

# Social security: a Europe-wide debate

## European File

All the countries of the European Community have established social security systems to help shield their citizens from a wide range of social risks. These systems invariably include unemployment pay, health services and family allowances. But the economic crisis has cast a shadow over their future. The problem is so important that the European Commission believes it should be debated at Community level.

### Similar aims, different methods

There are striking similarities between the national systems of social security in the Community. But there are also differences caused by the varying sociological, economic, political and other factors which shaped their development

- The range of risks covered is fairly uniform. All Member States guarantee to assist their citizens at times of sickness, pregnancy, unemployment, unfitness for work or in old age. They also pay family allowances and compensation for accidents at work and occupational diseases. In all countries cash payments take a much larger share of the budget (at least 60%) than services in kind, although costs are rising rapidly in this sector, especially for health care. In all countries old-age pensions and sickness benefit top the expenditure league (see table).
- But the organization of social security systems differs enormously from one country to another. The United Kingdom and Denmark cover their entire population against all risks, except unemployment of the self-employed. Changes are planned in the latter

case in Denmark. In the Netherlands everyone is protected against most risks but salaried employees have additional protection. In Belgium there are different systems for wage earners and the self-employed and a number of special schemes. Elsewhere, the differences between types of employment are more pronounced. In France and Luxembourg general coverage is becoming available through a variety of schemes but certain categories of self-employed people are excluded in the Federal Republic of Germany and Italy. Ireland is a special case. Insurance is compulsory only for employees. The principle of public assistance still predominates over the principle of overall solidarity. National health services operate in the United Kingdom, Italy and Denmark but medical services operate more on a free market basis in the other member countries.

- The part played by the various methods of financing social security also varies from one country to another. In Ireland and Denmark, the biggest share comes from taxation. In six other countries, direct contributions play the largest role. The United Kingdom falls midway between the two. In the countries where direct contributions are high, between 40 and 60% of the total comes from employers, placing a heavy burden on production costs.
- Social security takes a bigger share of gross domestic product (GDP) in Community countries than in most other industrialized countries. In every Member State this share has continued to grow, despite the economic crisis. It now represents between 20 and 30% of the GDP of Member States, compared with 12 to 18% at the start of the 1960s. Wide differences remain, however, between the amounts devoted to social security in the Member States, as demonstrated by a comparison between their relative shares of population, GDP and social security expenditure (see table). Social spending is comparatively high in Belgium, Denmark, Germany, France and Luxembourg and relatively low in the United Kingdom, Italy and Ireland, where GDP is below the Community average.

## **The Community and social security problems**

From its inception the Community has taken an interest in a range of social security issues:

- Community rules guarantee equal social security treatment for migrant workers of Community origin and their families. Migrants have the right to exactly the same protection as nationals of the host country. For pension purposes, they can add together their periods of insurance payment in various member countries and claim the appropriate pension in whichever Member State they choose to settle in. Since July 1982 these arrangements have also applied to self-employed workers but an exception is made for family allowances. It should also be pointed out that Community citizens visiting another Member State, for whatever reason, have the right to health care under exactly the same financial terms as citizens of the host State. To claim this right, the traveller must apply beforehand to his own health insurance organization for an E111 form.

- A Community directive adopted in 1978 will guarantee women exactly the same treatment as men from the end of 1984 in rights, payments and benefits under social security systems. Any discrimination after that date can be referred to the European Court.
- Over the years, the European Commission has investigated a number of problems common to social security systems in all Member States. These include difficulties caused by demographic factors, the increase in social spending and how to finance it, as well as specific problems over unfitness for work and the retirement age. On 10 December 1982, the Community's Council of Ministers adopted a recommendation on flexible retirement.

