, seem to affect access to treatment.

Benefit levels

It is possible to gain an indication of the level of various forms of benefit payable in Member States by comparing the amount received by a hypothetical person with given characteristics, in the event of their retirement or not being able to work for any reason — because of ill-health, invalidity, unemployment and so on. To simplify the comparison, the typical case examined is that of *someone earning the average industrial wage* in differing family circumstances. In all cases, the benefits payable in each Member State are calculated at their July 1992 levels as *a percentage of the average earnings of manual workers in manufacturing industry* in the country in question. The latter are expressed *net of tax and social security contributions* in order to measure benefits in relation to take-home pay.

The various kinds of benefits payable in the event of particular circumstances are examined in turn below.

Old-age

According to the Council Recommendation, Member States should guarantee minimum means of subsistence to the elderly and establish mechanisms to enable those retiring at the end of their working careers to receive a reasonable level of income in relation to their earnings when in employment, and in relation to the contributions paid over their lifetime.

The average level of benefit payable to a single person who was on the average industrial wage when in work and who is entitled to a full pension on the basis of their contributions record is around 75% of average net earnings in Member States (the average here is the simple arithmetic mean of the ratios calculated for each country) (Table 8). Perhaps surprisingly, the pension received by such a person is higher in relation to wages when in work in the Southern Member States of the Community — as much as 107% of average net earnings in Greece, 97% in Spain, 94% in Portugal and 89% in Italy — than in the North of the Community, while in three countries — the UK, the Netherlands and Ireland — it is less than 50% of net earnings.

In each of these three countries, as well as in Denmark where the amount received by a single person is also relatively low in relation to net earnings, retirement pensions are financed at least in part from general taxation as well as from contributions. Supplementary pensions schemes are also important. Such schemes, operated in some cases — the UK in particular — by the private sector add variable amounts to the levels of benefit calculated here but are difficult to take into account because of a lack of data.

In all four countries, moreover, the pension is significantly higher for a married couple than for someone without an adult dependent. In each case, having a dependent adds an amount equivalent to 15% or more of the average net wage to the pension received. While in most other Member States, the pension received is also higher for a married couple than for a single person, the extent of the difference is much smaller. In three countries — Germany, France and Luxembourg — a married couple actually receives less in pension relative to earnings than a single person. This is due to taxes being lower for a married couple in these countries than for a single person and, therefore, net earnings being higher, rather than to the amount of pension paid being less.

For those who retire without any meaningful contribution record and have negligible independent means of support, the picture is very different. Although all Member States have some system of income support for such people, the amounts payable vary substantially across the Community. In this case, the benefit received by those living in the Southern countries of the Community tends to be much lower than in the more prosperous Northern Member States. In Greece, the basic allowance for a single person is as low as 8% of average net earnings in industry, in Italy only 19% and in Spain and Portugal, around 30%. Apart from the UK and Ireland, the amounts of minimum pension are higher in the North of the Community, though only in Denmark does the level exceed 50% of average net earnings, and then only marginally.

Table 9 Sickness and invalidity benefit

	Short-term illness	Invalidity after 1 year
	% average net earnings	
Belgium	100	83–91
Denmark	73	73
Germany	100	100
Greece	100	40
Spain	60	74
France	53	67
Ireland	32	36
Italy	31	46
Lux.	100	100
Neth.	70	74
Portugal	79	76
UK	28	33
EC Average	69	67

Sickness and invalidity

The Council Recommendation states that those who are forced to stop working for a time because of illness should receive an income, whether flat-rate or earnings-related, which is sufficient to maintain their standard of living in a reasonable manner.

In the case of temporary ill-health lasting for up to a few weeks, in four Member States — Belgium,

Table 10 Disabled — long-term incapacity for work

	Personal rate	With adult dependent
	% average net earnings	
Belgium	97	113
Denmark	83	84
Germany	39	60
Greece	36/9	36/9*
Spain	32	32
France	46	46
Ireland	35	57
Italy	56	56
Lux.	65	80
Neth.	49	69
Portugal	30	30
UK	32	50
EC Average	50	60

* *Discretionary payments may also be available*

Germany, Greece and Luxembourg — the level of benefit payable is equal to earnings when in work for someone with a satisfactory contributions record on the average industrial wage (Table 9). In the first two cases, the cost of benefit payment falls on employers, while in Greece the employer is liable to pay 50%. In Luxembourg, on the other hand, the cost is covered from social insurance schemes. In three other countries — Denmark, the Netherlands and Portugal — sickness benefit amounts to 70% or more of the net wage when in work for such a person, while in France and Spain, it is between 50% and 60%, though in the former, it rises to 64% if the illness lasts for over four weeks.

The figures for France and the Netherlands, however, tend to understate the amount received in many cases, since collective agreements between employers and trade unions often give workers 100% of their former wage when they fall ill.

In the three other Member States, on the other hand — Ireland, Italy and the UK — the level of benefit is only around 30% of net earnings when in work for someone on the average industrial wage. For Italy, this too understates the actual amount received if the person concerned is a salary rather than a wage earner. In this case, they are likely to continue to be paid the same amount as their earnings for a period of up to three months. In addition, for someone in the UK belonging to one of the many occupational schemes the amount received could be considerably greater than the benefit payable under the state scheme.

It should also be noted that in a number of countries — France, Ireland, Italy and Portugal, for example — anyone falling ill has to wait three days before becoming entitled to benefit, though in many cases the employer is likely to continue paying wages for this period.

If the illness persists and the person concerned is unable to work for a prolonged period, then the situation changes, but the relative level of benefits received as between Member States does not alter greatly in most cases. In Germany and Luxembourg, a person with a satisfactory contributions record on the average industrial wage continues to receive the equivalent of their earnings when they were in work, while in Belgium, the benefit level falls only slightly, to 83% of net earnings if the person is single and to 91% if they have a dependent spouse. In Greece, however, the level declines to 50% of net earnings after two weeks illness and to 40% after six months.

For the other countries, the benefit levels payable after one year's incapacity for work are similar to those payable after a few days. Where they differ, they tend to increase rather than decline. Thus in France, the benefit rises to 64% (from 53%) after four weeks and to 67% after one year; in Italy, for wage earners, it goes up from 31% to 53% after three weeks, though it falls to 46% after a further 40 days; and in the Netherlands and the UK, a temporary disability allowance is payable which adds around 5% of net earnings to the amount received.

In addition, in four countries — Greece, Ireland, Luxembourg and the Netherlands — someone unable to work because of ill-health is entitled to receive an extra allowance for a dependent spouse, adding between 6% of net earnings (in the latter two countries) and 21% (in Ireland) to the amount received.

Disability

The situation is different from that described above for someone who is disabled and unable to work and who, therefore, has not accumulated sufficient contributions to be entitled to insurance benefit. (The same applies to someone who has exhausted their entitlement to benefit.) Although social security systems in all Member States provide income support for people falling into this category, the amount varies significantly between them.

Only in Belgium and Denmark is the allowance payable to a single person anywhere close to the average industrial wage, at 97% and 83%, respectively (Table 10). In half the Member States, the amount payable is only between 30 and 40% of net average earnings, while in another two — France and the Netherlands — it is less than 50%.

Additional amounts, however, are payable in a number of countries if the person concerned has a dependent spouse, the increase to the personal allowance being around 15% of net earnings in Belgium and Luxembourg and around 20% in Germany, Ireland, the Netherlands and the UK. The effect of this is to raise the level of benefit paid to 50% or more of the average net industrial wage in all Member States except Spain, Portugal and Greece (and to as much as 113% in Belgium).

Table 11 Unemployment benefits

	1st period	Duration	2nd period	Duration
	% earnings	(months)	% earnings	(months)
Belgium	79	12	55	Indefinite
Denmark	73	30	63	Indefinite
Germany	63	12	56	Indefinite
Greece	28	12	0	na
Spain	80	6	70	18
France	80	12	67–33 (a)	Indefinite
Ireland	41	12	32–35 (b)	Indefinite
Italy	26	6	0	na
Luxembourg	85	12	46	Indefinite
Netherlands	74	24	49	Indefinite
Portugal	81	21	44	21
UK	23	12	23	Indefinite
EC Average	61	14	42	

Note: (a) August 1992: 67% for 4 months, then 46% for 4 months, 38% for another 4 months and 33% thereafter
(b) 32% for 3 months, then 35%

Unemployment

In the case of people who become unemployed, the Council Recommendation states that Member States should not only maintain income levels but also help them back into employment. This latter objective is considered in Chapter 5 below. The focus here is on the levels of benefit payable to the unemployed in various circumstances and at various times during a given spell of unemployment.

In all Member States, the unemployment benefit received depends on the previous employment record and the period of time over which contributions have been paid. In most countries, the benefit paid is initially at a reasonably high level in relation to earnings when in work, but the length of time for which this is payable is limited, the aim being to give an incentive to return to work before the benefit expires. Thereafter, benefits become means-tested and the objective changes from that of maintaining the previous level of income of the person concerned to that of providing a minimum standard of living. Only in Belgium and Denmark is there no time limit on the payment of (non-means-tested) unemployment benefits, while in Greece, Italy, Spain and Portugal, entitlement to any benefit at all — other than discretionary social allowances — expires after a period.

Table 12 Benefits payable to an 18 year-old unemployed person

	Living alone	Living with cohabitee
	% average earnings	
Belgium	47	0
Denmark	35	35
Germany	39	(See note)
Greece	0	0
Spain	0	0
France	0	0
Ireland	32	16
Italy	0	0
Lux.	45	45
Neth.	34	0
Portugal	44	44
UK	18	0
EC Average	25	12

Note: Amount payable depends on the individual case

The differences between Member States in levels of benefit and in their duration can be illustrated by considering *a 40-year old industrial worker who has been in regular employment earning the average wage since the age of 20 and then becomes unemployed.* For 7 of the 12 Community countries, the initial benefit received amounts to between 73% and 80% of such a person's former wage, expressed in net terms and for another country, Germany, it amounts to 63% (Table 11). In Ireland, however, the amount paid is only just over 40% of net earnings when in work, while in Greece, Italy and the UK, it is under 30% — in the UK as low as 23%.

In half the Member States, entitlement to this initial level of benefit is limited to 12 months. Only in Spain and Italy is the period less than this at six months. In Portugal, however, this initial period extends to 21 months, in the Netherlands to 24 and in Denmark to as much as 30.

After the end of this initial period, the level of benefit is reduced in all countries, with the exception of the UK where income support provides a continuance of benefit at virtually the same rate indefinitely. In two countries, Greece and Italy, benefit ceases to be payable at all as of right (though in Italy, discretionary local and regional support is available), while in a number of cases, the reduction is substantial — in each of the Benelux countries, around 25% of former net earnings or more and in Portugal, more than 35%.

After the initial period, therefore, benefit becomes in most cases a form of social assistance and the aim is one of providing a subsistence level of income. The level of payment in the long-term to the unemployed, after their entitlement to unemployment benefit has been exhausted, is, in fact, in all countries apart from Belgium and Spain, what someone without a satisfactory contributions record would receive immediately after they lost their job, if they had no independent means of support. In Belgium, the amount would be less in this case — at 47% of net average earnings — while in Spain, the person concerned would be forced to rely on discretionary payments from local or regional authorities.

Once the unemployed have exhausted their entitlement to benefit, the amount payable, therefore, becomes relatively small. In only three Member States — Denmark, Germany and Belgium — does it exceed 50% of net average earnings in industry, and in the latter three cases, for those who do not have a satisfactory contributions record, the amount payable, as elsewhere in the Community, is less than 50%.

Additional allowances, however, are payable in respect of dependent spouses in a number of countries, as described for invalidity benefits above. These serve to raise the level of benefit to above 50% of the average net industrial wage in all countries apart from the UK, where it remains low at 36%, and Italy, Spain and Greece, where no formal scheme for guaranteeing a minimum level of income exists. Supplementary payments also apply to dependent children in some countries, including Spain, where someone unemployed with two children can receive benefit equal to 64% of the average net wage.

Just as the contributions record makes a marked difference to the benefit payable when someone becomes unemployed, so too does age. In the case of a person of 18 who has not previously worked, who has no significant source of income and who lives alone, there is no formal entitlement to income support in Spain, Greece, France and Italy (Table 12). In most other countries,

the benefits payable are less than for someone older, the amount varying from only 18% in the UK to 44% in Portugal (though this only lasts for 10 months). Only in Belgium and Luxembourg is benefit paid at much the same rate as to a 40-year old man.

In general, the income of the person's parents does not affect entitlement. In Germany, however, parents may be required to provide support insofar as they are able to do so, while in Luxembourg, parental income is only taken into account if the person concerned applies for social assistance, as opposed to unemployment benefit. In Belgium, the amount paid to the person may be recovered from their parents.

Where the same person lives with someone else earning a wage, this affects the amount payable in all countries apart from Denmark and Portugal. The person would lose their entitlement to any benefit at all except in Denmark, Portugal and Ireland, while in Germany, the amount paid would depend on their individual needs. In Luxembourg, their domestic circumstances are only taken into account if they claim social assistance rather than unemployment benefit.

In general, unemployment assistance on a national basis is not widely available in Southern Member States, but in these countries discretionary regional and local support plays an important role. In Italy, for example, an unemployed worker may, in certain circumstances, be entitled to a mobility benefit, which typically amounts to 71% of net average earnings. In addition, although the Italian system does not provide for payments on a national basis after the 6-month period of benefit entitlement ends, various discretionary benefits may be available depending on where the person concerned lives. A similar situation exists in Spain.

Maternity

The Council Recommendation seeks to ensure that women who stop work to have babies enjoy appropriate social protection and the Council Directive 92/85/EEC which comes into force in 1994 has defined minimum standards. *For a women who has been in employment for more than a specified period of time and who is on the average wage*, the maternity benefit payable is either equal to or greater than average net earnings in 7 Member States (Table 13). In Belgium, France, Luxembourg and Portugal, because benefits are not taxable, they are more than earnings when in work, while in Germany, Greece and the Netherlands, they are at the same level. For most other countries, the level of benefit is also relatively high, though in the UK, where the scheme is the least generous in the Community, the benefit after the first six weeks is as low as 25% of former net earnings.

The period for which benefits are paid varies from 13 weeks (formally 90 days) in Portugal to 28 weeks in Denmark (which partly compensates for its relatively low rate of benefit — 73% of former net earnings). For 9 countries, however, the normal period is between 14 and 18 weeks, with only Italy (5 months) in addition to Denmark having a longer period (in France, the duration is 16 weeks for the first two children, 26 weeks for subsequent ones).

Table 13 Maternity benefits

	% earnings	Duration
Belgium	110/117	15 weeks
Denmark	73	28 weeks
Germany	100	14 weeks
Greece	100	15 weeks
Spain	75	16 weeks
France	113	16/26 weeks
Ireland	93	14 weeks
Italy	86	5 months
Lux.	111	16 weeks
Neth.	100	16 weeks
Portugal	124	13 weeks
UK	25/91	18 weeks
EC Average	96	

Notes: In Belgium, benefit of 117% is paid for the first 30 days and 110% thereafter. In France, the duration is 16 weeks in the case of the first two children and 26 weeks for further children. In the UK, benefit of 91% is paid for the first 6 weeks and 25% thereafter.

For a parent who wants to take a longer period off work, only very limited assistance is available under the social protection systems. In three countries — Germany, Belgium and Italy — special allowances exist for parents who stay at home with children, though at compara-

Table 14 Benefit payable to single parent with no contributions record

	% average net earnings
Belgium	59
Denmark	60
Germany	55
Greece	32
Spain	3
France	50
Ireland	44
Italy	16
Lux.	54
Neth.	63
Portugal	0
UK	38
EC Average	40

Note: In Greece, the benefit is only payable to single mothers

tively low levels and for limited periods of time (22% of average net earnings until the child reaches the age of two in Germany, 20–25% for one year in Belgium and 34% for 9 months in Italy). In other countries, such a person would have to rely on means-tested social assistance, to the extent that it exists, though in France, there is a special scheme for single parents which pays 59% of average net earnings until the child reaches the age of three.

Lone parent families

Protection for single parents — or more accurately those living alone — varies considerably between Member States, especially in respect of people without a satisfactory record of contributions (Table 14). In Greece, benefit is payable only to lone mothers and not to single fathers, while in Spain and Portugal single parents have to rely on the discretionary support from regional and local authorities, which is also true in Italy where the level of benefit is only 16% of the average net wage. Of the other countries, the benefit is 50% or less of the average wage in France (after the child has reached the age of three), Ireland and the UK, where it is only 38%. Only in Denmark and the Netherlands is the figure 60% or more.

Care of an elderly or disabled relative

In most Member States, there are no special schemes to aid those caring for an elderly or disabled relative and so they must generally rely on social assistance. In Ireland and the UK, however, special payments exist in the form of a carer's allowance, which are means-tested in Ireland and which amount, in the most favourable circumstances, to 33% of net average earnings in Ireland and 29% in the UK.

Widows' benefits

For women left as widows by their husbands' deaths, there is again marked variation in the benefits payable in different parts of the Community. Much depends on the personal circumstances of the woman involved — how old they are (there is a minimum age requirement of 35 in Portugal, 40 in the Netherlands,

Table 15 Widows' benefits

	Woman aged 30 with 2 children	Woman aged 50 without children
	% average net earnings	
Belgium	89	89
Denmark	67	67
Germany	51	37
Greece	59	54–66
Spain	82	49
France	(See note)	(See note)
Ireland	58	36
Italy	47	56
Lux.	77	69
Neth.	69	49
Portugal	48	64
UK	53	31
EC Average (excl. France)	64	55

Note: In France, for a widow aged 30, the benefits comprise the last salary for 3 months, followed by 73% for 1 to 3 years and 33% thereafter. For a widow aged 50, the benefits are means-tested.

45 in Belgium and the UK and 55 in France); how long they have been married (a minimum period of six months is stipulated in Greece, one year in Belgium, Luxembourg and Portugal and two years in France); whether they have dependent children and how much income of their own they have (benefits are reduced on this account in Belgium, Germany and France).

In general, the benefits payable are, therefore, related in some degree to need, which means that the amount received tends to vary from person to person. Accordingly, any example can only be illustrative of the differences which exist.

Taking the case of *a woman with 2 young children, whose husband died at the age of 40 having earned the average industrial wage since the age of 20 and therefore with a satisfactory record of contributions*, the level of benefit provided varies from almost 90% of the average net wage in Belgium and over 80% in Spain to under 50% in Portugal and Italy, with Germany and the UK only slightly above (Table 15). In Denmark, no widow's benefit is payable as such, though the woman would be entitled to social assistance if she had no income.

For an older woman with no dependents whose husband died after 40 years in employment, the variation is similar, with the level of benefit being lower in each country apart from Italy and Portugal where it is higher (because of the longer contributions record) and Belgium where it is the same.

Family allowances

The Recommendation calls for the development of benefits for families with the greatest child-related costs as well as for those which are the most disadvantaged. In the case of a family on average earnings, the rate of allowance paid (either directly or indirectly through tax exemption) for the first child in all countries apart from Luxembourg, where it represents as much as 22% of net earnings, adds much less than 10% to the net wage (Table 16). In Spain and Ireland, family allowances only amount to 2% of the net wage, while in France, the figure is only 1%.

In all countries, the total amount payable increases with the number of children, though only in Ireland, the Netherlands, Portugal and the UK, is the rise proportional for the second and third child. In Belgium, Germany, Italy and, above all, in France, the allowance payable per child goes up with the number of children. In Denmark, the rate paid per child decreases with the number of children.

Table 16 Family allowances

	One child	2 children	3 children
	% net average earnings		
Belgium	7	20	38
Denmark	6	11	15
Germany	6	12	21
Greece	4	8	12
Spain	2	3	5
France	1	22	50
Ireland	2	4	6
Italy	3	6	11
Lux.	22	28	40
Neth.	4	10	16
Portugal	4	9	14
UK	5	9	13
EC Average	6	12	20

Main features

The conclusions which can be drawn from the above are obviously limited by the nature of the exercise, which does not take into account either the coverage of the various benefits in relation to those in need or their rate of take-up. Given these limitations, the general points to emerge are, in terms of social insurance (or contributory) benefits:

- the level of income maintained by contributory benefits is relatively high in most Member States and in those where it is not additional amounts are usually payable for dependents and private supplementary schemes tend to be of importance;

- in the case of unemployment, in particular, however, the period over which such benefits can be drawn is limited in most cases and the level of support declines significantly once this period comes to an end.

Table 17 Social minima (July 1992)

	Old-age (1)		Invalidity (2)		Unemployed (3)	
	ECU/ month	% GDP per head	ECU/ month	% GDP per head	ECU/ month	% GDP per head
Belgium	442.7	32	924.4	67	442.7	32
Denmark	599.7	34	967.4	55	699.7	40
Germany	506.7	29	506.7	29	506.7	29
Greece	49.1	10	79.3	16	0	0
Spain	272.8	28	272.8	28	0	0
France	447.5	30	447.5	30	322.1	22
Ireland	329.3	38	329.3	38	329.3	38
Italy	230.5	16	695.4	49	0	0
Luxembourg	607.8	36	863.9	51	607.8	36
Netherlands	552.3	41	552.3	41	552.3	41
Portugal	122.8	21	122.8	21	0	0
UK	363.2	30	376.3	31	263.4	22

(1) A single person who has reached the age of retirement with no entitlement to contributory pension and no other source of income
(2) A single person aged 40 with no entitlement to contributory pension, no other source of income and who is unable to work
(3) A single person aged 40 with no entitlement to contributory pension, no other source of income and who is available for work

Note: In Italy and Spain, there is no formal minimum level of income support, but in a number of regions, people can receive social assistance from regional and local authorities.

In terms of minimum allowances the level of support for the most needy varies markedly across the Community. Belgium, Denmark, Luxembourg and the Netherlands provide the highest levels of minimum income, at around 50% or more of net average earnings in the vast majority of typical cases. At the other extreme, Spain, Greece and Italy have no formal comprehensive systems of support in a number of areas of need but rely on discretionary local and regional payments (Table 17).

In terms of convergence, the situation is most similar in respect of old-age pensions and disability benefits, where schemes exist in all Member States and where the level of payment, in the case of the former, for 10 countries is between 32% and 52% of the average net wage and, in the case of the latter, between 30% and 49% for 8 countries. Lack of convergence is most marked in respect of unemployment benefits, particularly in relation to the young and the long-term unemployed, for which in several countries there is no specific system of support and for which levels of assistance vary substantially.

The effect of social protection on household income

The limitations of the above exercise can only be overcome by examining the effect of social benefits on the income of households in need of support. The problem is, however, that data on social protection comes mainly from administrative sources and is not aimed at measuring its impact on living standards of the people it is intended to assist. Relevant information on this issue is, therefore, scarce. Although surveys of household income are carried out in most countries on a regular basis, these do not necessarily focus on this particular question. Moreover, because they are nationally based, it tends to be difficult to compare results as between countries.

Nevertheless, since 1978, the situation has improved slightly with the comparative studies carried out as part of successive Community programmes aimed at combating poverty. The results of these studies form the basis of this section of the chapter. They cover five Member States — Belgium, Greece, Ireland, Luxembourg and the Netherlands — and one region in the Community — Catalonia in Spain (see Box). These data have been supplemented by figures from the Luxembourg Income Study on Germany, France, Italy and the UK as well as the US, to give coverage of most parts of the

Community, plus the major country outside to serve as a point of comparison.

Although the data for these countries and the one region are unavoidably for different years between 1984 and 1988 and are not as comparable as they ought to be in every case, they nevertheless give an indication of the position around the mid-1980s and are certainly better than nothing. It is hoped that the analysis presented here, whatever its limitations, will stimulate the authorities concerned in the management of social protection as well as in the collection of statistics to try to improve and enlarge the data available. After all, without reliable information on the effect of social protection on the people it is attempting to assist, it is difficult if not impossible to improve the implementation of policy.

In order to assess the effectiveness of systems of social protection in alleviating poverty and deprivation, it is not sufficient merely to know the number of households falling below the poverty line, however defined, but also the extent to which they do so. In other words, the important question for social protection concerns the scale of transfers which would be necessary to bring the income of all households above the poverty line. The effectiveness of any given system can, therefore, be judged in terms of the difference it makes to the income of the households concerned in relation to the poverty level. This means comparing the income of such households including social benefits with what it would be if the social protection system did not exist.

Data sources and definition of poverty

Europass (European research on poverty and social security) is a programme, financed by the European Community, which covers five countries and two regions (Belgium, Greece, Ireland, Luxembourg, Netherlands, Lorraine (F) and Catalonia (E). In each case, a research centre has been established and work is centrally coordinated with the aim of laying the basis for a comparative approach to poverty between the Member States of the Community. The central theme of the programme has been the compilation and comparison of poverty indicators and thresholds as well as gearing the various social security systems to the fight against poverty.

The LIS (Luxembourg Income Study) is a database of microeconomic and social data which at the moment comprises 35 sets of data, provided by the Member States which make up the LIS. It is available to all researchers and analysts and is used about ten to twenty times daily by more than two hundred experts in several continents.

It allows comparative analyses to be conducted on socio-economic policy, on, for example, the various kinds of programmes dealing with poverty, income adjustment, pensionable age and the distribution of economic welfare generally.

In the Europass programme, data are standardized before collection, as a result of continuous discussion between the research centres involved. In the LIS programme the data are harmonized after they have been collected.

