Social protection in Europe 1999

Social security & social integration

Employment & social affairs

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Social protection in Europe 1999 — Executive summary

This is the first report following the European Commission proposal in July 1999 to set up a concerted strategy for modernising social protection (COM(1999) 347), an initiative that should be seen in the context of continuing developments in the political, legal, economic and social framework within which social protection policy operates, both at the Member State and European Union level. Rapid progress towards full economic and monetary union, the concerted employment strategy and Union enlargement have significant implications for social protection and make it increasingly a matter of common concern for Member States and, therefore, a matter for closer cooperation at the European level.

The responsibility for organising and financing social protection lies with Member States. However, the instruments of EU policy coordination and surveillance, such as the broad economic policy guidelines and the stability and growth pact, constitute broad frameworks also for social protection and employment policies by setting targets for budgetary consolidation and providing guidelines for public policies. The new policy-oriented initiative of social policies, which takes into account the changing economic context and the need for overall policy coordination, aims at strengthening the cooperation in this area in parallel with, and complementary to, the employment process. The 1999 communication identified four broad objectives to which social protection systems should respond, i.e.:

— to make work pay and provide secure income;

— to make pensions safe and pension systems sustainable;

— to promote social inclusion; and

— to ensure high quality and sustainable health care.

Within the overall framework, a new social protection report will assume a key role in monitoring recent developments and thereby in assisting Member States in policy deliberations. In order to be able to keep track of the reforms taking place in national systems, the Commission proposes to publish the report annually in future, in a form still to be discussed with Member States. The present report, in consequence, should be seen as an intermediary one. Nevertheless, it focuses on the four broad key objectives mentioned above.

The report reviews recent developments in social protection expenditure and receipts and, as such, updates previous reports. The limitations for policy analysis of the data currently available at the European level, from Esspros (the European System of Integrated Social Protection Statistics) and the new European Community Household Panel (ECHP), are also discussed. The report points to the need for improved and, above all, more timely data if developments in social protection policies are to be analysed properly in the future.

Gender issues are addressed as an important issue which cuts across all four objectives, and the report emphasises the need for social protection systems to respond better to changing gender realities, particularly the need to support increased participation of women in the workforce. The report also examines, for the first time, social protection systems and the main developments in these in recent years in the central and eastern European countries which have applied to join the European Union.

The report, in addition, contains new empirical findings based on results from the first two waves of the ECHP of what men and women actually received in 1993–94 when they were unemployed compared with their take-home pay when they were working. These findings, which aim at contributing to the ongoing debate on the financial disincentives to work, should be interpreted with some caution, compared with evidence from other studies and will need to be further investigated as data from new waves become available for analysis.

To make work pay and provide secure income

A prominent feature of policy across the Union in the past few years has been a widespread re-examination of conditions for benefit payment. As a result, measures have been taken in many Member States to tighten the qualifying conditions for eligibility to benefits and to increase the activation of the unemployed to find a job. Measures have not been confined to unemployment benefits. In particular, changes have also been applied to disability and early retirement schemes, which had come to be used extensively as effective substitutes for unemployment compensation in a number of countries. There have also been extensions of these schemes in the countries with the least generous systems. In order to increase the flexibility between labour force participation and retirement, several countries have increased the scope for more flexible retirement, such as through part-time retirement schemes. Changes in benefit systems have also been combined in some countries with attempts to make work more rewarding financially by introducing measures to increase the net income of those taking up a job, both through allowing them to continue to receive some support after they begin to work and by extending in-work benefits.

The report examines changes in family-related benefits, one of the major aims of which is to provide both financial and practical support to men and women with children in balancing their professional and family responsibilities. The provision of family-related support facilities is also a necessary complement to active labour market measures. Support services for child care and for people with disabilities or who are elderly and frail are of the utmost importance for improving the income security of people with families, especially women. Availability of child-care support has been increased in recent years in a number of Member States, especially in those where it has been limited, while parental leave entitlement has been raised throughout the Union, which is particularly important to enable people with young children to pursue working careers and to facilitate the new gender balance in the labour market.

To make pensions safe and pension systems sustainable

The significant growth in the number of people above retirement age in all Member States in 10 to 15 years time has focused attention everywhere on the consequences of this for old-age pension systems. A new balance is being sought between the aim of providing sufficient and safe income to the elderly and that of making systems sustainable. While the measures introduced differ in detail, in practice their common emphasis is on limiting the future transfers which will be necessary, particularly those which governments are responsible for, or increasing the finance available. They include increasing the official age of retirement or the number of years of contributions required to qualify for a full pension, reducing the pension paid in relation to past earnings, or relating it more closely to contributions, and creating special funds to finance future transfers. The latter amounts to adding beside existing 'pay-as-you-go' systems, where present payments are financed from present contributions, 'funded' ones where present contributions are fixed in relation to future liabilities.

To promote social inclusion

A major feature of social policy in recent years has been the emphasis on active and preventive measures, as well as adapting social benefit systems to make work pay, designed to get men and women into work. This has been motivated, on the one hand, by the aim of increasing the numbers contributing to the generation of income rather than being supported by that produced by others, and on the other hand, by the aim of reducing dependency and social exclusion. Although the main emphasis is on employment, since it is recognised that having a stable job is an important condition for social inclusion, it is also recognised that there are other aspects to be addressed if social exclusion is to be tackled effectively. These include access to education and vocational training, decent housing and sufficient levels of health care and social services. In several countries, recent measures have actually been taken to ensure better access to health care to low income households. In practice, despite the emphasis on active measures throughout the 1990s, there has been relatively little shift in actual spending from passive to active measures. The amount spent on active programmes per person unemployed was the same in 1998 in relation to GDP as in 1994 and less than in 1990. This indicates that there is still scope to extend opportunities to benefit from active measures, especially towards the most disadvantaged groups.

To ensure high quality and sustainable health care

The pressure on social protection systems across the Union has manifested itself in a growing need for health care, reinforced by the effect of rising real income and advances in the range of treatment which can be provided in pushing up demand, and so putting substantial upward pressure on expenditure. The common response of governments has been to seek to limit the growth of spending and its effect on public budgets, whilst seeking to maintain the quality of service and access to care. This has naturally led to a focus on ways of increasing productivity or improving cost effectiveness.

All European social protection systems have to fulfil common broad objectives. They also face common challenges and need to be reformed to adjust to them. This report is a contribution to support the exchange of experiences and the ongoing debates on modernising and improving social protection systems, and thus complements the recent 1999 *Employment in Europe* report. The new political, legal and economic developments at EU level have increased the need for economic and structural policies to interact and reinforce one another in order to support the European social model. In this framework, social protection systems, together with employment policies, should act as key productive elements in order to support economic progress, a high level of social protection and to maintain social cohesion.

Social protection in Europe 1999

The European Commission has launched a new initiative in relation to social protection by suggesting 'a concerted strategy for modernising social protection' (1). Systems of social protection throughout the Union are undergoing a process of change in response to the major demographic, economic and social developments which have occurred in recent years in all Member States. These pose new challenges to governments in meeting the twin objectives of providing an extensive and high level of assistance to people in need of support and of ensuring that their economies remain competitive and capable of generating sustained, and sustainable, improvements in living standards and a high rate of net job creation.

There is a variety of reasons for the Commission to launch a new initiative now: the completion of EMU through the establishment of a single currency, including the requirements for budgetary discipline and sound public finances, the entering into force of the Amsterdam Treaty, putting the European employment strategy and the fight against social exclusion on a new legal basis, and the intensive preparations for Union enlargement. These change the political, legal, economic and social framework within which social protection policy operates at both Member State and Union level and mean that developments in systems are a matter of common concern, requiring closer cooperation between Member States.

The aim of this new, policy-oriented, initiative is to strengthen cooperation in this area in parallel with, and complementary to, the process in respect of employment. Policies on social protection are a key adjunct to the European employment strategy and a major means of helping Member States to pursue the measures set out in the employment guidelines which are the practical manifestation of the strategy. A number of the 1999 guidelines entail, either explicitly or implicitly, changes to systems of social protection and the Commission's proposals for the guidelines for 2000 retain or reinforce this approach.

The communication identifies four key objectives, designed both to secure a high level of social protection which people in the Union can count on when they are in need and to reinforce the economic and employment strategy. They are:

— to make work pay and provide secure income;

— to make pensions safe and pension systems sustainable;

— to promote social inclusion; and

— to ensure high quality and sustainable health care.

The present report focuses on changes in systems of social protection which have either been made in the past two or three years or which are in the process of being introduced, in the light of these broad objectives, and which are central to the modernisation of social protection systems. As such, it updates the analysis contained in the previous three *Social protection in Europe* reports (for 1993, 1995 and 1997).

At the same time, the report devotes some attention to financial aspects, such as the level, growth and structure of expenditure on social protection, the different sources of revenue and the interlinkages between financing social protection and employment policy, as well as the level of benefits and incentives to work.

Gender issues, as made clear in the communication, cut across all four objectives, and the present report emphasises the need for social pro-

(1) 'A concerted strategy for modernising social protection' (COM(1999) 347).

tection systems to respond better to changing gender realities, particularly the need to support the participation of women in the workforce. In addition, the report, for the first time, examines social protection systems in central and eastern European countries (CEECs) and recent developments in these.

Outline of the report

The present report summarises the main findings of the full 'Report of the Commission services'.

The report first examines the principal demographic, economic and social developments which shape both the context within which social protection systems operate across the EU and the demands made upon them (Chapter 1 of the full report).

Secondly, it analyses the scale of expenditure on social protection in the different Member States, its composition and the changes which have occurred over the 1990s (Chapter 3 of the full report).

Thirdly, it examines the relative importance of different sources of finance for spending and the extent to which they have altered during this period (Chapter 3 of the full report).

Fourthly, it reviews more largely the changes which have been made to systems of social protection across the Union over the past two or three years in relation to the key objectives set out in the Commission communication. It focuses, in particular, on those which are designed to support the employment strategy, to reduce the number of people dependent on benefits and to expand the number in work. It also examines the evidence on the level of unemployment benefits relative to earnings from work and assesses the extent of any financial disincentive which this may create for those not actively looking for a job (in Chapters 2 and 4 of the full report).

Fifthly, it gives an overview of developments in social protection systems in candidate CEECs, drawing on recently completed studies carried out under the PHARE consensus programme (Chapter 5 of the full report.)

1. The changing context of social protection systems

The major demographic, economic and social changes over the past 20 to 25 years across the Union have had profound implications for social protection systems and will continue to do so in future years. Four major trends are of particular importance: the ageing of the population in all Member States and the prospective increase in the rate of growth in the number of elderly people from 2010 onwards; the growing participation of women in the labour force and the changing gender balance; the persistence of long-term unemployment, especially among older workers, and the trend towards earlier retirement; and the increase in the number of households in relation to the growth of population, with the rise of people living on their own and of households with no one in work.

These trends, moreover, are occurring in a context of increasing globalisation and a faster pace of technical advance, which have accelerated the speed of structural change in the economy, put greater pressure on businesses and workers alike to adapt to changing market circumstances and new methods of working, and reduced the ability of governments to manage economic developments. At the same time, they have increased the importance of securing financial stability and have, therefore, limited the scale of government borrowing and constrained the growth of public expenditure. Public policies are directly affected by fiscal consolidation required by the stability and growth pact, as well as by the broad economic policy guidelines which provide a framework for reforming public policies in line with broader objectives, in particular, in support of employment and job creation. These evolutions have concentrated policy attention on social protection, which represents a large component of overall spending.

Demographic trends: the implications of an ageing population

The growth in the number of people of 65 and over is set to accelerate over the next 10 to 15 years as the post-war baby boom generation reaches its late sixties, so imposing increased pressure on pension systems. At the same time, the even larger expansion in the number of people of 75 and over will increase demand for long-term care markedly, just when increased female participation in the workforce is also likely to reduce the available pool of unpaid family carers.

Whereas, at present, there is on average in the Union, one person aged 65 or over for every four people of working age (the old-age dependency ratio), this is projected to rise to just under one in three by 2020 and to almost one in two by 2040. In contrast to the past, this growth in the old-age dependency ratio is unlikely to be offset very much by the continued decline in the number of children and young people under 15, which is forecast to decline more slowly than the number of people of working age. The overall dependency ratio, which has fallen slightly in the Union over the past 20 years, is projected to recover by 2010 and then increase markedly, from its present ratio of 5 people aged under 15 or 65 and over per 10 of working age, to 6 per 10 by 2025 and 7 per 10 by 2040.

These prospective increases in dependency ratios, which are the conventional way of assessing the implications of demographic trends, are liable, however, to give a misleading impression of the scale of the problem which they pose for systems of social protection and of the most appropriate policy response to them. So far, attention in most Member States has focused on curbing the growth of pension commitments and trying to ensure that there will be sufficient funds available to effect the transfers involved. While this is important, it is equally important to take account of the fact that a large proportion of people of working age are not, in practice, in employment and, therefore, play no role in generating the income from which pensions for those in retirement have to come. Instead, they rely, like those of 65 and over, on support from those who are working. In other words, any assessment of the prospective difficulties of funding social transfers in future years has to distinguish between the potential workforce — those aged 15 to 64 — and the actual people in employment.

In 1998, only just over 60 % of the working-age population were in paid employment. The rest were either unemployed (around 7 %) or (the great majority) not in the labour force at all, most of them women but around a third of them men. Among men, a major cause is early retirement; among women, other factors are also important such as earlier barriers to female participation and caring obligations. In consequence, the effective dependency ratio — the number of people aged 15 and over not in work — was substantially higher than the conventional ratio cited above, even if children under 15 are left out of account. In fact, slightly more people in the Union of 15 and over are not in employment than those who are, and over 60 % of them are under 65. This ratio was much the same in 1998 as in the mid-1980s, as the fall in unemployment and rise in women's participation has more than offset the increased number aged 65 and over. If the decline in the number of children is also taken into account, it means that the overall effective dependency ratio (everyone not in work, including those under 15, rela-tive to those employed) fell over this period.

This illustrates the potentially misleading impression gained by focusing solely on the old-age dependency ratio and demonstrates the importance of taking due account of the number of people in employment which will be critical to overcoming the problems created by supporting an ageing population. In other words, the success of economies in effecting the transfers which will be necessary to ensure a decent standard of living for those of 65 and over ultimately depends on their success in increasing the proportion of people of working-age actually in work and, therefore, on their performance in creating jobs and wealth.

Participation of women in the workforce

One of the main features of social change in the Union over the past two decades has been the increase in the relative number of women pursuing working careers. In practice, women account for all, or nearly all, of the expansion in jobs which has occurred over this period in all Member States.

The biggest increase in participation has been among women of child-bearing age, but there remain substantial differences in participation rates for this group between Member States, partly explained by differences in underlying labour market conditions. However, the statistics suggest that female participation is related both to marital status, especially in southern countries where participation of married women is much lower than that of non-married ones, and to whether or not women have young children, particularly in northern Member States, where availability of child-care support outside the extended family is decisive.

The effect of the apparent deficiency in child-care support in a number of northern Member States shows up most notably in the much lower rate of participation of single mothers than married mothers. This is particularly the case in the UK and Ireland, where under half of single women aged 25 to 49 with a child under five were in the workforce, much less than anywhere else in the Union and well below the rate of participation of married women in a similar position. There is, therefore, an evident need in many Member States for an extension in the availability of child-care facilities as well as for support arrangements to help women caring for disabled or frail elderly family members.

As well as the increase in the participation of women, the kind of job they do is also important. There is a strong trend across the EU for both sexes towards part-time working as well as towards temporary jobs. Women, who represent the main potential source of future labour force growth, tend to be concentrated in part-time jobs (around 33 % of women in work in 1998 worked part time). Yet many part-time jobs are in effect excluded both from the obligation to pay social contributions and from entitlement to benefit. These developments, therefore, have important implications both for the financing of social protection systems and for the availability of income support.

The information presented in this report emphasises the challenges posed for social protection systems by the need to respond better to the complexity and diversity of gender relations in the modern European social economy. Most systems are still based primarily on a male breadwinner model which does not reflect the new realities: increasing participation of women in the labour force which needs to be further encouraged, more diverse models of child and family care requiring appropriate support, the dependence of a growing number of households on the earnings of women, more diversity in patterns of work for both men and women, a reduction in the effectiveness of derived rights as a means of ensuring support because of the decline in traditional family structures, as a result particularly of the rise in divorce and separation, and widening concern about the persistence of barriers and disincentives to women pursing working careers.

The high level of early retirement and the persistence of long-term unemployment

Inadequate growth of employment in the Union since the mid-1970s has led to both a persistently high level of unemployment and a low rate of participation in the workforce among older people, as well as low participation among women. This poses serious problems for both systems of social protection and labour market policy.

Although the official male retirement age in most Member States is at present 65 or over, there has been a slow but persistent decline in the number of men aged 55 to 59 in the workforce since the mid-1980s and a more marked decline for men aged 60 to 64. In 1998, under 70 % of men and only 40 % of women aged 55 to 59 were economically active. Only 32 % of men, and just 15 % of women aged 60 to 64 were still in the workforce. Reversing the trend towards early retirement among men and increasing the number of older women who are economically active has to be a major aspect of any policy aimed at relieving the pressure on systems of social protection.

Large numbers of older people are also long-term unemployed, a state which often precedes early retirement. In 1998, over 8 million people in the EU had been unemployed for a year or more, some 5 % of the labour force. Over 5 million of these had been out of work for at least two years. These figures are similar to those at the end of the recession of the early 1990s, and not much lower than in the mid-1980s. The high rate of long-term unemployment is a major source of pressure on systems of social protection across the Union, as well as of social exclusion. It is clear, however, that the nature of the problem differs between different parts of the Union, which means, in turn, that the appropriate policies also differ.

The changing structure of households and the growth of those with no one in work

There is a continuing increase in the number of households across the Union, despite the low growth of population, and an even larger increase in the number of people under 65 living alone, a disproportionate number of these being out of work. The decline in the average size of households implies a growing demand for social services since it makes it more difficult to provide care and support from within the family.

In the Union as a whole, just under 25 % of households in 1998 consisted of only one person aged 15 or over, and in some 16 % of these, there was a child under 15, virtually all of them being brought up by lone mothers. Both figures were significantly higher than 12 years earlier. There is, however, a marked difference between the prevalence of single-person households, as in the average household size, between the north and south of the Union. In Finland, Germany, the Netherlands and the UK, some 30 % or more of households consisted of only one person of 15 or over, two to three times the proportion in southern Member States.

People of working age living alone are, moreover, far more likely to be unemployed in the north of the Union than those living with other people. In the Netherlands, Germany, Belgium and the UK, for example, 25 % or more of men aged 15 to 64 who were unemployed lived alone, twice the proportion of those in employment. In the southern Member States, only around 4 % or less of men in this age group who were unemployed lived by themselves, much the same as in the case of those in employment. In most northern countries, moreover, the figure for those unemployed has increased since the mid-1980s as well as during the most recent period when unemployment has been falling.

The relative pressure imposed on systems of social protection by unemployment, or, more generally, by people not being in work, is, therefore, not fully reflected in the figures for unemployment rates. In the south of the Union, high rates of unemployment combined with low levels of labour force participation impose much less pressure than they would in most northern Member States, because of the larger size of households and the support available to most of them from within the family. The trend towards smaller households and more people living alone means, therefore, that falls in unemployment do not necessarily give rise to proportionately lower needs for social and financial support. This is illustrated most forcibly in Belgium and the UK, where lower rates of unemployment have not been accompanied by a corresponding decline in the number of households with no one in work.

2. Trends in social expenditure

In relation to output, overall spending on social protection in the Union, gross of any taxes or charges levied on benefits, amounted to 28½ % of GDP. The level of spending ranged from over 30 % of GDP in France, Belgium, Germany, Netherlands and the three Nordic countries, with Sweden having the highest level at around 35 % of GDP, to 22 to 23 % of GDP in Greece, Spain and Portugal and only 18½ % of GDP in Ireland. In very broad terms, the countries with the highest level of GDP per head tend to spend proportionately more on social expenditure, but the relationship is by no means systematic, with expenditure in Sweden and Finland, in particular, being higher than would be expected on this basis and expenditure in Italy (25 % of GDP) and Ireland being lower.

Net social spending

The figures for expenditure on social protection, gross of taxes and social charges, however, tend to overstate both the cost entailed for governments, in terms of the revenue they need to raise to finance spending, and the value of benefits going to those receiving support. This is because the taxes and social charges which are levied on benefits, and which vary significantly between Member States, reduce the amount of transfers involved. On the other hand, the figures understate the amounts involved, since they exclude the social transfers which are made through tax concessions or reduced contributions which have the same effect on government budgets and the net income of recipients as expenditure on benefits.

Both of these elements are difficult to estimate, which is a major reason for their exclusion up to now from the Esspros database. Nevertheless, estimates produced by OECD, which have to be regarded as preliminary, are at least indicative of the size of the amounts involved. These are relatively large for the Nordic countries and the Netherlands, where charges are levied on benefits to a greater extent than elsewhere. In net terms, therefore, the cost of social protection and the sums received by beneficiaries are reduced in these cases to a level more similar to that in other Member States. In Sweden, net expenditure on social protection is estimated to have amounted to around 30 % of GDP in 1996, much the same as in Germany, and in Denmark and Finland, to 26 to 27 % of GDP, much the same as in the UK and slightly above the level in the Netherlands. As a result, the gap between spending relative to GDP in these countries and that in Italy and Ireland is narrowed considerably.

These preliminary results confirm the importance for policy analysis of extending the Esspros database to include estimates of net expenditure, incorporating the amounts transferred by means of tax concessions and reduced contributions, to give a complete view of the implications of social protection for national budgets and the redistribution. To this end, the Commission, through Eurostat, plans to set up a task force with Member States to develop a special module of the database containing such estimates.

Growth of social expenditure, 1990–96

While spending on social protection has continued to grow in recent years in nearly all parts of the Union, the rate of increase in real terms has slowed down in recent years in most Member States since 1993. This coincides with the end of the recession of the early 1990s, which pushed up expenditure on unemployment benefits in particular, but also on disability and housing benefits.

Whereas social expenditure increased markedly between 1990 and 1993 (from an average of 25½ % of GDP to just over 28½ %), it fell slightly relative to GDP in the following years, partly because of the slowdown or decline in unemployment-related expenditure, but mainly because of a slowdown in real spending in most areas. Only in Portugal, Greece, Germany, Austria, Belgium and Luxembourg did spending continue to rise relative to GDP over the three years 1993 to 1996, in the first two, reflecting the ongoing development of the social following-protection system, in the three, the failure of their economies to recover fully as in most of the rest of the Union. The decline in social expenditure relative to GDP in the rest of the Union was most marked in Sweden, Finland and Netherlands, the three countries with the highest level of spending in 1993.

The pattern of social expenditure

Spending on old-age and survivors' benefits accounts for by far the largest element of social protection, amounting to an average of 43 % of the total spent in the Union in 1996, or to just over 12 % of GDP, with health care the second largest, accounting for just over 21½ % of the total, or just over 6 % of GDP. Outlays on disability and unemployment benefits were of a similar size, each accounting for just over 8 % of total outlays, though in 9 of the 15 Member States in 1996, transfers to people with disabilities exceeded those to the unemployed. Expenditure on the family and children, which covers maternity benefits and childcare support as well as child benefits, is only slightly smaller, on average, than outlays on disability and unemployment benefits, while spending on the other three kinds of benefits — sickness, housing and social exclusion — taken together is much the same size as this, averaging around 7½ % of overall spending in total.

Despite the ageing of the population across the Union, the main change in the pattern of spending on social protection over the period 1990 to 1996 was not, as might be expected, a relative growth of old-age pensions or health care, spending on both of which increased at much the same rate as the total, but other elements of expenditure, in particular disability and housing benefits and social exclusion. Some of this rise is attributable to the recession of the early 1990s and the increase in unemployment which accompanied it, but spending on the first two items has continued to rise relative to that on other elements since 1993. The main item on which expenditure has fallen since 1990 is sickness benefits, which seem to have been a focus for curbs on spending in a number of Member States.

Expenditure relative to beneficiaries

While no information on the number of beneficiaries is included in the Esspros database, some indication of the possible effect of changing numbers on expenditure can be gained by examining other evidence on this — specifically, data on the number of people over the official age of retirement and the number unemployed.

Over the period 1990 to 1996, expenditure on old-age benefits in the Union (including survivors' benefits) increased on average by 3½ % a year in real value terms. The number of people above retirement age went up by 1½ % a year, implying a rise in the average benefit paid per person of 2 % a year, which is broadly in line with the long-term growth of GDP per head. Over this period, however, because of the depressed rate of GDP growth, it meant that average pensions rose by slightly more than GDP per head. Apart from the Netherlands and Greece, where there was a small fall, average pensions in these terms increased in all Member States, most especially in Denmark, the UK (both by 4 % a year) and Portugal (8 % a year).

Spending on unemployment compensation (excluding redundancy compensation and benefits in kind) went up by just under 4 % a year in real terms in the Union in the period 1990 to 1996, less than the increase in the number of unemployed as defined according to International Labour Organisation (ILO) conventions, which rose by just over 5½ % a year. Compensation per person unemployed, measured in these terms, therefore, fell by almost 2 % a year, which may reflect a reduction in the number of unemployed covered rather than a decline in the average benefit paid as such, though it may indicate a tightening in the system of transfers, which would be in line with policy efforts in many Member States over this period. The fall was apparent in most countries and was particularly marked in Spain, Greece, France, Belgium, Germany and Sweden. On the other hand, there was a substantial increase in the implied value of compensation per person unemployed in Ireland, Portugal and the Netherlands.

3. Financing social expenditure

On average social contributions financed some 63 % of the total expenditure for social protection in 1996, though the proportion ranged from two thirds or more in France, Belgium, the Netherlands, Germany, Italy and Spain to just over half in Luxembourg, Sweden and Finland, around 40 % or less in Portugal, the UK and Ireland and only 25 % in Denmark.

Since methods of financing are rooted in the way that systems have developed historically and are linked closely with the way that entitlement to benefits is controlled, they tend to be slow to change. Despite the increasing concern to limit or reduce the charges falling on income from employment, the relative importance of social contributions over the Union as a whole declined only marginally between 1990 and 1996 (from just under 64½ % of the total to just over 63 %). It should be emphasised that while social contributions represent the major part of total taxes on employed labour, there are other taxes accounting for more than one third of this total in the EU.

The reduction in the relative importance of social contributions occurred in the first three years of the period, and after 1993 there was even a small increase in their relative importance. This was also the case as regards employers' contributions, their share of total funding falling from 42 % in 1990 to just under 39½ % in 1993, but remaining at this level over the subsequent three years while revenue from taxes increased from 30 % of the total in 1990 to 33 % in 1993 and then fell to 32 % in 1996. Nevertheless, the share of revenue collected from social contributions changed significantly in a number of Member States over this period, though not uniformly downwards and more in countries where the share was relatively small initially rather than in those where it was large. In Portugal, it declined from 57 % to 43 % over the period and in Ireland and the UK, by some 4 percentage points. On the other hand, social contributions became a more important source of funding in Denmark (where their share rose from 13 % to 25 %) and the Netherlands (from 59 % to 67½ %), as well as, more modestly, in Finland, Belgium and Austria. Overall, therefore, there is little sign of any convergence in the proportion of revenue yielded by contributions over this period.

Since the share of wages and salaries in GDP has tended to fall over the 1990s, particularly since 1993 and the end of the recession, the revenue from contributions has risen significantly in relation to wages and salaries — and therefore labour costs — from an average of 33½ % of labour costs in 1990 to 37 % in 1996, while employers' contributions rose from 21½ % to 23 %.

Nevertheless, since 1996, there is evidence of increased efforts in a number of Member States, especially those where rates of contribution are high, to shift the source of financing of social protection from contributions to taxes, in some cases to 'earmarked' taxes levied specifically to fund certain benefits. This is particularly the case in France, where the CSG *(contribution sociale généralisée)*, introduced as a 'solidarity tax' in 1991 to replace part of the social contributions and extended several times since then, is now higher than income tax. At the same time, the CRDS *(contribution au remboursement de la dette sociale)*, an additional charge levied at a rate of 0.5 % on income and, introduced in 1995 to contribute to reducing the deficit of the social protection system, has been extended until 2014, while the tax levied on tobacco for a similar reason has been increased.

As a consequence of this shift, social contributions have declined as a source of revenue since 1996 whereas earmarked taxes have increased, accounting in 1998 for more than

15 % of total funding for social protection in France. Similarly, in Belgium, employers' contributions have recently been reduced, while in Germany, the contribution rate for pensions was reduced in 1999 and a proposed 'ecological tax reform' will provide extra finance for social spending. Moreover, in Italy, it is planned to shift the financing of family benefits, including maternity allowances, from contributions to general taxation.