Social security systems are now causing budgetary problems for all Member States, casting doubt on the future level of social protection governments will be able to afford. In the present economic climate, with very high levels of unemployment, national authorities face similar problems throughout the Community:

- Health and social security expenditure have played a central role in the growth of public spending in the past 10 years. Increases in social expenditure, coupled with a decline in the contributions yield, have created a permanent financial imbalance. How can this problem be solved? *Ad hoc* solutions frequently discriminate against the groups of people least able to bear an increased financial burden.
- Public funds must be freed to support policies which foster economic growth and employment without stretching monetary and budgetary limits. Every effort must be made to increase fairness and efficiency in public spending and financing, especially in the social field. And yet, as the European Commission has emphasized, there can be no question of reversing the progress towards increased protection for the weakest groups in society at a time when they already face severe difficulties.

The Community has no ambition to establish identical social security systems in all Member States. Differences in approach and social and economic frameworks would make this impossible. But, in view of the current problems, the European Community can establish useful guidelines for negotiations between governments, parliaments and the social partners. A Community-wide debate is needed. An exchange of ideas and comparison of experiences has been suggested by the European Commission and members of the European Parliament and the Community's Economic and Social Committee. This would help to identify areas where stronger Community action is needed and assist Member States to improve their own performance. At the same time, a certain degree of convergence would be desirable between the varying national systems. The aim would be to reduce disparities between present systems in terms of industrial competitiveness, economic growth and job creation, in order to bolster the unity of the Community market.

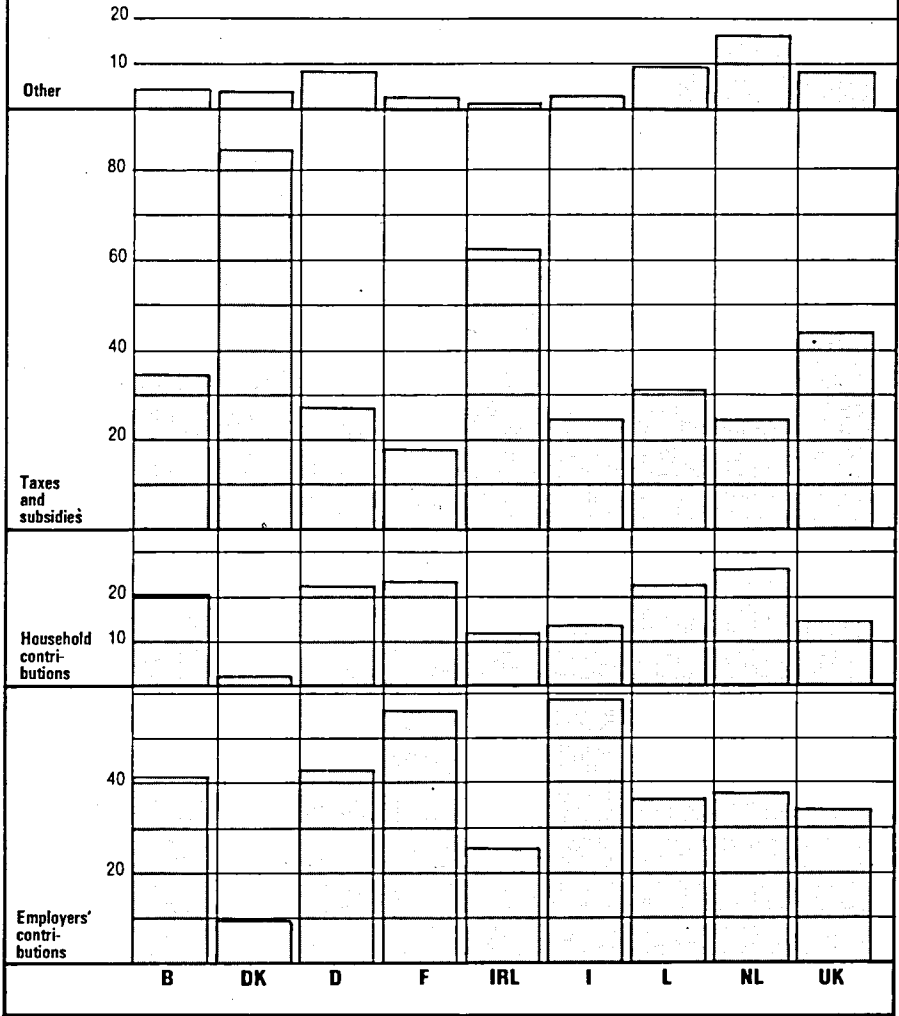
In order to launch this debate, the European Commission recently published a communication entitled 'Social security problems — points for consideration'. This document does not attempt to tackle all social security problems but seeks to identify the most important issues.