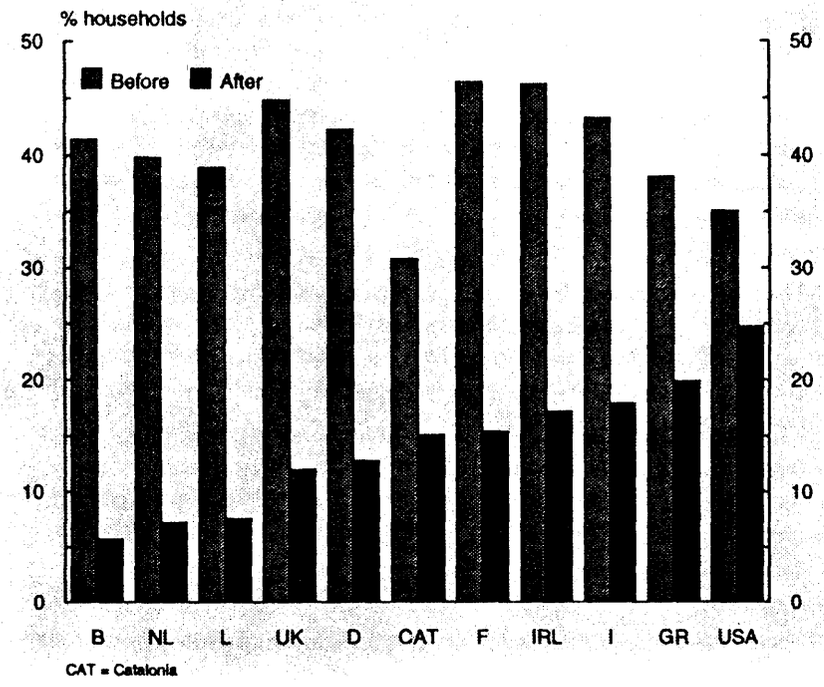
The analysis in the text is based on the most common definition of poverty — ie households with income below 50% of the average disposable income in the country in question, after adjustment using equivalence scales for each household type (a household being a group of persons, between whom there may or may not be family ties, who live under the same roof and who generally have meals together), according to the following rules:

- first adult in the household: 1.0
- each additional adult: 0.7
- each dependent child: 0.5

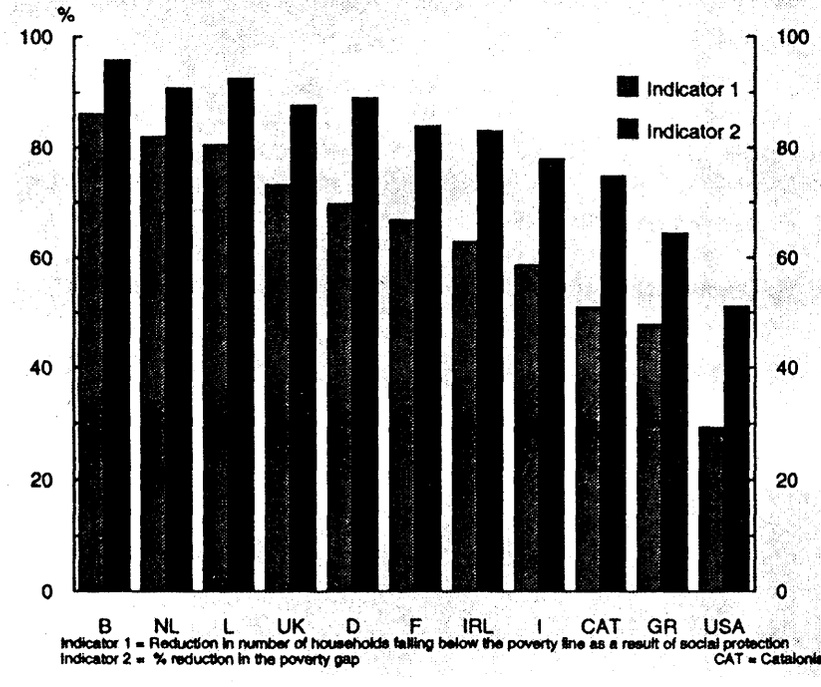
The number of equivalent adults (EA) in a household is therefore given by the formula: $EA = 1 + 0.7\ (A-1) + 0.5\ C$

where A is the number of adults and C is the number of children aged less than 17 plus older children still in education. Disposable income is defined as the total income of the household (income from economic activity, property and transfers) net of tax and social contributions excluding income and benefits in kind (such as health care, education, owner-occupied accommodation, use of a company car, etc). An income indicator is attributed in this way to each individual, obtained by dividing the disposable income of the household to which the individual belongs by the number of equivalent adults making up that household.

8 Households with incomes below the poverty level, before and after social security, mid-1980s



9 Indicators of the effectiveness of social protection systems, mid-1980s



If the poverty line in any country is defined as 50% of average disposable income per consumption unit, which is the most frequent measure used, the results of the exercise described above show that in all Member States, even after receiving social benefits, a significant proportion of households fall below the poverty line (see Box for an explanation of the methods used to standardise household income). This proportion, is in general greater for the poorer countries than for the more prosperous. In Greece in the mid-1980s it amounted to 20% and in Italy and Ireland, 17–18%, while in the Netherlands, the proportion was only 7% and in Belgium, just under 6% (Graph 8).

Nevertheless, for all the poorer Community countries, the proportion of households falling below the poverty line, after allowing for social transfers, was less than in the US, where in 1984, 25% of households had a level of disposable income of less than 50% of the average.

It should be emphasised, however, that the definition of poverty used here is not necessarily one which would be agreed by all the countries included in the analysis, still less is it one which is typically used in the administration of social security systems. In terms of the national objectives set, therefore, the above results do not necessarily signify a failure on the part of these systems to prevent people living in poverty and deprivation.

As noted above, however, even in terms of the definition of poverty chosen, these figures in themselves

give only a partial indication of the effectiveness of social security in the various countries, since they say nothing about the scale of the problem which is being addressed. In other words, it is important in any assessment also to consider what the levels of income would have been without social protection.

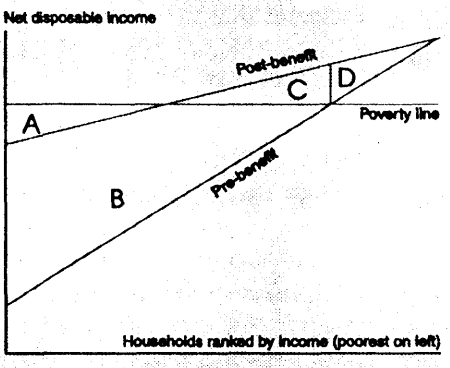
The results of this calculation, somewhat surprisingly, differ markedly from the position including the effect of social transfers. In the first place, the extent of variation between Member States in the proportion of households falling below the poverty line is much less, varying from 46% in France and Ireland to 38–39% in Greece and Luxembourg (Graph 8). This would seem to indicate, therefore, that the initial scale of the problem which social protection systems are trying to alleviate is much the same in the different Member States.

Secondly, the proportion of households with under 50% of average income is comparatively low in the US, at 35%, as against an average Community figure of over 40%.

Thirdly, the effect of social protection in the US is to reduce the proportion of households below the poverty line by only around 10%. This is much less than in any Community country. Even in Greece, which seems to have the least effective system, social transfers reduce the proportion by 18%, while in the other Member States, apart from Italy, where the reduction is 25%, the figure is around 30% or more, with Belgium seemingly having the most effective system in these terms with a reduction of 36%.

Indicators of the effectiveness of social protection systems

There are two main ways of measuring the effects of systems of social protection on poverty. One consists of counting the number of households or individuals whose income falls below a specified level before and after taking account of social transfers. The other consists of assessing the so-called "poverty gap", ie the extent to which the income of poor households or individuals falls below the level of income so specified before and after social transfers. A complete evaluation needs to take account of both of these indicators. In other words, the success of any social protection system in alleviating poverty needs to be measured in terms of both the number of households or individuals whose income it raises above the poverty line and the extent to which households or individuals remain below the poverty line even after receiving social transfers.



The difference between various methods of evaluation can be described in the diagram in which the horizontal axis shows numbers of households ranked by the level of income, with the poorest households on the left, and the vertical axis shows the net disposable income.

In the diagram:

- B+C+D equals the total amount of social transfers;
- B+C equals the amount of transfers received by households whose income is below the poverty line before social transfers;
- A+B equals the poverty gap before social transfers; and
- A equals the poverty gap after social transfers.

The effectiveness of the social protection system in reducing poverty can therefore be measured in the following ways:

- B/(A+B) which equals the extent to which the poverty gap is reduced;
- B/(B+C+D) which equals the proportion of social transfers which goes towards reducing the poverty gap;
- (B+C)/(B+C+D) which equals the proportion of social transfers paid to households whose income before transfers is below the poverty line.

Belgium, therefore, through its social protection system, succeeded in the mid-1980s in reducing the number of households falling below the poverty line, as defined here, by 86%, while for the Netherlands and Luxembourg, the figure was over 80% and in the other Community countries, apart from Greece, around 60% or above (Graph 9). In Greece and Catalonia, on the hand, around 50% of households which would have fallen below the poverty line without the social security system remained below it even with the system.

Nevertheless, the performance in these two parts of the Community was still much better than in the US where the social protection system only succeeded in raising the income of 29% of poor households above the poverty line.

The comparison of the number of households with income below the poverty line with and without social protection systems is one measure of their effectiveness. However, as noted above, this leaves out of account the extent to which households, even after benefiting from social transfers fall below the poverty line. A further indicator of effectiveness is, therefore, given by the actual amount spent under the social protection system to bring households up to the poverty line in relation to the sum which would need to be spent in order to ensure that no household fell below the line — ie the extent to which the poverty gap is reduced (see Box – indicator 2 in graph 9 is a measure of B/(A+B)).

The results of this calculation are similar but by no means identical to the results of the previous exercise. Thus Belgium in the mid-1980s spent 96% of the amount which would have been required to eliminate household poverty as defined here, while the Netherlands and Luxembourg spent over 90%. On the other hand, expenditure in Germany was also close to 90% of the amount necessary and in France and Ireland it was over 80%, even though in these cases, a much smaller proportion of households were raised above the poverty line — 70% in Germany, 67% in France, 63% in Ireland. This indicates that the households which remained below the poverty line after social expenditure in these countries had on average higher levels of income — ie were less below the line — than in the Benelux countries.

For all Community countries for which data are available, the value of this indicator of effectiveness was greater than for the US, where the actual budget on social protection was only around half of that which seems to have been required to eliminate household poverty on this definition. Apart from Greece, where the figure was 64%, all Member States spent 75% or more of the required amount.

Chapter 5 Measures for social and economic integration

Despite relatively high rates of economic growth in most parts of the Community in the second half of the 1980s, unemployment remained at unacceptably high levels in most regions and since the onset of recession in 1991 has increased even further. At the same time, largely as a result of this, there are indications of growing poverty and deprivation. Both individual Member States and the European Commission have taken a number of initiatives to combat unemployment and poverty and have sought to ensure that they do not lead to social and economic exclusion.

The Council Recommendation in July 1992 was explicit in stating that Member States need to combine effective policies of integration, both into society and into the labour market, with effective measures of income support.

The first part of this chapter reviews expenditure on active labour market policies in Member States, which are aimed at reintegrating the unemployed or inactive back into employment, and relates this to spending on so-called passive measures of income support.

In the second part of the chapter, the experiences of four Member States — Germany, France, Denmark and Portugal — are examined in order to illustrate the variety of current initiatives on social and economic integration which are taking place. The countries have been chosen to be representative, to some extent, of the Community as a whole. Denmark and Portugal are both small countries and in some respects they also represent the extremes of the Community's periphery: the post-industrial North and the rural South. Germany and France are large countries centrally located in continental Europe and represent in some degree the European mainstream as regards labour market structure and welfare policies.

In analysing the policies implemented by the four, the aim is to focus on the outcomes of the various programmes rather than on describing the measures taken in any detail. Following this, some typical cases of integration across the Community are discussed.

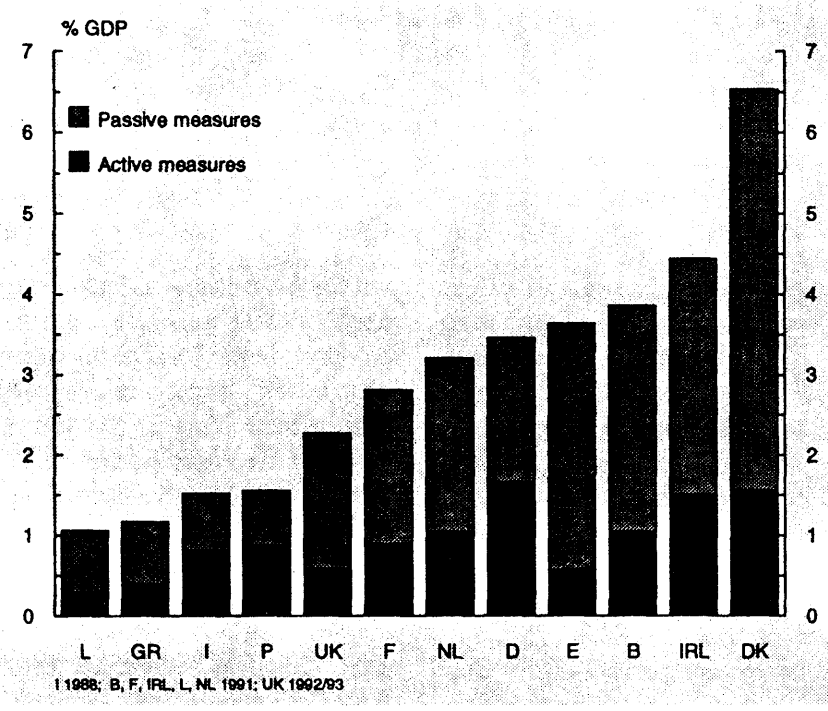
Active labour market policies

Within the Community, the main emphasis of labour market policies in recent years has been on providing means of income support for those unable to find employment. These so-called passive measures, in the form of unemployment benefit and social assistance, have in most Member States swallowed up the major part of budgets allocated to helping the unemployed.

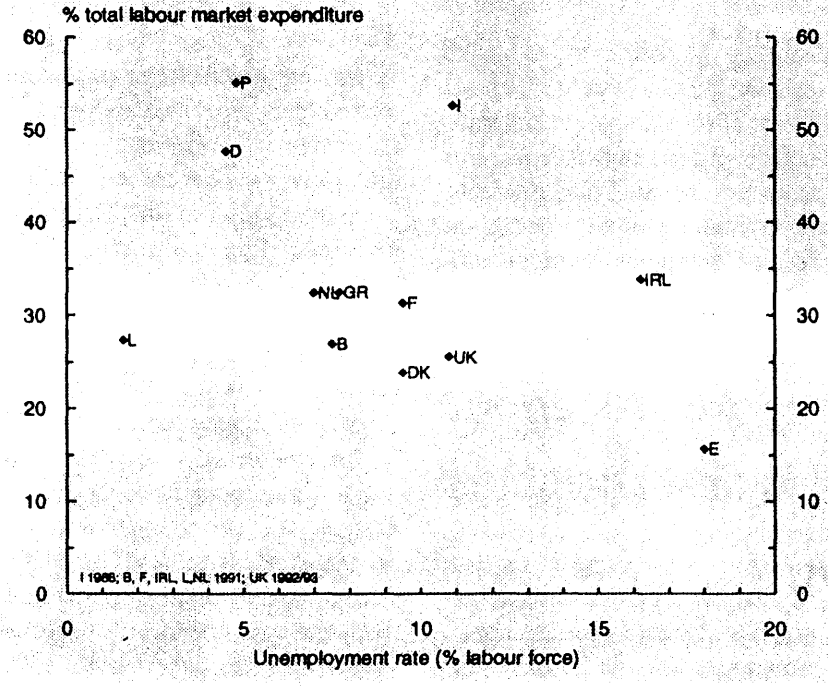
Expenditure on active labour market policies, such as training and job creation, aimed at helping the unemployed back into work — or into first-time jobs for those who have not worked before — has tended, by contrast, to be relatively small.

According to the latest information available, only three countries in the Community — Germany, Portugal and Italy — devoted significantly more than a third of total labour market expenditure to active measures in 1991–92 (and in the case of Italy, the proportion is overstated because much of the income support for the unemployed is not included in the figures for unemployment benefit). In five countries — Belgium, Denmark, Spain, Luxembourg and the UK — the proportion was only around a quarter or less (Graph 10 — where for the countries listed in the note, the data are for 1991, the last year available, rather than for 1992).

10 Expenditure on active and passive labour market policies in relation to GDP, 1992



11 Active labour market expenditure in relation to total labour market expenditure and the unemployment rate, 1992



In only five Member States, moreover, did active labour market spending amount to more than 1% of GDP (Table 18). Significantly, with the exception of Ireland which receives substantial assistance from the Community for training and measures to help the young unemployed, all of these countries are among the most prosperous in the Community — Germany, Denmark, Belgium and the Netherlands.

A major reason for the relatively low expenditure on active policies of economic integration is the high level of unemployment. Although governments in the Community have generally tended to emphasise the importance of active measures in providing effective assistance to the unemployed in the long-term, most have, in practice, found it difficult if not impossible to shift the balance of expenditure away from passive measures. As unemployment has increased, the sums required to provide income support to growing numbers of people have put pressure on other spending and have often led to expenditure on active policies being squeezed.

It is not by chance, therefore, that the countries which in 1992 (or 1991 in some cases) devoted the highest proportion of labour market spending to active measures tended to be those — such as Portugal and Germany — where unemployment was relatively low (Graph 11). Similarly, the countries which spent relatively little on active policies — such as Spain and the UK — had relatively high rates of unemployment. There are exceptions, however — such as Ireland and Luxembourg — which do not

Table 18 Expenditure on Labour Market policies, 1992 (% GDP)

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK
Actives measures												
Public employment services and administration	0.19	0.11	0.24	0.07	0.11	0.13	0.14	na	0.04	0.09	0.09	0.17
Labour market training	0.14	0.40	0.59	0.18	0.08	0.35	0.49	na	0.02	0.21	0.30	0.18
Youth measures	na	0.26	0.06	0.03	0.06	0.23	0.44	na	0.11	0.07	0.38	0.18
Subsidised employment	0.55	0.39	0.52	0.09	0.32	0.11	0.29	na	0.02	0.05	0.04	0.02
Measures for disabled	0.16	0.40	0.24	0.01	na	0.06	0.14	na	0.10	0.63	0.05	0.03
Total expenditures on active labour market policies	1.04	1.56	1.65	0.38	0.57	0.88	1.50	0.80	0.29	1.04	0.86	0.58
Passive measures												
	B	**DK**	**D**	**GR**	**E**	**F**	**IRL**	**I**	**L**	**NL**	**P**	**UK**
Unemployment compensation	2.07	3.69	1.39	0.79	3.07	1.46	2.89	na	0.25	2.17	0.59	1.69
Early retirement for labour market reasons	0.75	1.28	0.49	na	na	0.47	0.05	na	0.52	na	0.11	na
Total expenditure on active and passive measures	3.86	6.53	3.46	1.17	3.64	2.81	4.44	0.72	1.06	2.17	1.56	2.27

Note: I 1988, B, F, IRL, L, NL 1991, UK 1992–1993

Source: OECD Employment Outlook, July 1993

conform to this general rule, where spending on active measures is either higher or lower than would be expected given the level of unemployment. In the case of Ireland, this perhaps reflects the scale of support for active policies from the Community's Structural Funds, while in the case of Luxembourg, it might reflect the very small numbers of people out of work.

While the form which active labour market policies take is similar in most Member States, there are nevertheless some marked differences in the relative scale of expenditure on particular types of measure. Thus in the majority of countries, a large part of expenditure goes on training or measures to help the young unemployed, which often take the form of training (Table 18). In Greece, France, Ireland, Portugal and the UK, these two together accounted for well over half of active expenditure in 1991–92.

In the other countries, where training is proportionately — though not absolutely — less important, expenditure on subsidies to support employment is significant. In Belgium and Germany, such expenditure accounted for around 0.5% of GDP in 1991–92 and in Denmark only slightly less, whereas for most other countries — Spain and Ireland being exceptions — job subsidies were of negligible importance.

The same countries, together with the Netherlands, also devoted a relatively high proportion of expenditure to measures aimed at integrating the disabled or handicapped into economic activity. This was particularly true of the Netherlands, where 0.6% of GDP went on action of this kind in 1991, more than twice as much as any other Member State apart from Denmark. In Greece, the UK, Portugal and France, on the other hand, less than 0.1% of GDP was allocated to such measures.

Finally, in all countries, apart from Luxembourg, Portugal and Greece where spending was relatively low, expenditure on employment services for helping the unemployed find a job, plus administration, was broadly similar across the Community, ranging between 0.1% and 0.24% of GDP in 1991–92. In the countries, where this was comparatively high, such as Germany, private employment placement services tend be relatively underdeveloped so that a higher proportion of vacancies are channelled through the public service.

Results of active labour market measures

A number of studies have been carried out attempting to evaluate the results of active labour market policies in Community countries. Such attempts are by no means easy since the need is not only to estimate the numbers of unemployed who are assisted by the measures in question, but, most critically, to assess how many of these are integrated into employment as a result of the action taken, who would have remained unemployed in the absence of such action. However, even this provides only a partial indication of the success of these kinds of policy, since it leaves out of account the numbers who are assisted into jobs at the expense of those already in employment. In other words, one of the potential effects of helping one group of people — in this case, the unemployed — is to disadvantage other groups, so that the net gain, if not zero, may be significantly less than appears at first sight.

Most systematic studies have tended to find that these effects are important — that a significant number of those helped would have found employment anyway and that many have effectively displaced people already in employment. In general, the most successful policies seem to have been those targeted on specific groups and specific problems, whereas more general measures have had least effect in increasing job opportunities, and future earnings potential, for the unemployed.

This appears to be especially true of training programmes, for which studies carried out in Germany and the Netherlands, for example, suggest that the effect on unemployment flows is negligible — though results for the UK appear to be more favourable. By contrast, studies of schemes targeted on disadvantaged groups among the unemployed, such as ethnic minorities, people with a poor educational background or the unskilled have concluded that they can help significantly in getting such people into employment, while reducing the risk of future unemployment, with comparatively little adverse effect on others in the labour market.

Studies also appear to show that intensified efforts to help the unemployed to find jobs, through increased counselling, for example — such as through the Restart programme in the UK or reorientation interviews in the Netherlands, which are targeted on those who have been unemployed for over three years — can cost relatively little but be extremely effective in integrating people back into economic activity.

Finally, a policy of directly creating jobs in the public sector or in non-profit-making enterprises has come to be used particularly in the Benelux countries as a means of providing work for those unable to find employment elsewhere. In these countries, for many people such jobs have in practice become permanent rather than temporary positions.

The results of policies in four Community countries are examined in more detail below.

Policies of integration in four Member States

The Danish system

As is typical of European welfare states, social protection schemes in Denmark for those who are unemployed or excluded from the labour market distinguish between "labour market" policies and "social" policies (see Table 19).

For both types of policy, there are three distinct ways of dealing with

those sections of the population who are in danger of social exclusion. The first way is through permanent support outside the labour market in the form of early retirement pensions; the second is through temporary support by means of the payment of unemployment benefits; the third is through active measures designed to promote social and economic integration.

In Denmark, active measures are predominantly combined in the *Job Offer* scheme. Under this, assistance takes the form of four programmes (outlined in Table 20), which consist of job offers, training, grants for business creation and education allowances.

Analysis of the results of the Danish policy yields the following general conclusions:

- the longer the training or education lasts, the better the chances of someone who has been unemployed for a long time being reintegrated into the labour market;
- the less the resources available to the target population, the less the chances of successful reintegration;
- better results are obtained through private sector placement as compared with placement in the public sector;
- although the policies are aimed at labour market integration, they also help to target social assistance more effectively.

Table 19 Welfare policies for the excluded in Denmark

	Labour market policies	Social policies
Support to permanently excluded	VERPS (Voluntary Early Retirement Pension Scheme)	Early retirement pension
Temporary income maintenance	Unemployment and sickness benefits	Social assistance benefits
Inclusion and activation	Job/training offer	Social assistance activation

Table 20 Components of the Danish Job Offer scheme

Work related activities	Job offer of 7 to 9 months employment	Enterprise benefits lasting over 2 years for those setting up their own business
Educational and training	Training offer of 22 weeks on average	Education allowance for 2 years on average

The French system

Analysis of the French system is based on the experience of the *Revenu Minimum d'Insertion* (RMI), which has become established as a major scheme within French social policy. Over the first three years of its operation, between 1989 and 1991, the scheme directly assisted almost one million people and, if dependents are taken into account, therefore, influenced the lives of around two million people or so. In all, assistance was given to about 2% of the French population, primarily those under 35 and single people. The scheme is based on contracts being agreed between individuals and regional authorities (*Départements*).

The main conclusions which emerge from analysing its operation are as follows:

- only 60% of the target population actually had a chance to join an integration programme and only 40% were successful in obtaining a contract, which would seem to indicate that funding, particularly for the regional authorities, has not been sufficient to cope with demand;
- the rate of drop-out from the scheme amounted to 44% of participants, the less disadvantaged being more successful in obtaining employment (although prior levels of education do not appear to affect the results);
- the numbers obtaining secure, lasting employment are not high,

with most participants moving into other social programmes or back onto the RMI after completing the scheme;

- too much emphasis was placed on pre-job rather than on-the-job training;
- local rather than central action seemed to be more effective in securing the reintegration of participants;
- increasing levels of unemployment made it more difficult for the programme to secure successful results.

The German system

German unification has brought the problem of unemployment onto the political agenda in a dramatic way because of the massive job losses suffered in the former East Germany. Integration measures initially developed in the former West Germany have had to be implemented in the very different economic and social environment of the new East German Länder. The main points to emerge from examining German policy are as follows:

- training and retraining programmes improve employment prospects, even if only to a limited degree;
- training and retraining schemes have not been able to cope with the increased level of demand, following unification;
- it is estimated that job-creation measures have helped to reduce the average unemployment rate in the former East Germany from 38% to around 13%;
- it is estimated that, within the "secondary" labour market, about 20% of those on assistance will obtain a permanent job, while 50% will find some employment at some stage;
- although the measures have not been hugely successful in helping participants find work, they have helped them avoid total social and economic exclusion;
- job-creation schemes are seen to be in competition, often unfairly, with the "primary" labour market;
- some people participating in "artificial" employment schemes have been subjected to harassment from other workers because they are working for less than the full rate of pay.

The Portuguese system

Portugal stands out as one of the few Community Member States with a low rate of unemployment — under 5%; however, it also has very high levels of poverty. The country is undergoing a rapid process of modernisation, something which, in itself, would be expected to lead to job losses and so increase the risk of marginalisation. Portuguese labour market policies are predominantly active in nature, partly because of the relative low need to spend on unemployment benefits, and are directed towards labour market integration.

The main features of the policy operated in recent years are as follows:

- social policies are based on targeting, both of the most vulnerable sections of the population and the most deprived regions;
- labour market integration policies have been least successful in respect of those industries which are undergoing major restructuring, the textile industry for example, and they have been of least help to the most marginalised sections of the population;
- around one million people were involved in some kind of training or reintegration programme in the first three years of the 1990s, which represents a significant proportion of the labour force and an even higher proportion of those in need;
- people are excluded from participation in the labour market for many different kinds of reason which points to the need for a similarly multidimensional approach to labour market reintegration.

The systems compared

The measures implemented by these four Member States vary considerably in certain aspects.

- The nature of targeting varies significantly between Member States. All programmes are targeted to some extent but some are only directed at the poor or the long-term unemployed and there is no more precise selectivity beyond this. This is true of the French and Danish schemes. By contrast, German and Portuguese programmes are targeted towards specific groups and/or regions.

- The administration and implementation of the schemes also vary between the countries. Some schemes are administered nationally, some regionally, others locally and the implementation of schemes is similarly varied.

- A distinction can be made between programmes which help to improve access to the "normal" labour market, as in the French and Portuguese cases, and those which create "artificial" employment within an "alternative" labour market, as happens in Denmark and Germany.

The programmes in the four countries, however, also have a number of points in common so far as experience is concerned.

- Job-creation measures generally have not been very successful in generating a net increase in jobs in the economies concerned. The unemployed who have obtained permanent positions seem to have done so in most cases at the expense of someone else. Instead of giving rise to an overall growth of employment, therefore, the effect of such measures seems largely to have been to shuffle around a given number of jobs between people.

- The movement of marginalised individuals into and out of employment through job-creation schemes is, however, of benefit to them since it enables them to avoid total exclusion from society.

- Some measures are not well targeted: the main effect of a number of programmes, for example, is to assist the least disadvantaged rather than those most in need of help.

- Although the overall aim of the programmes is to help excluded groups become more integrated into the labour market, the measures taken tend, nevertheless, to segregate the most marginalised people in society into particular social programmes or jobs.

- In general the more resources invested in any programme, the better the results: many of the problems identified as regards the operation of programmes are simply due to insufficient funding or lack of suitable skills among the people managing them or carrying them out.

- Since labour markets are predominantly local in scale and in the way they function, policies which reflect this are more likely to be successful than ones which are applied in a uniform way and make no concession to variations in local characteristics.