4. Recent changes in policy

The changes in systems of social protection which have occurred in recent years have centred on the same key objectives emphasised in the Commission communication published earlier this year and outlined above. In most cases, the aims have been: to increase the incentive for people not in employment to find jobs if they are capable of working and to support them in their efforts to so, while trying to ensure that those unable to work have a reasonable level of income; to reduce the numbers dependent on State benefits and to encourage and help them to become integrated into society; to seek to safeguard future pensions both by limiting the transfers which will be required and by increasing the finance which will be available to fund them; and to contain the cost of health care whilst improving the standard of service provided.

Through the shift in the emphasis of policy from income support alone to active measures, in line with the employment guidelines, social protection is coming to represent a more important factor in overall economic and employment policy in the Union, supporting rather than obstructing the action taken in other areas.

4.1. Key objective: to make work pay and to provide a secure income

There is a widespread recognition across the Union that systems of social protection need to ensure that people have a financial incentive to look for work, that they do not spend so long out of work that it harms their chances of finding a job and creates an attitude of dependency, and that their employability is enhanced rather than damaged during their spell of unemployment. This has led to efforts to ensure that levels of benefits in relation to prospective earnings do not represent a financial disincentive to find a job and that people are helped to do this through appropriate active measures.

At the same time, benefits still need to provide an acceptable level of income while people look for work. The challenge facing Member States is to set benefit levels and the regulations governing entitlement to them so that these two objectives are achieved simultaneously. In practice, both access of those unemployed to benefits and the amount they get differ significantly between Member States, the main divide in the case of the former being between the north and south of the Union. This seems to be confirmed by a recent empirical study of replacement rates, based on what people actually receive when unemployed as compared with their net earnings when in work, as reported in the first two waves of the European Community Household Panel (ECHP). The results, which relate to 1993 and 1994, are exploratory. They will need to be compared with evidence from other studies and to be further investigated as data from new waves become available for analysis. It should also be kept in mind that it is always difficult to gather high quality information on income and transfers through interviews.

The findings show that in Italy, Greece and Portugal, over half of those in the Union who were unemployed for at least three months over the two years did not receive any unemployment benefit at all and most of these no social assistance either, while in Spain around a quarter received no form of social transfer. In Denmark, Germany and Belgium, by contrast, only 10 % or less of the unemployed received no unemployment benefit and hardly anyone no State support of any kind, the latter being the case also in

France, Ireland and the UK, despite fewer receiving unemployment benefit as such.

The average level of unemployment benefit (including those receiving no benefit at all) varied from almost 80 % of net earnings when the person was working in Ireland and 70 % or above in Germany, Belgium and Denmark to under 25 % in Italy and the UK and under 10 % in Greece, with France (around 60 %), Spain and Portugal (around 35 %) in between. For the UK, in particular, however, these figures understate the amount received because they exclude housing benefits paid to households, which are important in the UK.

These averages give only a very partial indication of the extent of the financial incentive for people unemployed to look for work. A more relevant indicator is the proportion receiving relatively high benefits compared with earnings in employment, though there is no general agreement on what should be regarded as 'high'. In most Member States, for example, only a small proportion of men and women who were unemployed had a replacement rate of 80 % or above. Except in Denmark (27 %), Germany (25 %) and France (24 %) for men, and Denmark (49 %), Germany (21 %), France (30 %), Belgium (23 %) and Ireland (21 %) for women, less than 20 % of unemployed persons had a rate as high as this in all Member States. This proportion was only around 10 % in Spain and well under 10 % in Italy, the UK and in Greece both for men and women. Except in Denmark, over 60 % of men and women either had a replacement rate of under 65 % or did not receive any benefit at all.

This evidence suggests that the financial disincentive to work was relatively weak for a majority of the unemployed in most Member States in 1993–94. This broad conclusion has to be reached with some caution. Further investigation should notably pay attention to specific groups, such as low-paid people, who may face financial incentives to be unemployed or not actively look for work. Furthermore, since 1993–94, the discussion on incentive issues has led several governments to tighten benefit entitlement conditions.

A prominent feature of policy across the Union in the past few years has been a re-examination of benefit entitlement conditions. As a result, measures have been taken in many Member States to tighten the qualifying conditions for eligibility for benefit and to increase the activation of the unemployed to find a job. These measures have not been confined to unemployment benefits but have also been applied to disability benefits and early retirement schemes, which had come to be used as effective substitutes for unemployment compensation in a number of countries.

Changes in benefit systems have also been combined in several countries with attempts to make work more rewarding financially by introducing measures to increase the net income of those taking up a job, both through allowing them to continue to receive some support after they begin to work and by extending in-work benefits.

In-work benefits

This approach has been pushed furthest in the UK, where 'Family credit', aimed at supplementing the net income of people in low-paid jobs with children, was replaced in 1999 by 'Working families' tax credit', guaranteeing all people in employment with dependent families, including lone parents, a higher minimum level of income than before and giving them an allowance towards the costs of child care. In addition, a similar measure has been introduced for people with disabilities and a pilot scheme of the same kind has been launched for people over 50 who are unemployed, with the aim of encouraging them to work.

The only other country in the Union in which in-work benefits are important is Ireland, where 'Family income supplement' has existed for some time and has covered an increased number of people in recent years as qualifying income levels have been raised and the conditions of eligibility and receipt made more favourable. Moreover, recipients of unemployment benefit can now retain their dependent child allowances for 13 weeks after taking up a job to increase their net income and provide an extra incentive to start working.

Elsewhere, in-work benefits have also been introduced in a number of countries to help people make the transition from unemployment into work but equally to encourage them to take part-time or temporary jobs, as in Austria, Germany and Portugal, where the main aim is to help the unemployed gain work experience so as to improve their future employability.

Changes in unemployment compensation schemes

While the changes made to unemployment benefits over the 1990s have concentrated on containing the costs to public budgets, in recent years a wide concern has also been to integrate income support with active labour market measures to a greater extent and to encourage those in receipt of benefit to find a job as soon as possible. In a number of Member States, including Denmark, Germany, the Netherlands and the UK, the definition of what constitutes a suitable job for an unemployed person to take up has been broadened, to encompass jobs which they are capable of doing with a minimum of training rather than merely those they were doing before. Refusal to accept a suitable job after being unemployed for a time or unwillingness to participate in active labour market programmes can lead to loss of benefit.

At the same time, changes have been introduced, or are planned, in a number of countries to improve the safety net provided by unemployment benefit schemes. In Italy, an insurance-based unemployment benefit scheme, with means-tested support after entitlement has expired, is being introduced to provide wider protection than up to now, while in Portugal, the period of entitlement to unemployment benefit has recently been lengthened for people in all age groups.

While the recent focus of policy attention across the Union has been on ensuring that work pays, there are still circumstances in some countries where people may have little financial incentive to be in paid employment. This applies particularly to people, usually women, whose spouse is unemployed and in receipt of means-tested unemployment benefit related to household income, such as in the UK and Belgium. Any additional earnings in these cases are liable to be offset by a loss of benefit. In both the UK and Belgium however, measures have been taken to lower the possible deterrent to working.

Changes in disability benefits

Disability benefits have been used as a more 'acceptable' substitute for unemployment benefits in a number of Member States, especially in respect of the long-term unemployed. As expenditure and the number of claimants have grown, however, there have been widespread moves to try to restrict eligibility to those who are genuinely incapable of working because of their disability. In the Netherlands and the UK, where more people than are unemployed are being supported on benefit, reforms were introduced in the mid-1990s to make medical testing procedures more stringent and to widen the definition of the jobs that the person concerned can potentially do.

In addition, in the Netherlands, some of the onus of policing the system was shifted on to employers from 1998 on, by charging them differential contribution rates according to the risk of their employees becoming claimants, giving them an incentive to reduce the numbers either by dissuasion or by making it easier for people with disabilities to continue working. In the UK, further measures are planned to tighten the qualifying conditions even more, while, as noted above, those moving into employment are now guaranteed a minimum income through a tax credit, though at the same time, benefits to those who are really incapable of working have been raised.

Elsewhere, such as in Austria, Greece and Italy, eligibility for benefit has also been made more restricted, while in Sweden, where spending is comparatively high, the system is in the process of being reformed. In contrast, in Ireland, where spending on disability benefits is relatively low, social assistance disability allowance was extended in 1997 to those in part-time residential care and benefits were increased to couples who both have disabilities.

Early retirement pensions

Along with recipients of disability benefit, the number of people taking early retirement has also risen over the past 15 to 20 years, as noted above, for much the same reason. Indeed, the two are alternative responses to the problem of long-term unemployment, with the UK and the Netherlands, for example, opting to expand disability benefits, while France, Germany and a number of other countries rely more on early retirement. The rising cost has led to requirements for eligibility being tightened in the case of both types of scheme and levels of benefit being reduced in the case of early retirement.

In Denmark, Austria and Italy, the years of contribution required to be eligible for early retirement have been increased, while in Germany, the minimum age for claiming a pension is in the process of being progressively raised (to 63, or 62 if long-term unemployed).

In Luxembourg, however, the possibility of early retirement has been extended, though with the aim of encouraging people to continue working on a part-time basis rather than retiring completely. This is similar to schemes operating in France, Germany, Denmark and Austria, where employees over a certain age can opt to reduce their hours of work progressively until they retire and be compensated by receiving a partial pension. In addition, as in Austria and Germany, employers are entitled to a reduction in social contributions if they take on someone who has been unemployed at the same time.

Family benefits and other arrangements to reconcile work and family

Social protection for families with children has three main aims: to help people bear the additional costs of having children through child benefits or allowances; to support women when they give birth through maternity allowances and entitlement to leave, which is being increasingly extended to both parents; and to provide help with child care and with caring for family members with disabilities or who are elderly and frail. All three are important for improving the income security of people with families, especially women, and helping them reconcile work with their other responsibilities. Child-care support arrangements and the right to leave to take care of children — as well as other members of the family who may need long-term care — are crucial for many women who wish to pursue working careers. This is especially the case for those bringing up children on their own, who are increasingly numerous. As recognised explicitly in the EU employment strategy, women still face special difficulties in gaining access to the job market, advancing their careers and reconciling professional and family life. Under the employment guidelines, Member States have committed themselves to ensuring that women have equal access to labour market measures and job opportunities.

In Germany, child benefits were raised significantly at the beginning of 1999 and are due to be raised again in 2000, along with child tax allowances, so increasing the net income of families. In Luxembourg, support is being targeted more on low-income families through reducing child tax allowances (which tend to favour higher income earners) and increasing child benefits by an equivalent amount. Similarly, in Italy, a new means-tested benefit was introduced in 1999 for all families with more than three children below 18.

The main developments in this area, however, have been aimed at increasing parental leave possibilities, encouraged by the recent Community directive. The entitlement of people with children to take leave has been extended, or is in the process of being extended, in many parts of the Union, including Austria, Luxembourg, Denmark, Belgium, Ireland, the Netherlands, Italy, Spain and the UK.

At the same time, the availability of child-care support has been increased in recent years in a number of Member States, most especially in ones where support has been limited in the past. Support facilities are often a necessary complementary component of active labour market measures to make it possible for many people, especially women, to pursue a working career and to become properly integrated into society. In Spain, tax deductions allowable for child-care costs for children under three were raised significantly in 1998. In Greece, a pilot project has been launched to extend the time children are able to spend in nursery and elementary schools as well as in State day-care centres and in Portugal, the network of nurseries has been expanded. In the Netherlands, from 1999, lone parents looking for a job or undergoing training are entitled to reimbursement of after-(primary) school child-care costs if their income falls below a certain level. In the UK, a new child-care tax credit was introduced in October 1999 for low-income families, including lone parents, while there is an objective to expand the number of out-of-school child-care places.

4.2. Key objective: to make pensions safe and pension systems sustainable

The significant growth in the number of people above retirement age in all Member States in 10 to 15 years time has focused attention everywhere on the consequences for old-age pensions and their funding given that old-age and survivors' benefits already represent 43 % of the total social protection expenditure in the Union, or just over 12 % of GDP. Though the measures introduced differ in detail, they have a common emphasis on limiting the future transfers which will be necessary or increasing the finance available. They include increasing the official age of retirement or the number of years of contributions required to qualify for a full pension, reducing the pension paid in relation to past earnings, or relating it more closely to contributions, and creating special funds to finance future transfers. The latter amounts to adding beside existing 'pay-as-you-go' systems, where present payments are financed from present contributions, 'funded' ones where present contributions are fixed in relation to future liabilities.

In Austria, Italy and Luxembourg, where rules for civil servants' pensions were more favourable, they were reformed to bring them closer to those in the private sector, while in Spain, the basis for calculating pension entitlement is in the process of being progressively extended from salary in the best eight years to that in the best 15 years. In Italy, the highest pensions were frozen for 1998, while in Germany, the basis for indexing pensions has been changed from wage increases to price inflation for both the years 2000 and 2001, so in effect reducing expenditure. On the other hand, the 1999 reform, aimed at a gradual lowering of pensions from 70 % of the average net wage to 64 %, has been suspended until the end of 2000.

In order to increase available finance, the contributions paid by higher and middle income earners in Spain have been increased without compensating rises in future pension entitlement, while in Italy, contributions paid by the temporary self-employed have been raised. In Denmark, contributions were in effect increased from 1998 by incorporating an extraordinary charge of 1 % levied in 1997 into the system for funding supplementary pensions.

In the Netherlands, where a ceiling has been imposed on the rate of contributions, the government has set up a special fund, into which it contributes an amount each year calculated to meet the peak in expenditure in the years after 2020. In France, there is a proposal to increase the contributions required for a full pension from 40 to 42.5 years, and, as in Spain, a fund has been created to consolidate the finance available for pensions. In Ireland, a 'Social welfare pension fund reserve' was set up in 1998, using money from tax revenue and privatisation of telecommunications, to fund the future cost of pensions. The high rate of economic growth, however, has enabled the full rate of social contributions to be reduced and the basic pension to be increased significantly in both 1998 and 1999.

At the same time, measures have been taken in a number of countries, such as Italy, to encourage the development of occupational and personal pensions to relieve the future burden on the State.

Despite the focus in most countries on making pension systems sustainable, improvements have, nevertheless, been made in a number of Member States to the entitlement of disadvantaged groups. In Italy and Spain, minimum or non-contributory pensions were raised. Credit for periods spent looking after children or adults in need of care has been extended in Luxembourg, Germany, Austria and the UK, while people working part time have been accorded increased pension rights in Luxembourg, Germany and Spain, and those with shorter working careers than the norm in Finland.

4.3. Key objective: to promote social inclusion

A major feature of social policy in recent years, as noted above, has been the emphasis on active policy measures designed to get people into work. This has also been motivated by the aim of reducing dependency and social exclusion.

Although the main focus is on employment, since it is recognised that having a stable job, or at least having the option to work, is a major condition for social inclusion, it is also recognised that there are other aspects of exclusion which need equally to be addressed if the problem is to be tackled effectively. These include better access to education and vocational training, to decent housing and to reasonable levels of health care and social services.

In all Member States, governments have committed themselves to preventing exclusion and increasing the effort devoted to active measures, aimed at providing job search assistance, improving employability and, where necessary, direct access to jobs. These measures have been directed primarily at the unemployed, especially the long-term unemployed and young people, but also other disadvantaged groups, such as women returning to work after interrupting their working careers because of caring responsibilities. They have also been aimed at other people out of work, particularly people with disabilities but capable of working, older people who have taken early retirement and lone parents with children.

In the case of young people and the long-term unemployed, following the adoption of the employment guidelines for 1998 and 1999, all Member States have introduced measures to ensure that everyone out of work for more than a certain time (6 months in the case of those under 25 and 12 months for those of 25 or over, though 3 months and 6 months respectively in Sweden, Portugal and Luxembourg) has access to an active measure of some kind or a subsidised job. It has been accompanied by efforts to tailor measures more closely and systematically to individual needs in order to increase their effectiveness. In many countries (such as Belgium, France, Ireland, Finland and the UK), the same kind of approach has been applied to people with disabilities, and conscious efforts have been made to integrate them into active labour market programmes. In the Netherlands and the UK, the same kind of assistance has recently been introduced for lone parents, particularly those with children over five.

In several countries including Belgium, Denmark, Germany, France and the Netherlands, measures regarding job search, career guidance and the provision of training, or retraining, have been supplemented by the significant growth of subsidised jobs or direct job creation schemes. These have been directed, in particular, at the long-term unemployed and others with difficulties finding work.

The activation of measures has extended to those on minimum income schemes, who, in a number of countries, are being encouraged to participate in programmes designed to improve their employability. This is the case in Belgium, for example, where training is now provided for those on minimum income support and in Denmark, where from 1998, receipt of income support has been made dependent on people participating in schemes aimed at increasing their self-reliance. Moreover, in Italy, recipients of the prospective means-tested benefit guaranteeing a minimum level of income who are capable of working will be obliged to participate in a training course.

Efforts to ensure that people are better off when working than when not have been extended from unemployment insurance benefit schemes to minimum income schemes in several Member States. In France, for example, since 1998 the possibility, which already existed, for some means-tested benefits *(allocation de solidarité spécifique, revenu minimum d'insertion)* to top up wages has been increased. The periods over which this is possible have been extended and the levels of income permitted raised. This possibility has also been extended to specific allowances for lone parents and widows *(allocation de parent isolé, allocation d'assurance veuvage)*. Similar steps have also been taken in other countries, such as Belgium, Germany, Ireland, the Netherlands and Denmark, while in Italy, a pilot scheme for a new means-tested benefit to guarantee for the first time a national minimum level of income incorporates an earnings disregard of 25 % so as to maintain a financial incentive to work.

In practice, despite the emphasis on active measures over the 1990s, there has been relatively little shift in actual spending from passive to active measures. According to OECD data on labour market expenditure, the relative increase in spending on active measures in the Union since 1994 and the end of the economic recession has been small and these accounted for the same share of total expenditure in 1998 (just under 37 %) as in 1990. Moreover, the amount spent on active programmes per person unemployed was the same in 1998 in relation to GDP as in 1994 and less than in 1990. This indicates that there is still scope to extend opportunities of benefiting from active measures, especially towards the most disadvantaged groups.

4.4. Key objective: to ensure high quality and sustainable health care

The pressure on systems of social protection across the Union has also manifested itself in a growing need for health care which in 1996 accounted for just over 21½ % of social protection expenditure or 6 % of GDP. This pressure is reinforced by the effect of rising real income and advances in know-how and in the range of treatment in pushing up demand, so putting substantial upward pressure on expenditure. The common response of governments has been to seek to limit the growth of spending and its effect on public budgets, whilst seeking to maintain the quality of service and access to care. This has naturally led to a focus on ways of increasing productivity or improving cost effectiveness.

To this end, governments across the Union have tightened control over overall spending, either directly where there are national health systems or indirectly by limiting contribution rates in the case of insurance-based systems. At the same time, in many countries with national health services (Spain, Italy, Sweden, the UK and Ireland), more responsibility for managing services and determining the allocation of budgets has been devolved to the regional or local level, where needs can be more closely assessed. In addition, there has been a widespread tendency to extend co-payment for drugs and treatment, increasing the cost borne directly by consumers to encourage them to economise on their use of the service as well as to provide additional finance. This has gone along with the establishment of approved lists of drugs and the introduction of generic medications to limit the cost of prescriptions.

In some Member States, however, there has been a reaction to continuous increases in charges left to patients. In Sweden, in particular, where these were raised markedly during the 1990s, there has been growing concern that low income households, especially those with children, might forgo treatment to the detriment of their health. Charges for children were, therefore, abolished in 1998, leading to counter-concerns about possible excessive demands on the service and cutbacks in other public services to compensate for the reduced funding. The response has been to transfer more earmarked revenue to the local authorities responsible for the provision of services and to propose shifting resources from defence to health care. In France, because of concerns about access to health care, basic health-care insurance is to be extended to everyone and complementary health insurance is to be provided free to low income households, or to some 6 million individuals. In Luxembourg and Belgium, measures have also been taken to ease access to health care and to lower charges for poorer households, while in Spain, all foreigners, legal and illegal, are to be granted access to health care on an equal footing with nationals.

In the Netherlands, a 20 % charge on all treatment and drugs, except visits to hospitals and GPs, levied in order to encourage people to use services more prudently, was withdrawn at the beginning of 1999 because it seems to have had little effect on dampening demand while involving heavy administrative costs. In Germany, where expenditure on health care is among the highest in the Union, a number of measures introduced to increase the cost of treatment falling on patients were withdrawn or suspended at the beginning of 1999, but ceilings on doctors' fees were maintained. Proposals under discussion, designed to contain cost increases and keep down contribution rates, include limiting patients' freedom of choice over provision, restricting the drugs that can be prescribed and imposing ceilings on expenditure of general practitioners, leading to claims that doctors might refuse to treat elderly or chronically ill patients because of the cost.

The share of private expenditure in total expenditure on health care in the Union has increased slightly over the 1990s, according to OECD data, from 22 % in 1990 to almost 24 % in 1997, so adding just over 30 % to the outlays included as part of social protection. The importance of private spending on health care varies markedly between Member States, from 40 % of total spending in Portugal and 30 % in Italy to around 15 % in Sweden, the UK, Belgium and Denmark and only 8 % in Luxembourg. In countries such as Italy, Finland and Sweden, constraints on public health expenditure seem to have led to a growth of private provision between 1990 and 1997 — directly as well as indirectly, since the increased use of co-financing was one of the ways of achieving a reduction in public spending.

5. Data issues

Wherever possible the analysis in this report is based on quantitative information about the scale of spending on social protection and on particular types of benefit, and about the sources of finance and recent changes. This is important in order to present an objective view of developments and the factors underlying these and so help to improve understanding of the changes occurring across the Union and of their implications, not only for economic policy and government budgets, but also for social issues, such as the relief of poverty and social deprivation.

Nevertheless, the quantitative analysis which it is possible to undertake in this area is limited by the availability of data. The new Esspros database of social protection expenditure and receipts, which Eurostat has compiled in recent years on a more coherent and satisfactory basis of classification, and the recently established European Community Household Panel (ECHP) surveys provide an invaluable insight into the features of social protection systems across the Union and into the developments taking place. There are, however, still important gaps in coverage.

In particular, apart from problems of comparability in certain areas, the Esspros data do not as yet include details of the social transfers delivered through tax concessions rather than benefits or of the taxes and charges levied on benefit payments which reduce both the net income paid to recipients and the cost to governments of funding the transfers entailed. Nor do they include details of the number of people receiving benefits and, equally importantly, of those who do not, which makes it difficult to say anything about the effectiveness of systems in providing support to those in need or about the average amounts they receive. The lack of data on beneficiaries is in the process of being rectified for the unemployment function at least, by the development of a labour market policy module of Esspros.

The ECHP represents an alternative means of examining these kinds of issue since it provides information about income and the various sources of this, as well as about the personal circumstances of the individuals covered, including their employment status, and details of the households in which they live. The main problem with the panel, however, is that it is a small sample, comprising some 60 000 households across the Union as a whole and less than 200 000 people, which may bring risks of representativeness where small groups of people are concerned. This restricts the analysis which can be undertaken, especially in areas of social protection which apply to only a small minority of the population.

Moreover, there are serious delays in data becoming available, which limits the usefulness of both sources as tools for monitoring changes. The data available being analysed relate, at a minimum, to the situation around three years previously, time enough for significant changes to have occurred. While both are relatively new sources of data, which explains some of the delay, it is important that they become available on a more timely basis if they are to fulfil their full potential as tools for policy analysis.

6. Social protection in the candidate countries of central and eastern Europe

There is widespread interest in the way that social protection systems are developing in the candidate countries of central and eastern Europe (CEECs) that have applied to join the European Union, which is likely to increase as their accession draws closer [1]. The significance of the current enlargement – the largest yet in terms of people – is one of the factors affecting the future of social protection policy in the EU identified in the recent Commission communication 'A concerted strategy for modernising social protection'.

A strategy of the kind the communication proposes and the challenges to which it is a response are not the sole province of the present 15 Member States. New countries joining the EU must embrace the full *acquis* or body of agreements, commitments and policies that Member States have in common and which they are developing together. In relation to social protection, this means both the binding directives and regulations in force at the time and the common principles or values to which Member States subscribe in ensuring that their systems are geared to tackle emerging problems and to take advantage of new opportunities. Underlying this is the notion that well-designed and responsive systems of social protection have a fundamental role to play in supporting economic policy and improving economic performance. Further shared ideas and ideals may well emerge during the course of Member State deliberations on the agenda proposed in the communication, though it is important in all this not to forget that, while Member States may share a common vision of the purpose of social protection and the broad way it should evolve, they have total freedom to decide the specific changes they make and the new measures they introduce.

The four objectives set out in the communication also offer a way of articulating what social protection systems in candidate countries must achieve in way of securing the economic, social and political stability necessary to ensure the fullest gains from participation in the internal market and EMU. Enabling men and women to make a secure living through working, mitigating the effects on them when they cannot, guaranteeing a safe and decent income during retirement and ensuring access for all to quality heath care and the essentials of life can only strengthen political stability and support for enlargement. The benefits they bring to individual lives will also translate into benefits for the economies of the countries concerned. Ensuring sustainable funding for social protection, not least for health care and pensions, will be essential under the economic discipline associated with EMU. It is also essential that social protection systems are efficient and effective, which means putting in place appropriate administrative structures. This is a key aim in the EU's approach to supporting candidate countries in their preparations, helping them strengthen the administration needed for implementation, through, for example, training and sharing experience.

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[1] Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

Chapter 1: Changing context of social protection systems: demographic, social and labour market changes

The concern of this chapter is to document the main demographic, social and economic developments across the Union which define the context in which social protection systems have to operate and the needs to which they have to respond. As indicated in the last report *(Social protection in Europe 1997,* Chapter 1), the four major trends which are common to most parts of the Union are:

- the significant growth in the number of people of 65 and over, which is set to accelerate over the next 10 to 15 years as the post-war baby boom generation reaches this age, and the even larger expansion in the number of people of 75 and over, who tend to impose greater demands on pension systems, health care and social services. At the same time, the even larger expansion in the number of people of 75 and over is set to increase the demand for long-term care markedly, at a time when increased female participation in the workforce is also likely to reduce the available pool of unpaid family carers. This is coupled with a prospective decline in the number of people of working age, from whom the labour force to generate the income necessary to support those who have retired from the workforce is drawn, which is a result of a falling birth rate over many years;

- the continuous increase in unemployment and decrease in participation rates in the Union since the mid-1970s is reflected by both a persistently high level of unemployment and a low rate of participation in the workforce, especially among women generally and among men approaching retirement age. Moreover, a large number of those who have become unemployed have remained out of work for some time in most Member States, posing serious problems both for systems of social protection and labour market policy;

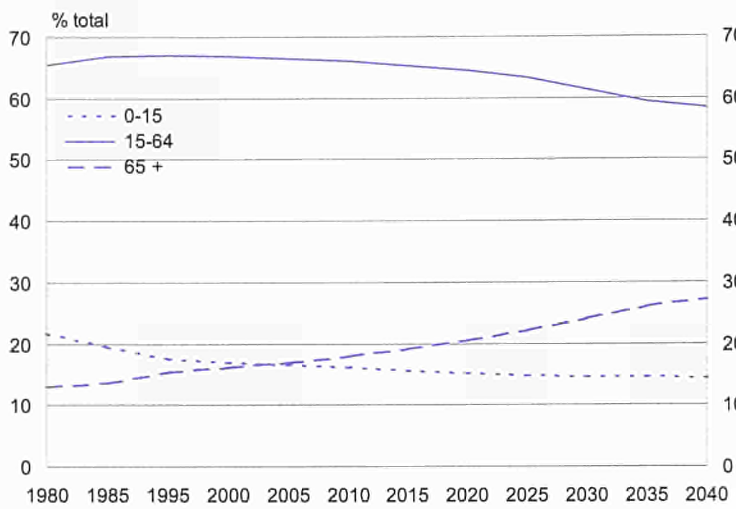
- the changing gender balance and the growing numbers of women pursuing working careers, despite the difficulties of finding employment, which has been accompanied by an increasing demand for support services, both for child care and the care of people with disabilities as well as the elderly infirm. This puts gender issues and the importance of ensuring equality of opportunity for men and women at the forefront of the challenges facing systems of social protection across the Union;

- the increase in the number of households, despite the slow growth of population, and the consequent decline in the average size of these, which has been associated with the break-up of the traditional extended family and with a growing number of people living alone. This has made it more difficult to provide care and support from within the family and increased the importance of the availability of income and other support for people who are not in paid employment.

