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REPORT FROM THE COMMISSION

SOCIAL PROTECTION IN EUROPE 1995

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Summary and conclusions

The development of extensive systems of social protection to support and assist people in need has been a prominent feature of European societies over the post-war years. The systems which have been established differ in detail in terms of their organisation and methods of funding, reflecting the cultural, historical and institutional differences which exist between Member States. Nevertheless, they share a common characteristic of protecting all those who require support, whether temporarily, because they fall ill or lose their job or have a baby, or on a longer term basis, because they retire from paid employment, become permanently disabled or have children to bring up, irrespective of their ability to pay.

It is the universal nature and extent of this support, and the scale of redistribution of income entailed, which distinguish systems of social protection in Europe from those in most other parts of the world or, indeed, from private insurance schemes. While systems are based on insurance principles in varying degrees throughout the Union, so that in many cases the amount received in benefit is related to the contributions which have been made, there is no direct link between what each person pays as their contribution to financing the system and their vulnerability to illness, disability, unemployment or any of the other risks covered. At the same time, in most Member States, a minimum level of income and basic support is guaranteed to everyone irrespective of whether they can afford to pay anything or not.

As such, systems of social protection contribute significantly to maintaining social cohesion and strengthening solidarity within the Union. They have arguably played a major role in helping societies cope with the increasing strains imposed on them by the significant economic and social changes which have occurred over the past two decades in particular, which have been accompanied by high and rising unemployment, increased uncertainty and instability of employment and income, the influx of large and growing numbers of women onto the job market, an ageing population as life expectancy has risen and substantial changes in the structure of households, with a marked growth in the number of people living alone and in lone-parent families.

All of these developments, however, have equally imposed strains on social protection systems themselves as the demands on them have escalated and, more especially, as the numbers of people requiring long-term support and assistance have increased to levels never envisaged when the systems were designed. The costs of maintaining the systems and of providing extensive support have, therefore, risen significantly throughout the Union. At the same time, the income available to finance these costs has become increasingly constrained as long-term economic growth across Europe has slowed down markedly in relation to the rates prevailing before the mid-1970s when most of the systems were established. The financial constraints have been particularly evident in recent years because of the recession of the early 1990s and the prevailing concern of policy to reduce budget deficits and limit public expenditure growth in order to contain inflationary pressure, to avoid imposing excessive costs on businesses facing increasing competition in markets inside and outside Europe.

Although the commitment to promoting a high level of social protection throughout the Union, as enshrined in the Maastricht Treaty (Article 2), remains undiminished and although attachment to the existing system of social support remains deeply entrenched in popular opinion, financing problems and the growing demand for support, coupled with the high and increasing level of long-term dependency on social assistance, have given rise to fundamental questions being asked in many Member States about the function, scope and means of funding systems of social protection.

Equally, there is growing awareness of the substantial economic, social and demographic changes which have taken place since the systems were, for the most part, developed and which are still occurring and of the very different context in which they have to operate. In particular, economies in the Union are becoming ever more closely integrated, though at the same time more open to competition from outside. Partly, as a result, increasing economic flexibility and the promotion of individual initiative have become major objectives of policy, aims which systems of social protection can either work against by adversely affecting incentives or help to achieve by providing support in the event of failure, so encouraging greater risk-taking. At the same time, the costs imposed on businesses by the need to finance social protection are a growing cause of concern, and prevailing demographic trends threaten to add significantly to the need for income transfers and for support throughout the Union in 10 to 15 years time as the baby boom generation reaches retirement age.

Moreover, in the context of the increasing emphasis of policy across the Union on raising employment, there is a growing focus on the potential links between prevailing systems of social protection and the process of job creation. The 1993 Commission White Paper on *Growth, competitiveness, employment* called for more detailed analysis of this issue, while successive Community Summits in Brussels, Corfu, Essen and Cannes, have drawn attention to the links between social protection and the way it is funded and incentives both to offer and accept work.

Against this background, there is not only general recognition that, despite their diversity, social protection systems across the Union are facing common problems and a common need to adapt to changing circumstances and priorities, but also a growing awareness of the potential advantages of cooperation. This was already evident in the adoption by the Council in 1992 of two Recommendations to work towards the convergence of social protection policies and objectives and to establish common criteria for defining minimum levels of income and social assistance. The present Report, which is aimed at describing and analysing the systems operating in the different Member States and the way they are developing, is a product of those Recommendations.

A new framework for debate

There is now, however, widespread agreement on the desirability of going beyond the exchange of information on policies and their effects, important as this is, to joint consideration on the future development of systems of social protection in the Union and the appropriate responses to the common challenges which they face. In consequence, the Commission has proposed that the Community institutions and the Member States should embark together on a process of cooperative reflection on the future measures which should be taken to make social protection systems more conducive to employment growth and more efficient, to ensure that they facilitate the free movement of labour between countries as well as the realisation of the potential benefits of the internal market and increasing economic integration and their equitable distribution.

Aims of the Report

This Report is intended to contribute to that process by analysing not only the way in which social protection systems are developing across the Union but equally the problems which they face and the forces to which they have to respond and so increase mutual understanding of the options for development, in the light of their diverse forms of organisation and institutional characteristics.

The focus is on the links between social protection and employment. As such, it is intended as a complement (published every two years) to the annual *Employment in Europe* Report, the latest issue of which was published in July. This examined trends in employment and unemployment across the Union, the changes which are occurring in the nature of jobs and in the pattern of work, the factors which influence the process of job creation and the measures taken in Member States to increase the number of people employed.

In particular, it analyses — in Chapter 4 — rates of unemployment benefit in different parts of the Union as compared with take-home pay when in work, which is likely to be a major determinant of the incentive for people receiving benefit to seek employment and, therefore, of the scale of the unemployment trap which exists. This complements the analysis both in *Employment in Europe, 1995* and in *European strategy for employment: recent progress and perspectives* (COM(95) 465), a recently published Commission report following up the Essen Council meeting, of the potential effect of social charges and payroll taxes levied to finance social protection on labour costs and so on the incentive of employers to take on more staff. The two together, therefore, give an indication of the effect of social protection, in terms of both its funding and the income support which it provides, on the two sides of the employment equation — on the willingness on the part of employers to create jobs and on the willingness of those out of work to take them up.

In addition, it examines in detail two aspects of social protection systems which are becoming increasingly relevant as a result of the structural changes in employment which are occurring throughout the Union, in part in response to government policies. Specifically, it considers, in Chapter 6, the access of the self-employed to social insurance and support and their treatment as compared with those in waged employment, who are the traditional focus of systems of social protection. As such, it indicates how far policies in this area are consistent with labour market measures designed to encourage people, especially those out of work, to set up small businesses. It also considers, in Chapter 7, social protection arrangements in respect of those, mainly women, who have to give up paid work for a time, or work fewer hours, to look after children or disabled or elderly people, usually relatives, in need of care. Given the increasing number of women in work, coupled with the growing numbers of people living into old age and, therefore, likely to require care, this is becoming an important issue not only for social policy but also for employment policy across the Union.

In addition to these employment-related themes, the Report examines (in Chapter 1) the principal characteristics of social protection systems in the Union and the way they differ between Member States; the main developments which have occurred in recent years in both the provision of support and its funding (Chapter 2); the scale and pattern of expenditure, its rate of growth in relation to people in need of support and the changing importance of different sources of finance (Chapter 3); and the reforms which have been introduced in recent years in different parts of the Union to contain the costs of health care and to improve the efficiency of the service provided whilst maintaining standards of treatment and care (Chapter 5).

The main points to emerge from this analysis are summarised below.

Similarities and differences

As indicated above, social protection systems in the different Member States may differ in the details of their organisation and methods of funding but are similar in terms of their objectives and coverage. In particular, there is a common attempt in all 15 Member States to provide universal support and assistance to all those in need whether temporarily or for longer periods of time. The major gap in coverage is in the Southern countries, in Greece, Spain, Italy and Portugal, where, unlike elsewhere in the Union, there is no guarantee of at least a minimum level of all income support in all circumstances. Although efforts have been made to provide some support for the elderly and disabled, those not eligible for certain standard benefits (sickness and unemployment benefits, especially), because they are not, or have not been, in paid employment, either at all or for a sufficient period of time, can only fall back on assistance from local or regional authorities, which to a large extent is discretionary and non-standardised.

There are, however, large differences in the scale of protection provided and, in particular, in access to income- (or contribution-) linked insurance benefits, especially between those in work — and, more specifically, those in waged employment — and others, as well as in the extent of reliance on means-tested assistance as opposed to automatic payments. In these respects, Member States can be divided into four groups:

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

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

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

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

There are, moreover, differences both between and within these four groups as regards the regulations governing eligibility to the various benefits and the duration of their receipt. In particular, pensionable age is around 65 in most countries, but is 57 for women and 62 for men in Italy, 60 for both in France and 67 for both men and women in Denmark. Similarly, insurance-based unemployment benefits are payable almost indefinitely in Belgium, but for only a year in many countries, while access to sickness and invalidity benefits in the Netherlands and the UK has generally been easier than elsewhere. These two aspects, eligibility criteria and the duration of payment, more than the scale of benefits paid have come under increasing scrutiny in recent years, in the search for ways of limiting expenditure and discouraging avoidable long-term dependency, as noted below.

The scale of expenditure

These differences in the features of prevailing systems between Member States are reflected in the cost of maintaining them. In general, expenditure on social protection tends to be much higher in the North of the Union than in the South, in part reflecting the difference in prosperity and, therefore, in the availability of resources to fund them, in part, the less developed nature of systems in Southern countries, Greece and Portugal, in particular. Although there is a clear tendency for countries to spend more on social protection in relation to GDP as the latter increases, some systems are evidently more costly than others.

In the Scandinavian countries, in particular, where coverage is universal and benefits relatively generous, total expenditure on social protection amounts to well over 30% of GDP (33% in Denmark in 1993, around 35% in Finland — though the figure here is increased markedly by the severe recession in GDP (in 1990, it was 26%) — and probably about the same in Sweden, though comparable figures are not yet available). In the Netherlands, spending is also high as compared with other Member States in relation to the level of real income per head (around 33% of GDP in 1993 as against 31% in Germany and France where income per head is higher). In the UK and Ireland, on the other hand, where relatively modest flat-rate benefits are the norm and, in the former especially, where a relatively high proportion of payments are subject to mean-testing, expenditure is comparatively low in relation to income per head (27% of GDP in the UK in 1993, 21½% in Ireland). Similarly in Italy, where there are more gaps in the coverage of the system than in Northern Member States with comparable levels of income per head, spending is also relatively low (just under 26% of GDP in 1993), as it is in Greece and Portugal, where systems are still being developed (16½% of GDP in 1993 in the former, 18% in the latter).

The pattern of financing

The relative importance of different sources of finance for social protection reflects the systems in operation. In Germany, France and Belgium, two-thirds or more of the revenue levied to fund social protection comes from contributions, with employers being responsible for around 60% of these. In Greece, the proportions are similar, while in Spain, Italy and Portugal, as well as in the Netherlands and Luxembourg, contributions remain the main source of finance but taxes are more important. In the UK and Ireland, more revenue comes from taxes than from contributions, while in the Scandinavian countries, taxes predominate and revenue from contributions is small.

The pattern of spending

While the level of social protection expenditure varies, the division between the main functions is relatively similar, especially in the North of the Union where systems are more developed, though there are a few significant differences, reflecting variations partly in the people in need of support, partly in eligibility, partly in the rate of benefit paid or level of service provided. Old-age pensions are the largest element of spending throughout the Union — apart from in Ireland where the relative number of elderly people is less than elsewhere — accounting for some 43% of total spending in 1993, followed by health care and sickness benefits, which together absorbed around 24% of the total, invalidity benefits (9%) and unemployment compensation (7%).

In Greece and Italy, however, around 60% of expenditure in 1993 went on old-age pensions, in the former largely reflecting the comparatively low level of provision of other benefits and services, in the latter, the large number of people drawing a pension. Thus in Italy, there are not only a relatively high proportion of the population who are elderly as compared with other parts of the Union, but also the official age of retirement is fixed at a lower level than elsewhere (though, as noted below, reforms have recently been introduced to alter this).

In the Netherlands, the relative amount spent on invalidity benefits in 1993 was over twice that in the rest of the Union (over 21% of the total), the result of the relative number of recipients being also twice as high as in other Member States, except for the UK. Here the number was similarly high, though the average amount received was considerably lower (in 1994, 15–16% of those aged 55 to 64 in these two countries reported in the Community Labour Force Survey that they were not working because they were permanently disabled as opposed to 7% in the Union as a whole) In both cases, the large number of recipients reflects in part the nature of the system and the fact that invalidity benefit has been used to provide income support for many who are effectively long-term unemployed or prematurely retired. Policy efforts have been made in the recent past in both countries to tighten the rules governing eligibility for benefit.

In Spain, expenditure on income support for the unemployed in 1993 was over twice as high relative to GDP than in other parts of the Union, accounting for 20% of total spending on social protection, but this was mainly because the relative numbers unemployed were also twice as high as in the rest of the Union. On the other hand, in Denmark, where unemployment was below the Union average, relative expenditure was only slightly below the level in Spain, reflecting both a comparatively high rate of benefit paid and a high level of eligibility for benefit among those out of work. As in the Netherlands and the UK, the extent of income support has come under increasing scrutiny in recent years.

The effectiveness of social protection

One major issue which this Report has been unable to address is the effectiveness of social protection systems in providing support and assistance to those in need and, related to this, their success in ensuring that no-one's income and access to services falls below a minimum level. Although there is information on the scale of support which is in principle available as well as on the rules and regulations governing access to them and although estimates can be made of the numbers liable to be at risk, there are little or no satisfactory data on how many people are in need of support in practice, how many of these actually receive assistance and how much they receive in relation to their need.

Until such data become available, it will remain impossible to assess satisfactorily the adequacy or otherwise of existing systems, especially as experience demonstrates that actual receipt of income support can differ markedly from the theoretical entitlement. This is even more the case as means-testing becomes more important since in these circumstances what is received depends not only on individual income and accumulated savings but also on assistance actually being claimed.

The only effective way of providing these data is through detailed surveys of households. A new Household Panel Survey has been established by Eurostat to do precisely this. Specifically it aims to collect detailed information about household characteristics, sources of income and living conditions across the Community from a sample of households. As yet, however, results are not available (though they should be by around the end of 1995) and it remains to be seen how effective an instrument it will be in answering the kind of fundamental question posed above.

The growth of expenditure

Over the long-term, expenditure on social protection has tended to increase relative to GDP. In 1970, expenditure amounted to 19% of GDP over the Union as a whole (in this case excluding Spain, Portugal and Greece for which no figures are available). By 1980, the proportion had risen to 24% (24½% excluding the same three countries) and by 1993, to just under 28%. It is this seemingly upward long-term trend which has been a cause of widespread concern across the Union and has been one of the reasons for the recent emphasis on expenditure restraint. These figures, however, need to be interpreted with some care, in part, because of the significant influence of fluctuations in GDP growth and the underlying level of economic activity on the percentage, in part because of the variation in experience between Member States.

The increase has by no means been uniform across the Union. Unlike in the 1970s, when most countries experienced significant growth of expenditure relative to GDP, between 1980 and 1990, spending rose by only one percentage point in relation to GDP (from 24% to 25%). In four countries — Belgium, Germany, Ireland and Luxembourg — expenditure was lower relative to GDP in 1990 than in 1980. Only in the countries where systems were being developed — Greece, Spain, Italy and Portugal — plus France, did the increase amount to more than 2 percentage points in relation to GDP. Moreover, in the second half of the 1980s when the European economies were recovering from recession, expenditure declined relative to GDP in the Union as a whole, though it continued to rise in the four Southern Member States (as well as in Denmark, where economic growth slowed down).

Over the three years 1990 to 1993, spending on social protection went up in all Member States as a proportion of GDP as their economies went into recession, in 7 countries — Denmark, Spain, France, Luxembourg, Portugal, the UK and Finland — by around 3 percentage points or more. This rise, however, was largely due to the marked slowdown in GDP growth — or, in some cases, a fall in GDP — and the steep rise in unemployment which accompanied this. Although in real terms (adjusted by the increase in consumer prices), expenditure increased by 4½% a year in the Union as a whole, significantly more than over the preceding five years (under 3½%), excluding unemployment compensation (which went up by almost 50% over the period), it rose by under 4% a year, only marginally more than over the preceding five years. Since part of the growth in pensions, sickness and invalidity benefits was almost certainly recession-related (resulting from increased early retirement, for example), there is little sign of any underlying acceleration in the growth of social protection spending over this period (expenditure on each the three items mentioned, in fact, grew by less between 1990 and 1993 than between 1985 and 1990).

Nevertheless, in the context of very little growth in GDP and a policy emphasis both on fiscal restraint and on limiting public expenditure in order to avoid excessive increases in taxes and social charges on business and the costs of employment, a growth of almost 4% a year — even after adjusting for unemployment — in a major component of public spending was a matter of widespread policy concern. Against this background, the common focus on measures to limit expenditure on social protection which has been feature of the recent past is perhaps understandable.

The impending demographic time-bomb

The emphasis on cost containment is also understandable in terms of the increasing demands on systems of social protection which are almost certain to arise from the ageing of the population. In 1995, the population aged 65 or over (the present or planned official age of retirement in most Member States) amounted to some 23% of the population of working age (15 to 64) in the Union as a whole. In ten years time in 2005, it will have risen to 26% on the latest projections (assuming no significant acceleration in net inward migration flows of those below retirement age). While this will undoubtedly increase expenditure on pensions, unless there is an increase in the actual age of retirement, in contrast to present trends, the amount involved is relatively small. If the average pension was to remain unchanged in relation to GDP per head, for example, it would result in expenditure in the Union rising from 12% of GDP to just under 13½% — much the same rate of increase as between 1980 and 1993.

The major expansion in potential expenditure does not come until after 2005 when the post-war baby boom generation begin to retire in large numbers. In 2015, the population aged 65 and over is likely to represent 30% of that of working-age and in 2025, 35½%. Whereas in 1995 there are 4–5 people of working age to support each person of retirement age, in 30 years time, there will be less than three. In some countries, Italy in particular, it will only be around 2½. If average pensions remained unchanged relative to average income, then this growth in numbers alone will add almost 5½% of GDP to the cost of social protection over the next 30 years in the Union as a whole. At the same time, the large expansion in the numbers of elderly people is likely to impose increasing demands on the health care and social service systems.

Nevertheless, despite the apparent scale of the pressures in prospect, it is important to keep them in perspective. In the first place, expenditure on social protection increased by 8% of GDP between 1970 and 1993 in the Union — half as much again as the rise in spending on pensions on the above assumption. Secondly, the ease of achieving the transfer to those above retirement age and the strain imposed on the future generation of working-age will depend critically on the underlying growth of the European economies between now and then and what happens to jobs. In recent years, the effective dependency ratio has risen substantially not because of the ageing of the population but because of earlier retirement and increasing unemployment, both the result of reduced job availability. In consequence, many fewer people in employment have had to support increased numbers not in work, both above and below retirement age.

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

Changes in sources of finance

In the light of the reduction in the numbers in employment employed which occurred over this period, the widespread shift from contributions to taxes as a source of finance is also understandable. Over the Union as a whole, the share of revenue raised from taxes rose from 27½% to 29½% between 1990 and 1993, with only Belgium and the Netherlands showing the reverse tendency. Moreover, this was accompanied by a parallel shift away from employers' contributions to these being levied on the person being protected, with only Portugal experiencing a shift in the opposite direction. Nevertheless, these changes have been comparatively small and over the 1980s and early 1990s, the broad structure of financing of social protection remained largely the same.

Although no data as yet exist for the period after 1993, it appears from the measures introduced in Member States since 1993, and noted below, that these shifts in the pattern of financing have become more pronounced. At the same time, the shifts to a large extent have been a temporary response to increased unemployment and, as noted below, have taken the form of a reduction in employers' contributions if firms take on the long-term unemployed, the young and other 'hard-to-place' people from the unemployment register, though rates have also been reduced in respect of the low-paid in a number of countries to stimulate job creation for the less skilled and younger members of the work force (as in Belgium, France, Ireland and the UK).

There is as yet, however, little sign of any fundamental change in the method of financing and in most countries contributions remain the major source of funding, largely because of the wish to retain the insurance-based nature of the system. Indeed, in Scandinavian countries, there have been some moves to increase contributions relative to taxation, partly to widen sources of finance, partly to link benefit payments more closely to employment and so discourage working in the informal or grey economy. On the other hand, in countries where finance comes mainly from contributions, attempts have been made to widen the sources of funding by identifying those elements of the social protection system which are not employment-related, such as health care and family allowances, and financing these from taxes, as well as earmarking certain taxes for funding particular expenditure (such as the general social contribution, CSG, levied in France on personal income which is used to fund basic pensions).

In addition, in some countries, the search for alternative sources of financing has been combined with attempts to shift the burden of taxation from the employment of labour to the use of natural resources, with the aim of stimulating job creation while encouraging energy and resource saving.

Recent reforms affecting spending

Almost all policy action taken in respect of social protection in recent years has been aimed at containing costs and where possible reducing them. This has taken the form of:

- tightening the regulations on eligibility to benefit — especially insurance-based, income-related payments;
- increased targeting of support on those most in need, through more extensive use of means-testing and by taxing benefits;
- increased emphasis on active measures to get people into work so that they can support themselves as opposed to passive measures of income transfer;
- increased privatisation in a variety of forms, including not only contracting-out services but perhaps more importantly shifting the responsibility of providing protection to individuals themselves or to those employing them.

Such measures have been motivated not just by cost considerations but also by a concern to reduce dependency on social protection both for the welfare of the individuals concerned and to maintain public support for social protection systems — or more specifically their funding — by demonstrating a willingness to minimise possible abuse.

Responses to demographic and economic pressures

The heightened policy concern with the growth of social protection expenditure in the recession years of the early 1990s has helped to focus attention on the longer term trend and on the underlying forces tending to push this up. In particular, it has helped highlight the consequences for pensions of the continued ageing of the population in the Union and of the post-war baby boom generation reaching retirement age from around 2005 onwards. This, in turn, has led to widespread reform of pension systems in Member States and a shift away from a policy of encouraging early retirement, which was widespread in the 1980s, to one of trying to limit or reduce the prospective amount of income transferred to pensioners.

In five Member States — Germany, Greece, Italy, the UK and Finland (for public sector employees) — measures have been introduced since 1992 to increase the official age of retirement in the coming years and in a sixth, France, much the same effect has been achieved by raising the number of years of contributions required for a full pension (from $37^1/_2$ to 40). In most cases, the increase is planned to occur gradually over the next two decades and will have little effect on those retiring in the next few years (in Germany, for example, it will be raised from 63 for men and 60 for women to 65 between 2001 and 2012, in the UK, from 60 to 65 for women between 2010 and 2020). In all cases, a major aim has been to bring the retirement age for women into line with that of men for equity reasons, though this has been achieved by increasing the former rather than reducing the latter as was envisaged a few years ago.

Whether this will result in a reduction in the numbers of people in retirement is questionable. Despite the change in the emphasis of policy, the trend towards early retirement accelerated rather than diminished in the early 1990s, largely because of the economic recession which was accompanied by large-scale redundancies and a lack of alternative employment opportunities for those losing their jobs. Nevertheless, the changes will tend to reduce the numbers in receipt of State pensions and so shift the burden of support from the State to the individual.

At the same time, measures have also been introduced in a number of countries to reduce the amount of pension received, either by lowering the maximum proportion of earnings receivable (as in Finland for public sector employees) or by taking more account of other income in the calculation of tax (as in Denmark and the Netherlands) or by altering the basis for calculating entitlement (by increasing the number of years over which earnings on which the pension is based are assessed, as in France and Portugal).

This latter kind of change has potentially important implications for the position of women relative to men. Because they are more likely to have to interrupt their working careers to bring up children or look after invalid relatives, any increase in the number of years of contribution required for a full pension or in those used to calculate entitlement will tend adversely to affect women more than men.

The growth of pension liabilities has also caused attention to be focused more generally on the schemes themselves and, specifically, on whether schemes should change towards being fully-funded (ie where future liabilities determine the amount of contributions) from being 'pay-as-you-go' (ie where contributions are determined by present pension payments) as now in most countries. A shift towards more reliance on private insurance schemes and giving more responsibility to individuals to decide on the level of pension and contributions, as in the UK, especially, is seen to be one means of achieving this, while at the same time relieving the direct financial cost to on the State.

In most countries, however, there has been little attempt to move away from the 'pay-as-you-go' principle, perhaps because it is highly uncertain whether such a change would make it any easier to meet pension commitments when the time comes for payment, since this ultimately depends on the state of the economy — on the level of real income, the rate of growth and the numbers unemployed who also require support — at the time. At the same time, it should be noted that, in practice, the distinction between 'pay-as-you-go' and funded pension schemes is by no means clear-cut. In most Member States, there has been a conscious policy of building up reserves to cover future pension liabilities, which has led to revenue collected to finance social protection being invariably higher than current expenditure, in some cases significantly so.

Increased targeting

As the cost of social protection has risen, so increased efforts have been made to direct expenditure more towards those most in need of support. This has been achieved through a variety of means, through tightening eligibility criteria (as with unemployment and invalidity benefits in particular), setting income limits to the receipt of benefits (as in Germany, the Netherlands, Italy and Spain, where family allowances have been linked to income), imposing or increasing taxes (as in the Scandinavian countries) or subjecting payments to means-testing. The latter has been most prevalent in the UK and Ireland, though in many Member States, the extent of means-testing has increased in recent years, especially of unemployment compensation, partly reflecting the growth in numbers of long-term unemployed whose entitlement to insurance-related benefit has expired.

In the UK, however, more than elsewhere, the extension of means-testing has been a deliberate policy move to contain costs. While this is arguably a way of concentrating the resources available more effectively, it can also give rise to problems. Most importantly perhaps, identifying those most in need is difficult and, in practice, the onus has to be placed on them to claim support, which significant proportions for one reason or another do not do (up to 20% of those qualifying for Income Support, for example) and are so left inadequately protected. At the same time, concentrating support on a relatively small group who are classified as worst off by some criterion is liable to mean that those only slightly better off on the same criterion receive less assistance tha they need. Moreover, means-testing is administratively costly, can discourage saving, if accumulated wealth is taken into account, as it tends to be, and reduce incentives to work if extensive support is withdrawn as soon as a recipient finds a job or if the test is applied to household income and someone else's earnings from employment (a wife, for example) result in a reduction or loss of entitlement.

Although efforts have been made to reduce these problems — by increased publicity and by the introduction and extension of in-work benefits (Family Credit) to increase income when in work — they remain important. The Job Seeker's Allowance planned for 1996 will increase reliance on means-testing even more by restricting the receipt of flat-rate insurance benefits to the first six months of unemployment.

From passive to active measures

A further aspect of the planned Job Seeker's Allowance in the UK is to impose more pressure on the recipient to look for work, while at the same time providing more help and advice though the Employment Services. The increased emphasis on getting people into work has been a common feature of policy in recent years in most Member States, motivated in part by the persistence of large numbers of long-term unemployed even through the years of high job creation in the late-1980s. This has taken the form, not only of improvements in the employment services to provide more effective help on job search, but also of increased subsidies to employers or lower social charges levied on them (which have an equivalent effect). For the most part, these have been targeted on the long-term unemployed, young people or other 'hard-to-place groups'.

How far such measures result in a net increase in the number of people in employment rather than a displacement of existing workers by newly-recruited subsidised ones, however, remains unclear, as does the net effect of special schemes for providing work for the unemployed ('workfare'), which are liable to result in a loss of trade for established businesses or the redirection of activity towards work of lower value (unless overall expenditure in the economy is raised). Nevertheless, increasing the rate of turnover of the unemployed, even without reducing the numbers, can be a desirable objective in itself, though it is unlikely to lead to a reduced need for expenditure on social protection and could, indeed, result in an overall increase if the amount spent on subsidies is taken into account.

In the Scandinavian countries, innovative policies have recently been developed for reducing unemployment by sharing available work more evenly. Under these schemes, employers are encouraged to allow employees time-off for training, parental leave or simply to pursue their own activities, and to take on people from the unemployment register to replace them, so effectively increasing the number of jobs per employee by each of these working less.

Limited trends towards privatisation

Increased pressure on social protection systems has also led to some shift from public to private sector provision and, more extensively, to active discussion about the possibilities, and desirability of moving further, in this direction, and, as a corollary, about the scope of State-provided support and services and the functions which should be included. One suggestion, in particular, is that the State should concentrate on providing basic support and services and leave individuals to take care of their further needs, whether in terms of pensions, health care or income support at times of incapacity for work. Although this would not necessarily reduce the overall amount of resources going into social protection, widely defined — indeed, it could well lead to an increase, especially as regards health care — it would have the effect of relieving government of some of the financial burden and take decisions on the level of provision out of the public sphere. At the same time, the US example demonstrates that it would not necessarily avoid the need for difficult political choices to be made and may make it harder for adequate support to be provided for those who need it.

Debate in this area, however, has proceeded further than action, partly because of the difficulties involved in making fundamental changes without reducing the level of support for those in need, partly because of the entrenched popular belief in the desirability of an extensive welfare system. In many Member States, the development of private pension schemes has been encouraged in recent years, though largely to supplement public provision rather than to replace it. In the UK, on the other hand, it has been an explicit policy aim to devolve responsibility for supplementary pensions to the private sector, to encourage individuals to have personal pension schemes and to increase the importance of such pensions by limiting the role of the basic pension. This has given rise to difficulties of regulation (especially of unscrupulous employers controlling the funds) and to problems of high contribution levels partly because of the need to cover future (rather than present) liabilities.

An analogous solution to the problem of restraining costs has been applied to sickness benefits in both the UK and the Netherlands. In both countries, responsibility for paying benefit has been shifted to the employer — for the first six weeks in the Netherlands, for the first six months in the UK (compensated by a uniform reduction in employers' contributions) — who has also been made responsible for checking the validity of claims. The aim in each case is to give employers a cost incentive for reducing the incidence of sick leave and to shift the costs of monitoring from the State. Nevertheless, there is a danger that without more detailed and stronger regulation by government, the change will discriminate against workers with records of poor health whom firms will be reluctant to take on or to retain, as well as against those employed in small firms which may fail to pay.

Extensions in support

While the main thrust of policy throughout the Union has been directed at cost containment, there are, nevertheless examples of increased levels of support in a number of countries, especially in Southern Member States where systems have continued to develop and improve. In Germany, moreover, the scope of the system has been extended to include compulsory social insurance cover for long-term care (*Plegeversicherung*), while in the Scandinavian countries as well as in Belgium, new entitlements to leave for employees have been introduced, to enable more time for training as well as for child care. Given the increased pace of technological advance, this should be beneficial both for workers who need to update their skills and for firms who need to be able to take advantage of new methods of working.

Reforms in health care

There has been a marked trend towards privatisation in the provision of health care. This has taken two related forms: the growth of private treatment *per se* and an increase in the extent of co-payment for prescriptions and consultation (ie of patients paying an increasing proportion of the costs). While expenditure on health care has risen significantly in relation to GDP since 1980 in most Member States — though by no means all (in Ireland and Sweden, it has declined and in Denmark and Germany, it has remained unchanged) — much of this has been due to an increase in private sector provision, which increased its share of total spending markedly in most parts of the Union, the only exceptions being Belgium and the Netherlands. The relative rise was particularly pronounced during the early 1990s when restraints on public expenditure were intensified.

The trend towards more private sector involvement has been accompanied by increased efforts to raise the effectiveness of expenditure and the efficiency of the provision of treatment and care without jeopardising standards. In the absence of a market to signal the costs of provision to both suppliers and purchasers, incentives for the former to seek to minimise such costs while supplying to the latter what they need and for purchasers to take these into account when deciding what to buy, a common tendency has been to introduce cost signals where possible and to strengthen contractual arrangements where not. In many countries, the aim has been to develop contracts which specify more precisely the level and standard of service required of hospitals and doctors and the amount that will be paid for this and which, at the same time, incorporate incentives for those responsible for expenditure (the regional or local authorities in national health systems and the insurance funds in insurance-based systems) to allocate this efficiently and in line with consumer needs.

A major obstacle to improving efficiency in all systems is the prevalence of monopoly elements among both providers of finance and suppliers of service coupled with inbuilt inertia to change (as well as collusion between those involved). Partly because of incomplete information and the need for local supply, problems exist, for example, in giving patients effective freedom to choose between doctors or between insurance funds, and spending authorities to choose between hospitals when each one may specialise in treating a particular illness or ailment or where these are geographically dispersed. Nevertheless, the introduction of more choice and more elements of competition, coupled with imposing increased incentives, and deterrents, on purchasers and suppliers alike to spend their budgets efficiently (by, for example, setting fixed limits on expenditure or requiring them to raise additional finance from their own resources) seem to have helped contain costs, though many of the reforms are still in their infancy and remain to have their full effect.

One key issue which largely remains unresolved throughout the Union, and, in some cases, unaddressed, concerns the scope of health care systems and the basis on which resources are allocated between alternative kinds of care and treatment if the provision of service is limited below what it otherwise would be (whether by means of fixed budgets or of ceilings on contributions). This is becoming particularly acute as advances in technology and know-how expand what it is possible to provide as well as typically raising the cost of treatment. It is likely, moreover, to become even more so as the number of very elderly people who impose disproportionately high demands on services increase sharply over the coming decades.

One commonly suggested solution to this is to limit the provision of public health care to basic needs and to those who cannot afford private treatment and to leave the private sector to meet other needs and to cover other sections of the population. Nevertheless, such an approach, on US experience, is likely to result in an expansion in the overall resources absorbed by health care as well as a diversion of resources (medical expertise and equipment) towards treatment and care which people are most willing to pay for, which is not necessarily those which are most desirable from a social perspective.

Unemployment benefits and incentives to seek work

Although expenditure on unemployment compensation in most countries accounts for a relatively low proportion of what is spent on social protection (over 10% only in Denmark, Spain and Ireland) and amounted to only 2% of GDP in the Union as a whole in 1993, it has been a major focus of policy in many Member States. (These figures, however, understate the true scale of transfers associated with unemployment, since they leave out of account transfers to the dependants of the unemployed as well as those to people who are classed as sick or disabled rather than unemployed and those who take early retirement because of lack of jobs.) This is not only because of the significant increase which has occurred as unemployment has risen, but also because of a concern to avoid high benefit levels deterring those out of work from actively looking for a job, especially the less skilled and less productive among them, who are capable of commanding only relatively low rates of pay. Such a concern is motivated not only by the desirability of reducing dependency on the system and reducing costs but also by a need to reassure those in work who provide the finance for income support that excessive amounts are not being transferred unnecessarily.

These concerns, however, need to be balanced against the aim of providing sufficient income that those out of work can maintain an acceptable standard of living for themselves and their families and, moreover, that they have sufficient time to look for a job in line with their skills and aptitudes, which is important for the efficient functioning of the labour market.

In practice, there is a good deal of difficulty in comparing the level of income received when unemployed with take-home pay when in work, in part because restrictions on entitlement to benefit of varying severity across the Union make it hard to assess what will be paid in reality to any given person out of work. The rates of compensation prevailing in mid-1993 in Member States, together with the rules governing eligibility, suggest that a single person on the average wage of a production worker qualifying for insurance-based benefits would have received disposable income if they became unemployed of less than half that when in work in Greece, Ireland and the UK — less than in the US — and around 60% or less in Germany and Italy. In Denmark, Spain and the Netherlands, however, the figure was above 70% and in France, Luxembourg and Portugal, 80% or higher. After two years of unemployment, in four of the latter six countries — the exceptions being Luxembourg and Portugal — the figures would still have been above 70%, though in all other Member States, it would have been 55% or less.

If the person concerned was married with two children, then disposable income when becoming unemployed would have been 70% or more of that when in work in all Member States, except Belgium, Italy (66% in both) and Greece (55%).

However, most of the unemployed earn less than the average wage, in many cases, because they are relatively unskilled, women (who on average earn only around 75% of the male average wage) or young people under 25 without a sufficient employment record to qualify them for benefits. In most Member States, replacement rates (disposable income when unemployed relative to that in work) increase when earnings fall, though not over the entire earnings range in Germany, Spain, Luxembourg, the Netherlands and Portugal, and the extent varies considerably (the rise being greatest in countries where benefits are flat-rate rather than related to earnings, such as Denmark, Ireland and the UK). At 65% of average earnings, the replacement rate for a single person qualifying for benefit was over 80% in five Member States — Belgium, Denmark, France, Luxembourg and Portugal — but below 90% in all but Denmark — and 75% or above in another three — Spain, Italy and the Netherlands; only in Ireland and the UK was it below 60%. For a couple with two children, however, it was around 80% or above throughout the Union.

Even for someone on earnings as low as half the average, the replacement rate for a single person was below 100% in all countries apart from Portugal and below 80% in five, while a young person not qualifying for insurance benefits who could command only this level of pay when in work received nothing in Greece and Portugal and under 60% in another six, with the rate being above 70% in only Denmark, Luxembourg and the Netherlands. (The analysis excludes the three new Member States; a recent OECD study suggests that replacement rates in Sweden were typically slightly lower than in Denmark at earnings below the average, but slightly higher than in Finland over most of the earnings range, except at very low and very high levels.)

How high the level of disposable income when out of work needs to be in relation to that when in work to constitute a significant disincentive to look for a job is open to question. At low levels of income, even the possibility of increasing income by 20% could well prove attractive. Moreover, some survey evidence and observation seem to suggest that, even for similar levels of income, a substantial number of people tend to prefer to be in work rather than be unemployed, largely because career and income prospects depend on being employed and, in general, participation in society is closely linked to working. Other research points to the risk in countries with high replacement rates and long duration of benefit that people might rationally decide to remain unemployed. In practice, the increased pressure on those in receipt of benefit to take up employment, which has been imposed in many Member States in recent years, is likely to make it difficult to go on receiving income support for any length of time without seriously seeking a job.

At the same time, attention should be paid to the risk of increasing poverty if benefit levels are reduced significantly. If the level of benefits is regarded as preventing wages from falling by enough to stimulate the creation of jobs for the less skilled, then perhaps the focus of policy attention might switch to introducing or extending in-work benefits, aimed at keeping labour costs down whilst ensuring that income from work is sufficiently higher than income when unemployed to attract people into employment. The difficulty here, however, is that such benefits, because they are targeted on a relatively small group at the bottom end of the pay scale and are, therefore, withdrawn or reduced significantly as earnings increase, tend to result in very high marginal effective tax rates for these (in the UK, the rate for those in receipt of Family Credit can often exceed 90% — see *Employment in Europe, 1995*, Part 3, Section 1). The danger is, therefore, replacing one disincentive, that of discouraging job search when unemployed, with another, that of discouraging work effort when in employment.

Social protection position of the self-employed

In most Member States, measures are in place to encourage people, especially the unemployed, to start up their own business. The social protection provided for the self-employed, however, who numbered 22 million in the Union as a whole in 1994, 15% of those in employment, is, in a number of cases, significantly less extensive or generous than that for employees, despite the indications that substantial numbers of the self-employed have very low earnings and/or are in sectors of activity, where income fluctuates considerably.

Although efforts have been made in many Member States in recent years to improve the position, a number of gaps remain. In most countries, the self-employed will tend to receive a lower pension than an employee with comparable earnings, either because they have been incorporated into State earnings-related schemes only relatively recently or because they have to contribute to supplementary pension schemes on a voluntary basis. Some may choose not to contribute on this basis and others may feel unable to do so because of the high level of contributions involved and uncertainty about future income levels. Similarly, in the case of maternity benefits, in many countries — Belgium, Greece, Italy, France and the UK, for example — the total amount received is typically less, in some cases significantly, and in Ireland, no benefit is payable at all.

Perhaps the most serious gaps, however, relate to periods of incapacity and unemployment. In four countries — France, Ireland, Italy and the Netherlands — the self-employed are excluded from social insurance schemes in respect of the receipt of sickness benefits, as are a large proportion in Greece, while unemployment benefits for the self-employed exist only in the three Scandinavian countries and Luxembourg. In other countries, a major obstacle is seen to be the difficulty of distinguishing genuine unemployment in the sense of business failure from cases where trading has ceased voluntarily. Moreover, though social assistance is available to those whose businesses fail in all Member States, apart from Greece, Portugal, Spain and Italy (though in the latter two countries regional or local support may be available on a discretionary basis), support is not generally obtainable for temporary periods of low earnings in Denmark, France, Austria and the UK and is likely to have to be repaid in the Netherlands.

Social protection and caring responsibilities

As the population ages and as more women take up paid employment, the issue of the effect on the social protection rights of those who need to look after young children, disabled adults or elderly invalids of having to interrupt their working careers is becoming more important. Indeed the problems many face in this respect are increasingly recognised across the Union, and in many Member States, measures have been introduced in recent years to improve the position. Nevertheless, most of the focus has so far been on caring for children and in many cases difficulties remain for those caring for the disabled and invalid. At the same time, even for child care, the amount of benefit payable and the extent of provision for time-off with job reinstatement at the end of the period vary markedly across the Union.

Schemes for providing benefits for those caring for adults exist only in four Member States — the UK, which has the longest-standing scheme, Ireland, Finland and Germany, where social protection arrangements for long-term nursing care were introduced in April 1995. More limited provision is available in six other countries, though in Spain, Luxembourg, the Netherlands, Austria and Portugal, no provision for benefits exists at all.

There are, moreover, other aspects to the problem. Carers, either of children or adults, returning to work may have an insufficient employment record to qualify for insurance-based benefits, especially for unemployment benefit. In addition, if carers work part-time, then in five countries — Germany, Spain, Ireland, Austria and the UK — they have to earn more than a minimum amount and/or be employed for more than a minimum number of hours a week to be eligible for social insurance (the corollary of not having to pay contributions and giving rise to lower labour costs as a result). If they work part-time and/or earn relatively low wages because they have interrupted their working careers, they will tend to receive a lower level of earnings-related pension and in some cases may be ineligible for occupational pension schemes.

In a number of Member States, however, arrangements exist to moderate the effect on the final pension, either in the form of calculating this on the basis of earnings over a limited number of best years rather than over the entire time spent in employment (as in Spain, Portugal, Italy or Finland), dropping years of caring explicitly from the calculation (as in the UK or Ireland), crediting contributions during periods of caring (as in Luxembourg, Germany, Austria or Belgium) or allowing voluntary payment of contributions (as in Italy or Greece). In many cases, however, such arrangements provide only partial compensation.

Divorce adds a further complication for those, especially women, who have been engaged in caring, particularly where they can no longer rely on derived rights to social protection and where pension entitlements are not divided equally at the time of the divorce.

Future issues

The ageing of the population and the implications of this for income transfers, health care and social services coupled with the continuing need to respond to changing economic and social conditions are not the only challenges for systems of social protection which lie ahead.

The development of systems across the Union in future years is almost certain to be affected by the increasing integration of the European economies. As this takes place and remaining constraints on the free movement of labour, capital, goods and services are removed, it is an open question how far the systems which now operate can retain their present diversity.

So far the main focus has been on the changes required to facilitate the free movement of labour, which at a minimum requires that those moving from one country to another have their social protection rights, including their pension entitlement, safeguarded and can, therefore, effectively transfer the rights built up in one country to the other. Difficulties arise, however, in translating this requirement into practice where the level of provision and/or the method of funding (ie between contribution-based and tax-based systems) vary significantly between Member States. Indeed recent trends towards the increased importance of supplementary schemes coupled with the more extensive use of means-testing to target benefits on those most in need tend in themselves to impede mobility.

Moreover, if methods of financing, and specifically the extent of reliance on employers' contributions, remain significantly different, transnational companies, which are becoming more prevalent, will face continuing difficulties in both setting wage levels in different countries, because of the substantial difference in overall labour costs associated with a given net wage, and moving staff from one country to another. Such differences are liable to affect location policy disproportionately in relation to other, more fundamental, factors.

More generally, there is a serious question over how far levels of provision of social protection, and, therefore, the scale of financing associated with them, can vary between Member States within a single economic space without this affecting the underlying conditions of competition. Other things being equal, the level of charges imposed on business (almost irrespective of how revenue is raised) and, therefore, the costs of production are likely to be higher in countries where social support is both extensive and generous putting them at a potential competitive disadvantage

Such considerations suggest that policies designed to increase the integration of European economies have implications for systems of social protection, just as the operation of these systems is liable to affect the outcome of those policies. In consequence, it would seem to be important to adopt an integrated approach when taking policy decisions on either front. The same considerations suggest that there is a need for more joint consideration of social protection issues between Member States, including not only the common challenges imposed by demographic, economic and social changes but equally importantly the organisation of systems and methods of funding in an integrated Union. The new Framework for debate on the Future of Social Protection provides an opportunity for this (see Box).

The future of social protection — a framework for a European debate

A new initiative on the future of social protection was published by the European Commission in October 1995 (COM (95) 466). Its main features are set out below.

While Member States remain responsible for achieving the common objectives set by the European Union in this area, they will continue to adapt their systems in line with the underlying objective of social cohesion and solidarity in order to maintain or attain a high level of social protection. Since it is responsible for freedom of movement of people and the freedom to provide services and to compete, the Union has an interest in social protection issues in these areas. It is, therefore, important to ensure that social objectives are taken into account in other policy fields. Care must be taken to prevent options made in other areas from predetermining major social protection choices. An integrated approach should be followed and the Commission accordingly proposes that the Community institutions and the Member States should embark together on a process of common reflection on the future measures which should be taken to make social protection systems more employment-friendly and more efficient.

This common reflection should be a collective process in which the Commission, as well as the Member States, have a role and to which the social partners and all the other parties concerned will be called upon to contribute. The European Parliament, the Economic and Social Committee and the Committee of the Regions must also be fu'ly associated in the process. The aim is to take stock of this debate before the end of 1996 and to propose appropriate follow-up.

The Commission will initiate this process of reflection, presenting analyses and directions for debate, with Member States and the other parties concerned also contributing material. The Commission's main counterpart for dialogue will be the consultation group of Social Security Directors-General, though other consultation groups will also be involved in the employment and internal market areas. The European social dialogue bodies will be asked to take an active part in the reflection.

Several issues in particular appear to call for further analysis and a common reflection:

- the challenges arising from the narrowing gap between the size of the labour force and the number of pensioners;
- the ways of making social protection more employment-friendly;
- the financing of social protection;
- the changes in systems of health care and the establishment of more systematic exchanges of experience between Member States;
- the coordination of social security schemes for people moving between Member States and the relationship between coordination and convergence of social protection systems;
- the principles under which the institutions managing both statutory and supplementary schemes and insurance companies can operate alongside each other in the internal market;
- the future of social protection in the longer term.

Chapter 1 Systems of social protection in the Union

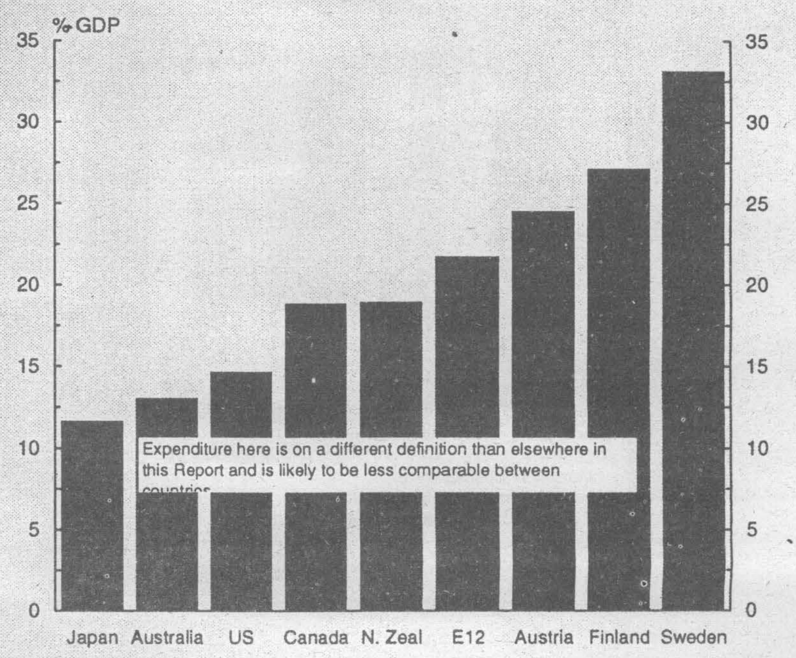
A common profile

Together with liberal democracy and the market economy, extensive systems of social protection represent a fundamental component and a distinguishing feature of the European model of society. Ever since the last decades of the 19th century, welfare institutions have played a prominent role in the modernisation of European countries, smoothing the strains arising from the economic cycle, demographic trends, changing social behaviour and the transition from agrarian to industrial modes of production — the prime reason for the development of social protection systems.

Viewed from within Europe, the social protection systems of Member States of the Union appear to be very different: indeed so different that it may seem impossible to identify common traits and pointless to speak of the European welfare model. Each nation has followed a distinct path in the development of its social policy which has greatly influenced the precise characteristics of the present system. To a large extent, this Report is concerned to highlight and measure this diversity, though it will also emphasise certain important similarities and converging trends. Indeed, from a broader comparative perspective, it is not difficult to discern the common nature of European social protection systems which distinguish them from other parts of the world, especially the US and Japan. In most respects, social protection systems in Europe are more different from systems in these latter two countries than they are from each other. It is noteworthy, moreover, that Central and Eastern European countries are now developing systems of social protection which closely follow the Western European model.

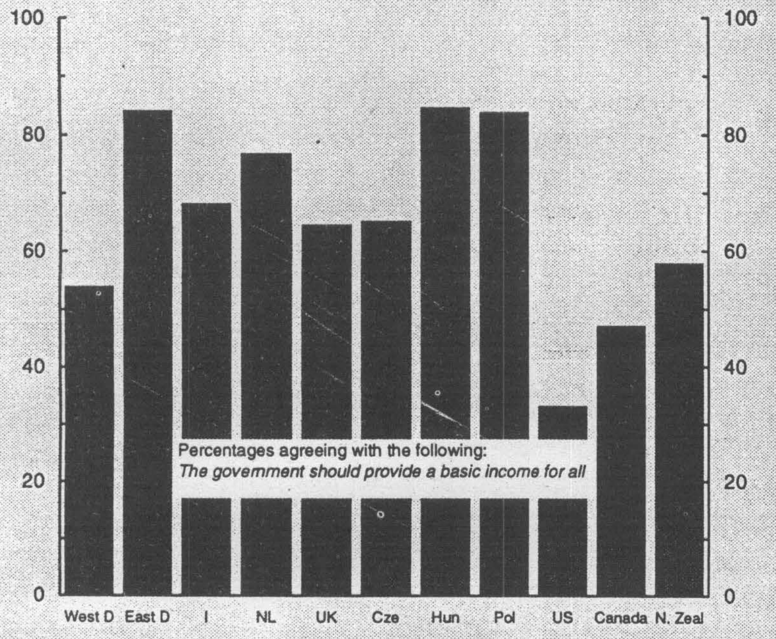
The most visible of these characteristics is certainly the scale of expenditure on social protection: governments in Europe tend to spend more on this than other developed parts of the world. At the beginning of the 1990s, public expenditure on social protection averaged 22% of

1 **Social protection expenditure in relation to GDP, 1990**



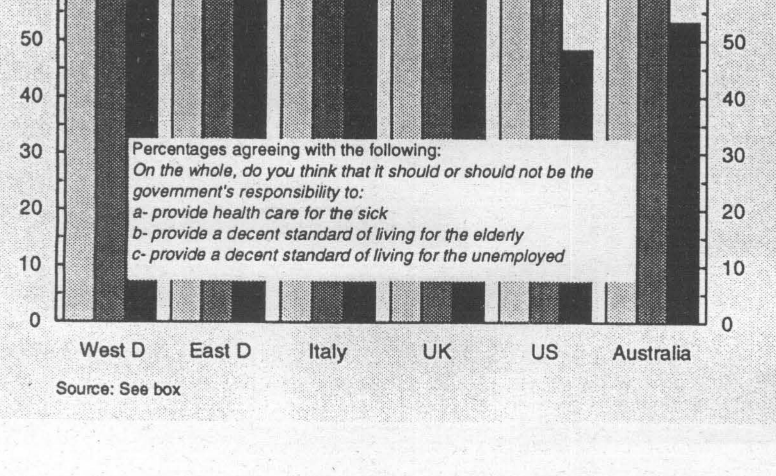
Source: OECD

2 **Attitudes on the social role of government: basic income, 1992**



Source: See box

3 **Attitudes on the social role of government: care for the sick, the elderly and the unemployed, 1990**



Source: See box

GDP in the Union. By contrast, it was around 19% in Canada and New Zealand, 15% in the US, 13% in Australia and under 12% in Japan (Graph 1).

Many factors account for the larger scale of social expenditure in the Union. The coverage of social protection tends to be more extensive in terms of the risks included (particularly as regards short-term cash benefits, social services and labour market programmes). Access to the benefits and services provided is also greater, especially in comparison with the US (where, for example, the public health service only covers the aged and the least well off) or with Australia (where public pensions are confined to those whose income falls below a certain level). In addition, in Europe rates of benefit are typically more generous (especially in the case of pensions).

Because of its wider scope and the higher level of benefits, social protection makes a greater difference to people's lives in Europe than elsewhere in the world. Transfer payments account, for instance, for a larger share of household income and in comparison with the US, they also appear more effective in reducing poverty.

The central position occupied by social protection in the European Union is also demonstrated by public attitudes. Almost all the people in Europe consider social security a major achievement of modern society. The contrast between European and non-European attitudes towards the role of the State in safeguarding the welfare of its citizens is indicated in a survey conducted in 1992 (see Box). This revealed that most respondents in the Netherlands, Italy, the UK and Germany (the only Union Member States) believed that governments should provide a basic income for all, whereas less than half thought so in Canada and the US (Graph 2). Moreover, respondents from the former Czechoslovakia, Poland and Hungary also manifested a marked preference for the public provision of a basic income. Similarly, only a minority of Americans and a bare majority of Australians surveyed considered that the State has a responsibility for providing income support to the unemployed, whereas in Germany, the UK and Italy more than 75% of respondents thought that it should (Graph 3).

An extensive welfare system is, of course, costly. It is also liable to give rise to rigidities of various kinds, which could erode competitiveness relative to other trading areas and adversely affect economic growth. In the long run, the financial, social and economic implications of a costly and rigid social protection system might even undermine a high level of popular support and deeply entrenched political legitimacy. The challenges confronting the European welfare states have been widely discussed in recent years. They have been the subject of a number of Commission documents (such as the White Papers on Employment and Social Policy). This Report provides additional material for the policy debate.

Throughout the European Union significant reforms of systems of social protection are at present under consideration, and in a number of cases being introduced, in response to the need to curtail costs, to adapt to rapidly changing social and economic conditions and to replace the old rigidities with more flexibility. While it is as yet unclear how far Europe will maintain its social distinctiveness in this process, the implementation of change will not be made in a normative vacuum. If the values of European citizens expressed in surveys, as well as in political elections, are to be taken seriously, it seems safe to predict that social protection will continue to occupy a central place in our societies: European governments are likely in the future as in the past to endeavour to ensure that nobody is left deprived when unemployed, poor, ill, or disabled.

Dimensions of diversity

The diversity of systems of social protection across the Union has many aspects. One which is often identified for classification purposes is the basis of entitlement to social support and, in particular, whether this is through contributing to a social insurance scheme, usually one based on being in work with benefits linked to contributions, or through being a citizen and in need of assistance. The first approach predominates in the countries of Continental Europe, while the second approach is more important in the UK, Ireland and, most especially, in the Scandinavian countries.

The International Social Survey Programme

The ISSP was launched in 1984 by a number of research institutes with the aim of collecting standardised and comparable data on popular attitudes in different countries on a broad range of issues. A new survey is conducted every year. The 1990 survey was on the role of government and the 1992 survey on social inequality. All data are stored in Cologne, at the *Zentral Umfrage Archiv (ZUMA)*.

Although the contrast between the 'Bismarckian' (ie the first type) and 'Beveridge' traditions corresponds to an important historical divide in the formation of European Welfare States, it is too imprecise a distinction to provide an accurate description of their configuration in the mid-1990s. All European social protection systems today display some elements of each basic system.

Rather than starting from historical developments and ideal or typical models, the following attempts to summarise the main similarities and differences between the social protection systems of the 15 Member States by reference to four distinct aspects:

- risk coverage and eligibility;
- the structure of benefits;

- financing regulations;
- organisational arrangements.

These aspects are the most relevant from both an analytical and a practical viewpoint. Since they are not necessarily the same as regard each of the three main broad functions of social protection — to maintain incomes, to provide health care and to supply social services — the latter are examined separately below.

Income support

All 15 Member States provide specific income maintenance benefits to cover the classic risks of old age and retirement, the death of a provider, disability, sickness, maternity, dependent children and unemployment. Most countries also have some specific form of benefit for occupational injury or disease, though in the Netherlands and Greece, these are covered by general sickness and disability insurance.

These risks, however, are often defined differently in the various countries. There are, for example, differences in the age of retirement, and different definitions of disability.