- Programmes should be implemented in a flexible way and should not merely focus on skills development, work placement or general education but should adopt an approach which enables these and other aims to be pursued simultaneously.

- Programmes should be implemented and operated within a framework of cooperation between the social partners as well as between the public and private sectors.

- Irrespective of the quantity or quality of the measures, their success depends very much on the economic conditions prevailing at the time: other things being equal, programmes are more likely to be successful in achieving their aims during times of economic prosperity than during recession.

- The effective integration of the marginalised sections of the population into society and the labour market requires the close coordination of economic and social policy.

Typical cases of integration across the Community

In most parts of the Community, measures are in force to combat the most common causes of exclusion from the labour market, though the form which they take in many cases differs from one country to another.

Illness

All Member States provide some kind of support to those who are unable to work because of sickness or injury. This is normally through social insurance — notably health insurance — and social assistance programmes. Most Member States also provide help through comprehensive reintegration programmes; however, these are not statutory in Ireland, Italy or the UK.

Mental or physical handicap

All Member States provide the means of subsistence for the handicapped, though in Germany such assistance depends in certain cases on the financial position of their family. Denmark, France and the Netherlands offer sheltered employment for the handicapped while a number of Member States operate some kind of integration programme, in the form of retraining or reschooling, for example. The exceptions are France, Greece, Ireland, Italy, Luxembourg and the UK, where there are no statutory schemes of this kind.

Long-term unemployment

In Greece, some parts of Italy and Spain, the problem of long-term unemployment is not covered either by unemployment insurance or by any other scheme of social support. Vocational training or other measures aimed at integration exist in almost all Member States. Wage subsidies to encourage businesses to take on the long-term unemployed are in operation in over half of them and a few countries — Denmark, Greece, Ireland and Portugal — provide financial incentives for them to start up their own business.

Invalidity

All Member States provide financial support to invalids. Belgium, Luxembourg and France all allow partially invalided people to receive benefit, at a reduced rate, while doing a job of work. Other countries, such as Denmark, Germany, Greece, Spain, Portugal and the UK, provide training and education programmes. Ireland and Italy are alone in the Community in having no statutory measures of integration.

Workers of retirement age

All Member States, with the exception of Spain, allow those who have reached the age of retirement to combine working with the receipt of a pension, though in some countries the amount of pension received is reduced in this event. This is the case in Denmark, France, Ireland, Italy, and Portugal. Elsewhere being in work does not affect pension entitlement, though in a few countries there is a limit on how much a person can earn while still receiving a full pension.

A woman returning to work after childbirth

The main factor determining whether a woman is able to consider returning to work after childbirth is the availability of affordable child care facilities. The extent of provision varies greatly across the Community, with Denmark having the highest level and most other countries having only very limited provision. It is commonly accepted that the availability of child care arrangements in the Community generally is inadequate.

In Denmark, Ireland, Italy and the UK, a women seeking to return to work is not automatically entitled to assistance and will only receive help if she is a single mother, in which case she will be eligible for a range of other forms of social assistance. In other Community countries, various

training and retraining measures are provided.

The self-employed

The self-employed who become bankrupt are not entitled to any benefit in Belgium, Greece, Italy, Luxembourg and Portugal. In other Member States, they are eligible for financial assistance, can participate on training courses and can be helped to find a job just like anyone else who is unemployed, provided they are willing to seek work as an employee.

Chapter 6 Social protection: economic considerations

Nature and basis of social protection

The aim of social protection is to protect households from the risk of not having enough money to buy the minimum amount of goods and services needed to live decently, to provide access to health care and to enable them to maintain their standard of living in the event of losing their usual source of income. Loss of income is liable to result from old age, invalidity, sickness, unemployment or the costs of bringing up children — the "social risks" which social security is designed to protect against.

The objective of social protection is, therefore, to secure "freedom of man from want" — in the famous phrase of Sir William Beveridge — when these risks occur. This is achieved through benefits both in cash and in kind. Cash benefits have three different functions – to provide:

- *replacement income*, if it is to compensate for the loss of income from employment, in the form of sickness benefits, old-age and invalidity pensions and unemployment benefits;
- *supplementary income*, if it is to help pay for particular costs, notably accommodation expenses or the costs of child care;
- *assistance income*, if it provides people living in poverty with the means of subsistence.

Benefits in kind include covering the costs of medical care and drugs, the delivery of meals and various forms of help in finding a job. In providing these benefits, social protection plays a complex role in society, performing three basic functions:

- a *traditional insurance* function, given that it would not necessarily be possible to insure against all social risks on a free insurance market;
- a *savings function*, enabling purchasing power to be spread over the life cycle;
- an *inter-person redistribution* function, which transfers part of the income of richer households to the poorest households, so the latter can receive benefits without having paid the contributions or taxes which fund them.

These three functions are far more difficult to distinguish in practice than in theory, and for this reason no system of social protection is limited purely to covering the risks which the private insurance sector cannot cover. The way these three functions overlap differs from one country to another and reflects the historical development of the system in question.

The fact that the three functions are mixed together often makes the systems of social protection appear to be in competition, or even in contradiction, with private means of protection against social risks. However, it is precisely the limitations and inadequacies of the other possible forms of cover (self-protection through personal savings, reliance on the family and private insurance) which are the rationale for social protection.

Inadequacies of self-protection

Self-protection means precautionary saving on the part of individuals, who save part of their income so as to guarantee economic

security and cope with any financial difficulties resulting from sickness, invalidity, unemployment, retirement or starting and taking care of a family. At first glance, this form of protection seems to be the most natural and convenient: it is based on personal responsibility with everyone being responsible for making their own arrangements according to their own assessment of the risks to which they are exposed. However, it has major drawbacks which justify the existence of a social protection system.

First, self-protection can only apply to individuals and households with enough income to be able to save; it enables them to obtain more effective protection as their income grows. A household with low income is able to save little if anything at all, but it is precisely such households which are likely to be hardest hit if anything happens. The fact that there is never a perfect correspondence between needs and income constitutes the main justification for social protection.

Even those with sufficient means cannot necessarily be relied upon to provide adequate protection for themselves. They cannot fully anticipate the risks they will have to face in the sometimes distant future and often underestimate both the likelihood of them occurring and their importance — how often they are likely to be ill and how serious the illness will be, the possibility of invalidity and its consequences, the chances of having a child with a disability, how long they will be out of work if they become unemployed and so on. In particular, many people tend to underestimate their life expectancy considerably and, as a result, how long they are likely to be retired. Moreover, some people have a very short-term time horizon and hardly bother to make any provision for the hazards of life and for their future needs.

Limits of family support

Even though the family unit has tended to become much smaller, it still generally provides a degree of assistance to its members which is far from negligible. However, leaving aside the fact that this form of support does not, by definition, apply to single people, the family is too small a unit to be able to cope with major or prolonged risks (such as serious or chronic illness or long-term unemployment) or a combination of risks (both husband and wife being unemployed, accidents, the closure of a family business and so on).

Economic development, in addition, is making it more difficult to take advantage of the traditional forms of family-based or local support. Since economic development depends on a growth of labour mobility, which is necessary for the improved allocation of resources, it requires the establishment of other forms of support: when people move house several times during their lives and family links are strained by distance and neighbourly links difficult to establish, adult sons and daughters can no longer take care of their elderly parents and neighbours are no longer in a position to help the disabled or the unemployed. Changes in the structure of families and the increase in labour market participation among women work in the same direction.

Shortcomings of the private insurance market

In comparison with the kinds of protection mentioned above, private insurance has the advantage of being more broadly based, with the costs imposed by some being shared among all those insured. However, it has major limitations.

Insurance companies are faced first with the problem of an *asymmetry of information*, in the sense that, leaving aside purely random or chance occurrences, they have less idea than their potential clients about the chances of them being in the situation they are insured against. When they take out insurance, people may fail to disclose to their insurers the full extent of the risks to which they are exposed and which their behaviour can lead them into. This is especially true of cover against unemployment or against having to take care of a family. Insurance mechanisms are ill-suited to covering these occurrences because if insurance is optional it will primarily attract those at particular risk of becoming unemployed or who intend to have children. On the other hand, those with a stable job or those who do not intend to have children will hardly be tempted to take out cover at all. This makes it difficult for companies to fix rates since they do not know in

advance the degree of risk faced by those applying for cover.

Naturally, if insurance is compulsory, individuals no longer need to make calculations of this sort and insurance companies can forecast the overall level of payments which they will have to make. Nevertheless, each of them will be tempted to attract the people who seem to be least exposed to the risks covered. In the case of sickness insurance, for example, they will try to insure young people in good health (who, for them, represent "good risks") rather than elderly people or those with a medical history (who are considered to be "bad risks").

Of course, in this case too companies can be obliged by law to insure everyone who asks. In this case, they will adjust their rates to the characteristics of the people insured, not only to compensate for the differences in costs that they anticipate, but also to discourage some people. The fact that it is impossible for them to know in advance the risk associated with a new applicant will encourage them to be prudent and to offer high rates to deter those they suspect of being "bad risks". In this case, the way the market operates might produce socially unacceptable results, with some people finding that, in practice, it is impossible to take out insurance against the risks to which they are particularly exposed.

The three characteristics of a system of social protection which distinguish it from private insurance schemes are: that it is compulsory for everyone to take out insurance; that insurance companies are not allowed to refuse insurance to anyone; and that they not permitted to adjust their rates to reflect the degree of risk associated with a particular individual. These three features are inseparable, since if contributions are not to vary with individual risk, it must be compulsory for everyone to belong to the scheme; otherwise, "good risks" could be tempted not to take out insurance and the system would become distorted.

Externalities

There is another theoretical justification for social protection schemes, namely the existence of externalities. These are phenomena which are external to the market and result from cases of interdependence between economic agents for which there is no market price. Thus, the transmission of contagious diseases or acts of delinquency resulting from unemployment and poverty are "external diseconomies". Conversely, social benefits generate external economies, that is to say, not only do they produce advantages for their immediate beneficiaries, but they also help to improve the state of health of the whole population (through free medical care), to promote social harmony and cohesion and, indirectly, to prevent delinquency (through social assistance and unemployment benefits), to facilitate labour mobility (through unemployment benefits and active labour market measures) or to raise the birth rate (through family allowances).

Social protection is therefore a mechanism to provide services which benefit not only the individual but also the population as a whole. This is the justification for the public authorities to make it compulsory to take out insurance and for social protection to be funded by taxes and social security contributions.

Advantages of managing risks collectively

In addition to the reasons mentioned above, there are also advantages to having a system of collective management of social risks, so enabling economies of scale to be realised and the costs of information for those covered to be reduced. On the one hand, given the relatively small number of institutions involved, the systems of social protection can be managed at lower cost because of the possibility of rationalising administrative services and the absence of marketing costs. In 1991, operating costs accounted for under 4% of the total benefits paid out in the Community as a whole (see Graph 12).

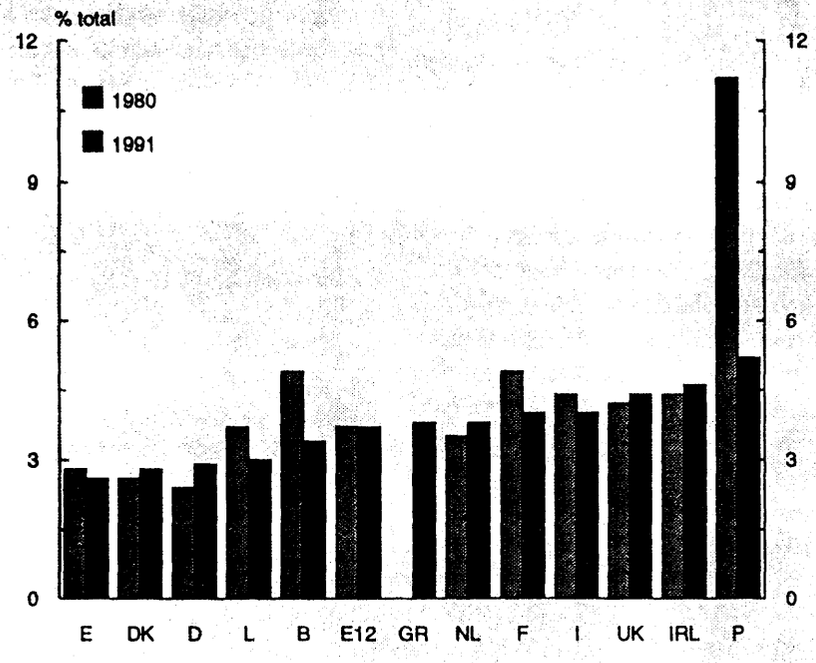
On the other hand, for those covered, social protection has the advantage of simplicity. The management of savings over the long-term, as well as the choice of an insurance policy suited to individual needs, involve far more complex decisions than those normally taken by most households. To obtain the necessary expert advice would generally be too costly and so would reduce the amounts available for personal protection.

The economic effects of social protection

The intrinsic effectiveness of national systems of social protection is rarely much in evidence in public debates on social security, which concentrate above all on the potential effects on the rest of the economy.

The growth in the part played by social protection receipts and expenditure in the economies of Community countries is one of the main features of their economic development in the 20th century. The size of the sums involved has prompted reflections, criticisms and proposals for reform, which differ considerably depending on the social groups or political parties from which they come. The public authorities have been faced with difficult choices on the means of containing the automatic tendency (given unchanged legislation) for expenditure to increase faster than receipts. It is highly likely that these problems will be exacerbated by the continuing high levels of unemployment, by the increase in demand for medical care and in the provision and costs of treatment, and, above all, by the ageing of the population, which has major implications for expenditure on health and retirement pensions. The interest in the economic effects of financing and benefits stems from these factors.

12 Operating costs of social protection systems relative to total benefits, 1980 and 1991



Financing social protection

Social protection expenditure is funded primarily by direct taxes and social security contributions, and the rate at which it has grown has been a primary cause of the increase in the tax burden. Moreover, the financing of social protection by social security contributions, which provide most of the revenue in most countries, has prompted a certain amount of controversy and criticism.

Increases in taxes and social contributions

Among the problems raised by the growth in social contributions and taxes, its potential effects in reducing work effort and encouraging fraud and tax evasion have received most attention.

Economic analysis indicates that an increase in taxes and social contributions can have two opposing effects on the incentive to work. One is a *substitution* of leisure for work which occurs if a reduction in earnings net of taxes and social contributions leads to a reduction in working-time. The other is an *income effect*, which occurs if this leads to an increase in the amount of work done in order to compensate for the loss of net income caused by higher taxes and contributions.

Attempts to determine the relative importance of these two effects have

Net wages and labour costs in Member States

Tables 21 and 22 show the breakdown of the total cost to a company of employing a manual worker in manufacturing industry in each of the Member States. This breakdown comes from combining two sets of Eurostat statistics:

- The Labour Cost Survey for 1988, which shows the structure of labour costs and, in particular, the share of social security contributions paid by employers and gross wages;

- Net Earnings statistics, which are the result of theoretical calculations by the national statistical institutes in order to show the effects of taxation on the earnings of manual workers by wage level and family circumstances.

The combination of these two sources makes it possible to provide a full breakdown of the costs of employing a manual worker, distinguishing in particular:

- social security contributions paid by the employer, according to whether they are statutory, on the one hand, conventional (based on a collective agreement), contractual (based on a company agreement) or voluntary, on the other;

- social security contributions paid by the employee;

- income tax calculated on the assumption that the wage is the person's only source of income and that no special circumstances justify special tax relief other than family circumstances. When the wage earner is the parent of children, the family allowances which they receive are deducted from the tax they pay;

- other employment-related costs, such as benefits in kind, reimbursement of travel expenses, company expenditure on health and social services, expenditure on training and any other taxes on wages less subsidies received;

- net disposable earnings of the wage earner.

The situation appears to differ considerably between Member States. Of a total labour cost of 100 for the company, the average Belgian, German or Dutch manual worker receives less than 45 in net wages if they are single, the Danish, French, Irish or Italian manual worker receives slightly over 50, the Greek, Luxembourg and Portuguese manual worker receives about 60 and the Spanish and British manual worker 62.

In the case of a married manual worker with two children and whose spouse is not working, net earnings are higher because of tax allowances and family allowances. Net earnings are lowest in the Netherlands (just under 53% of labour costs), Belgium, Germany and Italy (56–58%), are between 61 and 65% in France, Ireland, Portugal and Denmark and are highest in Spain (67%) and the UK (70%) and, especially, in Luxembourg (nearly 80%).

Conventional, contractual or voluntary contributions are particularly important in Ireland, the Netherlands, the UK and Germany. France is somewhat unusual, in that the contributions which are formally defined as conventional are in fact compulsory for all employees, either in full (in the case of unemployment insurance) or in part (as regards minimum rates for supplementary retirement schemes).

Table 21 Taxes and social contributions as % of total labour costs, 1988 (average wage in manufacturing, unmarried manual worker)

	B	DK	D	GR	E	F[1]	IRL[1]	I	L	NL[1]	P	UK[1]	EUR12
Employers' contributions:													
statutory	26.7	2.8	18.4	19.0	23.6	19.2	8.7	32.3	13.8	15.8	19.1	7.3	18.5
collective, contractual, voluntary	0.8	0.2	3.1	1.0	1.6	8.5	6.2	1.2	0.3	7.1	2.0	4.2	3.8
Employees' contributions	9.3	1.7	13.7	11.9	4.6	11.6	6.3	5.9	10.3	20.0	8.4	7.7	10.2
Income tax	17.9	42.8	17.6	6.3	7.6	4.2	25.0	12.0	13.6	10.6	5.7	16.4	13.2
Other costs	0.9	0.8	2.3	1.0	0.1	4.0	3.1	-2.9	1.2	3.5	5.5	2.6	2.0
Net disposable wage	44.4	51.7	44.9	60.8	62.5	52.5	50.7	51.5	60.8	43.0	59.3	61.8	52.3
Total labour costs	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes *Other costs include benefits in kind, expenditure on vocational training, other social expenditure and taxes on wages less subsidies*
I estimated by the Commission services
[1] Labour costs for manual and non manual workers — net disposable wage for manual workers

Sources: *Community Labour Cost Survey 1988, vol. 1: Main results, Eurostat, series 3C, 1992 Net earnings of manual workers in manufacturing in the Community, 1991, Eurostat, series 3C, 1992*

not produced very clear-cut results despite the numerous theoretical and empirical studies which have been carried out. The way different people react can vary considerably. The most widely accepted hypothesis is that, for high-income households, the substitution effect is likely to predominate, especially for women in cases where husband and wife are taxed on joint income. By contrast, for low-income households, any reduction in purchasing power as a result of increases in taxes or contributions is more likely to make them work more.

Fraud and tax evasion are, in practice, more tempting — and more encouraged — when the charges to evade are high. Every increase in taxes or social contributions, therefore, tends to reinforce these effects. Of the various widespread methods which directly concern social protection, "working in the black" enables someone to earn income (whether as a main or supplementary source) which is not declared and, when carried out in place of legitimately paid work, allows employers to avoid social charges. The greater the difference between the net wage of an employee and the total cost of a job for the company concerned, the greater the incentive for the two sides to fail to disclose income and to resort to working in the black.

However, this avoidance of tax and social contributions is not without consequences for the individuals concerned who become unable to draw benefits when they stop working (because of sickness, invalidity or retirement). The fear of seeing a reduction in entitlement to contributory benefits — the level of which depends directly on the contributions paid by the employee or their employer — tends to curb this activity. However, this deterrent is not wholly effective because of the existence in all social protection systems of non-contributory benefits (financed by taxation), which give a minimum level of protection to those in need (in the form of a guaranteed minimum level of income and access to medical care). In this context, the balance between contributory and non-contributory benefits is of key importance.

Table 22 Taxes and social contributions as a % of total labour costs, 1988 (average wage in manufacturing, married manual worker with two children and spouse not working)

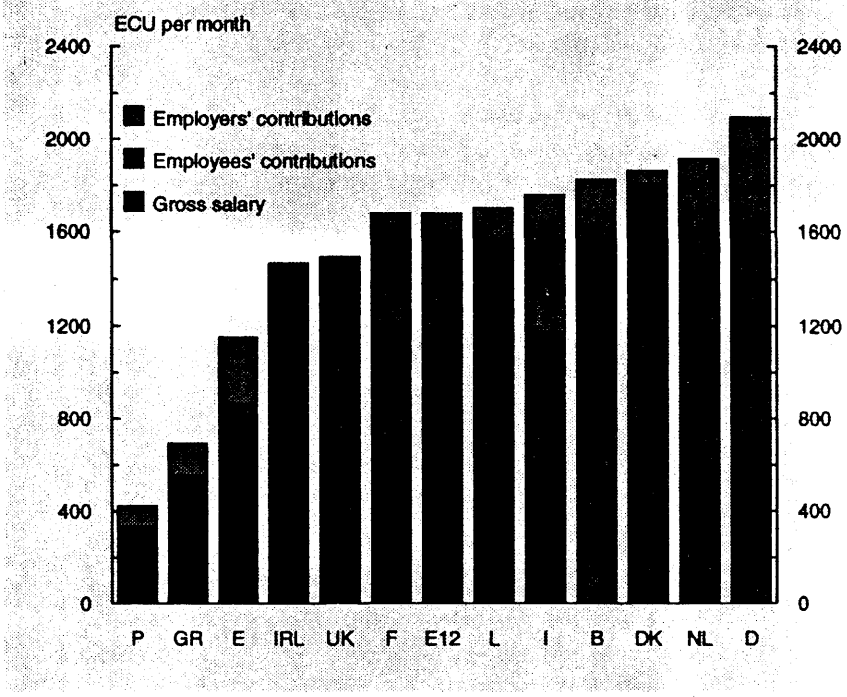
	B	DK	D	GR	E	F[1]	IRL[1]	I	L	NL[1]	P	UK[1]	EUR12
Employers' contributions:													
statutory	26.7	2.8	18.4	19.0	23.6	19.2	8.7	32.3	13.8	15.8	19.1	7.3	18.5
collective, contractual, voluntary	0.8	0.2	3.1	1.0	1.6	8.5	6.2	1.2	0.3	7.1	2.0	4.2	3.8
Employees' contributions	9.3	1.7	13.7	11.9	4.6	11.6	6.3	5.9	10.3	20.0	8.4	7.7	10.2
Income tax	13.9	34.7	9.0	6.3	3.7	0.0	16.6	10.0	1.7	5.5	4.4	13.6	8.1
Family allowances	-8.0	-5.3	-3.0	-6.0	-0.6	-5.3	-2.3	-4.1	-7.2	-4.5	-3.2	-5.8	-4.1
Other costs	0.9	0.8	2.3	1.0	0.1	4.0	3.1	-2.9	1.2	3.5	5.5	2.6	2.0
Net disposable wage	56.4	65.1	56.5	66.8	67.0	62.0	61.4	57.6	79.9	52.6	63.8	70.4	61.5
Total labour costs	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes & Sources: see Table 21

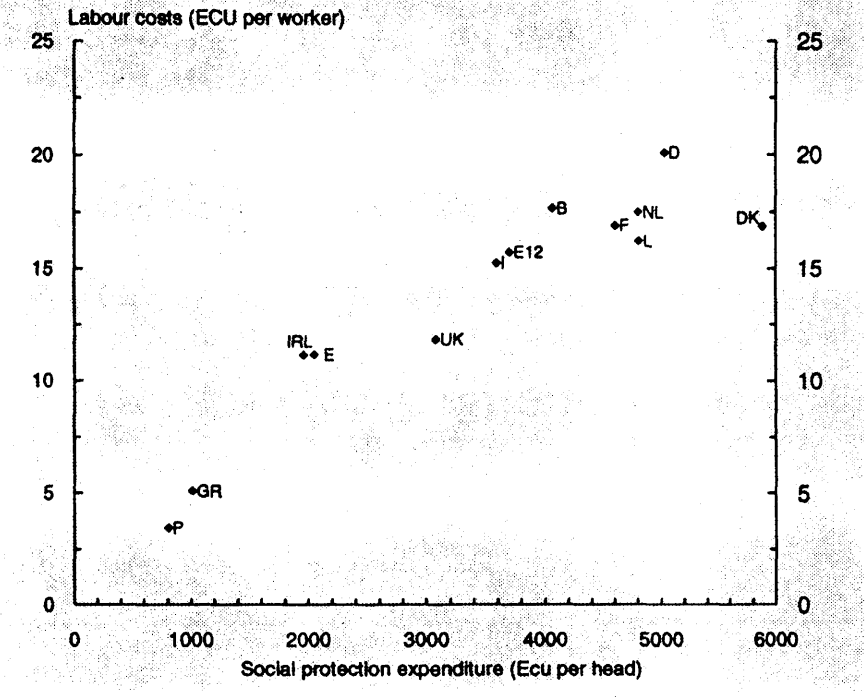
Social protection and budget deficits

Social protection is often portrayed as being partly responsible for the increase in public sector deficits which has occurred in several Member States since the end of the 1970s. While the funding of social protection clearly has a direct effect on the state of public finances in countries in which it is integrated in the state budget or that of local authorities, it also has an indirect effect in countries in which it is managed by autonomous bodies. This is because, on the one hand, public authorities might have been led to subsidise certain schemes in order to reduce their deficit and because, on the other, in countries where the rise in expenditure on social protection

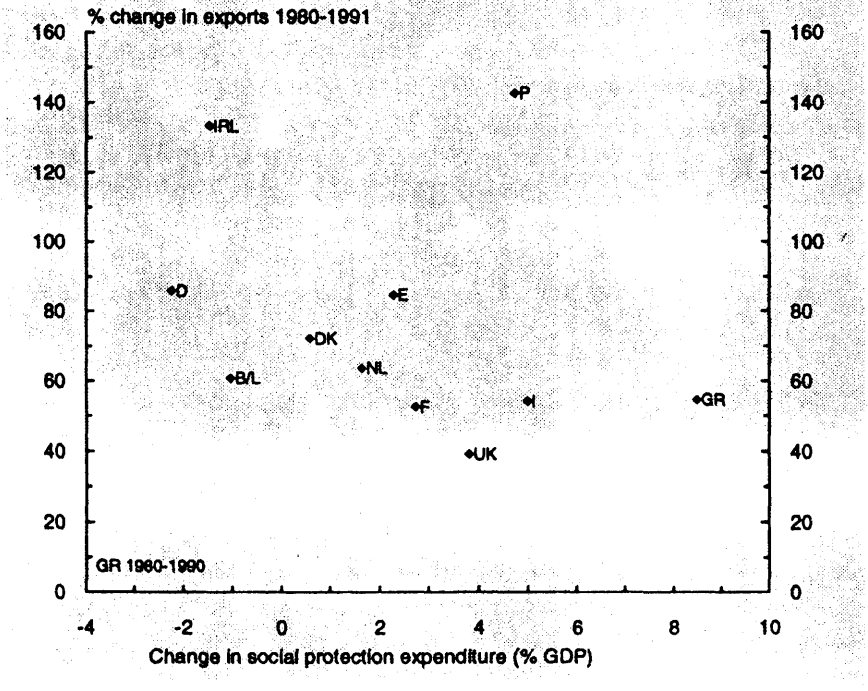
13 Labour costs and social contributions of manual workers in manufacturing, 1988



14 Average hourly labour costs in manufacturing and social protection expenditure per head in the Member States, 1990



15 Change in social protection expenditure excluding unemployment benefits and export growth, 1980-1991



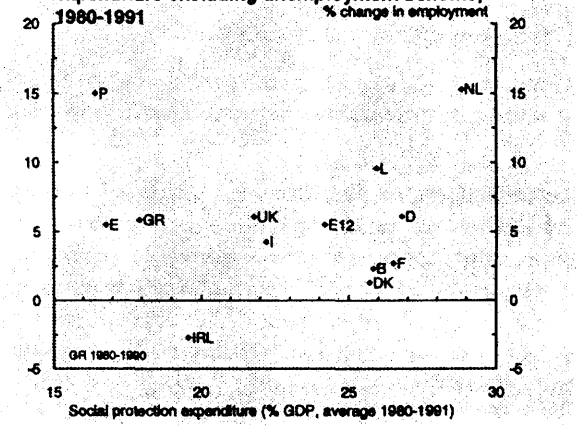
has led to increases in contributions paid to the non-State bodies, this might have led the State to borrow to cover its own expenditure rather than increase taxes in addition to the rise in contributions.