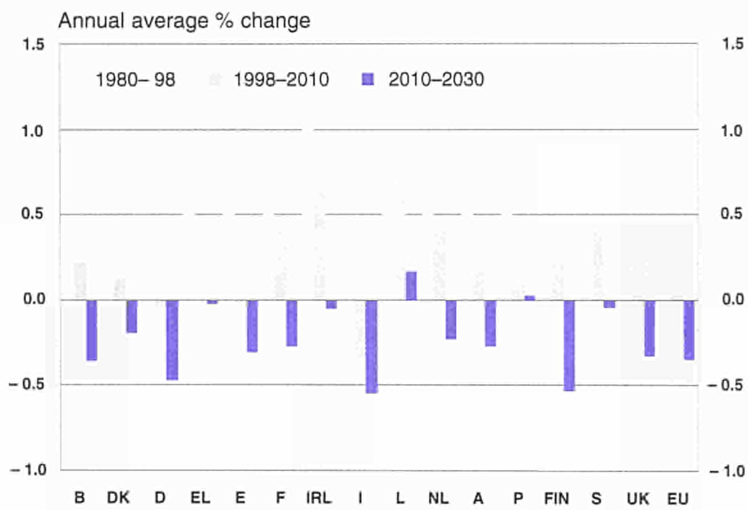
The aim here is to update the analysis in the 1997 report and to extend it in several ways. In particular, it examines the projections of population beyond the next 20 years, since the reform of pension systems which is now under way in a number of Member States, and which is being considered in others, has to take account of the position in 40 years time or so when those entering the labour force now retire. It shows that, in practice, the underlying cause of prospective problems of funding social protection systems is not so much the growth in the number of people above retirement age in future years, but the combination of this growth with a declining number of people of working age who will need to provide the finance.

Accordingly, this serves to focus attention on the relative number of those of working age in employment and contributing to income generation and, more particularly, the counterpart of this, which is the significant number in this age group who are not in paid work, who are not helping to fund social transfers but, who, in many cases, are

1. Population growth in the Union, 1980–2040



2. Growth of working-age population in Member States, 1980–2030



adding to the need for these. These include not only the unemployed actively seeking work but many more, especially women, who are not part of the labour force at all. These two groups are substantially more numerous than those above the age of retirement on whom policy attention has tended to focus. Expanding the number of these who are in work would help to alleviate the future problem of funding social protection systems at least as much as, if not more than, the reform of pension arrangements per se.

Demographic trends

As indicated in the 1997 report, the proportion of the population in the Union aged 65 and over is increasing while the share of young people under 15 is declining. In between, the number of people of working age has risen slightly faster than total population over the past 20 years or so but is set to fall over the next 20 years while total population continues to grow, if only very slowly. Beyond that, it is projected, on intermediate assumptions about birth and death rates and migration flows, to decline more sharply, so that by 2040, it will represent only around 58 % of total population as against 67 % at the present time (Graph 1; the figures for future years are derived from the Eurostat base projection of population by age group up to 2050, which is an intermediate one, assuming the broad continuation of recent trends, with a further increase in life-expectancy, a slow recovery in fertility rates and a modest decline in net inward migration).

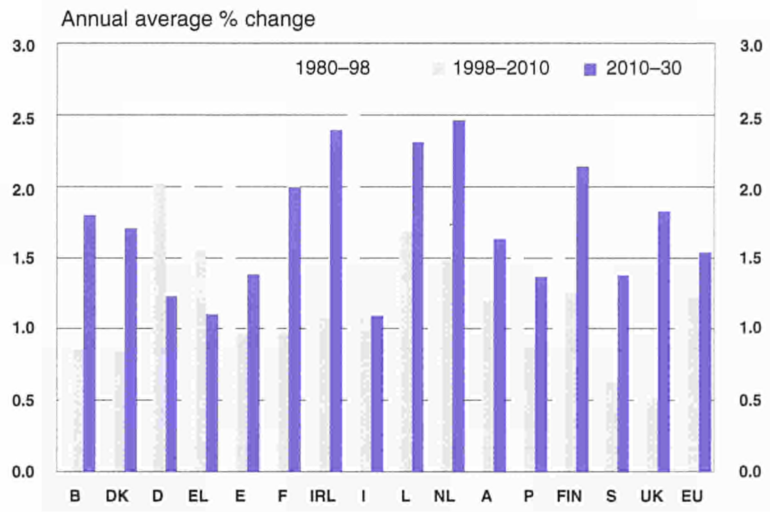
By contrast the number of people aged 65 and over has risen much faster than total population over the past 20 years and will go on doing so in the future, even though the rate of growth is projected to slow down slightly over the next 20 years (from just over 1½ % a year to just under). Working-age population, however, is forecast to begin to fall from around 2010 on. After 2020, it will decline by around ½ % a year or more, a reduction of 1 % a year as compared with the average over the past 20 years.

The ratio of people of 65 and over to those of working age — the so-called old-age dependency ratio — is, therefore, set to rise markedly. At present, it amounts to just under one in four. By 2020, it is projected to rise to just under one in three and by 2040, to almost one in two. Whereas in the past, as noted further below, this has been offset in some degree by a decline in the relative number of children and young people under 15, this is likely to be much less the case in future years. Since 1980, their number has fallen from 21½ % of population to around 17 %, a slightly larger fall than the increase in the proportion of people of 65 and over. Over the next 15 years, their share is projected to decline by another 1½ percentage points, about half the rise in the share of the elderly. Over the 25 years following that, it is forecast to fall by only around 1 percentage point, only a fraction of the steep rise in the relative number of people of 65 and over.

The average age of those of 65 and over is also set to increase, with the proportion of these aged 75 and over rising from 43 % at present to 47 % in 10 years time, the number of people in this age group growing by almost 2 % a year over this period and over the longer term. In 40 years time, well over half of those aged 65 and over will be in this older age group and these will account for 14 % of the total population in the EU. This has implications for the likely need for both health care and long-term care. Although more people are living into old age, there is little evidence that their demands on health services are declining. Indeed, with increasing technology and advances in medical knowhow, the life-threatening conditions which can be treated have expanded considerably. This is also the case in respect of long-term care and the demands on social services, which do not seem to be diminishing even though the need for care may be occurring at an older age than previously. (See *Ageing and care for frail elderly persons: an overview of international perspectives*, Occasional Papers, No 38, OECD, which reports some increase in 'disability-free life expectancy' in a number of countries, though mainly in respect of severe disability rather than for lesser forms of incapacity which still give rise to the need for caring.)

Although the population is ageing in all Member States and the relative number of people of 65 and over is growing everywhere, the rate at which this is occurring varies across the Union. In the south of the Union, especially in Greece, Spain and Italy, the growth in the number of people of 65 and over has far outstripped the growth in working-age population over the past 20 years (Graphs 2 and 3). Whereas the number of those of 65 and over has risen by 2 to 2½ % a year over this period, the number of people of working age has increased by only around ½ % a year (in Italy, the gap between the two was over 2 percentage points). As a result, the old-age dependency ratio has gone up from one in six to just over one in four in Italy over this period and by only slightly less in the other two countries (Table 1 and Graph 4). In Portugal and Finland, the population of 65 and over

3. Growth of population over 65 in Member States, 1980–2030



4. Population below 15 and over 65 in relation to working-age population in Member States, 1980–2040

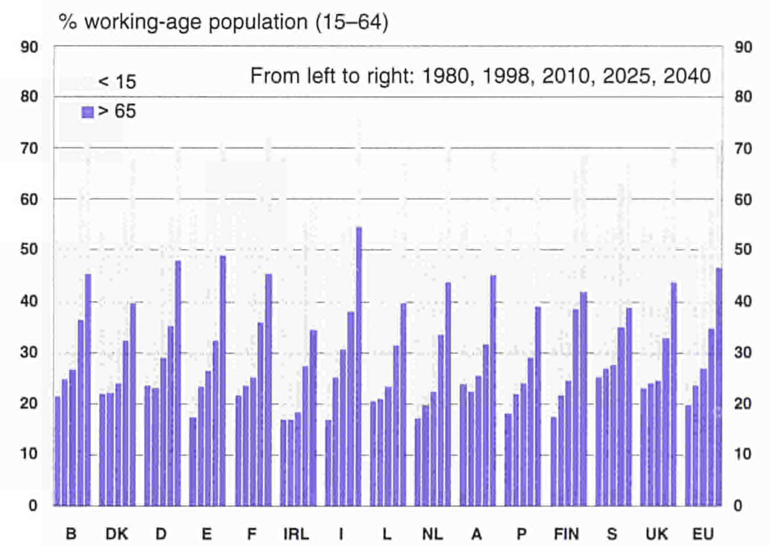


Table 1
Population below 15 and over 65 in relation to working-age population in Member States, 1980–2040

% working-age population (15–64)

		1980	1998	2010	2025	2040
B	< 15	30.6	27.0	25.2	25.8	26.7
	> 65	21.7	24.9	26.9	36.6	45.5
	< 15 + > 65	52.3	51.9	52.0	62.4	72.2
DK	< 15	32.2	26.8	27.3	25.2	28.0
	> 65	22.2	22.3	24.3	32.4	39.9
	< 15 + > 65	54.4	49.1	51.6	57.6	67.9
D	< 15	28.0	23.3	22.0	21.4	22.3
	> 65	23.7	23.2	29.2	35.3	48.2
	< 15 + > 65	51.7	46.5	51.2	56.7	70.5
E	< 15	41.0	23.0	23.9	20.4	22.3
	> 65	17.5	23.6	26.5	32.6	49.2
	< 15 + > 65	58.4	46.5	50.3	53.0	71.5
F	< 15	35.1	28.9	26.6	26.4	26.7
	> 65	21.8	23.8	25.5	36.2	45.6
	< 15 + > 65	56.9	52.8	52.1	62.6	72.3
IRL	< 15	51.4	34.1	28.7	28.1	25.1
	> 65	17.0	17.1	18.5	27.5	34.6
	< 15 + > 65	68.4	51.2	47.2	55.6	59.7
I	< 15	34.5	21.6	22.9	20.0	22.7
	> 65	17.1	25.5	31.0	38.1	54.9
	< 15 + > 65	51.6	47.1	53.8	58.1	77.6
L	< 15	27.8	28.1	26.5	26.1	27.5
	> 65	20.7	21.2	23.5	31.5	39.9
	< 15 + > 65	48.5	49.4	49.9	57.6	67.4
NL	< 15	33.7	27.1	26.1	25.2	27.8
	> 65	17.3	19.8	22.5	33.7	44.0
	< 15 + > 65	51.1	47.0	48.7	58.9	71.8
A	< 15	31.8	25.5	23.6	22.6	24.0
	> 65	23.9	22.7	25.6	31.9	45.3
	< 15 + > 65	55.8	48.2	49.2	54.4	69.3
P	< 15	41.0	25.2	26.4	23.8	25.4
	> 65	18.2	22.2	24.3	29.2	39.2
	< 15 + > 65	59.2	47.4	50.7	53.0	64.6
FIN	< 15	30.0	28.2	25.6	26.8	26.5
	> 65	17.7	21.8	24.7	38.8	42.1
	< 15 + > 65	47.6	49.9	50.2	65.6	68.6
S	< 15	30.6	29.8	26.7	28.3	28.3
	> 65	25.4	27.1	27.9	35.2	39.1
	< 15 + > 65	55.9	56.9	54.6	63.5	67.3
UK	< 15	32.8	29.6	25.7	25.7	26.5
	> 65	23.2	24.1	24.7	32.9	43.8
	< 15 + > 65	56.0	53.8	50.3	58.7	70.3
EU	< 15	33.0	25.4	24.5	23.4	24.7
	> 65	19.9	23.7	27.0	34.8	46.7
	< 15 + > 65	52.9	49.1	51.5	58.2	71.4

grew by over 1½ % a year, over 1 percentage point more than the growth in the number aged 15 to 64, while in Belgium and the Netherlands, the gap was just under 1 percentage point.

In the rest of the Union, however, the number of people of 65 and over increased by less — in most cases, by under 1 % a year — and the growth rates of the two population groups was much closer (½ percentage point a year or less). Indeed in Denmark, Germany and Ireland, the number in the two groups rose at much the same rate, and in Austria, the population of working age went up by more than the relatively small rise in that of 65 and over (partly because of net immigration from central and eastern Europe). In these Member States, therefore, there has been little if any rise in the old-age dependency ratio over the past 20 years. In consequence, the pressure on social protection systems has been considerably less than in the other countries, and in the three southern Member States in particular, especially since for the most part the systems are funded on a pay-as-you-go basis (i.e. with present expenditure being financed from current receipts, instead of from past contributions).

Over the next 10 years, the average rate of growth in population aged 65 and over in the four southern Member States, where it has greatly exceeded the growth of working-age population in the past, is projected to slow down appreciably — to around 1½ % a year in Greece and just under in Italy (in each case, still more than in most other countries) and to under 1 % a year in Spain and Portugal. In six of the other Member States, growth is also forecast to slow down, though only a little, and in Sweden and the UK, it will remain at only around

½ % a year. On the other hand, in Denmark, Germany, Austria, the Netherlands and Luxembourg, it is projected to be higher in this decade than in the previous two, especially in Germany, where it is expected to average around 2 % a year, more than anywhere else in the Union, though in the Netherlands and Luxembourg, the average is forecast to be close to 1½ % a year.

Nevertheless, any easing of pressure on social protection systems in countries where the number of people of 65 and over rises less rapidly is likely to be offset by much lower growth in the population of working age. Indeed, in Germany and Italy, in both of which the growth in the older age group is projected to be particularly high, the number of people of working age is forecast to decline. Only in Belgium, Luxembourg, Sweden and the UK, is growth of working-age population forecast to be higher, if only very slightly, than over the preceding 20 years.

In the latter countries, this, coupled with the slow growth of population aged 65 and over, means that there is likely to be relatively little increase in the dependency ratio over the next 10 years, as in the past (under 1 percentage point). In France and Ireland, growth of working population of around ½ % a year is also projected to moderate the rise in the dependency ratio. Elsewhere in the Union, however, the dependency ratio is projected to increase significantly (by over 2 percentage points), especially in Germany, Italy and Greece (by 5 to 6 percentage points). In each of these three countries, those aged 65 and over are expected to total around 30 % of those aged 15 to 64 by 2010.

Over the 15 years after this, from 2010 on, the growth in the number of people of 65 and over is projected to slow down in Germany, Italy and Greece to around 1 % a year. Everywhere else in the Union, however, it is forecast to accelerate, in most cases, substantially. Only in Austria, Spain and Portugal is the growth rate projected to be under ½ % a year higher than over the preceding 10 years, and these three countries, together with the former three, are the only ones in the Union where the rise in the number in this age group is projected to be under 1½ % a year. In Ireland, the Netherlands and Finland, growth is forecast to average around 2½ % a year and in France and Luxembourg, over 2 % a year.

At the same time, the population of working age is projected to decline everywhere apart from Greece, Luxembourg and Portugal, in all of which growth is expected to be very slow. In Italy and Finland, working-age population is projected to fall by around ½ % a year. As a result, the old-age dependency ratio is likely to increase markedly in all Member States, without exception. In Belgium, France, the Netherlands and Finland, it is projected to rise by 10 percentage points or more (14 percentage points in Finland), raising the ratio from one person aged 65 and over for every four people of working age to over one in three (well over in all except the Netherlands). By 2025, only in Ireland and Portugal will the number aged 65 and over amount to less than 30 % of those aged 15 to 64, and in Germany, Italy and Sweden, as well as in Belgium, France and Finland, it will be over 35 %.

Over the 15 years after that, although the growth of the population aged 65 and over is projected to slow down in all Member States, apart from Germany, Austria, Greece, Spain, Italy and Portugal, in some cases markedly, it is still expected to average 1 % a year or more everywhere except Finland and Sweden. At the same time, the decline in working-age population is projected to accelerate in most parts of the Union. Only in Sweden and Luxembourg is no reduction forecast and in Spain and Italy, it is projected to fall by around 1 % a year.

In consequence, in these two countries, the old-age dependency ratio, based on these projections, would increase by some 17 percentage points in 15 years, to around one person aged 65 and over for every two people of working age in Spain by 2040 and to well over one for every two in Italy. In Germany, the Netherlands, Austria, Portugal and the UK, the rise in the dependency ratio would be over 10 percentage points over this period and by the end of it, only in Ireland would the number of people of 65 and over amount to significantly less than 40 % of working-age population.

Overall dependency ratio

The prospective increase in the old-age dependency ratio is offset in some degree, in terms of the implications for social protection and, more generally for public expenditure, by the decline in the relative number of children under 15 which is projected for future years. This decline, however, in contrast to the fall which has occurred over the recent past, is relatively small. Whereas the ratio of the number under 15 to population of working age in the Union fell from around a third in 1980 to a quarter at the end of the 1990s, and by more in the southern Member States, it is projected to decline by only around 2 percentage points over the next 20 years and to increase marginally from then on. Moreover, in the south of the Union, where the increase in the old-age dependency ratio is expected to be particularly large, little reduction at all is forecast for child dependency. This largely reflects the prospective decline in population of working age and the assumption made in the intermediate projection that there will be a slow recovery in the fertility rate in future years, in place of the fall which has occurred in the past.

It is unlikely, therefore, that changes in the child dependency ratio and the implied changes in the need for social expenditure will compensate for the rise in the old-age dependency ratio, as they have tended to do in some degree in the past. Nevertheless, the fact that the number of children in the Union is projected to fall slightly over the next 20 years and not to increase much thereafter will at least tend to moderate the pressure on social protection systems from this source. At the same time, however, there is still a need for more support facilities, particularly in respect of child care, in many parts of the Union, if the aim of equalising the opportunities of men and women to pursue working careers is to be realised. This is important not only in itself but also to compensate for the prospective decline in the number of people of working age and, therefore, prospectively in the workforce.

Moreover, while the number of children and young people to be educated and trained is likely to diminish over the next decade or two, the increasing emphasis on strengthening the skills of the workforce as a means of improving the competitiveness of the Union economy and, therefore, its capacity to sustain growth, means that the need for expenditure on education may expand rather than decline in the future.

The effective dependency ratio

The main qualification to the above estimates of the dependency ratio as conventionally measured is not that it excludes children, but that it fails to distinguish between people of working age who are in employment and those who are not. Although the assumption underlying the ratio and its use as an indicator is that working-age population represents a meaningful measure of the potential workforce, in practice a significant number of those in this age group in the Union are not actually in work and contributing to the generation of output and income on which the funding of social protection systems depends. In the Union as a whole, almost a third of people aged 15 to 64 were not in the workforce at all in 1998, in the sense that they were neither employed nor actively looking for work, while another 7 % were looking for a job but did not have one (i.e. they were unemployed). Only just over 60 % of working-age population, therefore, were in paid employment. This compares with around 75 % of those in this age group in the US and almost as many in Japan.

A major proportion of those aged 15 to 64 who were not in the labour force were women, as might be expected, many of them with family or caring responsibilities, but also due to other factors including earlier barriers to female participation and early retirement. However, slightly more than a third were men. Although just under 45 % of these were in full-time education and training, most of them under 25, around 30 % were retired, despite the fact that the official retirement age is 65 in most Member States (the main exceptions are Belgium, France and Italy, where retirement from 60 on a full pension is possible in many cases). Indeed, the actual age of retirement of men across the Union is some five years less than this at present and, as indicated below, has shown a long-term downward trend. Another 12 % were people with disabilities, while the remainder (14–15 %) were not in the workforce for unspecified reasons. (These figures are based on the Union Labour Force Survey.)

Of the women who were not in the workforce, around 45 % claimed to be economically inactive for family reasons (some 9½ % of the total number of men and women of working age), while a quarter were in full-time education and training (proportionately, slightly more than in the case of men). Some 15 % were retired (only slightly less in relation to total population in this age group than for men), while almost 6 % were women with disabilities (again slightly less than in the case of men).

The main changes to occur over the past 10 to 15 years, which in part have offset each other, have been, first, a rise in the proportion of men under 65 withdrawing from the labour force to take early retirement and, second, an increase in the proportion of women pursuing working careers and consequently a reduction in the proportion who are economically inactive.

As shown below, the relative number of men taking early retirement as well as

Table 2
Effective dependency rates by age group in Member States, 1985 and 1998

Population 15 and over not in work as % of total employed

	Population	1985	1998
B	65 +	38.4	43.9
	15–64	88.8	74.2
	Total	127.2	118.1
DK	65 +	29.2	28.4
	15–64	33.7	31.2
	Total	62.9	59.7
D	65 +	33.3	38.4
	15–64	60.9	58.9
	Total	94.2	97.3
EL	65 +	35.2	44.3
	15–64	78.1	77.6
	Total	113.3	121.9
E	65 +	41.9	48.5
	15–64	127.2	100.3
	Total	169.0	148.8
F	65 +	31.6	40.8
	15–64	63.5	65.9
	Total	95.1	106.7
IRL	65 +	33.8	28.6
	15–64	97.6	72.1
	Total	131.4	100.7
I	65 +	36.4	50.2
	15–64	88.3	95.1
	Total	124.7	145.3
L	65 +	30.3	35.7
	15–64	64.1	47.4
	Total	94.4	83.1
NL	65 +	30.4	29.4
	15–64	72.4	44.9
	Total	102.9	74.3
A	65 +	31.5	33.4
	15–64	54.8	46.5
	Total	86.2	79.9
P	65 +	29.0	32.6
	15–64	60.6	48.2
	Total	89.6	80.8
FIN	65 +	24.3	34.1
	15–64	42.3	56.3
	Total	66.6	90.4
S	65 +	33.2	38.6
	15–64	35.7	44.6
	Total	68.9	83.2
UK	65 +	34.6	34.5
	15–64	52.8	41.8
	Total	87.4	76.2
EU	65 +	34.1	39.5
	15–64	69.4	64.1
	Total	103.5	103.6

the women who are inactive as opposed to being in work or actively looking for work varies markedly across the Union — and even between regions within countries — just as both have changed significantly over time. This suggests that there is substantial scope for reducing the numbers concerned and adding to the Union's workforce. The main constraint, however, as is evident from the large numbers of people who are unemployed and, therefore, already in the labour force but who cannot find work, appears to be the difficulty of creating sufficient jobs to keep men approaching retirement age in employment and to attract women into work.

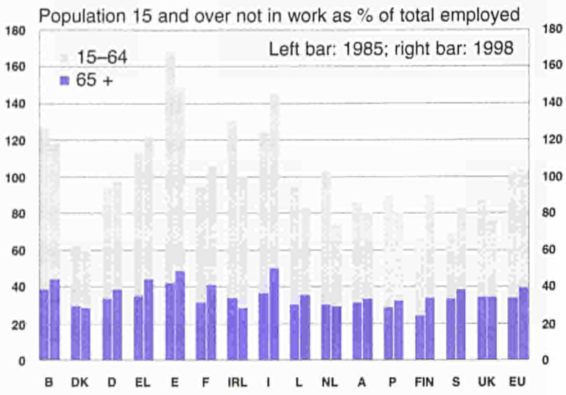
The effect of the large number of people of working age who are not in employment, but who instead, like those of 65 and over in retirement, are dependent on those in work, is to raise the effective dependency ratio in the Union to over 1. (It should be emphasised that the effective dependency ratio is here defined to exclude children under 15, who are sometimes included in the definition, in order to bring out more clearly the effect of the large number of people of working age in the Union who are not in employment. This, however, does not mean that children should be ignored in any assessment of overall dependency since they still need to be supported.) In other words, there are slightly more people aged 15 and over who are not in work than those who are. In 1998, over the Union as a whole, those not in work amounted to some 104 % of the number in employment (Table 2 and Graph 5). Just under 40 % of those not in work were 65 or over, almost all of them in retirement, so that the largest number were people aged 15 to 64, most of these, as noted above, being economically inactive rather than being unemployed. Moreover, over the 1990s, the number not in work increased significantly relative to those in employment (from around 96 % in 1990) as much because of a rise in the number under 65 not working as in the number of people of 65 and over.

The effective dependency ratio varies considerably across the Union, much more so than the conventional one. At one extreme, in Spain and Italy, there were almost 1½ times as many people of 15 and over not in work in 1998 as were employed, while in Greece, the figure was some 1.2 times. In both former two countries, those of 65 and over accounted for only around a third of the total number of dependants. The large number of people under 65 who are not in employment in these two countries, therefore, adds substantially to the problems arising from the large increase in the old-age dependency ratio, as conventionally measured, noted above.

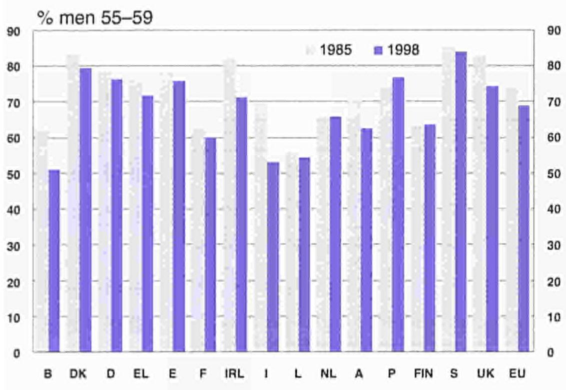
By contrast, in the north of the Union, in the Netherlands and the UK, those aged 15 and over not in work represented only around 75 % of the total number in employment in 1998 and in Denmark, under 60 %. In the latter two countries, those below 65 but not employed accounted for just 55 % or so of the number of people dependent on those in work.

The effective dependency ratio, as defined here, has changed little over the past 10 to 15 years in the Union as a whole. While the relative number of people of 65 and over has risen, this has been offset by a fall in the relative number of people of working age who are not in employment, because of a slight decline in unemployment but more because of an increase in labour force

5. Effective dependency rates by age group in Member States, 1985 and 1998



6. Participation rates of men aged 55–59 in Member States, 1985 and 1998



participation among women (participation of men fell). The fall has been particularly marked in the Benelux countries, Spain, Ireland, the Netherlands, Portugal and the UK, in all of which it much more than offset the growth in the relative number of 65 and over between 1985 and 1998. In France, Italy, Finland and Sweden, however, the proportion of people not in employment rose over this period, adding to the increase in that of elderly people, while in Germany and Greece, the fall was not enough to compensate for the rise in the latter.

In future years, therefore, the significance of the ageing of the population which is set to occur right across the Union and its prospective effect on systems of social protection, particularly on the difficulty of funding them, is likely to depend as much on the number of people of working age who are in employment and, accordingly, the success of the economies concerned in creating jobs, as on the growth in the number of people above the official age of retirement.

The remainder of this chapter examines the trend towards early retirement in different Member States, the difference in the relative number of women pursuing working careers and the effect of their marital status and of the need to take care of children on this, the persistence of high levels of long-term unemployment and the continuing tendency for the average size of households to decline and, therefore, of the number of independent households to increase. All of these features have significant implications for the demands imposed on systems of social protection.

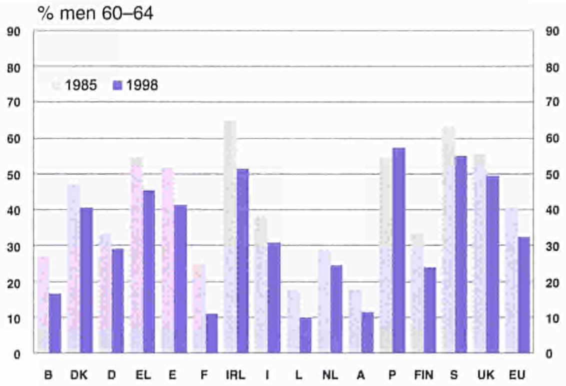
The trend towards early retirement

In 1998, some 69 % of men aged 55 to 59 in the Union were economically active, most of the rest having taken early retirement. This compares with a figure of 74 % in 1985 (and 72 % in 1990). There has, therefore, been a slow but persistent decline in the number of men of this age in the workforce, which serves to reduce their rate of participation by an average of around 1 percentage point every three years, though the extent of the decline is affected by the rate of employment growth. The lower the rate, the more men seem to opt for early retirement both because more of them tend to lose their job when this is the case and because of the shortage of alternative employment opportunities.

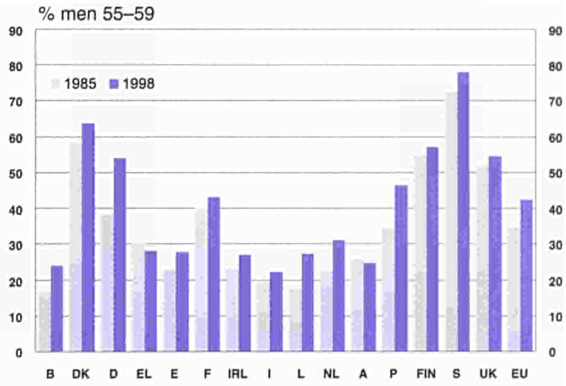
For men aged 60 to 64, the reduction in the rate of participation has been more marked. In 1998, only 32 % of men in this age group in the Union were still in the workforce as compared with 40 % in 1985 (and 36 % in 1990). The rate has, therefore, declined by over ½ percentage point a year over this period, though again by slightly more during periods of slow growth than when net job creation has been higher.

The decline in participation for men of 55 and over has occurred right across the Union. It was particularly marked for men aged 55 to 59 in Italy and Belgium, the proportion of those of this age in the workforce in the former falling from almost 70 % to 53 % and in the latter from 62 % to 51 %, the lowest in the Union, in the 13 years 1985 to 1998 (Graph 6). There was also a similarly large fall in Ireland (from 82 % to 71½ %), but here the rate remained above the Union average. In contrast, the rate remained much the same in the Netherlands, Finland and Sweden (though the figures for 1985 for the last two involve some estimation to make them comparable with those for 1998) and rose slightly in Portugal.