Beside the classic risks, in some countries other contingencies are also covered. Perhaps the most novel is long-term care, for which social insurance was recently introduced in Germany (as described in Chapter 2). Others include the cost of children's education (eg the education allowances paid in France, Germany and Luxembourg), the cost of caring for disabled or sick relatives (eg the invalid care allowance in the UK, the 'accompanying' allowance in Italy or the various allowances paid to families with disabled children in Belgium, Greece, Spain, France, Ireland, Luxembourg and Portugal) or sole parenthood (specifically subsidised in Denmark, Finland, Germany, Greece, France, Ireland, Sweden and the UK).

The residual risk of having insufficient resources is also covered by minimum income allowance schemes in all Member States except Greece, Portugal, Spain and Italy. In the latter, those not eligible for the standard benefits can only rely on discretionary, non-standardised cash support from local authorities (though in Italy, minimum income schemes operate in a number of regions and in Spain, a system guaranteeing levels of income is being progressively introduced at the regional level and in Portugal, the social security non-contributory scheme aims to provide minimum resources to those who do not qualify for insurance-based old-age, invalidity and family benefits).

Differences in eligibility — the extent of protection — are much more pronounced than differences in the risks covered. Here, there are noticeable differences not only between countries but also between risks in some countries.

In the case of old-age pensions, four countries (Denmark, Sweden, Finland and the Netherlands) have national schemes covering everyone who is resident. The UK and Ireland also have national insurance schemes which cover only those who are working or looking for work (ie who are part of the labour force) and whose earnings exceed a minimum level (around 70 ECU a week in the UK and 40 ECU a week in Ireland). In the UK, however, others not in the labour force or earning below the lower limit for paying social contributions can make voluntary contributions to obtain a national insurance pension (though this is not the case for other insurance benefits).

In the remaining 9 countries, there is no national, single scheme. Eligibility is based on occupational status and rules (eg regarding the age of retirement) often vary between those working in the public sector and those in the private sector as well as between wage or salary earners and the self-employed. Membership of one of the several insurance schemes is compulsory for the vast majority in employment. There are no minimum earnings requirements except for Germany (compulsory coverage starts at a minimum of 580 DM — around 285 ECU — per month) and Austria (250 ECU per month). There are gaps in eligibility in a number of cases, affecting some categories of self-employed (as described in Chapter 6), as well as some atypical workers who are not covered, including as a rule family workers.

Minimum benefits are available in all countries, however, to all those people who reach the age of retirement without adequate insurance coverage.

In addition to the basic pension (the so-called first pillar), there are supplementary pensions (the second pillar) in all 15 Member States. Membership of supplementary pension schemes is compulsory in 8 countries for particular groups and voluntary for others. In Sweden and Finland, all workers (employees and self-employed), however, are covered; in Denmark, the UK and the Netherlands, only wage and salary earners (and only in some industries in the latter, where they are mostly based on contractual agreements between employers and employees); in France, all wage and salary earners plus some categories of self-employed and in Greece, only certain categories of employees and self-employed. In all these countries, supplementary pensions are administered by statutory bodies, although in the UK, people can contract out and become members of a private scheme instead of the State scheme. In a number of cases, however, there are voluntary schemes to supplement compulsory schemes. In the remaining 7 countries (Ireland, Belgium, Luxembourg, Austria, Italy, Spain and Portugal), supplementary pension insurance is largely a matter of contractual agreement between employers and employees and is also somewhat less developed (though private individual schemes do exist in a number of cases).

Entitlement to retirement pensions generally carries with it a right to survivor and disability benefits. In the case of disability benefits, in countries where the national scheme does not cover all residents, non-contributory payments are available to those not eligible for insurance benefits, though means-tests for this are applied everywhere except in Luxembourg, Greece and Italy.

In the case of sickness benefits, eligibility is confined to wage and salary earners in Austria, France, Greece, Ireland, Italy and the Netherlands, but also covers the self-employed in Belgium, Denmark, Spain, Luxembourg, Portugal, Sweden, the UK and (partially) Germany. In Finland, everyone who is resident whether in employment or not (including housewives and students) is eligible for at least a minimum daily allowance.

In the case of maternity benefits, all women who are economically active are eligible in all countries, except Ireland and the Netherlands, where the self-employed are excluded, while in Luxembourg, Sweden and Finland women who are not in employment are also covered. In a few countries, fathers who are in work can claim benefit for a new-born child instead of the mother (for details, see Chapters 6 and 7).

Only wage and salary earners are typically eligible for cash benefits in case of occupational injuries and diseases, though the self-employed are partially covered in Denmark, Finland, France, Germany, Italy, Luxembourg, Spain and Sweden, while in a few countries, students are also included in compulsory insurance schemes. As already noted, there are no specific schemes to cover this in Greece and the Netherlands.

In the case of unemployment benefits, rules governing eligibility vary not only across countries, but also in respect of the type of benefit scheme in force. In Denmark, Finland and Sweden membership of unemployment insurance funds is voluntary and also open to the self-employed. Finland and Sweden provide specific assistance benefits to those who are not members of insurance funds. In all the other countries, unemployment insurance is compulsory, but only for employees; Luxembourg is the only country which offers insurance benefits to the self-employed. Some countries provide specific unemployment assistance which is paid when eligibility to insurance benefits has not matured or has expired — France, Germany, Spain, Portugal and Ireland, for example. In the latter, eligibility to unemployment assistance also extends to the self-employed. In all countries except Portugal and Greece, private sector employees in industry are eligible for special benefits in case of partial or temporary unemployment. This type of benefit is especially relevant in Italy, where agricultural workers are also eligible. It should also be noted that in some countries (Belgium, Denmark, Germany, Ireland and Luxembourg) young people in search of their first job are also eligible for benefit.

Finally, all families are entitled to child allowances irrespective of their income in Belgium, Denmark, Finland, France, Ireland, Luxembourg, the Netherlands, Portugal, Sweden and the UK; whereas in the other countries allowances depend on income (though not in all cases in Spain, such as in respect of disabled with children). In Belgium, allowances are paid at a lower rate to the self-employed, while in Greece and Italy, with minor exceptions, they receive nothing at all (see Chapter 6 for details).

The structure of benefits

The formulas used for the calculation of income maintenance allowances probably represent the most diverse aspect of European social protection systems. Like the rules governing eligibility, formulas vary not only between countries, but also between risks within each country, between types of benefit in respect of each risk and (especially in Continental Europe) between occupational groups.

A fundamental divide can be drawn between 'Beveridge', flat-rate formulas and 'Bismarckian', earnings-related formulas. In Northern Member States, the former type applies to the benefits paid by the various national insurance schemes. Thus, a basic pension is payable to all residents in Denmark, Sweden and Finland when they reach retirement age, and to all those who have been in employment (and paid contributions) in the UK and Ireland. In addition to the basic pension, workers in these countries who are eligible (ie have paid contributions) also receive a supplementary pension which is earnings-related. Means-tested pension supplements are available for those in need. In general, short-term cash benefits are also flat-rate. However, for certain occupational groups they are earnings-related in some cases. Sickness, maternity and occupational injury benefits are earnings-related for all those in employment in Denmark, Finland and Sweden, where members of unemployment insurance funds also receive earnings-related benefits when unemployed. In the UK, Statutory Sick Pay became flat-rate in 1995, though Statutory Maternity Pay is earnings-related. In Ireland also, maternity benefits are earnings-related for certain women.

In Continental Europe, all benefits except family allowances are normally earnings-related. In the Netherlands, however, old-age pensions are flat-rate as are disability benefits for non-employees. In many Member States, pensions are raised to a minimum level if the calculations based on earnings or contributions result in amounts which are too low (Belgium, Spain, France, Italy, Luxembourg and Portugal, in particular). In Belgium, Greece, Spain, France and Portugal, minimum levels also apply in respect of unemployment benefits. There are, on the other hand, ceilings on earnings used as the basis for the calculation of basic pensions (first pillar) in Belgium, Greece, Spain, France, Italy and Luxembourg. Benefit formulas also often vary between occupational groups. In general, formulas applying to public sector employees tend to be more favourable than those in the private sector and are usually least favourable for the self employed (see Chapter 6).

The actual statutory amounts of benefits vary a great deal. The flat-rate benefits in Scandinavian countries are generally higher than those in the UK and Ireland. The earnings-related rates of Southern European countries (at least in the case of pensions) are, in turn, higher than in the other Continental countries (where supplementary pensions are, however, more widespread). It should be noted, however, that the generosity of protection does not only reflect the statutory rates, but depends on other important aspects of the benefit formulas such as the existence of ceilings and the availability of supplements, indexation, tax rules, the duration of benefits, the existence of waiting periods and so on. The variation in all these aspects is, again, very marked, especially as regards the self-employed (detailed information can be found in the annual MISSOC reports — the Community information system on social protection).

Financing

Social security contributions are the main source of financing of income maintenance benefits in the Union. The primary exception is Denmark where benefits are predominantly tax financed, though in 1994, employees' contributions were introduced for sickness and unemployment benefits. In addition, in the UK, Statutory Sick Pay and Statutory Maternity Pay are financed through general taxation.

Contribution rates vary a great deal between Member States and between the different types of risk. In Ireland, the UK, Finland, Sweden, Belgium, Spain and Portugal no distinction is made between risks and a global rate is applied to earnings (separate rates exist, however, for unemployment insurance in Finland, Sweden and Spain). In the remaining countries, different rates apply to the various risks. Contributions are normally divided between employers and employees, in proportions which also vary between risks and occupational groups, and regulations usually exist for civil servants and the self-employed (see the MISSOC report for further details). In schemes relating to industrial injuries, contributions are often defined on the basis of actuarial principles and fixed sector by sector.

Revenue from general taxation provides part of the funding in all the Member States, even though relying heavily on social contributions. The State is responsible for all non-contributory benefits (such as means-tested pensions) and in a number of cases also contributes to certain insurance funds on a statutory basis. Family allowances are fully financed by taxes in six countries — Denmark, Germany, Ireland, the Netherlands, Sweden and the UK. In addition, the State assumes the role of payer of last resort to cover deficits of insurance funds if they arise. In all Member States, long-term benefits (predominantly old-age pensions) are financed on a pay-as-you-go basis (ie present contributions go to meet present rather than future liabilities), except to some extent in respect of earnings-related and supplementary pensions.

Organisation

Three distinct models of administration of social protection systems can be distinguished in the Union. In the Anglo-Saxon model, overall responsibility for the provision of virtually all cash benefits generally lies with a single government department (the Department of Social Security in the UK — though the Northern Ireland Office has responsibility for administering social security in that part of the UK — and the Department of Social Welfare in Ireland); there is little involvement (and only of an advisory nature) of either the social partners or benefit recipients in management or policy. In the Scandinavian model, there is also a unitary system (instead of there being separate schemes), but administration is more decentralised (especially in Denmark) and the social partners participate in the management of national insurance (in the National Insurance Board in Sweden and the Social Insurance Institution in Finland). In all three Member States, unemployment insurance is run separately by the trade unions.

In the Continental model of administration, the system is fragmented in a number of semi-autonomous schemes for different occupational groups. The administrative structure is extremely varied and each country to a large extent has a unique configuration, reflecting its historical development as well as socio-economic and institutional characteristics.

The contrasts between these three models should not, however, be overstated. In all countries, social security institutions are relatively tightly controlled by government, even in the seemingly more pluralistic Continental systems. However, organisational characteristics are not totally devoid of significance. In the Southern European countries, for example, the various professional schemes have proved very jealous of their autonomy (however small this is) and have recently resisted attempts by central government to unify them with the larger schemes for purposes of financial rationalisation.

Health care

All Member States have mature health care systems providing benefits in kind and services for the cure and prevention of illnesses and rehabilitation. Virtually everyone in the Union is covered and — as indicated by the 1992 Eurobarometer on social protection — most of them seem relatively happy with the quality of services they receive.

To illustrate the way in which health care is organised in different parts of the Union, a distinction is often made between 'national health services' and 'health insurance systems'. The former typically provide care through a single universal scheme accessible to the whole population and financed through taxation; the latter provide care through a number of social insurance funds catering to different occupational groups and financed mainly by contributions. The prototype of all European national health services was established in the UK between 1946 and 1948. Eight other Member States — Ireland, Denmark, Sweden, Finland, Italy, Spain, Portugal and Greece — have followed suit, establishing national systems. The other six countries — Germany, France, Belgium, Luxembourg, the Netherlands and Austria — have by contrast maintained and developed their health insurance systems.

A better understanding of the differences between these two models of health care provision, as well as of the most significant differences within them, requires closer inspection of eligibility rules, sources of financing and overall organisation, each of which is examined in turn below.

Eligibility

In the national health services in the UK Denmark, Sweden, Finland and Italy all residents are compulsorily covered and are equally entitled to all benefits and services. The Irish service also covers all residents, but only the holders of means-tested medical cards (around 35% of the population) are entitled to the full range of benefits free of charge. In the three other countries with national health services, eligibility rules are in a process of transition. In Portugal, all residents are entitled to public health care, but the national health service as such only covers around 75% of the population. The others (mostly civil servants) remain members of traditional occupational insurance schemes, with different rules regarding treatment conditions. A similar situation exists in Spain, where universal coverage was enacted in 1986 as an objective to be achieved in progressive steps. In 1989, beneficiaries of public assistance programmes were brought into the health service, which covers at present around 93% of the population. There remains, however, a special system, with separate rules, for public servants who may opt for private coverage. Moreover, people in the highest income groups are exempt from compulsory insurance. Finally, in Greece, eligibility is still primarily based on occupational and family status, with significant variations in conditions of treatment and the national health service (formally established in 1983) only covers those who are not members of an insurance fund.

In Germany, Austria, France, Belgium, Luxembourg and the Netherlands, eligibility to public health care primarily depends on employment status. Typically, those in employment and the recipients of cash benefits are covered by one of the several health funds. Their family dependants have, in turn, a derived right to the same coverage. Those who slip through the social insurance net are covered by social assistance (which subject is to means testing). In these systems as well as in national health service ones, virtually everyone is, therefore, covered either on the basis of individual or derived rights or means-tested need. Only in Germany and in the Netherlands is coverage of State systems significantly lower than 100%, largely because those earning above a certain amount (around 37,500 ECU a year in the old Länder, 30,500 ECU a year in the new and 27,500 ECU in the Netherlands) have no obligation to insure with State schemes. In the Netherlands, however, there is a universal scheme for the reimbursement of 'exceptional medical costs'.

What distinguishes national health services (typically the British, Scandinavian and Italian ones) from health insurance systems with respect to coverage is more internal variations in eligibility than the overall scope. Indeed, in the health insurance systems the different funds sometimes operate under different rules, giving rise to various differences in the range and types of service available, the margin of consumer choice, the payment or reimbursement procedures, and so on. A marked example of this is the poorer provision for the self-employed in the case of 'small risks' in Belgium and France (see Chapter 6). Moreover, in the insurance systems, those who are eligible through social assistance may face restrictions on the range of benefits or the choice of providers open to them (as in France in the case of the *assistance publique*).

Financing

The British and Scandinavian national health services are almost entirely financed from taxation (though in the UK, a proportion of social contributions goes to help finance the service). In Ireland the major source of finance is also general taxation, though a health contribution of 1.25% is levied on all earnings.

In Southern Europe, a shift from contributions to tax financing was set as an objective under the reforms which established national services, but this has not yet been completed. In Italy and Greece, earmarked health contributions are still levied on earnings. In Spain and Portugal, part of the overall contribution revenue is used to finance the national service — most notably the traditional occupational funds which still exist. In all four Southern Member States, the share of expenditure which is financed from taxes has risen continuously over the past decade.

Health contributions (with differing rates) are a primary source of finance of the various funds operating in Germany, Austria, France, Belgium, Luxembourg and the Netherlands, though in a number of these countries general taxation has also been used to cover the increasing gap between contributory receipts from contributions and expenditure.

Besides general taxation and earmarked contributions a third source of financing has been gaining importance over the past decade, namely user charges. In all countries, patients are liable to pay part of the cost of prescriptions. In Belgium, France, Luxembourg, Portugal and Sweden patients share part of the cost of medical consultations and a small fee is charged for hospital stays in Belgium, Germany, France, Luxembourg and Finland. Broad exemptions from charges apply in most countries for special illnesses and/or economically disadvantaged groups.

Organisation

National health services and health insurance systems tend to be organised differently. Since the former are single, all-inclusive schemes, their organisations are typically more unitary and homogeneous. In the UK, Ireland, Denmark, Sweden, Finland and Italy, general policies are determined by the Ministry of Health, while responsibility for the implementation of policies and the actual provision of care lies with lower tiers of government (regions, municipalities or local health districts or units), which have varying degrees of autonomy. Again, Spain, Portugal and Greece are in a process of transition. Parallel to the new, unitary and decentralised national health service administration, the old funds continue to operate nationwide (in a few regions in Spain) on a sectoral basis and still occupy a very prominent position in Greece.

Health insurance systems tend to be organised both sectorally and territorially. Health Ministries have overall policy responsibility, though some responsibility lies with regional or local governments. The various health funds enjoy, however, a certain organisational autonomy (especially in Germany and the Netherlands) in the actual provision of care and sometimes over financing, as in Germany, for example. The funds are also organised on a territorial basis and are governed by boards in which consumer interests are directly represented. As in the case of income maintenance schemes, each country has its own individual organisational structure, shaped to a significant extent by history. In Belgium and the Netherlands, for example, the health funds still retain their original ideological and/or religious denomination — even though many members chose between them purely on commercial grounds.

Other relevant organisational aspects of health care systems concern the relationship between financing institutions and providers (most notably health professionals), the specific method of operation of the various levels of care (eg hospitals), the public/private mix, overall budgetary procedures, and so on. These aspects are important from the point of view of cost containment and are currently under reform in many countries (see Chapter 5 of this Report).

Social services

Besides income maintenance and health care, social protection includes in all countries a wide variety of other services aimed at taking care of special needs. There are three main target groups: children and young people, adults in difficult economic or psycho-physical conditions (disabled or drug addicts, for example) and the elderly. Social services to these people may be provided in relatively standardised forms (day care centres for infants and children or residential care for the elderly, for example) or in a more personalised way (such as home care). These kinds of service have grown in importance in recent years and have proved themselves to be potentially flexible means of combating various forms of social exclusion.

The responsibility for providing social services lies in most countries with regional and/or local governments. Only in Spain is this sector managed centrally by a national organisation (INERSO), though the regional authorities have acquired some autonomy in this area as well. In the Scandinavian Member States, most services are provided directly by public authorities. In Continental countries there is a more varied mix between public sector direct provision and subsidised private or voluntary (third sector) provision. General taxation is the main source of financing throughout the Union, though in some countries small fees are charged for certain services.

One, four or fifteen models?

What pattern emerges from a close examination of social protection systems in the Union? At the cost of some simplification, it can be said that the Member States tend to cluster into four distinct 'geo-social' groups, sharing similar traditions and institutional characteristics.

The first group comprises the Scandinavian countries: Denmark, Finland and Sweden. Social protection is here a citizen's right, coverage is fully universal (even as regards sickness and maternity cash benefits in Sweden and Finland) and everybody is entitled to the same 'basic amount' when a 'risk' arises, though the gainfully employed receive additional benefits through mandatory occupational schemes. General taxation plays a predominant (though not exclusive) role in financing. The various functions of social protection are closely integrated within a unitary administrative framework and state authorities (centrally or locally) are directly responsible for service provision. The only aspect which remains somewhat separate from the public core of social protection is unemployment insurance, which is voluntary and managed by the trade unions (though it is heavily subsidised by the State).

The second group comprises the UK and Ireland. In the former also, the coverage of social protection is universal and in the latter almost so (some gaps exist for those at the margin or outside the labour market and the Irish national health service provides full eligibility only on the basis of economic need). The basic amounts of benefits are more modest than in Scandinavia and there is a wider use of *means-testing*. Health care is financed through general taxation, but contributions play an important role in the financing of cash benefits. As in Scandinavia, there is an integrated administrative framework centred on public authorities. The social partners are only marginally involved in policy determination or management.

The third group includes Germany, France, the Benelux countries and Austria. Here the 'Bismarckian' tradition of coverage through employment or family status is still evident in both income maintenance and health care systems. Only the Netherlands has partially deviated from this tradition by establishing some universal schemes. The insurance principle still underlies the determination of benefits (mostly earnings related) and the method of financing (mostly based on contributions) — with distinct regulations often applying to different occupational groups. Though extensive, social insurance nevertheless still leaves some gaps in protection, which are filled by the (highly developed) social assistance scheme. Professional funds play a prominent administrative role, with high involvement of the social partners.

The fourth group comprises Italy, Spain, Portugal and Greece. In these countries, the institutional design of social protection systems shares a similarly 'mixed' pattern. On the one hand, there are highly fragmented and 'Bismarckian' income maintenance systems, with very generous pension formulas, but no national minimum income scheme, so that gaps in coverage are greater than elsewhere in the Union. On the other hand, these countries have established national health services with universal and standardised coverage (though this is not yet fully realised in Spain, Portugal and Greece). Occupational funds and the social partners play a prominent role in income maintenance, but no longer in health care and for the latter, general taxation is gradually replacing contributions as the source of financing.

The four-way partition presented here should not be interpreted rigidly. As noted at the outset, with the eyes of an outside observer the similarities across the four groups would probably appear greater than their differences, while a detailed inspection would suggest treating each system as a unique configuration. Classifications, moreover, tend by their nature to be static artefacts. As the following chapters will show, social protection systems in the Union have been gradually changing in the past few years, often in response to common challenges, and in the long run, adaptations and change may well result in the social geography of Europe be redesigned in a similar way.

Chapter 2 Adapting to change: recent reforms and key developments

Throughout the European Union, systems of social protection have been a focus of increasing policy concern over recent years, irrespective of their precise characteristics. In all Member States, even in countries in the South of Europe where their present form is of much more recent origin, the systems painstakingly developed over the years to provide an extensive level of support and assistance have faced growing pressure for change and even retrenchment. Although in most countries this pressure has stopped well short of threatening the principle of universal support for those in need on which European social protection systems have been constructed, the great majority of changes introduced in Member States over the past few years have been aimed at reducing expenditure. Moreover, active consideration is being given in a number of countries to wide-ranging reform of the way in which systems operate — their coverage, the level of benefits paid and the sources of finance — with the common objective of curbing costs, in many cases by targeting what is spent more narrowly on those most in need.

At the same time, there are examples of systems being modified to respond more effectively to the changing nature of demands on them or being extended to cope with new needs — most notably in Germany with the introduction of a special nursing allowance for those engaged in full-time caring.

This increasing emphasis on cost containment stems from a range of economic, social and demographic factors, which affect most parts of the Union and which share the common characteristic of imposing increasing demands on systems of social protection and/or tightening constraints on the funds available for their financing. While individually each seems to be manageable, in combination they present a formidable challenge to the systems now in place.

None of the factors are new. All have been evident for some time and systems have already adapted to some extent in response to them. Indeed, in all parts of the Union, systems which differ in detail in the way they function have, in general, proved very effective in maintaining social cohesion and preventing widespread poverty in the face of the economic and other upheavals of the past 20 years.

The two major factors which both represent serious challenges to the systems now in place are the ageing of the Union's population resulting from declining birth rates and increased life expectancy and the persistence of high unemployment combined with the depressed rate of long-term economic growth which it reflects. The former implies rising expenditure not only on retirement pensions and an increasing share of income going to people who no longer contribute directly to its generation but also on health and other forms of care. The latter implies, on the one hand, high levels of expenditure on income support for those not able to find a job and on active labour market measures for improving their employability and preventing their social exclusion, on the other, reduced income for funding expenditure because of the smaller numbers in work. This latter effect has been reinforced by increased participation in education by the young coupled with early retirement among older people.

While high unemployment has represented a serious and growing problem in most parts of the Union since the mid-1970s, especially because of the significant increase in its average duration which has occurred at the same time, the ageing of the population has so far had only a relatively modest effect on the need for expenditure as compared with what lies ahead as those who are part of the post-war baby boom generation reach retirement age. Although the full impact of this will not be felt until 15–20 years time, the pension rights which those concerned have accumulated is a source of increasing alarm in many countries as the time when they will be exercised draws closer. How far such alarm is warranted and how far it justifies the cutbacks in prospective expenditure which are now being made or proposed are matters for debate. There is no question, however, that the strain imposed on the European economies and societies by growing numbers of people in retirement will be very much more difficult to bear if long-term economic growth remains depressed and unemployment remains high.

A third factor threatening to push up expenditure, which has been a no less important focus of policy concern, is the rising cost of health care which stems not only from the greatly increased numbers of people living to an old age and, therefore, imposing greater demands on health systems, but also from advances in techniques and know-how which make it possible to treat incurable illnesses as well as from a marked tendency for the demand for health care to increase as income rises. Although by no means all new treatments involve increased costs — micro-surgery which greatly reduces the time it takes to recover from an operation being a major case in point — a significant proportion do and by increasing life expectancy add to the costs of care.

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

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

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

A seventh factor is the significant growth in the number of people dependent on social protection which has resulted from the developments listed above, particularly from the emergence of long-term unemployment as a major feature of the labour market and the significant numbers who stand little chance of finding a job. Such a growth in dependency, and the financial burden on the reduced numbers who have to finance the associated expenditure, threatens to undermine popular support for the maintenance of systems of social protection in their present form, especially in the context of slower growth in real incomes. Partly as a response to this, governments have sought to shift the balance of policy from passive measures of income support to active measures of getting people into work and reduce their dependency on social benefits. In addition, they have intensified efforts to detect fraud and prevent abuse of the system in order to boost public confidence in existing arrangements, as well as to curb expenditure, and have begun to look more closely at the level of benefits paid in relation to the disposable income of those in work who are providing the finance.

These factors have by no means affected Member States to the same extent — the ageing process, for example, is taking place at differing rates across the Union, as shown below, and unemployment has risen to much higher levels in some places than others — but all have had to respond in some degree to the challenges which they pose and all will have to continue to do so in the years ahead. Moreover, in Southern countries, governments have had to cope with significant growth of expenditure inherent in the development of systems comparable to those in the North of the Union as well as the effects of these factors *per se*.

Common reactions on the expenditure side have so far taken the form of:

- tightening regulations and qualifying conditions governing entitlement to income support and restricting eligibility for benefit to the more 'deserving' cases more than cutting rates of benefit directly;
- increased targeting as part of this, by greater use of means-testing, by linking the amount of benefit received to income and by taxing benefits;
- increased privatisation of a number of aspects of the system, including not only the contracting of the provision of services to firms in the private sector but also giving more responsibility to individuals to provide for their own protection against risks, especially so far as pensions and health care are concerned;
- increased emphasis on active rather than passive measures, as noted above, in order to prevent long-term dependency on income support.

On the financing side, the widespread reaction has been to:

- reduce social charges falling on businesses, particularly in the form of non-wage labour costs, in order to prevent these from both eroding international competitiveness and deterring employment directly and to stimulate job creation;
- seek alternative forms of funding social protection in order to spread the burden more widely and prevent it being overly concentrated on businesses and those in employment.

Outline

In what follows, the main specific measures implemented in Member States over the recent past are examined and compared, on both the expenditure and financing side, together with the proposals for change which are at present under active consideration. In addition, the more general issues to which these changes give rise and their potential consequences for those at risk as well as for public sector finances are discussed in the light of the economic, social and demographic developments taking place, which were listed above.

More specifically, the analysis focuses, first, on the response of Member States to demographic developments, especially those in prospect, concentrating on changes relating to retirement pensions which are a major item of expenditure in all countries. In addition, it considers the underlying scale of the impending demographic problem with which pensions systems have to contend and attempts to put these into perspective by relating them to the difficulties imposed by the high and rising levels of unemployment experienced over the past 20 years.

Secondly, it examines the move towards more targeting and the greater concentration of spending on those most in need, including, in particular, the increased deployment of means-testing and its potential drawbacks as well as advantages.

Thirdly, it considers the shift towards more active social policies in the context of both high unemployment generally and high long-term unemployment more specifically and the cost implications, as well as the increasing focus on the potential disincentive effects of overly-generous income maintenance schemes.

Fourthly, the major developments in sources of finance are examined together with the implications of any radical restructuring of funding towards more reliance on general taxation and less on contributions, whether by employers or by employees.

Finally, the various moves to privatise particular aspects of social protection are considered.

Responses to demographic and economic pressures

In most Member States, the emphasis of policy has switched during the first half of the 1990s from active encouragement of earlier retirement — including, in some cases, reducing pensionable age as well as increasing income support for those no longer working — to containing the growth of expenditure on pensions. This has been motivated by two principal concerns which have reinforced each other: the growing numbers opting to retire early as redundancies rose during the recession and jobs became scarcer and the prospective escalation in the proportion of the population above retirement age from around 2010 onwards as the post-war baby boom generation reaches 65, as described below. The changes introduced have taken several different forms and in some cases have had other aims in view — in particular, equalising the treatment of men and women — but all have had the effect of reducing prospectively the amount transferred in pensions.

Increases in the age of retirement

In five Member States, the official age of retirement has either been increased or is in the process of so being. In Germany, the retirement age will be progressively increased from 63 for men and 60 for women to 65 for both between the years 2001 and 2012, while those opting for early retirement will have their pension reduced by 3.6% for each year before the official age that they leave work. In Greece, the age of retirement was also raised for women as well as men to 65 as part of the reforms introduced in 1992 to make the pension system more coherent. In Portugal, the retirement age for women is in the process of being raised from 62 to 65 (by six months each year beginning in January 1994) to match that for men, while in the UK, it is planned to bring the retirement age for women (now 60) progressively into line with that for men over the period 2010 to 2020 (though only for those aged under 44 in 1995). Similarly, in Finland, the retirement age for public sector employees has been increased from 63 to 65 to match that of those working in the private sector. In Italy, where the retirement age is now 62 for men and 57 for women, it is planned to move progessively by 2008 to a flexible situation where both men and women can retire any time between 57 and 65.

In a sixth Member State, France, while the age of retirement has been kept at 60, the number of years of contributions required for entitlement to a full pension has been raised from $37^1/_2$ to 40, which, in practice, has much the same effect as the policy followed in the five countries listed above, especially for those remaining in education or training into their 20s. (Though this is, therefore, likely to mean that such people have to postpone retirement until a later age than those starting work earlier, at the same time, they will tend to have higher than average incomes, giving them more choice about when to retire as well as more possibility for remaining in work to a later age.)

Although these changes will tend to reduce social protection expenditure in future years, it does not necessarily follow that the numbers in retirement will diminish. Despite the general change in policy away from encouraging early retirement, the numbers leaving the labour force before reaching pensionable age have risen at a higher rate since 1990 than before (see below), largely because of the increase in redundancies and the difficulties of finding alternative employment experienced by those losing their jobs during the recession years. The main effect, therefore, might simply be to shift the burden of support from the state to the individual.

Other measures affecting pensions

In addition to these changes, which effectively serve to diminish the numbers in receipt of pensions, especially in future years when demographic trends begin to bite, there has been a widespread tendency to reduce the scale of benefits paid, taking the form, in particular, of changing the basis on which pensions are based and/or uprated.

In France, from 1994, the basis for determining the amount of pension receivable has been changed from the earnings received over the 10 years of employment when these were highest to the best 25 years, while both reference earnings and the pensions paid are now revalued or uprated on the basis of price increases rather than wage rises (see box on pension reforms). Similarly, in Portugal, from the same year, the basis of calculation has been changed from earnings in the best five of the last 10 years to those in the best 10 of the past 15, and the minimum contributions' requirement to qualify for any pension was increased from 120 months to 15 years.

At the same time, however, in Portugal, this effective reduction in the amount payable has been offset by indexing the earnings serving as the basis for calculation in line with price rises rather than not at all, while pensions at the lower end of the scale have been increased significantly, as they were in Greece in 1992. Such changes demonstrate that not all the reforms undertaken have been motivated by the aim of reducing expenditure — in some cases, especially in Member States where systems are still being developed, they have served to meet genuine needs and to improve the extent of social protection.

In Finland, on the other hand, a reduction in expenditure has been achieved more straightforwardly by lowering the maximum pension receivable by public sector employees from 65% of previous earnings to 60%.

A similar effect has resulted in Denmark and the Netherlands by taking more account of additional income received by pensioners or their partners in the determination of the amount payable in the form either of basic pension or supplementary allowances as well as, in Denmark, by making pensions and minimum income guarantees taxable (though with compensatory increases in the sum received) and, in the Netherlands, by restricting entitlement to higher rate basic pensions.

In a number of cases, moreover, such as in Italy and Sweden (for supplementary pensions), changes have been introduced with the aim of ensuring that sufficient funds are available to meet future pension liabilities by basing the amount of pension received more closely on contributions paid rather than on past income. Attempts to shift responsibility for providing pensions more on to the individual and away from the State and to encourage the growth of private insurance schemes for supplementary pensions — which has occurred in the UK, in particular — are partly motivated by the same objective though it is not necessarily the main reason behind them. Such moves represent a shift away from the prevailing 'pay-as-you-go' system under which present generations in work finance those in retirement to one where the contributions paid by, or on behalf of, those now in employment are earmarked for the pensions they will receive when they retire.

In practice, however, whatever the formal arrangements adopted, it is debatable how far the effective position is altered and prospective future funding problems alleviated. There is no guarantee that the future stream of (national) income out of which payment has effectively to be made will be expanded to the extent required simply by increasing the amount of forced saving. Unless this leads to more savings overall which is translated into higher growth of investment or to an increased rate of return — both of which will depend on the counterpart changes in the company sector profits as savings rise in the personal sector (ie there is no direct link between a rise in personal savings and an increase in investment or increased efficiency with which loanable funds are deployed) — the rate of economic growth and the level of future GDP out of which transfers have to be made will remain the same. Indeed, if it leads to lower economic growth — which, for example, might be the case if an increased proportion of investment funds are channelled abroad — then although pension funds might be in balance and capable of meeting liabilities, those in employment might nevertheless be in a worse position than if they were responsible directly for financing pensions.

The uncertainty of the effect of moving over to a fully-funded system perhaps explains why the impending expansion of the relative numbers of retirement pensioners has not led to a more widespread move across the Union to restructure pensions schemes more radically than has so far occurred. At the same time, there is evidence of a general trend across the Union, especially in respect of supplementary pension schemes, to shift towards systems where it is the amount of contributions paid which is the key determinant of the value of pension received rather than earnings when in work, however computed.

Finally, when the changes which have occurred have been predominantly been aimed at reducing expenditure and increasing the financial viability of pension schemes, mention should be made of the recent

Reforms of retirement pensions

France

Structural reforms of the pension insurance system were introduced in 1993 with the aim in part of balancing finance and expenditure. Changes were made in the method of calculating the average annual salary taken as reference for computing the amount of pension payable as well as in the length of the period over which contributions need to be paid for entitlement to a full pension. The period for determining the reference salary, which was previously the 10 years when salary was highest, is to be increased every year by one year up until 2008 when it will be the best 25 years. At the same time, the period over which contributions have to be paid for the person concerned to be entitled to a pension equal to the maximum of 50% of the reference salary is to be increased progressively from 150 quarters to 160 (40 years) by 2003. For each year by which the contributions record falls below 40, benefit is reduced by 5% for each missing year of contributions if a person retires before 65, thereafter the reduction in the rate payable is based on age. For particular categories (such as employees with 50% incapacity, manual workers with 3 children, veterans or war victims), the full rate is payable irrespective of the number of years of contributions.

Italy

In Italy, where there has been a particularly marked growth of expenditure on pensions over the past two decades owing to a low retirement age and high benefit rates, a first pension reform was introduced in 1992/1993, raising the age of retirement and restricting access to 'seniority' pensions (claimable after 35 years of contributions, or 20 in the public sector, regardless of age). In the Summer of 1995, a new pension bill was approved, phasing in a system of flexible retirement under which by 2008 both men and women will be allowed to retire between 57 and 65. The same rules will apply to all occupational categories — a significant change, given the marked disparities in the present system. The most important modification, however, concerns the basis of calculation of benefits which will be no longer be related to earnings but to contributions. The total amount of contributions paid during working life will be divided by a 'conversion coefficient' ranging from 4.719% (at 57) to 6.13% (at 65). This coefficient will be reviewed every ten years and potentially adjusted in line with demographic and economic developments. The rate of contribution payable is reviewed annually on the basis of changes in GDP aver a five-year period. The pension itself will be inflation-proofed and a state-financed social allowance will continue to be paid to those not eligible for a contributory benefit. The system will remain pay-as-you-go but actuarial criteria will in future govern the determination of benefits. In addition to the 'first pillar' contributory pension, the development of 'second pillar' voluntary supplementary pensions will be encouraged.

Sweden

The Swedish Parliament decided on principles for reforming the old-age pension system in 1994. Prior to this, it provided a universal flat-rate pension (with means-tested supplements) and a national supplementary pension (ATP) financed by contributions but the amount of which was related to earnings. Under the new system, there will be an integrated scheme of earnings-related pensions, linking benefits more directly with contributions. The pension received will be a function of total contributions paid during a person's working life (adjusted by a wage index), which will be divided by a factor to determine the annual pension at the age of retirement. This factor will be the same for everybody in an age group but may vary between age groups depending on average life expectancy. The amount of pension in the first year of retirement will then be adjusted according to both price changes and the real growth in the economy. The pay-as-you-go system will be retained, but will be supplemented by elements of an individually funded pension entitlement, under which 2% of the 18.5% pension contribution will be saved in a premium reserve system and on retirement, the individual will receive their saved capital and the yield accrued. Although this new 'defined contribution' (and partially funded) formula will constitute the central pillar of the reformed system, basic protection, in the form of a state financed guaranteed pension, will continue to be provided to those unable to mature contributory benefits. In addition, supplements will also be paid to those who only mature a low contributory pension. Voluntary occupational pensions (the 'third pillar') will continue to exist. The new system will be introduced gradually and the new rules will apply in full only to those born in 1954 or after.

reduction in the rate of contribution for retirement pensions in Germany (from 19.2% to 18.6% of earnings) which would seem to demonstrate that problems of funding pensions are not universally becoming more severe (though in part this might reflect the effects of recent substantial immigration on the German work force and, therefore, on those making contributions). Recent studies suggest, however, that even in Germany, funding problems lie ahead.

The effect of changes on men and women

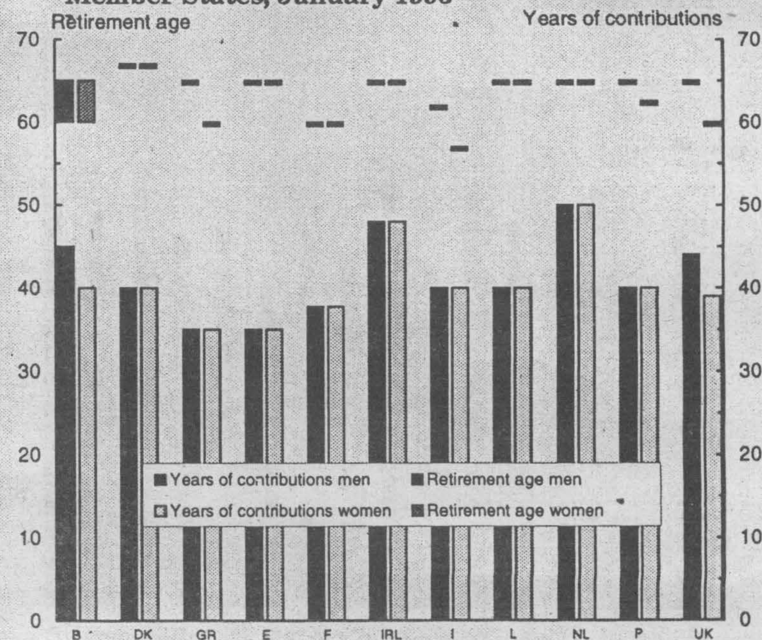
One aspect of the changes in the basis of determining pension entitlement concerns the impact on women in relation to men. Because women are much more likely to be involved in taking care of children or invalid relatives than men, they are, therefore, more likely to need to interrupt periods of employment. This tends to make it more difficult for women to meet the qualifying conditions for receipt of a full pension, a fact recognised in the regulations in a number of Member States, where either the number of years of contributions is lower for women than for men (as in Belgium or the UK — five years less in both cases) or some allowance is made for years of caring in the calculation of the contributions' record (though not necessarily a full allowance — see Chapter 7 below for details). In the UK, this allowance is planned to be extended to the state supplementary pension scheme to compensate in some degree for the increase in the retirement age, while in Ireland a similar allowance (in this case, enabling those concerned to exempt up to 20 years of caring from their contributions record) was introduced from April 1994 in respect of people caring for disabled or invalid dependants and children below school age.

At the same time, eligibility for survivors' pensions, which tend to affect women more than men, have recently been extended in Austria and Portugal.

The potential discriminatory effect of pension regulations, however, also applies to the earnings used in the computation of pensions. Because of women having to take more time off work than men, extending the period of reference over which the earnings basis is calculated, as in France or Portugal, is liable to penalise women more than men since the cumulated earnings in question are likely to be lowered to a greater extent.

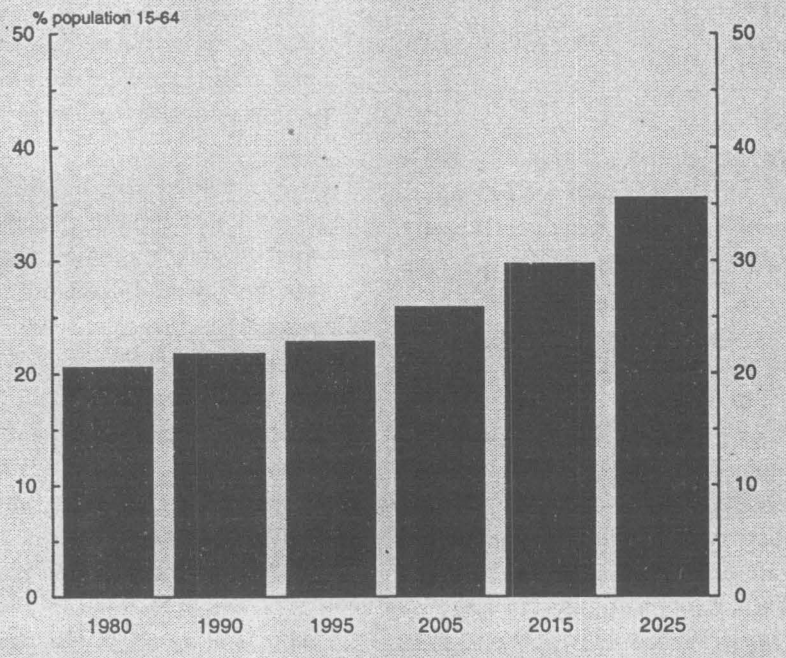
The result of the changes introduced or planned in Member States has in general been to make pension systems more similar, ie towards convergence rather than divergence. Thus at the beginning of 1995, in 7 Member States, the age of retirement for men was 65, in another, Belgium, it was between 60 and 65 and in Germany, it is in the process of being raised to 65, leaving only France (lower at 60), Denmark (higher at 67) and, prospectively, Italy (where it will be between 57 and 65) with a different age. At the same time, the retirement age for women was also 65 in four Member States (and between 60 and 65 in Belgium) and will be increased to 65 in the future in Germany, Greece, Portugal and the

4 **Retirement ages and number of years of contributions required for full pension by sex in Member States, January 1995**

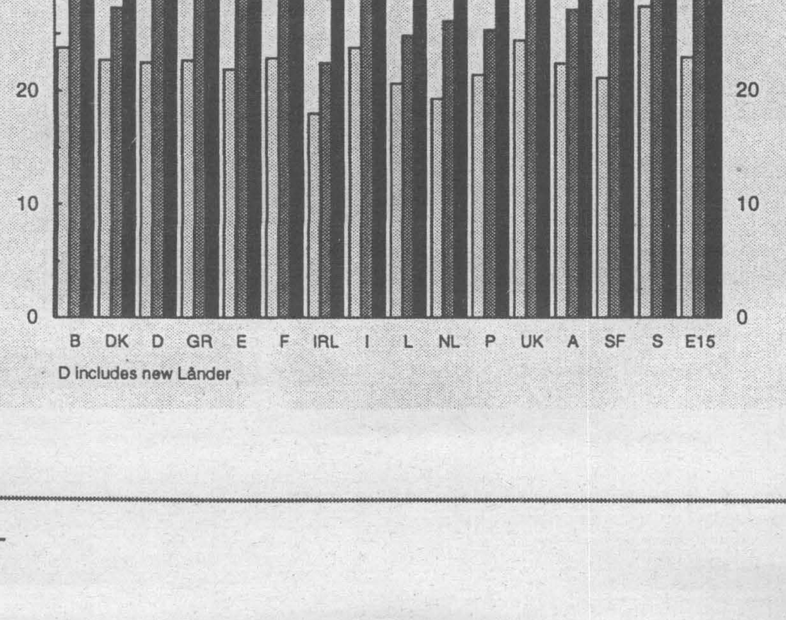


D years of contributions not specified, DK & NL number of years of residence required

5 **Population 65+ in relation to population 15-64 in the Union, 1970-2025 (mean projection)**



6 **Population 65+ in relation to population 15-64 in Member States, 1995, 2015 and 2025 (mean projection)**



UK, leaving only the three countries noted above with a different age (Graph 4).

On the other hand, there continues to be more diversity in the number of years of contributions required for a full pension, which varies from only 35 in Spain and Greece to 48 in Ireland, though the recent increase in France was a move towards convergence with most other countries. In Denmark and the Netherlands, unlike elsewhere, the qualification for a pension is based on residence rather than contributions (in the former case, because pensions are funded by general taxation rather than by contributions, as noted below).

The impending demographic time-bomb

The increases in the age of retirement discussed above are for the most part timed to coincide with the baby-boom generation reaching pensionable age, on the general expectation that this event will increase substantially the numbers drawing pensions and, therefore, the cost burden imposed on economies. In 1995, around 15% of the population in the Union is aged 65 or over and these amount to some 23% of the population of working age (ie those between 15 and 64), who through their employment and the income they generate have effectively to support them in their retirement. In ten years time, in 2005, those of 65 and over will, according to the latest projections, amount to 26% of working-age population, in 20 years time in 2015, to 30% and in 30 years time in 2025 to 35½%. In

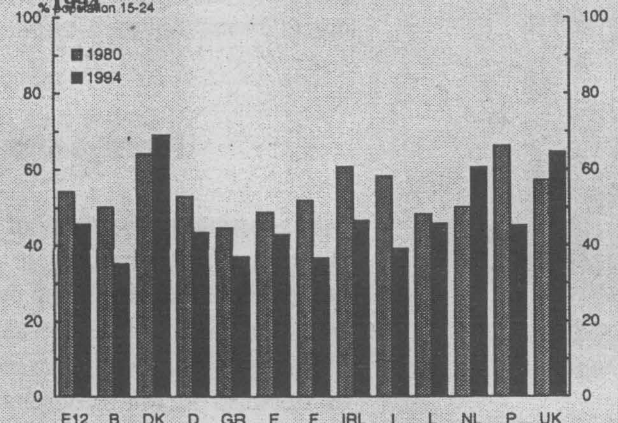
Changes in population, activity and employment

While it is undoubtedly the case that the numbers of people aged 65 and over have, over recent years, risen in relation to those of working age — the dependency ratio as usually measured — and stand to increase dramatically from the year 2010 on, the increase so far has been dwarfed by other factors which, in practice, have proved more important determinants of the effective degree of dependency as more appropriately measured. Moreover, since 1980, the growth of the numbers in retirement has been the consequence more of people withdrawing from the labour force prematurely than of demographic factors, which in turn has been a reflection of increasing unemployment and the scarcity of jobs (see *Employment in Europe 1995*, Part 1). In addition, two factors have been much more important in determining the rise in the effective dependency ratio — more appropriately measured by the number in retirement relative to the number in employment — than demographic trends. The first is the decline in the rate of participation of those aged 15 to 64 in the labour force, especially of younger people under 25 (which has fallen over the Union as a whole from 54.3% in 1980 to 45.7% in 1994 — see Graph 7) and of older people aged between 50 and 64 (which has declined in the Union from 51.3% in 1980 to 47.1% in 1994 as job shortages became more acute — see Graph 8). In practice, lower rates of participation in younger and older age groups have over the past 15 years been compensated by strongly rising participation of women, a trend which is as potentially important as the demographic one in determining the future size of the Union's labour force.

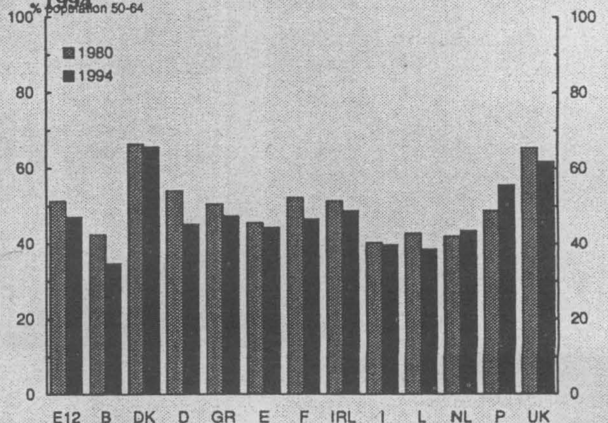
The second factor underlying the rise in the effective dependency ratio is the fall in employment of those who are part of the labour force and the growing numbers of the economically active — and if working-age — who are unemployed (Graph 9).

Despite the scale of the impending expansion in the relative numbers of those of 65 and over, the future path of employment, and unemployment, is likely to be equally, if not more, important in determining the extent of dependency and of financing problems. Indeed, a return to the levels of unemployment prevailing across the Union before the oil price crisis in the mid-1970s (2–3% of the labour force) allied to a continuing upward trend in the participation of women in the work force would more than offset the rise in the numbers of people aged 65 and over and make it easier to finance pensions in 20 or 30 years than now. If on the contrary, economic growth and the rate of job creation remains depressed and unemployment stays high, then the difficulties of achieving the necessary transfer from those below 65 to those above will be acute and the pressure radically to reform pension systems could prove irresistible.

7 **Active population 15-24 in relation to total population 15-24 in Member States, 1980 and 1994**



8 **Active population 50-64 in relation to total population 50-64 in Member States, 1980 and 1994**



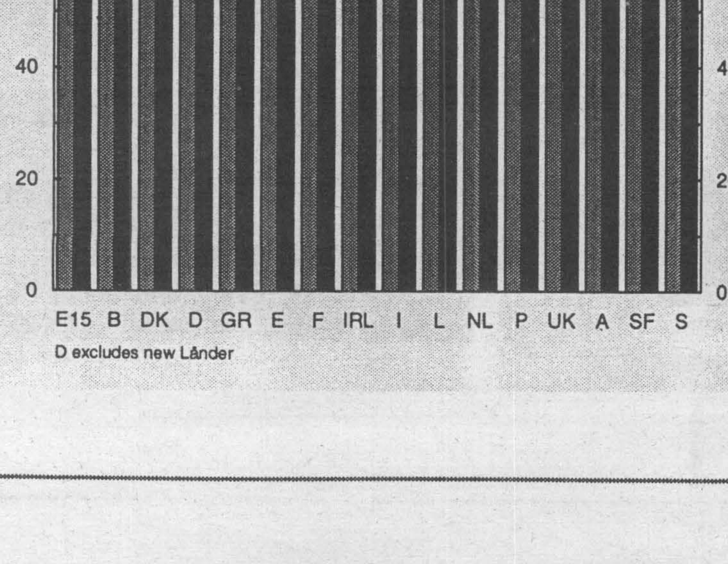
other words, whereas now there are 4–5 people of working age for every person of 65 and over, in 30 years time, there will be less than 3 (see Graph 5). In some Member States, Italy, in particular, the dependency ratio will be even higher (people of 65 and over are projected to increase to almost 40% of those of working-age in Italy over the next 30 years — Graph 6).

Such prospective developments, however, are only part of the picture. Other potential changes have also to be taken in to account before it is possible to assess the overall effects on expenditure and, more especially, the availability of finance, particularly the number of people who will actually be in work of those of working age who in practice will be the ones supporting those in retirement (as well as those who are unemployed) (see box on changes in population, activity and employment). The scale of future funding problems, in other words, depends as much on the path of employment, and unemployment, as on demographic trends.

Targeting

Growing concern about the scale of expenditure on social protection, both actual and prospective, in a context where, for the most part, there is an equal concern to maintain the fundamental principles of universal coverage and common access to the services and support provided, has led to an increasing focus of policy on improving the efficiency of systems and their effectiveness. As a result, measures have been introduced in a number of Member States, and proposals have been made in others, to target expenditure more closely on those in most need of assistance. This has taken a number of forms, varying both between Member States, according to the specific problems they face, their traditions and institutional arrangements, and between different parts of the system.

9 Employment in relation to active population in Member States, 1980 and 1994



Although often used as a synonym (or euphemism) for means-testing, the notion is much wider, encompassing efforts both to ensure that adequate levels of support are provided for specific groups (like the mentally ill, severely disabled or lone parents) and to tailor assistance to meet special needs (such as housing), as well as the linking of rates of assistance to income (which is not the same as means-testing *per se*, as explained below), the taxation of benefits and the imposition of eligibility criteria. The more restrictive definition of those eligible for income support, in particular, has been a common means in recent years of both increasing the effectiveness of expenditure and preventing abuse as well as reducing the amount spent, unemployment and invalidity benefits being principal targets throughout the Union.

Means-testing

Means-testing, in the sense of those requiring support needing to make specific claims and having to demonstrate that their lack of income and savings qualifies them for assistance (as opposed to the withdrawal, or reduction, of benefits from those whose income exceeds a certain level — ie 'affluence testing' rather than means-testing), has, however, been perhaps the most discussed method of targeting. Its application, on the other hand, has been by no means widespread across the Union and has largely been confined to the UK and, to a lesser extent, Ireland, where the earnings-related element of unemployment benefit has recently been abolished.

Since 1980, in particular — though it was more prevalent than in other countries even before then — the proportion of social protection expenditure subject to means-testing has increased significantly in the UK as entitlement to national insurance benefits have been more narrowly restricted and the amount payable reduced in real terms and as assistance specifically aimed at lower income groups, such as Housing Benefit, Family Credit or Income Support, has been given more emphasis. As a result, the numbers dependent on means-tested support, including many of those in receipt of insurance benefits whose income still leaves them below the minimum level as defined, has risen markedly. At the same time, a loans scheme (and some grants) has been introduced to provide those receiving assistance with the means of meeting one-off needs (such as the purchase of new furniture or household appliances).

The most recent example of the extension of means-testing in the UK is the proposed introduction from October 1996 of a Job Seeker's Allowance to replace the present system of unemployment benefits and income support for the unemployed. This will be payable as a flat-rate sum without a means-test to those satisfying contribution requirements for the first six months of unemployment (instead of the present 12 months), but thereafter will be means-tested (though those with dependants will be able to claim an additional allowance if there income falls below a minimum level in the first six months as well afterwards). It will also be accompanied by increased pressure on the unemployed to find work, though with increased help and advice from the employment services (see box).

While means-testing has some attraction as a way of concentrating support on those most in need and economising on what is spent and while it potentially enables individual circumstances to be taken into account in the payments made and the kinds of assistance provided, it has a number of drawbacks, especially if it becomes a principal component of the social protection system. These drawbacks also apply in some degree to targeting *per se*, whatever forms it takes as discussed in more detail below. In the first place, the imposition of means-testing, and indeed targeting generally, implies that it is possible to identify those most in need of assistance. In practice, because of the difficulties involved, the onus has to be put on the individual or household concerned to claim assistance. For many reasons — ignorance, lack of education, the social stigma attached, indolence and so on — a significant proportion of those entitled to support tend not to claim (in the UK, estimates suggest that some 34% of those entitled to Family Credit and 20% of those qualifying for Income Support fail to claim, though many of these appear to be only just eligible).

Secondly, because it is applied to accumulated wealth and not just income, means-testing can act as a significant disincentive to saving (in the UK, those with accumulated savings of more than around 10,000 ECU are not eligible for Income Support at all until these are run down).

Thirdly, it can also act as a major disincentive to work, not only because wide-ranging support (including housing benefits if a mortgage rather than rent is being paid) is withdrawn when an individual finds work and starts to earn a wage — unless they are eligible for Family Credit — but because means-testing is applied to households rather than individuals. Thus a woman in employment, even working part-time so long as she works more than 16 hours a week (increased to 24 under the proposed Job Seeker's Allowance) can find that the hours worked (regardless of income earned) prevents her husband receiving Income Support if he loses his job or, more especially, if he is unemployed for any length of time and benefits are means-tested. By the same token, there is an equal disincentive for someone not to look for work under such a system if their spouse is receiving Income Support.

Although some effort has been made in the UK to find ways of reducing the incidence of such disincentive effects — part of the reason for the introduction of Family Credit for those in low-paid jobs with dependent children was to raise disposable income when in work above that received when unemployed — these remain important.