However, this assertion must be qualified. There is, in particular, evidence that a number of countries where public deficits widened considerably during the 1980s managed to contain the growth in expenditure on social protection. For example, Belgium was the Member State with the lowest rate of growth in average benefits per head at constant prices between 1980 and 1991 (see Chapter 3, Graph 3), but experienced a marked rise in its budget deficit. Such deficits are just as much — if not more — a consequence of the slowdown in economic growth and the high level of real interest rates.

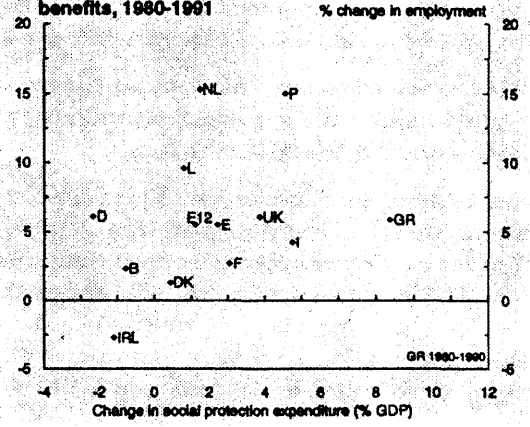
More generally, the redistributive nature of social protection is becoming increasingly clear and workers are becoming more and more aware that it is financed from their own income. For a long time this had been partially obscured by the fact that the social contributions paid by employers were the major source of funding for social protection. Even though such contributions can be considered as pre-empting wage rises, workers generally supported this method of redistribution and, therefore, tended to accept the taxes and contributions levied on wages to finance it. The need to maintain or improve competitiveness, however, is now prompting a search for additional finance in the form of increased employees' contributions and state subsidies in order to moderate the growth of

Relationship between social protection expenditures, employment and unemployment

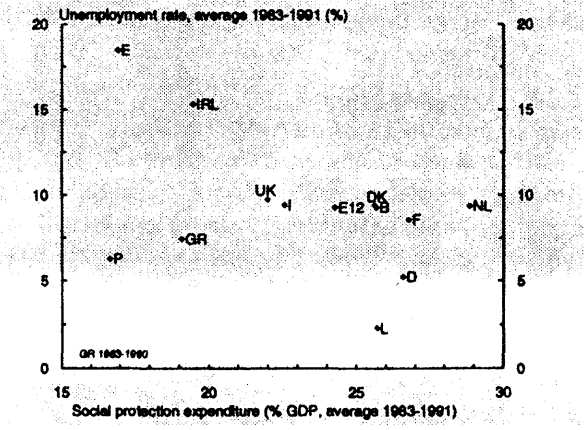
16 Change in employment and social protection expenditure excluding unemployment benefits, 1980-1991



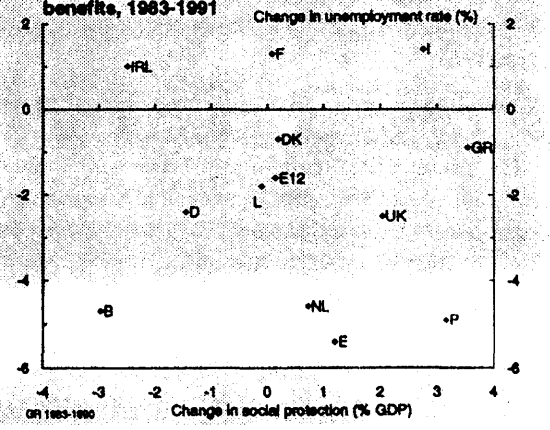
17 Change in employment and change in social protection expenditure excluding unemployment benefits, 1980-1991



18 Unemployment and social protection expenditure excluding unemployment benefits, 1983-1991



19 Change in unemployment and change in social protection expenditure excluding unemployment benefits, 1983-1991



Social protection, competitiveness, employment and unemployment

The impact of social protection on competitiveness and job creation is the source of both discussions and debates, among both academics and politicians, which become particularly intense in periods of recession or slow growth, when the decline in the number of jobs reduces state revenue and leads to increased spending (eg on unemployment compensation or early retirement benefits). In addition to the political difficulty of making employers and/or employees accept any increase in taxes or social cotributions, it is important to ensure that the cost of financing social protection does not increase production costs excessively, thereby jeopardising competitiveness. In particular, it can be argued that since social protection regimes are generally financed by taxing the use of labour, they may lead to an increase in the relative price of this factor of production, which *ceteris paribus*, will tend to reduce the labour content of economic growth.

While theoretical analyses are hard to carry out, because of the difficulty of conceiving and formulating alternatives to social transfers in favour of the sick, disabled, unemployed and pensioners as well as to the collective funding of health expenditure, it is nevertheless possible to make comparisons between Member States.

It can be shown that a coherent and balanced development of economic performance and social protection neither endangers the competitiveness of a country nor the creation of employment. Graph 15 illustrates the relationship between social protection and competitiveness, the latter being measured by trade performance in the form of the growth of exports. Comparisons are shown for the period 1980 to 1991, the last year for which data on social protection expenditure are available (apart from Greece, for which the data only go up to 1990). From this, there is little evidence of any correlation between the two variables and certainly no indication that those countries with small rates or reductions in spending on social protection have enjoyed greater export success than others. It is also the case that export growth does not appear to be related to the average level of expenditure over the 1980s.

The competitiveness of a country is associated in some degree with its ability to create jobs. Graph 16 shows the relationship between the rate of employment growth between 1980 and 1991 and the level of social protection over the period. It is clear that there is little sign of social protection having a negative effect on employment creation. The graph shows a wide variety of combinations between employment growth and level of social protection in the Community and, in particular, relatively larger increases in employment in countries such as Portugal and the Netherlands with very different levels of social protection. The same lack of relationship is also apparent if the change in social expenditure is taken rather than the level (Graph 17).

Nor is there a clear relationship between the level of social protection and the rate of unemployment. Graph 18 compares the average expenditure on social protection between 1983 and 1991 with average unemployment over the period. While there is no sign of a negative relationship between social protection and unemployment and therefore no evidence that a low level of social protection is associated with high unemployment, it is nevertheless striking that there is no country with both a high level of unemployment and a high level of social protection.

These indicators do not, however, address the precise issue of whether a link exists between the cost to companies of social protection contributions and their performance in the market place. There are a number of aspects to such a relationship, all of which can have effects, either direct or indirect, on the ability of companies to compete. Competitiveness can be influenced by such diverse factors as productivity, individual elements of the overall cost structure, final pricing levels, employee/management relations, etc. The existence of a social protection regime to which companies are required to contribute can have the effect of raising the "non-wage" element of the labour costs, but can also have the effect of improving productivity rates from "secure" workers, and improving employee/management relations in the context of dtrategic or other necessary restructuring exercises.

While no firm conclusions can be drawn on the relationships between social protection, competitiveness, employment and unemployment from this brief comparison, it seems that a high level of social protection is not an obstacle to economic development. However, if changes occur which disturb the balance between social protection and economic strength and which reduce a country's competitiveness, the maintenance of employment levels and the restoration of economic performance will require a corresponding reduction in the unit costs of production and in the relative price of labour. If a sufficient reduction can be achieved through slower wage growth, as it should, there will be no need for any dismantling of the social protection system. In some cases, an alternative way of financing social protection might also enable the relative price of labour to be reduced and the labour content of growth to be increased.

The Commission intends to explore further the question of links between the existence and the financing of social protection (in its broadest sense) and industrial competitiveness with a view to identifying those elements which can be determinants of competitive advantage.

labour costs (see Chapter 3, Graph 7). Accordingly, workers — and people in general — are being encouraged, more and more explicitly, to devote some of their income to providing protection for themselves.

In this context, the emergence of deficits in some systems of social protection have reflected political problems in the countries concerned as well as the cyclical effects of a slow-down in economic growth. When a country uses its system of social protection to redistribute income, there has to be general agreement among the people living there on the means of achieving this.

Social contributions and labour costs

Social contributions are at the centre of discussions and debates on the economic effects of the different ways of financing social protection. It is employers' contributions which are the main focus of criticism, especially in the countries where these are particularly important (Belgium, Germany, Spain, France, Italy or the Netherlands). There tend to be two main issues: the impact of social contributions on labour costs and whether they should be based only on wages.

Social contributions are often presented as non-wage labour costs which can handicap companies facing international competition. However, comparisons within the Community show only a very weak relationship between total labour costs in a country and the rate of social contributions, whether employers' contributions alone or the sum of employers' and employees' contributions (Graph 13). In Member States where social contributions are high, direct wages are relatively low (Spain, France), whereas in the countries where companies pay very low social contributions, they pay higher wages and employees generally pay higher taxes on these (Denmark).

Since employers' contributions, however, are a component of labour costs, reducing these may reduce labour costs in the first instance, but whether labour costs will be lower in the longer-term depends on how the finance lost by the reduction in contributions is recouped and the response of both employees and businesses to the reduction. In other words, there is no simple, causal relationship between the level of social contributions and the total cost of labour.

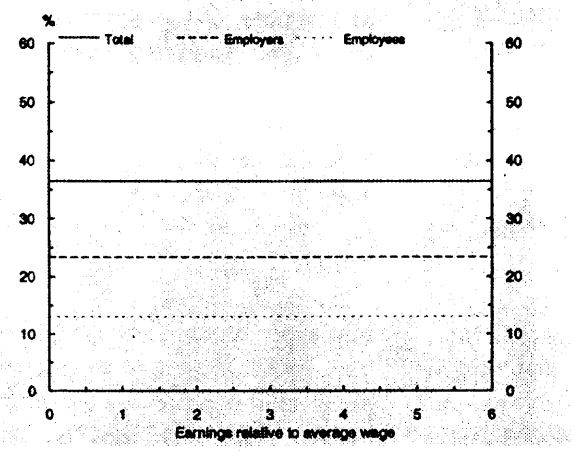
There is, however, a close relationship between labour costs and the level of social protection, measured in terms of average expenditure per person (Graph 14). The question then arises over the direction of causation between the two. Is it the case that labour costs are high because of expenditure on social protection, whether funded by contributions or taxes? Or, on the other hand, is it the case that expenditure on social protection is substantial because of the high level of economic development, which is reflected in the high level of wages and salaries and which creates greater social protection needs? In this case, the correlation between the level of social protection and labour costs would merely be the manifestation of another more fundamental correlation between the level of economic development and social protection (see Chapter 3, Graph 2).

If social protection is developed in line with the economic strength of a country it will not endanger its competitiveness. If the development of social protection led to an increase in labour costs, countries with a high level of social protection ought to be relatively uncompetitive and have a high rate of unemployment. However, this is not the case in the Community: there is no obvious relationship between social protection expenditure relative to GDP and trade performance, as measured by the growth in a country's exports or between the former and the rate of employment creation or the level of unemployment (Graphs 15–19 and Box). However, if changes in economic conditions occur which reduce a country's competitiveness, the maintenance of employment levels and the restoration of economic performance will require a corresponding reduction in unit production costs. If a sufficient reduction can be achieved through slower wage growth as it should, there will be no need for any dismantling of the social protection system

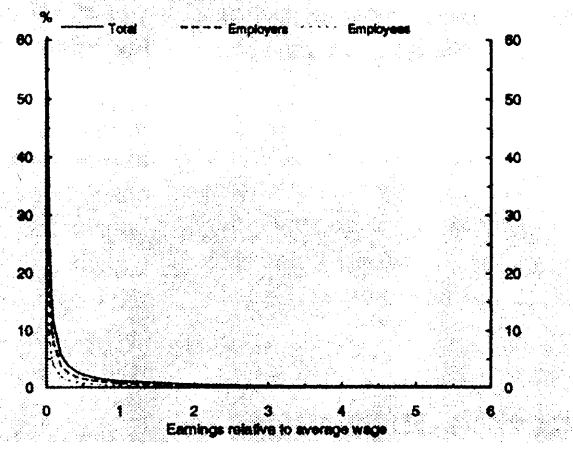
Nevertheless trade performance is of crucial importance to the rate of economic growth a country can sustain and, therefore, the income it can generate to fund social benefits. There need be no conflict between social protection and economic development — indeed social protection may facilitate economic progress insofar as it makes it

Rate of social security contribution and wages levels in the Member States

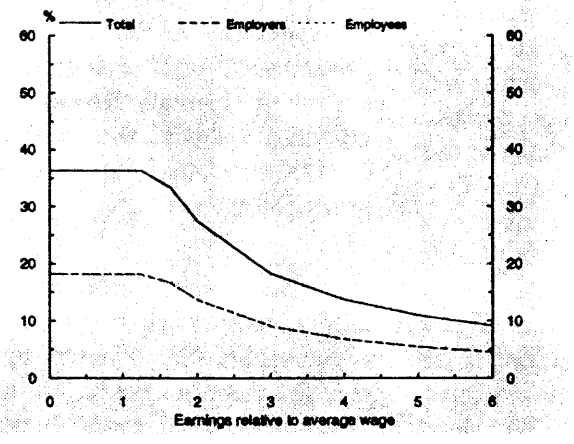
20 Belgium



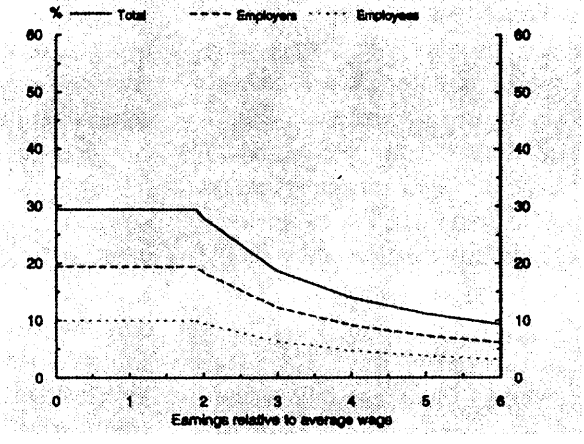
21 Denmark



22 Germany



23 Greece



possible to adapt to the social changes which are the price of development, namely increased urbanisation, the reduction in the size of families, higher labour mobility and the need for continuing training. However, it is important for Community countries to keep under review the level of costs imposed on business and the potential implications for cost competitiveness.

Financing social protection and employment

The are two main questions under discussion on how the way social protection is funded affects employment through so-called "relative price effects". The first concerns the level of contributions and taxes levied on wages as compared with those on other factors of production. For a long time, there has been a proposal to "make machines pay" as well for the cost of social protection, by imposing taxes on investment or on company assets or by taxing them indirectly through the value-added that they help to create.

The implementation of this kind of proposal has been considered and studied in various Member States (Belgium, Germany, France, Italy and the Netherlands, in particular), but nothing has ever been introduced, primarily because of the fear that it would reduce investment and, in turn, impede the modernisation of companies. *Ceteris paribus*, the substitution of capital for labour depends on the relative price of labour, and any reduction in its price helps to increase the labour content of growth. However, the substitution of capital for labour depends also on technical progress and investment incentives (tax deductions and interest subsidies, for example). In a context of intense international competition, investment would appear to be complementary to, rather than a substitute for, employment. Even though investment may in certain cases lead to a reduction in employment, it is still essential to secure jobs because it allows companies to modernise, lower their labour costs per unit of output and be more competitive. Therefore, taxing investment could also be detrimental to employment.

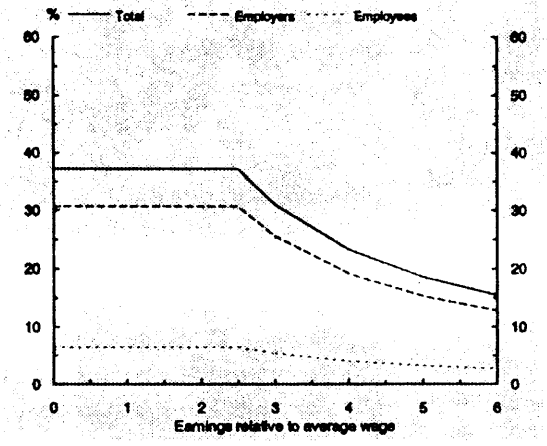
What applies to capital, however, is not necessarily true of another factor of production, namely energy and, more generally, natural resources as a whole. This is why debate is now focused on the question of whether the receipts from a possible tax on energy consumption might beneficially be used to reduce labour costs in Community countries by lowering social contributions or taxes on low wages. Indeed, it seems illogical to maintain very low prices for natural — and scarce — resources while the most freely available resource, unskilled or semi-skilled labour, is made expensive by the social contributions and taxes levied on it.

The other question under discussion concerns the way in which the rates of social contribution vary with the level of wages. Graphs 20 to 31 show the rates of compulsory social contributions paid by employers and employees in each of the Member States. Only Belgium and Portugal have contribution rates which do not vary with the level of wages. In France, rates are only slightly regressive if contributions to the compulsory retirement scheme for managerial staff are included. In the other Member States, there is a ceiling on contributions which for both employers and employees are zero on earnings above 1 to 2 times the average wage in all countries apart from the UK. Here there is an upper limit on employees' contributions around 1.5 times the average wage but there is no upper limit for employers' contributions. Here also contributions for both employers and employees up to the ceiling are progressive: nothing is payable on earnings below 20% of the average wage and the marginal rate rises progressively to reach its peak on earnings of around 70% of the average wage.

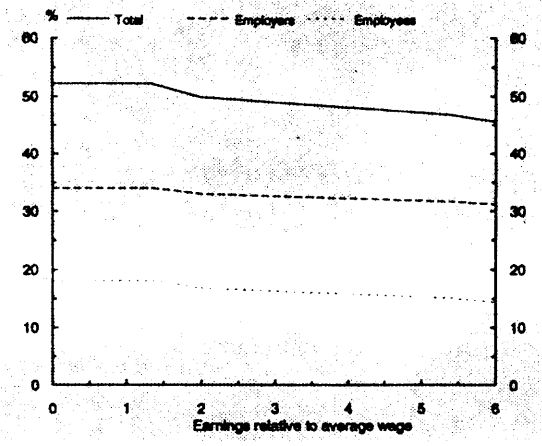
In Member States where there is a ceiling on social contributions and in which rates are therefore higher on low and average wages, there can be a negative effect on the employment of unskilled workers. This is why in some countries, notably in France, there are moves towards reducing the proportion of social protection financed by contributions and increasing funding through taxes. There is, in fact, a case for using tax receipts to finance benefits which have nothing to do with the loss of earnings (such as family allowances, medical care and old-age pensions which are not related to the length of their working life or the income earned) and to reserve contributions for the financing of insurance-based benefits calculated on earnings when in work (old-age pensions, sickness or invalidity benefits and unemployment

Rate of social security contribution and wages levels in the Member States

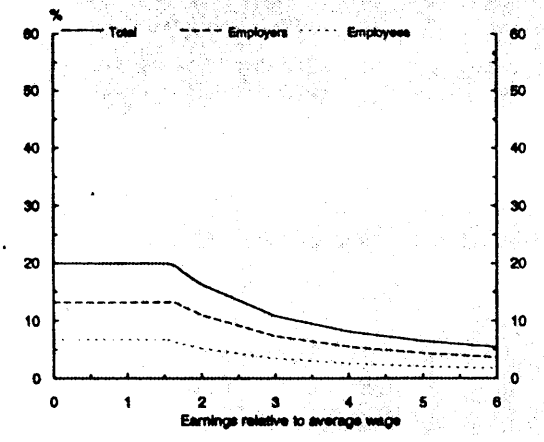
24 Spain



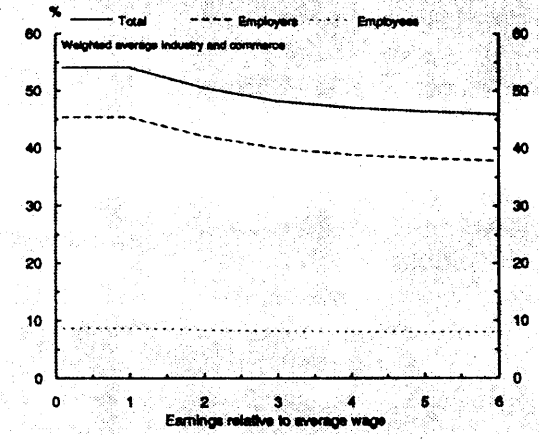
25 France



26 Ireland



27 Italy



compensation paid to workers who have lost their jobs).

Economic effects of benefits

Current economic analysis has focused primarily on the negative effects which social benefits might have, particularly on incentives to work or save, but has not reached any firm conclusions. Little consideration has been given to the positive aspects of social benefits, either because some writers, convinced that social protection amounts to excessive public intervention and does away with the free exercise of personal responsibility, have deliberately ignored them, or because, given that the objectives of social protection are primarily social in nature, its efficiency has been judged in terms of the reduction of income differentials, its success in combating poverty, the effect on the standard of living of the elderly or on the state of people's health.

The effectiveness of social benefits is briefly considered below before addressing the question of their effect on incentives to work and save.

Effectiveness of social benefits

The cost of benefits in financial terms is well known, as is the fact that their objective is to help to solve the social problems of poverty and insecurity. However, their effectiveness is difficult to measure since to do so would mean comparing the present situation in a given country with a hypothetical one in which there was no system of social protection. It is virtually impossible to predict, however, even approximately, how different sections of the population would behave in such circumstances and how they would try — and possibly succeed — to protect themselves against certain risks. Nevertheless, there can be no question that social protection has done much to improve the health of the population, extend the length of education (through family allowances), reduce social inequality and raise the standard of living of the elderly. In an economic environment in which the combination of rapid technical progress and particularly intense international competition can lead to exclusion and poverty, social protection is a powerful factor in favour of social cohesion. Furthermore, help in finding a job and the various benefits designed to encourage training and retraining or to promote geographical and labour mobility help to combat unemployment.

Social benefits and work incentive

The question of the effect of social benefits on the incentive to work has been the subject of numerous theoretical and empirical studies, particularly as regards old-age pensions and unemployment compensation.

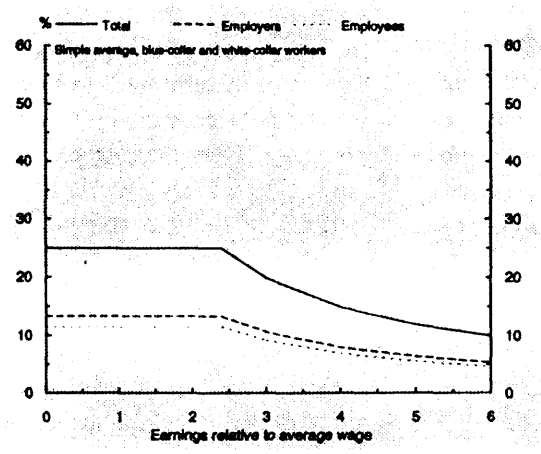
Old-age pensions

The activity rate of those of 65 and over has fallen sharply in the various Western industrialised countries over the past 30 years, especially in the 1970s. This has been largely due to the extension of pension schemes, the improvement in the level of benefits provided and the various early retirement measures introduced by governments in certain countries (Germany, Belgium, Denmark, Spain, France and Italy, in particular) to combat unemployment and promote the employment of young people.

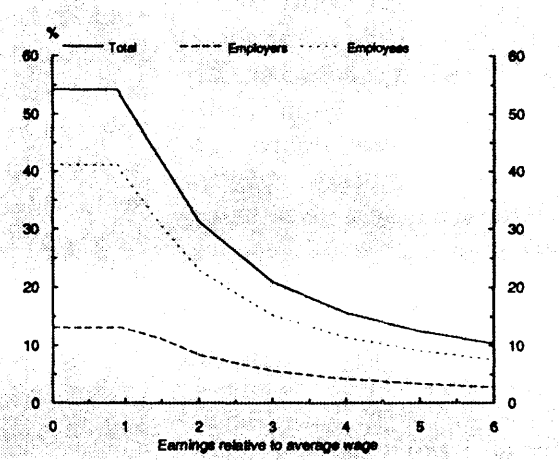
Although it is normal for old-age pensions to encourage old people to retire from work since their purpose is precisely to enable people to do this, there is nevertheless a contradiction between the tendency for life expectancy to increase and the tendency for the average length of working lives to decline. Not only does this reinforce the worsening of the relationship between those in work and those in retirement, but it also turns people who are still capable of working away from employment. In view of the ageing of the population, it might be better to follow the example of a number of countries and encourage people to retire later by giving them responsibilities better suited to their abilities or by establishing — or in some cases developing — phased retirement schemes. It is these principles of flexible and phased retirement which are the focus of the Council Recommendation of 10 December 1982 (82/857/EEC) on the principles of a Community policy on the age of retirement.

Rate of social security contribution and wages levels in the Member States

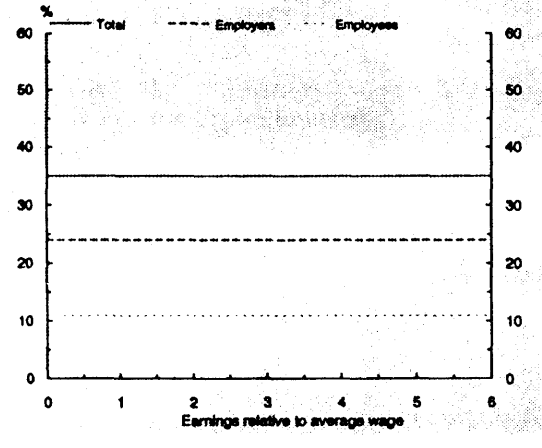
28 Luxembourg



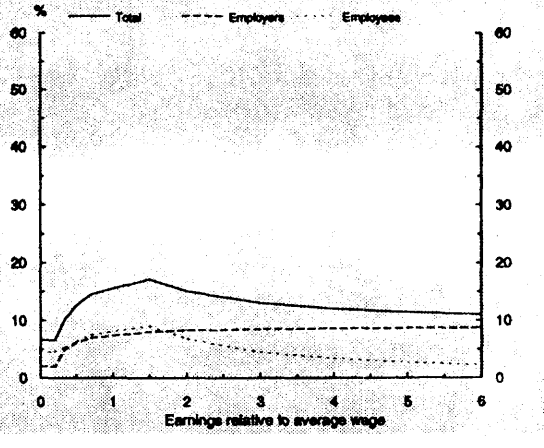
29 Netherlands



30 Portugal



31 United Kingdom



Unemployment compensation

The question of whether or not compensation for unemployment is a cause of unemployment ('induced unemployment') is also the subject of much discussion. This dates back a long time, but interest has been renewed since the mid-1970s with the growth in unemployment and the considerable sums of money paid out in benefits. (See *Employment in Europe*, 1992, Chapter 7 for a review of the effects of unemployment benefits on the labour market.)