7. Participation rates of men aged 60–64 in Member States, 1985 and 1998



8. Participation rates of women aged 55–59 in Member States, 1985 and 1998



Participation of men aged 60 to 64 declined in all Member States over these 13 years, especially in Belgium and Ireland, as for men aged 55 to 59, but also in France and Finland, where in each case, the fall was over 10 percentage points (Graph 7). As a result of the decline, the proportion of men in this age group who were still economically active in 1998 was only 16 % in Belgium and 11 % in France, while in Austria (11½ %) and Luxembourg (10 %), the figure was equally low. In all four of these countries, the possibility of retiring from the workforce at a relatively young age — i.e. 60 or below — is greater than in other parts of the Union, though measures have been taken in each case to try to increase the number of older people remaining in employment (see Chapter 4 below). In Ireland (despite the significant fall over preceding years), Portugal, Sweden and the UK, by contrast, half or more of men aged 60 to 64 were still either working or actively looking for work in 1998.

The same decline in participation has not occurred among women. Any trend towards early retirement has, in most parts of the Union, been more than offset by the tendency for more women to pursue working careers, which is detailed below. This is particularly so for those aged 55 to 59, the number of whom in the workforce increased in relation to the total in this age group in all Member States, except Greece and Austria, between 1985 and 1998. Nevertheless, it was still the case that only just over 42 % of women of this age were economically active in the Union, reflecting the fact that participation of women is still relatively low in many countries (Graph 8).

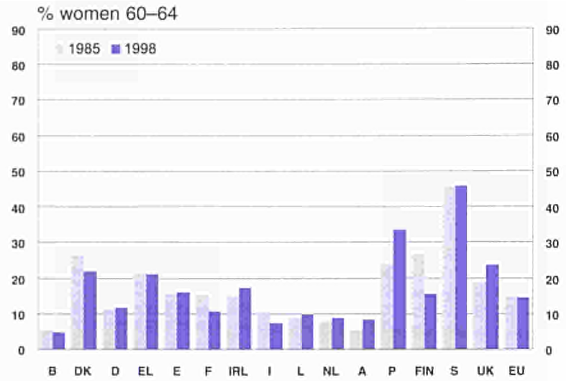
Although the rise in participation of women aged 60 to 64 was less general over these 13 years than among those slightly younger and although there was little change over the Union as a whole — largely because of a decline in France and Italy — there was still a rise in the majority of Member States (Graph 9). Under 15 % of women in this age group, however, were in the labour force in the Union in 1998. The latter low figure is probably also linked to the persistence of an earlier pensionable age for women than men (60 rather than 65) in a number of countries — though this is in the process of being equalised — which encourages early retirement.

Reversing the trend towards early retirement among men and increasing the number of older women who are economically active has to be a major aspect of any policy aimed at increasing employment rates in the Union and relieving the pressure on systems of social protection. To achieve this, however, involves formidable problems given the continuing tendency of employers to concentrate redundancies on older workers who then have difficulty finding alternative work, in part because the skills they possess are sometimes outdated, in part because of a reluctance by companies to recruit older people, not always for justifiable reasons. Women who have been absent from the workforce for long periods, due to caring responsibilities or earlier legal and social barriers to female workforce participation, have specific needs for retraining and reintegration.

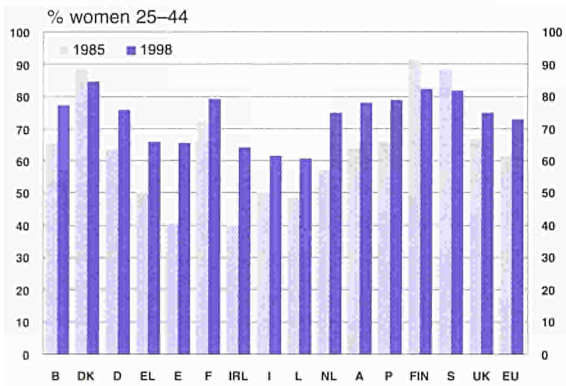
The increased participation of women in the workforce

The increasing participation of women in the workforce is one of the main features of social change which has occurred across the Union over the past 30 or 40 years. Indeed, in virtually all Member States, women

9. Participation rates of women aged 60–64 in Member States, 1985 and 1998



10. Participation rates of women aged 25–44 in Member States, 1985 and 1998



have accounted for the whole of the increase in employment which has taken place over this period and the number of men in work has generally declined. This increase in participation has been common to all parts of the Union and is especially marked for women of child-bearing age.

In the Union as a whole, for example, the number of women aged 25 to 44 in the workforce (i.e. either employed or actively looking for work) increased from just under 62 % of those in this age group to just over 73 % in 1998 (Graph 10). Apart from in the three Nordic countries, Denmark, Finland and Sweden, in each of which the participation rate was close to 90 % in 1985 and in which in the latter two, in particular, the rate declined markedly in the recession of the early 1990s, the rise was general throughout the Union. It was especially high in Spain and Ireland, where the rate was very low in 1985 and where it increased in both cases from 40 % to around 65 %. Similarly, in Greece, participation went up from 50 % to 66 % and in the Netherlands, from 57½ % to 75 % over these 13 years. Nevertheless, participation of women remains low in many southern regions, especially those where job availability is inadequate and unemployment high. This is particularly the case in southern Italy; here the relative number of women pursuing working careers has hardly changed since 1985, while in the north of the country, by contrast, it has risen markedly. For example, in Calabria, Puglia and Sicily, under 30 % of women aged 25 to 54 were in employment in 1998 (i.e. in this case, excluding those who were unemployed) as compared with over 60 % in most of the northern regions. In Campania and Puglia, this represents a significant reduction in relation to 1985 and in Sicily, only a small increase, whereas in most parts of the north, the proportion rose by some 15 percentage points or more over this period. The key difference between the two parts of the country is that while the rate of net job creation has been relatively high in the north and unemployment generally low, the reverse has been true in the south, deterring women from joining the labour force and making it difficult for them to find work if they did.

Despite the apparent influence of labour market conditions, it still seems to be the case, however, that whether women pursue a working career or not is very much dependent on whether they are married or single, especially in the south of the Union, where there may still be less social acceptance of women working than in the north. At the same time, the effect on participation of being married seems to be declining since it is less marked for women in the younger than older age groups. In northern parts of the Union, on the other hand, participation seems to depend much more on whether or not they have children, which in part reflects the difficulty of arranging child care, which in the south seems to be provided by the extended family.

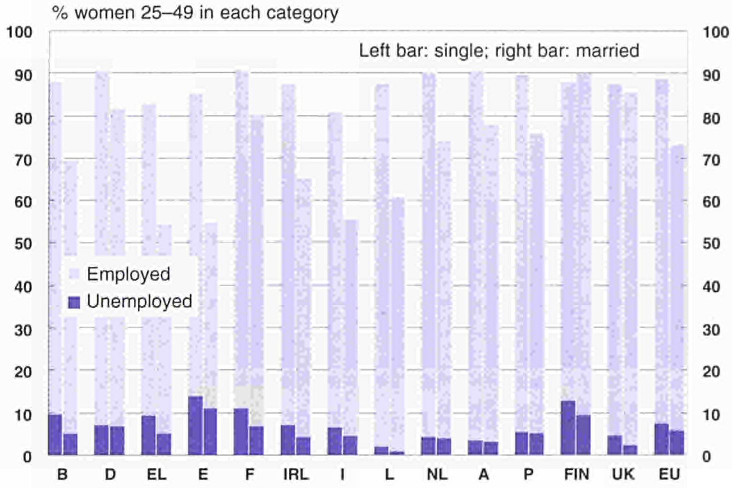
Thus, whereas in the northern Member States, except the Benelux countries and Ireland where it is larger, there was a difference of only around 10 percentage points or less in 1997 in participation rates between single women aged 25 to 49 without a child under 10 and married women in the same position, in Greece, Spain and Italy, the difference was some 25 percentage points or more (Graph 11, in which 'single' women includes those who were separated, divorced or widowed — i.e. it consists broadly of those living alone). Indeed, in all three of these countries, only 55 % or so of married women in this age group without young children were in the workforce, whereas the figure was 80 % or more in Germany, France and the UK. These differences, however, need to be interpreted with some caution, since other factors apart from family circumstances may be at work, such as educational attainment levels or differences in the age structure of married and single women without children between northern and southern Member States.

The proportion of married women aged 25 to 49 with a child under five who were in the workforce in the three southern countries was not much lower than for those without young children (50 to 55 %) in 1997 (Graph 12). The same was true in Portugal, where more married women are economically active than in the rest of the south. In all of the northern countries, except Belgium (where the rate was much higher), by contrast, participation of married women with young children was markedly lower than for those without. This was especially so in Germany and the UK, in both of which the participation rate of those with children was well over 20 percentage points lower than for those without. Indeed, in Germany, the rate was among the lowest in the Union and slightly below that in Greece, Spain or Italy.

Differences in the effect of marital status on participation rates across the Union may also be inferred if single and married women with young children are compared. In the three southern countries, just over 70 % of single women aged 25 to 49 with a child under five were in the workforce in 1997, i.e. some 20 percentages point higher than the figure for married women with a child of this age and only around 10 percentage points lower than for single women without children. In northern countries, while participation was also generally higher among single women with a young child than among married women, the difference was much smaller. In Finland, Ireland and the UK, however, participation was lower among single women. Indeed, the proportion of single women with children in he workforce (including, it should be reiterated, those who were separated, divorced or widowed) was lower in Ireland and the UK than anywhere else in the Union. In the case of the UK, where the figure was only around 45 %, this is in stark contrast to the high participation among women generally. As noted above, however, these differences may partly reflect differences in the age structure of single and married women with young children between northern and southern countries.

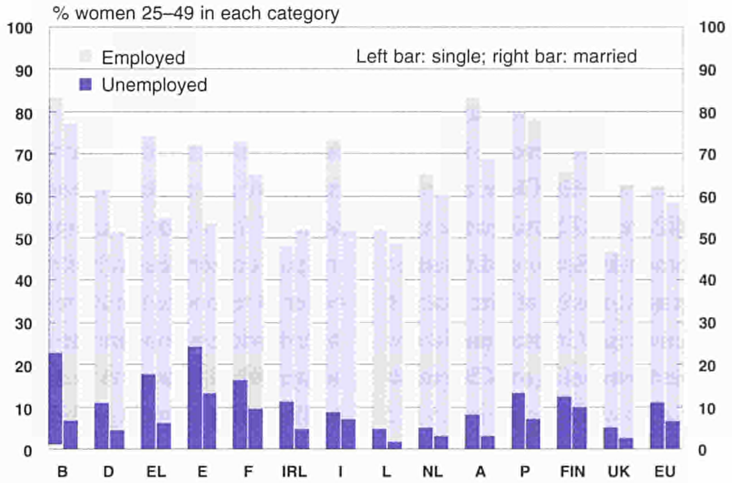
Some of the difference in participation rates among single women with children in the UK and other parts of the Union, on the other hand, might also be attributable to differences in unemployment of this group, which in a number

11. Participation rates of women aged 25–49 with no children below 15 by marital status in Member States, 1997



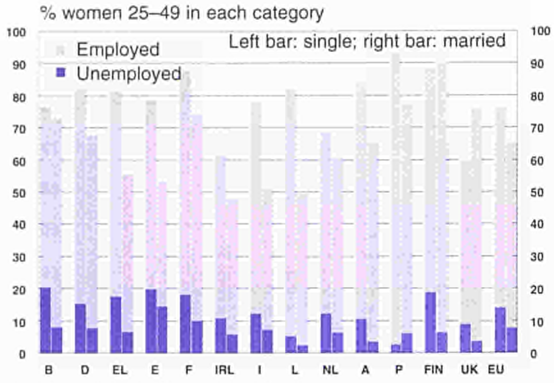
No data available for Denmark and Sweden.

12. Participation rates of women aged 25–49 with at least one child below five by marital status in Member States, 1997



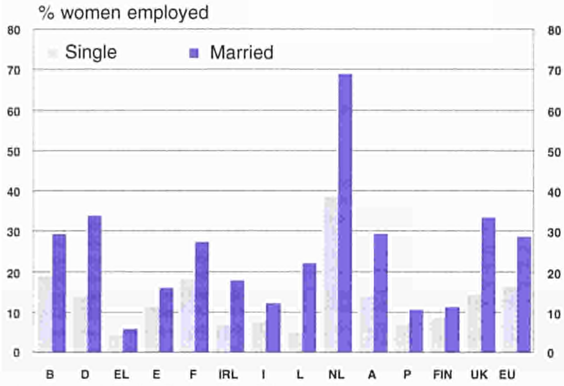
No data available for Denmark and Sweden.

13. Participation rates of women aged 25–49 with at least one child aged 5–9 by marital status in Member States, 1997



No data available for Denmark and Sweden.

14. Women aged 25–49 with no children working part time in Member States, 1997



No data available for Denmark and Sweden.

of Member States is substantially higher than among other women, perhaps reflecting the use of unemployment benefits as a source of income support. In Belgium, for example, the average rate of unemployment among single women with a child under five was almost 27 % in 1997 as against a rate of only 9 % for married women in this position. In France over 22 % as opposed to under 15 % for the latter group and in Ireland, 23 % as opposed to 9 %. There are also pronounced differences between the two groups of women in Spain and Greece, but in both cases, many of the unemployed, especially in Greece, are likely to be ineligible for benefit (see Chapter 4 below).

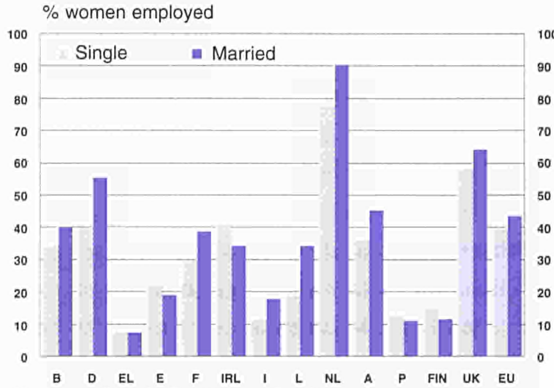
The low participation of single women with children in the UK, as well as in Ireland, together with the large difference in rates between married women with and without children, strongly suggests a shortage of child-care facilities in these two countries, which seems to outweigh the financial pressure on single women with children to work seemingly apparent in most other parts of the Union. This impression is reinforced in the case of the UK by the fact that participation rates of both single and married women with a child of school age (five to nine) are much higher than for those with a younger child (Graph 13). The UK, however, is not alone in this respect. The same was true in 1997 in all northern Member States, except Belgium, whereas in the southern Member States, there was very little difference in rates of participation between the two groups of women.

At the same time, pursuing a working career in a number of countries in the north of the Union often involves working part time instead of full time, in order better to reconcile family responsibilities with having a job. In the Netherlands, around 90 % of married women aged 25 to 49 in employment with a child under 15 worked part time in 1997 as compared with under 70 % of married women in this age group without children and under 40 % of single women without children (Graphs 14 and 15). In the UK, just under two thirds of married women with children in work had a part-time job, whereas only a third of those without children worked part time and under 15 % of single women without children. By contrast, the figure was almost 60 % for single women with a child. A similar pattern, if less pronounced, is evident for other Member States in the north of the Union, whereas in the south, there is very little difference in the relative number of women with part-time jobs between those with children and those without. In both cases, the number involved was still very small in 1997, though it is on the increase.

The effect on the overall size of the labour force of these differences in participation rates of women with differing personal circumstances between the north and the south of the Union is increased by the fact that there are also major differences between the two in the relative numbers involved. In each of the northern Member States, apart from Luxembourg, Belgium and Ireland, over 25 % of women aged 25 to 49 were either single, separated or divorced in 1997. In Finland, the figure was almost 40 % and in the UK and France, around a third. Moreover, a significant proportion of these in most of the countries — around 35 % in the UK and France, some 12 % of all women in this age group — had a child under 10 (Graph 16).

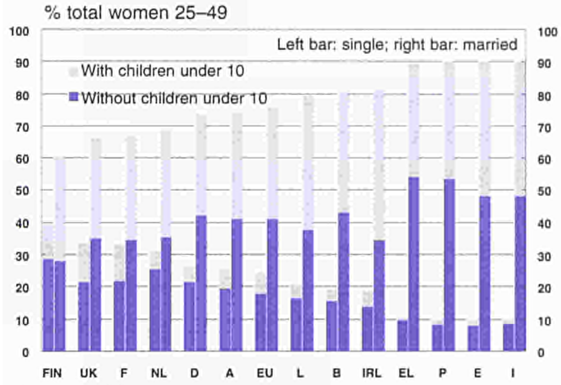
In each of the southern Member States, in marked contrast, only some 10 % of women in this age group were single, separated or divorced in 1997, and 2 % or less had a child under 10. These differences not only affect rates of partici-

15. Women aged 25–49 with at least one child below 15 working part time in Member States, 1997



No data available for Denmark and Sweden.

16. Women aged 25–49 with and without children under 10 by marital status in Member States, 1997



No data available for Denmark and Sweden.

pation of women in the labour force, they also have significant implications for the need for support facilities, which are clearly greater in most parts of the north of the Union than the south. Equally, however, the differences might well be a reflection, in some degree, of the differing levels of social support available in the two parts of the Union, as well as of differences in the opportunities open for women to work, including the availability of part-time jobs.

The extent of women's participation in employment is not the only issue of note: the nature — or quality – of the jobs they do is also of importance. Over the 1990s and even over the period of economic recovery since 1994, most of the net additional jobs created for women in the EU have been part time ones. In 1998, 33 % of women in employment in the EU worked part-time. In the Netherlands, the figure was as high as 68 % and in the UK and Sweden, over 40 %, while in southern Member States it was much lower (under 20 % in Greece, Portugal, Spain and Italy, but also Finland). For men, the proportion is much less, though it is increasing rapidly and while the number in part-time employment has risen over the 1990s, the number in full-time jobs has fallen significantly. In 1998, some 6 % of men in employment in the EU worked part time, up from 4 % in 1990. (The pattern of variation between Member States is similar to that for women, with the highest proportion in the Netherlands at 18 % and with the figure in the UK, Sweden and Denmark being around 9 % or more, but only around 3 % in Spain, Greece, Italy and Luxembourg.) The proportion of employees working in temporary jobs, though generally small, is also rising — from over 13½ % in the case of women and 12 % in the case of men in the EU in 1998 as against some 9½ % and 7½ %, respectively, in 1985.

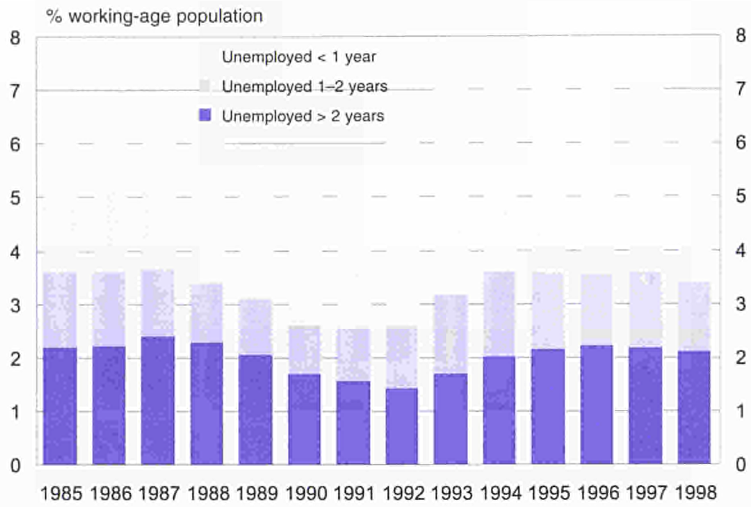
These developments have important implications for both the financing of social protection systems and the extent of income support they provide. Many people in part-time jobs in a number of countries are in effect excluded both from having to pay social contributions and from entitlement to benefit, while in a few cases people in certain temporary jobs are not entitled to the same benefit as those in permanent ones.

The analysis throughout this report draws attention to the challenge posed for systems of social protection across the Union by the complexity and diversity of gender relations in modern European societies. Most systems are still based primarily on a model of men being the breadwinners and women staying at home which clearly does not reflect the new realities: increasing participation of women in the labour force (which, indeed, needs to rise further); more diverse patterns of caring, for children and other family members, calling for appropriate support facilities; growing dependence of households on the earnings of women; greater diversity in the pattern of work for both men and women; and increased rates of divorce and separation. The system of derived rights has accordingly become an ineffective means of ensuring adequate levels of support in a growing number of cases. At the same time, despite the need to encourage more women to work, barriers and disincentives to them taking up jobs persist in many parts of the Union.

The persistence of long-term unemployment

Relatively low rates of participation in the workforce in many parts of the Union are not the only source of pressure on systems of social protection and their financing. Pressure also stems from the fact, as noted above, that a sig-

17. Unemployment and long-term unemployment in the Union, 1985–98



nificant number of those who are economically active are unemployed rather than working. Moreover, to add to the pressure, a large proportion of these are long-term unemployed, in the sense that they have been out of work for at least a year and in many cases much longer.

Almost 7 % of the working-age population in the Union were unemployed in 1998, slightly higher than the proportion in the mid-1980s and not much lower than the peak level reached in 1994. Of these, around half (49½ %) had been unemployed for a year or more and almost a third (31 %), unemployed for at least two years (Graph 17). Despite the efforts in Member States to tackle this problem, these proportions are not much different from what they were in the mid-1980s and slightly higher than in 1994 which marked the start of economic recovery in the Union after the recession of the early 1980s. In 1998, therefore, there were over 8 million members of the workforce who were long-term unemployed, over 5 million of whom had been unemployed for two years or more.

Long-term unemployment is particularly prevalent in Spain and Italy, where it affected 5 to 6% of people of working age in 1998 (some 1½ million people in Spain, almost 2 million in Italy in 1998) and where 3 to 4% of those in this age group had been unemployed for two years or more (over 1 million in both cases) (Graph 18). While in Spain there has been a reduction in these figures since 1985, in Italy both are sharply up, as they are in Greece and Germany (where the number of both long-term unemployed and very long-term unemployed in 1998 was much the same as in Italy). For the majority of countries for which data are available for both years, however, the relative number of people who are long-term unemployed has fallen since the mid-1980s. The reduction is particularly large in Denmark, Ireland, the Netherlands, Portugal and the UK, where in all cases the proportion of working-age population out of work for one year or more in 1998 was less than half the level in 1985. In all of these countries, this was associated with a substantial decline in overall unemployment.

Although the number of long-term unemployed may be similar in Germany and Italy, the nature of the problem is somewhat different, as it is generally between the north and the south of the Union. In the EU as a whole, some 23½ % of the long-term unemployed were aged 50 or over in 1998, a somewhat larger proportion than the number of people aged 50 to 64 in the workforce (20 %). In general, therefore, workers of this age are more likely to be out of work for a long time than those under 50. In most northern Member States, however, the relative number of long-term unemployed who are 50 or more is even higher, which also partly reflects the low percentage of young long-term unemployed. In Denmark, the share of long-term unemployed over 50 was as high as 43½ % in 1998, in Germany, 39 % and in Austria, 35 % (Graph 19). In the south of the Union, however, the proportions are much lower, Portugal apart. In Spain, the figure was just over 20 % in 1998, in Greece, 15 % and in Italy, as low as 9 %. The proportions were also relatively low in Ireland and the Benelux countries, though in the latter case, this largely reflects the comparatively small number of people in this age group still in the labour force, as it does in Italy.

These differences in the relative numbers of older people among the long-term unemployed are associated in many cases with a counterpart difference in the proportion of the long-term unemployed who are under 25. In the Union as a whole, around 18½ % of those who had been out of work for a year or more in 1998 were young people below this age. In Greece and Italy, however, the figure was over 30 % (almost 36 % in Italy) and in Spain and Portugal, 22 to 23 %. By contrast, in Denmark, only 3 % of the long-term unemployed were under 25, in Germany and Austria, only around 6½ % and in Finland and Sweden, under 9 %. These marked differences reflect not only the much greater availability of vocational training in the latter group of countries as compared with the former, but also the more extensive support provided to help young people make the transition from school to work.

They also have differing implications for social protection needs, which in the south are largely met through the extended family, as is apparent from the very small number of young people who live alone, shown below.

Changing structure of households

As documented in *Social protection in Europe 1997*, the number of individual households in the Union has tended to rise significantly faster than population. This is reflected in a gradual decline in the average size of households and is associated with more people living alone, which, in turn, has led to a growth of households with no one in work and, accordingly, greater demands on systems of social protection. These trends appear to be continuing, though from very different starting-points in the north and the south of the Union.

In 1998, the average number of people aged 15 and over per household continued to decline in virtually all Member States (by ½ % or so on average). (The focus here is on the number aged 15 and over since the main concern is with the potential support available from within the household for those who might need care, as well as with the ability, or inability, of households to support themselves financially from paid employment. The data come from the Union Labour Force Survey.) In the Union as a whole, there was an average of just over two people in this age group per household, some 5 % less than in 1986 (Graph 20). In most parts of the north — specifically Germany, France, the Netherlands, Finland and the UK (there are no comparable data for Denmark and Sweden, though the figure is likely to be similarly low) — the average is below two (below 1.8 in Germany and the UK in 1998 and only 1.7 in Finland). In the four southern Member States as well as in Ireland, it is over 2.25 (in Portugal, just under 2.5 and in Spain, 2.6 in 1998).

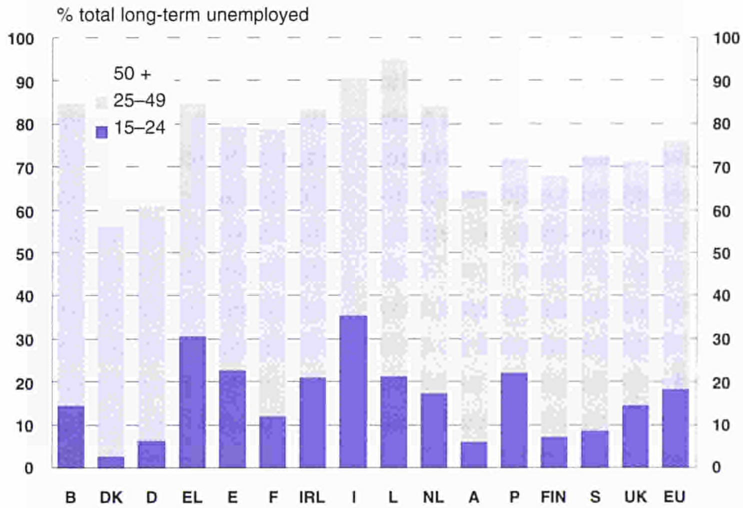
Moreover, the decline in average numbers has been significantly larger in the north than in the south over the past 12 years, almost 1 % a year in the Netherlands and the UK as against only around 3 % over the period as a whole in Greece, Spain and Portugal and little change at all in Italy.

Differences in average household size are reflected in similar differences in

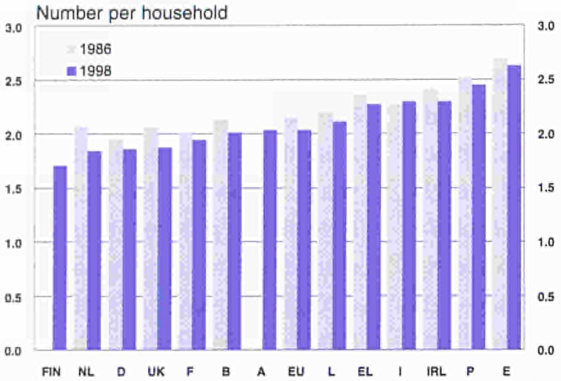
18. Unemployment and long-term unemployment in Member States, 1985 and 1998

Figures for Austria and Finland in 1985 show total unemployment.

19. Long-term unemployment by age in Member States, 1998

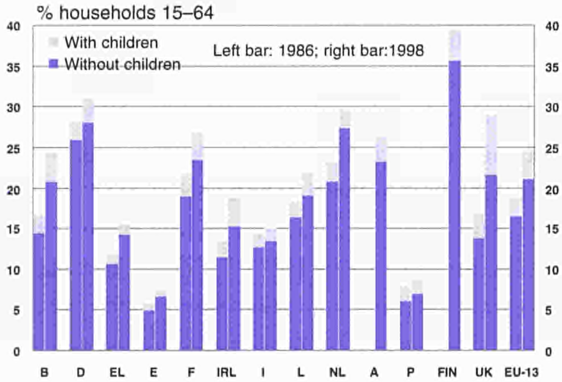


20. Average number of people aged 15 and over per household in Member States, 1986 and 1998



No data for Denmark and Sweden; Germany 1986 = West Germany; Ireland = 1997; Finland = 1996.

21. Share of households with only one person aged 15 and over in Member States, 1986 and 1998



No data for Denmark and Sweden; Germany 1986 = West Germany; Ireland = 1996; Finland = 1997.

the relative number of households with only one person of 15 and over. In the Union as a whole, just under 25 % of households in 1998 had no more than one person of this age and in some 16 % of these (just under 3½ % of all households), there was a child under 15, virtually all of them being brought up by women rather than men (Graph 21).