The planned UK Job Seeker's Allowance

From October 1996, it is planned in the UK to replace the existing National Insurance benefits and Income Support paid to the unemployed by a single scheme, the Job Seeker's Allowance. Those who become unemployed and meet the requirements in respect of National Insurance contributions and other conditions will receive the new benefit as of right without a means-test. This will be the case, however, only for the first six months of unemployment instead of the first 12 months as at present. After six months, the payment of benefit will be subject to a means-test. All other people, including the self-employed, will have their allowance subject to a means-test from the beginning as now. The official expectation is that at any one time 75% of claimants will be paid the allowance on a means-tested basis. Rates of benefit will be based on current Income Support rates, so that those under 25 will receive a lower rate as now. The new allowance is to be accompanied by increased efforts to help people find jobs and to give them more encouragement to do so.

The underlying idea, according to the White Paper on *Job Seeker's Allowance*, (1994), is to help people in their search for work while ensuring that they understand and fulfil the conditions for receipt of benefit. As part of the scheme, therefore, the intention is to draw up a Job Seeker's Agreement with each individual, setting out a course of action designed to achieve a return to work as soon as possible, assisted where appropriate by measures to improve their employability. Conditions for receipt of benefit will be designed to reinforce the obligation of claimants to look for work and, as previously, claimants will not be able to refuse jobs without good cause, and there will be reduced access to benefit for those who fail to meet the entitlement conditions, including actively seeking work and completing a satisfactory Job Seeker's Agreement. Their partners will also be encouraged to work. At present, unemployed on means-tested allowances lose entitlement to benefit if their partner works in paid employment for 16 hours a week or more. This will be increased to 24 hours or more under the new proposals to exclude those working relatively few hours a week. In addition, individuals working part-time while on income support will be able to build up a 'back to work bonus', a lump-sum equal to half their part-time earnings (up to a maximum of £1,000 — just over 1,200 ECU). In addition, a partner's earnings can build-up the bonus, while the bonus is also payable if the claimant, or more generally, the partner goes into employment which takes the family off Job Seeker's Allowance.

Other forms of targeting

In other Member States, there has not been the same shift from social insurance to means-tested assistance. In most of these countries, the principle of social insurance to provide adequate levels of income when a person is unable to work is more firmly entrenched. Nevertheless, there has been some move away from everyone being entitled to receive an equal amount of benefit in all cases and income thresholds governing the receipt of benefits have increased in importance. In particular, in Germany, the Netherlands, Italy and Spain, the amount of family allowance receivable has in most cases been made dependent on income in recent years as well as numbers of children (those earning more receive less) and similar moves are being considered in Belgium and Portugal. In addition, in the Netherlands and Italy income limits have been introduced with respect to survivors' benefits, while in the latter country limits have also been imposed as regards the receipt of minimum pensions.

A third variant of this general trend is observable in Southern European countries. As well as the imposition of income thresholds, in Greece and Italy, in particular, efforts have been made in recent years to reduce the opportunity for cumulating benefits (such as pensions) which can result in certain groups receiving much more in the way of income support than intended and in their effective 'over-protection'. This has been motivated by a desire not only to avoid excessive expenditure and to target what is spent more on those in need but also to diminish the perception that the social protection system is being widely abused and so maintain support for its maintenance and further development. At the same time, measures have been taken in Southern Member States to improve social assistance schemes, which need inherently to be means-tested, which remain under-developed and have moved closer to establishing systems which guarantee than everyone receives at least a minimum level of income, which are a feature of other parts of the Union.

In the Scandinavian Member States, there has so far been less of a move towards a more selective approach. Though the problems created by universalism are being widely debated, in Denmark, Finland and Sweden, reductions or containment of expenditure have largely been achieved through general cuts in benefits, in particular, by reducing the rate in relation to earnings. At the same time, since most benefits are taxable in these countries, proportionately more of what is paid out tends to be clawed back from higher income groups than from those more in need.

The attachment to universalism is illustrated by the debate in Sweden in early 1995 on the proposal to link child allowances to income as part of budgetary cutbacks. This was rejected for fear that it might erode broad public support for the all-embracing system of social protection which operates. Instead allowances were reduced for everyone — for the first time since their introduction in 1948.

Cash benefits have not been the only area where attempts have been made to target expenditure more selectively. In most Member States, as discussed below, free access to health and medical care has tended to be restricted more narrowly in recent years on those on low incomes or most in need, such as the elderly.

The problems of targeting

As indicated above, there has been a pronounced tendency across the Union towards targeting social expenditure on those most in need of support. This is set to continue in the future, perhaps at an accelerating rate given the challenges facing Member States and the constraints within which governments have to operate. There are, however, potential problems which could arise as the strategy is extended. First, as noted above in respect of means-testing, for targeting to be effective, those most in need of assistance have to be identified. The difficulty here, quite apart from the administrative costs involved, is not only lack of information — we have only a very hazy idea of the numbers living below any given level of income in Member States or of the conditions in which they live — but equally importantly a lack of an agreed definition of need except in very general terms. Because individual circumstances are likely to vary considerably, even among those on similar levels of income, it is unlikely that targeting support on households with income below a certain level will ensure that adequate assistance is provided to everyone in need of help.

Secondly, the more support is targeted on a narrowly defined group, the more important are disincentive effects and dependency likely to be. If those receiving support lose a significant part of it if their income or circumstances change only slightly, there will inevitably be a major incentive to avoid such a change. In other words, if those deemed to be living in poverty, however defined, have their income lifted to an acceptable level but support is withdrawn once that level is reached or tapers off considerably, then it may be extremely difficult for them to improve their circumstances substantially by, in particular, finding a job — or in the case of in-work benefits finding a better job — and becoming independent of State support. They are, in essence, caught in an unemployment or poverty trap which it is hard to escape from (see *Employment in Europe 1995*, Part 3, Section 1 for details of the high effective marginal rates of deduction from income in some countries, the UK and Luxembourg especially, for those at the bottom end of the earnings scale which result from attempts to bring their income up to acceptable levels).

Thirdly, the inevitable counterpart of targeting benefits more narrowly on those in need is that those in less need, or in no need at all, receive less or even nothing. The principle of universality is, therefore, eroded which could have repercussions on the degree of public support for social protection systems and wider implications as regards those which are strongly based on an insurance principle and funded predominantly by contributions. In particular, as in the case of the Swedish proposal in respect of child allowances noted above, relating benefits inversely to income could undermine the support of the high income groups who get less or nothing. (On the other hand, it is equally arguable that paying benefits to wealthy members of society who do not need them could threaten the support of those lower down the income scale.) Where benefits are funded by contributions and linked closely to the payment of these, the problems are likely to be much more acute since targeting inevitably means breaking the link between the two and eroding the insurance-basis of the system. In countries with insurance-based systems, therefore, targeting has tended to be concentrated on those benefits which are funded by general taxation, such as child, or family, allowances or the provision of health care, rather than by contributions.

Work and welfare

In all Member States, as unemployment has risen and remained at a high level, attention has focused increasingly on both the regulations governing entitlement to income support and the scale of benefits paid, with the aim not only of reducing expenditure but of preventing abuse and trying to ensure that those drawing benefits have sufficient incentive to look for work. There has, therefore, been a general tendency throughout the Union to tighten conditions for eligibility for receipt of benefits and to avoid rates of support being so high in relation to the wage which the unemployed could earn in work that they discourage them from finding a job (see Chapter 4 below for an analysis of the scale of unemployment compensation in relation to disposable income when in work across the Union).

While Germany and Sweden have been two of the few countries to cut benefits directly in the recent past (in Germany by 1% of previous earnings for those with dependent children and by 3% for those without in January 1994, in Sweden, by 10% of previous earnings and by a further 5% from January 1996). In Belgium, however, the period young people have to wait before receiving benefits has been increased and the duration of certain benefits curtailed and in Ireland, the earnings-related supplement has been abolished (though accompanied by a 10% rise in basic benefit). In a number of countries, moreover, the definition of what is deemed to constitute a 'suitable' offer of employment has been narrowed to make it more difficult for those drawing benefits to turn down jobs without valid reason.

In the UK, more radically than elsewhere, under the new Job Seeker's Allowance, planned to be introduced in 1996, unemployment compensation, even paid at a flat, and relatively low, rate, will only be available without being means-tested for six months, as noted above, while there will be increased pressure on those being assisted to explore every possible job opportunity with potential loss of benefit if they turn down what is regarded as a suitable offer.

The new scheme is being introduced against a policy background in which the development of low-paid jobs has been encouraged to a much greater extent than elsewhere in the Union, partly through the abolition of restrictions on the payment of low wages, partly through setting unemployment compensation at a low level and partly through a system of paying in-work benefits to those whose earnings fall below a particular level. This system, known as Family Credit, is designed to ensure that those in employment are likely to be better off than if they were unemployed and thus represents an incentive to work even in a poorly paid job. At present, it applies only to workers with dependent children (though there is also a parallel scheme for disabled workers), but active consideration is being given to extending it more generally.

A potential problem of Family Credit and other similar in-work benefit schemes in operation or being considered in other parts of the Union is the high implicit marginal tax (or deduction) rates which they inherently involve for those on low pay. As noted above, since to keep down costs they tend to be targeted on a comparatively small group at the bottom end of the earnings scale, they are usually withdrawn at a relatively high rate (in the UK, at 70% of any increase in pay, which with taxes and contributions tends to mean marginal deduction rates of 90% or more for many recipients) as income from work rises. The net gain from earning more is, therefore, likely to be small if not negligible which means that it is difficult for those concerned to achieve a significant increase in real income and escape from the poverty trap so created and, in turn, implies that there is little incentive to look for a better, and more productive, job.

The move from passive to active measures

The UK system in essence is aimed at providing active encouragement to those unemployed to find a job as soon as possible. In other parts of the Union as well, in addition to the focus on systems of compensation as such, there has been a growing emphasis, encouraged by the Commission (in its two recent White Papers) and by the Council (most recently at the Essen Summit), on shifting the balance of both employment and social policy from passive measures of income support to active measures to get people into work and reduce dependency on social protection systems. This has been motivated by the increasing numbers drawing benefits for prolonged periods and the costs involved both to the State and the people concerned. Though these are most commonly the long-term unemployed whose numbers have grown markedly to reach almost $8^1/_2$ million in 1994, almost half of the total unemployed in the Union, they also include those registered as sick or disabled, whose numbers also seem to be affected by the state of the job market (increasing significantly during the recent recession). In all Member States, a primary aim of policy has become one of reintegrating these people into employment and of preventing those losing their jobs or becoming disabled in the future suffering the same experience, not only in order to reduce expenditure over the long-term but equally importantly for the self-fulfilment, self-esteem and general well-being of the people concerned.

Indeed, it is quite likely that expanding active measures increases rather than reduces overall social expenditure at least in the short-term. Those assisted in this way, through training, rehabilitation programmes, counselling and so on, still need income support while receiving such help. On the other hand, active measures need not involve substantial cost, especially if they take the form of eliciting private sector cooperation, whether by persuasion or legislation (by, for example, compelling all firms above a certain size to employ a minimum number of disabled people), or by trying to alter the way in which the labour market functions (by, for example, making it easier for firms to take on or dismiss workers, abolishing restrictions on the operation of private sector employment agencies or by removing obstacles to low rates of pay so as to make it profitable for companies to employ relatively low productive workers).

The more interesting question is whether in practice expanding active labour market measures of whatever form is likely to reduce what is spent on social protection in the long-term. The answer is by no means clear-cut. Ultimately, it will depend on whether the measures taken increase the capacity of the Union economies to maintain and expand jobs, which in turn depends on their effect on growth potential, including in particular on competitiveness, on the efficient functioning of the labour marked and on the employment-intensity of output. If they have little effect in these regards, then their main impact will tend to be on the distribution of unemployment and on job rotation. In other words, if there is no overall expansion in the number of jobs in the economy, then to the extent that people are helped into work by active measures it will inevitably be at the expense of someone else. Spreading the incidence of unemployment, however, might well be regarded as a desirable end itself, especially insofar as it is accompanied by a reduction in long-term unemployment and social exclusion.

The active measures introduced in Member States

The balance of public expenditure as between active and passive measures has not changed greatly over recent years in the Union (in most Member States, the former increased relative to the latter over the period 1985 to 1990 as unemployment — and the need for income support of the unemployed — fell markedly but declined again in the early 1990s as unemployment rose and increased the need for support once more — see *Employment in Europe 1995*, Part II, Section 4). Nevertheless, expenditure on active policies has generally risen in relation to GDP, while in addition measures not directly involving public spending as such have expanded in importance.

In particular, as well as more being spent on public employment services to provide help and advice for people to find jobs (in 8 of the 14 Member States for which data are available expenditure on such services rose relative to GDP even when adjusted to allow for the rise in unemployment), services were reorganised and their efficiency improved in a number of countries. Private placement agencies were legalisedin Sweden in 1993 and in Germany and Austria in 1994, as were non-profit making agencies and those specialising in temporary placements in Spain. In addition, in Italy the obligation to notify all job vacancies to the public employment services was abolished in 1995. In both Belgium and Germany, moreover, local employment agencies were established with the specific purpose of placing the unemployed in temporary jobs.

In many countries, policy has increasingly been targeted on the long-term unemployed. In France, special placement initiatives were taken in 1992 under 'Programme 900,000'; in

Belgium, a plan to monitor all long-term unemployed of 45 and below was introduced in 1993. In the UK, 'Restart' interviews were introduced to provide systematic assistance and advice to those who had been unable to find a job for a long period; moreover, from April 1996, employers taking on those previously unemployed for two years or more will receive a refund of employers' social contributions for the first 12 months. In Denmark, the 'Employment Opportunities' plan was developed with the aim of offering a job to all the unemployed who were still without work after a year.

In the latter country, as well as in Germany, France, Finland and Sweden, wage subsidies have been expanded significantly in the 1990s to stimulate increased job creation for the long-term unemployed and others who are hard to place, in particular. In all of these Member States, expenditure was around twice as high in relation to GDP in 1993 than in 1990 and has continued to increase since (see *Employment in Europe*, 1995, Part II, Section 4). In addition, in Spain, a series of measures directed at the same abjective have been introduced since 1992, partly in the form of reductions in employers' contributions. In France, for example, an extensive range of subsidies are now in place to provide incentives for firms to hire low skilled workers. Here as elsewhere, however, there is a questionmark about their effectiveness as means of expanding the numbers in employment overall insofar as firms may merely replace existing, higher cost workers by new recruits for whom they receive a subsidy. Studies have, therefore, tended to show that such substitution effects can be significant.

Similar potential problems arise over 'workfare' programmes of various kinds which involve persuading the unemployed to take up work, however funded. Such schemes are at first sight attractive in the sense that the unemployed do something rather than nothing for the income support they receive while at the same time adding to economic output. Moreover the additional costs involved to government over and above the benefits paid can be relatively small, especially if the unemployed receive no additional financial inducement for taking up such work. Nevertheless, the displacement effects can be substantial, whether work is performed in the public sector which would otherwise have been undertaken by public sector employees or contracted out to private firms or in the private sector under subsidy. In addition, it raises questions about the value of such work if it is not economic to carry it out without subsidy (whether explicit or implicit).

Equally, however, are clearly areas of the economy where potentially socially valuable activities are not undertaken because of market imperfections (see the Commission report on *Local development and employment initiatives*, SEC 564/95, published in 1995). These could potentially be carried out by the unemployed at the same time as providing them with work experience and training at relatively little financial cost or damage to wider economic interests if concentrated in areas where only the public sector is likely to be involved (and where, therefore, there is no possibility of firms losing business or jobs in the private sector being displaced). This applies especially to collective services, and environmental activities, in particular, and in a number of Member States, projects of this kind have been introduced in recent years. For example, in Spain, a large number of the young unemployed have worked on restoring historical buildings and in France in national parks; in Berlin, the unemployed receiving benefit are allowed to work 32 hours a week on the renovation of schools, while in an experiment in a town in the UK, the unemployed have been building ecologically-sound houses, which, for lack of funds, would not otherwise have been built.

A question about such projects concerns not so much their value to the community but their effectiveness in integrating the unemployed back into work on a permanent basis rather than providing temporary tasks for them to do. So far there is little evidence on this and further studies are called for.

At the same time, there is some evidence that these kinds of active measure for providing employment can give rise to problems over financing. In particular, since responsibility for providing the unemployed with work or finding jobs in the private sector for them often resides with regional or local authorities, while the policy itself is usually designed and launched by central government, the costs involved, which are prone to being under-estimated, and who bears these, are liable to be causes of some conflict. In Germany, for example, the Federal Government devised an extensive plan for reforming social assistance aimed at combining income support with personalised assistance to find each person a job. The scheme, however, had to be abandoned because of the opposition of municipalities faced with the supplementary costs generated by the project. A similar conflict arose in Denmark in 1994 over the Employment Opportunities plan.

Subsidies to encourage job creation do not necessarily have to take the form of expenditure. The same effect on the costs of employment can equally be achieved through reducing charges on firms, in particular by relieving employers in part or in total of the need to pay social contributions. (Indeed in a number of countries, despite their equivalence, this measure seems to be more acceptable than subsidies, which in part reflects a greater reluctance to increase public expenditure than to reduce tax and other government receipts.) As described in more detail below, such reductions have been made in a number of Member States in recent years, though for the most part they have been targeted on particular groups, especially the young and long-term unemployed.

A somewhat different approach to providing jobs for the unemployed is through explicitly trying to share available work more evenly. This has been developed in the Scandinavian countries in particular, where it is linked to training and other forms of leave for existing employees. In Sweden, the 'trainee temporary replacement scheme' was introduced in 1991 to encourage employers, through reductions in

Labour market reform to establish a more active employment policy in Denmark

In January 1994, legislation was introduced in Denmark with the aim of expanding vocational training and achieving a greater rotation of jobs. A significant innovation was the introduction of three types of leave, training, parental and sabbatical leave, which can be integrated into a programme of work sharing allowing workers to have more free time while providing more jobs for the unemployed. The idea is that if, for example, three workers decide to take sabbatical leave of one week each month, someone unemployed can be hired to replace each in turn so that they also work for three weeks a month. During the week when they are on leave, each of the three workers receives 72% of their salary.

This measure already seems to have had some success. In 1994, 73% of the workers on leave had been replaced by someone unemployed.

The measure is financed from the 'Labour Market Fund', partly financed in turn by the introduction of a new contribution levied on employees amounting to 5% of earnings, while employers will also have to contribute.

the training levy, both to allow workers time-off to improve their skills and to take on someone temporarily to replace them. In Denmark, a similar scheme, though extending to sabbatical and parental leave as well as training, was introduced in 1994 with the aim of stimulating a rotation of jobs between those in work and those unemployed (see box). In Finland, moreover, there are plans to introduce a job rotation system for the same reasons.

Active measures have not only been confined to those registered as unemployed. They have been extended also to the sick and disabled who have tended to increase in number as well. In the Netherlands and the UK — where the relative numbers of disabled and working days lost to sickness are both higher than elsewhere in the Union — as well as in Spain, responsibility for providing income support for those reporting sick has been shifted, at least for the initial period of illness from the State to the employer, with the aim of encouraging more effective policing of entitlement, as discussed further below. In Sweden, moreover, occupational injury and sickness benefits have recently been reduced significantly, in part to encourage beneficiaries to participate in active rehabilitation programmes.

Financing

As pressure has increased on social expenditure, so too has attention focused on both the scale of finance required to fund social protection systems and the methods of raising it. In particular, attempts have been made in many parts of the Union to relieve the burden on employers who, through their contribution to insurance-based systems especially, have traditionally provided a significant proportion of the income required. This has been motivated by a concern to avoid unduly adding to labour costs in a context of both high unemployment and increasing exposure of producers to external competition. In almost all Member States, therefore, the share of finance for social protection provided by employers' contributions has tended to decline in recent years (see Chapter 3 below). Though no data are as yet available, the indications from the measures introduced by Member States suggest that this decline has, moreover, accelerated since 1993 as increased efforts have been made to reduce the costs of employment.

The concern to keep down employers' contributions and to compensate for any reductions made in these has led to an intensified search for alternative forms of financing and, associated with this, a reassessment of the balance between insurance contributions and taxation. The insurance-based nature of social protection systems in most Member States, however, represents a formidable obstacle to any substantial, wide-ranging restructuring of finance. The link between contributions and benefits, in other words, is an integral element of the system which cannot easily be loosened, let alone broken, without altering fundamentally the way it functions.

This inherent problem has led governments in a number of Member States to seek to differentiate between those elements of social protection expenditure which are an integral part of the social insurance system, where the payment of contributions gives entitlement to benefits, such as unemployment and earnings-related pensions, and others where the transfers or services provided are not so closely linked to contributions, more uniform and more universally available, such as health care and family allowances. Making such a distinction, therefore, opens up the possibility of shifting from contributions to taxes, in whatever form, as a means of financing the latter. This approach has been followed, for example in Germany, where, there have been recent attempts to differentiate between unemployment benefits linked to employment records and the contributions paid and other aspects of labour market policy which are more generally open to those who are in need of assistance. Similarly in Luxembourg, the funding of family benefits was shifted from employers to general taxation in 1994, while in Greece and Spain increasing consideration is being given to the same kind of restructuring of finance.

As a corollary, there is also a tendency to earmark the taxes which are raised or introduced to compensate for reductions in contributions specifically for social protection. In France, a new 'solidarity' tax, the 'Generalised Social Security Contribution' (CSG), levied on all personal income, was introduced in 1991 and increased in 1993, the revenue raised going towards financing basic (ie non-contributory) pensions. A similar contribution (the 'Personal Social Contribution') has been levied on all taxable income in Belgium since 1994 and part of energy and value-added taxes as well as excise duties and property taxes have been earmarked for social protection, while in Luxembourg, a special levy on fuel has been introduced to help fund employment promotion.

These latter two changes are part of a tendency in many parts of the Union to shift the burden of taxation from employment (the demand for which needs to be encouraged) to natural resources (the excessive use of which needs to be discouraged). This is in line with the Commission proposal to combine a CO_2/energy tax with a reduction in employers' contributions to stimulate job creation while at the same time encouraging energy saving and lower emissions to help safeguard the environment. Other examples of Member States following this principle are Denmark, where taxes on labour have been reduced and taxes on energy increased, the UK, where employers' contributions have recently been reduced and VAT imposed on fuel as well as a new landfill tax announced, and the Netherlands, where a tax on energy use is being considered.

On the other hand, in Scandinavian countries, an opposite trend is apparent. Here social expenditure has always been predominantly financed by general taxation and insurance-type contributions have played a very minor role in most respects. Increasing consideration, however, is being given to the extension of contributions, partly to diversify sources of finance, but mainly to establish a closer link between funding and entitlement to benefit, which potentially provides a means of restricting access to the benefit concerned or of varying the amount paid out or the level of service provided in line with what has been contributed. In Denmark, in particular, where in the past social protection, at least so far as statutory aspects are concerned, has been financed entirely from taxation, since 1994, all workers have had to make a contribution (of 5% of their gross salary, though 8% as from 1998) to labour market funds out of which unemployment and early retirement benefits as well as support for the new forms of leave discussed above are paid. From 1997, moreover, employers will also have to contribute.

At the same time, in Germany, following reductions in the contributions rates for pensions between 1991 and 1994, contributions for employers as well as employees were raised in 1994 (by equal amounts) on the introduction of the new long-term care insurance scheme (discussed below). To compensate employers for the additional cost, however, this was accompanied by the cancellation of a public holiday.

Given the difficulties of across-the-board reductions in contributions of any size (though in a number countries, employers' contributions have been cut in the recent past — in Spain and Portugal, for example in the former, together with a cut in employees' contributions) two trends are apparent. One is to shift the burden of contributing from employers to employees, which seems to have occurred in Northern Member States (particularly in Belgium, France, the Netherlands and, more recently, the UK) though less so in the South of the Union (where, except in Italy, the share of total finance provided by employees fell between 1980 and 1993 — see Chapter 3 below). The other is to make selective rather than general reductions in employers' contributions. This has especially been the case in respect of low-paid workers. A particular aim in many countries has been to encourage the employment of those with relatively low skill levels or of young people who are capable of commanding only comparatively low rates of pay and account for a disproportionate share of the unemployed. For these especially, high social charges can represent a significant deterrent to firms which otherwise might take them on.

In Belgium and Ireland, for example, employers' contributions were reduced in 1994 in respect of employees on low pay, and in Ireland a further reduction (from 9% instead of 12% for those earnings less than around 15,000 ECU a year) was made in 1995. In the UK, a further reduction was made in employers' contributions in 1995. In addition, in France employers in 1993 were granted a five-year exemption from contributing to family allowances as regards employees paid less than 1.3 times the statutory minimum wage (SMIC).

The young, the long-term unemployed and the disabled have been particular target groups. In Italy as in Portugal, a special reduction in contributions has been introduced for employers recruiting anyone belonging to these groups (with wider concessions applying in the South), while in Belgium, employers are entitled to a reduction of contributions for a three year period (of 100% in the first year and 50% in the third) if they take on someone who has been employed for a year or more or who is under 26 and has been out of work for at least six months. Similarly, in Spain, firms which take on young people, someone unemployed of 45 or over or a disabled person on a temporary contract (of 1–3 years) have their contributions reduced by 75% and for small firms reductions apply for anyone taken on who was previously unemployed.

A further tendency apparent across the Union is to supplement traditional sources of finance by user charges, which in some sense can be considered a form of taxation. These are discussed below.

Privatisation — towards a new welfare mix?

A widespread reaction to the evident pressures from economic and impending demographic developments has been to search for radically new approaches to the organisation, operation and funding of social protection systems in Europe. A particular focus has been on the possibilities of increasing private sector involvement in a number of ways as well as of shifting responsibility for certain risks from the State to the individual, or sometimes the employer. In the extreme, it has been suggested in some quarters that the concept of universal coverage and of equal access of all citizens to social protection according to need is outdated and/or too costly for modern economies to support and that

State systems should be confined to providing basic assistance and support to those without the means of providing for themselves.

Although the more general issue of defining the desirable scope of social protection, especially in areas such as health care or pensions, has been a major topic of debate, there has been little support for this kind of extreme solution to the funding problems of existing systems. Indeed, as noted in Chapter 1, there is deep-seated popular attachment in all Member States to a broadly-based social protection system, and successive European Summits have reiterated the central importance of maintaining present systems in the Union not only for reasons of social cohesion but also to strengthen the basis for economic growth and improving competitiveness.

Nevertheless, the role of the private sector and the desirable scope of individual responsibility are both issues of importance which are likely to become more so in future years as real incomes continue to grow and demographic trends unravel. Already tendencies towards privatisation in various senses, of contracting out activities to the private sector, of encouraging private provision of services or support, of shifting responsibility for protection to individuals or part of the costs of provision onto them, are evident in most Member States. While the aim of reducing costs to the government is a major motivation underlying such moves, it is also argued that greater private sector involvement is a means of introducing more competition in the delivery of services and, therefore, of increasing efficiency. Equally, giving more responsibility to individuals to provide for their own protection widens their freedom of choice over how much and what kind of insurance to have and so arguably is a way of increasing the effectiveness of expenditure, in the sense of the pattern of what is spent conforming more closely to consumer — and social — preferences.

A point worth emphasising given the prevailing preoccupation with cost containment is that privatisation in these senses does not necessarily reduce what is spent overall on protection though it may help to keep down public expenditure and, therefore, taxes and contributions. In a number of areas leaving consumers freer to choose what they spend may well result in higher expenditure, especially as real incomes increase. This is most notably the case as regards health care as witnessed by the scale of spending and the range of services provided in the US — where it is also open to question how far economic efficiency is boosted by greater freedom of consumer choice — but it may also be true of saving for retirement as people look forward to a longer period of old age as life expectancy increases.

The trend towards privatisation is wide-ranging but is most apparent in respect of retirement pensions, health care and social services and sickness and invalidity benefits. Recent developments in each of these areas are examined in turn below.

Retirement pensions

In a number of Member States, governments have introduced incentives to encourage the development of private insurance schemes for the provision of pensions over the past few years. With the major exception of the UK, however, such schemes are not intended to replace public sector provision directly but to enable people — occupational groups in particular — to supplement their state pensions if they so wish. In this way, as well as giving people more choice over how much they wish to contribute, it is hoped to relieve pressure for an expansion of State supplementary schemes. Occupational schemes of this kind have existed for some time in both Belgium and Germany, while in Italy legislation took effect in 1994 to facilitate the development of company pensions.

In the UK, on the other hand, a major aim of policy in this area for the past decade and more has been to hive off responsibility for a large part of pension provision to private insurance companies and employees have the right to contract out of the State supplementary system so long as they belong to an approved privately managed scheme. In the past, such schemes were predominantly organised by employers and were specific to particular occupational groups or companies. Over the past few years, however, attempts have been made, through financial incentives and publicity, to encourage the development of personal pensions as a substitute for, rather than as an addition to, State supplementary pensions.

This approach, however, has recently been called into question for two reasons. First, the Maxwell scandal, where pension fund money was used by an employer for his own purposes and lost as the company failed, has demonstrated the need for closer supervision and much tighter controls on private pension funds. Secondly, members have had to pay higher levels of contributions to cover the higher costs associated with running individual pension schemes as compared with large occupational schemes. Given such costs and the costs of supervising private schemes effectively, added to the greater inflexibility associated with a multitude of different occupational schemes which in some cases increase the costs of moving between jobs, it is open to question how far privatisation on the scale obtaining in the UK represents a more efficient and lower cost solution to the provision of adequate pensions.

Health care and social services

A combination of public and private provision is most prevalent in respect of health care. In all Member States, the private sector is involved to some extent in the supply of treatment and services and in most countries its importance has increased since 1980 (the only exceptions between 1980 and 1993 were Belgium, the Netherlands and Finland — see Chapter 3 below). At the same time, an increasing proportion of the cost of treatment and of prescriptions has been passed onto patients. Moreover, in two countries, in particular, the Netherlands and the UK, significant reforms have taken place in the way the system is organised, both with the intention of introducing more competition and so increasing efficiency (see Chapter 5 below).

In Sweden, privatisation has in recent years been extended to social service activities, in particular, to the provision of various personal services, such as child care, where there was previously a public sector monopoly, though this is essentially bringing the situation into line with that existing in other parts of the Union. To encourage this development, State grants have been introduced for those providing such services.

A different example of privatisation, in a broad sense, in this general area is the establishment of the Child Support Agency in the UK in 1993, set up to identify and trace absent parents — fathers, in particular — with the aim of increasing the amount that they pay to support their children (through the application of a fixed, and controversially rigid, formula to their present income) and, accordingly, to reduce the amount the State has to pay.

Sickness and invalidity benefits

Concern about the scale and growth of sickness and invalidity benefits has, in recent years, led governments in two countries, in particular — the Netherlands and the UK — to look for ways of reforming the system of payments in order to curb expenditure, partly through tightening eligibility criteria and partly through reducing the level of income support or abolishing benefits completely. In both countries, policy has been aimed at shifting responsibility for payment and, therefore, for checking the validity of claims onto employers (see box on the relative numbers of people who regard themselves as permanently disabled in these two countries).

In the Netherlands, legislation was introduced in 1993 to make the level and duration of benefits dependent on age, to widen the definition of what is deemed to be suitable employment for the claimant and to introduce regular medical examinations. In 1994, further legislation was enacted to make employers entirely responsible for income support for the first six weeks of sickness and to encourage them to check that the person concerned is really too ill to work and to set up counselling arrangements. At the same time, companies are required to develop policies on reducing the prevalence of sick leave.

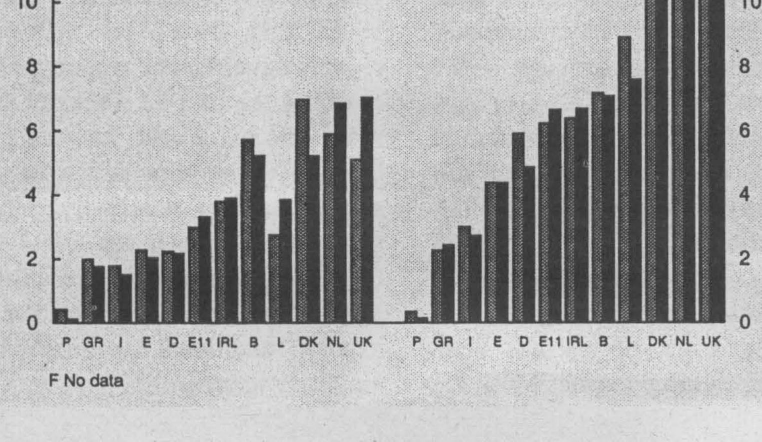
Similar measures have been introduced in the UK. As from April 1995, short-term sickness and longer-term invalidity benefits were amalgamated into a single Incapacity Benefit, with the level of payment increasing with duration and with regular independent and more stringent medical checks being required. In addition, from April 1994, employers have become responsible for covering the first 28 weeks of sickness. The extra cost, however, has been offset by a reduction in their social insurance contributions (proportionately greater for lower than higher wage-earners), which on average more than compensates for the expected additional expenditure they are likely to incur.

Numbers of disabled in the Union

Comparable and reliable data on the number of people drawing invalidity or disability benefits in the Union are not available. Some indication of the numbers involved can be gained from the Community Labour Force Survey which includes a question on why respondents were not actively seeking work and suggests being permanently disabled as a possible reason.

The relative numbers of people classified as permanently disabled in the Netherlands and the UK on this basis in relation to other parts of the Union is striking. In both countries, some 7% of people in the 45 to 54 age group and 15–16% of those in the 55 to 64 age group considered themselves to be permanently disabled in 1994 (Graph 10). These proportions, which almost certainly reflect the kind of income support which they are receiving rather than the actual number of people who are disabled, are twice as high as the averages for the Union as a whole — though it should be noted that the data are incomplete for some countries, France, in particular, for which there are no data at all. Around half of all the disabled people in the Union were, therefore, living in these two countries. Moreover, in both cases, the proportions have tended to increase over time, though there was some fall in the Netherlands for the younger of the two age groups between 1993 and 1994, perhaps in response to the tightening of eligibility conditions.

10 People aged 45-54 and 55-64 economically inactive because of being permanently disabled, 1987 and 1994



F No data

As in the Netherlands, such a change is deliberately designed to give employers a marked incentive to reduce the incidence of sick leave. Nevertheless, while more systematic monitoring of leave might be called for, there is a danger that a result of the change will be to discourage employers from hiring people who are regarded as likely to be prone to spells of absence for illness or to retain those who have already shown themselves to be.

The experience in Germany, where employers have been responsible for some time for the payment of sickness benefit, seems to indicate that this is not so much of a potential problem. The experience also suggests, however, that it is important to have rules governing hiring and firing which specifically prevent employers having access to an applicant's detailed medical record or being able to fire someone purely because of their state of health and which are strictly enforced. In practice, the people likely to suffer most from the change in arrangements are those employed by small companies where controls, are deliberately relatively lax. At the same time, the German experience also seems to suggest that there is unlikely to be much if any saving in overall expenditure on sickness benefits as a result of the change, even though public spending will be lower.

As governments in these two countries and others in the Union have focused on reducing social expenditure, in Germany, the scope of the system has been extended to include a new function, insurance against long-term care (*Pflegeversicherung*), financed, as noted above, by a general increase in contributions. The novelty of this move is not the provision of support for care itself — in a number of other Member States, care is provided as part of health or social services or as part of their social assistance arrangements — but its incorporation in the social insurance system as such.

Concluding remarks

One conclusion to be drawn from the above is that, just as Member States are characterised by significant differences in their social protection systems, as emphasised in Chapter 1, so too have there been a number of disparate developments over recent years. Nevertheless, there are clear signs of some convergence in the measures taken and in the focus of policy effort, which should not be too surprising given the common nature of the problems and challenges faced.

Most particularly, in all Member States, governments have been increasingly concerned with containing costs, especially of old-age pensions and unemployment compensation, two areas where the actual and impending pressure for expenditure growth is acute. The action taken in this respect has also been similar, taking the form of targeting entitlement to benefit more narrowly — in respect of pensions, by raising the age of retirement — as much as directly reducing the rates of benefit paid.

Cost containment has also been a major objective in the provision of health care where in a number of countries, in addition to the Netherlands and the UK where reforms have been most substantial, such as Italy, Germany and Spain, attempts have either been made or are being considered to introduce more competition into the system with a view to raising efficiency.

In addition, there is a common trend away from a passive policy of income support towards active measures to get people into a position where they can support themselves rather than having to rely on the State. The precise measures taken, however, vary somewhat across the Union, especially in respect of the role played by government, at the regional and local as well as central level. In some Member States, the public authorities are much more actively engaged in the job creation process than in others, where they have concentrated more on an enabling role, removing restrictions and obstacles to employment growth. What is meant by active policy, therefore, differs in some degree across the Union and has come to cover a broad range of widely differing measures and approaches. In most Member States, however, improving the functioning of the employment services and the help and advice given to job seekers has been a central part of policy.

In financing, there has been a widespread shift away from contributions, especially those levied on employers towards increased reliance on taxation on the grounds that the former is liable to add to labour costs and so deter job creation and damage cost competitiveness. As part of this, a general search for alternative forms of funding is evident, as well as the development of taxes earmarked for the financing of specific benefits or services. On the other hand, in Denmark the opposite is occurring with the introduction and expansion of contributions, though from another perspective this can be seen as move towards convergence with the rest of the Union where there is a more mixed pattern of financing.

Common trends are also apparent with regard to privatisation, if this is defined in very general terms to encompass any changes which lead to more private sector involvement in the provision of social protection or individuals having more responsibility and choice over the amount and form of protection provided. At the same time, there is little sign of any general move to narrow the scope of social protection coverage or away from universal entitlement to income support and access to services.

Indeed, in the Southern countries of the Union as well as in Ireland, substantial progress has been made towards the establishment of systems comparable in their coverage and the level of support provided to those in other Member States. Equally, in a number of countries, protection has been improved or extended to meet new needs, not only in Germany, with the introduction of its long-term care insurance, but also in Denmark and Sweden, where entitlement of workers to periods of leave for training or parental care has been introduced or extended and combined with the provision of temporary jobs for the unemployed.

Chapter 3 Trends in social protection and its financing

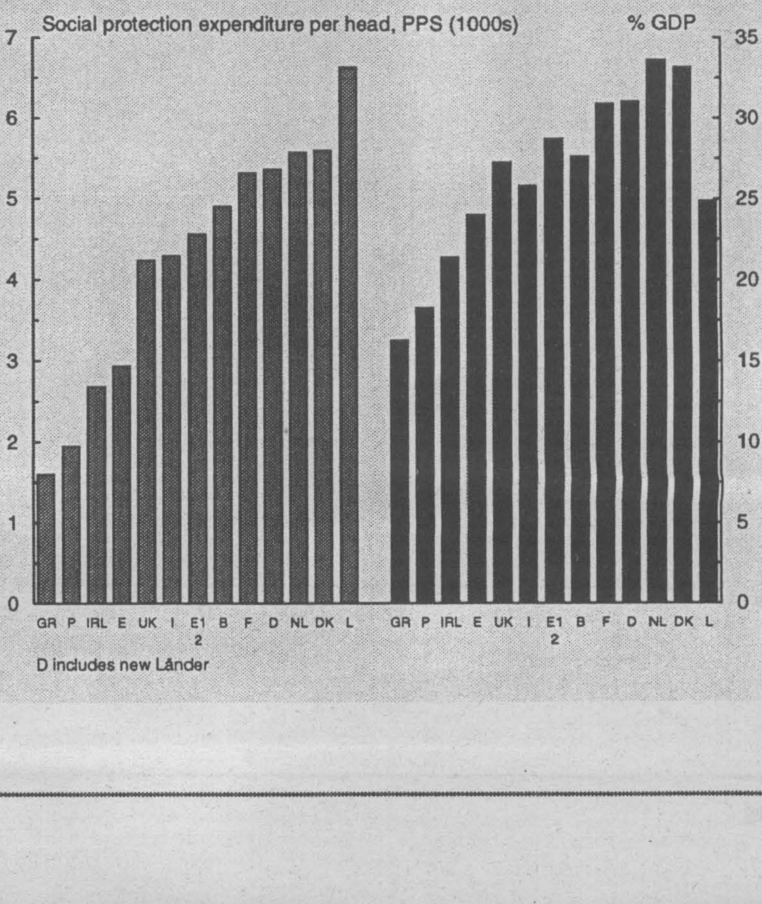
In 1993, expenditure on social protection — defined to include old-age pensions, health care, sickness and invalidity benefits, unemployment compensation and spending on public employment services, family allowances and maternity benefits and housing benefits as well as administrative costs — averaged around 29% of Community GDP. This was equivalent to just over 4,500 ECU per person living in the Member States.

Variations in the scale of spending across the Union, however, are substantial. Whereas in Denmark and the Netherlands, expenditure amounted to over 33% of GDP (and to around 35% in Finland, where the figure has been increased markedly by the slump in GDP, and around 30% in Sweden, though for the latter not directly comparable figures as yet exist), in Ireland, it was only around 21½%, in Portugal 18% and in Greece just over 16% (Graph 11).

In terms of average expenditure per head of population, differences are even wider. While Luxembourg in 1993 spent an average of over 6,600 ECU (expressed in purchasing power standards to make the figure more comparable, in terms of the command over real resources, with that for other countries in the Union) on social protection for every person resident in the country, Greece spent only 1,600 ECU per person (standardised in the same way), a difference of over 4 times. Although the extent of variation was less for other Member States, it was still the case that there was a considerable difference between the level of expenditure in the more developed, more prosperous countries in the North of the Union and those in the South together with Ireland. Both the Netherlands and Denmark, therefore, spent almost twice as much per head on social protection in purchasing power terms in 1993 than Spain, over twice as much as Ireland and almost three times as much as Portugal.

Although these differences largely reflect differences in levels of real income — and purchasing power — per

11 Social protection expenditure per head and in relation to GDP, 1993



D includes new Länder

head, it is, nevertheless, the case that there is a perceptible tendency, even if by no means uniform, for social expenditure to be higher in relation to GDP the higher the level of real income (Graph 12). In other words, as economies develop and become richer, they tend to devote an increasing proportion of resources to social protection in its various aspects. The extent to which this happens, however, itself varies between countries. The Netherlands and Italy with much the same levels of GDP per head when expressed in purchasing power standard terms have very different levels of spending on social protection in relation to GDP. Whereas in the former it amounted to 33½% in 1993, in the latter it was under 26%. Indeed, in all Northern Member States where GDP per head was higher than in the Netherlands (or Denmark), social protection expenditure was lower, in some cases significantly so. The choice of how much to spend on social protection even between countries with similar levels of real income, therefore, differs markedly between Member States.

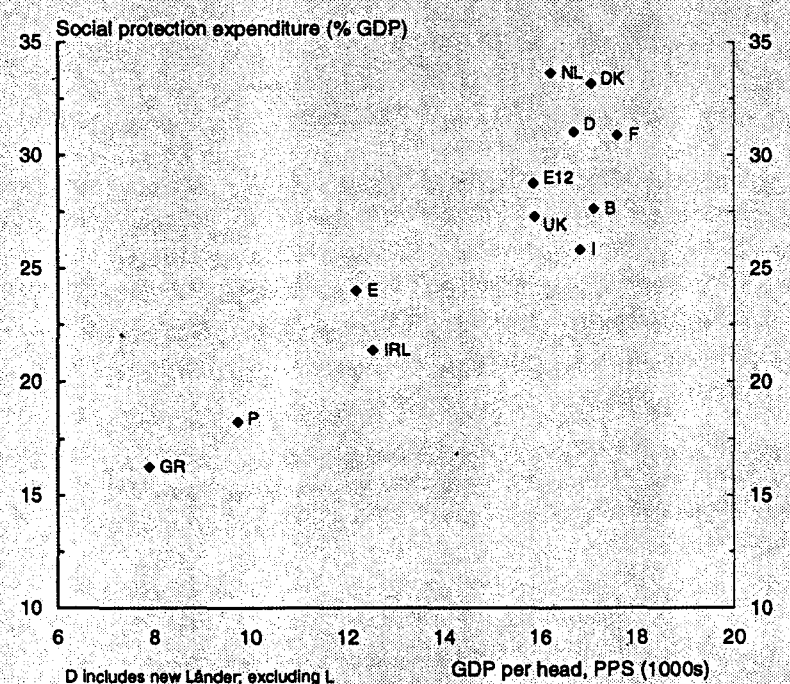
Real income, on the other hand, is by no means the only determinant of expenditure levels. Countries also vary in terms of the need for social protection because of different population structures (the proportion of elderly people), different levels of unemployment, different disparities in underlying income distribution and so on.

Outline of analysis

These differences, and the changes which have occurred in them over time are among the issues examined in this chapter, which is concerned not only to review the comparative levels of social protection expenditure across the Union and how these have changed over time in relation to economic growth, but also to try to identify the proximate reasons for the differences which exist and the variations in rates of change. In particular, a major aim is to consider how far demographic trends, and more specifically changes in the numbers potentially in need of protection, or support, can account for the changes in social expenditure which have occurred over the past decade or so.

Such an analysis, however, is by no means straightforward. What can be achieved is very much limited by data problems. Thus while there is now a relatively well developed set of data on social protection expenditure in the Union designed to be as comparable as possible (though not as yet including two of the three new Member States), which forms the basis for the analysis here (see Notes and sources at the back of the report), there is considerably less information about the number of people in receipt of social protection, whether of income support or of the various services provided. In general, the lack of data on beneficiaries means that population or labour market figures for groups at risk (for example, the number of people above retirement age in the various countries) have to be used instead to serve as a proxy for the numbers receiving support. As a result, it is not possible to examine what is happening to the extent of coverage of social protection systems, in the sense of whether an

12 Social protection expenditure and GDP per head, 1993



D includes new Länder; excluding L

increasing or declining number of people at risk have access to assistance, or, in other words, to the proportion of people at risk who are assisted.

This is a major weakness of the analysis since it lies at the root of any assessment of the effectiveness of systems in actually reaching the people in need and providing adequate levels of protection and support. (Prospectively, the new Household Panel Survey established by Eurostat will provide information about the numbers receiving income support in various forms from the social protection system across the Union at any one time and the amount involved. The first results of the survey should be available around the end of 1995.)

In what follows, the growth of total expenditure on social protection in Member States between 1980 and 1993 (the latest year for which data are available) is first examined in relation to the growth of GDP and population in order to try to assess the long-term trend — ie whether and to what extent there is a tendency for social protection to absorb an increasing proportion of resources over time.

Secondly, the pattern of expenditure on the main functions and the way in which this varies between Member States are considered together with the changes which have occurred over time to identify the areas of growth and decline.

Thirdly, expenditure on each of the main areas, or functions, of social protection is examined, in turn, in some detail in order to assess how far the changes which have occurred reflect changes in the numbers of people potentially in need of support (for example, growing numbers of people in retirement) as opposed to changes in the average level of benefit provided. In addition, the changing structure of individual kinds of benefit — in particular, the extent to which they are subject to means-testing and the relative importance of supplementary payments — is also considered.

Finally, the changes in sources of finance for social protection systems over the past decade or so are analysed, focusing especially on the amounts raised from contributions in relation to the revenue obtained from general taxation.

Growth in expenditure, 1980 to 1993

Between 1980 and 1993, total expenditure on social expenditure increased in relation to GDP in all Member States with only two exceptions — Belgium and Germany where it declined. Over the Union as whole, average expenditure went up from 24% to just under 28% (29% if the new Länder are included), a slower rate of increase than in the 1970s when all Member States without exception experienced a marked expansion of spending (Table 1).

Countries showing the largest rises since 1980 include in particular the Southern Member States, Greece, Spain, Italy and Portugal, all of which were engaged to differing extents in developing their social protection systems to be comparable in coverage with those in the North of the Union. On the other hand, they also include the UK, where policy was directed perhaps more than elsewhere at restraining social expenditure growth. (It should be noted that because the figures for social protection expenditure in Austria and Sweden are not directly comparable with those for the rest of the Union, the levels, either in value terms or in relation to GDP, are not included in the graphs and tables in this chapter. The changes over time, however, are included wherever possible since these ought to be more comparable with the changes shown for other Member States. For Finland, comparable data are available but only for the years 1990 to 1992 and these are included in the analysis wherever possible. Changes for years before 1990 are based on national data.)

However, the change over the period as a whole conceals markedly different developments within the period. In particular, most of the growth in spending which occurred between 1980 and 1993 was concentrated in the three years of recession between 1990 and 1993 when GDP expanded only slowly or not at all. Over the Union as a whole, whereas social expenditure rose by 2½% of GDP in the early 1990s, it went up by only 1% of GDP over the whole of the 1980s and between 1985 and 1990, when economic growth was relatively high, spending declined in relation to GDP.

A similar pattern is evident in most Member States. (The level of expenditure relative to GDP is, however,

Table 1 — Current social protection expenditure, 1970–1993

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	E12	A*	SF*	S*
Total social expenditure as % of GDP																
1970	18.7	19.6	21.5	-	-	19.2	13.2	17.4	15.9	20.8	-	15.9	19.0			
1980	28.0	28.7	28.8	9.7	18.2	25.4	20.6	19.4	26.5	30.1	12.9	20.6	24.1			
1985	29.3	27.8	28.4	15.4	20.0	28.8	23.6	22.6	23.4	31.7	14.2	23.8	25.9			
1990	27.0	29.8	26.9	16.1	20.6	27.7	19.5	24.1	22.1	32.2	15.0	22.1	25.2		26.0	
1993	27.6	33.2	27.6 (31.0)	16.3	24.0	30.9	21.4	25.8	24.9	33.6	18.3	27.3	27.7 (28.7)		35.4	
Annual change in expenditure as % of GDP																
1970-80	0.9	0.9	0.7	-	-	0.6	0.7	0.2	1.1	0.9	-	0.5	0.5	-	-	-
1980-85	0.3	-0.2	-0.1	1.1	0.4	0.7	0.6	0.6	-0.6	0.3	0.3	0.6	0.4	0.2	0.8	0.1
1985-90	-0.5	0.4	-0.3	0.1	0.1	-0.2	-0.8	0.3	-0.3	0.1	0.2	-0.3	-0.1	0.0	0.3	0.1
1990-93	0.2	1.1	0.3	0.0	1.1	1.1	0.6	0.6	0.9	0.5	1.1	1.7	0.8	0.6	4.7	0.2
Social expenditure excluding unemployment compensation as % of GDP																
1970	18.2	19.2	21.3			19.0	9.4	17.4	15.9	20.2		12.5	18.1			
1980	25.6	25.7	28.0	9.5	15.5	24.3	19.0	19.0	26.3	28.3	12.6	19.1	22.9			
1985	26.3	24.7	27.0	15.1	16.5	27.4	20.5	21.8	23.1	28.1	13.9	21.5	24.2			
1990	24.6	26.6	25.8	15.7	17.4	26.2	17.2	23.7	22.0	29.6	14.8	21.3	23.9		25.4	
1993	25.0	29.1	26.1 (29.0)	15.7	19.2	28.9	18.4	25.3	24.7	30.7	17.4	25.6	25.9 (26.7)		32.0	
Annual change in expenditure as % of GDP																
1970-80	0.7	0.6	0.7	0.9	1.5	0.5	1.0	0.2	1.0	0.8	1.3	0.7	0.5	-	-	-
1980-85	0.2	-0.2	-0.2	1.1	0.2	0.6	0.3	0.6	-0.6	0.0	0.3	0.5	0.3	0.1	0.8	0.0
1985-90	-0.3	0.4	-0.2	0.1	0.2	-0.2	-0.7	0.4	-0.2	0.3	0.2	0.0	-0.1	-0.1	0.4	0.1
1990-93	0.1	0.8	0.1	0.0	0.6	0.9	0.4	0.5	0.9	0.4	0.9	1.4	0.6	0.4	3.3	-0.5

Note: *The figure for the EC in 1970 refers to the 9 Member States for which data are available. The change between 1970 and 1980 relates to the average for these 9 Member States. Figures in parenthesis are for total Germany, including the new Länder; other figures for Germany exclude new Länder. The figures for the UK have been adjusted to a calendar year basis (and therefore, differ very slightly from those published in Eurostat,* Social Protection Expenditure and Receipts, *1980-1993*
** A, SF, S 1990–92.*

Source: *Eurostat, ESSPROS database; A and S from national sources; SF for 1980–90 from national sources and for 1990–92 from ESSPROS* very sensitive to the economic cycle and though the timing of this is fairly uniform between countries, the precise years in which turning-points occurred vary slightly which affects the changes shown over specific periods of time.) In five countries — Belgium, Germany, France, Ireland and the UK — social expenditure fell relative to GDP in the second half of the 1980s and only in Denmark, Italy, Portugal and Finland was there a significant rate of increase (more than 0.1% of GDP a year). In all countries without exception, social expenditure went up in relation to GDP between 1990 and 1993, in six Member States — Denmark, Spain, Luxembourg, Portugal, the UK and Finland — by more than 1% of GDP a year.

A major reason for the rise in expenditure in relation to GDP over this period was clearly the economic recession. This both added to the need for spending, because of the steep rise in unemployment with which it was associated, and more importantly depressed GDP directly. In practice, in most countries only a small part of the rise in expenditure relative to GDP during the early 1990s was due to higher payment of unemployment compensation (on average over the Union as a whole, it accounted for just 0.2 percentage points a year of the 0.8 percentage points by which expenditure rose as a proportion of GDP — Table 1). On the other hand, in Germany and Spain, it accounted for half or more of the rise and in Sweden for more than all of the increase (here spending excluding unemployment pay declined relative to GDP — in this case over the two years 1990 to 1992).

In order to isolate the effect of the depressed state of GDP on the figures, it is instructive to examine the rate of growth of expenditure on social protection in itself. Between 1980 and 1993, average expenditure on social benefits in the Union (ie excluding administrative expenses) grew by 3–3½% a year in real terms (deflating by the change in consumer prices — the growth in the total including administration was much the same). Growth, however, was far from uniform over time. Between 1980 and 1985, it averaged just over 2½% a year in the Union as a whole, between 1985 and 1990, as economic growth picked up, it rose to almost 3½% and between 1990 and 1993, when for the most part when the European economies were into recession, it increased further to almost 4½% a year (Table 2). Much of this acceleration, however, reflects the effect of variations in the rate of unemployment. If social transfers to the unemployed — social assistance as well as benefits — are excluded, the difference in the rate of growth of expenditure both between the first and second half of the 1980s and between the second half of the 1980s and the early 1990s narrows appreciably. Indeed, on this basis, growth of expenditure on social benefits was only very slightly higher in the years 1990 to 1993 than over the period 1985 to 1990 (just over 3½% a year as opposed to just under).

Moreover, the effect on social protection expenditure of changing levels of unemployment is not confined solely to unemployment transfers. Spending on family allowances will also be affected to the extent that transfers are made to support the dependent children of the unemployed, while spending on old-age pensions will also tend to be affected through changes in early retirement (see Chapter 2 above). The underlying rate of spending growth in the early 1990s, therefore, was probably no higher than over the latter part of the 1980s, and possibly slightly lower. Nevertheless, even taking account of these other elements, the underlying growth rate between 1990 and 1993 was still over 3% a year, higher than the long-term of growth of the Union economies over the past 15–20 years, implying an upward trend in expenditure on social protection relative to GDP. This in large measure reflects the growing needs for social support from both an ageing population and a changing structure of households.

The pattern of expenditure growth over time has by no means been uniform between Member States. In most countries, even allowing for rising expenditure on unemployment benefits, spending on social benefits in real terms rose at a faster rate between 1990 and 1993 than over the preceding five years, which perhaps explains in part the widespread emphasis on cost containment described in Chapter 2.

In terms of expenditure on social benefits per head, this increased in real terms by just under 3% a year between 1980 and 1993 — slightly less than the overall growth because of the (small) rise in population. The growth, however, varied from under 2% a year in Sweden, Belgium, Germany and the Netherlands, to 5% a year or more in Finland and Portugal (Graph 13).