The main arguments used in favour of the existence of induced unemployment are based on the theory of the reserve wage or on the notion of moral risk.

The expression *reserve wage* is used to denote the wage below which someone unemployed will refuse to work, taking account of their previous earnings, their skills and abilities, other sources of income, and above all, the level of replacement income they receive from unemployment benefits. The supporters of this theory argue that the benefits received by the unemployed increase the reserve wage and wage levels as a whole, because they will not accept a job unless they earn more after tax and other expenses than they would have received from unemployment benefits; otherwise, they will feel they are working for nothing. As a result, wages cannot be lower than unemployment benefits, even for the least skilled workers. This means that the level of unemployment compensation is like a floor which affects the

Social benefits and the "poverty trap"

The term "poverty trap" is used to describe the situation in which unemployment benefits and social assistance help to maintain and perpetuate poverty. For low paid jobs, the payment of taxes and contributions combined with the reduction in benefits might sometimes result in the earnings received being hardly any greater than the unemployment benefit or social assistance payable when a person is not working at all.

This is reflected in the *implicit marginal rate of tax*, defined as all the taxes, contributions and other charges a person who was previously unemployed has to pay plus the social allowances which are lost in taking up a job. If this rate is high, the person in question benefits little from their efforts to end their dependence on unemployment benefits or social assistance. High rates create genuine poverty traps which encourage people on low incomes to remain dependent on social programmes and which may even encourage people on low wages to stop working at all, since their disposable income would be hardly any lower as a result. This serves to increase the burden imposed by unemployment benefits and social assistance, to reduce the base for contributions and income tax and, as a result, to create financial difficulties for systems of social protection.

It is precisely to avoid situations of this kind that systems guaranteeing a minimum level of income in some Member States (Belgium, France, Luxembourg or the Netherlands) allow people, albeit to a fairly limited extent, to continue to draw minimum levels of benefit, in addition to their wages. In the same way, countries like Belgium, Denmark or Spain allow someone who is fully unemployed and receiving benefit who accepts a part-time job to receive both the wage for the work performed and a partial unemployment benefit. A similar system exists in the UK (in the form of family credit) for people who accept low-paid jobs.

The poverty trap could be completely eliminated by certain radical methods which are sometimes proposed. This is particularly true of universal basic income (or social dividend) schemes under which everyone receives a basic amount, irrespective of their means. This would replace all existing benefits and could be combined with earnings from work.

However, considerable sums of money would be needed to finance this new benefit, which would have to be fixed at a sufficient level to give a decent standard of living to anyone with no other source of income. Its introduction would require substantial new levies on income, which those on higher levels of income would be unlikely to accept. As emphasised above, in the end all systems of social protection run up against the following question: how much redistribution of income is a society willing to accept?

whole hierarchy of wages. Consequently, changes in economic conditions, which would imply a reduction in real wages if market forces could operate freely, have little effect on rates of pay and tend to lead instead to unemployment — the benefits received by the unemployed are therefore an obstacle to wage flexibility. As a result, the more generous these benefits are, the higher the reserve wage and wage levels as a whole. Hence an increase in the reserve wage reduces the range of jobs acceptable to anyone who is unemployed and tends to lengthen the time spent looking for employment.

Analyses based on the notion of *moral risk* emphasise that paying compensation for unemployment has two kinds of effect, which both work in the same direction. On the one hand, by providing a means of support it reduces the incentive for people to look for work (the income effect) and, on the other, it reduces the cost of leisure relative to working, since leisure is paid, and encourages a substitution of leisure for work (substitution effect). The higher the rates of compensation — that is, the smaller the difference between wages and benefits — the greater these effects will be. More precisely, it is argued that compensation for unemployment:

- gives an incentive for employees to leave their jobs voluntarily, especially in order to find a more attractive or better paid job, and for employers to reduce their workforce in order to offset the effects of a fall in production;
- lengthens the time spent looking for a job: by reducing the costs of search, it supposedly encourages the unemployed to be in less of a hurry and to be more demanding as regards the conditions of employment that they are prepared to accept;
- encourages some people to enter the labour market merely to fulfil the conditions which will entitle them to unemployment benefits when they quit their job, or not to leave the labour market until they have exhausted their entitlement to benefit.

While these diverse arguments undoubtedly contain an element of truth, it is one which is hard to quantify, and the various econometric studies aimed at measuring the effect of unemployment benefits on the rate or duration of unemployment have produced only weak results. This is because they are seeking to isolate a phenomenon, whose effect is difficult to measure among all the various possible causes of unemployment. In spite of the various studies which have been carried out and the various comments to which they have given rise, it is still hard to say whether or not unemployment compensation affects the level of unemployment and, if so, whether the effect is positive or negative. The following remarks provide some explanation:

- Before it is assumed that the kinds of behaviour described above are actually observed in reality, it is important to remember that to receive unemployment benefits presupposes a genuine availability for work, that is to say, the person must be actively seeking work and has an obligation to accept a job offer from the employment services if it accords with their qualifications.
- Work is not merely a source of income but also a way for people to become integrated into society, develop relationships and express themselves. People might, therefore, quite rationally prefer a job to being unemployed, even if they receive benefits, because of social norms and in order to maintain their skills which might be diminished during periods of inactivity.
- Unemployment benefits may encourage people to spend more time looking for a job, but this should not be viewed from a purely negative angle. By giving the unemployed more time to find a job better suited to their abilities and aspirations, benefits might also lead to a better matching of skills and jobs. Some lengthening of the duration of unemployment might, therefore, benefit both the individual and the economy if it leads to a better job. In this way, unemployment benefits may have a positive effect on the flexibility of the labour market since, by reducing the financial risk associated with unemployment, they encourage workers to accept less certain jobs, especially in small firms.
- Unemployment induced by benefits does not appear to have been a major factor behind the

increase in unemployment in the majority of developed countries in the West from the mid-1970s on. The long-term fall in world economic growth, the rapid increase in active population and the effects of technological change and industrial restructuring on employment would appear to bear a far greater and more direct responsibility for the rise in unemployment. The number of long-term unemployed, who receive little or no compensation, has risen sharply over the past 15 years and has been the main reason for the spread of poverty in many countries.

Neverheless, the level and duration of unemployment benefits might adversely affect incentives to work in certain circumstances, and there is, therefore, a delicate balance which needs to be struck between the aim of maintaining incentives and providing an appropriate level of social protection.

Old-age pensions and saving

The question of the relation between pensions and savings provoked much controversy and generated a great deal of literature in the 1970s. It was argued, in particular, that a pay-as-you-go pension scheme (ie one where the contributions of those currently in work pay for those in retirement) would in all probability lead to a reduction in personal savings, since people would be sure of being able to draw a pension financed by levies on people in work when they retired and would, therefore, have less need to save for their old age. However, this kind of argument has less validity if other considerations are taken into account.

It is equally the case that the existence of old-age pension schemes gives an incentive for people to retire earlier. They may, therefore, try to save more during their working lives in order to have a higher standard of living over a longer period of retirement.

Moreover, insofar as old people who have retired would, at least partly, be supported by children in work if old age pension schemes did not exist, it is possible to regard such schemes as largely substituting for intergenerational transfers within the family. In other words, they are likely to have the effect of transforming private transfers into social transfers leaving overall savings much the same.

The theoretical arguments are, therefore, contradictory, and provide no clear grounds for concluding that pay-as-you-go pension schemes are likely to affect the amount of household savings. The econometric studies are no more conclusive. Although a great many have been undertaken on time-series data for a given country, cross-sectional data for a number of countries or cross-sectional data for an individual country, they end up with contradictory results, which vary considerably — often with opposite signs — according to the data used, the period studied, the explanatory variables included in the equations and so on. The most that can be said is that the idea that pay-as-you-go pension schemes have a negative effect on savings remains unproven.

As is well known, in coming years those in work will need to finance the pensions of a larger number of people in retirement. Pay-as-you-go pension schemes are often contrasted with funded pension schemes (ie ones where current contributions are intended to finance the future pensions of those paying), which are supposed to be more effective in coping with this unfavourable demographic trend. However, as emphasised by the Commission in its Communication of 22 July 1991 on supplementary social security schemes (SEC 91, 1332 final), it is perhaps an illusion to imagine that funded pension schemes are not liable to be affected by these demographic changes.

The implicit effect of any method of financing retirement is essentially to share the resources available for consumption between those in work and those in retirement. A funded pension scheme cannot solve this problem of distribution unless it succeeds in increasing the volume of resources which a given level of funding will generate some time in the future. This can only be the case if the funds put aside for those who will retire in the future happen to be invested in other countries where returns are higher or if it leads to a strengthening of productive capacity, which will enable future expenditure on retirement to be financed more easily. It is open to question whether a funded scheme is actually likely to have such effects. Funding might in some sense strengthen the position of those in retirement insofar as they hold assets

to reinforce their rights to available resources. However, the real value of these assets may be reduced by the normal interplay of supply and demand, which will tend to reflect the demographic imbalance.

In any event, the introduction of funded pension schemes or the accumulation of substantial reserves under present pay-as-you-go schemes would almost certainly have an effect on the working of the economy. Greater recourse to funded schemes as a means of financing retirement may create a long-term source of capital and might, therefore, seem to be a way of contributing to more rapid growth.

This, however, is to take a very partial view and to ignore the effects of savings on demand. In practice, an increase in contractual saving is likely to be at the expense of company profits. As a result, companies, as private consumption declines, would need to have greater recourse to borrowing if investment and, therefore, economic growth, is to be maintained. In other words, a shift from pay-as-you-go to funded pension schemes is likely to necessitate a change in the behaviour of companies. This needs to occur smoothly if investable funds are to be recycled efficiently. Overall, however, there is little reason to expect higher growth rates to be achieved, unless greater recourse to the capital market leads to a more efficient allocation of investment funds.

Chapter 7 Systems of health care in the Community

In the text of the Recommendation on the convergence of social protection objectives and policies, the Council of the European Communities recommends that Member States should: "... organise the role of social protection in preventing illness and in treating and rehabilitating the persons concerned so as to meet the following objectives:

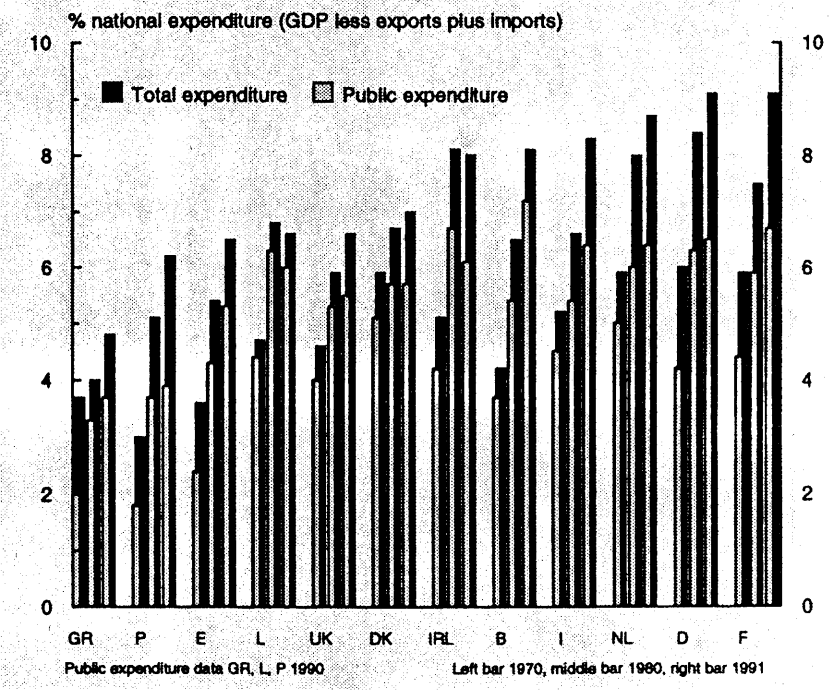
(a) under conditions determined by each Member State, to ensure for all persons legally resident within the territory of the Member State access to necessary health care as well as to facilities seeking to prevent illness;

(b) to maintain and, where necessary, develop a high-quality health care system geared to the evolving needs of the population, and especially those arising from dependence of the elderly, to the development of pathologies and therapies and the need to step up prevention, ...".

As noted in Chapter 4, there are problems in assessing how far these objectives are currently being met because of the difficulties in measuring quality of service in this area.

But the Recommendation also stresses the fact that "social protection systems must be administrated with maximum efficiency having regard to the rights, needs and situations of those concerned, and with maximum effectiveness in terms of organisation and functioning". The concern of this chapter is to review the measures which countries have taken in recent years to contain the growth in costs of health care provision, which has been a primary aim throughout the Community. While these measures may themselves have some effect on the quality of care, no attempt is made here to consider this potential problem which could become increasingly important in future years as the pressure on services grows.

32 Total and public expenditure on health care in relation to national expenditure in the Community, 1970, 1980 and 1991



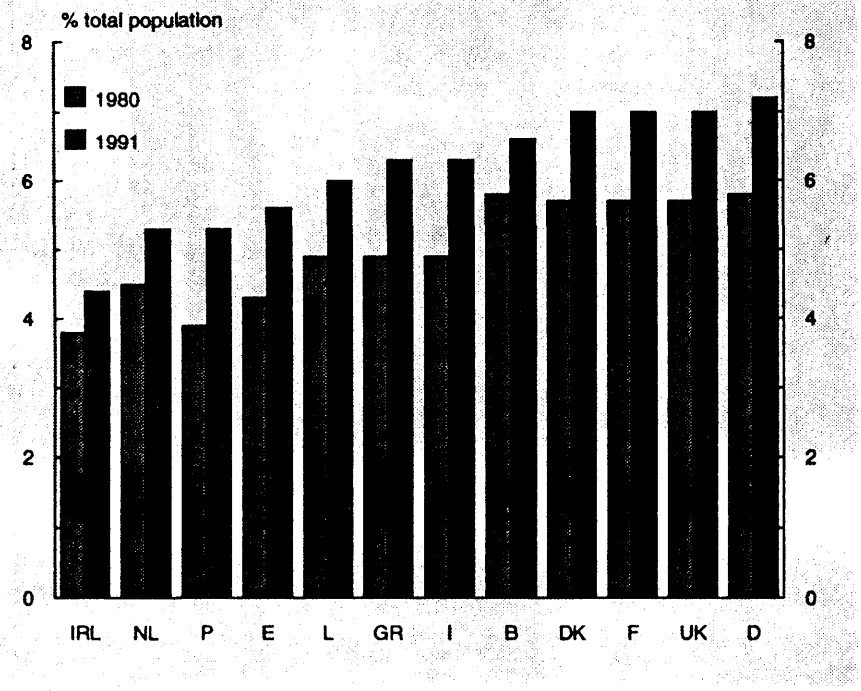
All Member States have found it difficult to contain health costs. In each case, public and private expenditure on health accounts for a substantial proportion of National Expenditure (NE) (Graph 32 — which is based on OECD Eco-Santé data).

Costs, moreover, have tended to rise over time. Over the 1970s and the 1980s, health expenditure increased significantly in most part of the Community in relation to NE, partly reflecting the slowdown in the rate of economic growth. There were, however, a few exceptions. In particular, whereas in all Member States health expenditure increased relative to NE in the 1970s, in Luxembourg and Ireland it declined in the 1980s and in Denmark it rose only marginally.

The rise in health spending in the 1980s in particular partly reflects the ageing of the population. Since the demands imposed on the health service by the elderly are substantially greater than for the rest of the population — indeed in all countries most health expenditure goes to treating and taking care of the very old — any growth in the proportion of old people will inevitably tend to increase the need for expenditure. Between 1980 and 1991, the number of people aged 75 and over — who impose a particularly heavy burden on health services — went up significantly in all Member States in relation to total population (Graph 33). This was especially true of the Southern countries of the Community, where in each case the proportion increased by around 30% or more, so putting considerable upward pressure on health expenditure at the same time as services were being extended to cover everyone living there.

In the latter part of the 1980s, health expenditure stabilised or even declined in relation to NE in most countries as growth picked up. Recent policy debates and the reforms introduced in a number of Member States, however, show that cost containment remains a topic of major concern for the 1990s, especially in the context of the present recession and the budget constraints on public expenditure growth. The prospect of a continuing ageing of the population throughout the Community reinforces this concern.

33 Population aged 75 years and over in the Member States, 1980 and 1991



In all Member States, public expenditure represents the main component of health spending — around 75% of the total for the Community as a whole (Table 23). In most parts of the Community, however, the importance of public expenditure declined over the 1980s and its weight in NE increased only slowly or fell. Nevertheless, systems of public health care vary considerably across the Community, a fact which needs to be borne in mind when assessing performance.

Some measures to achieve cost containment are specific to the peculiarities of a particular system, while others are general to all systems. These need to be distinguished if useful conclusions are to be drawn.

Basic principles of health care systems

Financing

The public health services in a number of Member States are financed from general taxation, in others they are organised and funded wholly or partly on an insurance basis. Denmark, Ireland, Portugal and the UK belong to the first group of countries. Italy, Greece and Spain have a mixed system under which part of finance comes from insurance contributions, the rest out of taxation. Belgium, France, Germany, the Netherlands and Luxembourg have wholly insurance-based systems.

In this third group of countries, expenditure on health care tends to be higher than elsewhere, either because an insurance-based system in itself increases costs or because the standard of service is higher in these countries. Moreover, whereas countries where expenditure is financed from taxes, either wholly or partly, can in principle contain spending by limiting the cash available for the health budget, this option is not so open to those with an insurance-based system.

Table 23 Public expenditure on health care as a % of total expenditure on health care

	1970	1980	1991
B	87.0	83.4	88.9
DK	86.3	85.2	81.5
D	69.6	75.0	71.8
GR	53.4	82.2	77.0*
E	65.4	79.9	82.2
F	74.7	78.8	73.9
IRL	82.2	82.2	75.8
I	86.4	81.1	77.5
L	na	92.8	91.4*
NL	84.3	74.7	73.1
P	59.0	72.4	61.7*
UK	87.0	89.6	83.3
USA	37.2	42.0	43.9
Japon	69.8	70.8	72.0

** 1990 figures*

Source: OECD Eco-Santé database

Coverage

Health care systems in all Member States are available to all the people living there. This is a matter of principle in the case of countries where health care is financed from the general budget.

So far as the countries with mixed systems are concerned, in Italy the whole population is covered. Though the system is contributory, those with no earnings are exempt from paying. In Spain, while the system is mainly financed by taxes, it operates on an insurance basis, covering 99% of the population.

The coverage of the public health insurance systems in Belgium, France, Germany, Luxembourg and the Netherlands ranges from 100% in the Netherlands (only for serious illness) and Luxembourg to 92% in Germany, because many civil servants and most self-employed who are covered by private schemes — which are important in Germany — are excluded. In all these countries, people not covered by public or private health insurance have ultimate recourse to social assistance which also provides health care.

In Greece, the situation is special in that everyone is either covered by the tax — financed OGA, if they live in rural areas, or by the largely contributory IKA system, if they live in urban areas, or by one of more than 200 smaller schemes.

The objective of the Council Recommendation concerning universal access to health care is, therefore, met in all Member States and there is no evidence of any tendency to exclude high-risk people as a way of reducing costs.

Benefits and services

In the Member States with pure public health insurance systems the method of providing services is indirect in the sense that it is based on contracts between the insurers and the providers, with doctors being paid on a fee-for-service basis, apart from in the Netherlands where payment is on a *per capita* basis.

In the other Member States, the providers are, in part at least, employed by the public health service itself. In Denmark and the UK, this is the case for hospital staff while all the other people involved work on a contract basis. In Ireland and Italy, public hospitals are funded by the national health service and specialists are in part employed by the service. In Spain and Portugal, general practitioners, and in Greece dentists as well, are also employed by the public health service. As a result, doctors in Greece and Portugal are salaried employees; in Spain, Italy and Ireland, they are paid on a *per capita* basis, while in Denmark and the UK, they are paid partly according to the number of people treated, partly according to the services supplied (eg certain activities for disease prevention in the UK).

These different methods of organising the provision of services have different effects on health care expenditure and influence the measures which can be taken to contain costs.

Approaches to cost containment

There are different ways of containing costs. One way is to reduce demand, either through shifting some of the cost of service provision onto the patient or by excluding certain treatments or drugs altogether from the service. The best way of reducing demand from the point of view of public health is through health promotion, but measures in this area and their impact on expenditure are difficult to assess.

Another way is to reduce supply, especially through budget control, mainly in countries with a tax-financed national health service, though also in countries with insurance systems. This can include measures to reduce manpower, either by banning recruitment to the national health service or by limiting the entry of doctors to insurance-based practices and to cut back on supplies through proscribing expensive drugs.

The third way is to increase the effectiveness of the system by promoting alternatives to inpatient care, reducing the length of stay in hospitals and using expensive medical equipment more efficiently. This can be achieved either by cutting budgets or by introducing incentives.

A major issue is whether to introduce market forces into the system or to concentrate on planning measures like controlling the prices paid for goods and services. A related issue is whether or not to encourage particular groups of people to join private health insurance schemes, which may reduce public expenditure but not necessarily total spending on health.

Examples of all these methods are to be found in Member States. Since they all have similar problems, it is not too surprising that they have chosen similar ways of containing costs, the common objective being to organise the provision of health care in such a way that services can be assured without excessive increases in expenditure.

Cost containment in tax-financed health care systems

Where health care is funded through general taxation, public authorities usually set a specific budget for health, which in principle should make it easier for them to control costs.

Denmark

In Denmark, the central government fixes the total which local communities (counties) can spend on health care. This determines employment and the availability of services. Since local authorities have a strong incentive to keep within the budget,

there is pressure to increase efficiency, an example being the provision of institutional care in nursing homes for people who do not need hospital treatment.

Tight budgets have also resulted in the more intensive use of hospitals, the average length of stay declining from 11.5 days in 1983 to 8.6 days in 1988, while admissions increased from 984 000 to 1 074 000. The counterpart is a considerable expansion in outpatient treatment. In addition, in order to control the cost of drugs, generic substitution of prescribed drugs was introduced in 1991.

Under a fixed budget system, patients do not necessarily have an incentive to behave in ways which save costs. Some form of cost-sharing is therefore used to influence behaviour. Patients are charged a proportion of the cost of prescriptions. For spectacles, there is a subsidy of 10% while dental care is free of charge for children and is subsidised for people between 18 and 30, but everyone else pays the full cost of treatment. Because, in general, patients are charged a percentage of the cost of health care treatment, rather than paying a fixed amount, their awareness of the costs involved is enhanced.

Ireland

The system in Ireland is based on similar principles to that in Denmark. The main difference is that there are two different categories of eligibility depending mainly on income. For the lowest income group (Category I), covering 35% of the population, all standard services are provided free of charge. Other people are covered by Category II, which means that they have to pay certain charges.

As in Denmark, there is tight control on the health budget which served to reduce public expenditure on health from 6.7% of NE in 1980 to 6% in 1991. This was achieved by the rationalisation of hospitals, with a number being closed, and a reduction in the average length of stay from 9 days in 1984 to 8 days in 1988, though also by an increase in waiting lists.

Budget constraints have also led to the development of alternatives to hospital care, with day care and day surgery being encouraged and geriatric services being improved, as well as to restrictions on the introduction of expensive new medical techniques and equipment. In 1989, the remuneration system for general practitioners was changed from a fee-for-service basis, which encouraged the recommendation of repeat visits, to one based on the numbers of people registered with them.

Health care is provided free of charge to people on low income. Other people have access to the public facilities of the national health service but are subject to a flat-rate charge (of £15 a night) for hospital treatment and are liable for consultancy and additional accommodation fees if they make use of private treatment.

In the case of drugs, to limit costs, certain products cannot be obtained free of charge. A recommended list of drugs is in the process of being introduced and there is an agreement with the pharmaceutical industry to relate prices in Ireland to those in the UK.

Ireland has succeeded in reducing public expenditure on health considerably by tight budget control and by concentrating care on the low income members of society. By leaving health care protection of those on higher incomes partly to their own initiative, there are incentives for cost containment.

The UK

In contrast to Ireland, everyone resident in the UK is entitled to use the National Health Service, which is predominantly funded through general taxation.

As in Denmark and Ireland, there is tight control over the health budget which is fixed by central government, which also controls the number of medical staff employed. Control over the general practitioner service is achieved by fixing the level of remuneration of doctors who work on a self-employed basis.

Over the years, the government has attempted to limit expenditure by putting pressure on health authorities to increase efficiency. This has produced significant savings, especially through the rationalisation of in-patient care, but it has also been argued that this has partly been achieved at the expense of standards of care. Budget constraints have forced health authorities to reduce the number of hospitals and available beds,

the latter declining from 458 000 in 1980 to 365 000 in 1989.

For drugs, prices are not controlled directly, but industry profits are subject to review and restraint. In 1985, a list of drugs not to be supplied under the NHS was introduced, though nearly all of them could be bought without a prescription.

Measures of cost-sharing are limited in the UK. Although there is a prescription charge for drugs, this is flat-rate and, because of exemptions (mainly for retired people and children), applies to only around 16% of prescriptions issued. While people are charged for dental care, 30% are exempt and those who pay have about 25% of the costs subsidised.

For certain operations under the NHS there are long waiting lists and in a number of cases, the spread of new technology has been delayed by cost considerations. The government faces pressure to improve the system, but the principle of a free health service open to all is not under challenge. This leads to increased emphasis on improving efficiency, though it is doubtful whether improvements can be made without increasing expenditure.

The aim of the reform implemented by the government in 1991 was to introduce market forces into the National Health Service. The responsibility for purchasing was separated from the responsibility for providing services, so as to increase the incentive to confront demand with the costs of supply and to encourage more emphasis to be given to prevention rather than cure. There are, however, doubts whether this new system is really working as it was intended, since the incentives may not be attractive enough and since the quasi-market created is not the same as a real market.

Because of tight control over expenditure, the UK does not have a serious problem of containing costs. Nevertheless, like other Member States, the UK cannot avoid the costs of health care increasing. Here, however, it has not led to increases in public expenditure, which has remained much the same in relation to NE since 1980, but to shortages and an increased incentive for people to subscribe to private health insurance schemes.

Portugal

The public health care system in Portugal (the National Health Service) is based on the same principles as those described above. The Health Service operates public hospitals and employs full-time salaried general practitioners to provide care. Drugs are dispensed by private pharmacies and private laboratories are used for diagnoses.

Employment of health care staff in the public sector facilitates the task of controlling public expenditure on health. For services provided by the private sector, this is more difficult. Nevertheless, a cash limit is applied to total National Health Service expenditure: if there are increases in private expenditure on drugs or diagnoses, this leads to reductions in hospital spending during the financial year, which puts pressure on hospitals to achieve savings.

The government attempts to control expenditure on drugs and has succeeded in achieving the lowest drug prices in the Community by requiring prices not to exceed the lowest in five other named countries.

Public expenditure on health was kept relatively stable during the 1980s, but waiting times in the main cities increased.

Over the years, Portugal has exercised different methods of cost-sharing. The system started in 1981 with flat-rate charges for home and office visits, with exemptions for people such as the elderly, chronic sick, pregnant women and children under the age of one. In 1982, charges were extended to outpatient care and accident and emergency departments. Patients, except those on very low incomes, were required to pay 10–50% of hospital bills, depending on income, 25% of the cost of drugs manufactured in Portugal and 40% of the cost of those manufactured abroad plus a flat-rate charge.