## The scope of the debate

A triple paradox characterizes the difficulties facing social security systems. Firstly, they are costing more and more to finance at a time when available funds are restricted by weak economies, large budget deficits, widespread unemployment and, in some Member States, high inflation. Secondly, increasing social security expenditure has both positive and negative effects on the economy. Finally, the social impact of the systems does not always reflect the scale of the funds devoted to them.

- The rapid increase in the financial burden has been fuelled by economic crisis and the nature of the systems themselves:
  - The major and most pressing cause of the problem is the economic crisis. A three to fourfold increase in unemployment has swollen benefit payments while massively reducing direct contributions and overall financial resources. The inevitable result has been huge financial imbalance which has forced governments to consider cuts in benefits or reductions in the number of people eligible to receive them. The social consequences for the weakest groups in society could be very serious indeed if such a course of action was adopted.
  - The other major cause of the increase in expenditure is the steady improvement in the level of social protection. This development is supported by a broad political consensus throughout the Community. Systems have been extended to embrace new types of claimants. New benefits have been introduced and the level and terms of payments have been improved. There is also a trend towards wage-linked benefits which guarantee a certain standard of living, rather than minimum subsistence.
  - Another cause of growing expenditure is the ageing of the population. Life expectancy is increasing all the time. The number of people over 65 years old has grown sharply in the past 15 years to total between 13 and 15% of the population of most Member States. This has two consequences. Income for the social security system is reduced because a smaller proportion of people are working. Expenditure on health services, pensions and other benefits is increased.
  - The rapid growth in health spending must also be taken into account. The age of claimants has a substantial impact. The cost of insuring someone over 65 is up to three times the average. Over 75, it can be five times the average. Advances in medical care have tended to make treatment more complex and more difficult. Treatment is often given regardless of cost, pushing up public expenditure despite efforts to keep it under control. The pattern of life in the modern world, with its attendant risks from pollution, work and road accidents, increased stress as well as the trend towards medical treatment for minor ailments adds an extra burden to health budgets.
- The high cost of social services has an impact on the economy as well as the insured persons themselves.

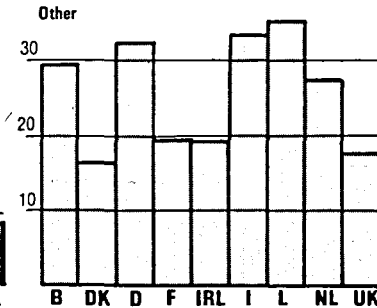
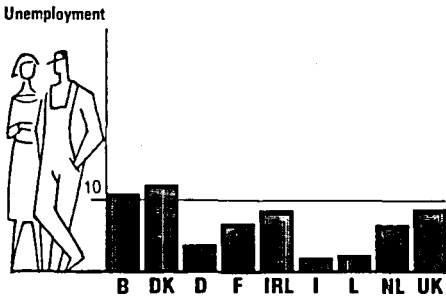
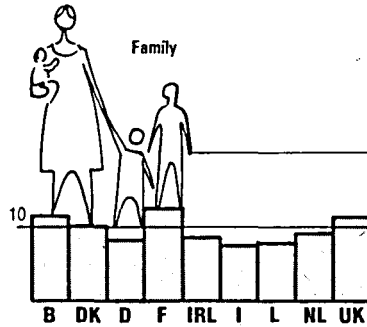
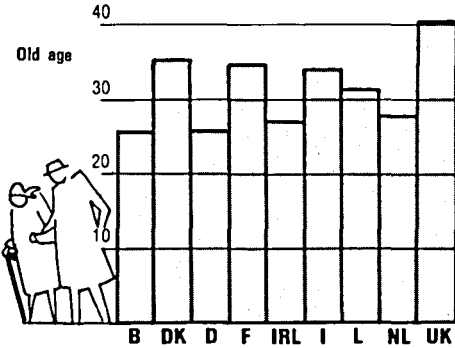
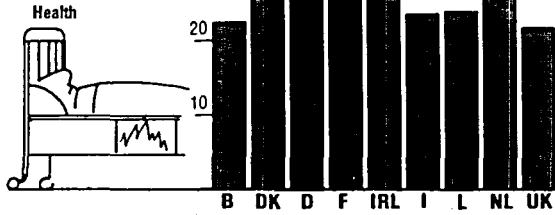
**Social security receipts broken down by type as a percentage of the whole in 1980**