Table 2 — Growth of expenditure on social benefits at constant prices by function, 1980-85, 1985-90 and 1990-93 (annual % change)

		Old-age	Sickness	Invalidity	Unempl.	Family	Maternity	Total	Total excl. unempl.
B	*1980-85*	1.2	-0.8	0.1	3.4	-2.5	-0.5	0.6	0.3
	1985-90	3.0	4.8	0.1	-0.3	0.1	3.4	2.3	2.6
	1990-93	3.2	2.2	1.4	4.7	-2.9	16.8	2.3	2.1
DK	*1980-85*	2.5	-2.1	2.2	3.3	-0.3	12.9	1.7	1.4
	1985-90	2.4	0.6	3.6	1.7	5.8	6.4	2.8	2.9
	1990-93	2.5	3.3	4.2	9.8	4.2	2.4	5.0	4.4
D	*1980-85*	0.0	0.1	0.9	11.2	-4.9	-4.1	0.1	-0.3
	1985-90	3.2	3.3	2.5	-1.4	3.9	4.5	3.3	3.5
	1990-93	1.7	2.5	3.2	15.9	1.0	2.4	2.6	2.0
GR	*1980-85*	11.3	1.8	16.9	9.1	8.7	5.1	10.4	10.4
	1985-90	2.3	0.8	0.9	6.4	-17.6	-2.3	1.7	1.6
	1990-93	-0.9	16.9	-4.3	6.3	-9.5	-1.2	1.5	1.4
E	*1980-85*	4.5	0.1	3.3	6.5	-10.4	-1.3	3.1	2.4
	1985-90	5.5	8.3	5.4	3.0	-6.5	1.7	5.7	6.3
	1990-93	4.5	5.0	4.7	15.2	12.9	4.3	6.8	4.9
F	*1980-85*	4.6	3.3	2.0	7.4	1.4	-0.1	3.8	3.7
	1985-90	2.3	3.9	2.6	4.7	0.8	1.2	2.8	2.7
	1990-93	3.1	3.7	0.5	11.0	2.4	0.2	3.8	3.3
IRL	*1980-85*	2.8	1.0	5.9	17.6	8.4	-1.8	4.1	2.7
	1985-90	1.9	1.0	2.8	-1.0	3.5	0.8	1.1	1.5
	1990-93	3.6	7.7	6.7	12.8	6.3	6.9	6.7	5.8
I	*1980-85*	6.7	3.0	3.5	13.2	-0.9	3.3	5.3	5.1
	1985-90	6.0	7.1	4.9	-8.4	2.5	-1.5	5.6	6.0
	1990-93	4.8	-0.5	1.3	12.4	-7.2	2.9	3.0	2.9
L	*1980-85*	0.8	1.0	0.8	14.3	-1.4	3.9	0.9	0.8
	1985-90	6.2	6.2	3.4	-7.7	9.8	6.0	6.5	6.6
	1990-93	8.0	8.6	5.8	24.7	13.5	6.9	8.0	7.9
NL	*1980-85*	1.1	-1.0	-0.1	15.6	-2.6	-0.5	1.2	0.0
	1985-90	6.0	3.9	3.9	-3.3	-2.0	7.2	3.4	4.2
	1990-93	1.8	3.3	1.6	5.5	-2.0	13.2	1.8	1.5
P	*1980-85*	1.2	6.0	2.7	0.3	1.5	-0.8	2.3	2.4
	1985-90	11.4	4.6	7.9	4.6	5.9	6.4	8.5	8.8
	1990-93	8.9	12.3	5.3	46.1	1.3	6.7	10.6	9.6
UK	*1980-85*	4.3	1.6	4.4	10.2	2.4	0.2	4.8	4.3
	1985-90	1.8	3.7	7.2	-14.6	1.4	-3.0	1.3	2.6
	1990-93	6.9	5.1	6.1	24.5	7.4	15.6	8.3	7.5
EUR12	*1980-85*	1.6	1.1	1.7	9.0	-1.2	-0.6	2.6	2.2
	1985-90	2.7	4.3	3.7	-2.1	1.4	1.0	3.3	3.6
	1990-93	2.2	3.2	3.1	13.9	2.3	5.0	4.4	3.8
A	*1980-85*	3.1	1.3	1.1	17.6	-1.9	-0.4	2.7	1.9
	1985-90	3.7	4.4	1.0	4.5	0.0	3.9	3.5	3.4
	1990-92	3.3	8.7	3.4	15.1	1.7	31.2	6.0	5.2
SF	*1980-85*	5.8	6.6		7.4	8.9		6.6	6.5
	1985-90	4.7	5.2		-0.7	8.4		5.1	5.5
	1990-92	4.5	-2.2	7.3	116.4	5.2	6.2	8.6	4.5
S	*1980-85*	2.5	0.3		15.5			1.8	1.4
	1985-90	3.4	4.2		-4.8			3.5	3.8
	1990-92	4.0	-15.1		83.0			-1.9	-4.9

Note: *Expenditure figures are deflated by the consumer price index in each case. Old-age includes survivors; invalidity includes disability and occupational accidents and diseases; A: invalidity consists of occupational accidents and diseases only; SF: family includes maternity. D exclude new Länder*

Source: *Eurostat, ESSPROS database; A and S from national sources; SF 1980–90 from national sources and 1990–92 from ESSPROS.*

In practice, as for differences in levels of expenditure, there is some tendency for the growth of social expenditure per head in real terms to vary with the rate of growth of GDP per head, though there are number of Member States where GDP growth per head grew relatively slowly in which social expenditure increased at a comparatively high rate (Greece and Finland, in particular) (Graph 14).

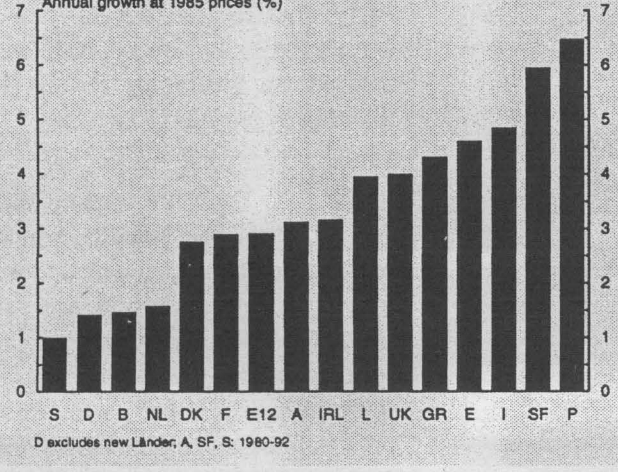
In five Member States, the growth in social expenditure per head increased progressively over these three periods, though the changing amount spent on unemployment compensation accounts for part of the rise (Graph 15). In ten countries, growth occurred at a higher rate between 1990 and 1993 than over the 1980s. In six of these — Spain, Ireland, Luxembourg, Portugal, the UK and Finland — growth averaged 6% a year or more in the early 1990s. In four countries — Belgium, Germany, Greece and the Netherlands — on the other hand, the rise in real spending per head was kept down to below 2% a year over this period, while in Sweden (at least on the national data available) expenditure was reduced.

The structure of expenditure

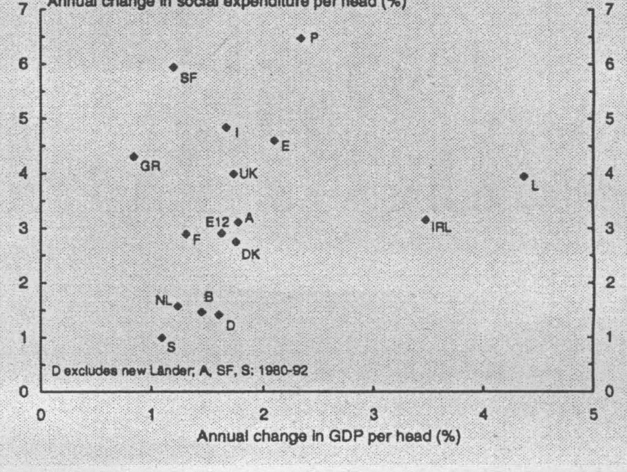
Although the pattern of social protection expenditure, in the sense of what is spent on the different kinds of function, varies across the Union, it is relatively similar for many of the more developed countries in the North. In all Member States, with the sole exception of Ireland — then only just — the largest share of expenditure is devoted to old age pensions (which is here defined to include survivors' pensions). Over the Union as a whole, these accounted for almost 45% of total social spending in 1993, though in Greece and Italy they amounted to over 60% of the total (Table 3). Only in the Netherlands (37%) and Denmark (34%) in addition to Ireland (28%), was the proportion lower than 40%. However, in Denmark and the Netherlands, the difference from the Union average largely reflects the high level of social spending on other functions (in relation to GDP, spending on pensions in both countries is close to that in most other Member States) and in Greece, the low level of expenditure elsewhere. In Italy, on the other hand, expenditure on pensions was higher in relation to GDP than any other country in the Union ($15^1/_2$% as against a Union average of 12%) and in Ireland, substantially lower (under 6% of GDP).

Health care and sickness benefits (not separately distinguished in the ESSPROS data, but mainly comprising the former) are the second largest element together accounting for an average of almost 25% of expenditure in the Union in 1993, though varying from around 30% in Ireland and Portugal to under 20% in Denmark and the UK and under 15% in Greece. In the other 7 countries, however, the proportion was not markedly different from the Union average (see Chapter 5 below for a

13 Growth in expenditure on social protection benefits per head, 1980-93



14 Growth of social expenditure per head and growth of GDP per head, 1980-93

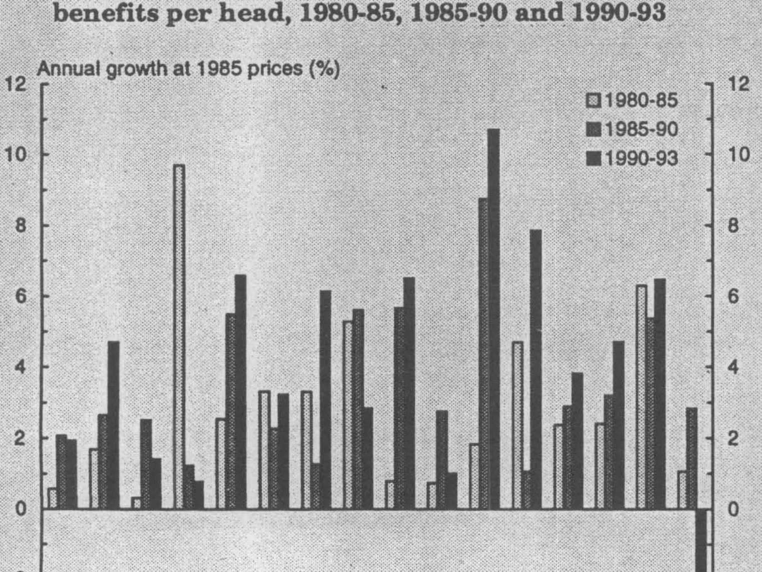


separate analysis of health care expenditure based on OECD figures).

Invalidity, disability and occupational injury benefits are the third largest item accounting for 9% of the total over the Union as a whole, but in this case varying somewhat more markedly than the former two kinds of spending, from over 22% of the total in the Netherlands, where expenditure was as large as on sickness and health care in 1993, to only around 7½% in France and Ireland. In relation to GDP, the scale of Dutch spending was even more striking, amounting to over 7% as compared with a Union average of 2½% and a figure of only 1½% in Ireland and Greece. Expenditure on this function alone is a major part of the explanation of the relatively high expenditure on social protection in the Netherlands as compared with other countries in the Union, though it is important to be cautious in this regard since those who are supported by means of invalidity benefits here might well be supported by other kinds of benefit elsewhere (such as unemployment benefits, for example).

Similarly, the high level of overall expenditure in Denmark owes much to the comparatively high level of spending on unemployment compensation and the public employment services, which, despite the rate of unemployment being below average, together accounted for 19% of the total in 1993 as opposed to a Union average of around 8%. Indeed, spending on this function was almost as high in Denmark as in Spain and higher than in Ireland, in both of which unemployment was substantially greater. Though the comparative level of spending on unemployment compensation reflects in some degree the scale of unemployment, differences in the average benefit paid and in the coverage of assistance seem to be equally if not more important factors, as examined further below.

15 Growth in expenditure on social protection benefits per head, 1980-85, 1985-90 and 1990-93



D excludes new Länder; A, SF, S: 1990-92

Family benefits, which are the fifth largest category of spending, vary equally widely between Member States. On average, they accounted for 6½% of total spending on social protection in 1993, but for over 10% in Denmark, Ireland, Luxembourg and the UK and for only 1% or less in Spain and Greece, though in some degree, this difference reflects the method of paying benefits (directly from employers in Greece) and the extent of tax concessions and allowances which serve the same essential purpose (and which should ideally be incorporated in the analysis if the data were available).

Maternity benefits vary somewhat less, though expenditure was significantly larger in 1993 in Denmark, especially in relation to GDP, than elsewhere in the Union and significantly smaller in the Southern Member States — Greece, Italy and Portugal, in particular (where it amounted to only 0.1% of GDP).

For the rest, there are marked differences in housing benefits, which in part reflect the way in which those receiving income support are assisted. In the UK, in particular, housing benefits, which are much more important than in other parts of the Union, effectively compensate for

Table 3 — Division of social protection expenditure by function, 1993

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	E12	SF
							% total expenditure							
Old-age + survivors	43.2	33.1	39.0	63.0	39.1	41.2	26.8	59.7	45.1	35.4	38.6	39.7	42.3	32.1
Sickness	21.8	18.3	25.7	14.1	24.4	24.9	28.3	21.1	23.9	21.2	29.2	18.9	23.3	21.0
Invalidity, disability + occupational accidents and diseases	10.4	9.1	11.2	9.4	9.6	7.2	7.1	8.5	14.0	21.4	13.1	11.5	10.4	15.2
Unemployment	9.5	12.3	6.4	3.2	19.9	6.4	13.8	2.0	0.8	8.7	4.6	6.0	6.9	9.4
Placement, vocational guidance, resettlement	1.6	6.1	2.6	0.0	0.5	1.4	2.5	0.1	0.1	0.0	1.6	1.1	1.6	4.0
Housing	0.0	2.5	0.8	0.5	0.4	3.0	2.9	0.0	0.2	1.0	0.0	6.5	1.9	1.1
Family	6.7	9.8	7.0	0.5	0.9	7.7	10.1	3.1	10.8	4.6	4.3	9.7	6.5	10.0
Maternity	0.8	1.7	0.7	0.5	0.9	1.3	2.0	0.4	1.4	0.5	0.8	1.2	0.9	2.4
Other	1.3	4.5	2.4	3.9	1.0	1.4	2.0	0.0	0.1	2.6	2.8	1.5	1.7	2.0
Administration	4.6	2.6	4.3	4.8	3.3	5.6	4.4	5.0	3.5	4.5	5.0	3.9	4.5	2.9
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	E12	SF
							% GDP							
Old-age + survivors	11.9	11.0	12.1	10.2	9.4	12.7	5.7	15.4	11.2	11.9	7.0	10.8	11.9	11.4
Sickness	6.0	6.1	8.0	2.3	5.9	7.7	6.1	5.4	5.9	7.1	5.3	5.1	6.5	7.4
Invalidity, disability + occupational accidents and diseases	2.9	3.0	3.5	1.5	2.3	2.2	1.5	2.2	3.5	7.2	2.4	3.1	2.4	5.4
Unemployment	2.6	4.1	2.0	0.5	4.8	2.0	3.0	0.5	0.2	2.9	0.8	1.6	1.9	3.3
Placement, vocational guidance, resettlement	0.4	2.0	0.8	0.0	0.1	0.4	0.5	0.0	0.0	0.0	0.3	0.3	0.3	1.4
Housing	0.0	0.8	0.2	0.1	0.1	0.9	0.6	0.0	0.1	0.3	0.0	1.8	0.5	0.4
Family	1.9	3.3	2.2	0.1	0.2	2.4	2.2	0.8	2.7	1.6	0.8	2.6	1.8	3.5
Maternity	0.2	0.5	0.2	0.1	0.2	0.4	0.4	0.1	0.4	0.2	0.1	0.3	0.3	0.8
Other	0.4	1.5	0.0	0.6	0.2	0.4	0.4	0.0	0.0	0.9	0.5	0.4	1.1	0.7
Administration	1.3	0.9	1.3	0.8	0.8	1.7	1.0	1.3	0.9	1.5	0.9	1.1	1.3	1.0
Total	27.6	33.2	30.3	16.3	24.0	30.9	21.4	25.8	24.9	33.6	18.3	27.3	28.5	35.4

Note: *D includes the new Länder, SF 1992*

Source: *Eurostat, ESSPROS database*

relatively low levels of compensation paid as of right by means of unemployment benefits or through basic pensions. The level of expenditure, therefore, reflects the more extensive reliance in the UK on means-testing, of which housing benefits are one element.

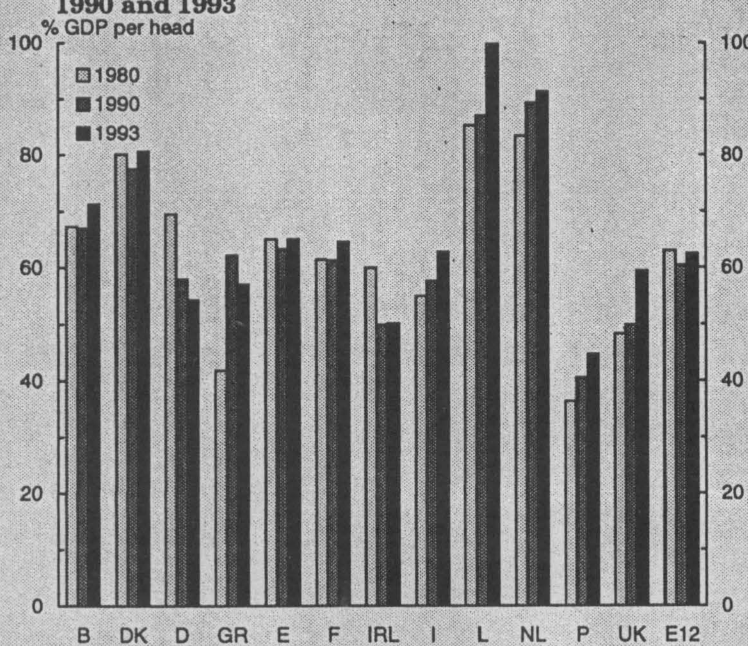
Expenditure by function

Distinguishing between the changes which have occurred in expenditure on the different functions of social protection gives an indication of the areas in which the main growth of spending has occurred. In practice, there was an increase in spending relative to GDP in the Union in all the main areas of expenditure between 1980 and 1993, with the exception of family benefits where spending declined from just over 2% to just under 2%. The increase was especially marked in respect of pensions, on which spending went up from an average of 10% of GDP in 1980 to 12% in 1993, rising in all Member States, apart from Germany and Ireland.

The rise was particularly high between 1990 and 1993 (almost 1% of GDP), though as noted above this partly reflects the effect of the depressed growth of GDP during this period. Expenditure on unemployment compensation also rose over the early 1990s as unemployment increased. In the Union as a whole, however, the rise amounted to only around 1/2% of GDP and despite the large numbers out of work, expenditure in 1993 represented under 2% of GDP.

A key issue in respect of both pensions and unemployment benefits as well as the other main functions is how far the increases which have occurred are the result of expanding need, as reflected in underlying demographic trends — or, in the case of unemployment, economic trends — and, therefore, changes in the number of potential claimants, and how far they reflect the development of more generous systems, in terms of the average level of income support provided and the extent of coverage. This is considered below by examining each of the major types of benefit in turn.

18 Expenditure on old-age pensions per person above retirement age in relation to GDP per head, 1980, 1990 and 1993



Includes survivors' pensions; D excludes new Länder

Old-age pensions

Expenditure on old-age pensions (including survivors' pensions), in relation to GDP can be decomposed, as for benefits in general, into two element — the average pension paid per recipient relative to GDP per head (not the same, it should be emphasised, as average earnings) and the number of recipients relative to total population (see Box for a description of the approach). In practice, because satisfactory data on the number of people receiving pensions are not available (partly because of the difficulties of avoiding over-counting of beneficiaries when they can receive more than one pension), a proxy indicator has to be used instead — in this case, the number of people over the official retirement age in each of the Member States plus those who, according to the Community Labour

Force Survey, have retired early (see Box). Such an indicator itself is not entirely satisfactory, since it leaves out of account both those who retire before they reach the official age and those over the official age who are not in receipt of a pension. Nevertheless, there seems little effective alternative.

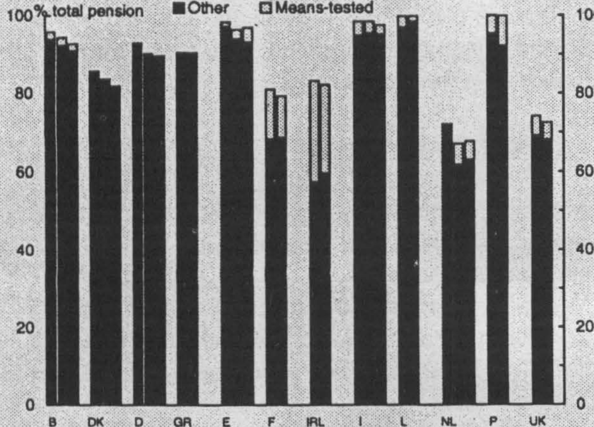
As noted above, expenditure on pensions relative to GDP over the Union as a whole rose from 10% in 1980 to just under 12% in 1993 (Table 4). At the same time, the number of people over retirement age increased from 16% of total population to 19%, while those who had retired early also rose slightly. The overall numbers potentially in receipt of pensions, therefore, went up by marginally less than the rise in expenditure relative to GDP. Average pension, measured as spending divided by the number above retirement age plus the number of people retiring early, relative to average GDP per head, accordingly, also increased very slightly between 1980 and 1993, but went up by more between 1990 and 1993 than over the preceding 10 years. In the early 1990s, therefore, the growth of expenditure relative to GDP was the result of an increase both in the elderly population and in the average pension.

Although there was a general rise in the proportion of people above retirement age in most of the Member States between 1980 and 1993 — all except for Luxembourg — the rate of increase varied considerably. It was highest in Italy where the proportion above retirement age went up from 18% to almost 25% while those taking early retirement also rose, and where the growth of expenditure on pensions was substantial. While the average pension appears to have risen in Italy, therefore, the rise was less than in a number of other countries, and most of the increase in spending seems to have been due to demographic trends.

In Greece and Portugal, where spending on pensions also rose markedly relative to GDP, the rise was predominantly the result of an increase in the average value of pension relative to GDP per head, though in this case, this almost certainly reflects an increased proportion of those above retirement age receiving pension as well as more generous benefit rates. Other countries showing relatively large rises in the average value of pension over this period were Luxembourg, the Netherlands and the UK.

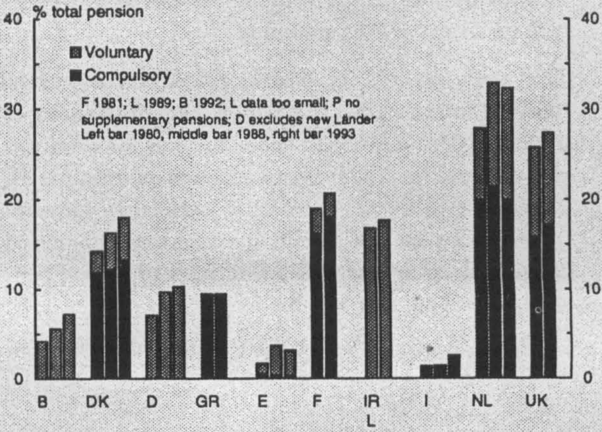
In Germany, on the other hand, where expenditure on pensions declined relative to GDP between 1980 and 1993, population above retirement age increased and, accordingly, average pension relative to GDP per head fell significantly, from 65% to 52%, by more than anywhere else in the Union. The average value also fell in Ireland, more than offsetting the relatively small growth in retirement-age population and giving rise to a decline in expenditure relative to GDP, though this was confined to the 1980s.

19 Old-age pensions: the extent of means-testing of basic pensions (first pillar), 1980, 1988 and 1993



F 1981; L 1989; B 1992; left bar 1980, middle bar 1988, right bar 1993; D excludes new Länder

20 Old-age pensions: importance and structure of supplementary pensions, 1980, 1988 and 1993



Estimates of the relative numbers entitled to social protection support and expenditure per person

The lack of reliable data on numbers of recipients of the main kinds of social benefit make it difficult to identify the proximate reasons for both differences in the scale of expenditure between countries and changes over time — in particular, whether these result from differences or changes in the number of people requiring support, in the number who actually receive support (ie in the extent of coverage of systems) or in the average benefit received. All that it is possible to do in practice is to estimate the number of people 'at risk' — or potentially in need of support — in the different Member States, in the sense that they are above the official age of retirement, registered as unemployed or young enough to be eligible for child allowances. This, of course, does not mean that all of these will actually receive benefit or that others will not — such as, in particular, those who retire early — but it at least provides some indication of the potential demand on social protection systems and how this varies across the Union, as well as how it has tended to change over time.

Old-age pensions

In practice, the analysis of old age pensions is particularly difficult since it is affected by a number of factors — both demographic and institutional. Not only do retirement ages differ between Member States, but there are a variety of different types of pension available, including supplementary occupational ones. Any one person in retirement might therefore be in receipt of more than one and sometimes several types. Identifying the number of beneficiaries, even if complete information were to be available, gives rise to significant problems of over-counting.

The analysis here is based instead on estimates (derived from detailed population data) of the number of people over retirement age in each of the countries plus the numbers below retirement age reporting in the Community Labour Force Survey that they have retired (retirement age is held constant over the period at the official age in 1993) and expenditure on pensions is decomposed into the following two elements:

- the proportion of the total population (POP) entitled to old-age pensions (POPRET)
- the average pension received by each pensioner (OAP/POPRET) in relation to GDP per head (GDP/POP)

These two elements are equal by identity to expenditure on pensions in relation to GDP:

OAP/GDP = POPRET/POP x (OAP/POPRET)/(GDP/POP)

The two elements are shown separately in Table 4. It should be emphasised that GDP per head in this context relates to GDP divided by total population, which is not the same as average earnings.

Early retirement

These estimates take account of early retirement which is important in all Member States, especially in the case of men. In 1994, according to Community Labour Force Survey data, despite the fact that the official age of retirement for men was 65 or above in all countries except Belgium (60 to 65), France (60), Italy (61) and Germany (63), 52% of men aged between 60 and 64 were retired in the Union and only in Ireland and the UK was the proportion below 40% (though in the UK, as in the Netherlands, a much larger proportion than elsewhere were classed as disabled, as noted in Chapter 2 above) (Graphs 16 and 17). Moreover in all Member States apart from Portugal, where it was unchanged, and the UK, where it declined slightly, the proportion has tended to increase over time.

Even below 60, significant numbers of men are retired — 17% of the 55 to 59 age group in the Union as a whole in 1994, 32% in Italy, 29% in Belgium and 25% in France, though only 4% in the UK and 9% in Ireland. Again the proportion has increased over time in most Member States.

Unemployment benefits

Analysing expenditure on unemployment involves similar difficulties. Not all those recorded as unemployed in Member States will be eligible for benefit. Moreover, the registered numbers of unemployed tend to differ markedly from the numbers complying with the official ILO definition of unemployment (in the sense of being available for work and actively seeking a job).

Nevertheless, outlays on unemployment benefits (UNB) in relation to GDP can be analysed in a similar way to old-age pensions by distinguishing the following factors:

- working age population (15–64 years) in relation to total population (POP15-64/POP)
- the activity rate, or active population in relation to population of working age (POPACT/ POP15-64)
- the unemployment rate, or the number of unemployed in relation to active population (UN/POPACT)
- the average benefit received by each person unemployed in relation to GDP per head (UNB/UN)/(GDP/POP)

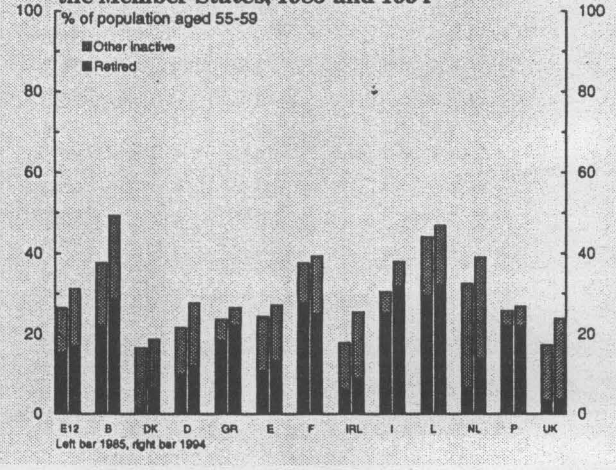
Combining these factors produces the identity:

UNB/GDP = POP15-64/POP x POPACT/ POP15-64 x UN/POPACT x (UNB/UN)/ (GDP/POP)

Family benefits

Potential recipients of family benefits have been taken as the number of children under the official age of eligibility for allowances, which is 18 in all Member States except Germany (16), Ireland (16), the Netherlands (17), Portugal (15) and the UK (16). However, in many cases, concessions will be made for young people in full-time education who are likely to be eligible for benefit in certain circumstances. The estimates, therefore, will be affected by differences between Member States in the numbers remaining in education beyond the normal age for receipt of allowances.

16 Inactive and retired men aged 55-59 as a proportion of the male population aged 55-59 in the Member States, 1985 and 1994



17 Inactive and retired men aged 60-64 as a proportion of male population aged 60-64 in the Member States, 1985 and 1994

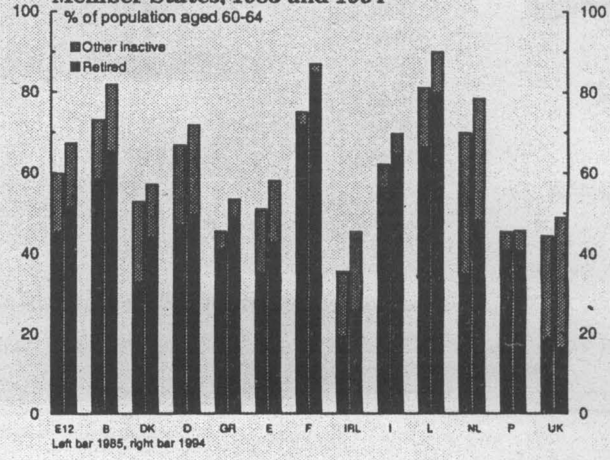


Table 4 — Decomposition of expenditure on old-age pensions

		Old-age pensions (% GDP)	People over retirement age (% total)	Early retirement (% total population)	Total retirement (% total population)	Expenditure per person (% GDP per head)
Belgium	*1980*	11.0	16.4	2.8	19.2	57.5
	1990	11.3	16.9	3.6	20.6	55.1
	1993	11.9	16.8	3.5	20.3	58.9
Denmark	*1980*	10.0	12.5	2.3	14.7	67.7
	1990	10.6	13.7	3.0	16.7	63.6
	1993	11.0	13.7	3.1	16.7	65.6
Germany	*1980*	11.9	17.1	1.1	18.3	65.3
	1990	11.0	18.9	0.7	19.6	55.9
	1993	11.0	20.3	0.9	21.2	51.9
	*1993**	12.1	19.9	1.1	21.8	55.6
Greece	*1980*	6.1	14.6	1.9	16.5	37.0
	1990	10.5	17.0	3.6	20.6	51.2
	1993	10.2	18.0	3.6	21.5	47.6
Spain	*1980*	7.2	11.0	1.8	12.8	55.8
	1990	8.5	13.4	1.9	15.3	55.5
	1993	9.4	14.4	2.1	16.5	56.7
France	*1980*	10.5	17.1	1.2	18.3	57.4
	1990	11.7	19.1	1.3	20.4	57.5
	1993	12.7	19.7	1.1	20.8	61.2
Ireland	*1980*	6.2	10.1	0.7	10.8	57.3
	1990	5.7	11.4	1.0	12.4	45.8
	1993	5.7	11.4	1.0	12.4	46.2
Italy	*1980*	9.9	18.1	1.5	19.5	50.9
	1990	13.6	23.7	1.8	25.4	53.6
	1993	15.4	24.7	1.9	26.6	57.8
Luxembourg	*1980*	12.0	14.0	2.2	16.2	74.2
	1990	9.9	13.4	2.7	16.0	62.0
	1993	11.2	13.8	4.1	17.9	62.8
Netherlands	*1980*	9.5	11.5	1.1	12.5	76.1
	1990	11.4	12.8	1.0	13.8	82.6
	1993	11.9	13.0	1.6	14.6	81.4
Portugal	*1980*	4.6	12.6	4.5	17.1	26.7
	1990	6.0	14.9	4.5	19.4	31.0
	1993	7.0	15.6	4.4	19.9	35.3
UK	*1980*	8.5	17.6	1.0	18.5	45.8
	1990	9.1	18.3	0.8	19.1	47.6
	1993	10.8	18.2	0.7	19.0	57.1
EUR12	*1980*	10.0	16.0	1.6	17.6	57.0
	1990	11.0	18.3	1.7	20.0	55.2
	1993	11.9	19.0	1.7	20.8	57.2

Note: Old-age includes survivors; Germany 1993 includes the new Länder.*

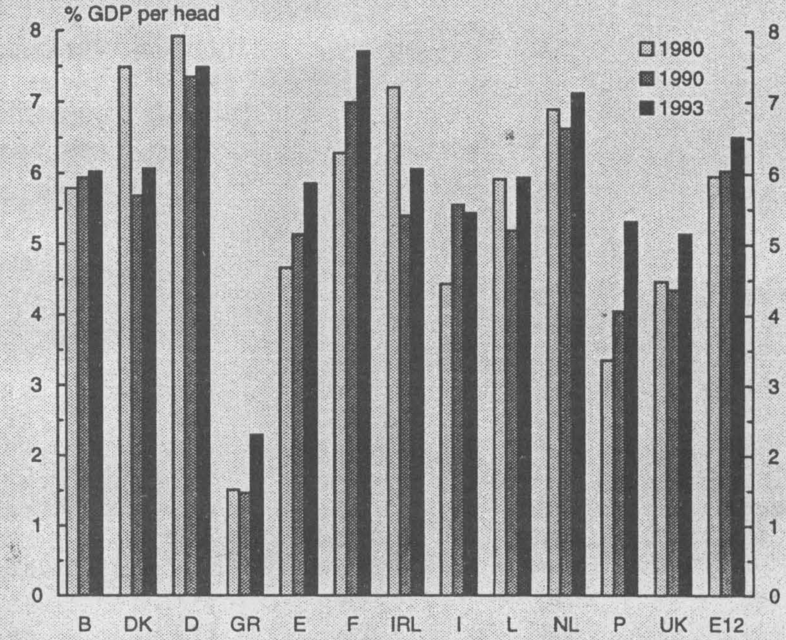
Source: Eurostat, ESSPROS database, Demographic Statistics and Community Labour Force Survey (for early retirement the 1983 LFS data are used to represent 1980).

Ireland also illustrates the benefits of having fewer numbers of people above retirement age relative to total population than other Member States (only 11½% in 1993) and fence apparently taking early retirement. Though in practice this is combined with a relatively low level of average pension, it is the major reason for for the low level of expenditure to GDP. Similarly, the higher number of people potentially in receipt of a pension is the main explanation for high spending relative to GDP in Italy. Indeed, the average level of pension in Italy in 1993 was, in practice, much the same relative to GDP as the average for the Union. The generosity of the Italian pension system, therefore, lies not in a high average amount of benefit paid but more in the low age of retirement (60 for men, 55 for women — lower than elsewhere in the Union). As noted in Chapter 2 above, one of the objectives of the recent Italian reforms was to raise the retirement age.

The structure of pensions

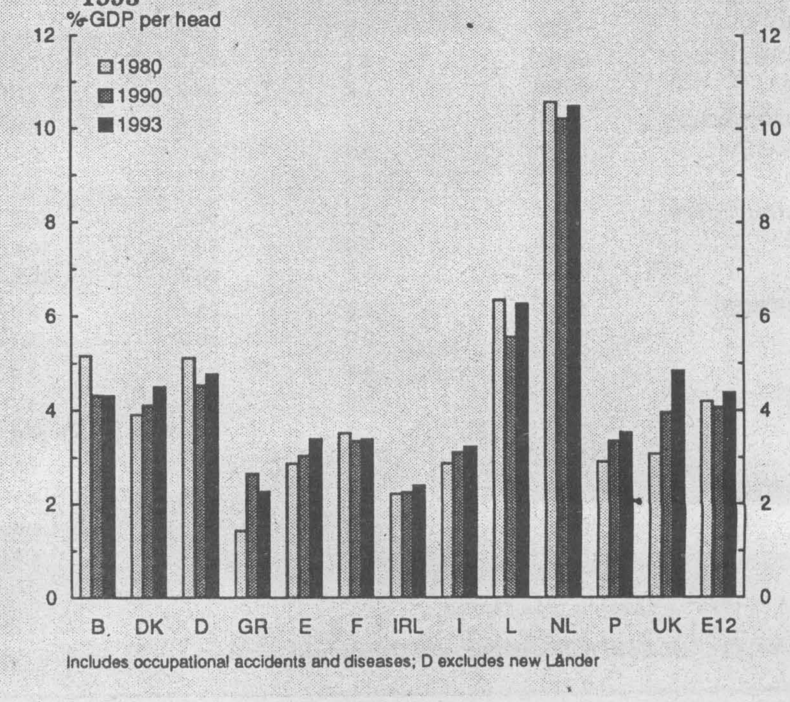
Unfortunately details of the structure of pensions in terms of the importance of supplementary payments ('second pillar') relative to basic pensions ('first pillar') and of means-tested payments relative to payments as of right are available only up to 1988 for most countries in the Union. These show, first, that there is only a limited degree of means-testing in this area — the main exception being Ireland — and that there was no general tendency for its importance to increase over the 1980s — only in Spain, Portugal and the Netherlands did any rise occur, and in the latter

21 Expenditure on sickness per resident in relation to GDP per head, 1980, 1990 and 1993



D excludes new Länder

22 Expenditure on invalidity benefit per person aged 15-64 in relation to GDP per head, 1980, 1990 and 1993



Includes occupational accidents and diseases; D excludes new Länder

Table 5 — Decomposition of expenditure on invalidity, disability, occupational accidents and diseases

		Benefits (% GDP)	Population 15–64 (% total)	Expenditure per person (% GDP per head)
Belgium	*1980*	3.4	65.6	5.2
	1990	2.9	67.0	4.3
	1993	2.9	66.4	4.3
Denmark	*1980*	2.5	64.7	3.9
	1990	2.8	67.4	4.1
	1993	3.0	67.5	4.5
Germany	*1980*	3.4	66.3	5.1
	1990	3.1	69.5	4.5
	1993	3.3	68.6	4.8
	*1993**	3.5	68.5	5.1
Greece	*1980*	0.9	64.0	1.4
	1990	1.8	66.9	2.7
	1993	1.5	67.4	2.3
Spain	*1980*	1.8	63.1	2.9
	1990	2.0	66.9	3.0
	1993	2.3	67.9	3.4
France	*1980*	2.2	63.7	3.5
	1990	2.2	65.9	3.3
	1993	2.2	65.5	3.4
Ireland	*1980*	1.3	58.9	2.2
	1990	1.4	61.5	2.3
	1993	1.5	62.9	2.4
Italy	*1980*	1.9	64.6	2.9
	1990	2.1	68.6	3.1
	1993	2.2	68.8	3.2
Luxembourg	*1980*	4.3	67.6	6.4
	1990	3.3	69.2	4.7
	1993	3.5	68.3	5.1
Netherlands	*1980*	7.0	66.2	10.6
	1990	7.0	68.9	10.2
	1993	7.2	68.6	10.5
Portugal	*1980*	1.8	63.1	2.9
	1990	2.2	66.2	3.3
	1993	2.4	67.2	3.5
UK	*1980*	2.0	64.1	3.1
	1990	2.6	65.3	4.0
	1993	3.1	64.9	4.8
EUR12	*1980*	2.1	64.5	4.2
	1990	2.2	67.3	4.0
	1993	2.4	67.1	4.4

Note: D 1993 includes the New Länder.*

Source: Eurostat, ESSPROS database and Demographic Statistics.

country, this was followed by a fall between 1988 and 1993 (Graph 19).

Secondly, there was a general tendency for supplementary pensions to become more important, their share of the total pension received increasing in most Member States over the 1980s and reaching over 30% in the Netherlands in 1988 (though remaining at that level during the subsequent five years) and over 25% in the UK (Graph 20). There was also some tendency for payments from voluntary schemes to rise relative to those from compulsory ones.

Sickness

Expenditure on sickness benefits and health care combined went up in the Union as a whole from 6% of GDP in 1980 to 6½% in 1993 (and since the potential recipients in this case are all those people resident in the Union, average spending per person also rose relative to GDP per head), with almost all of the rise occurring in the early 1990s. Since population growth has been relatively small, most of the increase reflects an expansion in spending per person (Graph 21), though given the disproportionate pressures on the service imposed by very elderly people, it also partly reflects the changing age structure of the population and the growing numbers living into old age. It is difficult, however, to identify the effect of the latter and to gauge its importance as compared with other factors, such as rising real income levels, technical progress and increased know-how in respect of medical treatment which might well have been more significant.

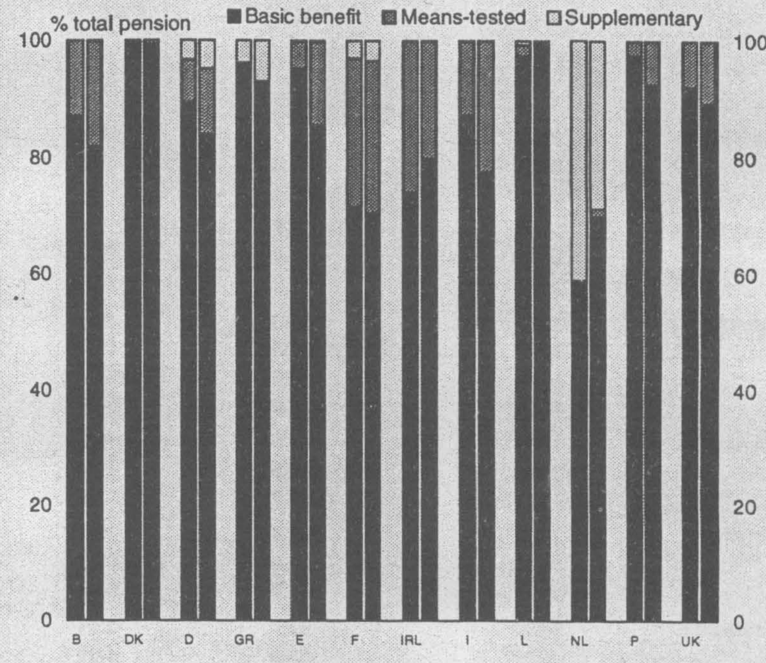
Nevertheless, expenditure has not expanded over the past decade throughout the Union. In Denmark, Germany and Ireland, it was lower in relation to GDP in 1993 than in 1980, though, apart from in Italy, in all countries, including these three, it rose between 1990 and 1993. The increase over the period as a whole was particularly pronounced in Greece and Portugal where the service was being developed (see Chapter 5 for an analysis of expenditure on health care, including private as well as public spending).

Invalidity, disability and industrial injuries

Between 1980 and 1993, expenditure on invalidity benefits (defined to include payments for disability and industrial injuries) went up from an average of 2% of GDP in the Union to almost $2^1/_2$% (Table 5). In this case, however, the rise was less general. In Belgium, Germany, France and Luxembourg, spending was either less in 1993 than in 1980 or the same. In relation to the population potentially eligible for benefit (in this case, those of working-age, taken here as 15 to 64), the average amount paid relative to GDP per head rose only slightly between 1980 and 1993 and in the four countries listed above as well as in the Netherlands (where average benefit is substantially higher than elsewhere in the Union, but has been for some time), declined (Graph 22).

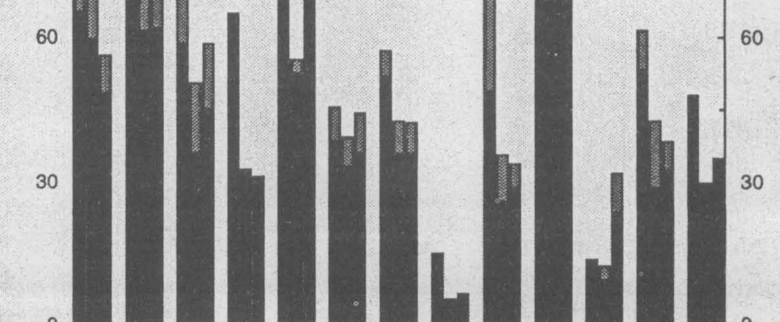
In terms of the structure of benefits, the prevalence of means-testing tended to increase over the 1980s, the only exceptions being Ireland, where

23 Invalidity: structure of benefits, 1980 and 1990



F 1981; B, DK, GR, UK 1988; E 1989; left bar 1980. right bar 1990; D excludes new Länder

24 Expenditure on unemployment per registered unemployed in relation to GDP per head, 1980, 1990 and 1993



Left bar 1980, middle bar 1990, right bar 1993; D excludes new Länder

Table 6 — Decomposition of expenditure on unemployment benefits

		Pop. 15–64 (% total)	Activity rate (%)	Unemploy-ment rate (%)	Unemploy-ment benefits (% GDP)	Expenditure per person (% GDP per head)
Belgium	*1980*	65.6	41.3	9.1	2.4	65.3
	1990	67.0	41.8	9.7	2.4	59.6
	1993	66.4	42.2	12.9	2.6	48.2
Denmark	*1980*	64.7	51.1	6.7	3.0	88.0
	1990	67.4	55.1	9.4	3.2	61.3
	1993	67.5	54.8	12.1	4.1	61.8
Germany	*1980*	66.3	45.3	3.2	0.9	58.7
	1990	69.5	48.0	6.2	1.1	36.0
	1993	68.6	47.7	7.3	1.6	45.0
	*1993**	68.5	47.6	8.9	2.0	46.8
Greece	*1980*	64.0	35.2	1.1	0.3	64.9
	1990	66.9	38.0	3.6	0.4	32.6
	1993	67.4	37.5	4.5	0.5	31.1
Spain	*1980*	63.1	35.6	9.6	2.7	79.6
	1990	66.9	39.7	15.2	3.2	52.5
	1993	67.9	38.3	17.0	4.8	73.7
France	*1980*	63.7	43.4	6.2	1.0	38.6
	1990	65.9	44.0	10.0	1.5	33.2
	1993	65.5	43.8	12.6	2.0	36.1
Ireland	*1980*	58.9	36.8	8.1	1.6	51.9
	1990	61.5	38.7	16.5	2.3	35.8
	1993	62.9	40.4	20.4	3.0	35.8
Italy	*1980*	64.6	39.1	7.2	0.4	14.6
	1990	68.6	44.9	16.4	0.4	5.1
	1993	68.8	44.2	19.3	0.5	6.2
Luxembourg	*1980*	67.6	43.7	0.7	0.1	49.2
	1990	69.2	50.1	1.1	0.1	22.1
	1993	68.3	52.4	1.7	0.2	23.4
Netherlands	*1980*	66.2	39.3	5.4	1.8	83.5
	1990	68.9	44.1	5.4	2.6	107.5
	1993	68.6	46.1	5.9	2.9	108.5
Portugal	*1980*	63.1	47.4	5.1	0.3	13.2
	1990	66.2	49.0	6.3	0.3	9.4
	1993	67.2	49.0	7.2	0.8	23.7
UK	*1980*	64.1	47.9	5.9	1.5	53.2
	1990	65.3	49.5	5.8	0.8	28.8
	1993	64.9	48.1	10.4	1.6	32.6
EUR12	*1980*	64.5	42.6	5.9	1.2	48.1
	1990	67.3	45.4	9.6	1.3	29.8
	1993	67.1	44.9	12.0	1.9	34.9

Note: *D 1993* includes the new Länder.*

Source: *Eurostat, ESSPROS database. Activity rate relates to employed plus registered unemployed. Employment data are from National Accounts, except for Italy, the Netherland and Portugal where data are from the Community Labour Force Survey. Unemployment rate relates to registered unemployed (data from Eurostat, SOCI database).*

it was already relatively high in 1980, Denmark, Greece and Luxembourg, where it is insignificant or non-existent (Graph 23). In 1990, however, the proportion of payments which were subject to means-testing was over 10% only in Belgium, Spain, France (where it was over 25%, higher than anywhere else in the Union), Ireland, Italy and the UK.

On the other hand, there was little tendency for supplementary benefits to increase in significance, the only countries where payments were of any size being the Netherlands (where they accounted for 30% of the total paid in 1990, though this was less than ten years earlier), Germany, Greece and France (where in each case they accounted for 7% or less of the total).

Unemployment compensation

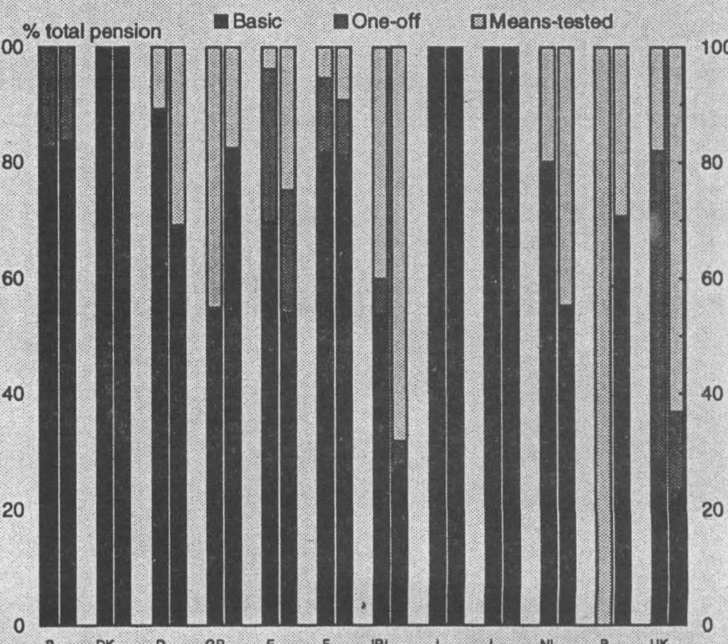
The amount paid in unemployment compensation (social assistance as well as insurance benefits) rose relative to GDP in all Member States between 1980 and 1993, and most especially in the early 1990s (Table 6). Expenditure per person unemployed relative to GDP per head, however, declined throughout the Union, except in two Member States — the Netherlands, where it rose to over 100% of GDP per head, and Portugal, where though it rose significantly, it remained at a relatively low level (see Box above for a description of the method of calculation). The fall was especially marked over the early 1980s and between 1990 and 1993, the rise in unemployment was accompanied in many cases by an increase in the average level of benefit — from 30% of GDP per head over the Union as a whole to 35% (Graph 24).

The latter rise reflects in part the effect of the steep increase in unemployment itself. Since this was associated with a marked growth in the numbers coming onto the unemployment register, who were likely to be eligible for higher rates of benefit than those who had been on the register for some time (because rates tend to decline the longer someone has been out of work), the average amount paid to each person was likely to have risen. At the same time, a growing number of young people receiving relatively low benefits also joined the unemployment register. As the rise in unemployment moderates, it may well be the case that average benefits decline once more, as over the 1980s.

In terms of average benefit levels, these vary significantly between Member States, from over 100% in the Netherlands in 1993, as noted above, to under 24% in Portugal and only 6% in Italy (though here the unemployed receive income support in other ways).

In general, differences in average levels are not closely related to variations in GDP per head. In Luxembourg, which has by some way the highest GDP per head in the Union, the average benefit paid to the unemployed, as measured here, amounted to under 30% of GDP per head, below that of Greece, and in France, the country with the second highest GDP per head, only 36%,

25 Unemployment: structure of benefits, 1980 and 1992



DK 1984; E, F 1981, GR 1991; left bar 1980, right bar 1992; D excludes new Länder

Table 7 — Decomposition of expenditure on family allowances

		Family allowances (% GDP)	Children (% total population)	Expenditure per person (% GDP per head)
Belgium	*1980*	2.8	25.0	11.4
	1990	2.1	21.9	9.7
	1993	1.9	21.8	8.5
Denmark	*1980*	2.8	25.6	10.8
	1990	3.0	21.3	14.0
	1993	3.3	20.9	15.7
Germany	*1980*	2.6	19.9	12.8
	1990	1.9	16.2	11.6
	1993	1.8	17.0	10.8
	*1993**	2.2	17.4	12.4
Greece	*1980*	0.2	22.8	0.9
	1990	0.1	23.8	0.5
	1993	0.1	22.3	0.4
Spain	*1980*	0.5	31.1	1.6
	1990	0.2	24.7	0.6
	1993	0.2	22.6	1.0
France	*1980*	2.6	27.3	9.4
	1990	2.2	24.5	9.1
	1993	2.4	23.8	10.0
Ireland	*1980*	1.7	30.4	5.0
	1990	2.0	29.0	6.9
	1993	2.2	27.5	7.8
Italy	*1980*	1.2	27.3	4.5
	1990	1.0	16.5	4.8
	1993	0.8	15.4	4.2
Luxembourg	*1980*	2.2	23.4	9.5
	1990	2.0	20.6	9.9
	1993	2.7	21.2	12.6
Netherlands	*1980*	2.6	25.9	10.0
	1990	1.7	20.8	8.2
	1993	1.6	20.7	7.5
Portugal	*1980*	0.8	25.8	3.1
	1990	0.8	20.4	4.0
	1993	0.8	18.6	4.2
UK	*1980*	2.3	22.7	10.2
	1990	2.1	20.2	10.3
	1993	2.6	20.6	12.8
EUR12	*1980*	2.1	25.3	8.5
	1990	1.7	21.2	7.9
	1993	1.8	20.6	8.6

Note: Children are defined as those below age limit for receipt of family benefit. Germany 1993 includes new Länder.*

Source: Eurostat, ESSPROS database and Demographic Statistics.

much the same as in Ireland. By contrast, in Spain, which is among the poorer Member States, the average benefit in 1993 was 74% of GDP per head (see Chapter 4 below for a detailed analysis of unemployment replacement rates).

The structure of unemployment compensation

The form in which unemployment benefit is paid differs markedly between Member States. In particular, whereas in four Member States — Belgium, Denmark, Italy and Luxembourg — benefits tend to be related to earnings when in work and do not depend on current income or accumulated savings, in a number of others, the receipt of income support is subject to means-testing. In Ireland and the UK, over 60% of unemployment compensation was means-tested in 1992, in each case substantially higher than 12 years earlier (Graph 25). In the Netherlands, around 45% of payments were means-tested, while in Germany, it amounted to some 30% and in Spain, 25%, in all three cases a considerably greater proportion than in 1980. Of the countries where means-testing is part of the system, only Greece and Portugal witnessed a decline in its importance over this period — in the latter, reflecting a move away from complete means-testing of all payments.

Family allowances

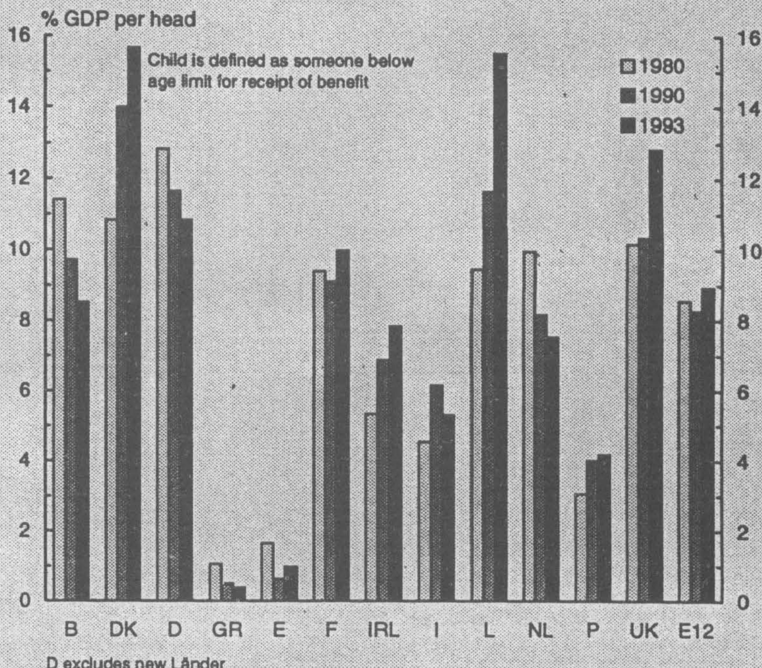
Family or child allowances are the only broad function to have experienced a reduction in expenditure relative to GDP since 1980, though even here, spending rose between 1990 and 1993. This pattern of change was repeated in the majority of Member States (Table 7).

Expenditure per child (where the latter is defined in terms of entitlement to allowance), however, remained unchanged relative to GDP per head in the Union over the period as a whole (at 8½%), reflecting the fall in the number of eligible children relative to total population (Graph 26). Nevertheless, in the majority of Member States (8 of the 12), as in the Union as a whole, average benefit levels rose between 1990 and 1993.

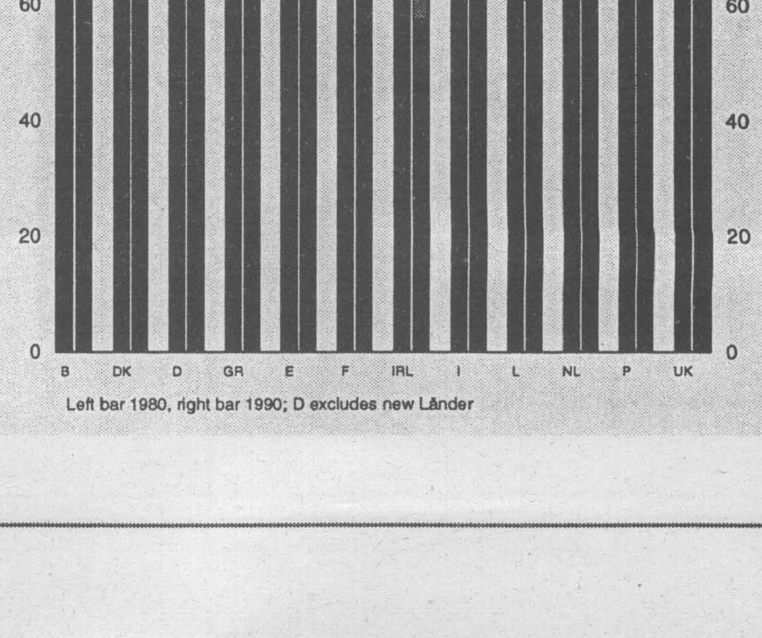
In terms of average levels, differences are substantial, average benefit per child in Denmark and Luxembourg amounting to 15½% of GDP per head in 1993 and to almost 13% in Germany and the UK, as against 1% or less in Spain and Greece.