Both figures were significantly higher than 12 years earlier and have continued to increase in the recent past. In Finland, however, almost 40 % of households had only one person living in them and in Germany, the Netherlands and the UK, around 30 %. Moreover, in the UK, a third of the people concerned (almost 7½ % of all households) were lone parents. In all three of the latter countries (there are no comparable data for Finland), the proportions were higher than in 1986; in the UK they were almost twice as high, the relative number of single-person households with children increasing by nearly 2½ times over the period.

By contrast, in Italy and Greece, only around 15 % of households in 1998 had only one person of 15 and over living in them and in Spain and Portugal,under 9 %, while in all four countries only 1½ % or less of all households were home to lone parents. Except in Greece, these proportions were not much higher than 12 years earlier, though they have increased in all four countries over the past two years.

Households with no one in work

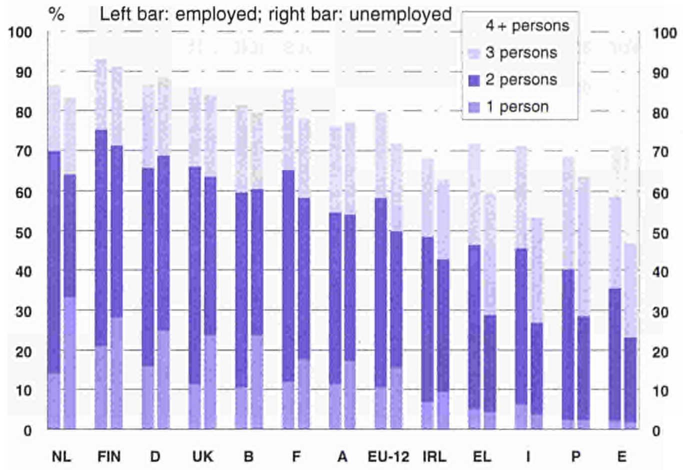
People living alone, if they are of working age, are far more likely to be unemployed, at least in the north of the Union, than those living with other people of 15 and over. In 1998, some 15 % of unemployed men aged 15 to 64 lived in single-person households as opposed to 10 % of men in employment (Graph 22). In the Netherlands, almost a third of unemployed men lived alone, around twice the proportion of men with a job, and in Germany, the UK and Belgium, in each of which around 25 % of unemployed men lived alone, the difference was equally pronounced. In all these countries, apart from Germany, moreover, and most especially in the Netherlands and the UK, the proportion of the unemployed in single-person households was larger than two years previously, despite overall unemployment being lower.

In all of the southern Member States, on the other hand, the relative number of unemployed men living alone was both small (around 4 % or less of the total) and less than for those in employment. Furthermore, in 1998 the proportion was either the same or less than two years earlier. The counterpart of this is that a significant proportion of men who are unemployed (53 % in Spain and 47 % in Italy) lived in large households, with four or more people, where there is every possibility of financial support. Many of these were almost certainly young people under 30, in Italy, looking for their first job and in Spain, looking for a stable, long-term one.

A similar difference in household characteristics between the employed and unemployed is evident for women in both the north and south of the Union. Although, on average over the Union as a whole, the proportion of those unemployed living alone was much the same as those in work in 1998, in all northern Member States it was larger and in all of the four southern countries, smaller (Graph 23). Indeed, in the south, the difference was much more marked than for men, reflecting the importance of women having a job to be able to live alone.

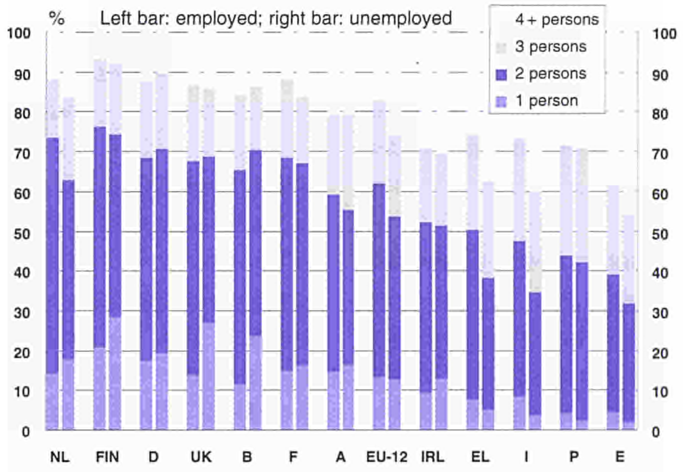
The disproportionate number of people unemployed living on their own in the north of the Union is one of the reasons why the relative number of households with no one of working age in employment is much higher than the rate of unemployment. Just over 19 % of households in the Union which were home to people aged 15 to 64 (i.e. leaving aside households with only older people in retirement living in them) had no one in a job in 1998, up on the 1986 figure, despite the marginally lower level of unemployment, but down slightly on the figure in 1996 (just over 20 %), reflecting the fall in unemployment (from 10.8 % to 10 %).

22. Employed and unemployed men, aged 15–64, by size of household in Member States, 1998



No reliable data for Denmark and Sweden; Luxembourg data too small; Ireland = 1997; Finland = 1996.

23. Employed and unemployed women, aged 15–64, by size of household in Member States, 1998

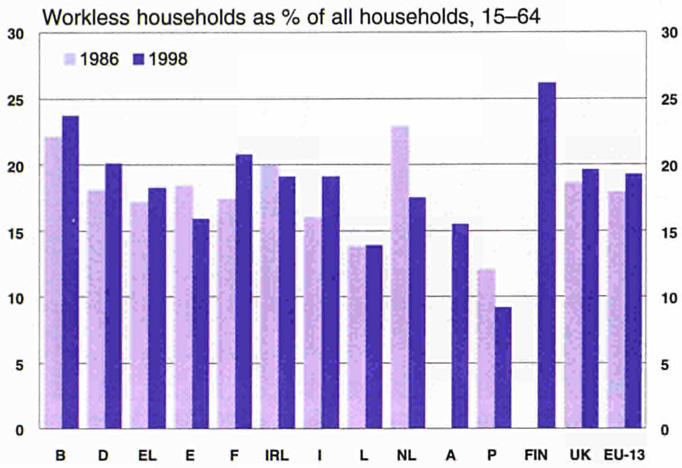


No reliable data for Denmark and Sweden; Luxembourg data too small; Ireland = 1997; Finland = 1996.

Although unemployment is higher in most parts of the south than in the north of the Union, the main exception being Portugal, the much larger number of the unemployed living alone in the north means that differences between the two in the relative number of households without anybody in paid employment are relatively small. As noted above, part of the explanation comes from the different behaviour of young people in the north and the south. Indeed, in Belgium, Germany and the UK, the proportion of households in 1998 with no one in work was larger than in either Spain or Italy, where unemployment was markedly higher (Graph 24). This is most striking in the case of the UK, which had an unemployment rate only a third as high as in Spain and half that in Italy, but a larger number of 'workless' households (19½ % of the total). Moreover, whereas unemployment fell significantly between 1986 and 1998 in the UK (from 11.5 % to 6.3 %), this fall had no effect at all on the relative number of households with no one in work which increased slightly over this period. The same was the case in Belgium, though here the fall in unemployment was much less (just under 1 percentage point), while in the Netherlands, where the proportion of 'workless' households fell, this was still less than might have been expected given the halving in the unemployment rate.

The relative pressure imposed on systems of protection by unemployment, or, more generally, by people not being in work, is, therefore, not fully reflected in the figures for unemployment rates. In the south of the Union, high rates of unemployment combined with low levels of labour force participation impose much less pressure than they would in most northern Member States, because of the larger size of households and the support available to most of them from within the family. Moreover, the trend towards smaller households and more people living alone means that falls in

24. Share of households with nobody in employment in Member States, 1986 and 1998



No data for Denmark and Sweden; Germany 1986 = West Germany; Ireland = 1997; Finland = 1996.

unemployment do not necessarily give rise to proportionately lower needs for both social and financial support.

Chapter 2: Recent developments in the modernisation of social protection

The major demographic, social and economic changes taking place across Europe, which were examined in the previous chapter, pose serious challenges to systems of social protection in every Member State. While there is an acceptance of the importance of providing high levels of social support for those in need, it is also recognised that this must be consistent with, and where possible reinforce, the maintenance of economic competitiveness and policies for sustained — and sustainable — growth and high employment which are essential for the long-term achievement of social objectives. Indeed, economic growth is important not only for job creation and securing improvements in the general well-being of society but also for generating the income on which the funding of systems of social protection depends.

The recent Commission communication, 'A concerted strategy for modernising social protection' (COM(1999) 347) drew attention to these challenges and to the valuable role which social welfare systems can perform in underpinning economic development and the structural changes in activity and employment which it entails as well as helping to safeguard economic and social cohesion. At the same time, it emphasised that increasing the number of people in work and improving their long-term job prospects is an important way of raising social welfare and combating social exclusion. It identified four key objectives which are central elements in the modernisation of social protection systems in EU Member States:

- to make work pay and to provide secure income;
- to make pensions safe and pension systems sustainable;
- to promote social inclusion;
- to ensure high quality and sustainable health care.

The concern in this chapter is to review the changes which have taken place in systems of social protection across the Union in recent years and the motivation behind these, as well as those which are in the process of being introduced or are being debated. Accordingly, it updates the analysis contained in *Social protection in Europe 1997*, which covered developments up to the end of 1997. At the same time, it focuses on the four key objectives set out in the Commission communication, which are common elements in the process of modernising social protection systems now under way in Member States.

It considers, firstly, the objective of making work pay and providing secure income, and examines changes to both systems of unemployment compensation and other schemes to support those of working age who are not in paid employment, in particular sickness and disability benefits, early retirement pensions and minimum income guarantee schemes. Since developments in this general area are reviewed in some detail in Chapter 4 below, the analysis is limited to summarising the main kinds of change which have taken place across the Union and their implications for the general aim of ensuring that there is a financial incentive for people to work rather than be dependent on the State, but also that they receive an acceptable level of income if they are unable to work.

Changes in family-related benefits are also reviewed under this head, as a major aim of these is to ensure that people with children have a secure income as well as practical support, so that caring responsibilities do not become an obstacle to the pursuit of a working career. This is particularly important for women, on whom caring responsibilities mainly fall in practice and who, therefore, face the problem of reconciling them with having a paid job.

Secondly, it reviews the measures taken to promote social inclusion and to prevent people, as far as possible, from becoming dependent on State benefits for prolonged periods, which is likely to make it difficult if not impossible for them to participate fully in society. This is the third of the objectives listed above, but it is here considered in relation to the first objective, since giving people access to a stable job with a reasonable level of pay is an important, if not critical, means of making it possible for them to become normal members of society. They are also closely related to labour market policies, aimed at helping people improve their employability and find a job, which are a central part of the European employment strategy and which are examined along with other changes in unemployment benefit systems in Chapter 4.

Social inclusion, however, is not confined to having a job and to people being able to support themselves without relying on social transfers. It also means having access to education and vocational training, a high standard of health care and decent housing. Policies to promote social inclusion, therefore, need to encompass these aspects as well.

Thirdly, it considers the second of the objectives listed above and examines the changes made to old-age pension systems to secure the future income of those in retirement and ensure that they are sustainable. In practice, this means making sure that the transfers required to provide a reasonable standard of living can be met without imposing intolerable strains on future generations and, in particular, on those in work.

Finally, it considers the last of the objectives listed above and the developments which have occurred in health systems across the Union to ensure the delivery of high-quality care on a sustainable basis. In particular, it reviews the changes in the way that services are organised and the scale of public sector provision and funding, which have been aimed at maintaining control of costs and limiting expenditure to levels which can be sustainably financed whilst improving standards and ensuring equal access to all. This issue is closely related to the objective on pensions, in so far as people in retirement, particularly those of more advanced years, represent the main client group for public health services. It is also related to the question of long-term care, especially for the elderly, which has become an important challenge for systems of social protection in recent years as more people live into advanced old age and which is, therefore, examined under this head. At the same time, changes in health systems may also be linked to the promotion of social inclusion, notably by ensuring access for all to a high standard of care.

Key objective: making work pay and providing secure income

In recent years, there has been a re-examination across the Union of benefits, particularly, though not only, in respect of unemployment, and the conditions attached to their payment in terms of the incentive they imply to find a job. This has been prompted by the persistence of high rates of unemployment and a concern to ensure that social protection systems themselves do not encourage people to delay actively looking for a job or even to choose to live on benefits rather than to be employed. It has also been a response to a slowdown in real income growth and rising rates of tax and social charges on those in employment which has led to declining popular support for large transfers to those who are not working. As a result, measures have been taken in many Member States to limit the amounts transferred to those out of work, to tighten up the qualifying conditions for eligibility for benefit, to increase the pressure on the unemployed to find a job as quickly as possible, to step up efforts to counter fraudulent claims and abuse of the system, to shorten the period over which benefits are payable and, in a few cases, to reduce benefit rates. These measures have been applied not only to unemployment benefits but also to disability benefits and early retirement schemes, which had come to be used as effective substitutes for unemployment compensation in a number of countries, in recognition of the unlikelihood of many, especially those in their fifties with outdated skills, finding a job, but also because of their effect in reducing the published unemployment figures. This was particularly so in the late 1970s and 1980s when the number of people out of work rose markedly and long-term unemployment became a major problem.

Those efforts have been accompanied in all countries by increased emphasis on active measures to help those out of work find a job and to improve their employability, as a long-term means of reducing social transfers and the number of people dependent on benefits, as well as the length of time they remain out of work. Indeed, getting people into secure jobs with decent levels of pay is seen as the surest way of combating poverty and deprivation and, therefore, of ensuring their inclusion in society as well as giving them the possibility of fulfilling their personal aspirations. Accordingly, active labour market measures, and employment policy in general, have come to be used as a major weapon against social exclusion and are discussed further below under this head, though, as noted there, they need to be accompanied by action in other areas to tackle other aspects of exclusion if they are to be fully effective.

Changes in benefit systems have also been combined in some countries with attempts to make work more rewarding financially by introducing measures to increase the net income of those taking up a job, both through allowing them to continue to receive some support after they begin to work and by extending in-work benefits. These measures have been directed, in particular, towards encouraging people to take up low-paid or part-time jobs, which they might otherwise be reluctant to do if the earnings they received were little if any higher than the amount of benefit payment.

In-work benefits

This approach has been pushed furthest in the UK, where 'Family credit', aimed at increasing the net income of people in low-paid jobs with children, by paying them a supplement on top of their wage if their household income fell below a minimum level, was introduced as an in-work benefit some years ago. In addition to the introduction of a national minimum wage for the first time, 'Family credit' has recently been replaced by a more extensive and more generous scheme, the 'Working families' tax credit', guaranteeing all people in employment with dependent families, including lone parents, a minimum level of income (of GBP 200 a week – just over EUR 300 – for those in full-time work) and giving them a more generous allowance to cover the costs of child care. In addition, all maintenance payments to lone parents, following divorce or separation, are disregarded in calculating the new benefit.

A similar measure has also been introduced for people with disabilities, the 'Disabled persons' tax credit', guaranteeing them a minimum income if they take up full-time work at the national minimum wage. In addition, a pilot scheme, 'Employment credit', with the same kind of provision has been launched for people over 50 who are unemployed, with the aim of encouraging them to work, even if the only job they are able to get carries a much lower wage than they are accustomed to. (Details of these two schemes are set out in Chapter 4.)

There are also other benefits payable to those in work on low incomes in the UK as well as to those out of work, specifically 'Housing benefit' and 'Council tax benefit', the effect of which is similarly to increase the disposable income of those in poorly paid jobs and to encourage them to remain in employment.

The only other country in the Union in which in-work benefits are important is Ireland, where 'Family income supplement' has existed for some time and has covered an increased number of people in recent years as qualifying income levels have been raised and the conditions of eligibility and receipt made more favourable. Here a recent measure enables recipients of unemployment benefit to retain their dependent child allowance for a period of 13 weeks after taking up employment, so increasing the net income they receive, at least in the short term, and providing an extra incentive to start working.

Elsewhere, in-work benefits have also been introduced in a number of countries in recent years, with a similar end in mind, in other words to help people make the transition from unemployment into work but equally to encourage them to take part-time or temporary jobs. This has been the case for some years in Ireland, in the form of schemes such as the 'Back to work allowance' and 'Back to education allowance' or the 'One-parent benefit' which provide income support to people when they first return to work or education. In Austria, since 1998, people have been able to work in a job for a very short period (16 days) without losing their benefit providing they earn less than a given amount. In Germany, a flat-rate benefit was recently introduced for unemployed people on means-tested assistance (usually those out of work for some time) taking up temporary jobs for less than three months. Such measures are largely aimed at enabling the unemployed to gain work experience so as to improve their future employability.

In addition, a new provision in Germany allows people to work and earn a small amount (up to 20 % of their monthly unemployment benefit) without suffering any loss of benefit, though, in this case, while they might gain useful experience, it serves to narrow the gap between what they receive when unemployed and their potential earnings in a new job. In Portugal, unemployed people taking up part-time work may continue to receive benefit under a provision introduced in April 1999. In Belgium, those who were previously long-term unemployed can work in so-called SMET jobs in private services or in private households and in non-profit-making community activities under schemes organised by local employment services and earn a small amount without losing their unemployment benefit.

Changes in unemployment compensation schemes

The other changes which occurred over the 1990s in respect of unemployment benefit systems mainly involved efforts to contain or reduce the cost to social insurance schemes or public budgets, largely in order to keep down contribution rates or taxes. In the first half of the decade, in particular, as unemployment increased and budgetary problems worsened, steps were taken in a number of Member States to limit expenditure by restricting entitlement to benefit (through, for example, increasing the prior period over which contributions needed to have been paid) and/or by shortening the period over which benefits are payable. This was the case, for example, in Belgium, France, Spain, the Netherlands, Denmark and Sweden, as well as, in 1996, in the UK, with the introduction of the 'Jobseekers' allowance' (see *Social protection in Europe 1997*, Chapter 2, for details). In some cases, rates of benefits as such were also reduced during the 1990s (in Germany and Finland).

Efforts to restrict entitlement to benefit have continued in more recent years and have been combined with measures to encourage those already in receipt of benefit to find a job as soon as possible. In a number of Member States, therefore (including Denmark, the Netherlands and the UK), the definition of what constitutes a suitable job for an unemployed person to take up has been broadened, to encompass jobs which they are capable of doing with a minimum of training rather than ones similar to those they were doing before or which they have been specifically trained for. Refusal to accept a job considered suitable after being unemployed for a period of time (after three months in Denmark, for example) can lead to a loss of benefit, as can an unwillingness to participate in active labour market programmes.

In Germany, rules which define 'a suitable job' have also been widened. Under previous arrangements, unemployed people were assigned to a particular qualification level and were expected to accept any job offer at this level. Now, however, they are expected to take any reasonable job at a level of pay reasonably close to the one on which unemployment benefit is being calculated (i.e. the one they held before). The rules defining what constitutes 'reasonably close' have also been broadened. In the first three months of unemployment, they are expected to accept a job paying up to 20 % less than their previous one, in the following three months, up to 30 % less and, from then on, any job paying at least the same as the benefit they are receiving. Moreover, from 1998, anyone unemployed was expected to 'use all possible means of terminating unemployment', reinforcing the onus on them actively to seek work. These changes, however, have been accompanied by some softening of the rules governing unemployment benefit entitlement, aimed at encouraging recipients to take a lower paid job than they had before by guaranteeing that they will not subsequently lose out if they become unemployed again (see Chapter 4 below).

Furthermore, efforts have been made to widen the safety net provided to those losing their jobs. Accordingly, unemployment social insurance benefits have recently been extended to cover those with two or more part-time jobs, though 'part-time' here is defined as working at least 15 hours a week and receipt of benefit is limited to six months. The requirement that people entitled to benefit need to have worked for at least 12 months during the preceding three years has been slackened in respect of those who have been caring for children or dependent relatives as well as those starting up their own business. Though periods of caring as such do not give rise to entitlement to unemployment insurance benefit, they are in effect ignored when calculating entitlement so that the people concerned do not lose any entitlement they already had beforehand. On the other hand, the provision under which periods of maternity or parental leave could be treated like periods of employment in relation to unemployment insurance if they were taken after a period of paid employment or receipt of unemployment benefit, was abolished, implying a worsening of their position for the people concerned, who are predominantly women.

In certain countries, however, changes to unemployment benefit schemes have not been directed at reducing expenditure. In Italy, the government is in the process of reforming the system to improve the support given. The new system is intended to consist of: a scheme for redundancy benefits, more circumscribed than the existing Cassa Integrazione Guadagni, which applies most especially to those employed in large companies; a new expanded and more generous system of unemployment insurance, providing replacement benefits for a fixed period to workers losing their jobs; and a means-tested safety net for those workers who remain unemployed after their entitlement to insurance benefit expires. In Portugal, the period of entitlement to unemployment benefit has recently been lengthened for people in all age groups (to 18 months for those aged 30 to 40 and 24 months for those aged 40 to 45, for example), while in Belgium, the rate of benefit for single people was increased in May 1999.

At the same time, means-tested benefits which are related to household income may have the effect of discouraging people, mainly women, from working. This is still present in both the UK and Belgian unemployment benefit systems, even though the deterrent to working has been reduced in the recent past. In the UK, the hours a week which someone can work if their spouse is unemployed and in receipt of means-tested benefit was increased from 18 hours to 24 hours on the introduction of the 'Jobseekers' allowance', which means that people working longer than this need to earn more than the household receives in transfers to make it worthwhile to continue in employment. In Belgium, the income a partner of someone unemployed is allowed to earn from a job has been raised and, from 1997, indexed in line with inflation, but it remains relatively low, again being likely to deter many people from continuing to work.

Changes in disability benefits

As noted above, disability, or invalidity, benefits have been used in the past as a more 'acceptable' substitute for unemployment benefits in a number of Member States, especially in respect of the long-term unemployed. As in the case of unemployment benefit, in response to the significant growth of expenditure and the number of claimants over the 1980s and early 1990s, there has been a widespread tendency across the Union in recent years to try to reduce entitlement to benefit and restrict eligibility to those who are genuinely incapable of working because of their disability. This has been particularly so in the Netherlands and the UK, where, by the early 1990s, the relative number of people being supported on benefit had risen to a much higher level than in most other parts of the Union. In the mid-1990s, in both countries, reforms were introduced to tighten the qualifying criteria, to make the medical testing procedure more stringent and to widen the definition of the jobs that the person concerned is deemed capable of doing.

In both countries also, efforts have continued to be made in more recent years to cut the number of people dependent on disability benefits. In the Netherlands, where the number of claimants increased again in 1997, a measure was introduced in 1998 to shift some of the onus of policing the system on to employers, by charging them differential contribution rates according to the risk of their employees becoming claimants. Companies which generate more claims for benefit, therefore, face higher costs, which they can reduce by dissuading their employees to register as disabled, improving working conditions or adapting the working environment to make it easier, or possible, for employees with disabilities to work. They can also choose to opt out of the collective system completely and assume responsibility for providing income support for their staff who become disabled (as a few large companies have already done, though it seems unlikely that many will follow).

In the UK, where expenditure on disability benefits has continued to increase, measures are in the process of being introduced to tighten the qualifying conditions even further, with the explicit aim of excluding people who are really long-term unemployed and so put pressure on these to look for work. Moreover, it is planned to reduce benefit entitlement if the person concerned is receiving an occupational pension. At the same time, however, as noted above, a minimum income guarantee — an in-work tax credit — has been introduced for people with disabilities who move off benefit into a paid job, so making such a move more attractive, while a 'Disability income guarantee' is planned for those with severe disabilities, who require care both day and night. The rationale, therefore, is to encourage people who can do so to work, through a mixture of financial pressure and active assistance, and, at the same time, to increase the financial support for those who are unable to work.

The criteria for being eligible for disability benefits was also tightened in Austria in 1998 for the second time in three years. In Sweden, where spending on disability benefits in relation to GDP was higher than in the UK in 1996 and only slightly lower than in the Netherlands, reform of the system is in the process of being introduced. New principles adopted by parliament should link disability benefits more closely to sickness benefits in order to strengthen the efforts to rehabilitate people affected by illness or disability. In Denmark, on the other hand, where a substantial number of people are also in receipt of disability benefit (some 10 % of the workforce) and where spending on these was slightly higher in 1996 than in the UK relative to GDP, there is widespread recognition of the need to reform the present system, but so far relatively little has been done. In 1999, however, the central government reimbursement of the expenditure on benefits by municipalities — which are responsible for paying these — was reduced from 50% to 35% in order to encourage them to cut spending by increasing active measures.

Changes in disability benefit systems have also been made in the recent past in countries where expenditure is below average. In Italy, where, as elsewhere, disability benefits have been used as a substitute for unemployment benefits, an extensive panoply of controls has been introduced to verify the medical condition of benefit recipients, while, in addition, the possibility of receiving both disability benefits and income from work has been reduced. In Greece, in late 1998, receipt of benefit was made conditional on income being below a certain level and all cases of disability were re-examined. In Ireland, in contrast, where spending on disability benefits is small relative to GDP, the scheme was extended in 1997 to those in part-time residential care, who became eligible for part-time payment of 'Disability allowance'. Moreover, benefits were increased to couples who both have disabilities, and the complete withdrawal of allowances from someone whose spouse has income above a certain level was replaced by a progressive reduction, the level being raised in both 1997 and 1999.

At the same time, in Ireland, Greece and Spain, as in the UK, active measures to help people with disabilities into employment have been strengthened, as indicated below. In Austria, invalidity benefits are granted only for two years at a time and before entitlement is given or is renewed, efforts need to have been made to get the people concerned into work through rehabilitation measures.

Early retirement pensions

Along with recipients of disability benefit, the number of people retiring before reaching the official age at which a full old-age pension becomes due has also risen in the Union over the past 15 to 20 years, as indicated in Chapter 1, for much the same reason. Indeed, expansion of early retirement pensions and disability benefits are alternative responses to the problem of long-term unemployment. In some countries, like the UK and the Netherlands, the latter occurred, in others, such as France or Germany, the former. Just as for disability benefit schemes, the growing cost of early retirement, together with the prospective growth of people above retirement age, has led governments across the Union to seek to reverse policy and encourage older people to stay longer in the labour force rather than to withdraw prematurely. In most Member States, requirements for eligibility have been tightened and levels of benefit reduced.

In Denmark, in 1999, the years of contribution to an unemployment fund required to be eligible for an early retirement were increased (from 20 out of the last 25 years to 25 out of the last 30) and the amount of benefit reduced slightly, while payment has also been cut if the person concerned has a supplementary pension, whether they postpone actually taking this up or not. In addition, tax allowances were introduced for those over 60 who have the option of retiring early but who decide to remain in work and, for those working part time, the limit to the income they can earn whilst receiving a pension was abolished. Similarly, in Austria, the minimum number of years of contributions for those retiring early because of losing their job has been raised from 15 to 20 and for those taking early retirement for non-economic reasons, from 35 to 37½ years.

In Germany, the minimum age for eligibility for an early retirement pension is in the process of being progressively raised to 63 (those aged 62 who are long-term unemployed and receiving a social insurance benefit who wish to retire will still be able to do so up to 2012 but will have their pension cut by some 11 %). From 2012 on, no one will be able to retire before the age of 63. In Italy, the years of contribution payments required for early retirement are being gradually increased to 36 for all employees, including civil servants, who in the past needed to have paid contributions for only 20 years.

In three countries, Luxembourg, Portugal and Ireland, however, the possibility of early retirement has been extended, though in the first, with the aim of encouraging people to continue working on a part-time basis rather than retiring completely and in the last to a fairly limited extent. In a number of other countries, including France, Germany, Denmark, Finland and Austria (see *Social protection in Europe*

1997, Chapter 5), employees over a certain age can reduce their hours of work progressively until they reach retirement age in exchange for a partial pension. In Luxembourg, this possibility was extended to employees over 57, but under very restricted conditions, such as being employed in a firm having to make people redundant or on the verge of going bankrupt. In addition, as in Austria and Germany, employers are entitled to a reduction in social contributions if they take on someone who has been unemployed to compensate for the reduced hours. In Austria, the age limit for eligibility for a part-time pension has been reduced from 58 to 56 to diminish pressure on early retirement schemes. In Finland, to encourage people to remain in work longer, the minimum age for a part-time pension has been temporarily lowered from 58 to 56 between July 1998 and end-2000.

In Portugal, a more flexible retirement system was introduced in 1999, with people being able to take early retirement as long as they are 55 or older and have 30 years of contributions. Those who have been unemployed for a long time and whose period of entitlement to benefit has elapsed, providing they were 55 or more when they lost their job and have at least 20 years of contributions, are also eligible for an early retirement pension.

In Ireland, from 1997, older people who cease to be eligible for 'Carers' allowance' or 'One-parent family payment', because they no longer have caring responsibilities or a dependent child, can claim 'Pre-retirement allowance' immediately rather than having to wait the usual 15 months before being able to do so. Early retirement schemes in Ireland, however, are of relatively minor importance, with only around 14 000 people a year receiving benefit.