	B	DK	D	F	IRL	I	L	NL	UK
Employers' contributions	41.0	9.6	42.7	56.0	25.1	58.8	36.2	37.1	33.3
Household contributions	20.1	1.8	22.1	23.7	11.4	13.6	22.6	25.8	14.6
Taxes and subsidies	34.7	84.9	26.7	17.7	62.5	24.9	31.6	20.4	43.6
Other	4.2	3.7	8.5	2.6	1.0	2.7	9.6	16.7	8.5

NB: Figures for Greece are not available.

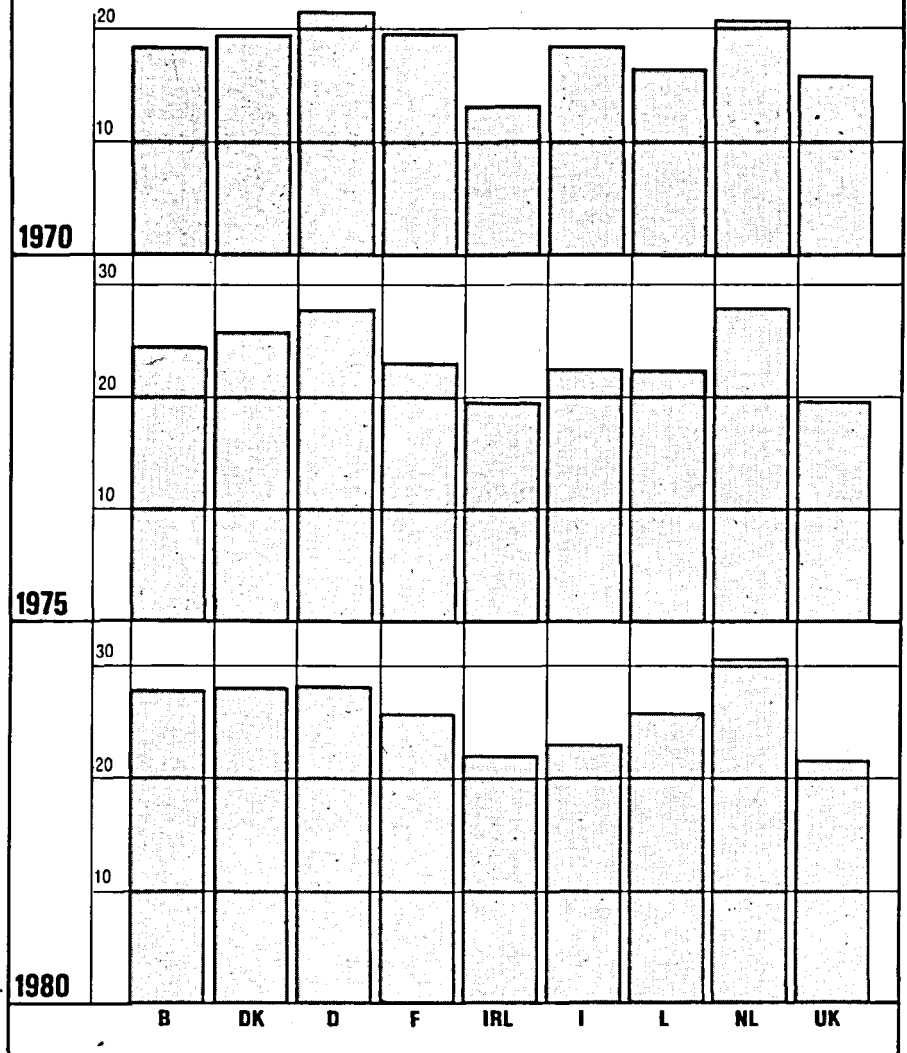
**Functions of social security spending as a percentage of the whole in 1980**