As a result of charges, the number of services demanded declined considerably. Since the charges were unpopular most of them were abolished by the incoming government in 1983 and, despite legislative changes in 1986 to allow them to be applied, they have not been reintroduced since.

In the case of drugs provided by the private sector, around 10% are free of charge and for the remainder the patient has to pay either 20% or 50%,

which, it is claimed, hits the elderly and the chronically ill. For dental services, patients pay a large part of the cost.

Italy

The Italian system is financed both by taxes (47%) and by social security contributions (53%). However, it has similar features to those in the other countries reviewed above, since it also covers the whole population. Health care expenditure has increased steadily over the past decade.

The Ministry of Health determines the budget for each region and province and the government has the power to fix the price of drugs and to decide the number of people employed — or contracted — in the health sector as well as their pay. Planning of health care at the regional level is subject to central government control. Containing costs, however, poses great difficulty partly because budgets are set substantially below the levels considered necessary by the regions and provinces.

The result has been not cutbacks in services but deficit spending, which is legally permitted and which, therefore, enables provinces and regions to evade the intended cost reductions. A ban on recruitment proved to be a more cost-effective approach, but before long this led to a shortage of nurses. In the hospital sector, attempts to contain costs tend to be concentrated on reducing the oversupply of beds and little effort is made to encourage alternatives to hospital treatment. Although there is a restricted list of drugs available from the NHS, this is of limited effectiveness in containing costs since many new and expensive drugs are included when they appear on the market.

For nearly all drugs prescribed under the NHS — except the so-called life-saving drugs — patients pay 40% of the cost plus a flat-rate charge. Some 25% of patients, accounting for around 65% of the drugs prescribed, are, however, exempt from paying. In 1989, a charge of 30% (up to a maximum of 30 000 Lire) was introduced for certain diagnostic procedures like X-rays, and around the same time charges for specialist visits and spa treatment were introduced. (However, the imposition of a daily charge for stays in hospital met resistance and was withdrawn.)

Although there is a charge for dental treatment, it amounts to only 10% of the fee for private treatment, while for spectacles only a small nominal sum is payable. From January, 1993 higher income earners have to pay a fixed additional annual charge (of 85 000 Lire) for the general practitioner service as well as the full cost of drugs (up to 40 000 Lire) and of diagnoses (up to 100 000 Lire).

While the Italian system contains a number of interesting ideas for containing costs, because of lack of control over budgets the measures introduced do not work as they should. Moreover, experience demonstrates the political difficulty of trying to enforce widespread charges. A major reform, however, is underway aimed at decentralising the health services to give regions more power and to improve effectiveness of local health authorities. The intention is for regions to receive a fixed budget for providing health services and exceeding this means raising charges or local taxes.

At the end of 1992, it was agreed to begin an experimental scheme starting in 1995 to introduce market forces into the system, in the form, first, of patients paying the full cost of treatment and then being reimbursed at a fixed rate by the NHS and, secondly, of the establishment of private funds to purchase services from the NHS or the private sector. The intention is that these will be financed partly by NHS contributions and that they will compete with each other for subscribers.

Spain

The health care system in Spain is similar to that in Italy in that it is insurance-based, covers the whole of the population and is financed mainly by taxes (70% in 1989). It is organised on a regional basis, with separate schemes for Catalonia, Valencia, Andalusia and the Basque Country and a fifth scheme (INSALUD) covering the rest of the country. General practitioners and specialists are employed by the regional health authorities and usually work in clinics, at least in cities and larger villages. Two-thirds of hospitals are public, while dentists, pharmacies and private hospitals operate on a contractual basis.

Although government has control in principle over expenditure, this has risen steadily over the years, especially after the system was extended to cover everyone in 1986. While in the hospital sector, the number of acute beds has not increased significantly, the average length of stay has been reduced, so allowing more patients to be accommodated, though not by enough to prevent increases in waiting lists.

Budget constraints limit the use of new equipment and the introduction of new forms of treatment in the public sector. If required, however, these can be contracted from private hospitals, which defeats the objective of containing costs. Drug prices are controlled by keeping them in line with raw material costs, which has led to the lowest prices in the Community, except for Portugal.

All medical treatment except drugs — for which there is a 40% charge, but only for those in employment — is free of charge.

The Spanish system shows the typical disadvantages of one where budget control is centralised, in that there are few incentives to take account of costs. This has led to similar proposals for reform, in the shape of the creation of an internal market, as in the UK. It has also been proposed that more health services should be contracted out to private suppliers, alternatives to hospital care should be improved and the elderly should be charged for drugs (and compensated by increased pensions).

Greece

Greece has a public health care system which is also partly insurance-based, though the service provided to the rural population is almost totally financed by taxes, whereas that for urban areas is in principle financed by contributions, but in practice by taxes.

There seems to be no effective budget control, though central government controls the prices of drugs, decides on the level of contributions and the fees to be paid for treatment. While there is a restricted list of available drugs, the pharmacies are paid in practice for whatever they prescribe.

The government which came to power in 1981 introduced an ambitious plan to improve health care in Greece, which resulted in an expansion of hospitals and a large number of new rural health centres. Between 1981 and 1988, the number of doctors in hospitals increased by 60% and the number of nurses by 88%, while salaries were increased to make employment in the public sector attractive. Since the aim was to provide free health care for everyone, more than a third of private hospital beds were transfered to the public sector in 1988, the system of reimbursement was made less generous and an attempt was made to prevent doctors from engaging in private practice. The reforms, however, were only partially successful.

For drugs, there is a charge of 25% of the cost, though there is no charge for drugs for chronic diseases, mental illness and AIDS. There is also a small fixed-rate fee for outpatient care and admission to hospital.

Like Spain, Greece has increased public spending in order to improve the health care system, but has not yet succeeded in introducing mechanisms which might contain costs.

Cost containment in health insurance systems

Five Member States — Belgium, France, Germany, Luxembourg and the Netherlands — have public health care systems which are based on insurance principles, in practice as well as in theory. In these countries, insurers and providers are separated, which leads to a different approach to cost containment. Means have to be found for ensuring that contributions are sufficient to cover expenditure, even when significant numbers of people are not working.

Belgium

Around 99% of people in Belgium are covered by health insurance. All services are provided on a contractual basis and the fees are negotiated between the insurers and providers. Patients pay for treatment and are then reimbursed where a charge is payable. Since contributions are not sufficient to cover ex-

penditure, the government subsidises around 40% of costs.

Central government has both considerable influence over health expenditure and the power to fix rates of contribution. Approval has to be obtained for spending on large equipment, for hospital charges and for doctors' and dentists' fees. The government also determines the eligibility of hospitals and the services provided for payment.

To contain costs, a quota for bed-days in hospitals was introduced in 1983 and since 1990 this has been calculated on the basis of full utilisation as regards each area of specialist treatment. As a result, the number of hospital beds has fallen significantly and hospitals have been encouraged to rationalise their services and transfer beds to long-term care. While this has not caused any increase in waiting lists, it seems to have led to most hospitals making losses. In the case of drugs, there is a recommended list of products and the prescribing of generics is encouraged.

Belgium has a complicated system of cost-sharing, which works essentially by not reimbursing patients in full for the cost of treatment. Those on low incomes are exempt from paying, or effectively pay a lower rate, while the self-employed pay the full amount without reimbursal – except in the specific (high risk) cases where they are covered by public health insurance. The charge effectively paid by most people is a fixed amount in the case of hospital treatment and consultation with a general practitioner, and this is increased annually in line with the cost of living. For dental care, patients pay 25% of the cost. For drugs, there are six categories of charge, ranging from 25% of the cost to 100%, while there is a flat-rate fee for products made up by pharmacists.

The system of control in Belgium has, however, not succeeded in holding health care expenditure constant in relation to NE over the past decade.

France

In France, as in Belgium, around 99% of people are covered by the health insurance system. There are three main national health insurance funds, the largest one (the General Scheme) covering 75% of people and being mainly for salaried workers, the other two being for agricultural workers and the self-employed. The remaining 10% or so of people are covered by around 15 smaller funds.

Since France spends more on health care in relation to NE than any other Member State, there is high pressure on both the government and the insurance funds to contain costs. All health care providers work on a contractual basis, doctors, dentists and private hospitals (which accounted for 35% of beds in 1989) being paid fees, negotiated with the insurers, for services supplied. Although public hospitals are financed by the insurance funds, their budgets have to be approved by the Ministry of Health.

Central government has considerable influence over expenditure through its control over hospitals by means of a planning exercise called the "health care map", which determines the number of beds and equipment needed at the regional level. Hospital charges, pharmacist margins and the price of drugs are also controlled, while agreements between the insurance funds and health care providers have to be ratified by government.

The finance available for public hospitals is limited by a system of global budgets introduced in 1983, under which targets for total hospital spending in France are fixed with the aim of increasing efficiency. As a result, the average length of stay has declined markedly. Waiting lists, however, have not increased since the gap between demand and supply has been filled by private hospitals. Because these charge on the basis of services provided and days spent in hospital, costs have not been contained to any significant extent.

Since 1991, the government has fixed at the beginning of each year the rate at which private hospital spending can increase. Services, however, are not controlled under the French system and their proliferation has caused expenditure to increase relative to NE.

Doctors are free to go into private practice anywhere in France and the only restrictions applied are to the number of students entering medical school, which halved between 1975 and 1989. There are no restrictions on the drugs and treatments general practitioners and specialists can prescribe and patients are free to choose their doctor. Under certain circumstances, doctors have the right to charge patients an additional charge

over and above the fee agreed with health insurers and this has pushed up prices by 20–30%.

Like in Belgium, the French system works by reimbursing patients for the charges they have paid. For drugs, patients are either fully reimbursed (30% of drugs) or have effectively to pay 30% of the cost (45% of drugs) or 60% (25%). For hospital care, there is a small fixed daily charge, while for dental care, the charge is 20–25% of the cost of treatment.

Germany

In Germany, some 92% of people are covered by the public health insurance system, which is operated by more than 1200 separate funds, organised partly on a regional basis, partly on a firm or guild basis and partly on a special group basis. All, with minor exceptions, provide identical benefits and services. All services are supplied on a contractual basis, so that the funds do not have their own hospitals or employ doctors. Doctors' and dentists' fees are negotiated by the insurance funds with regional medical associations. About half the hospitals are public and most of the rest are non-profit making. Patients have virtually free choice over their doctors, who are responsible for referring patients to hospital — there are no outpatient facilities.

Health care expenditure is relatively high and cost containment is of major concern, which has led to a number of reforms in recent years, in an attempt to limit spending.

Insurance funds are independent of government which has no formal control over health care expenditure. Cost containment is, therefore, up to the funds, though health care providers are also expected to contribute. The Federal government can only influence costs by legislative action or by moral persuasion, which complicates the matter.

For hospitals, a Financing Act establishes certain requirements for Federal funding, but does not restrict the number of hospitals or beds and leaves planning to the Länder which are rarely willing to close down hospitals. The number of hospital beds has fallen only slightly in the 1980s. The fees paid to hospitals by insurance funds are a fixed rate per day and charges are also made for the treatment provided. The effect is to lengthen stays in hospital. Moreover, since hospitals are not usually permitted to provide outpatient treatment, stays in hospital which are not really necessary often occur only so that payment can be received from insurance funds. There are also insufficient incentives to use alternatives to hospital care, so that many people stay in hospitals when nursing homes would be both more appropriate and cheaper. Hospital expenditure, for all these reasons, has tended to expand significantly — by 8% in 1991 and 10% in the first six months of 1992.

To control the costs of the general practitioner service, a special tariff has been introduced relating growth of expenditure to growth of average earnings. Fees are expressed as points relating the value of one service to others. The total amount paid to medical associations is then distributed according to these points. (The relative value of points was changed in 1987, for example, to reduce payments for diagnoses and to encourage medical treatment.)

There is little control over the number of doctors — those who can prove competence have to be admitted by medical associations. Doctors can be prevented from entering certain areas only if there is obvious oversupply (a general restriction to admit new doctors only where there is clear need was found unconstitutional by the Federal Constitutional Court in 1960). Expenditure on the general practitioner service rose by 7% in 1991 and by 10% during the first six months of 1992 — considerably more than insurance fund income — partly due to an increase in the number of doctors. Dental care is organised in a similar way, expenditure rising by 10.5% in 1991 and by 14.5% in the first six months of 1992.

There is no direct control over drug prices which are among the highest in the Community. The 1988/89 reform introduced a system of reference prices, the patient getting the drug free if the price is at or below the reference price and having to pay the extra cost if above. This puts pressure on the industry to reduce prices, but although it was planned to fix reference prices for 80% of drugs, so far they apply to only 35%. In 1991, expenditure on drugs rose by 10% and in the first six months of 1992 by 9%.

Like other Member States, Germany also has a system of cost-sharing. There is a flat-rate charge for all drugs for which as yet there is no

reference price. For dental treatment, patients pay 50% of the cost — some more, some less — but can reduce this by 15% by going for regular check-ups. There is a flat-rate daily charge for the first 14 days of hospital stay.

It is planned to introduce a system of budget control for the period 1993 to 1995, when the increase in expenditure will be kept down to the rise in income of insurance funds. For hospitals, charges will be differentiated according to the kind of treatment, and the system of Federal funding is to be changed so as to reduce the number of beds.

The system of budget control will also be applied to doctors and dentists. From 1999, new doctors and dentists will only be allowed to enter practice if there is need, though doubts persist as to whether restricting access is constitutional. Drug prices will be frozen until the end of 1993, and for the following two years all drugs without a reference price will be reduced by 5%. Charging, graduated according to the price, was introduced in 1993, and in 1994 incentives will be introduced to encourage the supply of smaller packages. The daily charge for the first 14 days in hospital will also be increased.

Luxembourg

In Luxembourg, public health insurance covers virtually everyone. The system is administered by a union of nine sickness funds, all services being reimbursed on a contractual basis. The fees for general practitioners and specialists are negotiated between the sickness funds and the association of doctors. The majority of hospitals are private. All are paid at a negotiated rate per day of care, while doctors and dentists are paid a fee for the services they provide. The sickness funds receive a grant from the government to cover certain types of cases like tuberculosis, transplants and neurological surgery. The government also covers the deficit of pensioners' sickness funds.

Public expenditure on health care was relatively high at the beginning of the 1980s (6.3% of NE), fell up to 1986 and then increased in the late 1980s (back to 6.4% of NE), as a result of a series of measures to contain costs.

Rates of health insurance contributions are fixed by a grand-ducal regulation. Services which are reimbursed or paid for by health insurance are defined by regulations determined by the union of sickness funds and approved by government. The government controls hospital construction and the installation of large equipment, paying between 50% and 80% of the cost. There is no price control on drugs.

There is a shortage of long-stay beds in hospitals and a surplus of short-stay beds — as in Germany, the system of daily rates encouraging long stays. To control costs, hospitals are required to transfer long-stay patients to nursing homes but the effectiveness of this system is limited by a lack of beds — though the government is increasing the number in geriatric homes. Increases in doctors' and dentists' fees are kept down to the rise in the cost of living.

To influence expenditure on drugs, price lists are issued to doctors containing details of reimbursement. Patients are charged 20% of the price, except for drugs for special diseases and those administered to patients in hospital, which are free of charge. There is a charge of 5% for consultation with a general practitioner and home visits, and hospital patients pay a daily charge similar to that in Germany. The charge for dental treatment is 20%, except where the patient has had yearly check-ups in the two preceding years.

Luxembourg has the same kinds of problem as most other Member States with health insurance systems. It is recognised that the system needs to adjust to new challenges such as the ageing of the population, the need to recruit nursing staff and the maintenance of a high standard of health care, which can only be achieved without adding substantially to costs by increasing the effectiveness of the system. New measures introduced in 1992 are aimed at rationalising the negotiation procedures between the sickness funds and health care providers, establishing a more centralised structure for the funds and reorganising the system of financing.

The Netherlands

Major reforms were introduced at the beginning of 1992 which can best be appreciated in

terms of the problems of the old system.

Under the old system the whole population was covered by compulsory insurance, under the Exceptional Medical Needs Act (AWBZ), for serious and long-term disability and illness. In addition, it was compulsory for about 60 % of the population — those with lower income — to be insured (ZFW). For these, general practitioners were paid on a *per capita* basis, while specialists and dentists were paid fees for treatment given, the amounts being negotiated between the insurance funds and the medical association. Other patients (about 40% of the population) paid fees for the treatment received. Overall health expenditure is high at more than 8.5% of NE.

In the 1980s, a number of measures aimed at containing costs were introduced. The budget for hospitals was cut for several years and then kept unchanged in real terms. This succeeded in holding down expenditure without increasing waiting lists. Alternatives to hospital care, in the form of nursing homes, were also developed. Limits were successfully imposed on the number of dentists and physiotherapists for some years, but were subsequently removed. Holding down costs for specialist services also proved difficult, but in 1989 fees were reduced and then held constant in subsequent years.

A number of attempts have been made to stabilise spending on drugs but without much success and this remains the fastest growing item of expenditure. Recently a scheme was introduced to limit reimbursement to the cost of the cheapest drug available for the treatment in question.

Before 1992, patients were only expected to contribute towards the cost of dental treatment and spectacles.

The reform of the Dutch system in 1992 introduced market forces in the form of competition between both providers and insurers and the decentralisation of provision. Compulsory insurance has been extended to the whole population for basic health care by integrating the services provided by ZFW into the AWBZ system. This is intended to provide 95% of health services. Each individual is free to choose which fund to be insured with, while insurers have to accept anybody and are not allowed to charge a premium for higher risk people.

All contributions are income-related, collected centrally and then distributed to the insurance funds according to the number of people insured with them and their risk status (age, sex, region where they live and status of their health). Contributions are intended to cover 82% of costs, the remaining 18% being charged directly by the insurer. The premium will tend to be lower the more the insurer succeeds in containing costs, so introducing an element of competition.

The prices and terms for health services are negotiated with the providers, the government setting only maximum prices. The person insured can obtain additional services if they pay an extra premium. Under this system, individuals, therefore, have some freedom of choice and competition is encouraged.

It is too early to determine the effects of this reform, but already the full implementation of the new insurance scheme has been delayed until January 1994, as a result of opposition to providing as much as 95% of health services under the compulsory scheme. It is also argued that to contain costs the principle of patients bearing some of the cost of treatment should be extended, individuals should have more responsibility for determining their level of insurance and income-related contributions should be reduced and nominal premiums increased.

Conclusions

In all Member States, health care expenditure has increased significantley in real terms since 1988 (though in Luxembourg and Ireland it has fallen relative to NE). In most, the main issue for policy is how to contain costs. The solution in each case is somewhat different, partly depending on the method of financing and organising health care.

Some Member States, moreover, in particular Spain, Greece and Portugal, are still expanding coverage, though in all countries almost everyone is now covered.

The natural way of containing costs in countries with tax-financed health care systems is through tight budgetary control, to limit directly the number of providers and facilities. Although this may lead to greater

efficiency, it can also result in shortages and longer waiting lists, as for example, in the UK. On the other hand, Denmark shows that local authorities with a degree of autonomy can achieve increased efficiency, despite expenditure cuts, and avoid waiting lists. In general, tight control on expenditure can encourage the development of alternatives to hospital care, as in Denmark and Ireland, but it can also lead to deficit spending, as in Italy, or to the development of ways of evading its intended effects, as in Greece.

In principle, countries with insurance-based systems do not have the option of containing costs by directly limiting expenditure. Instead, they have tried to influence expenditure through planning exercises, as in France and Belgium. In such countries it has also proved difficult to limit the number of health care providers, because of the politically sensitive nature of the issue, and in Germany, because of constitutional constraints.

Controlling drug prices is an issue in all Member States. Some, like Italy and Belgium, circulate approved lists or, like the UK and Ireland, non-approved lists. Other countries, like Portugal and Spain, impose administrative price controls, while Germany and the Netherlands set maximum — or reference — prices. In general, these attempts have had only limited success, in part because of evasive action on the part of the drugs industry (introducing new but similar products), in part because of administrative difficulties.

A growing issue in a number of Member States is whether and to what extent to introduce market forces. This is especially true of the UK and the Netherlands, countries with very different financing systems. In nearly all Member States, patients are required to bear some of the cost of treatments, mainly for drugs but, in some countries, also for services. There is a clear trend towards charges being levied on a percentage basis, which might encourage price competition among providers if the patient has free choice (and sufficient information to compare the efficacy of products or types of treatment). On the other hand, it also might lead to hardship for people on low incomes or with serious illnesses. In most cases, there are exemptions to try to prevent this.

There is, in summary, therefore, some uniformity in the problems faced across the Community and some similarity in the policies adopted to tackle them. In the countries which have introduced radically new measures in recent years, however, such as the UK and the Netherlands, it is as yet too soon properly to evaluate their effectiveness.

Chapter 8 Social protection and reconciling work with family life

The recommendation on the convergence of social protection objectives and policies sets out a number of common aims which are intended to serve as guidelines for the policies of Member States. Where the family is concerned, Member States are recommended to adapt and, if necessary, develop their social protection systems so as "to help remove obstacles to occupational activity by parents through measures to reconcile family and professional responsibilities".

It is becoming increasingly unusual for the receipt of family benefits to be subject to an explicit proviso that the mother has no permanent employment, since this is manifestly at variance with the requirement that social protection should be neutral as regards any second gainful activity a couple may have. Family benefits are being increasingly replaced by targeted benefits intended to enable a parent who so wishes to stop working temporarily to bring up a young child.

However, other, more indirect, disincentives may remain where the receipt of social benefits is means-tested. Where the income ceiling above which benefits are no longer payable at the full rate is set at a level which is reached when both parents are working, the net income gain from any second activity the couple may pursue could be very small, particularly if account is taken of the cost of caring for young children and the higher income tax on their joint earnings.

To investigate the potential importance of this, the Commission asked a number of researchers to make systematic comparisons between several systems of social protection. Six Member States were covered (Belgium, Germany, Spain, France, the Netherlands and the UK) plus Sweden and Switzerland (thanks to cooperation with the International Social Security Association). The initial results of the research are presented here.

Benefits paid to those bringing up young children

All European countries have maternity benefit schemes. However, the situation varies considerably so far as the period following maternity leave is concerned.

Belgium

In Belgium the pregnant working mother receives a maximum of 15 weeks' paid leave. To qualify for this she must have worked for at least 120 days during the previous six months (or a minimum of 400 hours of work if she is employed part time). The social security benefit amounts to 82% of the previous gross wage, without any upper limit for the first 30 days, then 75% of the same wage between the 31st day and the end of the 15th week (with a ceiling on the wage set at around $1\frac{1}{2}$ times the average industrial wage). Women in employment are protected against dismissal for the full duration of their maternity leave.

In the case of parental leave, two innovative provisions were introduced in Belgium in 1985. The first was the *career break*, in the form of paid leave, which an employee may take for various reasons, including the education of a child, provided that they are replaced in their job by someone who is unemployed. In this case, the employee on leave (whether male or female) receives from the

social security system a flat-rate benefit amounting to between 20% and 25% of the average industrial wage, depending on the status of the child for whom the career break is taken, for a period varying between one and five years. A partial career break may also be taken for a maximum of five years, in which case those concerned then receive 50% of the allowance if aged under 50 or a full allowance if aged 50 or over.

During their career break, employees still enjoy social cover (health care and unemployment benefit). For the first year (or the first three if the career break is taken to educate a child under six), the social security system pays their pension contributions; after that, contributions may be paid on a voluntary basis to maintain pension rights. Some 51 000 people took a paid career break in 1991, 86% of them women, which is 3.5% of all female employees in Belgium.

The other provision concerns the unemployed. The requirement to register as a job seeker may be waived on social or family grounds for someone who is unemployed for a period of between six months and a year (renewable once). Such a person receives a flat-rate benefit amounting to around 18% of the average industrial wage. This *exemption from the need to register as a job seeker* while continuing to receive unemployment benefit and the usual social security cover normally afforded to the unemployed is tantamount to extending to the unemployed the benefits of paid parental leave; some 41 000 benefited from the scheme in 1991, 99% of them women.

Germany

Maternity leave in Germany is for 14 weeks. Women who have belonged to a statutory sickness insurance scheme for at least 12 weeks between the 10th and the 4th month preceding the birth qualify for maternity benefit. This is in two parts: the sickness insurance fund pays a maximum sum of DM 25 per day, but if previous earnings were higher, the difference has to be made up by the employer (or failing that the state). The level of benefit is therefore the same as full pay. The contract of employment is maintained and the employee must be able to return to her post when the period of leave comes to an end.

A law providing for parental leave and a *parental education allowance* (*Erziehungsgeld*) came into force on 1 January 1986. It introduced a state-funded benefit payable to either parent giving up work, interrupting their working careers or reducing the time spent in working (to less than 19 hours a week) to care for a young child. Since 1 January 1993 this allowance has been payable up until the child is two years old.

The parental education allowance is payable for the first six months after a child has been born without any means-test. From the seventh month, the allowance is paid in full only where the income of the couple (or the lone parent) is below a certain ceiling which varies according to the number of children (90% of the average manual wage for one child, 120% for three children). The full rate of the allowance is DM 600 per month; it is not taxable and not subject to social contributions and amounts to around 22% of the average net industrial wage. It is progressively reduced where the income of the household exceeds the ceiling and is withdrawn completely for couples with one child when it reaches around 145% of the average wage.

In some Länder, the parental education allowance may be extended for six months or a year, usually on the same conditions (means-tested). Anyone receiving the allowance may at the same time apply for education leave, at the end of which they are supposed to return to work. They retain entitlement to sickness insurance and are granted three years' pension contributions for each child, on a flat-rate basis equal to 75% of the average pay of wage earners, which means that education leave does not result in any loss of rights.

In 1991, 790 000 people benefited from parental education leave, which corresponds to 95% of the births registered in Germany that year. In 99% of cases the allowance was given to the mother and the total cost to the Federal budget amounted to almost DM 6 billion.

Spain

In Spain female workers are given 16 weeks' maternity leave, provided that they have paid social security contributions for 180 days during the previous year. Where both husband and wife work, the last four weeks of maternity leave may be taken by the father. The benefit amounts to 75% of the previous wage

up to a ceiling set at more than double the average industrial wage. Contracts of employment are maintained during maternity leave.

Employees who have a permanent employment contract may take *unpaid parental leave* for up to three years. However, only the first year's leave is taken into account for the purposes of social security contributions and entitlement to retirement and invalidity pensions and unemployment benefit. Either the father or the mother may take such leave and when it is over they have a guarantee of being able to return to their job. In practice only women make use of this option and even then not very many — less than 20 000 in 1991.

France

Maternity leave in France is 16 weeks for the first and second child and 26 weeks for the third and subsequent child. To qualify, the mother must have belonged to the social security scheme for 10 months before the birth of the child and have completed a minimum of 1 200 hours' paid employment during the 12 months preceding the birth. During maternity leave, the mother receives social security benefit equivalent to 84% of her previous wage up to a ceiling around 20% higher than the average industrial wage. Contracts of employment are maintained during maternity leave.