Sickness benefits

The same kind of scrutiny of disability benefits has also been applied to sickness benefit schemes over the 1990s. In two Member States, the Netherlands and the UK, responsibility for administering and funding the scheme was in effect shifted some time ago (in the former, in the mid-1990s, in the latter from the late-1980s on) to employers who are considered to be better placed to control and monitor sick leave. In the Netherlands, employers are further obliged to pay statutory amounts for extended periods of time to employees who are too ill to work, so giving them an incentive to discourage unwarranted periods of absence. Moreover, employers have to continue to pay at least 70 % of the employee's salary in the first year of disability. In other countries, such as Spain, efforts have been directed at intensifying the detection of fraudulent claims (with seeming success in this particular case in view of the progressive decline in expenditure).

Nevertheless, more recently, systems have been made more generous in two Member States at least. In Germany, where short-term sickness benefits had been reduced from 100 % of net salary to 90 %, the rate was increased back to 100 % at the beginning of 1999. In Sweden, where expenditure on sickness benefits fell markedly in the three years 1993 to 1996, both because of reductions in rates of benefit and lower levels of paid absence, the benefit rate was raised from 75 % of income loss to 80 % at the beginning of 1998 in the context of economic recovery, while shortly after, the period of sick leave which employers have to pay was shortened from 28 weeks to 14.

Family benefits and support to help reconcile work and family

Social protection policy towards the family and children takes three main forms. The first is to compensate, at least in part, for the additional costs of having children by paying child benefits or family allowances or by granting tax allowances. The second is to enable women to take time off work when they give birth and to receive a replacement income for a period of time, though entitlement to leave is being increasingly extended to both parents both immediately after the child is born and during the first few years when the child falls ill. The third is to provide help with child care and with caring for family members with disabilities or who are elderly and frail, either directly or through allowances. All three forms are important means of improving the income security of people with famil-ies. The third form, the provision of help with caring responsibilities, is also an important aspect of ensuring social inclusion for the people concerned.

Equally, all three have a potential effect on work incentives. Assistance with child care can be critical in many cases in determining whether it is possible, or financially viable, for people with caring responsibilities — predominantly women, in practice — to work at all. Maternity benefit arrangements and parental leave entitlement can also adversely affect work effort, though, at the same time, they can make it easier to reconcile having children with the pursuit of a working career, quite apart from their beneficial effect on the health and well-being of the parents concerned. Family allowances, by providing households with additional income, reduce the financial pressure on both parents to work and make it possible for one of them — again usually the woman — to stay at home to look after the children. At the same time, the potential importance of benefits on the incentive to work depends in large measure on their differential effect on household income if both partners work rather than just one.

In practice, in most countries in the Union, the same amount of family benefit is paid irrespective of whether one, both or neither parent is in paid employment and irrespective of the level of earnings from this. In these cases, benefits do not affect the disposable income earned by the second parent working and, to this extent, therefore, benefits have a neutral effect on the decision to work or not to work.

In Greece, the amount of family allowance payable used to vary with household income as well as with the number of children but, in 1999, it ceased to be dependent on the former. In Ireland, support provided to families has been increased significantly in recent years, through raising universal child benefits (by over 20 % in the three years 1997 to 1999) rather than through increasing the numerous add-on payments for children which benefit recipients are eligible for, so reducing potential work disincentives. Similarly, in the UK, child benefit was raised substantially in 1999 and 2000, especially for the eldest or only child, with much the same aim of increasing the incentive to work of people with children.

In Germany, child benefits for the first and second children were raised by almost 14 % at the beginning of 1999 and are due to be raised by another 8 % in 2000 together with child tax allowances. At the same time, the tax-free income of taxpayers, which is set to secure a minimum level of subsistence for households, was raised in 1999 to around EUR 6 650 a year for a single person and around twice this level for a married couple. In Luxembourg, there has been a deliberate shift in the targeting of support towards low-income families with a reduction in child tax allowances (which tend to favour higher income earners who pay higher rates of tax and, therefore, gain proportionately more than those earning less) coupled with an increase in child benefits of an equivalent amount (some EUR 300 a year per child). Family allowances have also been increased in Austria. Though these are not dependent on income, a means-tested supplement was introduced in 1999 for the third and each subsequent child.

In Italy and Portugal, benefits are reduced if income exceeds a certain level, though in the latter case, in particular, the number of families affected is relatively small (see *Social protection in Europe 1997*, p. 42, for details). A similar policy was introduced in France at the beginning of 1998 (op. cit.) but was cancelled at the beginning of 1999 because of its unpopularity. Instead, the maximum value of tax allowances for children was reduced from around FRF 16 400 a year (EUR 2 500) to FRF 11 000 (EUR 1 677), although the age limits for children to give entitlement to the various benefits were raised by one year (from 19 to 20 for a family with two children) together with the age limit for entitlement to increases (to 11 instead of 10 and 16 instead of 15).

In Italy, as in Austria, a new means-tested benefit was introduced in 1999 for all families with more than three children below 18, which, while providing increased assistance to low income households, also increases the financial disincentive to work for the people who qualify.

The main developments in this area, however, have been aimed at improving child-care support and parental leave possibilities, the latter encouraged by the recent Community directive on this. Both developments are motivated by a concern to make it easier for people, whatever their family circumstances, to take up paid employment.

Parental leave provisions to take care of young children were extended in a number of Member States. In Austria, where entitlement to leave had been reduced from 24 months to 18 in 1997 if only one person exercised the option, an additional element of flexibility has been introduced starting in 2000, enabling receipt of the parental leave allowance to be postponed for six months up until the child is seven years old, in line with the Union directive. In Denmark, where leave entitlement was already one of the most generous in the Union, enabling a parent to stay at home for up to one year after the birth of a child, an additional paternity leave entitlement of two weeks at the end of the period of parental leave was introduced in 1998, on top of the two weeks entitlement immediately following the birth, and in 1999, the benefit payable during this period was increased to 100 % of the person's wage.

In Luxembourg, a new paid parental leave provision was introduced in 1999 for parents who have worked in the same firm for at least a year, enabling one parent to take six months off after the birth of a child or to work part time for 12 months. The benefit payable is flat rate and not taxable and is halved for those working part time. The second parent may also take a leave in the same conditions till the child is five. In addition, parents have the right to take time off if a child is sick and to receive replacement income from government at the same time, though entitlement is limited to two days a year for each child under 15.

In Belgium, legislation was introduced at the beginning of 1999 giving more people (3 % of private sector employees) the right to interrupt their careers than before (1 %). This applies in three different kinds of circumstance: firstly, each parent is entitled to six months leave (previously three months) after the birth or adoption of a child; secondly, one person in a household has the right to leave to provide terminal care for relatives (two periods of one month); thirdly, they are also entitled to take time off (one year full time or two years part time) to look after relatives in need of care. In each of these circumstances, the monthly allowance was increased to around EUR 500 for full-time leave and half this for part-time leave.

In the Netherlands, the entitlement to six months unpaid part-time leave for each parent was extended in 1997 from children up to the age of four to children up to the age of eight and the maximum number of hours which someone could take off during this period was increased to the number of hours normally worked in a 13-week period. Legislation on work and care is in preparation to combine the right to maternity leave and the right to take time off to look after a sick child with the right to flexible working hours in a single, coherent scheme. The proposed scheme consists of entitlement to 10 days leave a year, paid at 70 % of salary, with employers, who will be responsible for paying, being compensated through fiscal concessions.

In Ireland, an unpaid parental leave scheme was introduced at the end of 1998, giving those with at least a year's continuous employment with the same organisation entitlement to up to 14 weeks of unpaid leave in respect of children born or adopted after May 1998. The leave, which must be taken before the child reaches five, can be taken in one go or over a period. Entitlement to *force majeure* leave — paid leave to enable employees to deal with family emergencies such as injury or illness to a family member — of up to three days in any 12-month period or five days in any 36 months, was introduced at the same time.

In two Member States, Italy and the UK, where entitlement to leave was relatively limited before, legislation was introduced in 1999 to extend this significantly. In Italy, a draft bill has been presented to parliament in order to establish the right to 10 months leave for either parent until the child is eight, together with benefits of 80 % of earnings up to the age of five months and 30 % up to the age of three. In addition, in July 1999, maternity benefit was extended, on a means-tested basis, to women who were not in the labour force. In the UK from December 1999 employees will have the right to three months unpaid leave in respect of each child under five. Benefits will be available under the normal rules, but with income support also available to couples on a low income who take statutory unpaid child-care leave. In addition, all employees will have the right to take reasonable time off in family emergencies. People who exercise their right to parental leave and emergency time off will have their employment protected. In addition, the minimum maternity leave entitlement has been increased for all employed women, including those working part time and the self-employed, from 14 weeks to 18 weeks.

In Portugal, maternity leave was raised to 110 days in 1999 and will be further increased to 120 days in 2000. At the same time, parental entitlement to special leave to care for children has been increased from six months to two years, and up to four years if the child is handicapped and under 12, in which case a special allowance is payable. In Spain, new legislation will allow both parents to take parental leave and will increase the possibility of taking time off to care for adopted children or other family members. It will also make it illegal for employers to dismiss women because they are pregnant.

Child-care arrangements have also been improved in a number of Member States, especially in those where support has been limited in the past. In the Netherlands, from 1999, lone parents who are looking for a job or undergoing training and are in receipt of a social transfer are entitled to reimbursement of after-(primary) school child-care costs if their income falls below a certain level. Moreover, temporary measures are being taken to extend care places for children between 4 and 16, with extra subsidies being paid to municipalities for these, while a long-term solution is sought.

In the UK, as noted above, a new child-care tax credit was introduced in October 1999 for low-income families claiming 'Working families tax credit', giving a maximum amount of GBP 70 a week (around EUR 105) for one child and GBP 105 a week (EUR 158) for two, so assisting both lone parents and couples to work. In addition, the objective has been announced of increasing out-of-school child-care places by 40 000 by 2003 in England alone, with additional expansion in other parts of the UK.

In Spain, the maximum deduction allowable in the computation of income tax for child-care costs for children under the age of three with both parents working was raised from ESP 25 000 (EUR 150) to ESP 50 000 (EUR 300), the average allowance increasing by some 25 %. At the end of 1998, however, there was a shift from tax credits to tax allowances, so favouring the better off (i.e. those paying tax at higher rates and so enjoying a larger reduction in the amount of tax paid).

In Greece, a pilot project has been launched to extend the time children spend in nursery and elementary schools to the whole day and to open State day-care centres in the afternoon as well as the morning, in order to enable mothers to have full-time jobs (there are fewer part-time jobs in Greece than anywhere else in the Union). It is also planned to have a small number of State day-care centres, mainly in the large urban centres, operating late at night. Similarly, in Portugal, the network of nurseries has recently been expanded.

Key objective: promoting social inclusion

Policy in each of the broad areas of social protection considered above can contribute to preventing social exclusion and ensuring that everyone can fully participate in society. Whereas previously the main, and, in some cases, the sole objective, was to provide an acceptable level of income to those of working age who, through no fault of their own, were unable to work and earn a living, the emphasis of policy across the Union has shifted increasingly towards helping such people find a job and to end their dependence on benefits.

At the same time, the lack of a job is only one aspect of social exclusion, though it may be the most evident and the most important problem to address in tackling the issue. Nevertheless, social exclusion also stems from other factors, including, in particular, a lack of access to education and vocational training, on which the chances of obtaining a secure, well-paid job as well as being able to play a full role in society depend, a lack of access to a decent place to live and to adequate levels of health care and social services to provide support for those with caring responsibilities. Addressing these problems is an equally important part of a policy for social inclusion and, as noted above, there has been an extension of support for people with caring responsibilities in a number of Member States.

People who are unemployed, particularly those who have been out of work for a long time, are a primary target of policy. In all Member States, governments have committed themselves to increasing the effort devoted to active programmes, aimed at providing job search assistance and improving employability, in relation to passive measures of income support. But efforts have also been targeted at people with disabilities, whose handicaps are not so severe to prevent them from working, and older people, who in growing numbers have opted for early retirement, in many cases because they have lost their job and could not find another one. Equally, they have also been applied to those who, because of personal circumstances, have difficulty in working, such as lone parents with young children or people with social problems, and who are reliant on social assistance or minimum income guarantee schemes.

In the case of young people and the long-term unemployed, following the adoption of the employment guidelines for 1998 and 1999, all Member States have introduced measures to ensure that everyone out of work for more than a certain time (six months in the case of those under 25 and 12 months for those of 25 and over) has access to an active measure of some kind or a subsidised job. In a number of countries, to achieve this has involved much closer coordination between active and passive measures — and between the officials responsible for administering these. In the extreme, in the UK, the individuals concerned have a single point of contact with all the different agencies involved in providing assistance, both financial and practical. Individuals are also required to take part in work-focused interviews as a condition of benefit.

These measures have also been accompanied by efforts to tailor the assistance offered more closely and systematically to individual needs in order to increase the effectiveness of policy in getting people into work. In a number of Member States, therefore, individual action plans are drawn up at an initial stage, setting out the concrete steps to be taken to give the person concerned the best chance of finding a job, and regular meetings are then held to monitor their progress.

Such measures are not confined to those registered as unemployed but have also been applied to people with disabilities in some countries (such as Belgium, France, Ireland, Finland and the UK), where steps have been taken to provide personal advice on employment or training options and to integrate them into active labour market programmes (see Chapter 4 below for details). These measures have been supplemented by action to improve the working environment for people with disabilities and provide better access to buildings and means of transport. Similarly, in the Netherlands and the UK, in particular, the same kind of assistance has recently been introduced for lone parents, especially those with children over five. In the Netherlands, since 1996, lone parents receiving social assistance and whose youngest child is over five are required to look for a job as well as to participate in active programmes. In the UK, active assistance is combined with tax credits to ensure a guaranteed level of income from work and to help with the costs of child care.

A primary objective has been to improve the employability of those unable to find a job through the provision of training and, in the case of young people, to try to ensure that those entering the labour market have at least a minimal level of education and some initial vocational qualifications to give them a reasonable chance of obtaining employment. Where this is not the case, measures have been introduced in a number of countries to give the people concerned a second chance of acquiring such qualifications, such as in Austria, Denmark, Germany and France, for example (see Chapter 4 below for details).

These measures have been supplemented by the significant growth of subsidised jobs in the private sector or job creation measures in the public sector in many countries, including, in particular, in Belgium, Denmark, Germany, France and the Netherlands. In Belgium, subsidies have taken the form of the direct activation of unemployment benefits, in the sense that the transfers which would have been paid to the unemployed, especially the long-term unemployed, are paid instead to employers providing jobs for them (so-called 'SMET jobs'), who are also exempt from paying social contributions. In addition, unemployment benefits and minimum subsistence allowances — or, more specifically, the saving of these — have also been used to create additional jobs for the long-term unemployed in the public sector, in cooperation with the regions and local authorities, in recreational, cultural and environmental activities.

In Denmark, 'flexi-jobs' were introduced at the beginning of 1998 as a response to the increasing difficulty of getting people off benefit or social assistance and back into work, as unemployment was reduced and the more employable of those affected found jobs. Such jobs are subsidised in relation to the estimated reduction in the capacity of the person concerned to work. In addition, in 1999, the government and municipalities agreed to create 4 500 'senior' jobs in the public sector specifically for those of 50 and over who are long-term unemployed. As part of the establishment of a more accommodating labour market, a goal has been set of creating 30 000 to 40 000 flexi-jobs by 2005, all them covered by collective agreements.

In Germany, more autonomy has been given to municipalities and 'job creation associations' to initiate schemes, which have been extended to those unemployed for 6 out of the last 12 months in order to prevent them becoming long-term unemployed. Moreover, the range of structural adaptation measures for which employers can receive subsidies if they create new jobs for the unemployed has been extended (to business and tourist infrastructure, for example) and the period for which subsidies are payable lengthened to a maximum of five years in certain areas (in the new *Länder* and regions of high unemployment).

In France, the aim was announced in 1998 of creating 700 000 new jobs for young people, half of them in the public sector, paid at the minimum wage and lasting for five years, and directed at meeting local needs which have so far not been met by the market, especially in cultural, education, recreational and environmental activities. By the summer of 1999, 200 000 jobs had been created. The other 350 000 jobs are to be created in the private sector, but so far no precise information is available on progress.

In the Netherlands, over 65 000 people who had previously been unemployed were employed in 'Melkert jobs' in 1996, some two thirds of them in the public sector. In 1998, the existing job creation schemes were integrated into the WIW (Act on the mobilisation of job-seekers) for the long-term unemployed and labour market participation of people with disabilities was stimulated through REA (Act on reintegration of handicapped persons) programmes. In addition, schemes were no longer confined to young people and the long-term unemployed but became open to everyone out of work unable to find a job. The subsidies granted are intended to lead either to the person concerned being able to find a normal job or to the provision of socially useful services. Working hours are 32 a week, payment is at the minimum wage and jobs can last for a maximum of four years.

The provision of subsidised jobs, training and other active labour market programmes designed to get people into employment has been complemented in a number of Member States in recent years by measures to ensure access to a high standard of health care for everyone as well as by an extension of child-care support, as noted above.

Ensuring health care to all

In Sweden, there was growing concern about the possibility that some low income households, especially those with children, would avoid using the service to the detriment of their health and so to their life chances. Charges for children were, therefore, abolished in 1998 by the county councils. In Spain, parliament decided in 1999 that all immigrants, legal and illegal, should have access to health care on the same conditions as Spanish nationals. In France, similar concerns led to the extension of basic health care to another 150 000 people in summer 1999, through making membership of the social insurance system compulsory and so achieving universal coverage. At the same time, free supplementary health insurance was granted to around 6 million people with a monthly income of below FRF 3 500 (EUR 534).

In Belgium, structural measures were introduced in 1998 in order to improve access to health-care insurance for the whole population. Regulations governing membership of insurance schemes were relaxed by abolishing the waiting period and the requirement of six months residence in Belgium, while contributions of people on low incomes were reduced as was the cost borne by people who are chronically sick. Similarly, in a number of other countries, the charges paid by users of the service, which have generally risen across the Union over the years in order both to provide additional funding and to discourage excessive demand for treatment and drugs, have been reduced in the recent past. This is the case in Germany and the Netherlands, both because of concerns about maintaining access to health care to all and because of the lack of cost effectiveness of co-payment measures.

In the UK, the government has been studying the findings of a report into health inequalities, published by an independent scientific advisory group in November 1998, which concluded that although average mortality has fallen over the past 50 years, there were still unacceptable inequalities in health which, in some cases, had widened in recent decades. These were related to income levels, education, employment and ethnic origin, as well as to the environment and lifestyle and, therefore, called for a policy response in a number of different areas rather than simply health care. Three aspects were regarded as crucial:

- all policies likely to affect health should be evaluated in terms of their impact on health inequalities;
- high priority should be given to the health of families with children;
- further steps should be taken to reduce income inequalities and improve the living standards of poor households.

In addition to the action taken to help people find employment and to make it easier for them to reconcile family responsibilities with having a job, changes have also been made to income support measures in a number of Member States, not only to try to eradicate deprivation and ensure that all households do not fall below the poverty level, however defined, but also with the explicit aim of encouraging those in receipt of social benefits to find a job.

In Denmark, for example, from mid-1998 on, receipt of income support has been made dependent on people participating in schemes designed to increase their self-reliance. In France, the potential disincentive for people to find a job caused by the withdrawal of several social assistance allowances was alleviated in 1998. The possibility, which already existed, for some means-tested benefits *(allocation de solidarité spécifique, revenu minimum d'insertion)* to top up wages has been increased. The periods over which this is possible have been extended and the levels of income permitted raised. This possibility has also been extended to other categorical allowances for lone parents and widows *(allocation de parent isolé, allocation d'assurance veuvage)*. At the same time, a national observatory for poverty has been set up and a commission established. Some tapering of benefit withdrawal as the income earned increases has also been introduced in Belgium, together with increases in allowances and the provision of training for those on minimum income support.

In Italy, a pilot scheme for a new means-tested benefit to guarantee a national minimum level of income for the first time in the country (defined in relation to a poverty threshold and adjusted for the number of people in a household) was launched in 39 local communities in June 1998. The income against which the need for support is assessed is subject to an earnings disregard of 25 % in order to maintain a financial incentive to work, while, at the same time, recipients of benefit who are not in work but capable of working are obliged to participate in a training course.

Elsewhere, concern has centred on reducing the incidence of poverty by improving or extending income support measures for people whose income falls below what is regarded as an acceptable level. This is the case in Austria, where, following a working group report in 1999, a model has been presented for safeguarding minimum standards.

In Ireland, reducing poverty and social exclusion have been accorded an important place in public policy, not only for their own sake, but also because it is considered that social deprivation has a damaging effect on economic competitiveness. All cash transfers have therefore been raised to a level commensurate with the minimum recommended by the Commission on Social Welfare when it reported in 1986, and planned expenditure on inclusion measures have been increased substantially for the three years from 1999. In addition, significant new policy initiatives and government measures introduced during the year from September 1998 were subject to a process of assessment in terms of their likely impact on poverty and inequalities for a one-year trial period. The results of this pilot phase will shortly be reviewed.

In Finland and Sweden, changes have recently been made to the arrangements for social support in order to improve the coordination between national and local authorities and to try to ensure that everyone in need receives a minimum level of income. At the same time, however, in both countries, efforts have been made to reduce expenditure. In Finland, benefits have been reduced, especially for large families, and housing cost allowances have been cut. The aim has also been to increase both the financial incentive to take up a job by reducing the income received from benefits as compared with income from work and personal responsibility for housing costs by introducing a self-risk component. In Sweden, reform of the housing benefit system took place during 1998 and 1999, with the aim of improving the targeting of assistance but also of reducing spending, the main change being the awarding of benefits according to estimates made by recipients of their income for the coming year, with penalties imposed if the estimate turns out to be too low.

Key objective: making pensions safe and pension systems sustainable

The prospective ageing of the population throughout the Union and the significant growth in the number of people above retirement age in 10 to 15 years time has focused attention in all Member States on the consequences for expenditure on old-age pensions and its funding. At the same time, there is growing evidence in a number of countries of an increase in real income of those in retirement relative to other age groups which seems to have occurred in recent years as a result of the spread of occupational and supplementary pensions taking effect. While there is a continuing concern to ensure that people have adequate levels of income in their retirement, this is coupled with a concern to make sure that pension commitments in future years can be met and that their funding will not impose an unsustainable cost on future generations, especially those in work, in terms of the transfer of income required.

The measures introduced, or being contemplated, have taken a number of different forms, with the common emphasis, however, being either on limiting the future transfers which will be necessary, particularly those which future governments will be responsible for effecting, or increasing the finance available. In particular, the measures taken in recent years include increasing the official age of retirement or the number of years of contributions required to qualify for a full pension, reducing the amount of benefit paid in relation to past earnings or relating pension entitlement more closely to the contributions paid, and creating special funds to finance future pension payments. The latter essentially means moving from a 'pay-as-you-go' system, under which present pension payments are financed from present contributions, towards a 'funded' system, under which present contributions are fixed in relation to future pension liabilities — so that, in some sense, the present generation funds its own pension entitlements rather than those of the previous one — without going all the way to full funding.

At the same time, in a number of Member States, especially those in the south of the Union but also in Ireland, where there are significant gaps in coverage, there has been some increase in the effective income support provided, while in others, access to a reasonable level of pension has been widened to include groups who, largely because of caring responsibilities, have difficulty in building up the necessary contributions record.

In Germany, Belgium, the UK and Austria, steps have already been taken to increase the retirement age of women to 65 to bring it into line with that of men, as in a number of other Member States, though in Austria this process will start only in 2018 and will not be completed until 2034. At the same time, the reference period for the calculation of civil servant pensions has been brought into line with those in the private sector, the basis being changed from final salary to the salary over the best 15 years, so in effect reducing the amount significantly in many cases (though in all other respects the special provisions applying to civil servants have been maintained).

Similarly, in both Italy and Luxembourg, the rules applying to the determination of pensions in the public sector, in terms of age and contribution requirements, have been harmonised with those for employees in the rest of the economy instead of being more favourable (though, in both cases, there are transitory arrangements for current civil servants). In addition, in Spain, the basis for calculating pension entitlement for all employees is in the process of being progressively extended, by one year each year, from salary in the best eight years to that in the best 15 years.

In Sweden, housing supplements to low income pensioners have been improved twice since 1997, so that they now cover up to 90 % of housing costs of between around EUR 12 and 500 a month. Moreover, the first piece of legislation resulting from the major 1994 reform was passed in January 1999, though the first payment under the new system will not be made until 2001 because of delays in implementation. The new system (described in the 1997 *Social protection in Europe* report) is based on defined contributions of 18.5 % of earnings, 16 % of earnings going towards financing current pensions on a pay-as-you-go basis, the remainder, 2.5 % of earnings, being deposited in personal pension schemes on a funded basis. These arrangements are intended to cope better with variations in economic growth and demographic changes, in that the amount of pension received will be related more closely to earnings over a person's life, though they will be introduced only gradually so that they will apply in full only to people born in 1954 or later.

In Denmark, substantial changes have been made to both State pensions and special early retirement schemes with the aim of postponing retirement and making it more gradual. The age for eligibility for State pensions has been lowered from 67 to 65 for those turning 60 on or after July 1999, who will therefore be entitled to a full pension in 2004. In addition, the calculation of pension will take account of part of any personal pension receivable. Both changes should lead to a reduction in public spending on pensions. At the same time, since people become eligible for the special early retirement scheme from age 60, new rules have been introduced to encourage them to remain in work until at least 62, while the tax allowance for pensioners with earnings from work has been increased to give them an incentive to continue in employment after 65. Apart from these changes, contributions were raised in 1998 by incorporating an extraordinary charge of 1 % levied in 1997 on all income from work and social transfers into the system for funding supplementary pensions on a long-term basis. These contributions go into a special account which becomes payable to the people concerned when they retire.

In Italy, the indexing of the highest pensions (those exceeding EUR 1 800 or so per month) was frozen completely for 1998 and will have less favourable indexing rules applied to them for the years 1999–2001, while in Germany, the growth of expenditure on pensions has been reduced by indexing the rate to price inflation rather than to increases in wages for both the years 2000 and 2001. At the same time, however, the 1999 reform, aimed at gradually reducing pensions from 70 % of the average net wage to 64 % in future years has been temporarily suspended until the end of 2000.

In order to provide more funding for pensions, the contributions paid by higher and middle income earners in Spain have been increased without compensating rises in future pension entitlement, while in Italy, contributions paid by the temporary self-employed who were not members of an ad hoc occupational insurance fund have been increased from 10 % of income to 12 %.

In the Netherlands, by contrast, a ceiling on contributions for employees and the self-employed of 17.9 % of earnings was imposed in 1999 in respect of the State pension (AOW) and any additional funding required to cover expenditure will come directly from government. At the same time, however, to meet the possible need for this, the government has set up a special fund, into which it contributes a specified amount each year, the level being fixed according to the peak in expenditure, which is forecast to occur in the years after 2020. Accordingly, therefore, there has been an effective shift of financing from contributions to taxes.

In France, where the number of years of contributions required to qualify for a full pension in the private sector was raised from 37.5 to 40 in 1993 and the amount of pension payable was related to the best 25 instead of 10 years, a report commissioned by the government has proposed that the years of contributions required for a full pension should be increased further to 42.5 and that the contribution requirement for public sector pensions should be brought into line with that in the private sector. A fund was created in 1999 to consolidate the finance available for pensions by amalgamating the income from social solidarity contributions and the surpluses of the old-age solidarity funds. There are also signs of a softening of attitudes towards private pension schemes.

In Ireland, in order to help cover the future costs of both State old-age and public service retirement pensions, the establishment of a social welfare pension fund and a public service pension fund was announced in mid-1999. In addition to most of the proceeds from the recent privatisation of the State telecommunications company, it is proposed that tax revenue representing 1 % of GNP be apportioned to these funds annually. The first steps to encourage personal responsibility for pensions have also been taken, though so far these have centred on increasing awareness of the need. Here, however, largely because of the high rate of economic growth achieved in recent years and the increased revenue which this has generated, the full rate of employees' social contribution was reduced by 1 percentage point in 1997. At the same time, the basic State pension was increased by more than other elements of social protection in both 1998 and 1999 (by around 6 % and 7 % respectively). A new pensions bill, to be published early in 2000, will create the legislative framework for increased supplementary pension provision.

In Italy, social and minimum pensions were raised at the beginning of 1999. Moreover, a new legislative framework for supplementary pensions has been established, providing significant tax incentives for the transformation of the company-based schemes into proper funded schemes for the payment of supplementary pensions.

In Spain, an agreement between the government and the trade unions in September 1999 led to a substantial increase in minimum and non-contributory pensions, involving an additional cost of ESP 1 000 million (around EUR 6 000 000). This was triggered by unilateral decisions on the part of the regions to increase non-contributory pensions in late 1998 and early 1999. In addition, a small fund was set up in September 1999 in order to help cover the future cost of retirement pensions.