	B	DK	D	F	IRL	I	L	NL	UK
Health	22.5	26.8	29.8	26.2	36.3	23.2	23.6	29.3	21.6
Old age	25.8	35.1	25.8	34.9	27.0	34.0	31.1	27.9	40.4
Family	11.6	10.0	8.1	12.5	8.9	7.4	7.9	9.2	11.5
Unemployment	10.4	11.9	3.7	6.5	8.2	1.9	2.1	6.3	8.6
Other	29.7	16.2	32.6	19.9	19.6	33.5	35.3	27.3	17.9

NB: Figures for Greece are not available.




### Social security spending as a percentage of gross domestic product

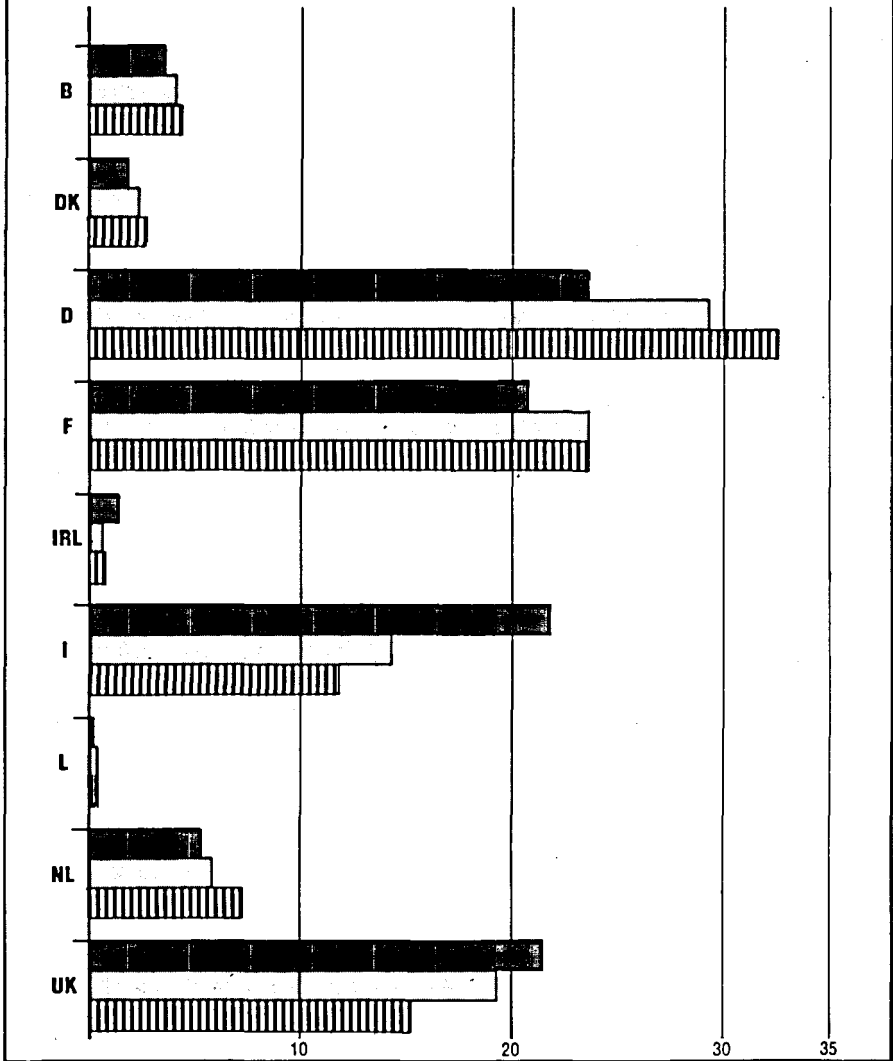


	B	DK	D	F	IRL	I	L	NL	UK
1970	18.5	19.6	21.4	19.2	13.2	18.4	16.4	20.8	15.9
1975	24.5	25.8	27.8	22.9	19.4	22.6	22.4	28.1	19.5
1980	27.7	28.0	28.3	25.8	22.0	22.8	26.5	30.7	21.4

NB: Figures for Greece are not available.

The percentage share by Member State  
in 1980 of

 the population of the Nine  
 the GDP of the Nine  
 social benefits in the Nine



	B	DK	D	F	IRL	I	L	NL	UK
Share of the population of the Nine	3.8	2.0	23.6	20.6	1.3	21.8	0.1	5.4	21.4
Share of the GDP of the Nine	4.2	2.4	29.5	23.5	0.6	14.2	0.2	6.0	19.4
Share of social benefits in the Nine	4.4	2.7	32.9	23.5	0.6	12.1	0.2	7.3	16.3

NB: Figures for Greece are not available.



- Some of the effects are positive: social insurance can be viewed not simply as a burden on the State but as a means of maintaining a high level of ability, efficiency and motivation in the economy. Moreover, social security charges are ploughed back into the economy through benefit payments which help to bolster demand and economic activity and prevent a deepening of the crisis. Social security also creates jobs. Health services employ large medical staffs and generate work for the pharmaceutical, chemical and electronics industries.
  - Other effects are negative: their impact on the economy is inevitably more serious in the present crisis and given the current difficulties in public financing. In the first place, the level of social protection offered in Member States goes well beyond the level available in other industrialized countries. This difference is partly sustained by contributions from industry and is one explanation for the lagging competitiveness of European firms. As a result jobs suffer, especially in the textiles, footwear and shipbuilding industries which face severe competition from