Paid parental leave (*allocation parentale d'éducation*) was introduced in France in 1985, but only for fathers or mothers with at least three dependent children, one of whom has to be under three. To qualify for the benefit, it is necessary to have worked and paid social security contributions for at least two years during the ten years preceding the birth; it is also necessary to cease, or already to have ceased, working.

The parental education allowance may be paid up until the child reaches the age of three, the sum received amounting to between 35% and 40% of the average net industrial wage. From the third year of leave, the beneficiary may resume work part-time and receive 50% of the allowance. Almost 175 000 people benefited from this allowance in 1991, 97% of them women.

Where the beneficiaries are female workers in employment at the time of the birth, they may also apply to their firm for parental leave over the same period. However, a firm with less than 100 employees can refuse to grant the leave where it considers such action might be harmful to its operations. Parental leave can be granted to the father or the mother from the first child, provided they have been working for at least one year in the firm before the birth. Those on leave have a guarantee of being able to return to their jobs when the leave comes to end. In 1991, almost 100 000 employees (99% of them women) took leave of this kind.

The Netherlands

Pregnant women are entitled to 16 weeks' maternity leave in the Netherlands. There is no requirement regarding the length of time spent working in their present firm; the only condition for payment of benefit under the social security system is that the woman was not already pregnant when she joined the insurance scheme. If she was, it becomes the employer's responsibility to pay the maternity allowance.

Receipt of the benefit means that full pay is assured up to a ceiling set at twice the average industrial wage in the Netherlands. Contracts of employment are not suspended and entitlement to benefit (unemployment, invalidity and retirement) is not affected by maternity leave.

There is, on the other hand, no provision for paid parental leave under the statutory social security system, although such leave may be granted by some companies or organisations. The minimum income (*Sociale Bijstand*) granted to anyone from social assistance can be paid to mothers whose incomes are below the minimum subsistence level and, in practice, they are not obliged to seek a job when they are bringing up a child under 12. This provision exempting mothers from the requirement to seek employment is, however, increasingly under challenge and a planned reform to restrict or discontinue the exemption is at the time of writing under discussion in Parliament.

Fathers and mothers who are full-time employees, and who have worked for at least one year in their present company, are entitled to take partial unpaid leave, ie to apply to work only 20 hours a week when they are bringing up a child under four.

The employer is required to agree to this reduction in working hours for a period of six months.

UK

Maternity leave arrangements in the UK are more complicated than in other Member States. Pregnant women who have worked for more than two years (at least 16 hours a week) or five years (at least eight hours a week) may claim statutory maternity benefit, which entitles them to stop work during the 11 weeks preceding the birth and up to 29 weeks after. They receive an allowance (from the employer who is then reimbursed) for only 18 weeks, however; for six weeks the allowance amounts to 90% of the previous wage, for the remaining 12 weeks it is paid at a flat-rate (some 20% of the average industrial wage).

Where a mother to be does not satisfy the conditions for statutory maternity benefit, she can claim a *maternity allowance* for 18 weeks provided that she has worked for six months during the year ending 14 weeks after the birth. The amount of this flat-rate allowance is somewhat less than 20% of the average industrial wage. In such cases, however, there is no formal entitlement for the woman to be able to return to her job after the maternity leave.

There are no statutory provisions on parental leave (paid or unpaid) in the UK. While there are some contractual arrangements in certain companies, they are not widespread. A survey carried out in 1989 among 1800 companies in industry and commerce revealed that only 11% provided extended maternity leave beyond the statutory minimum.

Sweden

The arrangements for maternity and parental leave in Sweden are highly innovative and are interesting to compare with provisions in the Community.

No distinction is made between maternity leave and parental leave. Parents of a new-born child are entitled to 15 months' paid leave which can be taken on a full-time (stopping work completely) or part-time (reducing hours of work) basis until the child reaches the age of eight and which can be shared between the two parents. The mother to be (and she alone) can start this leave up to two months before the birth.

In addition, parents may take unpaid leave with a guarantee of being able to return to their jobs up to the time the child reaches the age of 18 months. Accordingly, if the parents so wish, they can take first the unpaid leave and then the 15 months' paid leave, full or part-time.

For the first 12 months of paid parental leave, benefit is set at 90% of the previous salary. For the remaining three months, benefit is paid at a flat-rate (roughly 15% of the average industrial wage). All payments are funded entirely by the social security system. In 1991, around 437 000 parents received at least one day of paid parental leave (as compared with 123 400 births in Sweden that year), only 74% of them women. Parental leave for fathers is, therefore, much more extensive in Sweden than in the Community.

Family assistance and household income

Some financial assistance for families is income-dependent, being paid only to households with an income below a certain ceiling and/or being subject to means-testing. It is of interest to examine how these ceilings do or do not vary according to whether there are one or two wage earners in the household.

Belgium

In Belgium, the amount of family benefits is determined exclusively by the number of children and not by income. Replacement benefits, on the other hand (unemployment benefit, invalidity allowances, retirement pensions) are adjusted according to the status of the family and the composition of the household of the person entitled to them. Those with direct entitlement receive a higher rate if they have an adult dependent — retirement pension being calculated as 60% of the reference wage for a single person, but 75% if they have a dependent. The difference is

greater for invalidity pensions — 65% where there are dependents, 45% for a single person and only 40% where the person concerned lives with a spouse with their own source of income.

Where unemployment benefits are concerned, the "head of household" is entitled to go on receiving the most favourable rate (60% of previous earnings) for an unlimited period, while a single person receives no more than 42% after one year. Where another member of the household is in gainful employment, the unemployed person receives only 55% the first year, 35% for the following six months and subsequently a flat-rate. Where the couple has a second gainful activity the benefits are, therefore, reduced.

Germany

Family allowances in Germany, which increase with the number of children (DM 70 for the first child, DM 130 for the second, DM 220 for the third and DM 240 for each subsequent child) are reduced (to DM 70 for the second child and DM 140 for each subsequent child) where the annual net income of husband and wife exceeds a ceiling fixed at DM 35 800 for a family with two children — which is around 10% above the average net industrial wage in Germany. If a couple has a second gainful activity, therefore, family benefits are usually reduced.

In addition, in calculating income tax liability, an allowance is deducted from gross income for dependent children (DM 3024 per child in 1991, DM 4104 in 1993). Where the income is too low for full advantage to be taken of the allowance, the family receives a supplement for each dependent child up to a maximum of DM 575 — which is a kind of negative income tax.

As well as social assistance which is directly dependent on household income, there is also a system of means-tested housing benefit. However, where two household members work, a fairly generous flat-rate allowance for working expenses (DM 2004) may be deducted twice from the household income, so in many cases the adverse effect of the second wage on the amount of benefits received is reduced significantly.

Spain

All non-contributory benefits, including family allowances, are means-tested in Spain. The ceiling on income to qualify, however, is relatively low — around 63% of the average industrial wage for the first child, 75% for the second and 86% for the third. A family with two children with both husband and wife working and receiving the minimum wage would, therefore, have earnings which exceed the ceiling and would not qualify for family allowances.

France

Over half of benefits paid to families in France are means-tested. Although family allowances proper depend only on the number and the age of dependent children, other benefits (such as infant allowance granted from the third month to the child's third birthday, family supplement for families with three children or more and without a child under 3 and housing benefit) are progressively reduced where the income of the household exceeds a certain ceiling.

The level of this ceiling varies according to the number of children. For one-income households it is roughly 116% of the average industrial wage in France where the family has one child, 135% for two children, 165% for three children, and so on. However, it should be noted that the ceiling is higher where the couple earn two salaries: around 150% of the average manual wage for one child, around 175% for two children and 215% for three children. An "average" household with both husband and wife earning may claim means-tested family benefits when they have at least two children.

Netherlands

Family benefits in the Netherlands are not means-tested. Social assistance (*Bijstandswet* and *Toeslagenwet*), by contrast, is related directly to household income. Under the *Toeslagenwet*, in particular, supplementary assistance is granted to those in receipt of social benefit (for unemployment, sickness or invalidity) where the income of the household is below the minimum subsistence level, defined in relation to the minimum wage (70% of the minimum wage for a single person

and 100% for a couple). The fact that the couple may have one or two wages is irrelevant. Similarly, housing benefit is not means-tested (the ceiling is set at around the average industrial wage), no account being taken of the number of wage earners in the household.

UK

As in the Netherlands, allowances payable to families take no account in the UK of whether a couple consists of one or two wage earners. Family benefits depend only on the number of children. Income support for those not in employment or working less than 16 hours a week is means-tested and depends solely on household income. The same applies to allowances for housing expenses (*Housing Benefit* and *Council Tax Benefit*).

A different principle, however, governs *Family Credit*, which is payable to families with at least one dependent child and an income below a given ceiling, which varies according to the number and age of children where one at least of the parents works at least 16 hours a week (the minimum was 24 hours a week up until 1992). The ceiling on income below which a family qualifies for family credit is around 90% of the average industrial wage for a family with two children between 8 and 12 (net income after tax and social contributions); an estimated 495 000 families received family credit in 1993.

To prevent such families from falling into a poverty trap, family credit is reduced to only 70% of the difference where the income exceeds the ceiling set for the maximum payment. Thus, for an increase in income of £10, family credit is reduced by £7 and so the effect is to raise family income by £3. The ceiling is not adjusted, however, where the couple has a second wage.

Sweden

The only two cash benefits paid to families in Sweden are family allowances and housing benefit. The former is linked solely to the number of children. The latter depends on the total family income, housing costs and the number of children; it is paid at the full rate to families whose income is below around 50% of the average industrial wage and is progressively reduced as the income of the household increases. It is not adjusted according to whether a couple is earning more than one wage.

The net gain resulting from a second wage

The study conducted in the six Member States plus Sweden sought to measure the effect of a second wage on the net disposable income of a married couple, taking into account the changes in income tax resulting from the second wage, any change in social benefits received (family and housing benefits) and any cost of caring for young children.

The calculations refer to 1991 and were carried out for different family setups. Two cases were examined: a household in which the man's earnings are the same as the average industrial wage in the country concerned and the woman has no paid employment or works full time for the average female industrial wage, and a household in which the man's earnings are equal to three quarters of the average industrial wage and the women's earnings, where she works full time, reflect the difference between male and female wages in the bottom quartile of the wage distribution.

The results can be expressed in the form of the elasticity of disposable income in relation to earnings, as follows: if the total gross earnings received by a household increase by 100%, how much does net disposable income rise? If it increases by only 50%, the elasticity of disposable income is 0.5; if it increases by 150%, the elasticity is 1.5, and so on.

Disposable income was calculated in each case after deduction of housing expenses, so as to include in household income any housing benefit received. Households are assumed to rent accommodation in a large city suited to the size of the family concerned. The fact that housing expenses are the same whether or not the woman is in paid employment means that, in the case of couples without children, the elasticity of disposable income in relation to earnings is equal to or higher than 1 (Table 24). The elasticity is greater

Table 24 Elasticity of net disposable income to gross earnings[1]

	Couple without children		Family with two children of 6 and 8		Family with one child of 18 months		Family with three young children between 1 and 8	
	Low pay	Average pay	Low pay	Average pay	Low pay	Average pay	Low pay	Average pay
Belgium	1.07	0.99	0.99	0.93	0.73	0.71	0.61	0.57
Germany	1.07	0.99	0.78	0.93	0.52	0.58	0.49	0.72
Spain	1.19	1.03	2.12	1.40	0.50	0.93	0.11	0.64
France	1.41	1.56	0.98	1.01	0.81	0.93	0.12	0.25
Netherlands	1.10	1.05	0.99	0.96	0.56	0.52	0.53	0.48
UK	1.31	1.23	0.60	0.69	0.54	0.64	-0.14	-0.11
Sweden	0.91	1.40	0.67	0.88	0.80	1.01	0.46	1.58

[1] *Percentage change in net disposable income divided by the percentage change in gross earnings when comparing a couple where the wife has no paid activity with one where the wife works full-time.*

the lower the tax burden (income tax and local taxes) or where taxes are only slightly progressive.

Where the family includes two school-age children (6 and 8) and the couple has no costs of child care, the elasticity remains close to 1. In some instances, it is higher than in the previous case on account of the greater burden of expenditure on housing. The main point is, however, that as soon as children are old enough to go to school, the increased earnings in the case of the couple having a second paid activity result in an almost proportional increase in disposable income after payment of social contributions and taxes and receipt of social benefits.

The net gain resulting from a second paid activity is lower, however, where the family includes a young child: on the one hand, because the second activity gives rise to expenditure on child care (which, it is true, may be covered in part by the social security system or deductions from taxable income) and on the other, because in some cases it results in the withdrawal of certain benefits (notably, housing benefit).

The same phenomenon is more marked in families with three young children (Table 24), but this is hardly surprising, at least in countries which have tried to encourage parental leave when children are young.

Social benefits for families should be organised in such a way as to reconcile two objectives: helping the most disadvantaged families and/or those where the cost of children is heaviest, on the one hand, and removing the barriers to the pursuit of a working career by both parents, on the other. To attain the latter objective, steps must be taken, in particular, to avoid any long-term subsidies for families where one of the couple wishes to pursue a paid activity.

It is for this reason that family benefits are increasingly tending to compensate for the break in working by one of the parents only during the first year, or the first two or three years, after the child has been born — in other words, the period when costs of child care are highest and children most need their parents. Paid parental leave for fathers or mothers with young children, as in Germany, Sweden and France (for families with three children only) would seem, from this perspective, to be meeting a real need, judging by the success it is having. However, it is also the case that having a guarantee of being able to return to work plays a decisive role. Indeed, many prefer to retain their job, even if it provides them temporarily with only a small net gain in income, for fear of not

finding employment again after a break of a few years.

A further problem which arises for systems of social protection in this area is the setting of income ceilings to qualify for benefit. All Member States, with the exception of Spain, pay family allowances to all families, although Germany and Greece reduce the amount where family income exceeds a certain sum. Where other kinds of family benefits exist, however, they are usually means-tested. It is important then to avoid the poverty trap, where any gain in income from a second activity is cancelled out by a corresponding reduction in benefits received. This pitfall can be avoided in two different ways: by only partly reducing benefits when household income increases (as in the case of family credit in the UK) or by introducing a specific, higher income ceiling if two wages are coming into the household (as in the case of means-tested benefits in France). In most Member States, however, it would seem that no special provision has been introduced to deal with this problem.

Chapter 9 The impact of social and economic change on systems of social protection

Demographic and occupational changes

Demographic, social and economic changes pose many challenges for the social protection systems of Member States and necessitate a process of common institutional adaptation. These changes are serving to undermine four basic premises on which the traditional welfare state was based: an equitable balance between generations; stable marriages and family unity; full-time, continuous employment; and a limited degree of conflict between professional and family life. These are examined in turn below. (Graphs 34–41 illustrate the social and economic changes which are taking place.)

Inter-generational balance

The first premise is being rapidly eroded as the average age of the population increases as a result of declining birth rates and longer life expectancy. This process has already had a significant impact on health and pension expenditure in all Member States and is projected to have a much greater effect on social spending in the coming decades. It is set to place an increasing financial burden on the economically active members of society who will have to provide the additional resources to fund the expansion of expenditure. Such a prospect is likely to raise new issues of intergenerational equity, leading not only to financial problems but also to possible social and political tensions.

The Community Recommendation acknowledges these problems and invites Member States to adapt their social protection systems, especially pension schemes, to the changing demographic environment and to maintain a reasonable balance between the interests of those in work and those in retirement. A serious debate on the potential need to redefine the basis for a number of benefits and the age threshold for access to them — pensions, in particular — is underway in all countries and, in some, changes in this direction have already been made.

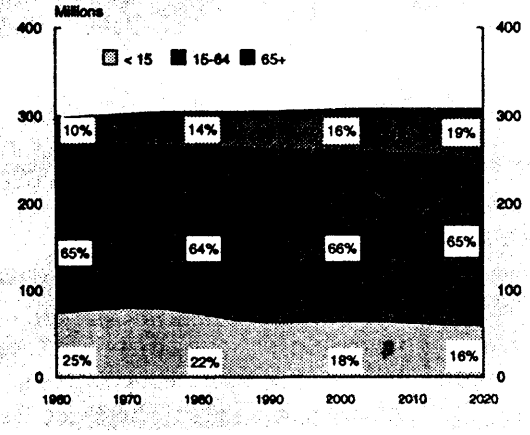
As well as concerns about finance and intergenerational equity, the ageing of the population is also raising other, more traditional questions of adequacy and effectiveness. The elderly — women especially — are already very exposed to risks of social exclusion because of, for example, lack of income, isolation, physical impairment and chronic illness. Existing programmes are often unable to provide protection against these contingencies, while there are declining numbers of women who are free to provide voluntary, non-public forms of care. A balance has to be struck between the need for cost containment and for financial equity between generations, on the one hand, and the need to secure the living standards and social integration of a growing number of elderly, on the other.

Family stability

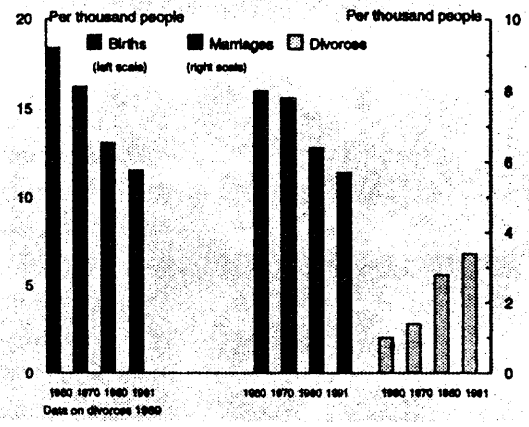
The steep increase in divorce, separation, cohabitation and illegitimate births is, in turn, rapidly

Indicators of social and economic change

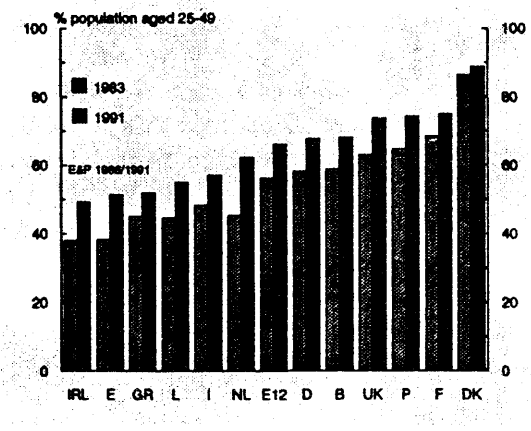
34 Actual and projected population in the Community, 1960-2020



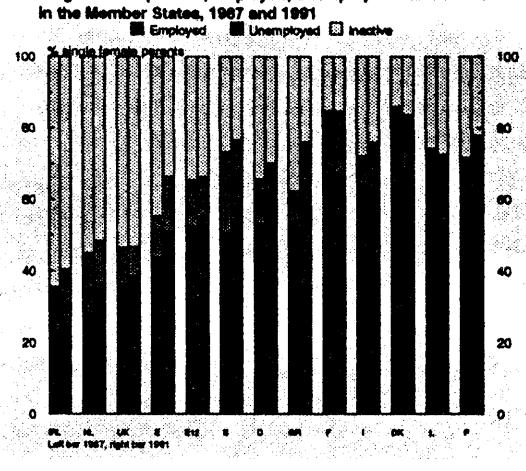
35 Births, marriages, divorces per thousand people in the Community, 1960, 1970, 1980 and 1991



36 Activity rates of women aged 25-49 in the Member States, 1983 and 1991



37 Single female parents, employed, unemployed and inactive in the Member States, 1987 and 1991



eroding the second premise of the traditional welfare state — that marriages are generally stable and families unified. There are two main implications for social protection systems. In the first place, a weakening of the family unit means a greater risk of social exclusion, especially as regards the elderly, single mothers and their children and young unemployed. The number of single-parent families has been increasingly very rapidly in the Community.

The second implication concerns the thorny question of "individual" as opposed to "derived" entitlement to social protection. As is well known, traditional social security schemes include a wide range of "derived" entitlements, linked to the contributions record and employment status of the spouse (normally the husband) or other person on whom the claimant is assumed to be dependent. The demise of the traditional family is gradually eroding this assumption. Cohabitation, separation and divorce, re-marriage, illegitimate births, and so on, all present difficult problems for the notion of "derived entitlements" in the sense that, in the case of "atypical" relationships, the breakup of long-term ones or the start of new ones, it is no longer clear who is entitled to what and on what basis.

It is with regard to these problems that the Recommendation stresses the fact that "social protection systems must endeavour to adapt to the development of behaviour and of family structures where this gives rise to the emergence of new social protection needs, related in particular to changes on the labour market and demographic changes".

Some Member States have already made some first moves in this direction, modifying the regulations applying to a number of benefits (eg widow and family benefits) or splitting entitlement to benefits in cases of divorce. A more thorough review of the whole range of derived entitlements seems necessary, however, in order to take account of the new patterns of social relationship. Nevertheless, it is as well to proceed slowly in shifting from derived to fully individual entitlements in order not to avoid worsening the position of women. In practice, there remains a very unequal distribution between men and women of protected, paid work, on the one hand, and unprotected, unpaid work, on the other. The latter type of work is still carried out predominantly by women, who would, therefore, find it difficult to gain individual entitlement to generous benefits.

Stability of employment

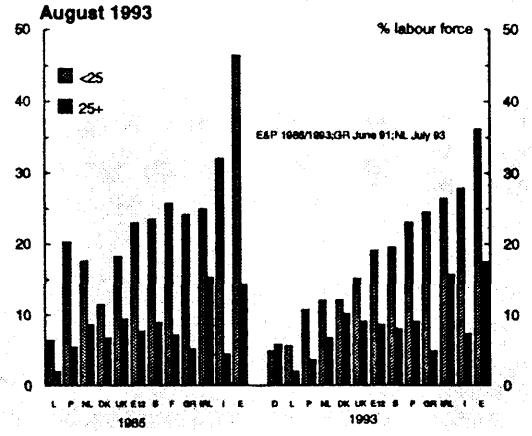
The third premise of the traditional welfare state is a stable pattern of employment typical of a growing industrial economy. The slowdown in economic growth and the emergence of a post-industrial labour market have significantly reduced the pool of stable jobs, characterised by the relative continuity of employment, and have led to the development of more disorderly employment patterns involving frequent changes in job, alternate spells of work and unemployment (possibly prolonged at times), "atypical" (eg part-time or intermittent) as opposed to "typical" work, and so on.

Existing social protection systems, which tend to penalise career interruptions and, more generally, those who work in atypical jobs, have great difficulty in coping with these changes. A great many people in new forms of employment or who are unemployed, therefore, face the risk of not being adequately protected or, indeed, joining the ranks of the so-called "new poor".

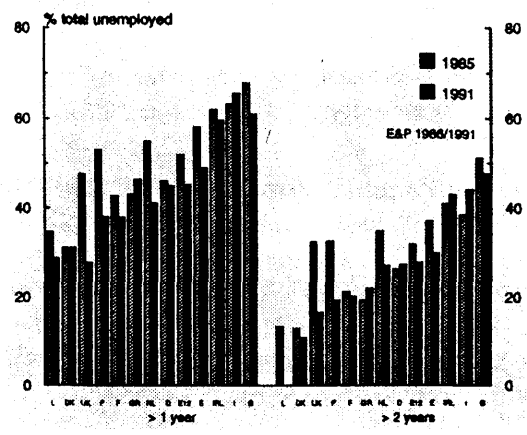
This, then, is another major reason for institutional adaptation. The Recommendation invites all Member States to adapt their systems in the light of occupational changes and specifically mentions the objective of modifying the method of acquiring pension rights, so as "to reduce... the penalty for those workers who have gaps in their careers as a result of periods of illness, invalidity or long term unemployment and for those who gave up work temporarily to bring up their children...". Specific links will need to be developed between social protection systems and the new forms of employment and the greater likelihood of unemployment, which recognise the difficulties of European labour markets in providing stable and uninterrupted employment opportunities to an expanding workforce, especially to its weaker members.

Indicators of social and economic change

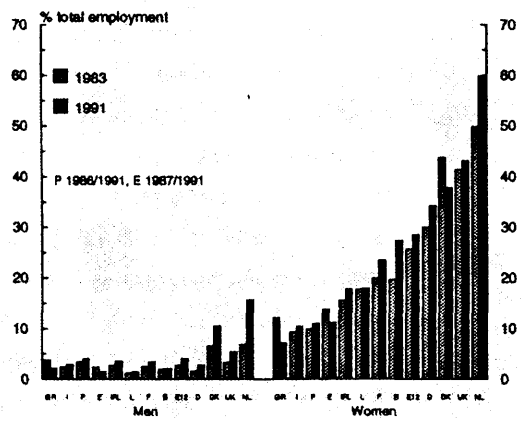
38 Unemployment rates of men and women aged under 25 and over 25 in the Member States, 1985 and August 1993



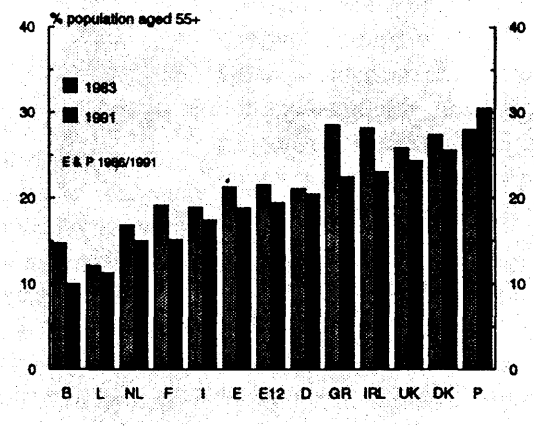
39 Long-term and very long-term unemployment (>1 year, >2 years) in the Member States, 1985 and 1991



40 Part-time employment of men and women in the Member States, 1983 and 1991



41 Activity rates of older people (55+) in the Member States, 1983 and 1991



Reconciling employment with family responsibilities

It is women much more than men who tend to follow an atypical working career. The fourth premise underlying the traditional welfare state, however, was that women were essentially economically inactive and primarily involved in unpaid family work. This enabled a harmonious relationship to exist between production, reproduction and social protection, with men in paid employment earning entitlements to social protection and women working in the home having derived entitlements to protection. The increasing participation of women in the labour market has disrupted this relationship giving rise to growing tensions between the professional, family and welfare spheres. Institutional maladjustment in this respect may have far-reaching effects: it not only tends to place a heavy burden on women (who are expected to work outside the home as well as inside) while limiting their entitlement to welfare benefits, but may also reduce their inclination to have children, so contributing to the decline in fertility and population ageing, with all the above-mentioned problems.

Unprotected and unpaid work in the home has come to be a new social risk in contemporary European societies, especially for single income families, often resulting in situations of chronic need. The Recommendation directly addresses these problems, by inviting all Member States "to remove obstacles to occupational activity by parents through measures allowing the reconciliation of family and professional responsibilities". Once again, adaptation of social protection systems seems particularly urgent in this area.

Although their welfare systems are based on common premises and though the challenges faced are much the same, Member States are responding to problems in different ways, reflecting differences in institutional regulations. The need for institutional change offers a unique opportunity to reorient social protection systems so that they develop — in the words of the Recommendation — "in harmony with each other and in accordance with the overall aims of the Community". The starting point for this search for new policies must clearly be a recognition of existing variations and the reasons why such differences exist.