As in the case of unemployment compensation, there was a widespread increase over the 1980s in the use of means-testing to determine family allowance levels. The only country experiencing a decline was Denmark — though in Belgium and Greece, they remained largely unused (Graph 27). In Spain, the UK and Ireland, the expansion in their use was substantial, and in the latter two countries, around 40% of spending on allowances paid to support children was subject to means-test — the money being paid largely to the unemployed.

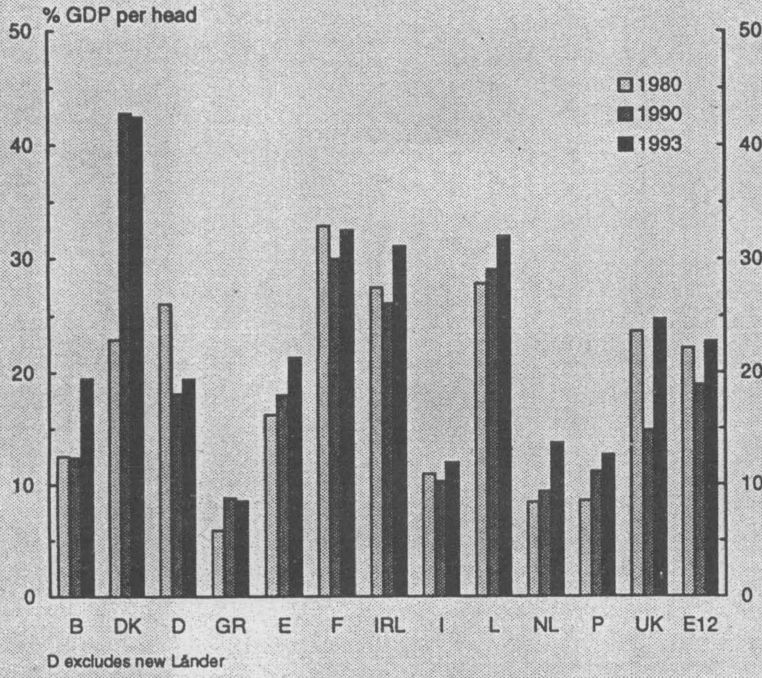
26 Expenditure on family benefit per child in relation to GDP per head, 1980, 1990 and 1993



27 Family: structure of benefits, 1980 and 1990

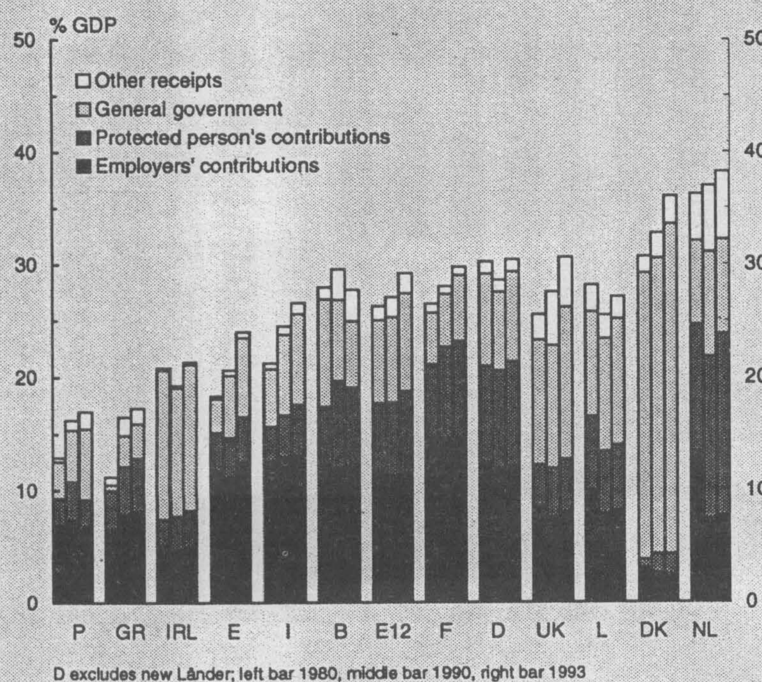


28 **Expenditure on maternity benefit per live birth in relation to GDP per head, 1980, 1990 and 1993**



D excludes new Länder

29 **Financing of social protection expenditure by source, 1980, 1990, 1993**



D excludes new Länder; left bar 1980, middle bar 1990, right bar 1993

Maternity benefits

Spending on maternity benefits, which is very small in relation to GDP, declined slightly over the period 1980 to 1993. This was at a time when the number of births expressed as a proportion of total population fell (markedly so in Greece, Spain, Ireland and Portugal or remained stable — the case in most Member States. In Denmark and Luxembourg, however, the birth rate increased over the period.

Average expenditure per birth rose marginally, and most especially between 1990 and 1993 (Graph 28). Indeed in all Member States apart from Germany and France, the average amount paid was higher in 1993 than 13 years earlier. In Denmark, average benefit doubled over the period and in 1993, at 42% of GDP per head, was by far the highest in the Union, and at the same time the number of live births went up significantly.

The rise in average benefits which occurred in many Member States however, was not necessarily the result of benefit rates becoming more generous. Given the marked increase in the participation of women in the labour force over this period, it partly reflects an increase in the proportion of births to working mothers who are eligible for benefit.

The changing structure of finance

The relative importance of the various sources of finance for social protection systems is just as much an aspect of divergence between Member States as the pattern of expenditure. In 1993, whereas most countries in the Union funded their systems mainly from social insurance contributions, in three countries — Denmark, in particular, Ireland and the UK, general taxation played the predominant role (Graph 29).

Between 1980 and 1993, however, there was a widespread tendency to increase reliance on taxes relative to contributions. This was especially the case after 1990. Over the Union as a whole, the share of taxes in total finance rose from 27½% to 29½%, with only Belgium and the Netherlands showing a fall in the importance of tax revenue.

Within contributions, there was a parallel shift from levying charges on employers to levying them on employees, the major motivation being to relieve pressure on labour costs at a time of high unemployment. On average, therefore, the proportion of contributions collected from employers in the Union fell from 67½% in 1980 to 63½% in 1990 and to under 62% in 1993. The reduction was common to most Member States, the only exception being Portugal, where employers' contributions rose markedly between 1990 and 1993 (from 68% of the total to almost 75%).

These shifts in the relative reliance on different sources of funding have resulted in employers' contributions declining slightly in relation to GDP since 1980. In relation to labour costs, however, they have tended to

Table 8 — Decomposition of expenditure on maternity benefits

		Maternity benefits (% GDP)	Number of births (% total population)	Expenditure per person (% GDP per head)
Belgium	*1980*	0.2	1.3	12.5
	1990	0.2	1.2	12.4
	1993	0.2	1.2	19.4
Denmark	*1980*	0.3	1.1	22.9
	1990	0.5	1.2	42.7
	1993	0.5	1.3	42.4
Germany	*1980*	0.3	1.0	26.0
	1990	0.2	1.2	18.1
	1993	0.2	1.1	19.4
	*1993**	0.2	1.0	21.7
Greece	*1980*	0.1	1.5	5.9
	1990	0.1	1.0	8.8
	1993	0.1	1.0	8.5
Spain	*1980*	0.2	1.5	16.2
	1990	0.2	1.0	18.0
	1993	0.2	1.0	21.3
France	*1980*	0.5	1.5	32.9
	1990	0.4	1.3	30.0
	1993	0.4	1.2	32.5
Ireland	*1980*	0.6	2.2	27.4
	1990	0.4	1.5	26.1
	1993	0.4	1.4	31.1
Italy	*1980*	0.1	1.1	10.9
	1990	0.1	1.0	10.3
	1993	0.1	0.9	11.9
Luxembourg	*1980*	0.3	1.1	28.1
	1990	0.3	1.3	24.8
	1993	0.4	1.3	26.0
Netherlands	*1980*	0.1	1.3	8.4
	1990	0.1	1.3	9.3
	1993	0.2	1.3	13.7
Portugal	*1980*	0.1	1.6	8.5
	1990	0.1	1.2	11.1
	1993	0.1	1.2	12.6
UK	*1980*	0.3	1.3	23.6
	1990	0.2	1.4	14.8
	1993	0.3	1.3	24.7
EUR12	*1980*	0.3	1.3	21.9
	1990	0.2	1.2	18.8
	1993	0.3	1.1	22.6

Note: Germany 1993 includes the new Länder.*

Source: Eurostat, ESSPROS database and Demographic Statistics.

30 Employers' and protected person's contributions in relation to labour costs, 1980, 1990 and 1993

D excludes new Länder; left bar 1980, middle bar 1990, right bar 1993

rise, reflecting the fall in labour costs relative to GDP (Graph 30). Only in the Netherlands were employers' contributions significantly lower relative to labour costs in 1993 than in 1980, though this largely reflects a change in classification (employers' contributions were reduced and those of employees' increased but gross wages were raised at the same time to compensate). In Portugal and Belgium (in the former despite their rise as compared with employees' contributions), employers' contributions fell between 1990 and 1993.

At the same time, employee's contributions have shown an even more marked increase relative to labour costs, rising from 10½% to 14% between 1980 and 1993.

Financing and expenditure

In most Member States, total receipts to finance social protection systems in 1993 exceeded total expenditure, including the costs of administration as well as of benefits and services. This is especially so in countries with funded pensions systems, such as the Netherlands and the UK, where receipts are determined in relation to future liabilities rather than present spending. In the former, therefore, receipts were almost 14% higher than expenditure in 1993 and in the latter 10% higher. In 1990, the difference was 15% and 21%, respectively. In a number of other countries supposedly without funded systems, however, receipts were also significantly higher than expenditure, reflecting, in part, the building up of reserves to cover future pension payments.

Receipts also tend to exceed expenditure as a result of governments maintaining a reserve against contingencies, which is usually reduced during periods of recession when the yield from contributions and taxes is depressed. It is comparatively rare, however, for social protection to be in deficit. In 1993, at the depth of the recent recession, only three Member States, France, Portugal and, to a very small extent, Ireland, were in deficit, while Denmark and Luxembourg has surpluses almost as large as the Netherlands and the UK. In 1990, only Ireland was in deficit, and then only to a small extent.

Chapter 4 Unemployment compensation and incentives to look for work

The persistence of high levels of unemployment in most parts of the Union throughout the 1980s and the significant increases experienced in virtually all Member States during the period of economic recession in the early 1990s have focused attention both on the underlying causes and on the economic and social consequences. The continuing concern of policy has been, on the one hand, to develop effective responses to the factors which have given rise to the problem and, on the other, to alleviate the effects on the people who have been hit. In both regards, systems of social protection have come under increasing scrutiny. Not only have they had to withstand increasing financial and administrative pressure as the numbers needing support have risen, but they have been singled out as one of the root causes of high unemployment.

Thus it has been widely argued that the generosity of unemployment benefit and income maintenance schemes across the Union has provided an overly attractive alternative to employment, especially in low-paid jobs, and have given people too little incentive to look for work. The sums available have, therefore, on this view tended to depress effective labour supply, not necessarily in the sense of reducing the labour force as measured but more in the sense of pushing down the numbers in the labour force who are genuinely looking for work. On the same view, they have potentially reduced the demand for labour by effectively setting a floor to wages and so preventing these from falling to levels at which it is profitable for employers to take on lower skilled workers. In other words, it is argued that benefits have been fixed in many Member States above the level which firms can afford to pay to employees who are capable of contributing relatively little to value-added, which has meant that too few jobs have been created for such people.

Few would seriously claim that the operation of the social protection systems and the scale of benefits available are the main, or even a major, cause of the present high level of unemployment in the Union, which, it is commonly accepted, is due largely to macro-economic and structural factors. Nevertheless, it is possible that they have contributed to the problem and made it more difficult to resolve by effectively preventing wages from falling to a level low enough to stimulate demand for relatively low skilled labour.

The fact that a growing concern of policy has been to help stimulate job creation at the lower end of the pay-scale, principally by reducing the costs of employing young people or those with comparatively low skill levels, who make up a large proportion of the unemployed, has given governments added reason for reassessing the relationship between wage and benefit levels.

The task facing governments in the Union is to balance the conflicting concerns, on the one side, about spending too much and on the other of spending too little. Thus the objectives on the former side consist of:

- restraining the growth of social protection expenditure within the capacity of the economy to fund it;
- maintaining adequate incentives for those out of work to look for jobs;
- preventing abuse of the system, which is important not only to keep expenditure down but also to maintain society's willingness to fund public spending on income support.

On the other side, they consist of:

- ensuring that those who cannot find a job have an adequate, and

The data and method used

The analysis in this chapter is based heavily on a model of the tax and social protection system developed by the Central Planning Bureau in the Hague for the Commission Services. It enables the social contribution and taxes payable by a single person, a married couple and a couple with two children to be estimated at different levels of gross earnings. It also enables the unemployment benefit or social assistance receivable by such a person to be estimated, taking account of their age, employment record and how long they have been unemployed. The new Member States were not included in the exercise and, therefore, are not incorporated in the analysis here. The exercise did include, however, three selected US States, and the calculations for New York have been used to represent the US here, though it should be emphasised that taxes and benefits vary somewhat across States, as do, therefore, replacement rates. For Italy, where social assistance (as opposed to social insurance) is organised on a regional basis and varies across the country in terms of amount and the conditions attached to payment, the estimates for a person not entitled to social insurance benefits (or whose entitlement has expired) relate to Liguria, a region with GDP per head somewhat below the average for Northern Italy and unemployment above the average, but with a well-developed social assistance scheme. As such, they may be indicative of other parts of Northern Italy but may well differ significantly from the position in the South of the country. For Spain, where social assistance is also regionally organised, the estimates relate to Aragon, a region with above average GDP per head and below average unemployment.

The calculations include the effects of housing benefits on the replacement rate by assuming that the individual concerned pays an average rent (though estimates of what constitutes an average are very approximate because of lack of reliable data). The replacement rate is, therefore, defined as disposable income when in work relative to disposable income when unemployed, including housing benefits as part of disposable income which is defined before deducting housing costs (see the section on housing costs for more details). Other costs, such as the cost of child care, travel to and from work (as opposed to travel undertaken to look for a job) or working expenses are not included in the calculations, partly because of the difficulties of estimating them and the wide variation between individuals in otherwise similar circumstances, but in some cases they may have a significant effect on replacement rates (where, for example, women have to pay for child care in order to take up a job).

The average gross wage of a manual worker in industry, as estimated by OECD, has been taken as the benchmark against which to compare rates in the different Member States and to assess the way that these change as earnings and family circumstances vary. Although other figures for the average could have been used instead, it should be emphasised that the results depend only to a minor extent on the precise figure used for the benchmark. It does not mean, in particular, that the results apply only to workers in industry or even only to full-time workers. Indeed when interpreting the results for those on low earnings, it should be borne in mind that a large number of workers, especially women, are employed part-time and, therefore, may earn a wage which represents only a small proportion of the average as defined here.

It should also be borne in mind, however, that the tax and benefit position of a married women living with her husband may be different from a single person so that the calculations cannot necessarily be assumed to apply in this case.

acceptable, level of income to support both themselves and their dependants;

- giving those unemployed sufficient time to look for employment which suits their particular skills and abilities, which is important for the efficient functioning of the labour market and the overall efficiency of the economy;

- providing access to effective support and advice for those searching for jobs, through developing efficient employment services and placement agencies (in the private as well as the public sector);

- improving the employability of the unemployed and the incentive for employers to take them on through providing access to training and other active labour market measures.

The concern of this chapter is with the income support measures available to those who are unemployed across the Union and, specifically, with how the scale of unemployment benefit or social assistance provided relates to income when in work — in other words, with the replacement rate as it is technically termed. As such, its focus is both on the potential incentive for those in employment to stop working and be supported by the state and the potential disincentive for those out of work, whether officially recorded as unemployed or economically inactive, actively to look for a job. Because the major policy issue concerns those on relatively low rates of pay when in work, the analysis concentrates on this group of people, without ignoring the relationship between social benefits and earnings for those further up the pay-scale.

Methodology

The analysis is based on the results of a simulation model of the social protection and fiscal system in each of the Member States developed for the Commission by the Central Planning Bureau in the Netherlands. This is designed to enable the amounts payable to the unemployed with given characteristics in terms of their previous level of earnings, their age, employment record and number of dependants to be calculated and compared with their disposable income when in work. It also enables such features as housing benefits or social assistance to be taken into account. Other than housing costs, however, it stops short of including tax concessions or benefit payments, in cash or in kind, which are specific to individual circumstances, such as allowances for working expenses or relief from medical costs, such as prescriptions charges (see Box).

Although these kinds of calculation are useful in throwing light on the scale of the transfers of income receivable by those who are out of work, it should be emphasised that they reveal only part of the picture. While they indicate the theoretical amounts payable in hypothetical cases, they cannot by their very nature show how much those who are unemployed receive in reality. The only way of discovering this is through a survey of the unemployed themselves, such as through the new Household Panel Survey set up by Eurostat to investigate income, living conditions and other household circumstances across the Union.

Differences between theoretical and actual payments will arise particularly in cases where benefits vary with individual circumstances and are subject to various regulations restricting entitlement or are means-tested. In particular, a common tendency in many Member States as high unemployment has persisted has been to tighten up the regulations governing continued entitlement to benefit as people remain unemployed (in terms of both actively looking for work and having to accept suitable jobs when they are offered). The way in which such regulations are applied in practice in different Member States is difficult to judge from the way that they are worded and can only really be determined by examining actual cases.

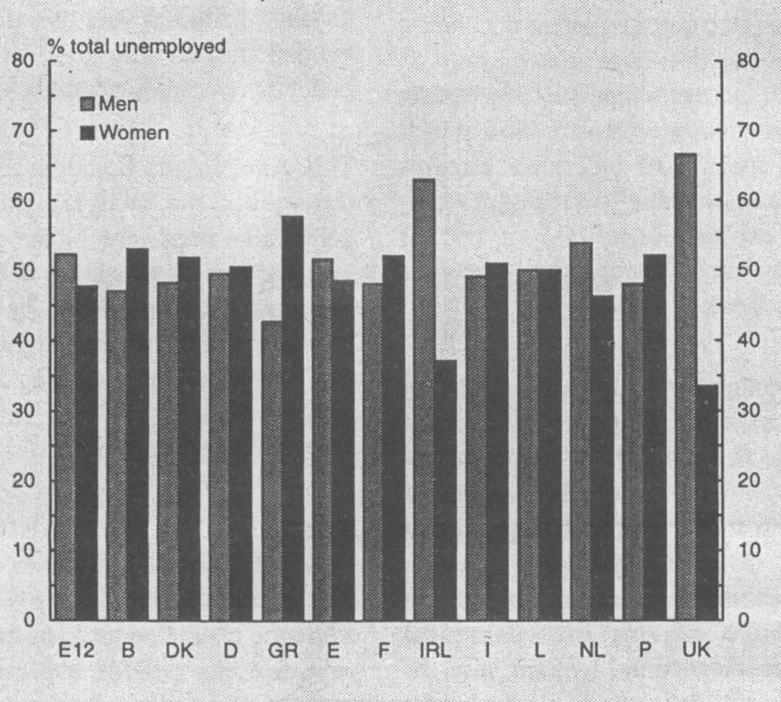
This point should be borne in mind throughout the analysis and is a potentially important factor qualifying the results which are obtained, especially comparisons between Member States which might have similar regulations governing entitlement to benefit but very different degrees of enforcement.

An additional qualification is that the model and analysis relate to a specific period of time, July 1993, and while the results ought to be broadly valid for later periods, especially in terms of comparisons between countries, it should also be borne in mind that changes in tax rates and benefits have been introduced in a number of Member States since then which might alter the findings. Moreover, the model is confined to the 12 countries of the Union as they were in 1993 and does not as yet cover the three new Member States. It does, however, for purposes of comparison cover three US States, and the results for New York are included here (though the results for the other two States are broadly similar).

A further qualification is that the cases incorporated in the model are confined to a single person, a couple, one of whom is working, and a couple with two children. Although this enables most cases to be examined, it excludes a couple who are both working and, specifically, married women who are working, who are treated in different ways by the tax and benefit system in different countries. These have often been found by research studies to be especially likely to be influenced in their decision of whether or not to seek employment by the amount they would have to pay in tax, on the one hand, and the amount they receive in benefit, on the other. While in many cases, they might be subject to the same tax rates and be entitled to the same rates of benefit as single people, this is not invariably so and their exclusion represents an important limitation of the analysis (as noted below, some 25% of the unemployed in the Union were married women).

While the main part of the analysis is concerned with estimating and comparing disposable income from work and when unemployed in hypothetical cases, an important starting-point is to examine the actual characteristics of the unemployed in the Union in order to determine the cases which are typical in practice. This is one way, at least, of narrowing the gap between the simulation model and reality.

31 Proportion of men and women unemployed in Member States, 1994



The characteristics of the unemployed

In 1994, the latest year for which detailed data are available (from the Community Labour Force Survey), almost 17.7 million people were unemployed in the Union (of 12 Member States). Of these just over half were men (52%), just under half women, of whom almost half (49%) were married. These figures vary in some degree between Member States. The proportion of men ranged from 63% in Ireland and 67% in the UK to 47% in Denmark and 43% in Greece, with the proportion being more than half in seven of the 12 countries, the exceptions, as well as Ireland and the UK, being Spain, Luxembourg and the Netherlands, though in each case the figure was only slightly above 50% (Graph 31).

It should be noted, however, that so far as women are concerned, a significant proportion of those who are making the decision of whether to work or not, who are not in education or initial training, are not officially recorded as unemployed, in the sense that they are actively looking for jobs, but as economically inactive. In other words, many of the women who enter employment each year have spent a period of time looking after young children or taking care of other family responsibilities. As such, in most cases they will not be in receipt of social benefits, other than perhaps, maternity benefits which in all Member States are only payable for a limited (relatively short) period of time (see Chapter 7 of this Report). They are, therefore, in many cases, not subject to the influence of the scale of unemployment benefits relative to the income they could receive by working. They are, however, likely to be influenced by the taxes and social charges they and, in some cases, their husbands, need to pay out of the gross wage which they can obtain. This is an issue which is not examined here, but its importance should be borne in assessing the potential effect of the social protection system on incentives to find work. (The scale of deduction from gross earnings across the Union is examined in *Employment in Europe, 1995*, Part III, Section 1.)

Almost 28% of the unemployed in Member States taken together were under 25, the proportion being much the same for men and women. Under 8% of these, however, were under 20. Again, the proportion of the under 25s in total unemployment varied across the Union, from around 40% in Greece and Italy to 23% in Denmark and only 13% in Germany. Of these, some 43% in the Union as a whole were seeking their first job — ie they had no employment record which in most Member States is a requirement in order to be eligible for unemployment benefit — the figure varying from over 70% in Greece and Italy (which means that around 30% of the total unemployed in these two countries were both under 25 and had never had a job before) to only 14% in Germany and 10% in Denmark (Graph 32).

Of the unemployed of 25 and over, a significant proportion are in the 25 to 34 age group. Across the Union as a whole, these accounted for just over 30% of the total people unemployed in 1994, the figure varying relatively little between Member States. This means, in practice, therefore, that on average 60% of the unemployed were under 35 years old in the Union, though in general, more in the Southern Member States than in the Northern ones. A further 20% were between 35 and 44, in this case more in most Northern countries (just under a quarter), less in the South (just under 15% in Greece and Italy and 17% in Spain).

In consequence, only around 20% of the unemployed in the Union were 45 or over in 1994. In this case, there is a marked variation between Member States, the Union average being boosted by relatively high numbers in two of the larger countries, Germany and the UK, whereas in all but these two countries and Denmark, the proportion was under 20%. In Germany, the figure was as high as 35%, in the UK, 26%.

In sum, therefore, there is a good deal of variation across the Union in the age composition of the unemployed, though in most Member States, a substantial proportion were under 25, well over half under 35 and only a comparatively small number 45 and over. This has implications for the level of benefit typically receivable by those out of work, which in some

32 Share of people under 25 and under 35 in total unemployment in Member States, 1994

countries varies with age and employment record.

A substantial proportion of the unemployed in all age groups in the Union have been out of work for a long period of time. Of the total numbers unemployed in 1994, almost half (48%) had been out of work for one year or more and around half of these for two years or more. The former figure varied from over 60% in Italy and just under 60% in Belgium and Ireland to under 40% in France and around 30% in Denmark and Luxembourg (Graph 33).

Perhaps most importantly from the perspective of this analysis, well under half (42%) of those recorded as being unemployed, according to the ILO international standard definition of being available for work and actively seeking work, were in receipt of benefit or assistance in 1994, around 70% or more in Belgium, Denmark, Germany and Ireland and under 10% in Greece and Italy, only partly because of the high proportion under 25 (in Italy, only 11% of the unemployed of 25 and aver received benefits) (Graph 34).

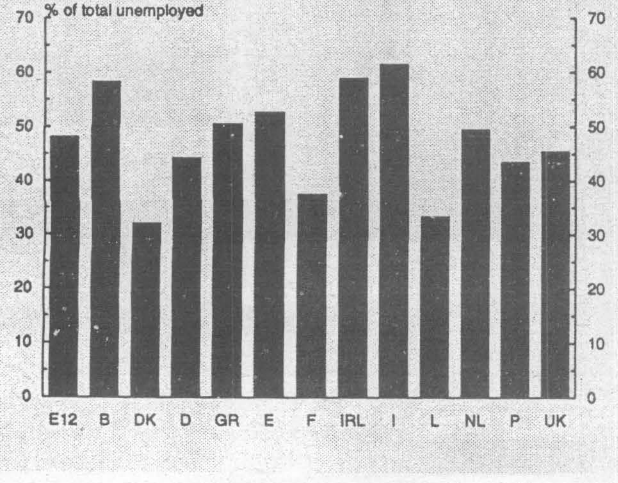
Moreover, only 23% of those under 25 across the Union were receiving benefit, two-thirds or more in Belgium, Germany and Ireland, but under 15% in Spain, under 10% in Portugal and only 2–3% in Greece and Italy.

At the same time, it should be noted that the evidence shows that many of those in receipt of unemployment benefit across the Union are not officially recorded as unemployed according to the international standard definition. Some have already found jobs to start at some later date, others may not be available for work in the immediate future as required by the ILO definition and yet others may not be actively seeking work in the sense of doing something tangible to find a job. The evidence also shows that this is more likely to be the case in the North of the Union than in the South where eligibility for unemployment benefit or assistance seems to be more restrictive (see *Employment in Europe, 1994*, Chapter 1).

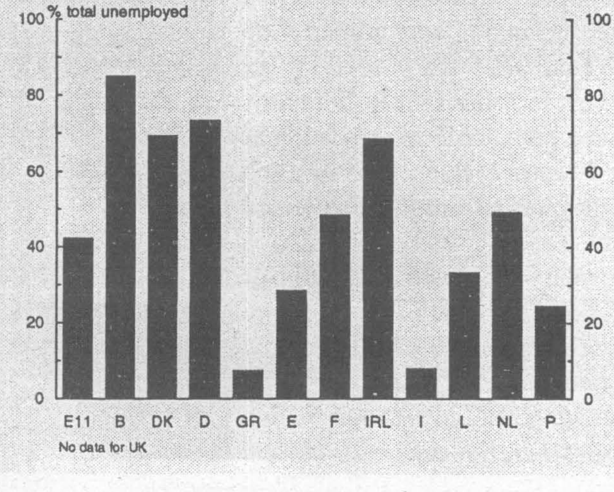
At the same time, those out of work in a number of Southern Member States may be in receipt of other kinds of income support, such as the *Cassa Integrazione* in Italy or aid from regional authorities in Spain, which are not necessarily reported in the LFS as unemployment assistance. These are not taken into account in the analysis here.

Nevertheless, the comparatively few people who are recorded as being in receipt of income support when unemployed in a number of Member States is an important point to bear in mind when interpreting the estimates of the amounts of benefit which people are theoretically entitled to receive according to prevailing regulations. In the South of the Union, in particular, therefore, the calculations of benefit and of replacement rates would seem not be relevant for most people.

33 Proportion of unemployed out of work for 1 year or more, 1994



34 Proportion of unemployed in receipt of unemployment benefit or assistance, 1994



The earnings potential of the unemployed

A further point to clarify is the typical pay levels of the unemployed when in work or the earnings which they are likely to be able to command if they find a job. Again, this question can only be satisfactorily answered by means of a survey of those concerned. Unfortunately, the Community LFS does not contain details of income. The Community Household Panel Survey does include such information, but the first results are not yet available at the time of writing.

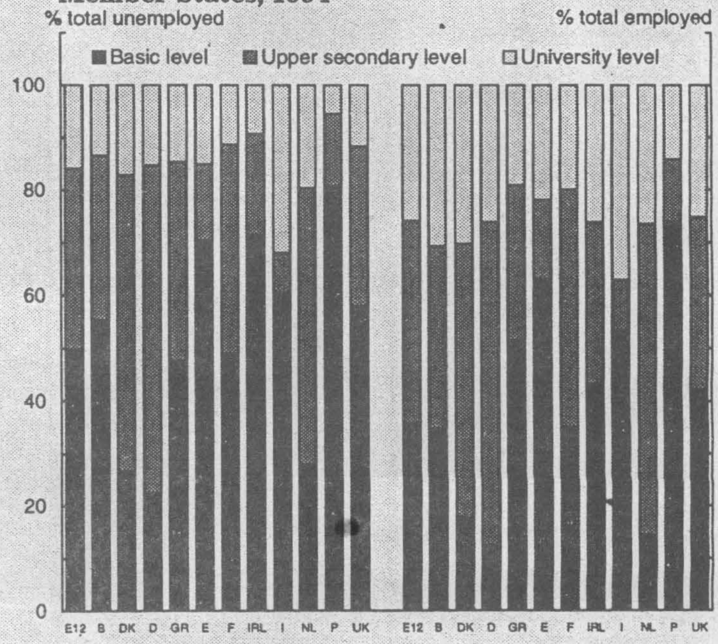
Nevertheless, some indication of the potential earnings which the unemployed might command can be obtained from their level of education attainment, details of which are included in the Community LFS. These indicate, as is well known, that the unemployed are more likely to have fewer educational qualification and less years schooling and vocational training than those in employment. Nevertheless, it also indicates that a significant proportion of the unemployed have educational and training qualifications beyond basic schooling, some with university degrees.

In 1994, half of the unemployed had completed only basic education and had no further education or vocational training qualifications beyond this. This compares with 36% in the case of those in employment. The figure, however, was in general much higher in the Southern parts of the Union, together with Ireland, than in the North. In Portugal, it was as high as 80%, in Ireland, only slightly lower, in Spain over 70% and in Italy over 60%, though only 47% in Greece. In all these countries, however, the relative numbers in employment with only basic education were also comparatively high, though lower than for the unemployed (over 70% in Portugal, over 60% in Spain and over half in Italy, but under 45% in Ireland). By contrast, in Denmark and the Netherlands, it was under 30% and in Germany, only just over 20%, in each case reflecting the relatively high numbers who go on to further education courses after compulsory schooling, while in most other Northern Member States, with the exception of Belgium and the UK, the proportion was under half (Graph 35).

An average of around a third of the unemployed in the Union in 1994 had completed an education or training course beyond basic schooling but below university level, over half in Denmark and the Netherlands and over 60% in Germany, but less than 20% in Ireland and under 15% in Spain, Portugal and Italy.

In the Union as a whole, therefore, some 16% of the unemployed in 1994 had university degrees or equivalent qualifications (as compared with 26% of those in work). As such, they may well have been capable of commanding relatively high rates of pay. Nevertheless, in general, the average level of earnings in the Union for the unemployed when in work is likely to be below average, though perhaps not so much below average as is sometimes suggested

35 Proportion of unemployed and employed with various levels of educational attainment in Member States, 1994



No data for L

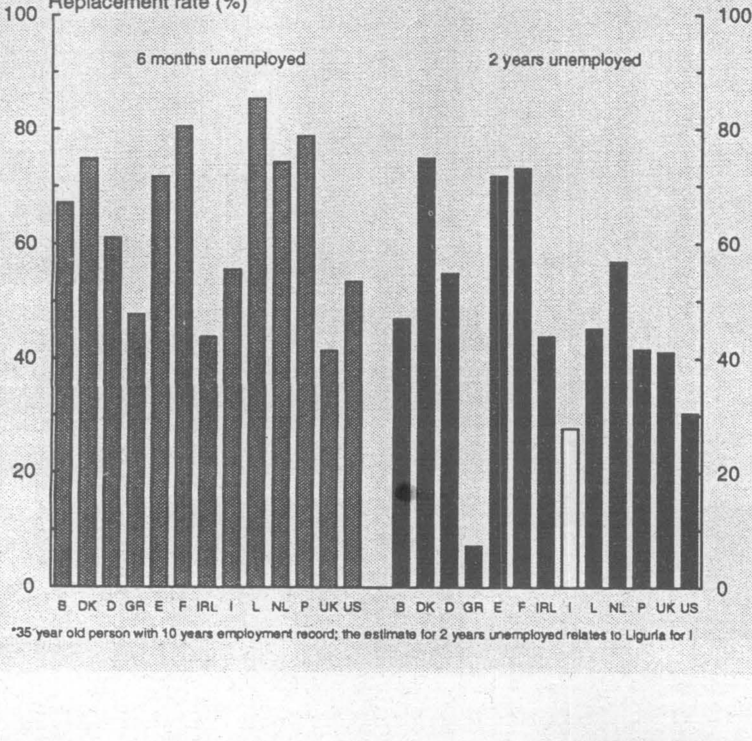
— except in the case of women whose average earnings are significantly below those of men in most Member States.

Replacement rates at average earnings

From the above, it would seem that the typical person who in the Union is unemployed is under 35 as likely to be a woman as a man and whose earnings when in work are less than the average, perhaps significantly so. As a starting-point for the analysis of levels of income support available to the unemployed in different parts of the Union, however, it is useful to examine the level of transfers payable to someone on average earnings. This provides in some sense a benchmark against which payments at lower wage levels can be assessed. (The average earnings figures used relate to the gross wage for a production worker in manufacturing in the different Member States in 1993 and come from OECD — see earlier Box.)

The basic assumption is that the person concerned is eligible for unemployment benefit for the maximum period allowed by their employment record and that where benefits are fixed in relation to previous earnings, the figure used is the average for 1993 as defined above. This will tend to bias upwards the estimates of the amount received because of inflation, though in most cases the extent of bias is likely to be small, both because of the relatively low rate of inflation in 1993 — except in Greece, where it was over 14%, wage inflation in the Union was around 4% — and because the previous earnings in question are usually for the preceding three or six months rather than the preceding year (only in Portugal are they the average for the previous year; in Greece, where inflation is much higher than anywhere else, they are for the previous month). As the period of unemployment goes on, however, the upward bias will increase since the amount of benefit or allowance received will increasingly be based on a level of earnings which because of inflation will decline in relation to the wage that the person concerned would receive if they went back into precisely the same kind of job. The replacement rate calculations, therefore, are most relevant for the initial spell of unemployment and become less meaningful for long periods out of work.

36 Replacement rate at average earnings for a single person*



*35 year old person with 10 years employment record; the estimate for 2 years unemployed relates to Liguria for I

In 1993, the replacement rate — or the disposable income receivable in benefits and assistance when unemployed in relation to that when in work — for a 35 year-old single person who has become unemployed and who was on average earnings when in work with 10 years' employment record (the precise age, so long as the person concerned is 25 or over, and the exact number of years in employment, so long as they are more than one or two, tend in most countries to have relatively little effect on the results, as described below) varied from 85% in Luxembourg, around 80% in France and Spain and just below in Portugal (though the above discussion of the relatively small numbers of benefit recipients should be borne in mind) to around 48% in Greece, 44% in Ireland and only just over 41% in the UK (Graph 36).

In the latter two countries, in contrast to elsewhere in the Union, unemployment benefits are wholly (in the UK) or mainly (in Ireland) calculated as a flat-rate sum rather than as a percentage of previous earnings when in work. As such, they are fixed in order to meet the basic needs of the individuals — or families — concerned rather than, in some sense, to replace previous earnings as is the case in other Member States.

For the remaining Member States, in two cases — Denmark and the Netherlands — the net amount received by the person in question when unemployed amounted to over 70–75% of disposable income when in work, in Belgium and Germany to over 60% and in Italy to 55% (though in this case, a range of different income support mechanisms exist and only one — the 'mobility benefit' to be eligible for which the person concerned has to have been laid off due to industrial restructuring — has been chosen for the calculation).

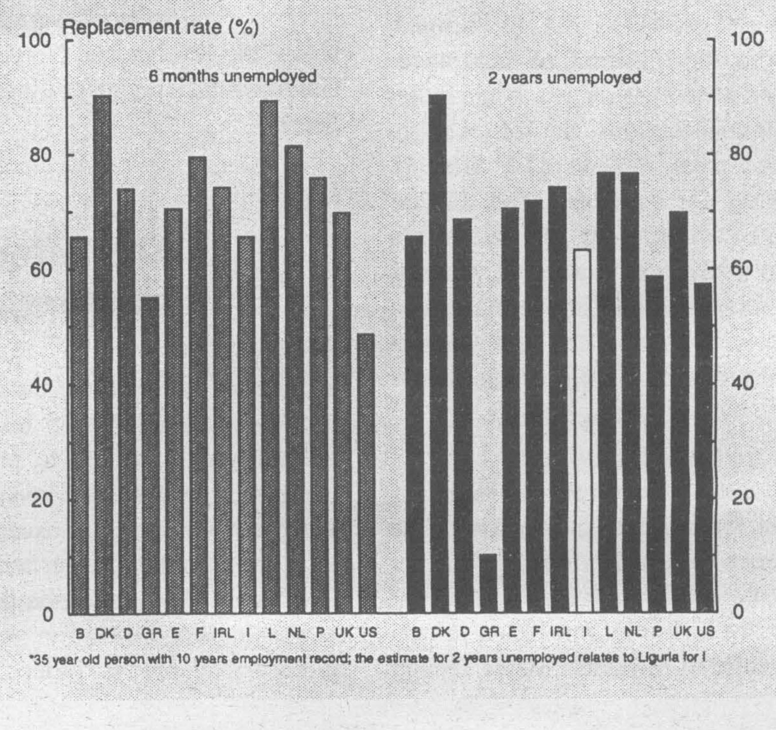
For comparison, the replacement rate in the US (here represented by the State of New York) was just over 50% for the same person, below the rate in all Member States except Ireland and the UK.

In all the Member States, the amount received in the form of unemployment benefit remains the same for at least six months after the spell of unemployment begins and in all, apart from Spain, it remains at this level for at least the first year.

In Spain, the amount declined after 180 days by 10% in relation to previous earnings and then remained at this reduced rate for another 18 months for the person in question (though less for those with employment records of less than six years or so, the duration of benefit being reduced by two months for each 180 fewer days of employment.

After a year, however, when insurance-based benefits tend to come to an end, the amount received declines in half of the countries but remains the same as initially in Denmark, France, the Netherlands and Portugal as well as in Ireland and the UK. In the other countries, it is lower as people moved from social insurance benefits to social assistance or basic income support. In Greece, where there is no minimum income guarantee, the insurance benefit was reduced by 50% for three months for the person in question and was then replaced by a very low flat-rate which amounted to only around 7% of disposable income when in work for the person concerned (though it was higher for first-time job seekers). In Italy, the position varies between the North and South of the country as well as between older and younger workers, those living in assisted areas in the South or those aged 40 or more being able to receive social insurance benefits for a further year, while others have to fall back on social assistance which is organised on a regional basis. The conditions attached to the latter and the amount payable vary from region to region, but in general the unemployed receive substantially less once they move from unemployment benefit to social assistance (in Liguria, the region chosen as an example — see

37 Replacement rate at average earnings for a couple with 2 children*



*35 year old person with 10 years employment record; the estimate for 2 years unemployed relates to Liguria for I

Box above — the replacement rate halved for the person examined).

The reduction in income support at the end of one year was also particularly marked in Luxembourg, where the replacement rate declined from 85% to 45% and in Belgium, where it fell by around 20 percentage points. By contrast in both Germany and France, the reduction was comparatively small — only around 6–7 percentage points — signifying that there was little difference between the amounts payable from the unemployment insurance system and from assistance schemes.

After a further six months (18 months of unemployment in total), the replacement rate in the Netherlands was reduced by $17^1/_2$ percentage points for the person concerned (though if contributions had been paid for 15 years rather than 10, the reduction would have been postponed for six months and by an additional six months for each extra five years of contributions). In Portugal, where the duration of insurance-based benefits is related to age rather than contributions, the rate was reduced from 79% to 42% after 18 months for someone aged 35 (for someone aged 40, the reduction would have come after 21 months, for someone of 45 or over, after two years). In France, the rate was reduced after 20 months of unemployment by 7 percentage points.

At the end of two years of unemployment, for the person in question, on the average wage when working, the net income support received was under half disposable income when in employment in 7 Member States, though above 40% in all except Greece and Italy, and 55–60% in two others — Germany and the Netherlands. In three countries, however, Denmark, Spain and France, it was still over 70% of disposable income even after this period of time (Graph 36).

Beyond two years of unemployment, however, the replacement rate in France declined to 64%, followed by a further reduction to 55% after another four months, while in Spain, the person concerned had to fall back on regionally-based social assistance, involving a substantial fall in the amount received (in the Aragon region, taken as an example in the analysis, the replacement rate declined to only 23% in this case). In Portugal, where as in Greece, there is no minimum income guarantee for those without work, the rate fell to zero.

By comparison, in the US, after two years of unemployment, the rate for a person with the same characteristics was only 30% of disposable income when in work, significantly below the level in the North of the Union countries, except those in the South.

The effect of dependants

In Member States where the amount initially receivable when becoming unemployed is related to previous earnings, it tends to be invariant to family circumstances — except insofar as the latter affects other benefits or allowances which might be payable, such as housing benefits in particular as described below. Indeed, since disposable income when in work tends to be higher for people with dependants than without because of lower effective tax rates, the replacement rate can be lower for the former than the latter. The effect of tax on disposable income, however, is offset to some extent by the fact that where there are children, the allowances payable for these are usually the same whether the person is working or not (the addition of a flat-rate sum to both amounts, in other words, pushes up the ratio).

For someone who became unemployed in 1993, therefore, the replacement rate was lower if they had dependent spouses or children in Belgium, Spain, France and Portugal (Graph 37). In the majority of the other countries, it was significantly higher — 10 percentage points or more. This was particularly the case in Ireland and the UK, reflecting the perceived greater need for income support for those with families than for those without. Thus in both countries, the replacement rate in 1993 was around 30 percentage points higher (over 70% higher in terms of the amount received) for a married person with two children than a single person.

In the UK, however, the higher sum payable in such circumstances also reflects the fact that transfers to the unemployed cover housing costs which, in turn, are assumed in the analysis to increase with family size for any given level of earnings when in work. As described more fully below, such transfers can account for a significant proportion of the disposable income received by someone unemployed in the UK and can radically change the comparative picture of replacement rates. Housing benefits are also an important factor in particular cases in Denmark, Germany, France, Ireland and the Netherlands.

Taking family circumstances into account narrows the difference in relative benefit levels between Member States. In all countries, apart from Belgium, Greece and Italy, disposable income when becoming unemployed for someone on average earnings with a family of two dependent children was 70% or more of disposable income when in work. In Denmark and Luxembourg, it was as high as 90% (in the former partly because of housing benefits). In Belgium and Italy, it was only slightly below 70% (66% in both) so that Greece was the only country in the Union where the replacement rate was substantially below 70% (55%).

By contrast, in the US the replacement rate for a person with these characteristics was under 50% in 1993, lower than all the countries in the European Union, including Greece.

The level of income support in this case does not tend to change much as the period ofunemployment increases. Only in Greece and Portugal, was the net amount receivable reduced by more than 10% after two years of unemployment, in the latter by around 25% to just under 40% of disposable income when in work. These are the only two countries in the Union, however, where the replacement rate after two years of unemployment was less than 66% in 1993. By comparison, in the US, though the net amount of income support receivable by a family with two children was higher if they were long-term unemployed rather than out of work for a relatively short period of time, this still amounted to only 57% of disposable income for someone on average earnings.

Longer periods of unemployment

In the US, the net amount received remained unchanged if unemployment went on for longer than two years. This was also the case in most European countries, the only exceptions being Spain and France, as noted above and Portugal (Graphs 38 to 49, which illustrate for each Member State the change in the net amount of assistance receivable by people with different family circumstances at various length of time unemployed; in these cases, the earnings when in work are assumed to be 75% of the average wage as defined above, which is more representative of reality, though the pattern of change in the amount received would be much the same at different wage levels).

In Portugal, the most extreme case, the amount receivable by both a single person and a married couple out of work fell to nothing after two years of unemployment, while for someone with two dependent children it was reduced to under 7% of disposable income when in work for someone on 75% of average earnings (the only transfer being child allowances). In Spain, the sum payable fell by almost 60% for a single person after on this level of earnings when in work this length of time had elapsed, though for a couple with two children, the reduction was only around 25%. In Italy, the reduction in the latter case was only very small, but for a single person it was almost 50%, while in France, it was also very small for a family with two children and only 20% for a single person.

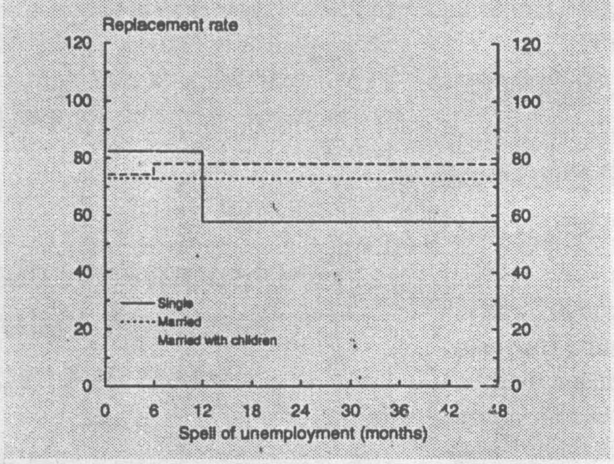
Replacement rates on earnings below the average

As indicated above, a large proportion of the unemployed are likely to earn wages below the average when in work. This is not only because of the lower levels, on average, of educational attainment of the unemployed, but also because of the higher representation of young people among those out of work as compared with those in employment. Moreover, a further factor is that almost half of the unemployed are women who, again on average, earn only around 75% of the average wage of men in the Union (only 70% in the UK and Ireland, 75% in Germany, Belgium and Portugal, over 75% in Greece, Spain and the Netherlands, 80% in France and 85% in Denmark — figures based on Eurostat data on average gross hourly earnings of manual workers in industry for October 1993).

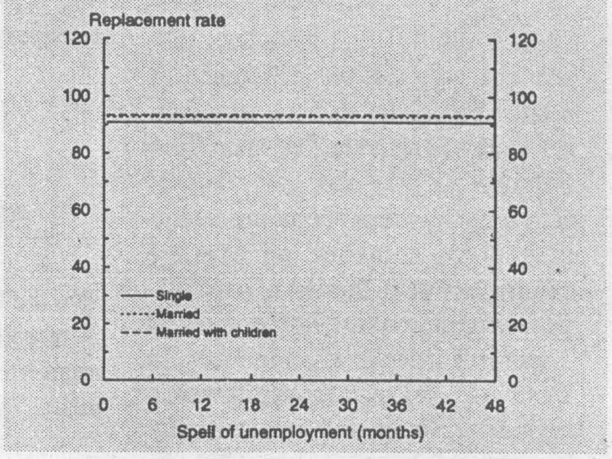
At 80% of average earnings, the replacement rate in 1993 for the single person of 35 with 10 years employment record used in the calculations presented above who has just become unemployed ranged

Replacement rates at varying lengths of time unemployed (35 year old, at 75% of average earnings with 10 years employment record)

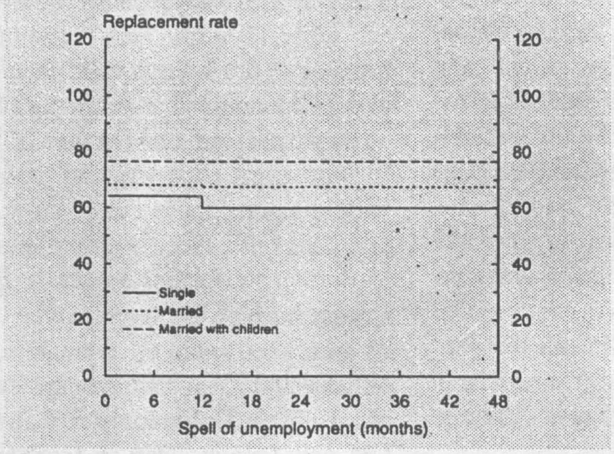
38 Belgium



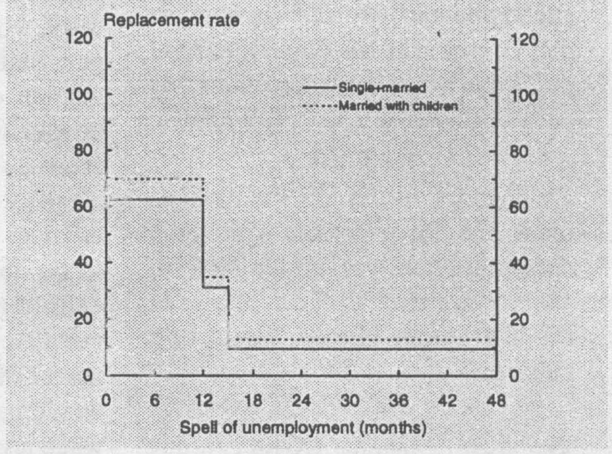
39 Denmark



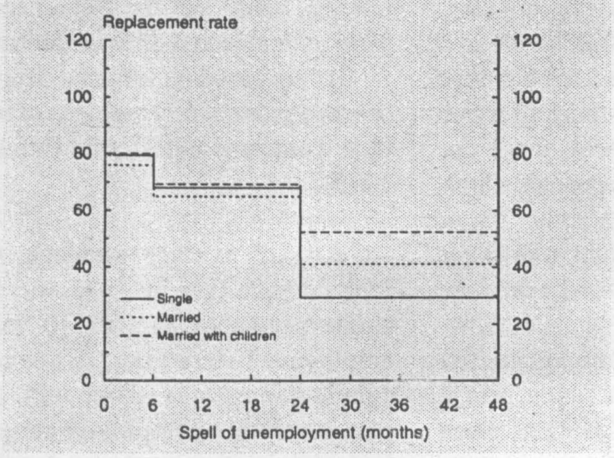
40 Germany



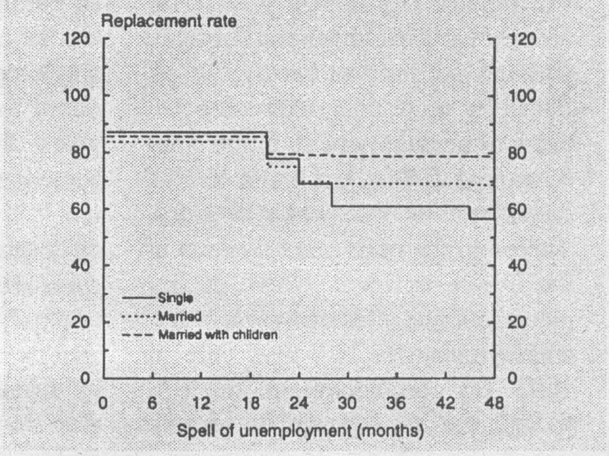
41 Greece



42 Spain

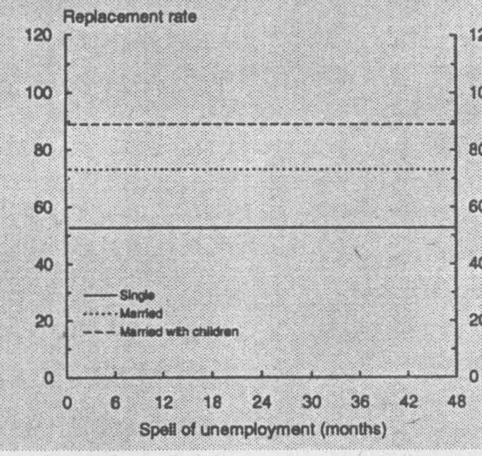


43 France

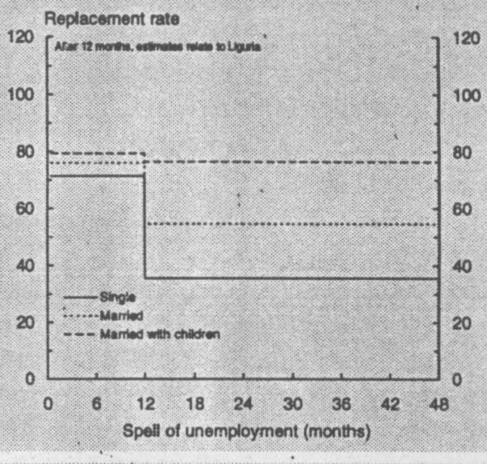


Replacement rates at varying lengths of time unemployed
(35 year old, at 75% of average earnings with 10 years employment record)

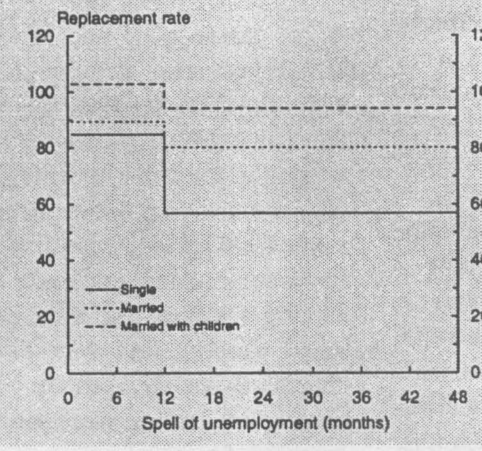
44 Ireland



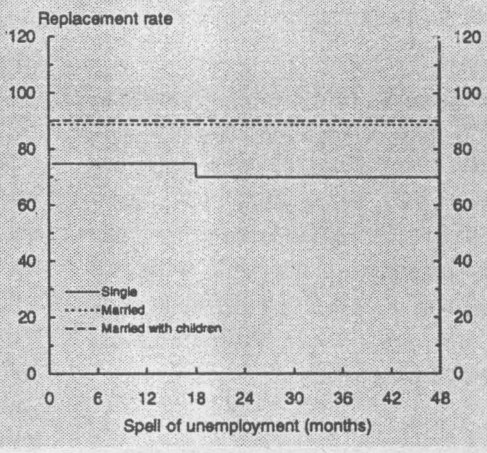
45 Italy



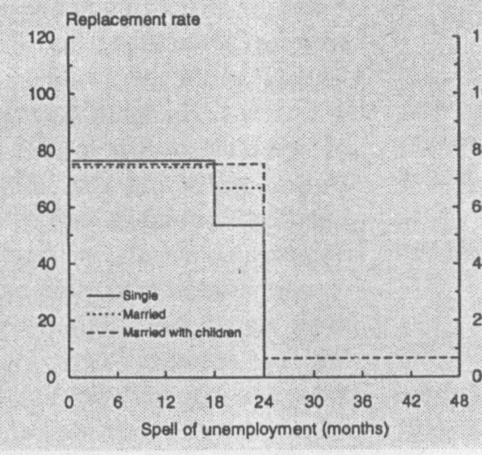
46 Luxembourg



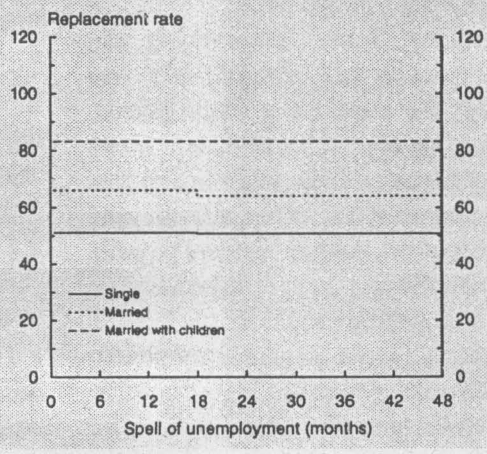
47 Netherlands



48 Portugal



49 United Kingdom



from 85% of disposable income when in work or just above in Denmark, France and Luxembourg, just under 80% in Belgium and around 75% in the Netherlands and Portugal to just under 60% in Greece and 50% or slightly below in Ireland and the UK (Graphs 50 to 61, which show the variation in the replacement rate with gross earnings for each of the Member States).

For a married couple with two children, the replacement rate was 80% or above at this level of earnings in six Member States (almost 100% in Luxembourg) and around 75% in another four. Only in two countries, therefore, Greece and Spain, was the rate below this (66% in the former, 70% in the latter).

By contrast, in the US, the replacement rate for a single person with these characteristics was only just over a half, lower than in all European countries apart from Ireland and the UK, and for a couple with two children, it was even lower at only 47% — well below the level in any European country.