Third World countries. Social security, when it accounts for up to 50% of gross domestic product, also represents a financial burden on contributors and tax-payers, who do not always appreciate the benefits they receive in return. As a consequence, entrepreneurial drive is blunted, moonlighting increases and low-paid workers sometimes prefer the dole to a job.
- Despite the large sums invested, the effectiveness of social welfare systems is qualified.
- Social security redistributes wealth from the economically active to the inactive, such as the sick, unemployed and old. Other social benefits, such as health care, are available to all income groups. But some payments, like pensions, are calculated in such a way that those at the lower end of the income scale, notably women, receive a much lower level of benefit. Moreover, growing unemployment has swollen the ranks of the poor and those on the margins of society whose problems have never really been dealt with by social security. Restrictive measures taken by governments have the most impact on low-income groups most dependent on social welfare payments. The effects are most severe in Member States where the cover is relatively low.
  - Another cause of the comparative failure of social security systems has been the complexity and rigidity of their procedures. Reforms introduced for economic and social reasons have further complicated the structure of systems which often become more irrational with each updating. Complexity generates bureaucracy and increases incomprehension, especially amongst the least well off. Rigidity means for instance that a single retiring age is imposed on the population despite wide ranges of differing capacities and personal preferences.

## **Paths towards reform**

Personal economic well-being is a function not only of social security but training, employment and surroundings. The economic downturn means that a disproportionate

increase in one factor operates to the detriment of the others. Although there can be no question of freezing social expenditure at a given level, it is important to control and coordinate its growth, to re-examine financing methods and to improve efficiency.