Institutional variations in atypical cases: pension entitlements

The degree of diversity of the various national systems in relation to new problems can be illustrated by considering a number of selected cases which are atypical with respect to the traditional premises on which social protection systems are based but

Details of calculation of benefits for atypical cases

The cases presented in this chapter aim at representing situations emerging out of new socio-demographic and occupational developments. These situations are "atypical" with respect to standard social protection patterns and are likely to reveal gaps and inadequacies in the current institutional regulations in the various countries. Each case is defined by particular demographic, occupational and institutional characteristics.

The benefit entitlements accruing to each "atypical" person are calculated for the period July–December 1992 in net terms (ie after social security contributions where applicable and income tax less allowable deductions).

The resulting benefits are expressed as a percentage of the net full benefit accruing for the same period to a manual worker in industry with an unbroken record of employment at average earnings over as many years as are required by national regulations in order to be entitled to a full benefit.

For some of the cases, more than one outcome is possible, depending on the specific choices made by the atypical person (ie payment of voluntary contributions and the like). For these cases, a "least favourable" and a "most favourable" position is calculated.

which are becoming increasingly frequent. These cover a necessarily limited, but representative, range of new problems, in particular: poverty among older women; career interruptions because of long-term illness, unemployment and the need to care for children; marriage breakups and single-parent families; and part-time working. The impact of these circumstances is examined in terms of the effect in each Member State on pension entitlements, pensions being the main benefit in contemporary welfare systems. In each case, the pension entitlement is expressed in net monthly value terms (the amount hypothetically received in the month of July 1992), as a percentage of net full pension in order to assess the loss which results because individual circumstances differ from the norm (for precise definitions, see Box p. 123).

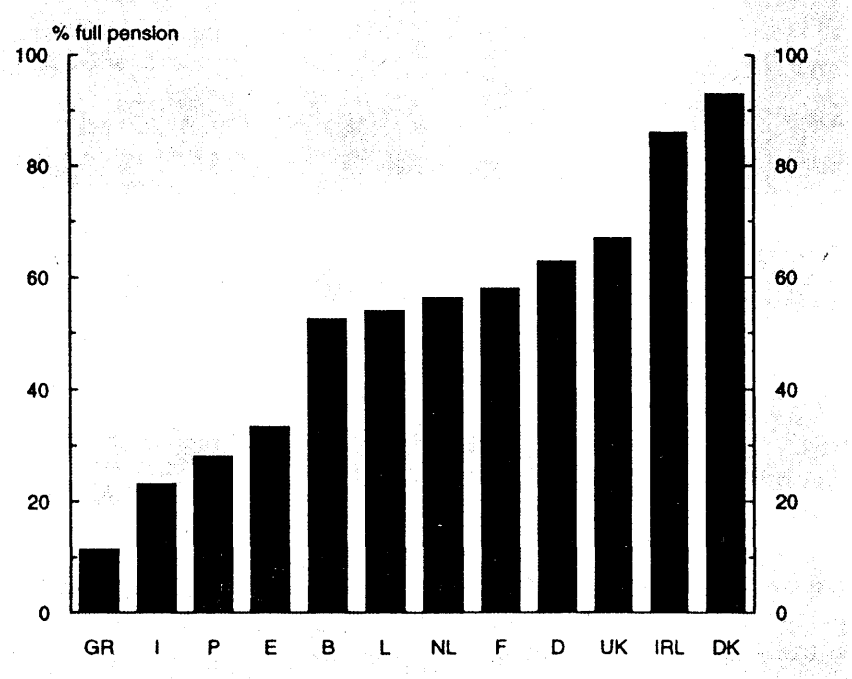
Case 1: Poverty among older people

A single person aged 70, who has never been married, with no dependents, with no significant contributions record, no derived entitlement to a widow's pension and negligible independent means of support (ie below whatever income threshold may apply for means-tested benefits).

Although there is some measure of protection in all countries for this case, either through national pension insurance or through means-tested assistance, the degree of protection varies considerably. In Denmark, the scale of support is high in terms of the full pension (93%). In the UK and, especially, in Ireland, support is also relatively high in terms of the full pension (67% and 86%, respectively), but is modest in terms of average earnings (31% and 35%, respectively), reflecting the low level of basic pension in relation to earnings.

In the other Northern countries, the degree of support is significantly lower than the full pension (less than 60%, except in Germany), but relatively generous in relation to average earnings (ranging from 39% in Germany to 49% in the Netherlands). In the Southern Member States, the degree of protection is very low (33% of the full pension in Spain, 28% in Portugal, 23% in Italy and 11% in Greece) (Graph 42).

42 Case 1



Case 2: Career interruption through illness

A single industrial worker on average earnings who has been in regular employment for the full period required to acquire entitlement to a full pension, except for a single 5-year spell of illness in the middle of their career.

Long spells of illness in all but a few cases do not affect entitlement to full pension benefits. In most countries, there is no loss of pension. The only countries in which loss is significant, and then not in all cases, are Portugal,

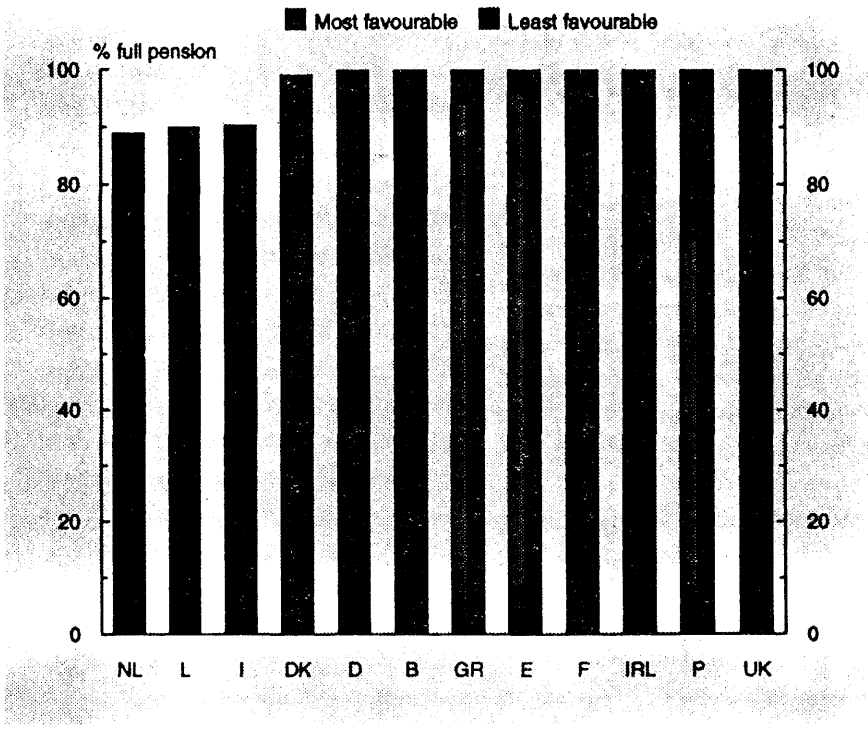
Italy, Spain and Greece. In Portugal, a number of people who fall into this category, receive only 70% of the full pension, while in Italy, Spain and Greece, they receive, in the least favourable cases, over 90% of the full pensions (91% in Italy, 94% in Spain and in Greece, to be precise).

Case 3: Career interruption through unemployment

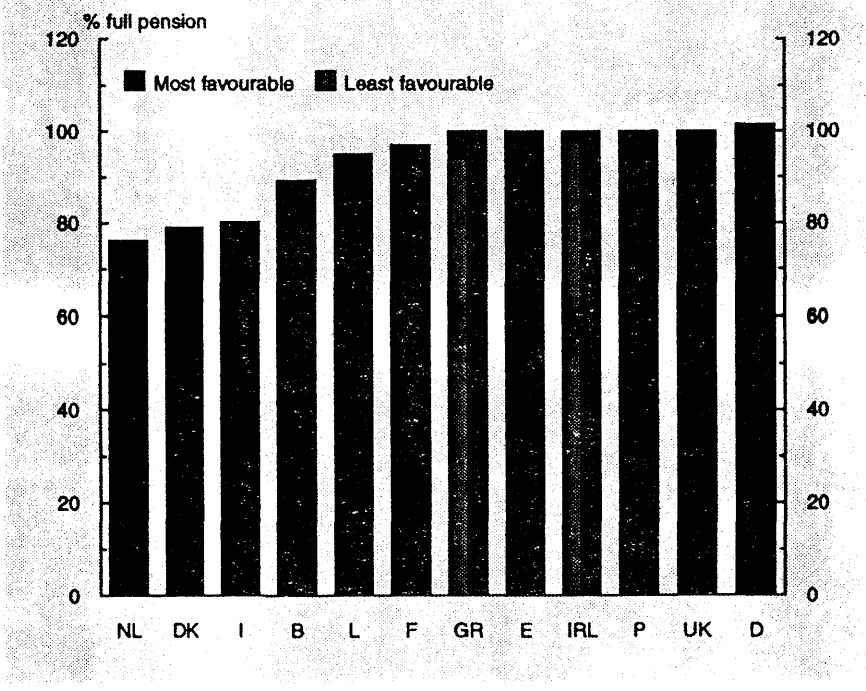
As above, but with a single 5-year spell of unemployment in the middle of their career.

Long spells of unemployment make a slightly greater difference than long spells of illness in a few countries, where they are regarded as being less "deserving" to be credited towards the entitlement to full pension benefits. In Luxembourg and the Netherlands, the loss of pension entitlement amounts to around 10% of full pension. They are more significant, but only occur in certain circumstances (least favourable or extreme cases) in Greece, Spain and Portugal. In Portugal, Greece, Spain and Italy, the loss is similar to that suffered from a spell of illness. In the other countries, a person's entitlement is not affected by a prolonged period of unemployment (Graph 43).

43 Case 3



44 Case 4

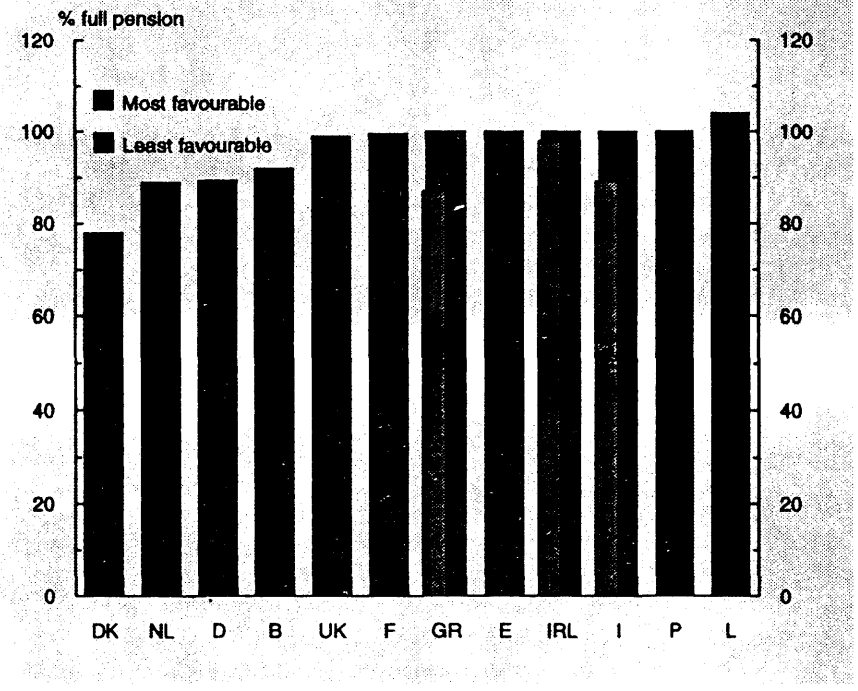


Case 4: Career interruption because of child care responsibilities

A full-time manual industrial worker on average earnings, married to an average industrial wage earner in regular employment, who was in regular employment between 16 and 25, at home caring for two children between 26 and 35 and in regular employment from 36 to retirement age.

In many Member States, career breaks due to bringing up children affect entitlement to full pension benefits. The loss is greatest in the Netherlands (24%), followed closely by Denmark and Italy (20–21%). In Belgium, the loss is just over 10%, while in Greece (in certain circumstances), Luxembourg, France and Ireland (without voluntary contributions being paid), it is between 2% and 6%. The loss in each case results from the combined effect of uncredited years during child care and/or the failure to satisfy long contributions requirements to gain entitlement to a full pension. In most countries, it is possible to make voluntary contributions when not working, but these are normally relatively high and need to be paid at a time when family resources are already strained because of children. In the UK, Portugal, Spain, Greece and Ireland (with voluntary contributions), however, spells of inactivity to bring up children do not affect pension entitlements (Graph 44).

45 Case 5



Case 5: Career interruption due to caring for a disabled dependent

A manual industrial full-time worker on average earnings in regular employment between 16 and 40, at home to care for a disabled parent between 41 and 45 and then in regular employment from 46 to retirement age.

The loss of benefit is significant in a number of countries, most notably in Denmark (22%), though also in Greece (in certain circumstances), the Netherlands, Italy (in certain circumstances) and Germany (up to January 1992, from which date periods of caring for dependents are credited towards pension entitlement), where the loss was over 10%, and in Belgium where it was only slightly less. In the UK, Ireland and France, the loss is negligible, while there is no loss at all in Portugal, Spain and Luxembourg. In these three countries, however, the fact that there is no loss is due to the long period of contributions paid by the person in the example rather than to the crediting of periods of care (Graph 45).

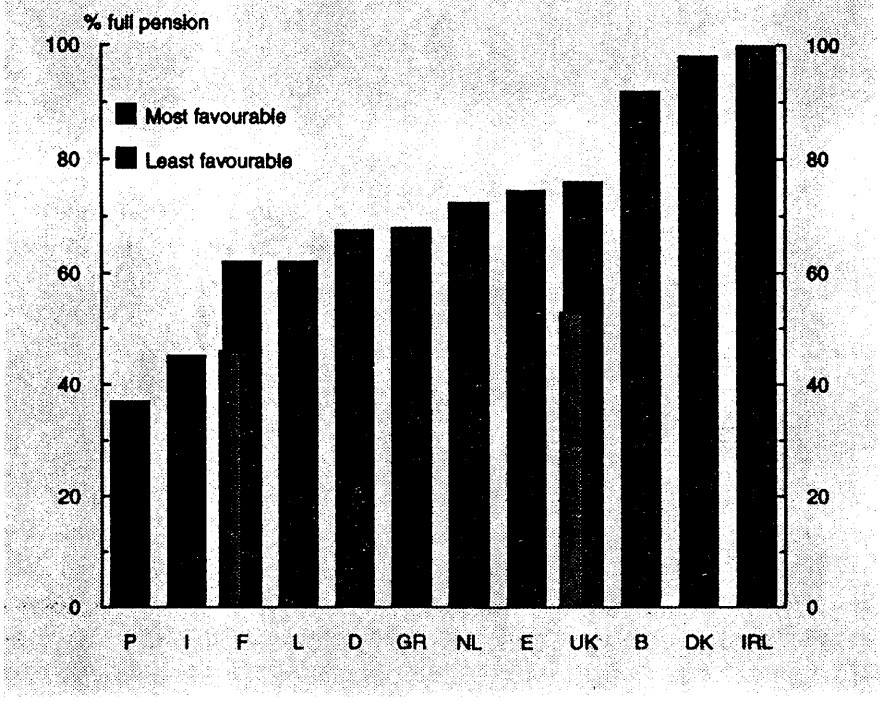
Case 6: Marriage break-up

A woman at retirement age, who was at home married to a manual industrial worker on average earnings between 20 and 45, divorced at 45 and then in regular

full-time employment in the industrial sector on average earnings to retirement age.

Except for Ireland, where there is no loss, and Denmark, where the loss is only 2%, there is a significant loss of benefit in all countries. The loss is due to the fact that contributions are not paid or credited during the period when the woman was married and not working. The loss of benefit is highest in Portugal (over 60%) and Italy (55%) and lowest in Belgium (8%), where women receive a notional pension entitlement during the years of marriage (Graph 46).

46 Case 6

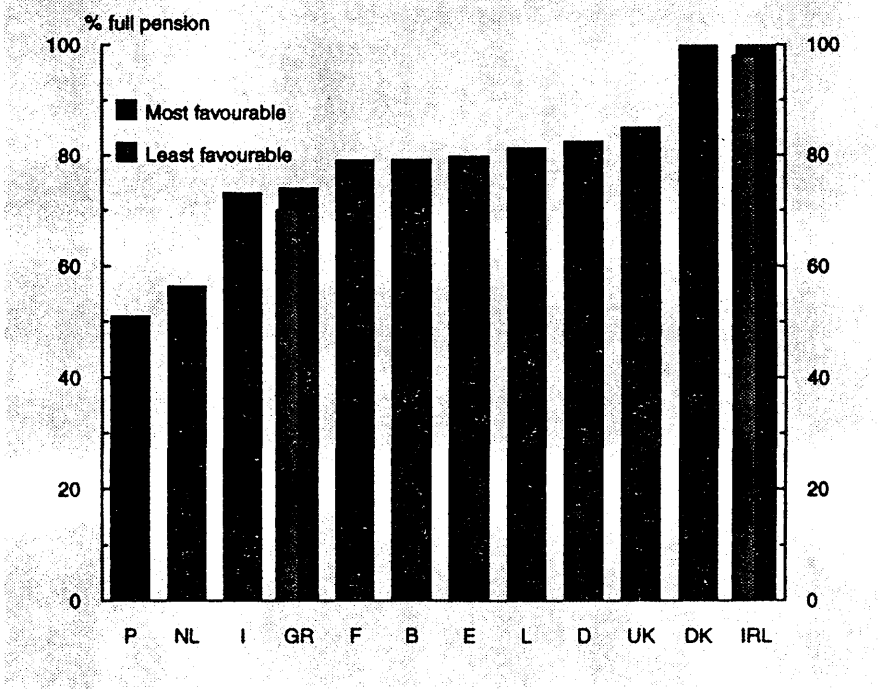


Case 7: A single parent

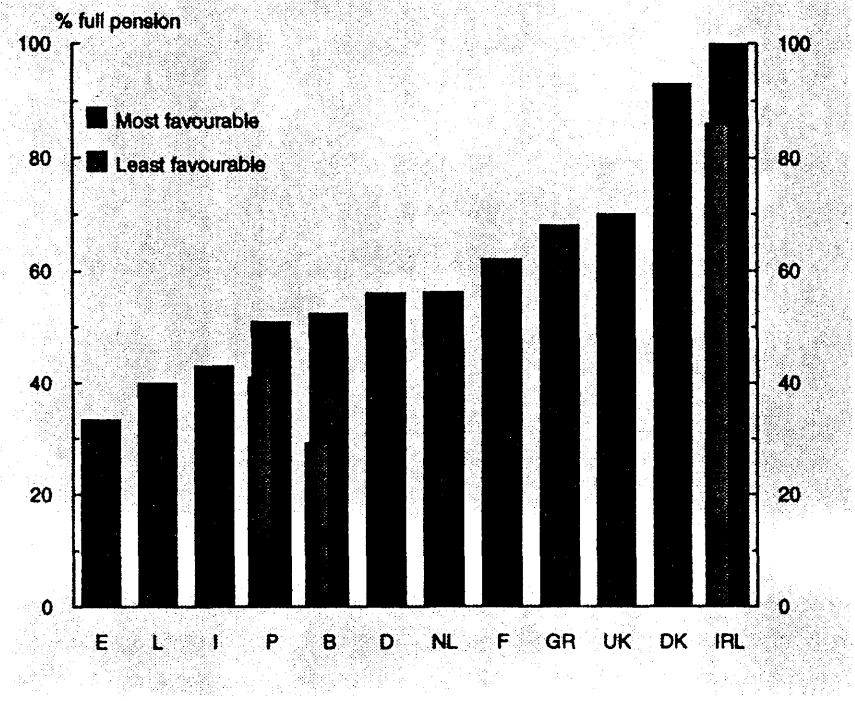
A single parent at retirement age with no dependents, who was in full-time manual industrial work at 75% average earnings between 18 and 28, at home to bring up a child between 29 and 33 and then in full-time employment at 75% average earnings from 34 to retirement age.

Only in Denmark and Ireland is there entitlement to full pension — though in Ireland, the case specified is very untypical since women tend to spend much longer periods at home following childbirth (often 10 to 15 years) and often do not qualify for a pension at all. The loss of benefit is relatively small (less than 20%) in the UK, Germany and Luxembourg (because of the credit given for periods of child care). In the other countries, the loss of benefit is more substantial, especially in the Netherlands and Portugal (where it is 40–50%). (A large

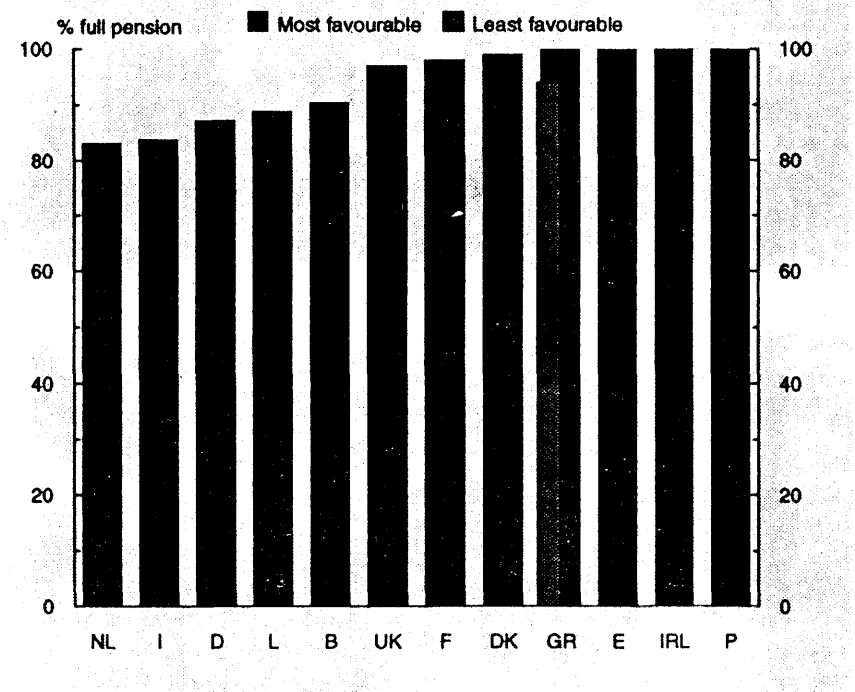
47 Case 7



48 Case 8



49 Case 9



part of the loss in pension in countries with an earnings-related scheme, it should be noted, stems from the assumption that the person in the example is on only 75% of average earnings.) (Graph 47)

Case 8: Marriage break-up with a disabled child

A female manual industrial worker married at 20 to a manual industrial worker on average earnings and employed on 75% average earnings between 16 and 32, divorced at 33 and left with a newborn disabled child which she cares for full-time.

Once again, only in Ireland and Denmark is the loss of benefit negligible. The loss is between 30 and 40% in the UK, France and Greece, while it is around 50% or more in all the other countries. Although Germany is the only country where it is possible to split contributions earned during marriage prior to the divorce, this does not seem to benefit the woman in the example relative to other countries, largely because of her being in work for too short a time (Graph 48).

Case 9: Part-time working

A manual industrial worker on average earnings in full-time regular employment between 16 and 28, in half-time regular employment at half average earnings between 29

and 43 and then in full-time regular employment until retirement age.

In most countries a spell of part-time work in the middle of a working career does not seem adversely to affect pension entitlement other than marginally. However, there is a significant loss of pension — 10% or more — in Belgium, Germany, Italy, Luxembourg and the Netherlands, due to the fact that in these countries the pension entitlement is earnings-related and is, therefore, reduced by a period of work on only half average earnings (Graph 49).

Entitlement to health care

A further question to be examined is the effect of atypical circumstances on a person's entitlement to health care in the different Member States. In fact, for virtually all the cases discussed above, health care entitlement is not affected by individual circumstances. In all countries, the means are in place to cover this, through health insurance schemes, public assistance or a universal national health service. The only circumstances where this might not be the case is when a person is not formally employed but works in the "black" or "grey" economy and has not, therefore, paid social security contributions. Even here, however, public assistance is likely to be available in all countries if the person is in need of health care.

Concluding Remarks

The main points to emerge from the above analysis are as follows:

- career interruptions due to illness only marginally affect pension entitlement;
- long spells of unemployment also have a modest effect in most countries, though a bigger effect than prolonged illness in a few countries;
- periods of inactivity caring for children at home adversely affect pension entitlement in most Member States;
- most social protection systems do not seem well equipped to deal with divorce, especially where there are additional problems (such as a disabled child) and the weaker spouse is often left without adequate pension protection;
- spells of part-time work cause loss of pension entitlement only in a minority of countries;
- there are no significant gaps in coverage so far as access to health care is concerned.

There are, however, differences between Member States both as regards the general formula for pensions (in some countries, there is just one full pension, in others, a basic pension plus additional amounts; in some, pensions are earnings-related, in others, they are flat-rate; in some, it takes longer to accumulate entitlement to a full pension, in others, less time, and so on) and as regards the provisions for splitting entitlement between husband and wife, crediting contributions for periods of inactivity and the like. So far as the impact of career interruptions and divorce on pension entitlement is concerned, the countries can be divided into four groups:

- the Anglo-Saxon group, consisting of the UK and Ireland, where atypical circumstances have only a modest effect on final pension, but where the level of protection is relatively low in relation to average earnings (though the Irish system is slightly more generous than the British);
- the Scandinavian group, consisting at present only of Denmark, where atypical circumstances also have relatively little effect (especially in the case of divorce and part-time work), but where the level of protection is relatively high in relation to average earnings;
- the Northern European group, consisting of France, Germany and the Benelux countries, to which Italy might be added, where atypical circumstances affect pension entitlement, because of the earnings-related nature of the social protection system, but where the degree of protection remains relatively high in relation to average earnings;
- the Iberian group, consisting of Spain and Portugal, where atypi-

cal circumstances make little difference to final pension benefits and where the degree of protection is also relatively high in relation to average earnings. This group, therefore, seems to combine the best of both worlds, not penalising broken careers greatly and having generous pensions. However, it should be emphasised that in these two countries, the proportion of the labour force which has access to a guaranteed, stable job is relatively small; the values for pension entitlement reported above are, therefore, theoretical amounts which are difficult to achieve in practice because of the limited size of the formal labour market.

Finally, Greece seems to be somewhere between the second and the third groups in terms of the characteristics of its system.

It should be emphasised that the analysis here has been confined to examining the effect on pension entitlement and access to health care and has not considered how well social protection systems across the Community deal with spells of inactivity or marriage breakdowns when they occur. Nevertheless, it does indicate that these occurrences do have a penalising effect, though perhaps smaller than might have been expected. Some changes in institutional arrangements seem, therefore, to be called for, possibly to bring about a greater convergence in the extent of protection provided between the four groups of countries identified above.

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Notes

Unless where otherwise stated, data for Germany in this report refer to the former Western part of Germany

PPS: References to PPS relate to Purchasing Power Standards which are a measure of GDP reflecting the real purchasing power of a currency within the country concerned. They aim to provide a reliable indication of the volume and structure of goods and services intended for a particular final use, and permit comparisons in real terms of GDP and its components between Community countries. See *Purchasing Power Parities and GDP in real terms, Results 1985*, Eurostat 1985, and *National Accounts ESA, Aggregates*, Eurostat annually.

Chapter 4: Data on mortality rates come from *European Community Atlas of Avoidable Deaths*, Oxford, OUP 1991.

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Graphs

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