In Greece, reform of pensions began in 1997 with the creation of a contributory basic pensions scheme for farmers and continued, in 1998, with special arrangements aimed at combating social contribution fraud. In 1999, the focus shifted to rationalising the extremely fragmented system which exists. So far, three pension funds for the self-employed have been merged into one, another 68 supplementary schemes have either been wound down or amalgamated and there are negotiations taking place to create a single fund for bank staff from the present five. The next step, still under discussion, is likely to be consideration of a major reform with the aim of safeguarding future pensions and ensuring that pension schemes are sustainable in the long term. A new regulation due to come into force after 2001 is directed at controlling the payment of pensions to people who are still in employment, with pensions being suspended for those under 55 who start working again and being reduced by 70 % for those over 55.

In the UK, where private pension provision has gone further than elsewhere in the Union and where, accordingly, funds have been created to a greater extent to meet future pension liabilities, there has been considerable debate on pensions since the present government took office in 1997. A process of reform has been launched, broadly aimed at encouraging people to save for their old age, so reducing the cost falling on the State, and at changing the present 60–40 split between public and private funding to 40–60 in favour of the private element. The new second pillar State pension which is planned will give recipients on low earnings around twice the amount they receive under the existing scheme (SERPS). In addition, contributions will be credited to those caring for children or people with disabilities. For wage earners on slightly higher income (i.e. those with earnings above GBP 9 000 or around EUR 13 500 a year) who do not have an occupational or personal pension (estimated at around 3 million people) or whose personal pension is inadequate (a further 1 million or so), the proposed 'Stakeholder pension' scheme is intended to encourage people to take out private pensions, which need to conform to the minimum standards which the government will define and monitor.

Nevertheless, so far, the only concrete change to have been made is the introduction of a minimum income guarantee for pensioners in 1999, the income in question being higher than under income support and increasing at the age of 75 and again at 80. The hope of the government is to make an early impact on poverty among the elderly, especially the very old who may well have additional expenses to meet caring needs. Moreover, unlike income support, it will be linked to increases in wages rather than prices, so maintaining the relative income of pensioners rather than just the real income. Legislation introduced in 1999 also ensures equitable pension rights for both partners in cases of divorce or separation.

At the same time as efforts in most countries have been centred on making pension systems sustainable over the long term, improvements have been made in a number of Member States in the prospective level of entitlement for disadvantaged groups. In addition to the UK, credit for periods spent looking after children or adults in need of care has been extended in Luxembourg, Germany and Austria. Moreover, people on non-standard contracts of employment, especially those working part time, have been accorded increased pension rights in Germany, Spain and Luxembourg. Similarly, in Finland, social insurance, including entitlement to pension, was extended to everyone in employment in 1998, even those with temporary jobs of less than a month and/or whose monthly salary is below the minimum wage.

Key objective: ensuring high quality and sustainable health care

The pressure on systems of social protection across the Union manifests itself in a growing demand for health care and social services. In virtually all Member States, attempts have been made in recent years to limit the rise in health expenditure without reducing the quality of service or restricting access to treatment and care. These have taken a number of different forms, in line, in part, with the historical development of the system in place, the way that it is organised and funded and the prevailing standard of service, all of which differ significantly from country to country, making it difficult to transfer policy which has been successful in one to others.

However, there is evidence of a number of common developments in Member States. In particular, responsibility for managing services and expenditure and for determining the allocation of resources has been devolved from the centre to the regional or local level or even to individual hospitals or practitioners in most countries, the aim being to improve efficiency by enabling the services provided to be adjusted more closely to local needs. At the same time, central government has tended to exercise tighter control over overall spending, either directly through limiting budget allocations in countries where there is a national health service or indirectly through limiting contribution rates or the fees charged in those where there is an insurance-based system. This has intensified the pressure on providers to increase cost effectiveness. In addition, as noted above, there has been a widespread tendency to extend co-payment for pharmaceuticals and treatment, increasing the cost borne directly by the consumer, or patient, so encouraging them to take this into account when deciding their needs.

In most Member States, operational responsibility is more and more exercised at the regional or local level. In the Netherlands, an important means of tackling long waiting lists for treatment and home care for the elderly has been to address the problem at the regional level and provide support for improved management as well as an increase in funding. At the same time, attempts have been made to prevent the health insurance funds from taking financial risks in respect of hospital fixed costs, over which they have no control. To this end, a new budgetary procedure was introduced in 1996, distinguishing between the costs of hospital care that insurance funds can and cannot influence, and specifically dividing the fixed costs of hospital care from the variable costs.

In Spain, 7 of the 17 regions have direct responsibility for health care in their area, while in the other 10, health services are managed by Insalud (the central health authority). Up until 1998, funds for both systems were transferred from the Insalud central budget on a per capita basis, but since then, in order to increase cost effectiveness, elements such as morbidity patterns, the age composition of the population, migration between regions and the teaching needs of hospitals have been explicitly taken into account. In Ireland, the eight regional authorities became fully responsible for all operational decisions affecting services in their areas at the beginning of 1999, while in Italy, the operating autonomy of local health enterprises and hospitals was increased in mid-1999. At the same time, however, the role of the centre in planning and setting standards was strengthened.

In Greece, proposals for reform of the health-care system have recently been made, aimed at improving cost effectiveness. The intention is to create an autonomous national board, including the main health social insurance funds and accountable to the Minister for Health, for managing health services. This new unified body will receive funding from the public budget which should be an incentive for smaller social insurance funds to join. Because of their involvement, some equalisation of the services provided by the five largest funds is also expected to occur. In addition, the board will allocate resources to new regional boards with responsibility for managing resources in their respective regions. The national board, however, will be responsible for contracts with suppliers and for monitoring and evaluating the health services provided.

The introduction of price signals and quasi-market mechanisms to create a more structured and more clearly demarcated relationship between providers and purchasers, or consumers, has taken place in a number of countries. This includes the drawing-up of formal contracts between them specifying their respective obligations and the terms for different kinds of treatment and services. In Spain, Insalud launched a strategic plan for the period 1998 to 2000 at the beginning of 1998 to extend quasi-markets into health-care provision and to introduce some competition between suppliers, though this has led to some resistance from unions. Quasi-markets and managed competition had already been introduced by regions with direct responsibility for health care, such as Catalonia in 1990. At the same time, tax concessions for personal private health-care insurance were withdrawn, though they were introduced for companies providing private insurance for their employees. In addition, expenditure on pharmaceuticals was reduced, through allowing generic medications to be prescribed and publishing a new list of drugs for which public funding will not be available, though this last measure has met some resistance from the regions.

In Italy, a new system of patient co-payment, based on the income as well as the medical condition of the person concerned, was introduced in some areas on a trial basis towards the end of 1999. In June 1999, a broad reform bill was finally approved providing a legislative framework for the establishment of 'mutual integrated funds', financed by ad hoc contributions from employers and employees, managed by firms, trade unions or regional authorities and aimed at reimbursing non-essential treatment not routinely provided by the health service. A controversial point in the bill concerns doctors employed by health service hospitals, who if they opt for a full-time contract of employment with a hospital, will be prohibited from drawing fees from treating patients outside the hospital. The intention is, instead, that hospitals should be responsible for fee-for-service care provided by doctors on top of their contractual obligations.

In Austria, the austerity measures implemented in 1996 to contain the cost of health insurance included for the first time, as from 1997, a fee for doctors' certificates, though children, the elderly and those with contagious diseases are excluded. Similarly, in Luxembourg, the deficit on health-care provision in 1997 led to increases in insurance contributions and a reduction in the reimbursement of the cost of certain medications. However, when revenue exceeded expenditure in 1998, contributions were reduced again.

In Sweden, where charges for treatment had been increased significantly during the 1990s, concern grew about the possibility of low income households avoiding using the health service to the detriment of their children's health and, accordingly, to their life chances. Charges for children were, therefore, abolished by county councils in 1998. This, however, then attracted criticism that it could lead to the excessive consumption of costly treatment or care and that the same objective could have been achieved by lowering charges rather than abolishing them completely, so retaining an incentive for people to economise on their use of the service. Councils are now considering whether fees should be reintroduced or not. In addition, concern has been expressed about the effect on other elements of public expenditure which might be cut back to make room for the higher costs of health care. The response has been to transfer more earmarked revenue to the councils responsible for the provision of services and to get broad political agreement to shift resources from defence expenditure to health care in the years 2002 to 2004.

In the Netherlands, a 20 % charge on all treatment and drugs, except visits to hospitals and GPs, levied in order to encourage people to use services more prudently, was withdrawn at the beginning of 1999, largely because it seems to have had little effect on dampening demand while involving heavy administrative costs. (The scheme was complicated by the large number of exemptions and the annual limit of around EUR 40 on the total amount any individual could be asked to pay.)

In Germany, where expenditure on health care is among the highest in the Union, charges have also been reduced in the recent past. At the beginning of 1999, a number of measures introduced to increase the cost of treatment falling on patients were withdrawn. In particular, the co-payment for prescriptions was lowered, people who were chronically ill became exempt from any co-payment at all after a year and a flat-rate contribution to hospital funding (of around EUR 10) levied on every person insured was suspended for 1998 and 1999. Moreover, some provisions which had been introduced in statutory sickness insurance schemes in the past, enabling people on higher incomes, for example, to opt out of contributing to certain services, and which seemed to reflect private insurance principles, were abolished on the grounds that they might undermine solidarity. Ceilings on doctors' fees have, however, been maintained.

At present, a complex bill to reform the health insurance system is under discussion and is a source of controversy. A major aim is to contain cost increases in the health sector and to avoid further increases in contribution rates. Proposals include improving coordination between different providers (general practitioners, specialists and hospitals) and limiting patients' freedom of choice, unifying the funding of hospitals (at present split between the *Länder* and sickness insurance funds), restricting the drugs that can be prescribed and reducing their cost and, most controversially, imposing ceilings on expenditure not only overall but also on that of different services as well as of general practitioners. The latter has provoked a hostile reaction from medical associations which argue that doctors with elderly or chronically ill patients who are costly to treat will be disadvantaged and may be tempted to drop such people or refuse to take them on.

In the UK, the present government has so far left the system reformed by its predecessor broadly unchanged but has proposed changes because of dissatisfaction with the outcome of the introduction of market mechanisms. Specifically, it plans to 'replace the internal market with integrated care' (White Paper, 'The new NHS', December 1997), with an emphasis on quality and efficiency. Key new elements include evidence-based national service frameworks, a national institute for clinical excellence to give guidelines on clinical and cost effectiveness and an independent commission for health improvement to assess local action to improve quality and pursue national objectives.

In France, where expenditure is also relatively high, a detailed reform plan was presented by the health insurance funds in spring 1999, following a 'state of health' enquiry, aimed at increasing the efficiency of resource use and improving access. Among the proposals were measures to improve hospital management and to increase treatment in the home, though these are still under discussion. In 1999, fees for some practitioners (dentists and masseurs, for example) were frozen and lowered for others (such as radiologists) and generic drugs were introduced to reduce prescriptions costs.

Long-term care

Health services across the Union play an important role in many cases not only in the medical treatment of the elderly but also in the provision of long-term care. Indeed, it is often difficult to distinguish in practice between the two roles, though as the number of people needing care has risen and the difficulties of providing this within the family have increased, the issue of long-term care as such has become an important question for policy. Already, three Member States, Austria, Germany and Luxembourg, have introduced long-term care on a social insurance basis as a separate category of social protection, while in the UK, benefits to carers as well as those requiring care have been available since the mid-1970s, though on a relatively restricted basis. In the Nordic countries, moreover, extensive social services exist to provide support (see *Social protection in Europe 1997*, Chapter 7, for details). In most Member States, however, long-term care still represents a major gap in the social protection safety net which can impose a heavy burden on families, in terms of either the direct provision of care or meeting the costs of private arrangements, though one which is the focus of much debate.

In Luxembourg, dependency insurance was introduced in January 1999 as part of the social protection system, following the example of Austria and Germany. Benefits both in kind and in cash are available to the elderly needing home or residential care. Benefits in kind, however, are given precedence over cash benefits because of the priority attached to the provision of professional, and therefore, good quality, care. Nevertheless, all or part of the benefit in kind can be replaced by a cash benefit enabling people to stay in their own homes. An allowance to cover pension contributions is also payable to informal carers, often family members, performing the task.

In France, a new means-tested dependency benefit *(prestation spécifique dépendance)* was introduced in 1997 for frail elderly people. Just over half of the recipients remain in their own homes and, in that case, a minimum of 90 % of the amount paid has to go to carers. Although the income ceiling applied to the means test is relatively low, the number of beneficiaries had risen to 100 000 by mid-1999, with a total of over 150 000 having received benefit since its introduction.

There are also plans to introduce care insurance in the Flemish region of Belgium to cover the costs of non-medical assistance and services, including home help, meals-on-wheels, odd-job services, shopping services and transportation. The benefit will not be related to age and will cover both home and residential care. It will be funded from the general regional budget and personal contributions.

In Portugal, a new long-term care benefit was introduced in 1999 in order to complete the protection provided by invalidity, old-age and survivors' benefits.

In Germany, several changes were made to the Long-term Care Insurance Act in summer 1999, including making it easier for informal carers (mainly other family members) to obtain professional help for short spells. In Austria, the rates of long-term care benefit have remained unchanged since 1996, but in 1998 people who stopped working to look after someone requiring extensive care (around 11 % of the total number) became entitled to voluntary pension insurance, with the employer's part of the contribution being paid from public funds. Since 1998, carers have also been able to reduce their hours of work with the agreement of their employer.

In Spain, the provision of long-term care is the responsibility of the regions, a number of which have begun experimenting with the introduction of vouchers, allowing those in need of care to decide how to spend these (essentially either on providing income support to family members or to professional carers). In Italy, a draft bill on the reform of social assistance and social services, which includes a package of benefits and services for those in need of care is currently before parliament.

In the UK, where long-term care is provided in part by the national health service and in part by local authorities, voluntary organisations and private concerns but is mainly the responsibility of family members, a Royal Commission reported on the issue in March 1999. Its recommendations included State funding for all personal care, continued means testing for living and accommodation costs in residential care, but with the income threshold raised to GBP 60 000 a year (over EUR 90 000) instead of the present GBP 16 000 (EUR 25 000), the establishment of a national care commission and extra financial support for people living at home with carers. This, however, represents a starting-point for debate rather than a blueprint for government action.

In Ireland, a carer's allowance is payable to those on low incomes who look after people at home who are in need of full-time care. Following a detailed review of this, a range of measures was introduced in the 1999 budget, at an additional annual cost of over IEP 18 million (around EUR 23 million), to improve the position of carers, an increase of 40 % on total expenditure in 1998. In addition to increasing the number of people qualifying for the allowance, an annual 'Respite care grant' and free travel and telephone rental was introduced for all carers in receipt of the allowance. Carers are now also entitled to work for up to 10 hours a week without losing the allowance and, when their time spent caring is over, are eligible for back-to-work incentive schemes, formerly available only to those who were unemployed.

Concluding remarks

The various developments described above indicate that, while there are broad similarities in the changes to social protection systems which are taking place across the Union, they differ in detail between Member States, in large measure reflecting the differences which exist in the organisation of systems and in the extent and level of coverage provided. These differences have their roots in the way that systems were initially conceived and have developed over time, though they also reflect some differences in the structure of society and in social attitudes towards the collective provision of support and care. These are most notable between the Nordic countries, on the one hand, where social services are more extensive than elsewhere, and the southern Member States, on the other, where the extended family is still the main means of support for those in need.

Much of the focus of policy attention in the latter has, therefore, been on closing the gaps in the system, on extending coverage to those who have been inadequately protected in the past — such as in Italy, with the introduction of an unemployment benefit scheme similar to that which exists in most other Member States and the proposal to establish a more comprehensive minimum income scheme or in Greece, with the plans for a rationalised and more equitable pension system. This is also the case in Ireland in some degree, where general improvements have been made in many aspects of the social protection system, funded by the substantial economic growth which has occurred in recent years.

Nevertheless, in all parts of the Union, in the south as well as the north, common trends are evident in the broad direction of change as countries face the same kinds of problem and the same kinds of social and economic development, even though the detailed response may differ. In particular, in all Member States, efforts are being made to shift the emphasis of policy towards those of working age who, for one reason or another, are not in paid employment from passive measures of income support to active programmes designed to improve their employability and to help them to find a job. Such efforts are coupled with a tightening up of the benefit system, a reduction in the availability of social transfers and an increase in the pressure on individuals to work if they are able to do so, as well as with extended assistance over child care and other kinds of support facility.

Secondly, there is an equally common focus on old-age pension schemes and on ways of limiting the transfers which these will involve as the significant growth in the number of people over retirement age occurs in future years. This has led to increases in the official age of retirement, designed as much to reduce the cost to public budgets of people withdrawing from the workforce prematurely as to postpone the actual age at which they retire, changes in the formula used to calculate pensions (which in effect reduce the amount payable relative to earnings), increases in the funds set aside to finance future pension liabilities, and incentives to encourage people to take out personal pensions, so again relieving the prospective burden on the State.

Thirdly, in all Member States, there have been attempts to contain the growth of public expenditure on health care while at the same time maintaining the standard of service and broadening the range of treatment available as medical know-how increases. The main focus has been on finding ways of reducing costs and improving efficiency, which has led to the reorganisation of service provision, decentralisation of decision-making and managerial responsibility, and increased charges to consumers.

Fourthly, there is widening concern across the Union about the growing need for long-term care consequent on an ageing population and the extent to which systems of social protection should be adapted to respond to this. While changes have been made in a few Member States to provide greater support to those in need of care, in many countries it remains an issue of ongoing debate, with the prospective costs entailed in introducing any comprehensive scheme being a major obstacle to its development.

Chapter 3: Trends in social expenditure and its financing

A highly developed social protection system is a cornerstone of the European model of society. It has long come to be expected in most parts of Europe that people should receive support in their retirement or if they are unable to work for any reason when they are below retirement age or looking after children or dependent relatives in need of care, and that they should have access to high quality health care if they need it. An extensive safety net of this kind implies important redistribution. On average, expenditure on social protection in the Union, as defined by the Esspros system of accounts (the European System of Integrated Social Protection Statistics), amounted to 28½ % of GDP in 1996 (the latest year for which a full set of data are available) or to just under 27½ % of GDP if the costs of administering the systems are excluded.

These figures, however, need to be interpreted with caution. Most of the cost entailed is not a drain on economic resources as such but involves reallocation of the purchasing power over the goods and services produced with those resources or, in other words, a redistribution of income between individuals and households in society. A significant part of this redistribution is between generations, particularly between those in paid employment and those who have retired from work, who do not only require income support but also, in many cases, health and long-term care. But part also comprises an effective reallocation of income over a person's life, from periods when they are working (and typically build up entitlement to benefit through the social contributions they pay out of their gross earnings or have paid for them by their employer) to periods when they are unemployed or sick or when they eventually retire. This part can in some sense be regarded as equivalent to a personal insurance or pension scheme, though there are clearly differences because of the element of compulsion entailed in the payment of contributions, or taxes, the limited degree of discretion over the scale of the entitlement to benefit built up and the social solidarity nature of the system. Nevertheless, because of this and the entitlement to benefit and deferred income which constitute the compensation of them, payments of contributions are different in kind from other charges levied by the State which do not involve any direct benefit as such.

It is difficult to distinguish these different aspects of the system. Nevertheless, it is important to keep them in mind and to pay due regard to the distinctive nature of social protection when considering the costs involved. In practice, such costs stem, on the one hand, from the action taken to bring about the redistribution entailed — specifically, from the effect on the economy of the taxes and social contributions levied to fund systems of social protection. On the other, they arise from the different pattern of consumption of goods and services, and, therefore, the effect of this on the configuration of output produced by the economy, which results both from the redistribution of income towards benefit recipients and from the direct expenditure on health and social services, as well as on other benefits provided in kind rather than cash. At the same time, these potential costs need to be set against the potential gains, economic as well as social, of having a higher degree of cohesion in society and a higher level of support and assistance, practical as well as financial, for those not in work.

These gains, or at least the action being taken across the Union to provide effective social protection to those in need in the context of changing economic and social circumstances, were considered in the previous chapter and are considered in more detail in relation to employment objectives in the following chapter. The concern here is with quantitative aspects, with the scale of expenditure on social protection in different Member States, with its division between the main functions and with the way that it is financed, as well as with the changes which have occurred in these aspects over the 1990s. In addition, three major elements of social protection, old-age pensions, unemployment benefit and health care, are examined in more detail.

There are further reasons for interpreting the figures for expenditure on social protection analysed here with caution, in addition to the special nature of the costs that such spending imposes on the economy. In the first place, the Esspros figures for expenditure, as is conventional, are measured in gross terms, i.e. in terms of the gross value of the social transfers distributed to recipients. This means that any taxes or charges levied on the amounts that are paid, which both reduces the net worth to beneficiaries of what they receive and diminishes the effective cost to government of making the transfers (in the sense that part of the costs are directly covered by the revenue yielded by the taxes or contributions concerned), are left out of account. Accordingly, the figures analysed tend to overstate the costs involved, or more accurately, the amount of income which is transferred between individuals as a consequence of the social protection system in operation.

Secondly, the Esspros data cover only the expenditure side of the accounts and exclude transfers which are in effect made through tax concessions or allowances rather than through direct spending. These are potentially of no less benefit to recipients and equally entail a need by government to cover the financing cost involved, in this case, because of forgone revenue instead of actual outlays. Prime examples are tax allowances for children, which apply in some Member States and which are equivalent in their effect to child benefits, and tax breaks for contributions to private pension schemes, which are a means of encouraging people to provide support for themselves in their old age and which have to be financed in the same way as State pensions.

Some estimates of the quantitative importance of these two factors are given below when examining the scale of expenditure, but their omission from the analysis needs to be borne in mind throughout the chapter.

The scale of social expenditure

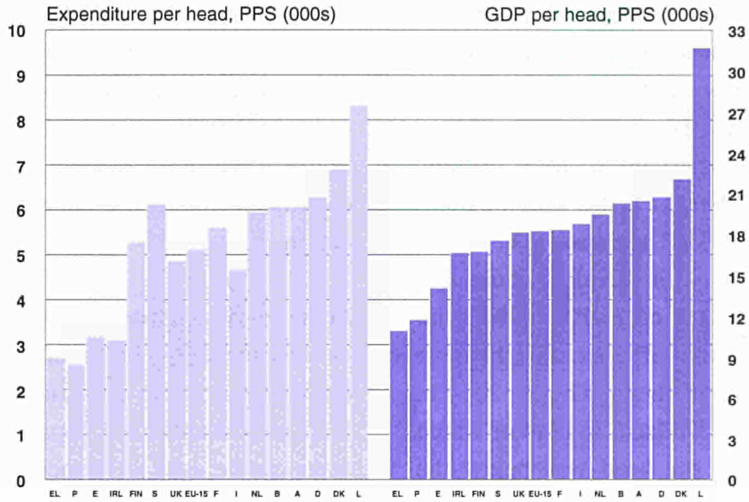
Average (gross) spending on social protection in the Union in 1996 amounted to around ECU 5 100 per head of population. In terms of purchasing power standards (PPS) — i.e. taking account of differences in the goods and services a given unit of currency is capable of purchasing (which are not wholly reflected in exchange rates) — expenditure varied from around 8 300 PPS per head in Luxembourg (a third higher than anywhere else in the Union) and 6 900 PPS per head in Denmark, to 2 700 PPS per head in Greece and just over 2 500 PPS per head in Portugal. In between these extremes, six Member States had a level of expenditure per head of between 5 600 PPS and 6 350 PPS, three (Finland, the UK and Italy) between 4 600 PPS and 5 300 PPS and the remaining two (Spain and Ireland), expenditure of just over 3 000 PPS. (These figures come from the latest Esspros data collected by Eurostat from Member States, which differ in some degree from the data presented in *Social protection in Europe 1997* because of a number of improvements in the collection process which have served to reduce problems of comparability between countries. Nevertheless, some problems of comparability remain as indicated in the 'Notes and sources' at the back of this report, which also contains details of the expenditure covered by the Esspros database.)

These differences are broadly in line with differences in GDP per head between Member States measured in the same terms (i.e. using the household consumption-based measure of PPS rather than the conventional output-based one) (Graph 25). This is only to be expected given the greater capacity of the more prosperous countries to finance social protection programmes. The variation in social expenditure per head, however, is wider than the difference in GDP per head — the gap in the former between Denmark and Portugal was just under three to one in 1996 as compared with a difference of just under two to one in respect of GDP per head — which suggests that countries tend to spend proportionately more on social welfare as their income rises.

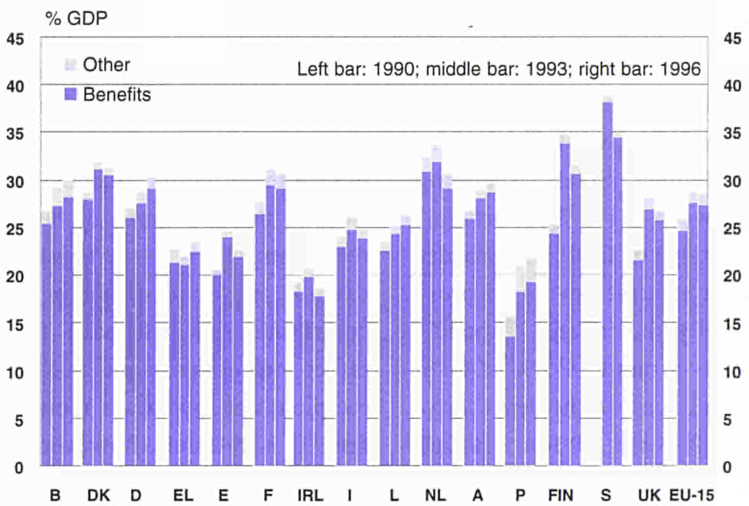
Nevertheless, this tendency is not completely systematic, nor, as shown below, is it continuous, in the sense that social spending does not appear to keep growing in relation to GDP once it has reached a particular level. Three countries, in particular, stand out as having levels of expenditure on social protection which differ from the general relationship of this to GDP per head which seems to be obtained across the Union. In Italy, expenditure per head was significantly lower (by as much as 1 000 PPS or so, or around 20 %) than would have been expected given its level of GDP per head, while in both Sweden and Finland, expenditure per head is higher in relation to their comparative levels of GDP per head than would be expected. This is especially the case in Sweden, where expenditure per head was only just below the level in Germany in 1996 and almost 20 % above the Union average, whereas its GDP per head was some 4 % below average, measured in PPS terms.

In Italy, the low level of expenditure reflects the underdeveloped nature of much of the social protection system, except in respect of retirement pensions, a matter which has been the subject of a good deal of policy concern in recent years, as indicated in Chapter 2. This is associated, as in other parts of southern Europe, with greater reliance being placed on the extended family for support than in most parts of northern Europe, which, in turn, tends to influence the structure of households, as shown in Chapter 1. In both Sweden and Finland, it reflects, to a major extent, the marked fall in GDP which occurred in the early 1990s, before which GDP per head in Sweden at least was well above the Union average. It also, however, reflects the relatively extensive nature of social protection systems in these two countries and the wide availability of support services, in particular. This remains the case even though the loss of GDP in the recession years, especially in Sweden, and the relatively slow recovery in the latter, has led to efforts being made to limit or reduce expenditure.

25. Social protection expenditure and GDP per head in Member States, 1996



26. Social protection expenditure in relation to GDP in Member States, 1990, 1993 and 1996



No data for Sweden in 1990; EU-15 (1990) adjusted to include estimate for Sweden.

At the bottom end of the scale, Ireland spends significantly less on social protection than would be expected given its level of GDP per head — less, for example, than Spain in 1996, the GDP per head of which was some 15 % lower. This reflects several factors, in particular: firstly, the steep decline in unemployment over the last decade and the proportion of people over age 65 in Ireland, which is among the lowest in the EU, mean less pressure on the social protection budget; secondly, the lagged response on the social welfare front to its continued high level of economic growth (estimated at almost 8 % a year over the period 1990 to 1999) and the time it takes to develop systems of social protection; thirdly, the level of GDP per head in Ireland arises to a large extent from the activities of multinational companies, much more so than elsewhere. If account is taken of the income accruing to them, which is not necessarily available for funding social protection expenditure (specifically, by deducting net transfers abroad from the GDP figures), this reduces the country's apparent prosperity markedly (in other Member States, adjusting for this makes only a marginal difference to the results). Indeed, the level of national income (or GNP) per head in Ireland, measured in terms of PPS, was less than 3 % higher than in Spain in 1996 and well below the Union average.

The relationship between expenditure on social protection (again measured gross of any revenue from charges levied on transfers) and relative levels of prosperity can be seen more clearly by relating expenditure directly to GDP. With the sole exception of Italy, the eight Member States with the highest level of GDP per head in the Union all had a level of spending equivalent to around 30 % of GDP in 1996, with relatively little difference for the most part between them (Graph 26). In Sweden and Finland, in both of which expenditure per head was below the Union average, expenditure exceeded 30 % of GDP, in Sweden (where it was close to 35 %) markedly so.