□ *Control of expenditure:* measures already taken and studies have identified a number of possible priorities:

- The growth in health spending can be gradually checked by better control over types of care and medicines used. Education is needed to influence public attitudes including corrective measures. A stricter planning of health care needs should be geared to concerted action by all concerned, doctors, administrators, the State, insurance organizations and the insured persons themselves. Supply and demand for health care could be reduced by a greater sense of responsibility on all sides. Ways must also be found to reduce the social cost of economic activity. Accidents, pollution and other nuisances cause sickness or premature disability which are paid for in the end by the social welfare system.
- Methods of reassessing social benefits should be re-examined. A wide variety of formulas are currently used to assess cost-of-living increases. These range from automatic linkage to the inflation index to no linkage at all, and from increases based on wage levels to price-related increases. Assessments are sometimes carried out once a year, sometimes several times a year. Studies are needed to identify guidelines which would reconcile the battle against inflation with the need for social justice.
- The simplification of social security systems would be popular with individual users. It could also help available funds to be used more effectively by preventing frauds, reducing overlapping benefits and cutting administrative costs.

□ *Re-examination of financing methods* would ensure the financial stability of existing systems and expose and reduce job-destroying burdens:

- Stability means a better balance between subsidies from general taxation and direct contributions, which fluctuate according to the level of unemployment. To achieve this end it may be necessary to make a distinction between benefits available to the whole community and payments which amount to earnings substitutes for the unemployed or less well off which could be funded from general taxation.
- The need to generate more jobs raises two issues. Consideration could be given to reducing the social security burden on employers and employees alike, especially in labour-intensive small and medium-sized enterprises which help to create employment. In some Member States the creation of part-time jobs is discouraged by the relatively high cost of social contributions calculated on full-time earnings.

□ *The effectiveness of social security systems* must be strengthened to cope with social needs generated or exacerbated by the crisis. Simply to increase benefits is not an adequate response. Attempts should be made to reorganize existing systems. Without claiming to be exhaustive, a number of approaches can be listed:

- Systems could be made more flexible to remove unjustified constraints which damage the interests of claimants. A case in point is the fixed retirement age, which the Community has recommended should be made more flexible.
- Differences in treatment between categories of claimants could be eliminated. Certain areas of discrimination can no longer be tolerated. An obvious example is measures which discriminate against women, soon to be abolished under Community legislation.
- Social protection should gradually be extended to people who are not covered or whose cover is inadequate. This could be achieved through traditional social security payments or by guaranteeing a minimum income or a mixture of the two.
- Firm action could be taken against misuse, wastage and overlapping of benefits. Such faults, while always unwelcome, become intolerable if dwindling resources are being diverted away from those genuinely in need.
- More efforts could be made to ensure that social legislation and administration is understood by ordinary people. This would prevent claimants from being deprived of benefits by the complexity of bureaucratic procedures. This is especially important for the least well off.
- It might also be useful to review the whole basis of existing systems. They might be fairer if everyone contributed according to their means, possibly by abolishing contributions ceilings. Systems could also be weighted towards the most needy. Simultaneous consideration could be given to increases in benefits and the taxation of welfare payments.
- There could also be a move towards increasing services in kind. The range of cash benefits has already increased remarkably. Individual welfare might now be better served by increasing the range and quality of services available.

△

Social spending must be controlled, not by chipping away at the scope of services provided, but by ensuring that the limited means are used effectively to cope with real needs which still go unanswered. A debate is needed at Community level to help Member States come to terms with the economic crisis, difficulties in financing and problems caused by international competition. It is essential that national measures should fit into the framework of the single market and that the whole Community should benefit from the experience gained in the different Member States. This, in brief, is the double objective of the European Commission ■

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The contents of this publication do not necessarily reflect the official views of the institutions of the Community.

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