Comparing the replacement rate at 80% of average earnings with that at the average, in five Member States — Germany, Spain, Luxembourg, the Netherlands and Portugal — it was much the same for a single person, reflecting the linking of benefit levels to previous earnings, while in the other 7 countries, it was higher, reflecting the effect of the flat-rate element payable (in Ireland and the UK, especially) or of the ceiling imposed on benefit amounts (in the other five countries). Such ceilings can effectively mean that an earnings-related system is much the same as a flat-rate one at wage levels above the ceiling (which is set at a relatively low level relative to average earnings in the latter five countries).

As earnings fall below 80% of the average, replacement rates in most cases tend to increase further. For a single person with the characteristics defined above, the rate in 1993 at 65% of average earnings was 80% or above in six Member States and 75% or above in another two. Only in Ireland and the UK, was it under 60%. For a couple with two children, it was around 85% or above in 9 Member States and in the other three around 80% or just below.

For a single person earning half the average wage when working, the replacement rate was 90% or above in 7 countries — and above 100% in Portugal (where the minimum benefit payable was equal to the minimum wage before deductions, which, in practice, was higher than the *net* wage received at this level of earnings) — and between 70 and 77% in another four. Only in the UK, was it below 70% and then only slightly. For a couple with two children in the same circumstances, the rate was above 100% in six countries and 90% or above in all the others except for the UK (where it was 85%).

In the US, even at half average earnings, a single person who became unemployed received under half of their disposable income when working, though for a couple with two children, the rate increased to just over 80%.

As the period of unemployment lengthens for someone on half average earnings, so the replacement rate falls in 7 of the Member States — Belgium, Germany, Greece, France, Italy, Luxembourg and Portugal, though by 10 percentage points or less in all except Greece (where the rate declined in 1993 to only 16% of disposable income when in work after 15 months of unemployment) and Portugal, and in all except Greece and Luxembourg, only for single people — but remains the much the same in the other five.

Replacement rates at earnings above the average

For those who become unemployed after earning a higher wage than the average, the amount they can expect in the way of income support is generally lower relative to their former disposable income, as might be expected, than for someone on average earnings. For a person earning 150% of the average wage when working (but with the same characteristics as used in previous examples), there were only two countries for which this was not the case in 1993 — the Netherlands, where the relative amount receivable was much the same and Portugal where it was higher (as high as 84% of previous disposable income, much higher than anywhere else in the Union, reflecting the linking of benefits to earnings *before* deductions which results in benefits increasing relative to *net* earnings up to three times the minimum wage). For four Member States, including these two together with France and Luxembourg, the replacement rate at this level of earnings was around 75% or more. In four others, Greece, Ireland, Italy and the UK, it was under 40% (only just over 30% in the last).

For a couple with two children at the same level of earnings when in work, the replacement rate was around 80% or more in the former four countries and around 70% or more in another three — Germany, Spain and Luxembourg. In Ireland, Italy and the UK, by contrast, it was only around 50% and in Greece, under 40%.

At twice average earnings, the replacement rate in Portugal was even higher at 88% of former disposable income and still around 75% in France, though elsewhere in the Union, in five Member States, it was 30% or less.

In the US, the replacement rate for a single person at both 150% and twice average earnings was higher, at just under 50% in the former case and 40% in the latter, than in four European Union countries.

Replacement rates for people without employment records

The example used above for estimating the replacement rate, however, is not necessarily typical of all those who are unemployed in Union countries. As noted above, a relatively high proportion are young and may be looking for their first job and, therefore, without any previous employment record — usually a condition for receiving insurance-based benefits. Alternatively, they may be women returning to work who have lost their entitlement to unemployment benefit. In these cases, the people concerned may have to rely on some form of social assistance or minimum income guarantee.

To illustrate the position of such people in different Member States, a person aged 24 with potential earnings of only half the average of a production worker in manufacturing is taken as an example (it makes relatively little difference to the comparative results in most cases if someone older or with higher earnings is taken instead).

In the first place, for someone of this age with a two years' employment record, the replacement rate, whether they were single or married with children, was precisely the same in all Member States, except in the UK, as for the 35 year old with 10 years employment record used in the earlier examples. In the UK, the overall amount of assistance received was slightly lower for someone under 25, because of a reduction in their housing benefit entitlement, resulting in a replacement rate of around $65^1/_2$% instead of $68^1/_2$%.

Without an employment record at all, the position was somewhat different. In two countries, Greece and Portugal, the person concerned was not entitled to any assistance. In Ireland, they received only 15% of the disposable income they would have earned at half the average wage and in France, only 30% (which consists of housing benefit alone, since someone under 25 is not eligible for social assistance — *minimum d'insertion*; for someone of 25 or over in the same circumstances, the replacement rate increases to 65%) (Graph 62). In two other countries, moreover, Spain and Italy, where social assistance is administered at regional rather than national level and so varies in amount across the country, the amount payable was typically under 50% of what they would have received at this level of earnings and only in three countries, Denmark, Luxembourg and the Netherlands, was it higher than 70%.

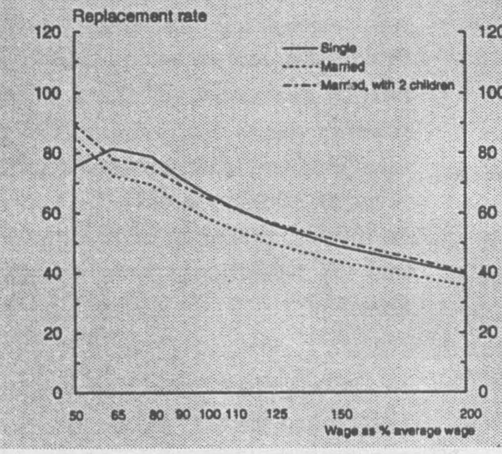
In all Member States, apart from France and the UK, the replacement rate was the same for someone in similar circumstances over 25 as under 25. In France, as already noted, the rate for the former was over twice as high as for the latter, while in the UK, it was 8 percentage points higher.

In the US, by comparison, the income support receivable in this case was 52% of disposable income at half the average wage, higher than in six of the European countries.

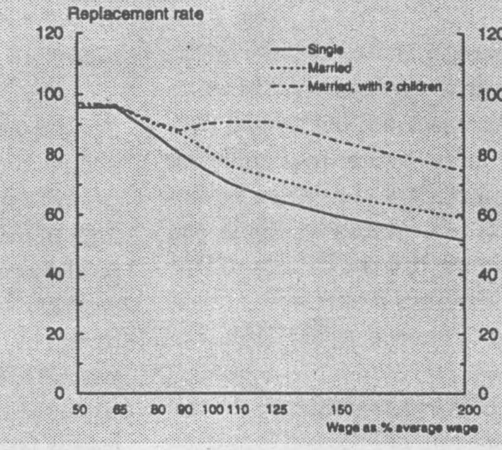
For the same person with a family, the position is markedly different. In five Member States, they received the same amount as if they had had a previous employment record and in two others only slightly less. The only two countries where they received small amounts were Greece and Ireland, just 4% of disposable income at half average earnings in the former, 21% in the latter. Elsewhere in the Union, the replacement rate for such families was below 85% only in Belgium (79%) and Spain (73%) (Graph 63).

Replacement rates at varying levels of earnings
(35 year old unemployed for 6 months with 10 years employment record)

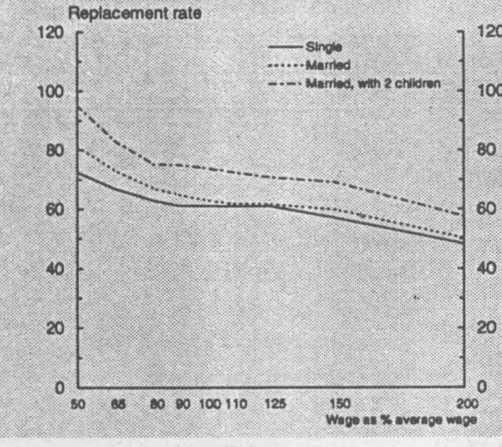
50 **Belgium (6 months unemployment)**



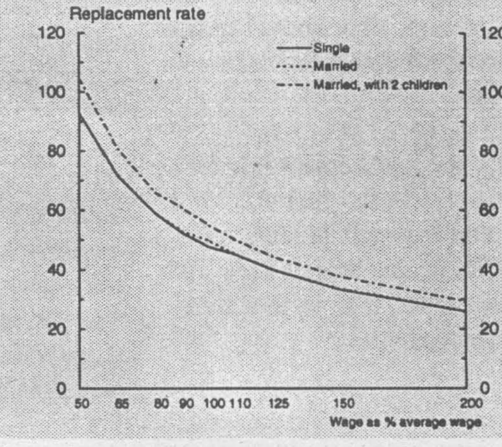
51 **Denmark (6 months unemployment)**



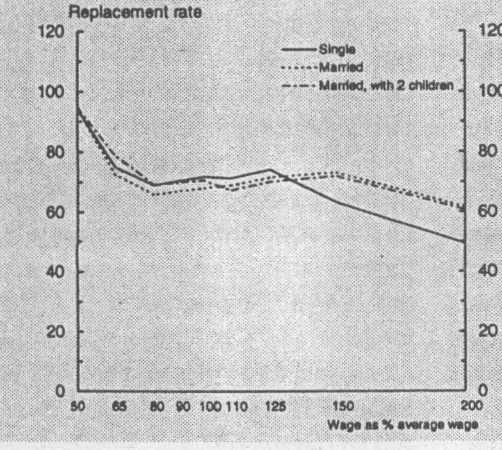
52 **Germany (6 months unemployment)**



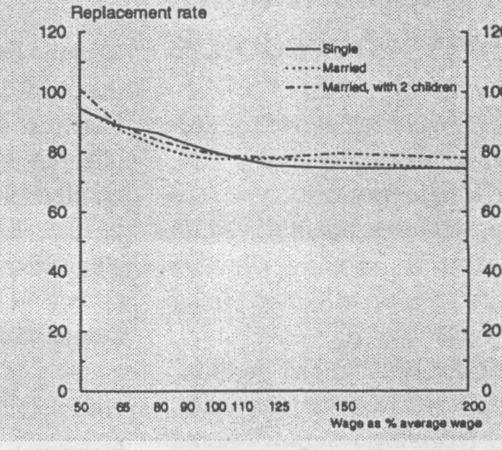
53 **Greece (6 months unemployment)**



54 **Spain (6 months unempl.)**

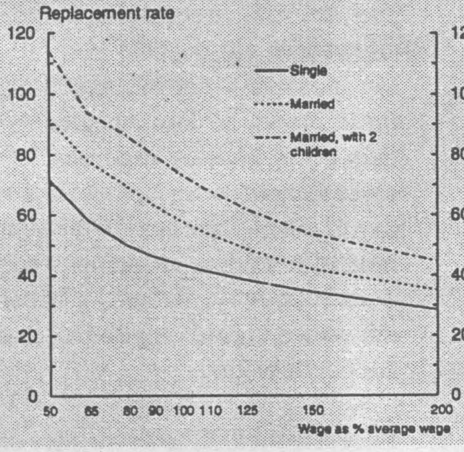


55 **France (6 months unemployment)**

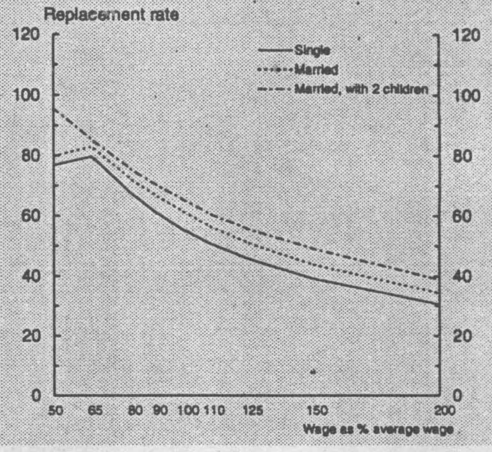


Replacement rates at varying levels of earnings (35 year old unemployed for 6 months with 10 years employment record)

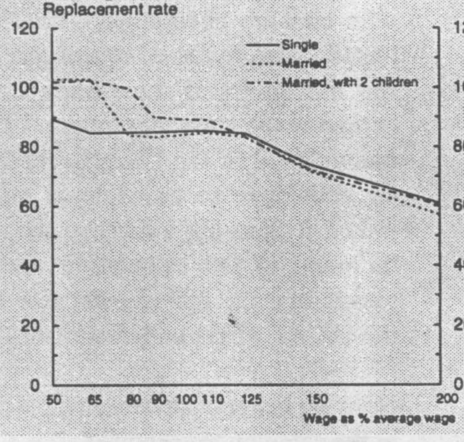
56 Ireland (6 months unemployment)



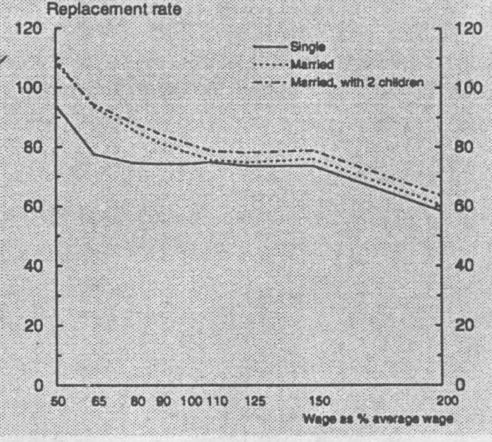
57 Italy (6 months unemployment)



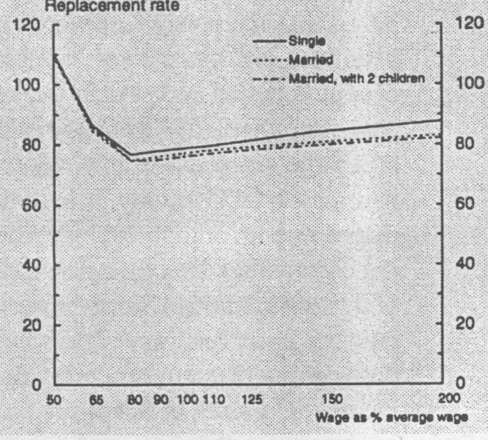
58 Luxembourg (6 months unemployment)



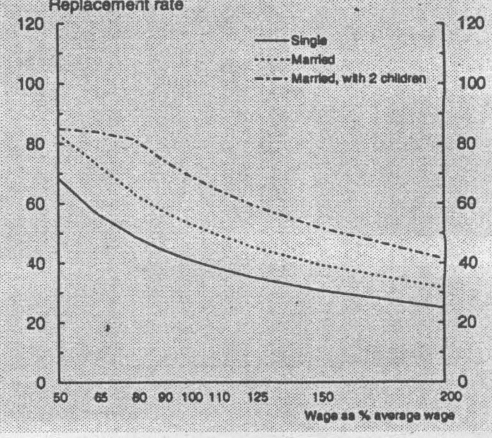
59 The Netherlands (6 months unemployment)



60 Portugal (6 months unemployment)



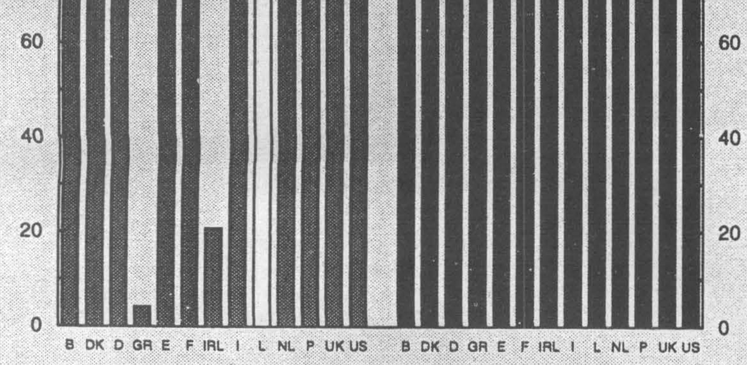
61 The UK (6 months unemployment)



62 **Replacement rate for 24 year old single person at 50% of average wage***

*With 6 months unemployment; the estimate for no employment record relates to Liguria for I

63 **Replacement rate for 24 year old married person with 2 children at 50% of average wage***



*With 6 months unemployment; the estimate for no employment record relates to Liguria

Housing benefits

In 5 Member States, Denmark, Germany, France, the Netherlands and the UK, housing benefits or allowances are payable to those on low incomes — and in some cases, to those on not so low incomes — to help cover housing expenses. In all cases, benefits are available irrespective of whether the head of the household is in work or is unemployed. In a sixth country, Ireland, a housing allowance is paid only to those who are out of work.

Except in the UK, however, they only apply to rent. In the UK, this is the case for those in work, but for those who become unemployed, housing benefits also cover the cost of servicing mortgages if the person concerned owns their own house. (The unemployed in the UK also receive an allowance to cover local taxes linked to housing but these are not included in the calculation which means that the replacement rate for the UK is a slight underestimate.)

Housing benefits have been included in the calculations reported above — specifically, they have been added to disposable income — the assumption being that the person for whom the estimates are made lives in rented accommodation and pays an average rent. (An alternative basis for calculating the replacement rate, adopted in a recent OECD study, is to define disposable income to exclude housing costs — see Box for a discussion of the two methods.) Since, however, housing costs can vary significantly between people with similar levels of income and sizes of family, according to where they live or the size of house they have, how much they receive in housing benefit is not fixed and can affect the replacement rate. (Concessions in respect of housing costs also exist in three other Member States. In Belgium, those who are unemployed are in some cases entitled to a reduction in the rent they pay, which means that their housing costs are effectively subsidised by the local authority, though it is difficult to take this into account in the calculation of replacement rates. In Greece and Spain, a proportion of housing costs is allowed as a deduction against income tax, though in these cases, the replacement rate is not affected.)

The effect of including housing benefits in the calculation varies considerably between Member States reflecting the scale of assistance available and the regulations governing eligibility (see Table 9). In Denmark, it has relatively little effect for those on low earnings (increasing the replacement rate by only 1½ percentage points for a couple on half the average wage — all the estimates in this section relating to a couple with one person earning), but is more significant for those on higher earnings (increasing the rate by 4½ percentage points for those on average earnings), especially if their rents are above average. In France also the effect is greater at higher earnings levels, though the level of rent makes comparatively little difference to the calculation.

In the other Member States, on the other hand, the effect tends to be greater for those on low earnings, though in the Netherlands, the effect depends on the precise level of

Housing benefits and the calculation of the replacement rate

The regulations in place concerning housing benefits and, therefore, their potential effect on incentives to work, differ markedly from country to country. In those, like the UK especially, where they are an integral part of the means of support and granted almost automatically when a person becomes unemployed, there is a case for defining the replacement rate to be net of housing costs entirely — more precisely, to measure disposable income either when in work or unemployed after deducting housing costs net of housing benefit. The rationale is that housing costs are a fixed liability which has to be met whether a person is working or not and since housing benefits are tied to a particular level of cost, they should arguably be excluded completely from the calculation of the replacement rate. The effect of doing this is generally, but not invariably (in particular, where the replacement rate is over 100%), to reduce the replacement rate as compared with the calculations reported here, simply because a fixed amount is deducted from both numerator and denominator, though in many cases the difference is relatively small (see Table 9). Where there are no housing benefits payable to cover rent, however, which is the case in six Member States, the effect is larger (if, for example, housing costs are 25% of disposable income when in work, and the replacement rate on the method adopted here is 70%, the rate calculated after deducting housing costs would be 60%; the higher the rent and the lower the replacement rate as defined here, the greater the effect of deducting housing costs).

Whether this approach or the one adopted here is preferable is hard to judge — clearly there is no ideal measure. However, it is open to question how far housing costs are fixed in practice. In particular, those renting accommodation might decide to move to somewhere less costly if they lose their job and have difficulty finding another or postpone payment for a time if unemployment is expected to be of short duration. To this extent, they are not so different from other items of expenditure out of disposable income which could also be deducted when calculating the replacement rate. Moreover, housing costs can vary significantly between individuals in otherwise similar circumstances — a reason for not deducting other expenses from disposable income — which affects the interpretation of the replacement rates calculated on the alternative method more than it does for the method adopted here. Whichever approach is adopted, given the difficulties surrounding housing benefits, it is important to distinguish them from other kinds of income support when assessing the replacement rate and its potential effect on work incentives.

Table 9 — Effect of housing costs at different rent levels on replacement rates — couple with head of household aged 35 unemployed for 6 months and 10 years employment record (% of disposable income when in work)

	50% average earnings		75% average earnings		average earnings		150% average earnings	
	average rent	50% higher	average rent	50% higher	average rent	50% higher	average rent	50% higher
Denmark								
Replacement rate	96.4	96.8	92.8	94.7	81.5	89.1	66.5	79.1
After housing costs	95.1	94.8	90.4	91.8	76.0	83.5	49.6	48.7
Housing benefit effect	1.5	1.4	3.4	4.5	4.6	11.9	6.3	14.2
Germany								
Replacement rate	81.3	89.9	68.1	80.4	63.2	66.1	59.8	60.1
After housing costs	73.8	83.1	57.0	68.0	52.6	49.1	50.7	44.4
Housing benefit effect	16.3	22.8	5.9	18.2	1.2	4.1	-	0.4
France								
Replacement rate	94.7	95.2	83.7	84.5	77.7	78.2	76.4	76.4
After housing costs	92.6	92.0	78.9	76.7	72.1	69.0	71.6	68.4
Housing benefit effect	1.8	1.9	4.1	4.3	4.8	5.1	3.2	3.2
Ireland								
Replacement rate	91.7	99.7	73.2	80.1	58.5	64.4	42.3	47.1
After housing costs	90.0	99.6	68.9	74.9	53.0	56.8	33.9	30.2
Housing benefit effect	13.5	21.6	2.4	9.4	1.2	7.1	2.1	6.9
The Netherlands								
Replacement rate	109.5	108.7	88.7	89.5	78.5	84.5	76.0	76.0
After housing costs	112.6	113.1	85.6	84.9	73.2	78.1	71.1	67.8
Housing benefit effect	-	-	7.0	6.5	3.1	9.1	-	-
UK*								
Replacement rate	83.3	85.3	66.1	77.4	53.6	63.3	39.8	47.7
After housing costs	77.3	77.3	56.3	65.9	42.5	48.3	9.9	0.6
Housing benefit effect	21.0	18.5	22.5	33.8	19.3	28.9	15.7	23.6
US								
Replacement rate	38.4	42.0	42.9	44.8	48.7	48.7	42.5	42.5
After housing costs	18.8	9.2	27.6	19.1	36.8	28.4	31.8	24.9
Housing benefit effect	9.6	13.2	0.4	2.2	-	-	-	-

Notes: Average rent is an estimate of the mean rent paid by a household on each level of income in the country in question. 50% higher means rent 50% higher than the mean.
The replacement rate is calculated to include housing benefits in disposable income when in work and unemployed.
Housing benefit effect indicates the percentage point difference in the replacement rate betwen including and excluding housing benefits.
** Housing costs assumed to be rent. An owner-occupier servicing a mortgage is eligible for housing benefits only when unemployed. In this case at 50% of average earnings, the replacement rate is 88.3% if mortgage payments equal the average rent and 102.5% if they are 50% higher than this.*

earnings. At very low rates of pay — half the average, for example — the effect is very small since much the same amount of housing benefit is payable whether the person is working or not. As pay increases, benefit is withdrawn from those in work, while those who become unemployed have a sizeable proportion of their rent covered, so the effect on the replacement rate is greater (adding 7 percentage points at 75% of the average wage). But as pay approaches average earnings, housing benefit for those out of work is reduced, because of a ceiling being imposed on the overall amount of unemployment benefit receivable, and the effect on he replacement rate declines correspondingly.

In Germany, where benefit covers not only housing costs but heating and light, the effect on the replacement rate is substantial at very low earnings and declines markedly as earnings increase (16½ percentage points at half the average wage, 6 percentage points at 75% of the average), becoming very small at average earnings (except where rents are well above average) and disappearing altogether at earnings above the average, the reason for this pattern being the same as in the Netherlands. This is also the case in Ireland, where housing allowances increase benefits receivable by the unemployed significantly at very low earnings (adding 13½ percentage points to the replacement rate at half the average wage), but by relatively little at earnings only slightly higher than this (by 2½ percentage points at 75% of the average wage), except if above average rents are paid.

The effect of housing benefits is most pronounced in the UK since, for the unemployed at least, the scheme in operation is much more generous than anywhere else in the Union. Here, for all those aged 25 or over, all housing costs, whatever form they take and however large, are met by the State if a person becomes unemployed (though those under 25 receive a reduced amount, some 8–9% less than the rent they pay). (Measures are being introduced, however, under which only 'average' rents will be covered in full for those aged 25 and over, with local authority discretion to pay more in individual cases.)

For someone (with a dependent spouse) on half average earnings and paying around the average rent, housing benefits added 32% to their disposable income when out of work and 21 percentage points to the replacement rate (26½ percentage points in the case of someone paying a mortgage instead of rent who was not entitled to housing benefit when working). If their housing costs are higher than average, then the effect is even greater.

Although in the US, housing benefits do not exist as such, housing expenses are partly covered through the system of food stamps, designed to help pay for basic living costs. For someone on half average earnings and with average rent, food stamps accounted for around 25% of the benefit received as against nothing at all if they had been in work and increased the replacement rate by 9½%.

However, though housing benefits are included in the estimates of the replacement rate here — and they cannot justifiably be left out of account since in the countries where they exist they are an important part of the income support given when a person becomes unemployed — their effect on individual behaviour is arguably likely to differ from that of other forms of assistance, especially those which are paid automatically. Whereas in these cases, the amount that any individual can expect to receive and the timing of payments are largely known, neither is necessarily the case for housing benefits, except in the UK where total housing costs are covered. The amount of entitlement usually depends on a complicated calculation and the actual payment can often take some time before it is received. (In the UK, to help overcome this problem, from January 1996, prospective recipients will be able to apply for details of the likely amount of rent which will be used to calculate their Housing Benefit entitlement before taking on a tenancy.) Nor is the calculation that much simpler when a person moves from being unemployed to taking up a job if the pay they will earn still makes them eligible for benefit.

How far housing benefits are likely to be taken into account in decisions about whether to work or not is, therefore, difficult to assess.

Concluding remarks

The above analysis indicates that the level of income support receivable when out of work can be high in most countries of the Union in certain cases relative to take-home pay when in employment. This is especially so for those on low pay and particularly for people with dependants. However, even for those earning only half the average wage when in employment, the replacement rate in 1993, even during the early stages of unemployment, was below 100% in all Member States except Portugal and below 80% in five of them in the case of a single person with an adequate record of employment. For someone with no employment record, the replacement rate was under 60% in 7 Member States and under 70% in another two.

Such rates do not seem overly generous in terms of ensuring that those out of work can avoid living in poverty, especially in a relative sense (usually taken as half the average household income in the country in question) though many of the unemployed live in households where there is more than one potential wage earner. Whether, on the other hand, they are high enough to represent a serious discouragement to look for work is an open question. Survey evidence and observation seem to suggest that a substantial number of people would prefer to work and be earning rather than to receive the same amount of income for doing nothing. This can be explained in part by the fact that participation in society as well as personal fulfilment for many people is linked very closely with the job of work that they do. In addition, future job prospects tend to depend very much on being in work.

The results, moreover, need to be qualified by two important considerations. In the first place, far from all the unemployed are eligible for the benefits estimated here, as noted at the outset. Indeed, in Portugal, where replacement rates of over 100% are estimated for a single person on half average earnings, under 10% of those recorded as unemployed on the ILO standard definition were in receipt of benefits or assistance in 1994 and in Spain, where rates were also high, the proportion was under 15%.

In the second place, to an increasing extent in most countries, those drawing unemployment benefit have to satisfy the officials concerned that they are actively and seriously looking for work, nor can they easily turn down jobs if they are offered, irrespective of the level of wage.

A further point to bear in mind is that even if benefit levels were to be reduced, there is no certainty that wages at the lower end of pay scale would correspondingly decline as well. The constraint on wage reductions does not come only, or even perhaps mainly, from the level at which unemployment benefits are set. Other factors, such as obstacles to geographical and occupational mobility, the actions of trade unions, the imposition of social charges and taxes on labour, minimum wage legislation and social attitudes towards what constitutes acceptable pay levels, are equally important.

Moreover, replacement rates are not only determined by the level of income support for the unemployed. They are also affected by the level of take-home pay when in work. If high replacement rates represent a disincentive for those out of work actively to seek employment, then the problem can equally be tackled from the other side — in other words, by raising take-home pay rather than by reducing unemployment benefits. One means of doing this without revising the cost of labour to employers is through in-work benefits, such as the Family Credit scheme in the UK, which increases disposable income in relation to the gross wage paid by employers but is only available to those in work. It is also, on the other hand, only available to those with families (except for a relatively small number of disabled), which represents a significant limitation on its potential effectiveness (a limitation which is in the process of being reassessed by the UK authorities with a view possibly to broadening its applicability).

One inherent problem of in-work benefits, however, is that they tend to be associated with high implicit marginal tax rates, in the sense that, if targeted on the lowest paid, the amount receivable usually declines significantly as wages increase, so effectively reducing the extent to which take-home pay rises in response to higher wages. In the UK, this results in marginal tax rates of over 90% for some recipients of Family Credit (see *Employment in Europe, 1995*, Part III, Section 1, for a fuller discussion of this issue and for estimates of marginal deduction rates in Member States).

In this way, there is a danger of replacing one disincentive effect — that of discouraging job search — by another — that of discouraging work

Two-earner families and disincentive effects

The analysis in this chapter is confined to one person earning whether they are single or married (or cohabiting). In reality, a high proportion of households consist of at least two wage-earners, or at least, two people who are economically active. This is an important limitation, though in terms of disincentive effects it is perhaps more important to consider the general position of women contemplating seeking a job whether they are receiving unemployment compensation in any form or not (and, indeed, whether they are registered as unemployed or not). As such, it is a broader and slightly different issue than the one examined here which concerns the potential effect of social transfers to the unemployed on their incentive to be in employment.

Research recently sponsored by the Commission (*Protection sociale et activité économique des femmes en Europe*, CERC) indicates that the position of married women contemplating taking a job varies markedly across the Union in terms of the level of deductions from gross earnings and the costs associated with working, such as the costs of child care if she has small children. The extent to which she is able to add to household income by working, therefore, also differs considerably.

For example, in Belgium, someone with a dependent wife and two young children on a relatively modest wage (75% of the average) and paying an average amount of rent typically has a disposable income, after social contributions, payroll tax and housing costs and including child benefits, of around 58% of gross earnings (ie net deductions amount to some 42% of earnings). If the wife takes a job (at a slightly lower level of wages), the amount which she adds to household disposable income will be under half (47%) of her gross earnings because of a higher effective tax rate and the costs of child care. Net deductions in her case, therefore, are around 53% of earnings. At the same time, she is able through working to increase household disposable income significantly — by some 80% of the increase in household gross earnings (ie if she earns 90% of what her husband earns she will be able to increase household disposable income by just over 70%). Whether the relatively high deduction rate from earnings or the relatively large extent to which she can add to household disposable income is the more important factor determining whether or not she takes a job is a question for debate and investigation.

In France, where taxes on payroll are lower, the amount which a sole wage earner with the same level of pay and in the same family circumstances keeps out of gross earnings tends to be correspondingly higher and net deductions are under 30% of earnings. If the wife takes a job, net deductions from her earnings are much the same as in Belgium (54%), largely because of the costs of child care, so that again the amount which she adds to household disposable income is under half of her gross wage. In this case, however, because of the relatively high initial level, household disposable income is increased by less than in Belgium, by 65% of the increase in combined gross earnings.

In the UK, where payroll taxes are higher but social contributions lower, the disposable income of the same household with a sole wage earner is much higher in relation to gross earnings than in Belgium but slightly lower than in France, net deductions amounting to 31% of earnings. On the other hand, because of the high costs of child care, if the wife takes a job, a higher proportion of her earnings is liable to be absorbed by deductions of one kind or another than in the other two countries. Net deductions amount to over 75% of her earnings and she is able to increase household disposable income by only 23% of the percentage by which she raises combined gross earnings.

Additional problems can arise in certain cases, as noted in Chapter 2, when one of the wage earners in the household is unemployed and begins to claim social assistance (when entitlement to insurance benefits expires, for example), which may, in fact, not be payable if the other person is still in employment. The incentive then for the latter to stop working — which has much more to do with the regulations governing social assistance and the application of means-testing than the level of transfers or the interaction between the tax and benefit system — may well be significant.

effort. By the same token, there is also a danger of replacing an unemployment trap, in the form of those out of work being unable to find jobs which pay significantly more than they receive from social benefits, by a poverty trap, in the form of those in low-paid jobs having difficulty in increasing their take-home pay significantly, because a substantial part of any additional pay they earn is effectively taken away as their benefits are reduced.

An analogous problem applies to married women, in particular, and the second wage earner in a household, in general. As emphasised above, the analysis in this chapter has not included examination of replacement rates for couples where both partners are working. This is an important limitation since a large number of studies suggest that disincentive effects are particularly important in respect of married women. Nevertheless, the major disincentive to married women seeking employment, in addition to family responsibilities, almost certainly stems not from high levels of unemployment benefit which most will not be eligible to receive in any event, but from the potentially high level of deductions from household income and the additional costs, especially of child care, which can result if they take up paid employment. Further difficulties can also arise in the event of her husband being unemployed and receiving means-tested social assistance assessed in relation to total household income, including her earnings (see Box). This is an issue meriting further research.

Chapter 5 Reforms in health care

Introduction

In recent years, a major concern of policy throughout the Union has been to contain the costs of health care provision against a background, on the one side, of the increased demands imposed by an ageing population, and rising real income levels, and, on the other, of the increased costs resulting from new developments in treatment, technological advances and the inherent tendency for those responsible to seek to expand their budgets. In all Member States, expenditure on the health service has grown significantly in real terms since 1980 (see Box). With a few exceptions, however, governments have succeeded in preventing expenditure from absorbing a substantially larger share of GDP, though inevitably few were able to avoid spending expanding in relation to a falling or stagnant level of GDP during the recession years of the early 1990s. This experience combined with the evident long-term pressures for growth has intensified the search for ways of keeping down expenditure without jeopardising the maintenance of a high quality service, accessible to all who have a need of treatment.

The search has led, in particular, to detailed consideration of the organisation of systems and of the means of allocating resources and deciding the pattern of care, with the primary aim of increasing the effectiveness of expenditure. A common focus in this regard has been on the possibilities of introducing elements of competition with a view to improving efficiency. As a result, in a number of Member States, major reforms have either been introduced over the past few years or are being currently considered.

The purpose of this chapter is to review the changes which have been made in each of the countries in the light of both their institutional characteristics, which differ from country to country and which are a key determining factor of the kind of measures likely to prove effective, and of basic principles.

Basic principles and problems

While all countries in the Union face common general problems in respect of methods of containing health costs and ensuring an adequate extent and level of service, the methods of organising the provision of care and the means of financing differ between them. As a result, the detailed nature of problems and their manifestation also vary, as do the measures likely to prove effective in resolving them.

A principal difference which has major implications for the appropriate response to demand and cost pressures is between national health systems which are financed predominantly through general taxation, where services are provided directly by the State and for the most part are freely accessible to all, and insurance-based systems where a number of insurance funds are responsible for providing services to various occupational groups and which are financed mainly by contributions. In this case, therefore, the State exercises only indirect control over what is spent. The majority of Member States have the former type of system; the Benelux countries plus Germany, France and Austria have the second, though in some Southern European countries where the development of national health systems has not yet been fully completed, especially in Greece, elements of an insurance-based occupational system remain.

A second important difference is between a centralised organisation of health care and a decentralised one where regional and local authorities have more autonomy, though this is essentially a question of degree since in countries with a more centralised

Trends in health expenditure

Total expenditure on health care averaged 8½% of GDP in the Union in 1993 (according to OECD figures). The scale of spending, however, varies significantly between Member States from almost 10% of GDP in France to only 4½% of GDP in Greece (Graph BRU927). In general, the level tends to be higher in countries with insurance-based schemes — the Benelux countries, Germany and Austria as well as France — than in those with tax-financed national health systems (though Italy and Finland are major exceptions). This partly reflects the relatively high level of real income per head of the former group as compared with the latter and, therefore, the higher demand for health care.

Expenditure throughout the Union has tended to expand over time in relation to GDP, the only exceptions being Ireland and Sweden, where it declined between 1980 and 1993 (though for the latter, it seems likely that there is a break in the OECD figures), and Denmark, where it remained unchanged. In all other Member States, spending was higher relative to GDP in 1993 than in 1980. This was especially so in France and Finland, where it rose by 2 percentage points over this period and Belgium, Spain, Italy, Portugal and the UK, where the increase was 1½ percentage points or more. Much of the rise in these countries, however, occurred between 1990 and 1993 when GDP either grew slowly or not at all (in Finland and the UK, it declined).

Nevertheless, the experience during the 1980s, when expenditure increased at much the same rate relative to GDP during the period of comparatively high growth in the second half as in the first when growth was depressed, suggests that a higher rate of economic growth is no guarantee against the rising absorption of resources by the health care sector. In such periods, it is likely that there is less pressure on governments to depress expenditure and, therefore, that its growth more closely reflects the rising demand for services which seems to be a feature of economic development.

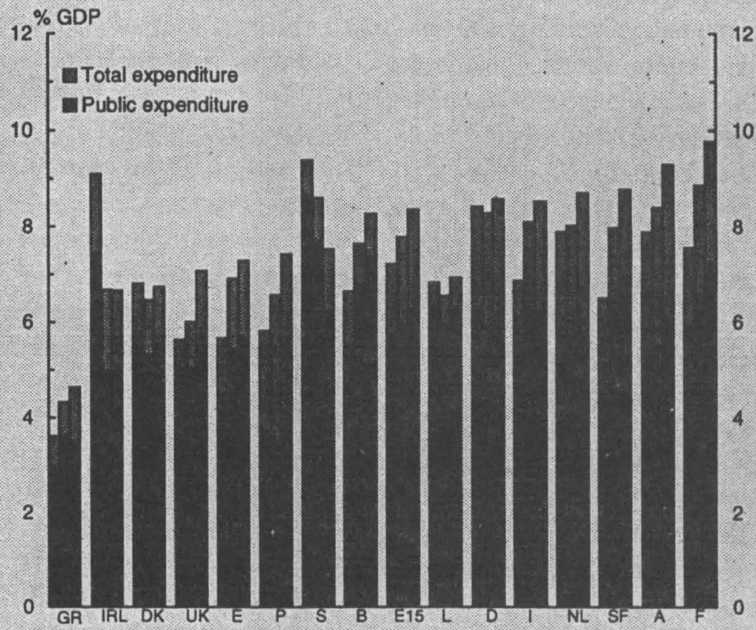
The growth in health care expenditure during the period of economic upturn between 1985 and 1990 averaged 3½% a year in real terms (ie deflated by a health price index) in the Union as a whole, significantly more than in either the preceding five years or the subsequent three (Graph BRU928). In Spain and Portugal, where universal systems were being developed it was 8% and 10½% a year, respectively. Between 1990 and 1993, average growth in the Union fell to 2% a year, and only in Spain, France and Portugal was it more than 3% a year. In Finland and Sweden, where GDP fell significantly, health expenditure also declined markedly.

Public expenditure on health has tended to grow less rapidly than overall spending in most countries. Only in Belgium and the Netherlands was the proportion of expenditure accounted for by the public sector higher in 1993 than in 1980, though in Finland it was much the same. In a number of countries, including Italy and Portugal, where national health services were being developed over this period, the fall in the relative importance of public spending was substantial. This was particularly the case in the period 1990 to 1993, reflecting the budgetary constraints which prevailed over this period. Overall, therefore, private involvement in health care provision and, partly as a corollary, the charges levied on individuals for treatment have expanded in virtually all parts of the Union in the past few years.

approach the lower level authorities responsible for actually providing the services have some discretion over the expenditure. A more centralised form of organisation is used in France, the UK, Portugal and Spain. In the Scandinavian countries, as well as Germany, there is a more decentralised system. There is, therefore, no close correlation between the method of financing and the form of organisation.

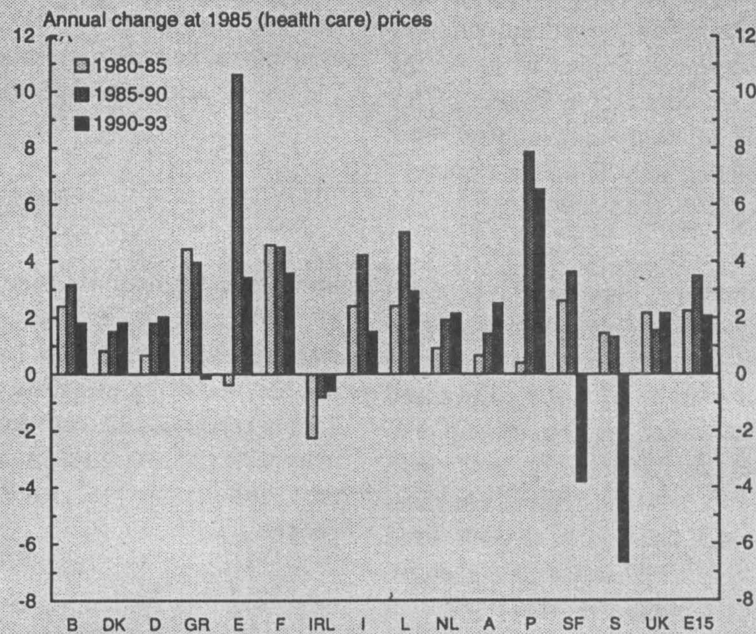
Under a tax-financed system, central government, in principle, has direct control over total expenditure in the sense that it sets an overall budget each year, or for a specific period of time, which is then distributed to the authorities actually responsible for providing care and services. In practice, however, given the pressures which can arise for additional expenditure, especially in situations where the regional or local authorities over-commit themselves to spending, control can be difficult to exercise unless central government is prepared to see services withdrawn or rationed. Problems experienced by national health services of this kind typically take the form of inflexibility (insofar as changing local and patients needs are not necessarily transmitted effectively to the central authorities which may be reluctant to expand budgets), waiting-lists (which are an inevitable consequence of controlling expenditure so that it is kept below the level of effective demand), and potential waste (which results from inadequate incentives to increase efficiency and use budgets more effectively). Though they do not necessarily need to arise in practice, these problems are in some degree inherent in this kind of system and have been an

64 Total and public expenditure on health in relation to GDP, 1980, 1990 and 1993



D excludes new Länder; left bar 1980, middle bar 1990, right bar 1993

65 Growth in health expenditure per head, 1980-85, 1985-90 and 1990-93



D excludes new Länder

increasing focus of policy in recent years as governments have sought to maintain or improve health care services without expanding expenditure. A common approach has been to try to increase incentives to improve efficiency in the way resources are allocated and achieve cost savings, partly through the introduction of competition or pseudo-market mechanisms.

In countries with insurance-based systems, the major problem tends not to be long waiting-lists or inadequate levels of service and care, but more control over expenditure. Since, in general, the insurance funds which manage the system do not supply services directly but contract these out to health care providers (general practitioners, consultants, hospitals and so on), they are potentially able, through the incorporation of effective sanctions and incentives in the contractual arrangements, to ensure a sufficient quality and level of service. The focus of policy in these countries has, therefore, tended to be on the design of contracts as well as on the means of exercising control over overall expenditure and the resources absorbed by the system.

Differences in the degree of centralisation or decentralisation also give rise to some difference in the nature of problems, in that more centralised systems ought, again in principle, to be able to distribute budgets more equitably between regional or local providers than more decentralised systems, though less able to exercise detailed control over what is spent. In practice, determining an equitable budget allocation is by no means straight-forward since this will depend on being able to identify differences in the need for expenditure, which in turn will depend on a range of characteristics of the population potentially requiring care.

Nevertheless, whatever the prevailing method of organisation or of funding, because of the common need for cost containment, in all countries governments have faced the problem of increasing the effectiveness of expenditure and of trying to ensure that what is spent and how it is allocated between different treatments and different types of care, adequately reflects the needs of society. In other words, given that the provision of health care needs to be 'rationed' in some sense (or, more precisely, given that all governments accept the need to limit what is provided, not only to contain public expenditure growth as such but also to avoid the seemingly insatiable demand for health care leading to excessive absorption of resources by this sector even in a market-based system), the key question is how this can best be achieved in practice.

Belgium

In Belgium the main issue in respect of health care concerns the cost of medical treatment which have expanded markedly year after year. This is especially the case for laboratory tests, pharmaceuticals, hospital care and home care for elderly people.

Over time, the system has been progessively modified from being one where payment is determined *ex post* in relation to costs to one where it is fixed *ex ante* in relation to a standard charge based on the expected costs of treatment or care. A global budgetary objective is set each year for health care as a whole as well as for each subsector. Provision for the implementation of corrective measures is included in agreements and conventions in the event of expenditure exceeding these amounts.

In general, increased efforts have been made to reduce the provision of medical care without jeopardising the quality of service, to make all those involved in the sector (health professionals, mutualities, pharmaceutical companies and so on) more responsible for the expenditure they incur or initiate and to put more emphasis on primary health care in relation to specialised care and highly technical treatment.

In order to expand finance, charges were increased significantly in 1994, continuing the policy of imposing a greater share of the cost of care on patients. This is tempered, however, by fixing a ceiling on the amount any individual pays for treatment (though not drugs) during a year. At the same time, certain obligations have been placed on general practitioners to avoid prescribing expensive drugs of doubtful effectiveness, with sanctions being available in the form of fee reductions if they ignore this. In addition, awareness campaigns have been introduced to inform doctors when their prescription rate per patient exceeds the average.

A long-standing problem inherent in an insurance-based system of the Belgian kind is imposing effective responsibility on the mutual funds which manage the system for the expenditure they incur. From 1995, part of the revenue of each mutual fund will be determined not by the actual medical expenditure of their members but by a fixed amount per member which depends on their characteristics (age, sex, income and so on). This part will amount to 10% of the health insurance budget in the period 1995 to 1997, 20% between 1998 and 2001 and 30% thereafter. If the expenditure of a mutuality exceeds its revenue, then it will have to use its reserves to cover part of the deficit and if necessary increase its members' contributions. This new system is intended to give an incentive to the mutualities to moderate their expenditure.

Denmark

The health care system in Denmark as in other Scandinavian countries is financed by taxes and has a decentralised organisation. Though the system seems to operate with fewer problems than elsewhere in the Union, a number of reforms have been introduced in the last few years.

In particular, to introduce some competition between health care providers especially in the hospital sector, in 1993, people were given free choice of which hospital to go to and the right to demand and receive health care where they wished. As a result, the role of the general practitioner in advising the patient where to go was increased.

Tax-financed, national health systems like that in Denmark also tend to have an inherent problem of waiting lists. An experimental measure has, therefore, been introduced of guaranteeing a maximum waiting time of three months with incentives for hospitals to comply and an obligation on the counties which administer the system to meet this target.

In addition, there are moves to introduce a system of contracts between counties and individual hospitals.

Germany

In Germany, a major reform of the health insurance system became effective at the beginning of 1993. Following the reforms introduced in 1988, expenditure increased sharply in 1991 and new measures of cost containment had to be implemented immediately. The approach was to introduce a system of budget control under which increases in expenditure between 1993 and 1995 have to be in line with the increase in income of the sickness funds from the contributions of the people insured. In the hospital sector, differentiated charges were introduced which vary according to the kind and intensity of care. The system of federal funding is also being changed in order to reduce the number of beds. Budget control has also been applied to doctors and dentists in private practice. From 1999, new doctors and dentists will only be allowed to provide services under the health insurance system if there is need. In addition, a freeze on drug prices was introduced.

There is a general consensus that the measures taken in 1993 were only a first emergency step in a more general reform of the health care system, the aim being to maintain the high standard of health care, to avoid imposing additional costs on consumers and to contain costs. It is also considered that rates of contribution which now differ between sickness funds should be more similar. Another idea is to give more flexibility to sickness funds for contracting with health care providers. At the same time, there are moves to give general practitioners a greater role in order to avoid expensive diagnoses by several specialists and to encourage them to work as coordinators. In addition, it is planned that there should be greater competition between sickness funds in terms of both benefits services they provide and the contributions they charge.

The latter will become effective from the beginning of 1996 while the other proposals are still being discussed. The latest proposal of the Federal Ministry of Health is generally to give the self-governing institutions in the sector more autonomy, though, according to a number of experts, the incentives and disincentives incorporated in the system are not powerful enough for such a move.

Greece

In Greece, there is a commonly perceived need to modernise the National Health system. In 1992 and 1994, amendments were introduced to modify administrative and organisational aspects and to improve primary health care, emergency pre-hospital services and the management of hospitals.

A report proposing a radical reform of the health care system was presented in 1994 by an International Committee of experts appointed by the government and is now under discussion. A central recommendation is the establishment of a Unified National Health Insurance Fund incorporating existing sickness branches of social insurance funds which would negotiate health services on behalf of the insured. Other proposals are the development of preventive policies on a decentralised basis, the participation of family doctors and general practitioners in the provision of primary health care services, the introduction of management techniques in the administration of public hospitals and the application of cost containment arrangements, especially in respect of drugs and diagnostic centres.

Spain

For many years, the main issue as regards the health care system in Spain was achieving full coverage. At the same time, the system as established tended to exhibit the typical weaknesses of centralised budget, in that there were inadequate incentives for those providing care to take account of costs.

In recent years, there has been a tendency to increase the role of private providers of care and of more effective management techniques. This was first evident in the changes introduced in Catalonia in 1990 under the Health Reform Law, which initiated a national discussion leading to the Abril Committee report which suggested deep-seated structural reforms to introduce managed competition, a proposal which was reflected in the changes made between 1992 and 1994.

In 1993, a proscribed list of pharmaceuticals too expensive for the public system to supply was produced for the first time. In 1994 a compromise was reached between the central government and the regional autonomous authorities over a more realistic budgeting. Since 1993, an explicit contract with public non-profit making hospitals has been introduced on an experimental basis, which specifies levels of activity and the expected costs for each kind of treatment, with the aim of achieving forward budgeting of hospital care. An additional medium-term aim in the same direction is to separate financing from the provision of care and to contract out part of the public service to private non-profit making hospitals.

A further issue under discussion is the extent to which the system should be regionalised in line with the division of government in Spain. In practice, there is some tendency towards the development of 17 different and separate regional health care systems.

France

In the French system, the health budget is centralised and health care providers, in general, work on a contractual basis; public hospital budgets are paid by the insurance funds but have to be approved by the Ministry of Health.

A major concern is the efficiency of the public hospital sector as well as the drawbacks of a centralised budgetary system, under which it is difficult to forecast the actual need and create incentives for efficient use of available resources when the budget is provided on the basis of the planned supply of services. Oversupply and waste are potential results. To avoid this, there is a trend towards agreements being drawn up between the insurance funds providing budgets and the public hospitals. Budgets tend to include incentives for efficient management and the avoidance of oversupply.

Ireland

Partly because of its high rate of economic growth, public expenditure on health in Ireland remained broadly unchanged between 1988 and 1993 in relation to GDP at around 5%, which is low as compared with other countries in the Union.

Measures of reform are, therefore, aimed at increasing equity, quality of service and accountability and there is less urgent need to improve efficiency or to control costs. There are, nevertheless, efforts to improve the organisation and integration of general practitioner services and to encourage health promotion.

Italy

Measures were introduced in Italy in 1992 aimed at containing costs and improving efficiency, which took effect from 1994.

Under these measures, the USL (local health units which form the basic structure of the national health service) were transformed into public enterprises with significant autonomy and local responsibility. Instead of being administered by a political committee, these are now under the control of a professional manager appointed by the region, with a contract renewable every five years. Larger hospitals, formerly acting as branches of the USL, are able to become independent public hospital agencies with autonomous organisation and administration, which have to operate with balanced budgets.

This reform also brought changes in financing regulations, with central government maintaining overall planning responsibility and effectively paying for a standard set of services that must be guaranteed to each citizen in each region. Each region continues to receive a predetermined sum from the centre according to its population, but any expenditure in addition to this has to be covered from its own resources. In this way, it is intended to encourage regions and USL managers to co-operate in containing costs and achieving an efficient use of resources.

Luxembourg

In Luxembourg a major reform of the health care sector occurred in 1992, which as elsewhere was aimed at increasing efficiency. The main aspects were a reorganisation of the administration of the health insurance system, a new system of financing health insurance, a new procedure for negotiations between insurance funds and providers of health care and a new financing system for hospitals. Of these, the latter two measures are the most important as regards improving efficiency.

Since the former negotiation system was virtually unregulated and there were inadequate mechanisms for controlling expenses, more detailed rules for negotiating agreements were introduced together with a list of services to be provided and the relative value compared with other services. In the hospital sector, a system of individual budgets negotiated between each hospital and the health insurance funds will replace the existing system after 1995.

The Netherlands

As described in *Social Protection in Europe 1993*, the reforms introduced in the early 1990s in the Netherlands were a radical attempt to introduce market forces into the health care system. In essence, the aim was to bring about competition between both providers of care and insurers. An important aspect was that the sickness funds were no longer obliged to contract with all institutions offering health care services, while individuals became free to choose which sickness fund to belong to. This was to be accompanied by the integration of all the different insurance schemes into a single scheme for all residents.

The experience of the Netherlands, however, demonstrates how difficult it is to introduce fundamental reform. The market approach succeeded in bringing about market-type behaviour, but this did not always achieve what the initiators of the reform had in mind. New cost containment measures turned out to be necessary, requiring intervention by the State, in a situation where, as a consequence of the reform, the acceptance of the dominant role of government had been eroded. The effects of the reform were at best mixed and have prompted opposition from several sides.

Following a change of government, the more far-reaching aspects of the reform have been abandoned. There is no longer to be a basic health insurance scheme covering all residents and the changes being made to the system are tending to increase the degree of government intervention and impose stricter budgetary control, though whilst retaining the market elements which have been established.

Austria

The health care system in Austria incorporates insufficient means of preventing overconsumption on the demand side and excessive provision of service on the supply side and tends to encourage expensive in-patient treatment, which in turn has led to the overexpansion of hospitals.

The reforms which are now under discussion attempt to address these problems in detail, by for example expanding forms of care between hospitalisation on the one hand and outpatient visits on the other hand or by replacing the present system of hospital funding based on a daily lump-sum rate by a system that is related to the costs of each case of treatment.

Portugal

The problems experienced by the National Health Service in Portugal in the late 1980s included a maldistribution of resources between regions, dissatisfaction with the quality of the public service, inefficient organisation and management of the system and so inadequate means of containing costs.

Since 1993, the approach has been to increase the extent of regional decentralisation and within each of the five health regions, to group together health centres and hospitals as 'units of health'. In addition, the National Health Service is now allowed to provide services directly, while there is a move away from public to private insurance, the main aspect being that private insurers receive payment from the government for each member at a rate below the average cost per head of the National Health Service. They are then free to contract with providers of care. The system thus contains incentives for insurers to contain costs.

Finland

As in the other Scandinavian countries, the health care system in Finland is based on municipalities having responsibility for providing services. The main problems concern inadequate coordination of infrastructure and a lack of incentives to increase productivity.

Instead of increasing the degree of centralisation, the reforms which became effective in early 1993 increased the freedom of the municipalities to decide on charges and to organise the provision of services and, in general, regulations controlling the activities of municipalities were relaxed significantly. In addition, municipalities were given effective control over the hospital sector, since they became essentially the customers for their services.

Sweden

The health care system in Sweden — hospitals as well as most out-patient clinics — is mainly run by the regional county councils and primarily financed through local income taxes. During the 1980s, health care costs were contained and output was simultaneously raised. Nevertheless, there were significant differences between the county councils in performance on both fronts. In particular, in the large cities long waiting lists built up for certain treatments thereby causing unnecessary costs for sickness insurance funds.

A series of reforms during the 1990s have aimed at combining the advantages of budget-controlled health care systems in terms of democratic transparency and financial control with the flexibility, freedom of choice for patients and cost efficiency of decentralised management and market-like mechanisms, such as reimbursing doctors through capitation fees. Responsibility for caring for the elderly (in 1992) and the mentally disturbed (in 1995) has been transferred from county councils to local authorities. In addition, a number of experiments have been carried out on coordinating social insurance and health care.

The reform of the general practitioner system in 1994 was aimed at giving everyone the freedom to choose their family doctor in order to strengthen the position of the patient as well as to improve primary care. After the general election in 1994, however, parts of the legislation relating to general practitioners will cease to apply at the end of 1995, though the provisions for strengthening the position of the patient will remain.

The UK

In the UK, the national health service with centralised decision-making has existed since 1948. Since 1991, however, fundamental reforms have been introduced aimed at containing costs and increasing efficiency. Partly because of the UK system being the model for national health services developed elsewhere and partly because of the market-oriented approach adopted, these reforms have attracted a good deal of attention in other Member States (and are, therefore, described in somewhat greater detail here than developments elsewhere).

The basic philosophy underlying the reforms was to distinguish between purchasers and providers of care and to encourage providers to compete with each other and supply their services on the basis of contracts negotiated with the purchasers. The latter consists of two kind. The largest are the district health authorities (DHA) whose role is that of both organising and supplying hospital care and to select the services needed and contract with providers. The other type of purchaser are general practitioner fundholders (GP fundholder), self-employed doctors responsible for primary care who manage a budget (based on the number registered with them) to be used for securing a defined range of hospital and primary care services for their patients. These have incentives to make good use of their budget in order to attract more patients and so raise their income. On the provider's side, competition between hospitals and between community services has been established, at least in principle.

Such fundamental reforms are likely to take some time before having their full effect. Nevertheless, four years after they were initiated some evaluation of their impact is possible. So far it seems that the effect is mixed. Evaluations by the Kings Fund in 1994 and the National Audit Office in 1995 concluded that the consequences were limited, though with a greater impact on GP fundholders whose performance seemed to be better than the DHAs. It appears that in practice only a relatively limited amount of competition has been established in the system, primarily because under the old arrangements local monopolies had been created among providers (local or regional hospitals, in particular) so that the DHAs do not have much effective choice over the supply of particular types of care or treatment.

At the same time, DHAs themselves are effectively in a monopoly position and management is liable to possess neither the skills (since they were trained under the old system) nor the motivation to change their behaviour substantially.

An essential requirement for a market to work effectively is sufficient information about the cost implications of particular kinds of action and details about the actual costs of carrying out various kinds of treatment remain inadequate; even though the situation is improving, progress is slow. This lack of detailed information makes it difficult for purchasers to assess the offers made by providers — or indeed for the latter to fix 'prices' in line with the costs of provision — and for market mechanisms to bring about an improved allocation of resources.

This does not mean, however, that the attempts to introduce market elements and more choice into the system, to obtain better information about costs and to take these more into account when deciding patterns of expenditure is necessarily misplaced.

Comparative developments

The review of developments in Member States indicates that the reform of health care systems is a topical issue and an objective of policy throughout the Union, since all countries have to grapple with problems of rising costs, inefficiency, waste, distorted incentives and inflexibility. A major focus is on relations between financers of services and providers of care and on the establishment of effective incentives for achieving a better use of the available resources. The quality of medical care is not a common issue of concern. All of the systems have the ostensible aim of combining cost effectiveness with a high quality of service and, though there is a good deal of variation in the mechanisms of quality control in place, all governments claim that their system provides a high standard.

Despite the broad similarity of systems, of the problems faced and of the approaches followed, reforms differ in detail and can only be assessed in terms of the specific features of the arrangements for providing and financing health care in the individual Member States.

In nearly all countries, there is some tendency to adopt what might be termed a 'contractual' approach, though the way in which this has been used differs significantly between Member States. In broad terms, this is simply a way of organising the provision of care. In France and in some degree in Spain, contracts are essentially being used to contain costs by limiting budgets, though under centralist systems they can also incorporate provisions regarding quality and standards as well as serving to give incentives.

Contracts can also be established between the different bodies providing the finance (the State and/or sickness funds) and those providing care. This has strong similarities with collective bargaining. There is rarely effective competition on either side and negotiations tend to take place between two monopolistic organisations. A tendency here is to constrain the outcome of negotiations to avoid them being at the expense of third parties — in practice, either governments or patients. This can sometimes be a problem of contracts made between insurance funds and health care providers. In Belgium, therefore, reforms are aimed at imposing more responsibility on the mutual funds to moderate their expenditure by introducing a system of incentives. Much the same is the case in Luxembourg. In both countries, therefore, the contractual approach has been modified to incorporate additional regulations in order to control the implications for public spending. On the other hand, in Germany, the expectation is that giving more flexibility to insurance funds to contract with health care providers might help to increase the effectiveness of the system.

The way in which contracts are used, the potential outcome and the need for constraints tend to differ according to whether insurance funds are obliged to contract with any health care provider fulfilling certain requirements or are free to choose between them as in the Netherlands. At the same time, the outcome may not be desirable if there is a monopoly on one side and a number of providers offering services on the other. The reforms in the Netherlands, therefore, are aimed at introducing competition between insurers as well as between providers. The latest proposals in Germany go in the same direction but remain to be defined in detail.

A third major aspect of the contractual approach is its potential for increasing competition (or more precisely managed competition), both between health care providers and also between insurance funds or budget holders, as in the Netherlands. As in the case of the latter, a further means of increasing competition is to incorporate private insurers into the public system, as happened in Portugal. A managed competition approach has also been suggested by the Abril Committee for Spain.

The possibility of introducing more competition is not confined to social insurance systems but also applies to those financed by general taxation. The major example is the 1991 reform in the UK, which especially in terms of the creation of GP fundholders seems to have had some success. There are certain parallels in this regard with 'the family doctor reform' in Sweden, though the latter is paralysed at present by political factors. More generally, a widespread tendency towards increasing the role of primary care doctors is evident across the Union.

A fourth aspect of a 'contractual' approach is that of decentralisation in tax-financed systems as well as in insurance-based ones. A decentralised form of organisation is an important feature of the Scandinavian countries and here problems of growing waiting lists have been tackled by allowing patients to seek treatment outside their county of residence, so creating competition between regional authorities. This has been coupled with a tendency to give regions greater freedom in the way they provide and organise health care services. A further aspect of the arrangements in these countries is that the central government allocates a fixed budget amount to each of the counties which then have to cover deficits from their own resources. Since patients can exercise influence in local elections, the counties have an incentive to contain costs. A similar approach has been introduced in Italy and to some extent in Portugal.

Increased decentralisation is also an aspect of the UK reforms, in this case the district health authorities (DHA) being given responsibility for purchasing health care services and having to manage on fixed-amount budgets; though this example illustrates the limitations of what can be expected to be achieved where local monopoly elements predominate.

A particular kind of decentralisation is being pursued in Spain, where increased autonomy is being given to the regions to develop their own systems.

A contrary tendency is evident in Greece, where unfortunate experiences with a very diversified system has led to moves to develop a more uniform one with a single sickness fund. A further part of the reform, however, is to extend the role of the general practitioner and improve management of health care provision.

Recent political developments in Sweden and the Netherlands demonstrate, at the same time, that ambitious reforms programmes are liable to provoke a good deal of opposition since they are attempting to change a system with long-standing traditions and specific institutional structures developed over the years with extensive vested interests.

The developments over the past few years described above can be broadly interpreted as moves in similar directions, insofar as there is a common tendency to place increased reliance on contracts between the main parties involved, to introduce elements of the market and to increase competition both between providers of care and those responsible for managing the finance. The detailed measures taken, however, differ a good deal between countries reflecting the diversity of institutional arrangements. In this regard, substantial differences remain between Member States and are likely to do so for many years to come.

Chapter 6 Social protection and the self-employed

The self-employed labour force

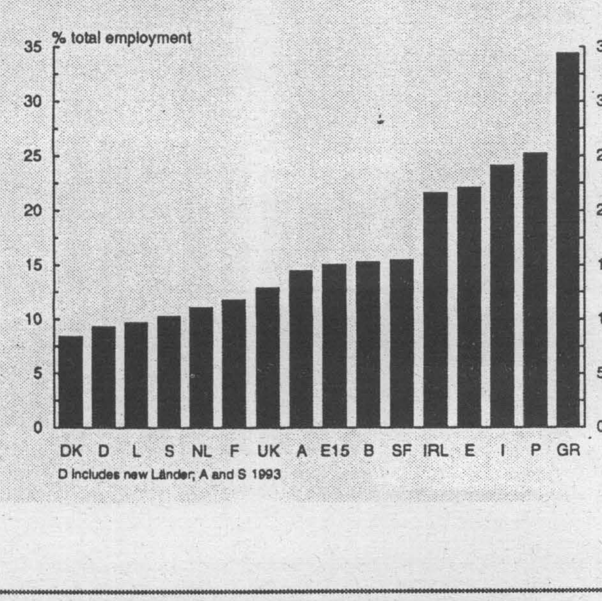
In 1994, there were around 22 million people who were self-employed in the European Union, including the three new Member States. Many governments in the Union have a policy of encouraging self-employment, in part to boost job creation, in part to offer people a route out of unemployment. The concern of this chapter is with the social protection arrangements for the self-employed across the Union. (This is based on results of studies sponsored by the European Commission in 1989 and 1991, updated and supplemented by information from independent experts from each of the Member States.)

The scale of self-employment in the Union in 1994 ranged from around 8% of the total number of employed in Denmark and 9% in Germany to 25% in Portugal and 34% in Greece (Graph 66). In most Member States, the proportion of self-employed in the work force has remained fairly constant over time, though it has fallen somewhat in the less developed countries as a result of the decline in employment in agriculture where a high proportion of self-employed work (Graph 67).

The great majority of the self-employed work full-time. In 1994, only 10% in the Union as a whole worked part-time as opposed to 16% in the case of employees and only in three Member States, the Netherlands (35%), the UK (18%) and Portugal (17%), was the proportion significantly more than 10%.

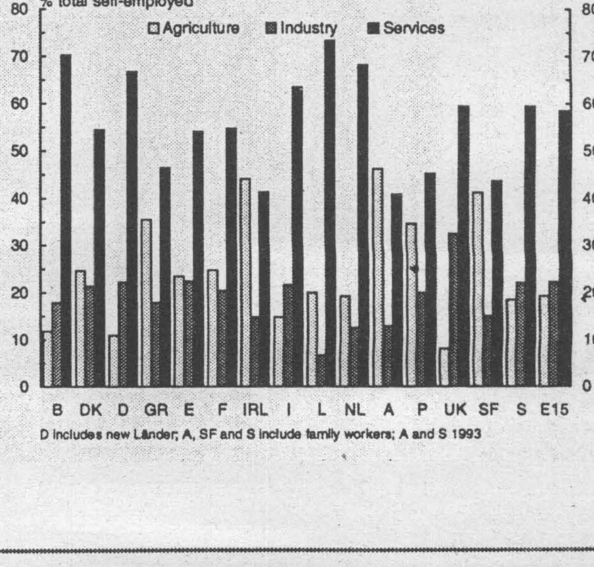
As in the case of waged employment, part-time working is much more prevalent among women than men in all Member States, with 70% of self-employed women working part-time in the Netherlands in 1994 and almost 50% in the UK, though in the rest of the Union, only in Germany

66 Self-employment in Member States, 1994



D includes new Länder; A and S 1993

67 Self-employed by sector of activity in the Member States, 1994



D includes new Länder; A, SF and S include family workers; A and S 1993 did the figure exceed 25% (Graph 68).

Only around a quarter of the self-employed in the Union in 1994, however, were women and only in Finland, Sweden and Portugal (just over 40% in each case) was the proportion much higher than this— in Greece, it was below 20% and in Ireland, just under 15%.

From the viewpoint of social protection, three groups of self-employed can be distinguished:

- people whose principal earnings come from self-employment — the main focus of this chapter;
- part-time self-employed who work mainly as an employee and who come under the social protection arrangements for employees or have combined employee/self-employed cover;
- unpaid family workers who totalled around $3^1/_2$ million in 1994 and who in most Member States are outside the social protection arrangements except to the extent that as wives they have derived rights or pay contributions voluntarily.

It should be emphasised at the outset that the concern here is with the position of the self-employed in relation to the social protection available to employees in different parts of the Union rather than with evaluating the overall level of protection provided in the Member States as such (which has been discussed in earlier chapters).

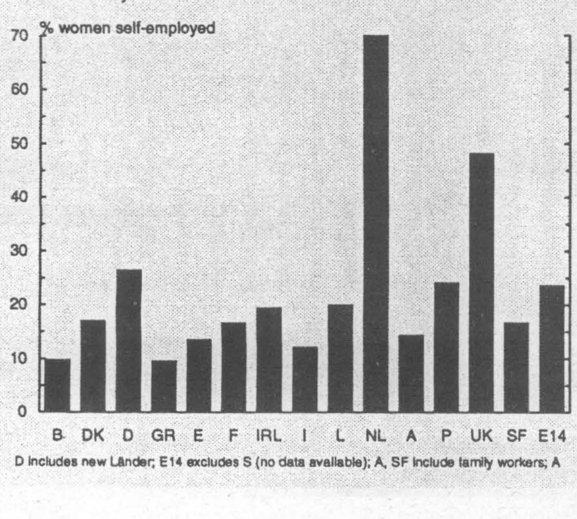
A further point to note is that the sectoral groups which are used to classify the self-employed for social protection purposes are not the same as those normally used in labour market analysis. For example, the occupations grouped in labour market data under 'services' are spread across more than one classification in the social protection arrangements, where these are occupationally based. Though groupings vary between countries, four categories can be distinguished for present purposes:

- those working in agriculture including both owners or tenant farmers and those with self-employed status (in the sense that they are not employees);
- those working in industry and commerce including 'traders', and as such both those manufacturing goods and those in retailing (ie shopkeepers);
- craftsmen or artisans and those with particular skills, including construction workers;
- those in the liberal professions, such as doctors and lawyers.

The incomes of the self-employed

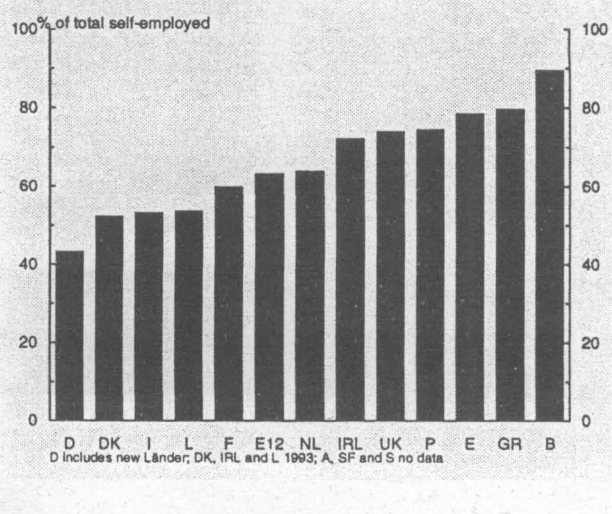
Reliable information on the income of the self-employed and on disparities in its distribution is

68 Part-time self-employed women in the Member States, 1994



D includes new Länder; E14 excludes S (no data available); A, SF include family workers; A

69 Self-employed without any employees in Member States, 1994



D includes new Länder; DK, IRL and L 1993; A, SF and S no data virtually non-existent, largely because of the difficulties of obtaining such details. The limited data which do exist, such as those based on financial accounts or tax returns are known to give misleading indicators of the standard of living of those concerned. There is some indication, however, from household expenditure surveys, for example, that self-employed income is less equally distributed than that of wage and salary earners.

Moreover, a marked characteristic of the self-employed is the high proportion operating one-person businesses, often assisted only by unpaid family members (Graph 69). Though this does not necessarily indicate low levels of income, it does illustrate the generally small scale of the businesses concerned. In agriculture, in particular, especially in the less developed parts of the Union, such as Greece or Portugal, small size and low incomes are likely to go together, as they might in the service sector, where in Southern Member States a significant proportion of the self-employed outside retailing are engaged in irregular or seasonal work.

More detailed data from the UK show that, in 1991, whereas average earnings of the self-employed was higher than for employees, the dispersion of their income was much wider, so that the self-employed were over represented in both the top and the bottom 10% of the distribution (see Table 10). While the self-employed represented 9% of the total, they accounted for 12½% of those in the bottom 10% and 15% of those in the top 10%, the pattern being much the same for both men and women. Full-time self-employed were significantly overrepresented both in the top 10% and, most especially, in the bottom 10%, part-time self-employed particularly in the top 10%, reflecting perhaps a capacity in many cases to command high fees for short hours.

Table 10 — Distribution of usual net monthly earnings in the UK

	Lowest Decile (£<186)	Highest Decile (£>1297)	Mean
All			
Employees	87.8	84.4	91.2
Self-employed	12.2	15.2	8.8
Full-time			
Employees	61.3	85.6	91.2
Self-employed	38.7	14.4	8.8
Part-time			
Employees	91.5	72.1	91.5
Self-employed	8.5	27.9	8.5

Source: BPHS 1991 (weighted data) in Meager, N et al, Self-employment and the distribution of income, IRF, York 1994

More information about the income of the self-employed is important for the development of an effective system of social protection in this area. Nevertheless, a few points can already be made:

- sole operators are inherently vulnerable, whatever their level of income, insofar as they are reliant on their own labour for the support of themselves and dependants. In this respect they are little different from employees and are likely to have much the same need for access to social protection;
- the self-employed almost certainly vary greatly in terms of income, and include people with very low earnings as well as very high ones. In a number of Member States, however, policies are based on the assumption that all the self-employed have sufficient resources to provide their own protection to a significant extent through savings or private insurance;
- access to social protection for the self-employed in a number of cases differs by occupation which does not necessarily relate to income. The liberal professions, for example, which probably generate relatively high incomes, tend to be well organised and articulate, and so have often succeeded in securing better State provision, at an earlier date, than others in greater

Table 11 — Social insurance cover for the self-employed in the European Union

	Pension	Widow's	Invalidity	Health care	Sickness Benefit	Industrial injury	Maternity	Unem-ployment	Children's Allowance
Belgium	+	+	+	Large risks only	+	No	+	No	Lower for 1st child
Denmark	+	+	+	+	+	Minority only	+	+	+
Germany	Yes for the majority, but some voluntary			Yes, but some voluntary	Yes if in public health insurance	Farmers craftsmen rest voluntary	+	No	+
Greece	+	+	+	+	Only those in IKA	No	+	No	No
Spain	+	+	+	+	+	Farmers	+	No	+
France	+	+	+	Large risks only	No	Farmers	+	No	+
Ireland	+	+	No	+	No	No	No	No	+
Italy	+	+	+	+	No	Manual workers	+	No	Farmers
Luxembourg	+	+	+	+	+	Yes all	+	+	+
Netherlands	+	+	+	+	No	No	Voluntary	No	+
Austria	+	+	+	+	Voluntary only	Yes all	+	No	+
Portugal	+	+	+	+	+	Occ illness only	+	No	+
Finland	+	+	+	+	+	Farmers rest voluntary	+	No, but flat-rate scheme	+
Sweden	+	+	+	+	+	Yes all	+	+	+
UK	+	+	+	+	+	No	+	No	+

\+ *Cover provided*

need. In some countries, however, specific steps have been taken to protect the most economically vulnerable by, for example, including them in employee schemes, while leaving others of the self-employed to organise their own protection.

Supplementary pensions and the self-employed

Sweden: employees can add a further 10% to their pensions through employer based supplementary schemes, but this does not extend to the self-employed.

Denmark: in 1994, around 75% of employees over 22 years old were covered by a supplementary scheme, financed by employer/employee contributions. Those becoming self-employed, so long as they meet certain criteria and pay the whole contribution, can opt to remain in the scheme. In 1990, there were only 2,000 taking advantage of this provision, possibly because of the high contribution in relation to the modest pension.

The Netherlands: employees are obliged to participate in a company supplementary pension scheme. Compulsory membership of supplementary pension schemes also applies to some self-employed in construction and related industries and there are a number of schemes for the liberal professions. A sizeable proportion of the self-employed, however, do not have access to a supplementary pension.

UK: employees are obliged either to belong to the State earnings-related pension scheme or a company scheme or to contribute to a personal pension scheme. The self-employed have access to neither the State nor a company scheme, though they are encouraged, but not compelled, to make their own arrangements to acquire a personal pension. In 1992, 62% of men and 35% of women self-employed had a personal pension scheme.

The structure of provision

Social protection arrangements for the self-employed differ in a number of ways between the 15 Member States. At one extreme are systems — in Denmark, Sweden, Ireland, Luxembourg and the UK — in which the self-employed belong to the same social insurance scheme(s) as employees, at the other are those with separate provision for the self-employed through a number of occupational schemes — as in Austria, France, Italy, Spain and Greece. In between are systems in which all or most of the self-employed are in the same schemes as employees — as in Finland, Germany and Portugal — but where there are separate schemes for some occupational groups (the liberal professions, in particular) and others in which there is either a separate scheme for the self-employed (as in Belgium) or a common scheme with the self-employed excluded from certain provisions (as in the Netherlands).

There are three further complications to note. First, in a number of countries where for the most part there is separate provision for the self-employed, certain groups among them are included in the general employee scheme (as in Austria, Greece and Germany). Second, even where there are separate schemes, some provisions may be common to employees and the self-employed or to all residents — such as a national health service, child allowances or social assistance scheme arrangements (except in the Netherlands which has special schemes for the self-employed). Third, systems can change over time — as in Luxembourg, where provision used to be on an occupational basis.

Apart from these structural differences, provision for the self-employed may be different, and often less favourable, than for employees (see Table 11):

- only in Luxembourg (since 1994) are the self-employed covered against all the same risks as employees;
- while social insurance for employees is almost always compulsory, it may be voluntary for the self-employed and, therefore, far from complete for certain risks;
- while provision may appear similar, benefits for the self-employed may be only flat-rate rather than earnings-related and, therefore, lower on average, qualifying criteria more stringent and waiting periods longer;

Providing basic pensions for the self-employed

Spain: most of the self-employed were brought into the compulsory pension scheme in 1970 and those in agriculture were added in 1975. Entitlement to a full pension requires 35 years of contributions, 60% of the full entitlement being acquired after 15 years and an additional 2% for each year of contributions above this. The self-employed can choose to pay a lower or higher rate of contribution with a corresponding reduction in the pension, though it is possible to switch from a lower to a higher rate before the age of 50.

Portugal: pension provision for the self-employed became compulsory in 1977. A minimum of 10 years of contributions is required to qualify for any pension at all, but for a full pension 40 years are needed. The self-employed, therefore, were entitled to a pension from 1987 on, but initially to a low one (of a minimum of 30% of earnings and a maximum of 80%) A minimum pension was introduced for those who had paid contributions for a specified number of years.

Ireland: a compulsory Pay Related Social Insurance scheme was established for employees in 1981 but the self-employed were not admitted until 1988. Ten years' membership of the scheme and a minimum number of contributions are required to qualify for a flat-rate pension, payable at the age of 66, so that the self-employed will not become eligible until 1998. Those on low incomes must rely on means tested assistance.

Belgium: compulsory pension provision was extended to the self-employed as early as 1956, but they were entitled only to a relatively low, flat-rate benefit while employees' pensions were earnings-related. In 1984, the method of calculating pensions for employees and self-employed was harmonised, but only in respect of insurance years from 1985 on. Low self-employed contributions, however, mean that the basis for calculating pensions is also low. Contributions are being gradually increased and this will raise pension entitlements over time, but it is estimated that they are still significantly below those for employees with the same earnings. In 1994, the minimum was set at the level of the social assistance guarantee for the elderly.

- the often extensive benefits provided by employers do not, of course, apply to the self-employed.

Changes, however, have taken place in many Member States in recent years to the benefit of the self-employed. These are described in the following sections which will examine the position in each main area of social protection.

Retirement pensions

In almost all Member States, insurance for old-age and survivors pensions is compulsory for all self-employed who earn enough to pay contributions or who are covered along with others under a universal pension scheme financed by taxes. Only in Germany is there a voluntary element for the self-employed, though even here, almost all are covered. Nevertheless, the level of pensions for the self-employed is often lower than for employees. While in many Member States steps have been taken to change this, these will inevitably take time to have a significant effect.

In five Member States, there is a basic, flat-rate pension for both employees and the self-employed, which is financed by taxes in Denmark, Finland and Sweden, and by contributions in the Netherlands and the UK and is usually relatively low. In addition, in both Finland and Sweden there are parallel earnings -related schemes with the same method of calculating pensions for both employees and self-employed. The efforts which have been made to improve retirement income by developing supplementary pension schemes, however, do not always extend to the self-employed (see Box). Moreover, the development of these raises the possibility that the basic pension will be regarded as of lesser importance and so not be upgraded, which will tend to disadvantage the self-employed who are more reliant on this.

In four other countries — Spain, Portugal, Ireland and Belgium — where pensions are insurance based and, except in Ireland, earnings-related, the development of State supplementary pensions is not considered necessary. There are problems, however, arising from the relatively late dates at which the self-employed schemes were developed or reformed and various steps have been taken to try to ensure a minimum pension income for the self-employed (see Box).

Unlike elsewhere, however, direct State subsidies have not been used to boost the level of pensions in the short-term. In the longer term these problems will resolve themselves, but until then, the self-employed will tend to receive relatively low pensions.

In the other Member States, earnings-related pensions were established on an occupational basis, though in Luxembourg there has been a shift to a more unitary scheme. This approach has also given rise to problems and a number of attempted solutions.

In France, financial problems and low pensions in the different self-employed schemes — except the one for liberal professions — led to the schemes for craftsmen and commerce and industry being aligned with the main employee scheme to give equal (earnings-related) pensions for equal contributions, while the farmers' scheme was also improved, but still lags behind the others. These changes were achieved in part through solidarity measures — a State subsidy for a period of years plus the transfer of resources from the main employee scheme — and in part through increased contributions from the self-employed. In France, in addition, there are well developed supplementary pension schemes for the self-employed as well as employees, which are mostly compulsory.

In Italy, the compulsory pension schemes for the self-employed were also established on an occupational basis. In 1995, the organisations managing the schemes for liberal professions were privatised, though they remain under the control of the Ministry of Labour. As a result, they became solely responsible for ensuring that funds match pension liabilities and the State no longer has an obligation to cover deficits. A reform under active consideration will bring into compulsory insurance self-employed outside the traditional occupations who are not covered — such as freelance workers or consultants. It also envisage the possibility of establishing supplementary schemes for the self-employed. In 1988, pensions received by those who were formerly self-employed were on average only 55–60% of those who had been employees. In 1990, reforms designed to end this disparity introduced earnings-related pensions for the self-employed as well as new contribution arrangements, but inevitably these will take a number of years to take full effect. Supplementary pensions are not a feature of the Italian system.

In Greece, all workers in agriculture, whether employees or self-employed, are in the same scheme (OGA), while the self-employed in urban areas who are regarded as economically vulnerable (no fixed work base, lone operators working for only one enterprise) are covered by the other major employee scheme (IKA). The other self-employed occupational groups have their own schemes providing pensions of differing levels. Whereas supplementary pensions are compulsory in the schemes for employees, in those for the self-employed, they are voluntary or non-existent in many cases. Provision for the self-employed has historically been inferior to that for employees in many respects, but in 1992, legislation was introduced to rationalise and improve arrangements for both employees and self-employed (excluding rural workers and seamen). Though separate self-employed schemes remain, for those entering the labour market from 1993, there are common arrangements for contributions and the calculation of benefits, aligned with the general scheme (IKA). The impact on pensions will not be felt for 15 years (the minimum period to acquire pension rights), but should be beneficial to the self-employed in the long-term. For existing scheme members there will be a staged process of rationalisation which should ultimately raise the level of pensions.

In Germany there is compulsory pension insurance for all employees but not for all self-employed, though supplementary pensions are not compulsory for either group. The liberal professions largely organise their own scheme which usually provides a higher level of pension than the State schemes, while for farmers, there is a compulsory scheme, subsidised by the State, which pays flat-rate pensions only. Some self-employed groups — artists, journalists and craftsmen — are, on the other hand, integrated into the employees' scheme and receive an equal pension for lower contributions (craftsmen, including construction workers, are compulsory members of the employees' scheme for 18 years and then can retain membership voluntarily or apply to leave). Self-employed in other occupations, as well as those who become self-employed after being employees, can apply to join or remain in the compulsory insurance scheme and acquire a

Two examples of early retirement schemes

Sweden: a partial pension scheme exists which after the age of 61 allows the time spent in a job or self-employment to be scaled down with compensation given for 55% of the income lost, up to a maximum sum. The self-employed are treated on the same basis as employees and encouraged to take up this provision. The scheme, however, will be phased out by the year 2000, when a new pension system comes into force

Finland: farmers between the ages of 55 and 64 who permanently stop working and transfer the farm to someone younger qualify for an early retirement pension under the 'change of generation' scheme. If the farm ceases to be worked, a farm closure benefit is payable. Both schemes also cover wives (or husbands).

pension on an equal basis to other members. Any other self-employed may join a scheme voluntarily.

In Austria, apart from certain small groups of self-employed integrated into the general scheme, there are occupationally-based pension schemes for the self-employed. Supplementary pensions are of minor importance.

In Luxembourg, where there were originally separate occupational schemes for the self-employed, the liberal professions were integrated into an employee scheme in 1964 and for other groups, a single pension scheme for employed and self-employed was established in 1987. Though in Luxembourg supplementary schemes have not been developed, in a recent move a pension can be deferred until the age of 68 and three extra years of contributions paid to provide a higher pension. This change is particularly useful for the self-employed.

Early retirement pensions

Provisions for early retirement exist in 9 Member States, which except in Luxembourg, are open to the self-employed as well as employees on much the same basis.

Survivors

With certain exceptions (such as some schemes for farmers where the widow takes over the running of the farm), widows (and some widowers) of self-employed who were members of a pension scheme are treated the same as those of employees (even in Ireland where the self-employed scheme did not start until 1988 since only three years of contributions are required to qualify for a survivor's pension).

In most Member States, however, widows of the self-employed are less likely than widows of employees to have supplementary pensions. Since survivors' pensions are usually fixed in relation to the main retirement pension provision, the level received will largely depend on the level of the latter.

Invalidity benefits

In all but one Member State, the self-employed are included in the provisions for invalidity benefits. In Ireland, exceptionally, the self-employed are excluded (the National Pensions Board reviewed this policy in 1994, but recommended no change).

In ten countries, the provision for invalidity forms part of, or is linked to, pension arrangements. Since the various formula for calculating benefit are complicated, it is difficult to assess the position of the self-employed relative to employees. In most cases, benefits are earnings related, though in Denmark, they are flat-rate amounts based on the retirement pension.

In four countries — Spain, Belgium, the Netherlands and the UK — invalidity benefits are not linked to pensions. In Belgium, they are payable for total and permanent incapacity only and to the self-employed, in contrast to employees, at a flat-rate, which, until it was increased to the same level in 1994, was below the social assistance rate. In Spain, on the other hand, benefits are earnings-related. In the Netherlands, benefits for employees are related to normal earnings, but for the self-employed to the minimum wage, though in both cases, the level is related to the degree of incapacity (from 15% upwards in the case of employees, from 25% upwards for the self-employed).

In the UK, the self-employed are included in the new flat-rate Incapacity Benefit introduced in April 1995 on the same basis as employees.

In most Member States, benefits are paid for total incapacity where the self-employed have ceased trading and are incapable of any form of work. In Austria, a recent change (1994) enables an incapacity benefit to be paid where someone self-employed over 50 is incapable of further work in their business, provided that such work was necessary to maintain the business. In the UK, Germany and Luxembourg, there is no provision for partial incapacity for either employees or the self-employed. In Sweden, Italy, Portugal and Belgium, earnings capacity has to be reduced to one third or less of what it was previously (a common definition of total incapacity) to qualify for benefit.

In France and Spain, provision for partial incapacity exists but does not extend to the self-employed. In Denmark, Finland, Greece, Sweden and the Netherlands, on the other hand, partial incapacity benefits are payable to the self-employed as well as employees.

Occupational accidents and illnesses

In the case of accidents or diseases relating to work, the position of the self-employed varies greatly across the Union. In Austria, Sweden and, recently, Luxembourg, there is compulsory insurance against occupational injury for all, or nearly all (Austria), the self-employed as well as employees. At the other extreme, in Greece and the Netherlands, there is no specific scheme for occupational injuries which are covered by the general invalidity provisions, and in cases of short-term incapacity by sickness benefits. The latter, however, do not apply to the self-employed in the Netherlands and only to a minority of the self-employed in Greece (those included in the general (IKA) employee scheme, though the scheme for craftsmen does offer some cover — four months — for occupational accidents. In three countries where there are occupational injury schemes — Ireland, Belgium and the UK — these do not cover the self-employed, and, in a fourth — Denmark — they are covered but only when working in the same way as employees. In all of these countries, apart from Ireland, however, the self-employed are eligible for sickness benefits during short-term incapacity for work (though after a waiting period, as noted below).

In other parts of the Union, a variety of arrangements exist. In Italy, provision is focused on those most likely to be at occupational risk — manual workers — and the self-employed as well as employees are covered. In several other countries, self-employed in agriculture are included: in Spain, Finland and Germany, there is compulsory cover for injuries at work and in France, for any health costs resulting, but insurance is voluntary for cash benefits during incapacity. In Germany, there is also compulsory insurance for many craftsmen and for a number of those in fishing and here as well as in Finland, voluntary cover for those not included in other schemes. In Portugal, the self-employed have the option of paying a higher contribution giving entitlement to benefits for occupational illness, but not accidents. In general, where occupational injury is covered, it is on the same basis as for employees, except in France where compulsory insurance for employees covers both the costs of health care and cash benefits and Portugal where accidents at work are excluded, as noted.

Health care and sickness benefits

It is accepted in most Member States that the self-employed need to be covered against the costs of health care as much as employees. This is achieved either through a national health service open to all residents or through compulsory health insurance. Germany, however, is an exception in that there is a mix of compulsory and voluntary public and private health insurance which in combination covers almost everyone.

In most Member States, cover for health costs is available to the self-employed on the same basis as to employees. There are three exceptions — the Netherlands, where the self-employed are expected to take out private health insurance, but where exceptional medical costs are covered by the universal insurance scheme for all residents, and in Belgium and France, where small risks (typically visits to the doctor) are excluded for the self-employed. (In Belgium, there is a State subsidised voluntary small risks insurance scheme but it is not used much, especially by the younger self-employed.) A change in policy to bring provision for the self-employed into line with that for employees is under discussion in all three countries.

Policy on sickness benefit is subject to more variation. In four countries — France, Ireland, Italy and the Netherlands — the self-employed are excluded from the social insurance schemes for this benefit. In Greece, only the self-employed covered by the general employee scheme (IKA) are eligible for sickness benefit, while in Austria, only voluntary insurance cover is available. Elsewhere, the self-employed to a large extent are covered for short-term incapacity by compulsory social insurance schemes. In Germany, farmers who are ill receive an operating allowance to cover the cost of replacement labour, while other self-employed covered by public health insurance are entitled to earnings-related benefits on the same basis as employees. In Spain, Finland and Luxembourg, sickness benefits are also payable from social health insurance and in Denmark, Belgium, Portugal, Sweden and the UK, under separate schemes (the introduction in the UK in 1995 of Incapacity Benefits which cover both invalidity and sickness does not alter the position of the self-employed). In Portugal and Spain, the self-employed may opt out of their right to sickness benefit. In Portugal, those paying lower rate contributions lose entitlement to sickness benefit, while in Spain, entitlement may be renounced for three years at a time in return for reduced contributions.

There are differences, however, in the rights of employees and self-employed — though one has recently been removed in Luxembourg by the replacement of a low flat-rate benefit by one related to income. The most important difference concerns waiting time for benefit, which is typically three days or less for employees, but 10 days for the self-employed in Greece in the IKA scheme, 15 days in Spain, 3 weeks in Denmark, 60 days in Portugal and 3 months in Luxembourg and Belgium. In Denmark, voluntary insurance is available to cover this waiting period, but only 20% of the self-employed paid the extra amount for this in 1991. In the UK and Sweden (except in the latter case where they have opted for 33 or 99 days in return for lower contributions), however, waiting time is the same for the self-employed as for employees (typically three days in the UK, one day in Sweden). In addition, in Portugal, the maximum period of benefit is 365 days for the self-employed as against 1095 days (three years) for employees.

Maternity leave

In all Member States except Ireland, where benefit is confined to employees, self-employed women are entitled to maternity benefits, though there are a number of marked differences as compared with the position of employees.

In Finland, Sweden, Portugal and Spain, self-employed women have for some time been subject to the same qualifying conditions for benefit, the same rate and the same period of payment as employees (see Chapter 7 for details), while the same has applied in Luxembourg since 1994.

In four other countries, the period of maternity leave for self-employed women is the same as for employees, but there are differences in other regulations. In Denmark, the rate of benefit, and the period over which it is paid (28 weeks), is the same for both, but the qualifying period for benefit is twice as long for the self-employed (6 months) as for employees (13 weeks). In Germany, where maternity benefits are included in health insurance for the self-employed women who are covered, the qualifying conditions for benefit are the same as for employees, as is the leave entitlement. However, whereas benefits for women employees are equal to the net wage, up to a maximum amount, and employers normally make up the shortfall if this is less than normal pay, self-employed women receive 80% of previous gross earnings up to a maximum of previous net earnings, with no employer to make up the difference. A small (and unknown) proportion of the self-employed are not covered by health insurance. In Italy, where qualifying conditions and length of leave are the same for employees and self-employed, the rate of benefit for the former is 80% of previous earnings, but for most of the latter is 80% of the minimum contractual wage of blue collar workers in their sector of activity, though in the liberal professions, it is one twelfth of their declared annual earnings (averaged over the last two years). For some self-employed women, freelance workers and some belonging to newer professions, however, there is no provision. In Austria, there are separate maternity schemes for employees and self-employed women. While employees receive full pay for 16 weeks (the costs shared between employers and social insurance), the self-employed are entitled to replacement labour for up to 16 weeks or if such a person cannot be provided, a flat-rate benefit is paid instead.

In the UK, the arrangements are complicated and changes were introduced in 1994 to meet Community requirements (the Pregnant Workers Directive, 92/85/EEC) which apply only to employees. The period of benefit remains unchanged and is the same for both employees and self-employed earning enough to contribute to social insurance. After the changes, all women employees who have worked for the same employer for at least six months are entitled to six weeks Statutory Maternity Pay (SMP) at 90% of earnings and 12 weeks at a new higher flat-rate. Self-employed women and other employees receive a maternity allowance, provided they satisfy the contribution conditions (six months' contributions in the past 66 weeks), but whereas this is paid out at the new, higher SMP flat-rate to employees, the rate for the self-employed has remained unchanged (at 15% less). While the position of all employees has been improved, therefore, the gap between these and the self-employed has widened.

In the four remaining countries, a variety of schemes are in place. In the Netherlands, while the main features and entitlements are the same for both employees and the self-employed, the former are compulsorily covered by social insurance, while for the latter membership of public or private insurance schemes is voluntary. A 1992 study found that only 1% of self-employed women and wives working unpaid under 40 years old had taken out such insurance. The majority were not even aware that it existed. In Greece, self-employed women are entitled to a benefit only if they are members of the general IKA scheme, with the same qualifying conditions as employees and the same level of benefit but without any topping up as in the case of employees covered by the OAED scheme. Women in other schemes for the self-employed may receive lump sum payments of varying amounts, but not sufficient to meet the costs of maternity leave, and in some cases nothing at all. In Belgium, where the qualifying period for benefit is the same for employees and self-employed, while women employees are entitled to 15 weeks leave and to benefits related to earnings, self-employed women receive only a low lump sum payment and are expected to stop work for just 3 weeks.

In France, the scheme for self-employed women has recently been reviewed and is, therefore, of special interest. Women employees who qualify are entitled to 16 weeks leave at 84% of wages (up to a maximum amount), with extensions in specific circumstances. Up to 1995, self-employed women were entitled to a lump sum payment (of one week's minimum wage) as partial compensation for reduced activity. Unlike employees, they were not required to stop work, though to encourage them to do so, an additional payment, at the level of the minimum wage, could be made to cover replacement labour for up to 28 days, extended in some circumstances. Advice from the medical profession favoured measures to encourage self-employed women to stop work for a longer period than the average of 15 days actually taken. Under the new scheme the lump sum to compensate for reduced activity has been doubled, and a new weekly benefit is also payable, but only on condition the woman stops working. This is at a flat-rate (rather than earnings-related as for employees) with the aim of favouring low earners and will normally only last for 30 days, though where there are medical reasons it can last for twice or three times as long. Even at its longest, however, it is less than the minimum period for employees — 16 weeks.

The new long-term care insurance scheme in Germany

Long-term care insurance, to cover care needs arising during infirmity or disability, introduced in January 1994, became effective in 1995. Cover for long-term care is compulsory not only for employees in the State health insurance scheme but also for the self-employed in private schemes. The great majority of the self-employed are, therefore, included in the new provision (see Chapter 7 for details of this).

Child allowances and the self-employed

Belgium: there has been a gradual move since 1976 towards equal treatment of employees and self-employed, first by giving the self-employed entitlement to allowances, but at a lower rate, and then by stages increasing this to that applying to employees. A difference now exists only in respect of the first child, the self-employed receiving a much lower amount, though changes to rectify this are now under consideration.

Italy: the great majority of the self-employed are excluded from the general scheme, though allowances are payable in some cases to farmers and to the self-employed who have retired.

Greece: the self-employed are not included in the general scheme, but under a separate scheme can qualify for an allowance for a third child and for assistance to mothers who have four or more childrer.

In summary, working women around the time of childbirth have three needs — sufficient time off to protect the health of mother and baby, sufficient replacement of lost income and the sufficient protection of their job. For employees, these needs in large measure have been recognised and catered for in all Member States, for self-employed women this is much less the case. Moreover, it would seem that there has been little research on the impact of childbearing on women who are self-employed and on their business and only limited policy discussion (except in France) on the most appropriate way in which the position can be improved.

Unemployment benefits

In 11 of the 15 Member States, the self-employed are not covered by social insurance against unemployment (though in Ireland and the UK there are schemes for the few self-employed fishermen), partly because of the perceived difficulties of providing cover in practice. These relate, in particular, to problems of identifying when someone becomes genuinely unemployed, in the sense of the business having failed rather than trading having ceased voluntarily or if the business continues to exist, whether the lack of current contracts should be regarded as tantamount to unemployment and, if so, for how long a period. The latter is especially difficult in cases of seasonal work.

As indicated below, in many countries where social insurance against unemployment is not available to the self-employed, these are eligible for social assistance in certain cases.

In the four Member States in which protection is available — Luxembourg, Denmark, Sweden and Finland — these problems have had to be faced and somehow resolved.

In Luxembourg, the scheme for the self-employed was introduced in 1976 and like the parallel scheme for employees is financed through taxes. To qualify, contributions have to have been paid to a pension fund for at least 5 years (reduced in exceptional circumstances to 12 months). There is no provision for temporary unemployment in an existing business. The person concerned must have ceased trading because of economic or financial difficulties as well as satisfying all the normal rules for receipt of unemployment benefit, the object being to ensure that benefit is not paid to those who are voluntarily unemployed.

In Denmark (where the scheme also dates from 1976), there were initial regulations to counter voluntary unemployment, but those were withdrawn to avoid putting pressure on claimants to persevere in a business which was not economically viable. Equally, to avoid propping up uneconomic businesses, a narrow definition of unemployment has been adopted where businesses remain in existence.

Provision for unemployment in Denmark is through unemployment insurance funds, membership of which is voluntary, financed in the case of the self-employed by their contributions with a subsidy from the State (as for employees). To receive benefit, the person concerned must have paid contributions to a fund for at least 12 months, in the same way as employees, or undergone a period of relevant training and must normally have ceased trading. Since 1990, temporary interruptions to businesses have been covered, such as when there has been a fire or flood or because of bad weather. Benefit is then payable for 13 weeks only, compared with a possible 30 months when trading has ceased completely (or for an out-of-work employee). A more recent reform (1994) also enables someone who is combining employment and self-employment to qualify for benefit, so filling an awkward gap in the provisions. By 1991, around half the self-employed had joined an unemployment fund.

In Sweden, where the scheme was established in the 1960s and where there are also voluntary unemployment insurance funds financed as in Denmark, some 140,000 self-employed are members of a fund. To qualify for benefit, the person concerned must have paid contributions for 24 months (as against 12 months for an employee), comply with rules on seeking employment and, in most cases, to have ceased trading, though there is some provision for payment of benefit during temporary interruptions to business.

In Finland, unemployment insurance funds are confined to employees, but a separate scheme provides flat-rate benefits to the self-employed as well as new entrants to the labour market. The establishment of an insurance fund for the self-employed which would pay earnings-related benefits as in the case of employees is under active consideration.

Child allowances

Child allowances are paid to all or nearly all families with dependent children in the Union. Though the self-employed were initially often excluded, in all but three Member States they now receive payment in the same way and at the same rate as families of employees. In one of these three countries — Belgium — however, most of the differences have been eliminated and a policy for full equality of treatment is under consideration. In the other two, Greece and Italy (where only farmers receive allowances), however, there is little public debate on improving the position of the self-employed (see Box).

Social assistance

The self-employed whose income falls below a basic level have recourse to social assistance in most Member States, the main exceptions being Greece and Portugal where there are no national or local provisions for support. Since provision for unemployment and short-term incapacity due to illness are the two most common gaps in social insurance for the self-employed, their access to social assistance in these two circumstances is of special interest.

Unemployment

In 11 Member States, self-employed people whose businesses fail are eligible for social assistance if they have insufficient means and if they comply with the conditions attached to unemployment compensation, while in Spain and Italy, they may be able to attain income support from the regions.

If the self-employed, however, experience a temporary interruption to earnings from an ongoing business which reduces income below the social assistance level or if their earnings normally are lower then this, there is no certainty that they will receive social assistance The position is even less clear in Spain and Italy, where regional schemes have their own rules or in Sweden, where assistance is locally administered (though it appears that the self-employed would not normally expect to receive assistance in these circumstances). In Finland, on the other hand, where social assistance is administered by the municipalities, which have considerable discretion, support is available for the self-employed during periods of low earnings or interruptions to trade, each case being considered on its merits, current income being the most important criterion (though income in the previous year may be also taken into account). Only in the recent economic recession has the treatment of the self-employed emerged as an issue for social assistance.

In Belgium, Ireland, Luxembourg and the Netherlands, assistance for short-term unemployment is also usually available if current income falls below a minimum level, though in Belgium, assistance (Minimex) cannot be paid to support a failing business and in the Netherlands, assistance in some cases is repayable.

In Denmark, social assistance will not usually be available unless there is a clear-cut reason for interruption of earnings — such as in the case of a fisherman whose boat is being repaired. If businesses suffer a short-term set back or are subject to cyclical or structural falls in income, no benefit will be paid until trading has ceased altogether.

In France, the self-employed are eligible for *Revenu Minimum d'Insertion* (RMI) — the principal social assistance for the unemployed — as long as they do not employ people. Assessment is based not on current income, but for those in agriculture, on the area cultivated and, for others, on past business turnover. The RMI is, therefore, not designed to meet short-term interruptions in earnings.

In the UK, no assistance is provided where the interruption to earnings is regarded as part of the normal pattern of trade — where business is seasonal, based on a succession of short-term contracts or subject to a temporary downturn. Those whose work is interrupted by external factors, such as bad weather, could qualify for benefit, though the means test will usually be based on earnings for the last 12 months, which tends to exclude many self-employed from receiving benefit assistance to cover short-term needs.

In Austria, social assistance is payable only to people without any income or assets, so that the self-employed experiencing short-term unemployment in an existing business do not qualify for support.

Short-term incapacity for work

As indicated above, there are many gaps in social insurance protection against short-term incapacity for work, with no provision at all in some Member States and long waiting periods in others. There are also variations between countries in social assistance entitlement in these circumstances. Again the position in Italy and Spain where assistance is regional, is both different from elsewhere and unclear.

In France, the self-employed are not eligible for social assistance if they are unable to work for short periods, but are expected to take out private insurance to cover this risk. In Austria, the position is similar.

In Belgium, Denmark, Luxembourg, Sweden and the Netherlands, however, during any waiting period for social insurance for incapacity for work, social assistance, based on an assessment of current income, is payable. This is also the case in Germany, where not all the self-employed are entitled to sickness benefit. In Finland, if the self-employed have no income then they can claim a minimum daily sickness allowance, supplemented possibly by social assistance if, for example, there are extra expenses associated with the illness.

In Ireland, there is little information on how claims for social assistance by the self-employed are treated. According to a 1991 report, this is *'something of a grey area, with no specific cover and no certainty about entitlements'*. In 1994, The National Pensions Board recommended a new means-tested allowance for the self-employed both for short-term incapacity and longer-term invalidity and this is at present under government consideration.

In the UK, the person claiming assistance has to demonstrate not only that their current income is below a minimum level, but that there is a break in the normal pattern of earnings as a result of incapacity, which, in practise, means that they have worked less than 16 hours a week, usually averaged over the past year, and that the business is no longer a going concern. This effectively excludes the self-employed from receiving assistance for short periods of incapacity.

Unpaid family workers

Unpaid family workers include wives, children and other relatives of the self-employed who receive no pay for their work as such but may be supported by the person concerned.

In 1994, there were 3.3 million unpaid family workers in the Union, excluding the new Member States, down from 3.7 million in 1990 and 4.4 million in 1986. Their relative numbers, however, are much higher in the Southern Member States than in the North of the Union. Well over half (56%) in 1994 lived in just three Member States — Greece, Spain and Italy — and 43% worked in agriculture. Some 70% in the Union as a whole were women, though in Ireland (53%) and most Southern Member States (the exception is Greece) as proportion was lower (around 60%).

These people are covered by systems of social protection, though in a more limited way than other workers:

- their health care costs are covered in countries with a national health service — Denmark, Finland, Sweden, Italy, Spain, Portugal, Ireland and the UK, while elsewhere wives will be covered through their husband's health insurance, and possibly other family members may similarly be covered;

- they are entitled to pensions, survivors and invalidity benefit (and, in some areas, sickness benefits) in countries where these cover all residents — Denmark, Netherlands, Finland and Sweden. Typically payments will be at a minimum level, though in Finland, they are eligible to be members of the self-employed schemes;

- in the UK for invalidity there is a Severe Disablement Allowance which is non-contributory and paid at a lower rate than the main Incapacity Benefit;

- in Luxembourg and Germany they may qualify for occupational injury benefit (though coverage is not always compulsory);

- in Luxembourg and Finland, they are entitled to maternity benefits (which are paid through a general community scheme), as well as in Denmark and France, if they are unpaid working wives;

- except in Greece and Portugal, they are eligible for social assistance in the same way as other residents, though in the case of wives, only if the joint income of herself and her husband fell below a minimum level.

In other cases, unpaid working wives have to rely on derived rights and no benefits are available for the other unpaid workers (though see Box for two recent developments in France and Italy).

The role of private insurance

If the self-employed are not covered by State schemes then their only recourse is private insurance if they wish to be protected against certain risks. Indeed, it is sometimes argued that lack of State protection is not of great consequence because the self-employed can always take out private insurance. Unfortunately, discussion of this issue is handicapped by lack of data on the numbers insured, the cost of premiums, the level of benefits, as well as an extent of the tax relief. At most, therefore, it is only possible to make general comments on the issues involved.

In the first place, not all social security risks can be covered by private insurance in practice. This is particularly so for unemployment, where even in the 11 Member States in which there is no social insurance cover for the self-employed and/or where social assistance is not always available, few if any private insurance schemes have developed to fill the gap. Similarly, for maternity, where again social insurance provision for the self-employed is often limited or non-existent, private insurance has generally not developed to provide cover except where it forms part of private health and sickness insurance, as in Germany and the Netherlands.

In other areas where social protection is lacking, however, private insurance

Policy developments in respect of unpaid family workers in France and Italy

France: under legislation introduced in 1994, the *conjoint collaborateur* of a self-employed craftsman or worker in commerce, who had part-time job with an employer other than her husband, could make voluntary contributions to a retirement pension fund in order to top up her pension entitlement under the *Régime général* (acquired through her part-time job).

Italy: in 1995, the Constitutional Court ruled that 'work carried out within the family, given its social and also economic value, may be included within the scope of Art. 35 of the Constitution which guarantees protection to work in all its forms.' This ruling has been acclaimed as a formal recognition of housewives as workers, so providing a legal basis for the claims advanced by housewives associations for social insurance benefits. It may equally be regarded as offering the potential for improving the position of unpaid working wives.

Self-employment and social contributions

A common problem in most Member States, since the tax and social contribution liabilities are generally less, is identifying those people who are genuinely self-employed and distinguishing them from those who in effect are employees. The problem tends to be particularly prevalent in countries where employers' contributions are relatively high and where there is a correspondingly strong incentive to avoid paying these by contracting out work to 'independent' workers rather than employing (often the same) people in-house. While this is a means effectively of reducing labour costs to the employer and increasing take-home pay to the worker, at the same time it restricts entitlement to social protection or in some cases excludes the people concerned from social insurance benefits completely.

France: a concern of policy has been with people who falsely declare themselves to be self-employed and who pay lower contributions accordingly when in reality they are working for a single employer. Legislation was introduced in 1994 to tackle this problem.

Germany: a major issue for policy concerns a new group of self-employed who in practice are really employees without a formal contract of employment. Because self-employed occupations are defined by law and these people are not covered by existing definitions, they escape paying social contributions entirely. In a number of the Länder, steps are being taken to address the problem.

Italy: measures were introduced in 1994 to deal with the problem of self-employed working in fringe activities who avoid paying contributions.

schemes have been created to cover health care costs, loss of earnings due to short-term and longer-term incapacity for work, pensions for old-age and pensions for survivors.

What is not known in sufficient detail, however,.is:

- the extent of coverage and whether private insurance provides the same degree of protection as the equivalent State schemes;
- the comparative cost of cover in relation to the contributions to State schemes which the self-employed would otherwise pay;
- the effect of tax concessions intended to reduce the costs of private provision, which are available in varying degrees in most Member States, and the extent to which they offset the disadvantages of being excluded from States schemes (especially in the case of low earners who pay little tax) and how far they are taken up (since to qualify, significant sums may have to be paid in insurance premiums).

For self-employed with high earnings, private insurance may be the preferred option since it enables protection to be tailored to specific individual and/or professional needs. It cannot necessarly be assumed, however, that private insurance is always a satisfactory alternative to social insurance for those with lower or fluctuating incomes.

The level of contributions

In a number of countries — France, Belgium, Italy, Portugal and Spain, in particular — contributions paid by the self-employed have been increased over recent years to cover deficits in self-employed schemes or to provide higher or more extensive benefits. In Greece, rates of contribution were standardised for new employees and the self-employed in 1992 and aligned with the general scheme for employees, IKA.

On the other hand, in several Member States the self-employed can opt to pay lower contributions and receive lower, later or fewer benefits. While some of these arrangements are long standing, others have been introduced in the past few years. In Portugal, opting for the lower contribution rate means forgoing sickness and occupational illness benefits and child allowances. Similarly in Spain, the self-employed can choose to pay lower contributions and forgo sickness benefits for three years at a time, as well as lower pension contributions (and a lower pension), which is also the case in Germany. In Sweden, they can opt to wait 33 or 99 days before receiving certain benefits in return for lower contributions. In addition, those on very low earnings are excluded from paying contributions at all, in Germany and Ireland though also from entitlement to benefit. This is also the case in the UK, though here they can pay contributions on a voluntary basis and receive entitlement to all social insurance benefits except unemployment.

The burden of paying contributions can also be alleviated, and benefits improved in other ways. In Italy and France, a number of measures have been taken to upgrade schemes for the self-employed, with the aid of State subsidies and/or the transfer of resources from employee schemes. In Germany and France, pension schemes are subsidised for farmers and in Finland for the self-employed generally. In Luxembourg, the State recently took over the costs of paying maternity benefits and extended these to the self-employed.

Information on the effect of these various provisions, however, is limited. Little is known about which groups among the self-employed take up social insurance when this is voluntary or opt to pay lower contributions and whether, in particular, they are typically high earners, who prefer to make their own arrangements, or those with low earnings who cannot afford alternative private insurance and have little savings to fall back on. Without such basic information it is difficult for governments to formulate effective policies in this area.

In most Member States, governments have sought progressively to improve the social protection coverage of the self-employed and considerable advances have been made in the past 20 years or so. As indicated here, however, there are still gaps in many parts of the Union and a number of issues which require more information, more detailed examination and further debate.

Chapter 7 Social protection and caring responsibilities

Many key social protection rights are acquired and maintained only through regular paid employment. Caring for a child or someone who is disabled or elderly and infirm, usually a relative, may well mean that the person concerned has either to give up their job for a time or work less. Where social protection schemes are contributory, this adversely affects entitlement to benefit. Where benefits are earnings-related, working less or damaging career prospects by stopping work temporarily will clearly reduce the amount receivable. This has traditionally typically affected women more than men and, despite changing attitudes and policies, continues to do so.

To generalise about 15 Member States with diverse cultural features, family characteristics and social protection arrangements is hazardous. A common assumption in most parts of the Union in the past was that the responsibility for looking after children and adults in need of special care, lay with women and that, for them, paid employment had a secondary role. The social security system was developed on the basis of this assumption. For their social protection needs (except where benefits were based on residency), women were expected to rely on their husbands for financial support during both their working and retirement years. Should her husband die first, the wife had rights to a widow's pension, and support for dependent children, derived from her husband's work/contribution and employment record. Where men had to undertake caring responsibilities — as lone fathers or when caring for disabled or infirm wives — social protection was often deficient.

Social change has undermined the basis of these typical arrangements:

- the role of women, in the home, in society and in the labour force has undergone marked changes since European social protection systems were established in their post-war form, changes which have varied in scale but which have been universal;
- the incidence of divorce has increased and the proportion of one parent families has grown, while cohabitation has become more prevalent;
- the relative number of elderly and infirm has grown as more people live into old age, so bringing the issue of their care into prominence, while there is greater emphasis on the right of disabled people to non-institutional care.

These changes have led to a reassessment of the appropriateness of a number of features of social protection systems, particularly the extensive reliance on derived rights. In recent years, there has been greater recognition of the importance of caring, both for children and adults, not only to the individuals involved but to the nation — and economy — as a whole. At the same time, there has been a general aim of increasing equality of men and women in society, including introducing means to help reconcile family and professional responsibilities. These measures include active policies to safeguard the social protection rights of carers.

In broad terms, there have been two main approaches. The first focuses on removing obstacles to employment by providing social support in the form of free or subsidised personal social services such as child care facilities and home care for disabled and elderly people. The second approach is to provide social benefits to family carers and/or to safeguard their social protection rights during periods when they are not employed

Table 12 — Maternity benefits (1 January 1995)

	% earnings	duration
Austria	100	16 weeks
Belgium	110/117	15 weeks
Denmark	73	28 weeks
Finland		263 days
France	113	16/26 weeks
Germany	100	14 weeks
Greece	100	16 weeks
Ireland	93	14 weeks
Italy	86	5 months
Luxembourg	111	16 weeks
Netherlands	100	16 weeks
Portugal	124	98 days
Spain	100	16 weeks
Sweden	80/90	up to 18 months
UK	25/90	18 weeks

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 Sweden, the maternity period forms part of the extended parental leave period (see Box 1). In the UK, benefit of 90% may be paid for the first 6 weeks and a flat rate equivalent of around 25% of women's average earnings thereafter. In Finland, rates are based on a daily allowance equal to sickness insurance. A minimum (64.95 FMK — around 11½ ECU) is paid to those who have no income, while those whose annual income is less than 37,930 FMK (around 6,800 ECU) are paid the minimum plus 30% of earnings. This addition increases to 68% for annual earnings up to 114,290 FMK (20,450 ECU), 40% up to 190,480 FMK (34,100 ECU) and 25% over 190,480.*

or are working less. These two approaches are, of course, not mutually exclusive and, there is increasing emphasis on the need to give people a real choice between being in paid employment or caring for someone and on ways of combining the two.

The concern of this chapter is not with the social services which exist in the Member States to provide social support, important though these are, but with the provisions within systems of social protection relating to periods off work for caring. In particular, it examines the implications for entitlement to both short-term and long-term benefits of leaving a job to look after children or caring for elderly or disabled people, the difficulties arising from attempts to combine caring and part-time work and the consequences for the pension rights of carers of divorce or cohabitation breakdown.

Social protection during periods of caring

Early child care

Each year there are over 4 million live births in the European Union. Where the women concerned are in work, they will in most cases be entitled to maternity benefits in the weeks before and after the birth and their other social protection rights will be preserved. Some women not in paid employment will nevertheless, receive benefit either because they still satisfy the eligibility conditions or because there is a general community scheme which covers them (see Table 12 for details of entitlement for employees). General community schemes may pay lower benefits and, as noted in Chapter 6, benefits for self-employed women may be lower and leave shorter. A minority of women will receive nothing at all.

The need for care arrangements for small children, however, extends well beyond the period of basic maternity leave, which, in the past, meant that there were only two options for parents: either one of them, usually the mother, would stop working to care for the child or they would find someone else to do this. This is still the position in Ireland and

Luxembourg (where leave is limited to 14 and 16 weeks, respectively, and in Ireland even this is not open to self-employed women). But in other Member States, it may be possible under a variety of auspices to take extended leave, the aim being to allow women more easily to reconcile work and family life, to protect their working careers and to enable men to play a greater role in early child care. In most countries, however, these provisions apply only to employees.

In 8 Member States, extended leave with benefits is available, usually combined with job protection (which, depending on the country, may mean a guarantee of reinstatement in the previous job or one of equivalent status or merely the pledge of a job with the former employer). This may or may not include the safeguarding of seniority rights and/or rights in company pension, health care and other schemes. In some countries, job protection typically applies only to those who work for companies above a certain size, in others, it does not cover the entire period of possible leave.

In these Members States, future benefit rights are safeguarded and the right to leave and benefit are available to either parent, though in some cases the mother is given first choice. The great majority of those taking advantage of these schemes continue to be women.

In Italy, maternity benefit is payable only to the mother for two months before the birth and three months after at 80% of previous earnings (though if she dies, the father can claim the benefits for the post-birth period). A further three months leave at 30% of earnings can, in addition, be taken by either parent. Jobs are protected for up to one year after the birth of the child. Moreover, either parent is able to take paid leave if a child under three years fall ill. In Denmark, maternity benefit (at a flat-rate of 80% of unemployment benefit) is paid for 28 weeks, after which, since 1994, each parent is entitled to six months additional leave and a further six months if the employer agrees. Jobs are protected during this period. This leave can also be taken to look after children when they are older. Parents also have a right to take time off for the first day of a child's illness.

In Belgium, after 15 weeks of maternity benefit, under the Career Interruption scheme, parents are entitled to an additional 3 to 12 months off work, with their jobs being protected, though career interruption during a person's working life may not exceed 60 months. There is a flat-rate benefit, payable during each period of around 300 ECU a month (around 20% of the average industrial wage in 1995), which is paid at a higher rate if the interruption is for a second or subsequent child. An added benefit is paid in the Flemish region if the child is under three.

In Finland maternity benefit is payable at the same rate as sickness benefit, for 263 days (105 days as a maternity allowance, part of which can be transferred to the father, followed by 158 days parental allowance, which can be taken by either parent). After this, a further 26 weeks parental leave can be taken (at 68% of earnings), followed by child care leave until the child is 3 years old, with benefits payable at a low flat-rate (under 20% of average earnings) with supplements where there are two or more children under 7 years, not being cared for by the public child care service, plus an income-related addition. Where both parents are employed, one or the other may stay at home on full pay for up to 4 days a year to look after a sick child under 10 years of age, while a special care allowance is also payable where care is needed by a child under 16 years who is seriously ill.

In Sweden maternity leave is available for up to 18 months, most of it open to either parent, and benefits are payable to either parent during the first year (at 90% of earnings for one month and 80% for the rest of the time or at a minimum flat-rate for those who do not qualify — though from January 1996, these rates will be reduced to 85% and 25%, respectively). Leave can also be taken for half or quarter time, with benefits adjusted accordingly. Benefits are also payable for up to 60 days a year for the care of a sick child under 12 years.

In Germany, after 14 weeks of benefit, either parent can take up to three years child care leave, with the job being protected for the whole period, with a flat-rate allowance (of around 300 ECU a month) for 6 months and for a further 18 months, if income is below a certain level. Similarly in Austria, after 14 weeks of maternity benefit, leave is available for either parent for a period of 2 years, with a flat-rate allowance payable (at some 15 ECU a day or 20 ECU for single parents) and

Countries providing for unpaid leave for early child care

UK: in addition to 14 weeks maternity leave available to all female employees, those with at least two years' service with the same employer (five years for part-time workers) are entitled to leave of up to 40 weeks in total. Statutory Maternity Pay or Maternity Allowance is payable for up to 18 weeks to those qualifying. Employers may provide enhanced maternity rights on a voluntary contractual basis.

Portugal: after 98 days of benefit, between 6 and 24 months unpaid leave is allowed if employer and employee agree; the job is protected.

Greece: maternity benefits last for 103 days and social insurance rights are protected. Where there is a contract of employment of at least 12 months, unpaid leave can be taken for up to 3 months by each parent, 6 months where the parent is divorced or widowed. In all cases, the job is protected.

Spain: after 16 weeks of benefit, there can be up to 3 years unpaid leave to care for a newborn child, taken by either the mother or the father. Jobs are protected for the first year but not beyond.

Netherlands: after 16 weeks maternity benefits, a parent (male or female) who has worked at least one year with the same employer can take unpaid part-time leave, working half time for up to 6 months. Full-time leave for 3 months and one day a week for the subsequent 9 months is also possible under collective agreements. Some employers pay up to 75% of earnings for days of leave, but this is not a legal requirement.

jobs being protected during this period. In addition, parents can work part-time with benefits reduced *pro rata*, for another 2 years. It is also possible for both parents to take leave together, in which case benefits are shared between them.

In France, unpaid leave can be taken after 16 weeks maternity benefit, but only if the employer agrees and with no guarantee of job protection. The main State scheme (APE) entitles the parent (usually the mother) so long as they have been employed two of the previous five years, to a flat-rate benefit (of around 450 ECU a month for the second child — before July 1994, the third) until the child is 3 years old, payable *pro rata* if the parent works part-time. Jobs, however, are not always protected.

In five other Member States, there are provisions for periods of leave usually with job protection but without benefit (see Box). In addition, in Greece, Portugal and Spain, parents with a disabled child can reduce working hours, but without being compensated for lost earnings.

Although unpaid leave is less attractive than paid leave, the regulations on job protection are important, especially where they counter some of the adverse effects on career progression, and therefore, on future wages and longer term pension entitlement. In these five countries, the length of unpaid leave covered by job protection varies from 3–6 months in Greece to one year in Spain.

In the Netherlands, there is provision for a mix of full and part-time unpaid leave and social protection rights are safeguarded for the full period. In Spain and Portugal, on the other hand, there are no special safeguards and in the UK, rights are protected only during the 14 weeks maternity leave period (though employers may continue to make national insurance and pension contributions if employees are receiving contractual maternity pay after the statutory 18 weeks). In Greece, to retain social protection rights, including coverage for health insurance, contributions (both employers' and employees') must be paid during unpaid leave.

Caring for disabled and elderly people

Although there is little information available on the number of people looking after a disabled or infirm person for a significant part of their time, indications are that it is substantial (see Box).

Studies which have been undertaken highlight the predominance of women among carers under the age of 65, especially those in their 40s and 50s. Older carers, on the other hand, are frequently men, usually caring for disabled or infirm wives. In addition, there are many single men and women, usually sons or daughters of the person needing care.

Much less policy attention has been focused on this kind of caring responsibility, either in terms of income support for carers who have to stop working or the protection of social security rights. Schemes providing benefits to carers for extended periods exist only in four Member States. The longest standing one is in the UK where a (non-contributory) Invalid Care Allowance (ICA) was introduced in 1975, though it was extended to married women only in 1986. Eligibility for benefit is dependent on the person being cared for receiving an allowance for attendance (for care needs) and is set at two-thirds of the long-term flat-rate Incapacity Benefit (formerly Invalidity Benefit). Care must be given for at least 35 hours a week, but earnings of up to some 60 ECU a week are permitted without loss of benefit and receipt of ICA gives the right to credits for the category B (lower) rate retirement pension.

In two other Member States provision of benefit is relatively recent. In Ireland, a means tested carer's allowance was introduced in 1990, payable to someone over 18 who lives with and cares full-time for a person receiving specified social security payments and who needs full-time care and attention. The means-test is a strict one, which limits eligibility. Social contributions are credited, and the full range of benefits payable, only to those who were paying contributions, or had these credited before. In Germany, allowances designed for carers were introduced in April 1995 under the new Long-Term Nursing Insurance, and are payable to both relatives and professionals, (in the former case the amount varying with the level of need for care — from 200 ECU to 650 ECU a month). If care is given for at least 14 hours per week, social protection rights are safeguarded, though no separate arrangements are made for health insurance, where it is assumed that that held by the head of household will, as normal, cover all family members.

In Finland, there was originally a strong emphasis on providing home care services to elderly and disabled people, but from 1989 the existing scheme for Home Care Allowances paid directly to the carer was expanded. These are paid by local government, but subsidised by the centre, and the rate paid varies between areas, though always related to the severity of need for care. Pension rights of the carer are maintained at the same level as for local government employees.

More limited provision is available in five other Member States. In Sweden, the main emphasis is still on providing home care services, but paid leave of absence for up to 30 days at the sickness benefit rate can be taken by a relative, friend or neighbour caring for someone in need with social protection rights being safeguarded. In addition, local authorities can pay a home care allowance to a carer, though in this case, other rights are not protected. In Denmark — which places a similar emphasis on publicly-provided care — someone caring at home for a terminally ill relative can be reimbursed for lost earnings at the level of pay of a municipal home helper, with their rights being protected. In Belgium, a career interruption scheme was introduced in 1995 providing leave for up to two months to care for someone who is terminally ill, together with a flat-rate benefit (of around 300 ECU a month) and protection of social security rights. Local arrangements for paying benefits to carers also exist, though the provision is discretionary and the benefit amounts are relatively low (25 to 125 ECU a month).

Studies of informal caring

UK: according to the General Household Survey in 1985 in Great Britain (excluding Northern Ireland) there were 2.5 million men and 3.5 million women carers. Of these, 1.4 million were providing care for more that 20 hours a week, including 850 thousand for 50 hours a week or more. The chances of becoming a carer were highest among women in their late 40s and early 50s. Single men and single women were much more likely to be heavily involved in caring than their married counterparts. Once over 65 years, men were more likely to be carers than women.

Ireland: data from a number of studies in the late 1980s suggests that some 100 thousand people were caring for adult relatives who were elderly, sick or disabled. Some 70% of those receiving care were looked after by members of the same household and 78% of these carers were women. Two-thirds of carers of elderly people were married and nearly one quarter were single. The majority of carers were of working age.

Germany: a study by Infratest in 1992 found 1.1 million people needing regular care, including 190,000 needing constant care. Around 77% of those with regular care needs had a main carer, in nearly all cases a close family member. Some 83% of carers were female. Male carers usually looked after a disabled wife.

Italy: in 1991 it was estimated that around 17% of Italian families were affected by the need to take care of an invalid, someone with a major disability or a non-self-sufficient elderly person.

People in employment not eligible for social insurance

Spain: people who work for less than 12 hours a week, or 48 hours a month in all, are excluded from some benefits — for occupational accidents or illness, health care, cash benefits during maternity leave and the Fond de Garantie Salariale. In 1994, most people working a small number of hours a week were women.

Austria: people who earn less than 13 ECU a day, 40 ECU a week, 260 ECU a month, are excluded from compulsory insurance, though they are able to pay voluntary contributions.

Ireland: in 1993, 12,000 employees were estimated to be outside the scope of social insurance, mostly women. In addition, some 16,500 self-employed were excluded: 13,000 farmers receiving unemployment assistance as a supplement to poor farm earnings, and 3,500 others with incomes below the threshold for self-employed contributions — around 3,000 ECU a year.

Germany: people are excluded from social insurance if they work for less than 15 hours a week and earn less than around 300 ECU a month in the Western part or 250 ECU in the East. In addition, those working for less than two months or 50 working days a year are generally excluded. Figures for 1992 show that almost 3 million people were excluded by these various rules, of which 68% (2 million) were women.

UK: people who earn less than around 70 ECU a week are excluded. In 1994, it was estimated that 2.2 million female and 0.8 million male employees were excluded. Figures for the self-employed are not available.

In Italy, Greece and France, under the national schemes in operation, extra benefits are paid to those needing extensive care, in Italy the amount being around double the means-tested disability allowance, in Greece, around 50% of the invalidity benefit for total incapacity, and in France, the same as minimum wage. These allowances can be passed on to the carer, but need not necessarily be. In France, if the carer receives an allowance, they are regarded as an insured person with normal social protection entitlements, but to encourage home care, without being liable to pay contributions. In other cases, as in Italy and Greece, social protection rights are not maintained, as is also true of French and Italian local schemes paying allowances to carers. In Spain, Luxembourg, Portugal, Netherlands and Austria there is no provision at all for either leave or benefits for carers. Except in Austria, where there is some protection of pensions for those caring for disabled children, as discussed below, stopping work to provide care for someone means loss of both income and social protection rights, except as regards health care where there is a national health service.

Low earnings and social protection

People returning to the labour force or trying to continue working while caring for someone can often find it necessary to accept a job with low pay and/or short hours. In such cases, however, they may no longer be eligible to belong to a social insurance scheme and so not be able to accumulate social protection rights. This is not the case in Luxembourg, Portugal, France, Greece, Italy, Netherlands or Sweden, where all those in employment are compulsorily insured. The same is also true in Denmark, except that membership of an unemployment fund requires a minimum number of hours work, while in Belgium, those excluded are only those who do domestic work for others for less than 24 hours a week or other household work for less than 8 hours a week. There are, however, a number of Member States where a significant number is excluded from social insurance.

Figures for the total number ineligible for insured status for these reasons (see Box) are not available for all countries, but they are substantial in the UK and Germany. By no means all of these people are carers, but those whose working life is restricted by caring responsibilities are particularly at risk of non-eligibility. These women and men are not entitled to benefits during sickness or unemployment, and unless there are provisions based on residence or special measures are taken (described below) will not be building entitlements to long-term benefits for retirement or invalidity.

These exclusions are at present under debate, with those on the one side who want to increase labour market flexibility by reducing contributions and the cost to employers — as well as to encourage more part-time jobs, and those on the other, who wish to see improved social protection cover (as in Spain). At the same time, exclusions are seen as an issue of inequality, given the predominance of women among those excluded (in the UK and Germany), while potential impact of contributions on low incomes is used as an argument against their inclusion (in the UK). The low level of contributions which they would be able to pay is also an issue in that they would build rights only to very low earnings-related benefits (which, in practice, might not be any greater than means-tested allowances, assuming that they qualify for these which many married women will not) or they would qualify for cover well in excess of their payments into the schemes — for health insurance, for example (in Germany). Equally, if (flat-rate) benefits were increased to too high a level relative to earnings when in work, this could adversely affect incentives to be employed.

Part-time work and social protection

There are also specific issues related to part-time employment which is widespread in the European Union. In the Union as a whole there were nearly 21 million people in part-time work in 1994, almost 18 million employees and 3 million self-employed. They are predominantly women — around 15 million of the employees and 2 million of the self-employed — the largest numbers being in the UK and Germany (around 5 million in each), but the highest proportion of the work force being in the Netherlands (66%).

If the working patterns of women are examined, it is evident that in most Member States, women with children are much more likely not to work or to work part-time than those without (Graphs 70 to 75). Although there are no comparable figures for those who care for adults it may well be that the pattern is similar because the constraints on working full-time are much the same.

Decisions about whether and how many hours to work are, of course, not wholly determined by caring responsibilities. A social policy which provides high levels of child care and home care for the disabled or infirm, the availability of family and the financial circumstances as well as other factors can all be important. For lone parents, in particular, financial necessity may dictate full-time work in cases where benefits are conditional on the mother seeking employment once the children pass a specified age. It is interesting to note, however, that in the 1993 Eurobarometer report (The Europeans and the Family) around 55% of respondents considered that having children was an obstacle to the working life of women, though under 10% thought the same as regards men. Nevertheless there are men whose employment choices are affected by caring responsibilities — lone fathers, for instance or those looking after disabled adults (see Box on studies of informal caring). Moreover there may be more men looking after children in the future as parental leave schemes are developed and extended.

Problems may arise for part-time workers under the social protection arrangements, even where they are in jobs which entitle them to social insurance (though see below for measures which may offset these problems):

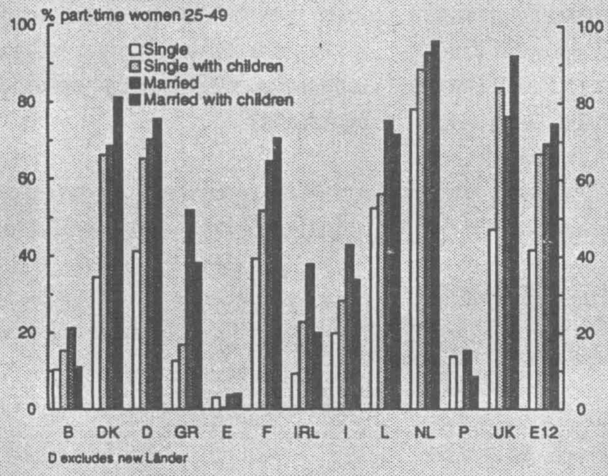
- while contributions may give entitlement to long-term benefits for retirement and invalidity the earnings-related amounts concerned are likely to be low unless there are specific provisions to overcome this;
- taking up part-time work late in a working career, because of the need to care for an elderly parent, for example, can adversely affect pension rights if these are calculated on final salary or the last few years before retirement age;
- part-time workers may be excluded from occupational pension schemes which provide supplements to retirement pensions or long-term ill-health benefits.

Part-time workers may also find that, though they are paying contributions, they are ineligible to receive unemployment or sickness benefits because they work too few hours a week or too little over a specified period of time.

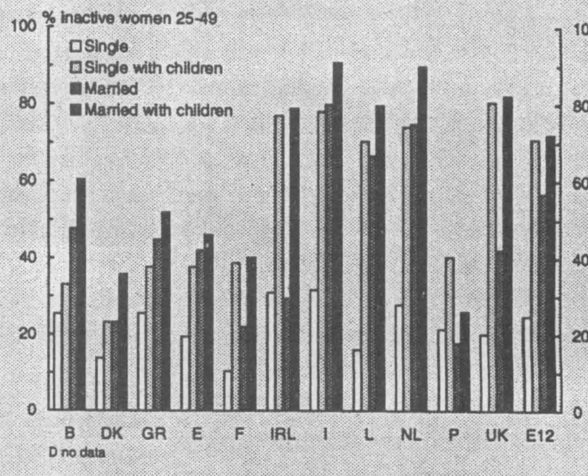
Returning to work after caring

Returning carers may encounter other problems in qualifying for short-term benefits, in particular if sickness or unemployment strikes

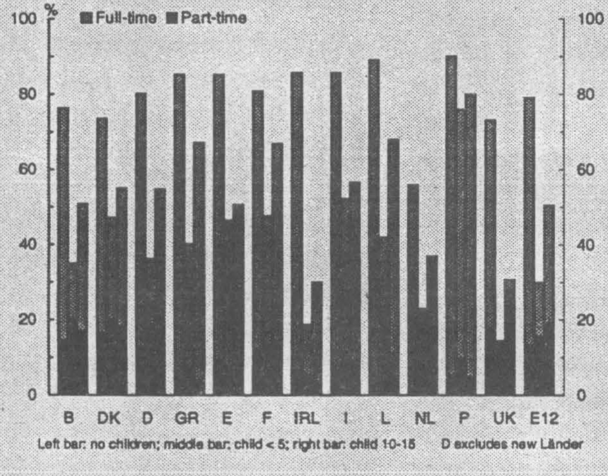
70 Women aged 25-49 working part-time because they did not want a full time job, 1993



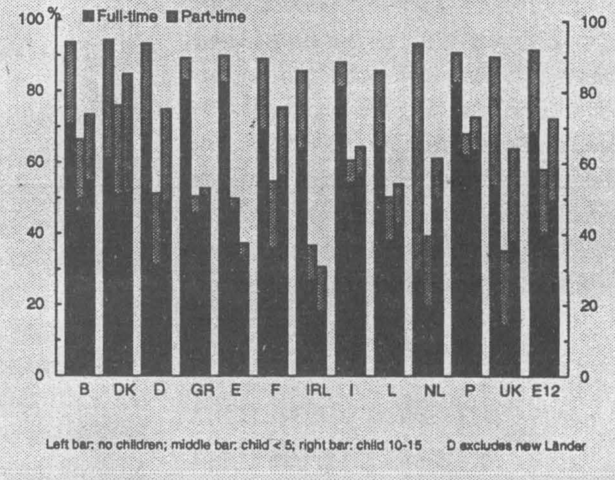
71 Women aged 25-49 who are inactive because of family responsibilities, 1993



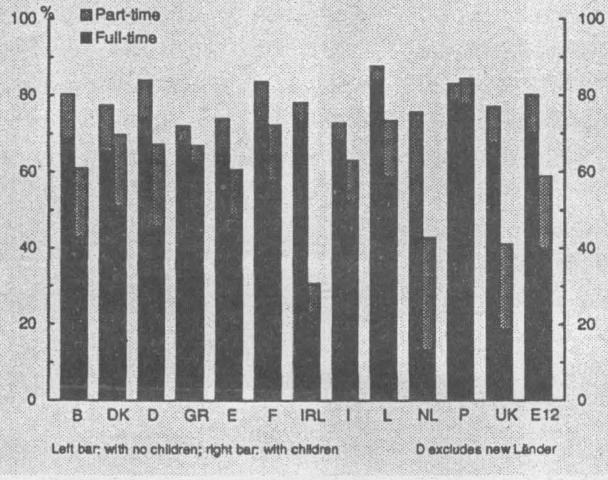
72 Single women working full-time and part-time by age of youngest child, 1993



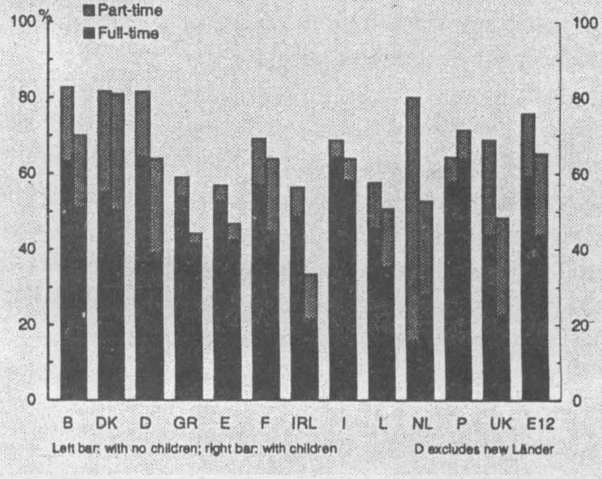
73 Married women working full-time and part-time by age of youngest child, 1993



74 Single women working full-time and part-time, 1993



75 Married women working full-time and part-time, 1993



before they have sufficient time to satisfy qualifying conditions. Such problems will not apply if the health care system is designed to serve the whole population or there is no qualifying period for sickness benefits or provisions which take into account contributions before the period of caring began. But where the system is less 'open' or where qualifying conditions for particular benefits are more stringent, problems may arise.

The development of schemes for extended leave with benefits for taking care of young children (in 8 Member States) has improved the position of those caring for children not only while they are not working, but on return to work as well. But where, at best, unpaid leave is all that is available, then — with the exception of the Netherlands where social protection rights are safeguarded during unpaid leave — the position of returning carers is much weaker. It is also the case that where leave provisions are for relatively short periods, some parents may feel it necessary to spend longer with their children and so lose their right to job protection.

As noted above, in only a minority of Member States are social protection rights safeguarded for those who care for adults for extended periods.

Qualifying for cash sickness benefits — returning carers in Ireland and the UK

Ireland: the benefit has two conditions — at least 39 weekly contributions over the entire working life must have been paid and 39 contributions paid or credited in the year prior to the illness. To meet the second condition, there have to be at least 13 paid contributions, but these can have been paid in any of the 3 years prior to the claim. Any credits during receipt of the means-tested Carer's Allowance, would be beneficial to carers, as would those gained during the 14 weeks maternity benefit.

UK: the situation is complex. Most employees, provided they had an employment contract which lasted at least 3 months and provided they earned enough to to pay contributions in the 8 weeks prior to the illness, would get Statutory Sick Pay (SSP). Credits do not count for SSP. Employees who do not qualify and the self-employed, have to meet two qualifying conditions for National Insurance benefit; contributions must have been paid on earnings of at least 25 times the lower earnings limit in any tax year and contributions paid or credited on earnings of 50 times the lower earnings limit in the two tax years preceding the claim. Credits given while on the 18 weeks benefit for maternity absence and while receiving the Invalid Care Allowance will assist with the second of these conditions.

Health care costs

In 12 of the 15 Member States caring gives no problems so far as access to health care is concerned, while in the other three, problems are of varying severity. In France, two groups retain their health insurance rights — those with two or more children who have received benefits under the parental leave scheme and those caring for adults who are paid by the person concerned from their disability benefits and so qualify for insured status. Everyone else has to have worked at least 60 hours or earned 60 times the hourly minimum wage over a period of a month. In Belgium, those covered by a Career Interruption arrangement similarly retain their health insurance, but others, including those who had to continue caring after the period of Career Interruption expired, need to have worked at least 120 days (for at least three hours a day) during a period of 6 months. In Greece, those on unpaid leave to take care of young children can remain insured as noted above only if they pay their own plus the employer's contribution, while others need to have worked for at least 50 days (two months) in the year preceding the illness. In all three countries, those caring for adults are more likely to be affected adversely than those caring for children.

Sickness benefits

In a number of Member States, there is no qualifying period for entitlement to sickness benefit. These are Sweden, Austria, Luxembourg, Germany, Finland, Italy and the Netherlands. In Portugal and Spain, carers are treated the same way as everyone else, which means in Portugal, 6 months in insurance and 12 days work during the four months prior to the illness and, in Spain, 180 days work in the previous five years. In both these countries, many carers are, therefore, likely to qualify for benefit, even if they fall ill soon after returning to work. In Denmark, employees must have worked at least 120 hours in the 13 weeks immediately preceding the illness.

In France, Belgium and Greece, the rules governing eligibility are the same as for health care which are not so difficult to fulfil in France, but

Carers and unemployment benefits in Germany and Netherlands

Germany: the widely available period of extended leave for early child care is counted as if it is paid employment and so will give benefit rights when these are needed. But carers covered by the new long term care insurance have to meet the normal qualifying conditions for unemployment benefit — 12 months insured work in the past three years for the insurance benefit and 150 days in the last year for the assistance benefit. They are, however, eligible for vocational training without a qualifying period in employment — a useful provision for someone who had been out of the labour force for a long period.

The Netherlands: for the basic unemployment benefit lasting for 6 months, carers have to meet the same rules as anyone else, that is, 6 months work immediately preceding the unemployment. For the extended benefit which follows (lasting from 3 months to 4.5 years, depending on age and other factors), the normal requirement is that the employee must have received a wage for at least 52 days during at least 3 of the 5 years immediately preceding the unemployment, though special rules apply to those who have been caring for children. In calculating the 3 in 5 rule, all the period when caring for a child under 6 and half the period caring for a 6–12 year old are counted as employment. However, there is no similar rule for carers of adult disabled/infirm people.

present more difficulties in Greece and Belgium.

In Ireland and the UK the regulations are both more complicated and so may be more difficult to satisfy (see Box). In both countries it may be easier for those who have cared for adults to satisfy the requirements, than those caring for children.

Unemployment benefit

Qualifying conditions for receipt of unemployment benefit of a person loses a job soon after returning to work tend to present more of a problem.

This is not the case in Finland, where unemployment benefit is paid after five days of registered unemployment. In Germany and the Netherlands, there are special provisions for those returning from caring for children, but these are not available to those caring for adults (see Box).

In Belgium and Greece, some of the provisions for leave from work enable the carer to remain insured and so qualify for unemployment benefits where provisions do not apply, however, — which is likely to be in most cases for those looking after adults — carers must meet the normal qualifying conditions — in Greece, 300 days of work, in Belgium, 312–624 days, depending on age.

In Luxembourg, Sweden, Italy and Spain, the normal conditions for receipt of benefits have to be met in full — ie contributions need to have been paid for a minimum period, ranging from 6 months to a year or more. In Sweden, the person concerned needs also to have worked for five months in the previous 12, though there is a minimum unemployment assistance benefit for those who are not members of a voluntary unemployment fund.

In Spain, receipt of earnings-related benefit requires contributions to have been paid for 12 months over the preceding 6 years and in Denmark, full members of an unemployment fund need to have worked for 26 weeks in the last 3 years. In both cases, many carers are likely to be able to meet these conditions. In Austria, there is a waiting period of 20 weeks to establish eligibility for benefit, while in Portugal, there must have been 540 days of earnings and contributions in the 24 months prior to unemployment. In Ireland the rules are the same as for sickness benefit. In the UK, a minimum number of contributions must have been paid, and any additional credits needed, must have been acquired, in the last two tax years. In both countries, credits relating to caring for children accrue only over the basic period of maternity leave (14 and 18 weeks, respectively), but there is a greater opportunity to acquire credits for longer periods of caring for adults.

Protecting the retirement pension

Leaving aside pensions based on rights as a resident national, acquisition of a full pension in most countries requires payment of contributions over the whole of a working career. Breaks in employment do not usually lead to total loss of pension rights, but to a reduction in the amount.

Where pensions are earnings-related and calculated on a lifetime's earnings, the amount receivable will be reduced not only if fewer years are worked but also perhaps if part-time hours are worked. In some countries, there are provisions for voluntary contributions to be paid to cover career breaks, but if these have to be paid during periods of non-earning, they may not be affordable.

There are, however, two features of pension provision in Member States which moderate the effect of caring on pensions. The first is the existence of a basic pension receivable by right through citizenship. The second is the existence of measures aimed at reducing the disadvantage carers are likely to suffer.

Improvements of pension rights for carers in Italy

Starting from January 1994, employees with at least five years of contributions can:

- gain a pension credit of five months for children born prior to employment;
- gain a pension credit, with voluntary contributions, for 6 further months (equivalent to the normal additional maternity leave) for children born prior to employment;
- gain a maximum credit of 5 years, with voluntary contributions, for periods of care for adult disabled people, including periods outside the labour force.

From 1995, it will be possible:

- to claim notional credits towards pensions in respect of absences from work for caring for a child of under 6, of 6 months for each child up to a maximum of 24 months in all;
- to claim pension credits for up to 28 months, for absence from work for periods of care for children over 6, a spouse or an invalid parent living at home;
- for working mothers to receive a concession on the age of retirement of 4 months for each child up to a maximum of 12 months or, alternatively, if she retires at the normal age, a higher pension;
- for housewives to belong to a new voluntary but subsidised pension scheme.

Pensions paid by right

In four Member States, Sweden, Netherlands, Finland and Denmark, a basic pension is payable to all resident nationals, irrespective of whether and how long they have worked. The pension, however, is set at a minimum level, even if sufficient to meet basic needs. In all four countries, supplementary earnings-related pensions exist to increase retirement income, but missed years of contributions or periods of working part-time will reduce the amount payable, and provisions to offset these adverse effects are limited.

In Sweden where an earnings-related benefit is payable during parental leave and for short periods of caring for adults, this is counted as pensionable income and so helps to increase earnings-related amounts. In January 1997, rules are due to come into effect under which married couples will be able to elect to divide annual pension credits between each other. In Finland also, leave for early child care does not serve to reduce the earnings used to calculate pensions and the pension rights of those receiving the Home Care allowance are protected. A long period of absence from work over and above the parental leave period can however, lead to a break in pension insurance for both employees and the self-employed (though as noted below there are other rules which help those who have been caring for children).

Differences in pension calculations

In some Member States retirement pensions of carers may be much less affected than in others by caring, simply because of the way pension entitlement is calculated. In Spain, the pension is calculated on earnings over the last 8 years of work, which is beneficial for those who took time off for caring responsibilities early in their working life, but detrimental for those who were not employed or worked part-time, late in their working careers. In Portugal, pensions are calculated on the basis of the best 10 years earnings in the last 15 years of work, a rule which by enabling low years to be dropped tends to help carers who have had to spend some time in part-time work, though missed contribution years remain a problem (see below).

In Finland, the earnings-related pensions are calculated on the four last years of employment and if these include a year in which maternity, paternity or child care leave has been taken, it is dropped from the calculation. In Italy, the pension calculations are based on the number of pensionable years (with no distinction between full and part-time work) and on average earnings over the last ten years of work. These rules, together with the fact that pension rights continue to mature while maternity benefits are paid, serve to protect the pension of those who have been looking after children, but they are less helpful to those who have had to care for adults in later years. For those entering the labour force from January 1993, however, pensions will be calculated on lifetime earnings. A new set of rules, taking effect from 1992, strengthens the position of carers of both children and adults, in part by allowing voluntary contributions which can be paid when earning has resumed (see Box).

Home Responsibilities Protection in the UK

Home Responsibilities Protection was introduced in 1978 for those not earning or earning below the level of liability for National Insurance contributions, provided that:

- throughout a full tax year they are the main payee for Child Benefit drawn in respect of a child under 16 years, or
- throughout a full tax year they are receiving Income Support without being required to be available for employment because they are caring for a sick or disabled person in receipt of the highest or middle rate of the Disability Living Allowance care component, Attendance Allowance or Constant Attendance Allowance, or
- they are regularly caring for at least 35 hours a week for a person receiving for a minimum of 48 weeks in a year the highest or middle rate of the Disability Living Allowance care component, the Attendance Allowance or Constant Attendance Allowance.

For each year of HRP, the number of qualifying years for a full basic retirement pension are reduced but not below 20 qualifying years. At present the maximum number of HRP years for a woman is 19 and for a man 24, but when pension ages are equalised at 65, HRP rights will be equalised at 22 years. The years of HRP count towards the requirements for a widow's pension.

Dropping caring years from the pension calculation

In the UK, under the Home Responsibilities Protection (HRP) provisions, and more recently in Ireland, carers can drop the years spent looking after someone from the calculation of pension entitlement and can also acquire contribution credits where receiving benefit for caring for a disabled or infirm adult (see Box).

In Ireland, since 1994, those of 65 and under not in paid work, or in low paid work not covered by social insurance, are entitled to drop from the calculation of the old-age (contributory) pension for years after 1994 (up to a maximum of 20) complete contribution years spent caring either for a child under 6 (soon to be 12) on a full time basis or for an adult requiring full time care and attention, so long as, in both cases, they reside with the person in question.

In addition, in the UK, where as from 1999, the State supplementary pension will be calculated on lifetime earnings instead of the best 20 years, carers will be entitled to exclude years of HRP from the calculation, so long as 20 years of actual contributions after 1978 have been made. Moreover after 1999, the means-tested benefits for low earners — Family Credit and Disability Living Allowance — will be counted as earnings in the calculation of pensions which could help low-paid part-time workers, especially lone parents.

Maintenance of contributions during periods of caring

In a number of Member States, contributions are maintained during periods of time off work for caring. In Luxembourg, where the basic qualification for a pension is 10 years of contributions, the State pays contributions on behalf of a parent caring for a young child for a period of 24 months — 48 months where there are at least two children or the child is handicapped, provided that the person concerned has been insured for at least 12 of the 36 months before the birth. In addition periods during which one of the parents was caring for one or more children under 6 years, or under 18 if the child is at least 50% disabled, or, in some cases, years spent looking after an adult who need care can be counted as part of the 40 years required for a full pension.

In Germany, compulsory pension insurance is maintained for three years for a parent who is caring for a child born after January 1992 (one year for those born earlier) based on earnings of 75% of the average of all insured. In general, caring for a child of up to 10 does not significantly affect pension entitlements. Under the new Long Term Care Insurance, people caring for disabled persons for at least 14 hours a week are covered by pension insurance (earnings of between 35% and 80% of the average of all insured, depending on the weekly hours spent in caring, being used for the calculation of pension). In Austria, each year of parental leave for which a benefit is paid is treated as equivalent to one year of pension contributions (see Box). Someone caring for a disabled child can pay voluntary contributions at a reduced rate, but no provision is made for those caring for an adult.

In Belgium also, the period of leave — the Career Interruption — is counted as a period of contributions for pension purposes for up to 36 months where a child under 6 years is being cared for, and otherwise for 12 months. In the case of care for terminally ill people, only two months are counted. Carers who stop work for longer and those on unpaid leave outside the scheme can pay voluntary contributions, but only if they are caring for children under 6, and contributions have been paid for at least 12 months before hand and work is later resumed. In France, there are a range of provisions, mainly for bringing up children (see Box).

Provisions to protect pensions in Austria and France

Austria: The 48 months after a child's birth are treated as 'substitutional' periods in pension insurance. To calculate the pension, a notional income of 446 ECU is set as a base and revalued every year. If the parent concerned is earning during any of this period, the notional and actual wages are added for the purpose of the pension calculation, in order to compensate for the double work-load of child care and paid work. If a second child is born within the 48 months, the original period will end and a new period of 48 months will begin.

France: A parent receiving any of the family benefits while remaining at home to care for a child under 3 is entitled to pension insurance in the *Régime general*, based on a notional wage equal to the monthly minimum wage, the contributions for this being paid by the *Caisse d'allocations familiales*. In addition:

- there is a right to two years free pension insurance for every child cared for during 9 years before their 16th birthday;
- workers who have brought up three children are entitled to a full pension after 30 years of insurance;
- the fact of having brought up three children, entitles both parents to a 10% increase in their retirement pension.

In a further provision — to encourage part-time work in this case, but beneficial to carers — where a full-time job is converted into a part-time job, then by agreement with the employer, pension contributions can continue to be calculated as if they were based on the full-time wage for a period of 5 years.

The use of voluntary contributions

In Italy, carers can pay voluntary contributions under new rules as noted above. In Portugal, where provisions for those who interrupt working careers are limited, there is a voluntary insurance scheme, implying an assumption that someone not in work can afford to contribute or can find someone to pay on their behalf. However, a supplementary social pension is payable where the final contributory pension falls below a minimum amount. In Greece, where provisions for carers are limited, retention of insurance rights depends on paying voluntarily contributions and if these cannot be afforded, pensions will be reduced accordingly. (There are, however, provisions beneficial to mothers of young or disabled children, who can retire on a full pension at 55 — or a reduced pension at 50 — if she has completed insured employment of 18 years and 4 months.) In the UK, there is also some use of voluntary contributions, where earnings in a tax year are not enough to qualify for pension purposes. In this case, the person concerned can make up the difference in voluntary contributions any time over the following six years, which means that they can be paid on return to work (in 1993, only 69,000 people made such contributions, 59,000 of whom were men).

Private supplementary pensions

There do not appear to be any examples of private pension schemes in any Member State, which make allowance for periods of caring. Indeed, until recently (before the European Court judgement, Vroeger v NCIV and Fisscher v Voorhuis Hengelo, 1994) occupational schemes often excluded many part-time workers. Where the State pension provision relies on supplementary pensions to bring retirement income up to a reasonable (rather than minimum) level, people who have been involved in caring can be significantly disadvantaged.

Invalidity benefits

There has been less policy concern with protecting entitlement to invalidity or disability benefits. However, provisions which protect retirement pensions will sometimes, but not always, also apply to these. Where there are few measures to protect retirement income the same is likely to be true in respect of invalidity support.

In the countries in which there are basic provision for resident nationals — Sweden, Denmark and Finland — no problems arise in any case. In the Netherlands, where access to the General Disability Benefit which covers both short and long term needs is relatively open, there are also few problems. Moreover, in Luxembourg, Austria and Germany, where the State pays contributions during years of caring and where these are credited while on other benefits, these provisions also apply to invalidity benefits (though in Austria, they do not cover absence from work to look after adults). In France, although the normal eligibility requirement for invalidity pension is 800 hours work or earnings of 2030 times the hourly minimum wage in the last 12 months, there are retrospective provisions to assist someone entitled to parental leave to obtain an invalidity benefit.

In Portugal and Spain and Greece, however, protection of rights to invalidity benefits is limited, as it is in Ireland, where provisions in respect of pensions do not fully extend to invalidity. In these countries, much will depend on when invalidity occur, in relation to the period of caring, since eligibility conditions relate to specified periods of insured work prior to the onset of incapacity — such as two years work in the past five.

In Belgium, the qualifying period for insurance is relatively short for private sector employees — 120 days work during the six months prior to the incapacity — which most people who stop work because of responsibilities ought to be able to comply with. Those who do not satisfy the conditions in full receive a lower rate of benefit. For public servants, invalidity benefits are part of general pension arrangements and unpaid leave for caring results in a lower benefit.

In Italy, contributions need to have been paid for five years at least and three years during the last five. Years working part-time count as full years, though they affect the level of benefit which is earnings related. The recently introduced rules giving credits for early child care will help, though these require that contributions have been paid for five years. Voluntary contributions are required from those caring for adults. Despite the latest proposals noted above, it is likely that for many years carers will continue to fail to qualify for insurance benefits and will be eligible only for lower non-contributory allowances.

In the UK, eligibility for a long-term Incapacity Benefit depends on having qualified for short-term benefit for 12 months. Home Responsibilities Protection does not extend to benefits for incapacity, though receipt of Invalid Care Allowance does include credits for Incapacity Benefit. Those not qualifying for Incapacity Benefit may be entitled to a lower non-contributory allowance of two-thirds the rate of the main benefit, where they have become 80% or more disabled after the age of 20.

Divorce and marriage breakdown

It is also relevant here to examine what happens to the pension provision of carers when their marriage or cohabitation breaks up. Although this is an issue for both men and women, in practice, it is still predominantly the latter whose future pension income needs to be protected.

So far as divorce is concerned, a number of problems may arise for a woman who has had an interrupted working career because of caring responsibilities and particularly as she can no longer rely on rights derived from her ex-husband:

- she may not have been able to build a full independent basic State pension, either because of the absence of safeguards or because many of the provisions described above are relatively recent and tend not to be retrospective,
- where the main pension is earnings-related, her period off work or in part-time work and lost career opportunities may have reduced her pension entitlement;
- her supplementary pension will tend to be less for the same reasons and if she worked part-time, she may not have been eligible at all.

Unless arrangements are in place to overcome these problems or unless specific steps were taken at the time of the divorce, the wife may be left with a pension provision which is much less than that of her ex-husband. This has come to be regarded as unjust given that caring which is at the root of the problem is the responsability of both of them.

Some of the measures that can be applied after divorce are administrative, in the sense they involve incorporating appropriate rules into the relevant schemes. Others involve introducing legislation so that courts can take direct action to divide future pension rights (which is additional to dividing current assets, which may not be sufficient to provide a suitable pension for the wife). Existing measures in Member States in some cases benefit one spouse without reducing the rights of the other, while in others pension rights are shared between the divorcing couple.

Protecting one spouse without affecting the other

Divorce does not affect basic State pensions if these are paid to all resident nationals, as in Netherlands, Denmark, Finland and Sweden, though in the latter, the rate for a couple is lower than for two single people. If a divorce takes place after retirement, pensions are upgraded to two single rates six months later.

In some countries, there are rules in respect of widows pensions. In Austria, a divorced widow is entitled to a pension provided the marriage lasted 10 years and the dead husband paid maintenance, though this right ceases if she re-marries. In Luxembourg, a widow's pension is also payable to a divorced woman who has not remarried, at a rate related to the number of years the couple lived together and the contributions paid.

In the UK, there is provision for the contributions made by the husband (or wife) to provide a pension for the wife (or husband), to which further contributions can be added after the divorce so as to build a better pension. In Ireland, where divorce is not legal, past contributions affect the Deserted Wives Allowance (see Box for details on this and on the UK provisions).

Dividing the pension

A second type of provision involves splitting the retirement or widows pension or reallocating rights from one partner to another, either by administrative or legal action. In France, the divorced wife is entitled to a widow's pension on the death of her former husband. If he re-married, the pension is shared in proportion to the duration of each marriage. In Italy, there are no administrative regulations and the courts do not have the power to split pensions at the time of divorce. Where a husband who has remarried dies, however, the courts may rule that the widow's pension be split between the two wives.

Provisions for splitting the retirement pension exist in several Member States (see Box) some of these are administrative, others require action by the courts. The most prominent country in this respect is Germany, in which legislation was introduced in 1977 providing for a systematic reallocation of all forms of retirement income at the time of divorce. Substantive provisions also exist in Spain and Belgium.

In general, there are fewer provisions relating to the splitting of supplementary pensions and this can be a serious loss to the divorced wife, especially in countries where the basic pension is relatively low. In the UK, where this was the case, changes have been introduced in 1995 in a new Pensions Act which requires the courts to take pensions into account in divorce settlements. Courts are empowered to oblige schemes to make payments to a divorced spouse when the pension matures. The court

Two approaches to State pensions after divorce/separation

UK: for the basic National Insurance pension, the divorced person (man or woman) can substitute their former spouse's contribution record for their own — either for all their working life up to divorce or for the duration of the marriage — if this improves the amount receivable. To this can be added contributions made after divorce to achieve a full pension at the single flat-rate (but no more). The benefit authorities use the most advantageous method for calculation. Remarriage before pensionable age (but not cohabitation) removes this right. A woman would then have to rely on rights derived from her new husband or on her own accrued independent rights, while a man must rely on his own pension rights. Remarriage after pensionable leaves both parties with their own single pension rights.

Ireland: the 'Deserted Wife's Benefit' is payable on the insurance record of either the husband or the wife, whichever is most advantageous. To qualify for benefit, the woman must show that she has been deserted by her husband and that she has made appropriate efforts to obtain maintenance from him. A referendum on divorce is planned and proposals for the treatment of pensions and other rights are being prepared.

order, however, ceases to apply as soon as one of the parties concerned dies, which potentially leaves a divorced widow in much the same position as before the Act. Legislation is also being considered in Luxembourg to divide the pension on divorce and enable the person divorcing to build up a larger pension when they have had to stop work or work fewer. In Portugal, there are some (implicit) arrangements for sharing the widow's pension between the present and former wife, while in Greece, there are no special provisions, though the rise in the divorce rate has led to some debate on this issue.

Cohabitation breakdown

Cohabitation is an important and growing feature in most Member States, though it is more prevalent in some (such as Sweden and Denmark where it rose from the 1960s onwards) than others (Greece, Italy, Spain, Portugal and Ireland) where it is only beginning to emerge in urban areas.

Social protection issues relating to cohabitation and its breakdown, however, have received relatively little policy attention. The provisions for safeguarding social protection rights during periods of early child care and caring for adults, as far as they go, are usually open to cohabiting women and men on the same basis as married couples. On the other hand, cohabiting women whose partner dies and who have been prevented by caring responsibilities from building adequate independent rights, will not usually have derived rights to fall back on. Where the relationship has broken down, similar problems of unequal pension rights arise as with divorce.

There are legal provisions on pensions for cohabitees in a number of Member States. In the Netherlands, certain categories of unmarried couples have equivalent pension rights to those who are married. In Sweden, marriage and long periods of cohabitation have equal status under law, the basic principle being that joint property is divided equally if the cohabitation breaks down. In Finland, married and cohabiting couples are also treated on a broadly equal basis.

In a few other countries, the pension implications of cohabitation breakdown are beginning to be recognised as an issue, though not yet a major one. In Belgium, the courts have, in some cases, obliged ex-partners to pay compensation to partners with caring responsibilities during the cohabitation. In the UK, the trustees of occupational pension schemes in some cases, exercise their discretion to pay lump sums to cohabitees or to divide them between the cohabitee and the legal widow, but there is no requirement for them to do so. In most Member States, however, there appears to have been as yet little public policy debate on this issue.

Concluding remarks

The need to safeguard the social protection rights of people whose working career is interrupted because they need to bring up children or care for disabled or infirm adults is now firmly on the policy agenda of all Member States. Throughout the Union, it is increasingly recognised that people need to be given a genuine chance of reconciling caring responsibilities with a working career. Support services and facilities to assist with child care and with the care of the disabled or elderly who need looking after remain of great importance in order for people with caring responsibilities to be able to pursue a working career, if they so wish, but people also need to have the option of giving priority at times to personal caring without suffering major disadvantages and effectively paying a high cost. Measures to safeguard the interests of those bringing up children are generally well advanced, but some gaps still remain. Safeguards for those caring for disabled/infirm adults are beginning to receive more attention, but much more remains to be done, as indicated in this chapter. Because each country's social protection system is different, the measures taken must also differ, at least in detail, but it is useful to be aware of the range of possibilities which are open.

Although 'fall back' provisions exist in most Member States to ensure at least a minimum level of income for carers. Such provisions are essential at the present stage of policy development, but it is widely accepted, given the importance of caring responsibilities, that these are not enough and, in the long-term, further improvements need to be made.

Dividing pensions on divorce

Germany: all pension rights acquired during marriage are added and the marriage partner with more rights has to transfer part to the other so that both have the same level of benefit rights from the period of the marriage. This system is applicable to the social insurance pension, occupational pensions, the special system for civil servants and life insurance.

Sweden: a recent proposed revision of the Marital Code requires the inclusion, in whole or in part, of certain forms of pension from private insurance in the division of assets between husband and wife, if it is unreasonable to exclude them in view of the duration of the marriage and the financial situation. If there is no voluntary agreement between husband and wife on this, the court may make the necessary order. From January 1997, married couples (born in 1954 or after) will be able to divide annual pension credits between each other.

Spain: courts have power to divide the pension at the time of the divorce, in favour of the partner with less or no pension rights. In the case of the widow's pension, where there are two survivors (a divorced and a current wife) there is provision to share the pension between them proportionally to the time each lived with the deceased husband.

Belgium: after divorce, pension entitlements built up during the marriage are shared for periods for which the other person concerned had no personal pension entitlement so as to provide a 'divorce pension' payable when retirement age is reached, so becoming the personal right of the partner (usually the wife) who was not working during part of the marriage. However, it is not paid if they remarry. These rules do not apply to the public service scheme, where a survivor's pension is payable on the death of the ex-husband (or wife) except in cases of remarriage, though a court can decide that a retired public servant should share his pension with his ex-wife.

Notes and Sources

This report has been prepared with the collaboration of Eurostat (Statistical Office of the European Communities).

The data on social protection expenditure and receipts presented and analysed in this report (in Chapter 3, in particular) are classified according to the European System of Integrated Social Protection Statistics (ESSPROS), which breaks down expenditure into three main categories: social benefits, administration costs and other current expenditure.

Social benefits consist of transfers, in cash or in kind, to households and individuals to relieve them of the burden of a number of distinct risks or needs, specifically: old age, survivors, disability, occupational accidents and diseases, family, maternity, sickness, unemployment, placement and vocational guidance, housing and miscellaneous.

'Old age' covers the provision of social protection against the risks linked to old age, such as the loss of an adequate income, the loss of independence in carrying out daily tasks, reduced participation on social life, and so on. Benefits covered are all pensions and allowances paid after retirement or on account of old age, early retirement benefits paid to older workers, goods and services specifically required by the personal or social circumstances of the elderly.

Survivors benefits are normally granted on the basis of a derived right, ie one derived from another person whose death is a condition for granting the benefit. In some social protection systems however, this right is a direct one, with no connection between the benefit received and any benefit that the deceased would have been able to claim. All pensions, allowances and cash payments paid out to survivors, as well as the reimbursement of funeral expenses are covered.

'Disability' covers:

- pensions, allowances and other cash benefits granted to disabled persons whose ability to work and earn is impaired beyond a minimum level laid down by legislation;
- allowances paid to the disabled when they undertake work adapted to their condition, normally in a sheltered workshop, or undergo vocational training;
- specific medical care granted to disabled persons as a result of their condition;
- functional, occupational and social rehabilitation;
- other forms of assistance, such as home help.

Occupational accidents and professional diseases cover benefits paid to those injured or contracting illnesses at work and are excluded from disability benefits to the extent that they can be distinguished or are separately treated in social protection systems.

'Family' covers benefits which:

- provide financial support to households for bringing up children, such as family allowances;
- financial assistance to people who support relatives other than children, notably spouses;
- social services specifically designed to assist and protect the family, such as the provision of accommodation and family planning services. All supplements to cash benefits paid for other reasons (disability, old age and so on) are also included.

'Maternity' covers maternity allowances, childbirth allowances and health care associated with maternity.

'Sickness' covers:

- medical care of either a preventative or therapeutic nature, prevention encompassing medical check-ups, vaccination campaigns, health education and so on.
- benefits that compensate wholly or partially for the loss of earnings during temporary inability to work due to sickness or injury. Medical care given to a disabled person or a victim of an occupational accident or disease is excluded and included as part of expenditure under these heads.

'Unemployment' covers all forms of cash benefits paid to the unemployed, including, in addition to unemployment benefits and assistance, redundancy payments and special assistance to various groups of workers in cases of interruption or temporary reduction in business activity.

'Placement, vocational guidance and resettlement' covers vocational training allowances, removal grants, job-creation allowances and so on.

'Housing' covers payments made by general government to certain categories of household — especially those with limited means — to help them meet the costs of accommodation.

'Miscellaneous' covers all benefits that can not be classified under other functions, in particular, benefits paid because of a lack of resources. Guaranteed minimum income schemes therefore come under this heading.

EUROSTAT has recently carried out a revision of ESSPROS and has redefined the functional structure, by creating a new health care function to include all medical services and by combining occupational accidents and diseases with 'disability' and 'maternity' with 'family'. In addition, placement, vocational guidance and resettlement will be renamed 'promotion of employment' and will be excluded from the core part of ESSPROS and developed as a separate, but parallel, set of statistics.

For Germany, it is indicated on each graph whether data relate to the whole of Germany (including the new Länder) or to the former West Germany; in most cases, when the figures refer to 1993 or 1994, they relate to the former, when they show changes over time or comparisons between years, they refer to the latter.

PPS: relates to Purchasing Power Standard which is a measure of GDP reflecting the real purchasing power of a currency within the country concerned, providing a better indication than the exchange rate of the volume and structure of goods and services and the relative level of GDP as compared with other Community countries. See *Purchasing power Parities and GDP in real terms, Results 1985*, Eurostat 1985, and *National Accounts ESA, Aggregates*, Eurostat annually.

Chapters 1, 2, 6 and 7: The analysis in these chapters is based on information collected from a network of correspondents in the 15 Member States.

Chapter 4: This chapter is based on *Replacement rates, A transatlantic view*, Central Planning Bureau, the Netherlands.

Chapter 5: The data come from *OECD, Health Data*, Version # 3.6 (1995). The analysis is based partly on *OECD, The Reform of Health Care Systems - A Review of Seventeen OECD Countries, Health Policy Studies No. 5*, Paris 1994, OECD, *Internal Market in the Making - Health Systems in Canada, Iceland and the United Kingdom, Health Policy Studies No. 6*, Paris 1995 and *A.Letourmy/M. Berthod-Wurmser, Effectiveness and regulation of health protection*, in *van Ginneken (ed.), Social Protection in Europe: financing and coverage*, Geneva (ILO).

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