In the UK, where GDP per head was slightly below the EU average, social expenditure was just under 27 % of GDP, less than in the more prosperous Member States, while in the four southern Member States, spending ranged between 21½ % (Portugal) and 25 % (Italy) of GDP and broadly in line with relative levels of prosperity. Finally, in Ireland, expenditure was only around 18½ % of GDP in 1996, well below the level anywhere else in the Union, though reflecting the factors noted above. (In terms of national income rather than GDP, the level in Ireland was very similar to that in Portugal, at around 21½ % of GNP.)

The OECD estimates of net social expenditure

The estimates of net social expenditure, or more precisely of the revenue from taxes and social contributions levied on social transfers and of the value of tax concessions and allowances (or tax breaks as they are called in the study), come from Willem Adema, *Net social expenditure,* Labour Market and Social Policy Occasional Papers, No 39, OECD, 1999. The estimates tend to be country-specific and so there is question about their comparability across the Union.

In the study, estimates are also made for the revenue yielded by indirect taxes on the expenditure by beneficiaries from the transfers they receive. These are not included in the estimates presented in the text since there is a question mark over whether it is appropriate to do so. Although the revenue from such taxes can be used to finance social expenditure, the taxes concerned are not unique to benefit recipients or levied on them at differential rates, but apply generally to all consumers. As such, they are incorporated in the prices at which goods and services are sold and, therefore, in GDP measured in terms of market prices, as in the present analysis.

Net social spending

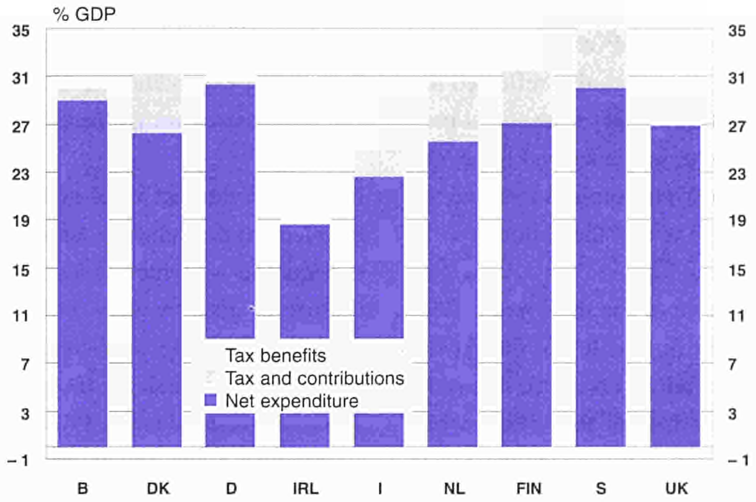
As indicated previously, the figures for gross expenditure on social protection presented above are liable to give a misleading impression of both the cost to government and the scale of transfers involved. This is because they leave out of account any charges (taxes and social contributions) levied on the amounts transferred which reduce the effective financing cost as well as the net worth of benefits to recipients. It is also because they exclude tax concessions or reduced contributions which have the same effect on government budgets and recipient net income as money transfers. It is difficult, however, to estimate the effect of these two elements. Although work carried out by the OECD (see Box) provides some insight into their relative importance in different countries, the provisional — and partial — nature of the results obtained needs to be stressed, not least because there are a number of methodological as well as practical issues still to be resolved. (In particular, it is unclear at present how far the estimates made are comparable between countries since different methods have been used according to the data available, which also affects the coverage achieved, though this should not detract from the value of the work.)

The OECD estimates indicate that charges levied on social transfers tend to be most important in the Member States where the level of gross expenditure relative to GDP is relatively high — in Denmark, Sweden and the Netherlands (in each of these, charges on transfers are estimated in 1995 at around 5 to 6 % of GDP or around 15 to 20 % of total gross expenditure). In countries where expenditure is relatively low they tend to be small (only around ½ % of GDP in the UK and Ireland, for example). The implication is that taking account of these charges serves to reduce the gap in social expenditure between Member States relative to GDP.

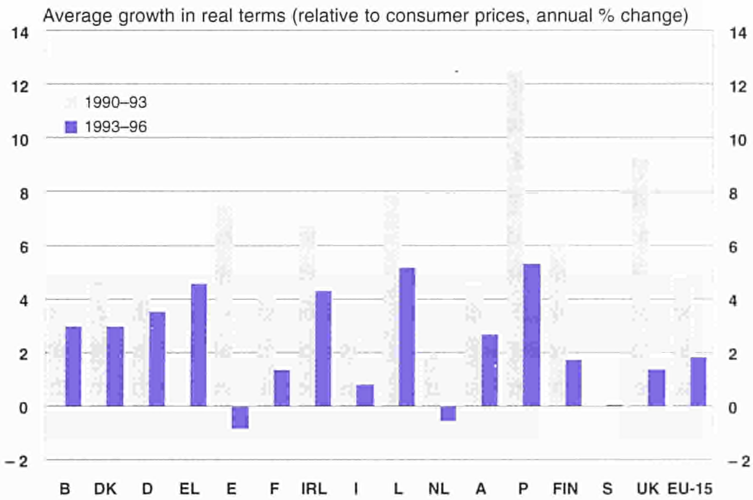
The inclusion of the value of tax concessions and allowances is perhaps even more problematic, though in practice these do not appear to be all that important in most countries in the Union. (One of the main areas in which they are applied is labour market policy, where, as noted in Chapter 4 below, reductions in the social contributions paid by employers are a means of diminishing labour costs in a number of Member States. Labour cost subsidies, however, are not part of social protection expenditure as normally defined, and as defined here, and such measures are, therefore, not relevant in this context.) They do, however, appear to be significant in a number of Member States in respect of pensions — specifically, in encouraging people to take up occupational or private pension plans. Unfortunately, the OECD study includes estimates for these only for five Union countries. (In the UK, the value of these is estimated to have amounted to almost 3 % of GDP in 1995, while in Ireland and the Netherlands, they are estimated at around 2 % of GDP.)

Deducting estimates of the revenue yielded by charges on transfers and adding the value of those tax concessions which can be identified (though not those in respect of pensions because of the restricted coverage) results in expenditure on social protection in 1996 being reduced to around 30% of GDP in Sweden, much the same as in Germany (just over 30 % of the OECD estimates), and to 26 to 27 % of GDP in Denmark and Finland, much the same as in the UK and slightly above the level in the Netherlands (Graph 27). Although the gap between the level of expenditure relative to GDP in these countries and that in Italy and Ireland is narrowed, it remains significant.

27. Gross and net expenditure on social protection, 1996



28. Growth of expenditure on social benefits in real terms in Member States, 1990–96



No data for Sweden before 1993.

Growth of social expenditure, 1990–96

Expenditure on social protection benefits increased markedly in the Union in relation to GDP over the first six years of the 1990s, from an average of just over 24½ % of GDP in 1990 to just under 27½ % in 1996. This increase was common to most Member States, the only exceptions being Ireland, where GDP growth averaged 6½ % a year in real terms over this period, Luxembourg, where it averaged 5 % a year, and the Netherlands, where it was also above average (over 2 % a year as against only around ½ % a year). The increase, however, was concentrated in the first three years of the period, when GDP growth in the European economy was very slow, averaging under 1 % a year, and, during the recovery from 1994 on, expenditure fell slightly in relation to GDP. Only in Portugal, Greece, Germany, Austria, Belgium and Luxembourg did spending continue to rise relative to GDP over these three years. In the first two, this reflected the ongoing development of the social protection system, in the second three, the failure of their economies to recover as in most of the rest of the Union.

The experience of the three years 1993 to 1996 is in line with that during the previous period of economic recovery in the second half of the 1980s, when expenditure fell in most Member States in relation to GDP. Indeed, contrary to popular wisdom, spending on social protection systems has not shown any significant long-term tendency across the Union to grow faster than economic output, at least since 1980, if the experience during the recession of the early 1990s is regarded as a special episode which is likely to be reversed as recovery takes place. Although a complete set of data for Union countries during the 1980s is not available, the figures for the 10 Member States where there are data show an average increase in expenditure on social benefits of only around ½ % of GDP over these 10 years. In four of the countries, there was a fall in expenditure in these terms and only in Spain, Italy and the Netherlands did expenditure rise by more than 2 % of GDP.

The fall in expenditure relative to GDP after 1993 was not only a direct reflection of economic recovery and the rise in GDP. It was also due to a marked slowdown in the rate of expenditure growth itself in real terms. Between 1990 and 1993, spending on social protection in the Union, as well as the real value of benefits, went up on average by just under 5 % a year (Table 3). In the subsequent three years, it rose by under 2 % a year. This slowdown was common to all Member States, with the sole exception of Greece, even to those countries where the ratio of expenditure to GDP continued to increase over the period.

In terms of the real value of benefits to recipients (i.e. excluding administrative expenditure — which tended either to decline or rise by very little — and deflating spending on benefits by the consumer price index), the growth of spending averaged under 1½ % a year in six Member States and in three of these, it either fell (Spain and the Netherlands, but see below for Spain) or remained unchanged (Sweden) between 1993 and 1996 (Graph 28). In only five countries did the real value of benefits increase by over 3 % a year over this period — four of the five in which expenditure rose in relation to GDP, the exception being Austria, plus Ireland.

Some of the slowdown in spending growth over the period after 1993 can be attributed to the fall, or at least stabilisation, in rates of unemployment, just as the relatively high growth during the early 1990s was a result of the steep rise in unemployment as the recession took hold. This is, in part, reflected in the figures for expenditure on unemployment compensation. Excluding this from total spending reduces the growth over the period 1990 to 1993 in the Union as whole by around ½ % a year and increases the growth in the subsequent three years by about the same amount. In some Member States, it has a more pronounced effect. This is especially so in:

- Denmark, where it reduces growth over the recession years by over 1 % a year and increases that in the recovery years by over 1½ % a year, so that spending on benefits other than unemployment grew by significantly more in the second period (by 5 % a year) than the first (3½ % a year);
- Spain, where it lowers growth in the first period by 1½ % a year and raises it in the second by almost 3 % a year, revealing that spending on other social benefits rose by 2 % a year between 1993 and 1996, much the same as the Union average, rather than falling;
- the Netherlands, where despite the (small) fall in unemployment after 1993, excluding spending on unemployment benefits increases the extent of the fall in the real value of expenditure from ½ % a year to 1½ % a year, a point examined in more detail below;
- Finland, where it reduces growth in the recession years, when unemployment spiralled from 3 % to 16½ %, by almost 4 % a year and increases it in the recovery period by 1 % a year.

Simply taking account of changes in spending on unemployment benefit, however, does not reveal the full effects of changes in levels of economic activity and in rates of unemployment on social spending. Some of the effects will tend to show up in other areas, such as social exclusion or disability benefits as well as housing benefits, in part because inadequate rates of job growth often lead to people withdrawing from the labour force entirely instead of registering as unemployed, especially if they are not eligible for unemployment benefit or have little chance of getting another job. (Withdrawal has been encouraged in the past in some Member States under such circumstances, partly in order to reduce the unemployment figures, and this in some cases was

Table 3 — Growth of expenditure on social protection, 1990–96 *(% change per year)*

	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EU-15
Total expenditure on social protection																
Expenditure in real terms (i.e. adjusted by GDP deflator)																
1990–93	3.3	4.8	4.1	– 0.4	6.9	4.2	6.5	2.8	8.6	2.8	4.5	11.9	7.5	n.a.	8.3	4.7
1993–96	3.1	3.3	3.5	4.4	– 0.6	1.7	5.4	0.3	4.9	– 0.2	2.8	3.8	0.7	– 0.6	1.5	1.8
1990–96	3.2	4.0	3.8	2.0	3.1	2.9	5.9	1.5	6.7	1.3	3.6	7.8	4.1	n.a.	4.9	3.2
Change in relative prices (consumer prices relative to GDP deflator)																
1990–93	– 0.8	0.2	– 0.1	0.2	– 0.6	– 0.1	– 0.3	– 0.3	1.1	0.9	0.0	– 0.8	1.6	n.a.	– 0.6	– 0.1
1993–96	0.2	0.3	0.1	– 0.1	0.3	0.4	1.1	– 0.1	– 0.2	0.4	0.1	– 0.6	– 1.1	– 0.6	0.3	0.1
1990–96	– 0.3	0.3	0.0	0.1	– 0.1	0.2	0.4	– 0.2	0.5	0.6	0.1	– 0.7	0.3	n.a.	– 0.2	0.0
Expenditure in purchasing power terms (i.e. adjusted by consumer prices)																
1990–93	4.1	4.6	4.2	– 0.6	7.5	4.3	6.7	3.0	7.4	1.9	4.4	12.7	5.8	n.a.	9.0	4.8
1993–96	3.0	3.0	3.4	4.5	– 0.9	1.3	4.2	0.4	5.1	– 0.6	2.7	4.4	1.8	0.0	1.2	1.7
1990–96	3.5	3.8	3.8	1.9	3.3	2.7	5.5	1.7	6.2	0.7	3.6	8.5	3.8	n.a.	5.0	3.2
Expenditure on benefits																
Expenditure in purchasing power terms (i.e. adjusted by consumer prices)																
1990–93	3.8	4.7	4.2	0.0	7.5	4.0	6.8	3.0	7.5	1.9	4.5	12.5	6.1	n.a.	9.2	4.8
1993–96	3.0	3.0	3.5	4.6	– 0.8	1.3	4.3	0.8	5.0	– 0.5	2.7	5.3	1.7	0.0	1.4	1.8
1990–96	3.4	3.8	3.8	2.3	3.3	2.7	5.5	1.9	6.2	0.7	3.6	8.9	3.9	n.a.	5.2	3.3
Excluding unemployment benefits																
1990–93	3.5	3.6	3.7	0.1	5.8	3.6	5.7	2.7	7.5	1.5	4.1	11.5	2.2	n.a.	8.7	4.2
1993–96	3.0	4.7	3.9	4.4	2.1	1.8	4.4	1.0	4.7	– 1.6	2.6	5.0	2.5	0.5	1.8	2.3
1990–96	3.2	4.1	3.8	2.2	4.0	2.7	5.1	1.8	6.1	0.0	3.3	8.2	2.4	n.a.	5.2	3.2

The Esspros data used in the analysis

The data on social protection expenditure and receipts come from the database of Esspros statistics which has been compiled by Eurostat on a new system of classification since 1997. Data are at present available for all Member States for the years 1990 to 1996 and for some for the 1980s as well. The database is designed to provide a comparable indication of the scale of expenditure and receipts in different Union countries as well as of developments over time. However, in part because of the relatively short experience with the new classification system but also because of marked differences in the systems themselves, the data are not fully comparable between Member States in a number of respects, especially as regards the division of spending between functions, although also in some cases as regards the total amount of expenditure included.

In particular, data for survivors' benefits are in most cases not clearly distinguishable from those for old-age pensions; data for disability benefits include those paid to people in retirement in two countries (France and Ireland) or early retirement (Denmark), whereas data for early retirement benefits are also included in old-age pensions in many countries, instead of being included with unemployment benefits when they are paid to those retiring for economic reasons and with disability benefits when they go to those no longer capable of working.

The data for unemployment benefits raise significant problems of comparability, in part because of the difficulty of distinguishing between social transfers to individuals and those to enterprises or organisations paid to provide support to individuals, which is outside the scope of the Esspros definition of social protection. In Germany, in particular, expenditure on wage subsidies paid to those employing certain people at risk is included in unemployment benefits, whereas according to the Esspros methodology, it should not be included as part of social protection spending at all. The sums involved are, therefore, excluded from the figures analysed here, which means that they differ from those in the published Esspros tables. In other countries, however, such as Denmark and France, where such expenditure is also included, the amount involved is not specified so that it cannot be excluded in the same way. Further details of comparability problems are set out in the 'Notes and sources' at the back of this report. For instance, in the case of Denmark, unemployment benefits include 'start-up incentives and direct job creation aspects'; in France, they include various allowances paid to people in employment on special contracts which are akin to subsidies.

A further drawback of the Esspros data as they exist at present — apart from the fact, emphasised in the text, that they are measured gross of taxes or social contributions levied on benefits, which are not distinguished, and exclude data on tax expenditures (the equivalent value of tax concessions or allowances granted for social protection reasons) — is that they do not include data on beneficiaries. This makes it difficult to assess the underlying reasons for the

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associated with a growth of people claiming disability benefits.) The relatively small scale of expenditure on unemployment benefits (8 % of total spending on social protection, as noted below) does not, therefore, adequately reflect the potential consequences for overall spending of rises or falls in the number of people without work.

The pattern of social expenditure

Over the Union as a whole, as well as in almost all Member States, spending on old-age benefits (including survivors' benefits) accounts for by far the largest element of total expenditure on social protection. In 1996, this amounted to an average of almost 43 % of the total spent, or to just over 12 % of GDP. Indeed, only in two Member States was the proportion of spending going on pensions less than a third of the total – Ireland and Finland, in both cases partly reflecting their relatively high levels of unemployment (which has come down since then) and the associated high level of spending on related benefits, as well as, in Ireland, the relatively small number of people above retirement age (Table 4 – variations between countries in the division of spending should be interpreted with caution in so far as there are still some differences in the way that expenditure on particular programmes is classified (see Box)). In Italy, the figure was over 63 % of the total, and over 15½ % of GDP, much higher than in any other Member State, so tending to push up the Union average (excluding Italy, the average is reduced to 40 % of the total and to 11½ % of GDP). Spending on old-age pensions is examined more closely below.

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changes which the data show and the extent to which spending reflects, for example, growing needs, such as an increased number of people in retirement, as opposed to changes in average benefit levels, or how far the coverage of social protection on a particular function is encompassing more or less of those in need.

Health care is the second largest component of total expenditure, accounting for just over 21½ % of the overall amount spent on social protection in the Union in 1996, equivalent to just over 6 % of GDP. Only in the three Nordic countries was the proportion much below 20 %, partly reflecting the high level of spending in other areas, partly perhaps the greater ability in these countries to distinguish expenditure on the provision of care from that on health as such, because of the developed nature of social services. For the opposite reasons, the share of spending going to health care in Ireland and Portugal was well above the Union average, but still below the Union average in relation to GDP.

In 1996, health care and old age together were responsible for an average of around 65 % of expenditure in the Union (and for over two thirds of spending on benefits — i.e. excluding administrative costs) and in all of the four southern Member States, as well as in Austria and France, for more than this — in Italy, for as much as 83 % of spending. Since at least half of spending on health care tends to go on those of 65 and over and since these also account for some of the spending in other areas, especially housing and social exclusion, the implication is that, on average, the larger part of expenditure on social protection is devoted to older people who have either retired from paid employment or, in the case of women, in particular, who have not worked for many years. The Nordic Member States, however, are possible exceptions, since in all three cases, spending on these two functions amounted to only around half of total expenditure (in Denmark and Finland) or only slightly more (in Sweden).

The corollary of this is that in most countries in the Union significantly less than half of expenditure is devoted to those under retirement age. Nevertheless, such spending still amounted to an average of around 8 % of GDP in the Union in 1996 and for around 13 % of GDP in Denmark, Finland and Sweden. In Italy, on the other hand, it amounted to only just over 3 % of GDP and in the other three southern Member States, to only around 6 %. If family, child-care and maternity benefits are excluded, it means that, on average, social protection transfers to those of working age were equivalent to an estimated 6 % of GDP in the Union and in the three Nordic countries to 9 to 10 % of GDP, though to only 4 % of GDP in Greece and 2½ % in Italy.

Within this, disability and unemployment benefits were of a similar size in terms of expenditure, each accounting for just over 8 % of total outlays, though in 9 of the 15 Member States in 1996, a larger sum was transferred to those with disabilities than to those who were unemployed. (It should be noted that spending on disability includes transfers to those in retirement in Denmark, France and Ireland.) In four countries — the Netherlands, Finland, Sweden and the UK — spending on disability benefits amounted to 12 % or more of total expenditure, and in the first three of these, to over 4 % of GDP (3 % in the UK). By contrast, in six Member States, transfers to those with disabilities totalled under 2 % of GDP and in Ireland, to under 1 %. Such large variations cannot easily be explained by differences in the number of people with disabilities across the Union. While they reflect, in part, differences in the average value of benefits, they mostly seem to be due to the differing extent of coverage of such schemes and the way that disabilities are defined. As noted in Chapter 2 above, in some countries, the Netherlands and the UK especially, disability benefits in effect became in the 1980s an effective substitute for unemployment benefits, particularly in respect of the long-term unemployed, and while the schemes have been tightened up in recent years, they still account for a relatively large share of total spending.

Although differences in the amount spent on unemployment benefits in part reflect differences in the rate of unemployment across the Union, the relationship between the two is not particularly close. Three of the Member States with among the highest expenditure on such benefits, in relation to both total outlays and GDP — Belgium, Denmark and the Netherlands — all had below average rates of unemployment, especially the latter two, while in Italy, where the rate was above the Union average, spending on unemployment amounted to under 2 % of the total and to only ½ % of GDP, well below the figures elsewhere in the Union. Unemployment compensation in relation to the numbers out of work is examined in more detail below.

Table 4 — Division of current expenditure on social protection by function, 1996

	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EU-15
																% total expenditure
Sickness	4.5	3.5	6.2	3.5	5.1	3.0	4.2	0.8	2.7	7.1	3.7	2.6	3.9	4.3	3.5	4.2
Health	19.8	13.8	22.4	21.7	23.2	24.5	28.6	19.9	19.5	19.8	20.7	26.8	16.8	17.4	21.0	21.7
Disability	5.8	10.4	7.1	8.3	7.6	5.8	4.6	6.7	11.3	14.5	7.8	10.4	14.2	11.8	11.7	8.2
Old age and survivors	40.6	37.8	39.6	47.0	44.2	41.2	24.9	63.3	37.7	36.6	47.0	38.7	32.9	38.4	38.7	42.8
Family and children	7.5	12.1	9.0	8.0	1.9	8.3	12.3	3.4	22.2	4.2	10.6	5.0	12.1	10.4	8.4	7.7
Unemployment	13.6	13.4	9.2	4.1	14.2	7.6	16.0	1.9	3.0	11.4	5.6	5.2	13.5	10.1	5.6	8.1
Housing	0.0	2.3	0.6	2.3	0.5	2.9	3.2	0.0	0.1	1.1	0.3	0.0	1.2	3.1	6.9	1.9
Social exclusion	2.2	4.0	2.2	1.1	0.8	1.6	1.9	0.0	0.0	0.4	1.2	0.6	2.3	3.1	0.6	1.5
Administration	4.1	2.7	3.4	3.8	2.3	4.0	4.1	3.0	2.5	3.7	2.0	3.7	3.1	1.4	3.5	3.3
Other	1.9	0.0	0.2	0.3	0.2	1.1	0.1	1.1	0.9	1.2	1.2	7.1	0.0	0.0	0.0	0.6
Total expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
																% GDP
Sickness	1.4	1.1	1.9	0.8	1.2	0.9	0.8	0.2	0.8	2.2	1.1	0.6	1.2	1.5	0.9	1.2
Health	5.9	4.3	6.9	5.1	5.2	7.5	5.3	4.9	5.6	6.0	6.1	5.8	5.3	6.1	5.6	6.2
Disability	1.8	3.3	2.2	1.9	1.7	1.8	0.9	1.7	3.3	4.4	2.3	2.2	4.5	4.1	3.1	2.3
Old age and survivors	12.2	11.8	12.1	11.0	9.9	12.6	4.6	15.7	11.0	11.2	13.9	8.4	10.4	13.4	10.3	12.2
Family and children	2.2	3.8	2.8	1.9	0.4	2.5	2.3	0.9	6.4	1.3	3.1	1.1	3.8	3.6	2.2	2.2
Unemployment	4.1	4.2	2.8	1.0	3.2	2.3	3.0	0.5	0.9	3.5	1.6	1.1	4.3	3.5	1.5	2.3
Housing	0.0	0.7	0.2	0.5	0.1	0.9	0.6	0.0	0.0	0.3	0.1	0.0	0.4	1.1	1.8	0.6
Social exclusion	0.7	1.2	0.7	0.2	0.2	0.5	0.4	0.0	0.0	0.1	0.3	0.1	0.7	1.1	0.2	0.4
Administration	1.2	0.8	1.1	0.9	0.5	1.2	0.8	0.7	0.7	1.1	0.6	0.8	1.0	0.5	0.9	1.0
Other	0.6	0.0	0.1	0.1	0.0	0.3	0.0	0.3	0.3	0.4	0.3	1.5	0.0	0.0	0.0	0.2
Total expenditure	30.0	31.3	30.6	23.4	22.5	30.6	18.5	24.8	29.0	30.6	29.6	21.6	31.5	35.0	26.7	28.5

Expenditure on the other three kinds of benefit paid to those of working age — for sickness, housing and social exclusion — is of a similar size in total to that on unemployment or disability, averaging around 7½ % of overall spending on social protection in the Union in 1996, or just over 2 % of GDP, with spending on sickness benefits amounting to over twice that on the other two put together. Again, however, there were significant variations between countries in the relative importance of each of these.

Sickness benefits ranged from 6 to 7 % of the total in the Netherlands and Germany (around 2 % of GDP) to under 3 % in Luxembourg, Portugal and Italy (where it was under 1 %), or well under 1 % of GDP.

Outlays on housing benefits varied from 7 % of the total in the UK, where they were larger than spending on unemployment benefits — reflecting the reliance on them as a complimentary means of providing support in addition to cash transfers and a way of directing expenditure to those most in need since they are means-tested — and over twice as large as in any other Member State, to zero or close to zero in Italy and Portugal (expenditure on housing benefits is not known for Belgium).

Spending on social exclusion was significantly larger in Denmark and Sweden than anywhere else — 3 to 4 % of overall expenditure or just over 1 % of GDP — and very small (0.3 % of GDP or less) in the four southern Member States, though also in Luxembourg, the Netherlands and the UK. This might perhaps reflect the relatively extensive nature of the social protection system in the former two countries and the effort devoted to ensuring that everyone has at least a minimum level of income, but since this category in the Esspros accounts includes all transfers which cannot be classified to specific functions, such an interpretation should be treated with caution.

This leaves expenditure on the family and children, which, as noted above, was of a similar scale, on average, to that on disability and unemployment benefits in 1996, and which covers maternity benefits and child-care support as well as child benefits. Spending on this category was relatively high in the three Nordic Member States, in each of which it amounted to just under 4 % of GDP. In each case, much of the expenditure was on benefits in kind, i.e. on support facilities in Denmark and Sweden, more than half the total, whereas in most other parts of the Union, these accounted for well under a third of spending.

Elsewhere, family benefits were responsible for a relatively large share of total spending in Ireland (over 12 % of the total, though only around average in relation to GDP), reflecting the importance attached to them as a means of income support (very little of the spending went on benefits in kind), and a relatively small share in all the southern Member States (5 % or less of the total), apart from Greece. This is, in part, a reflection of the reliance on the extended family for child support in these countries, though in Spain it is also a consequence of income support being provided through child tax allowances, which illustrates the importance of taking account of benefits delivered through tax concessions when assessing both the scale and division of social protection in different Member States.

Growth of social expenditure by function

Despite the ageing of the population across the Union, the main change in the pattern of spending on social protection over the seven years 1990 to 1996 was not in a relative growth of old-age pensions or in health care but in most benefits other than these. Indeed, both old-age pensions and health care, at least on average, were responsible for a slightly smaller proportion of total social expenditure in the Union in 1996 than in 1990, though in both cases their share increased in the second part of the period. In part, this reflects the recession and the steep rise in unemployment in the early 1990s and the consequent growth of spending on unemployment benefits (the share of which went up from just over 7½ % of the total in the Union to just over 9 % between 1990 and 1993) as well as housing benefits, social exclusion and disability benefits. Expenditure on disability benefits and social exclusion, however, continued to grow relative to that on other functions after the recession came to an end. At the same time, spending on sickness benefits declined in relative terms throughout the period (from just over 5 % of the total, on average, in 1990 to just over 4 % in 1996).

In terms of the change in the real value of transfers, housing benefits showed the highest rate of growth between 1990 and 1996 in the Union as a whole, averaging just over 5½ % a year, much of the growth being concentrated in the earlier part of the period, in large measure because of the steep rise in spending in the UK especially, as unemployment increased, though also in Finland, Denmark, Germany and Greece (Table 5). The growth in disability benefits (4 % a year) and unemployment benefits (just over 3½ % a year) was also relatively high, in the latter case being wholly concentrated in the recession years when spending went up markedly in all countries except for Greece. Spending on unemployment benefits, however, fell in real terms after 1993 in the Union as a whole, but it continued to increase in seven Member States and went up as well in Greece. In all countries apart from Spain, the real value of benefits in 1996 was less than in 1990, in part reflecting the generally higher level of unemployment (but see below).

Outlays on disability benefits also increased at a relatively high rate during the first part of the period, by almost 6 % a year on average, with only Greece again and Belgium showing a fall and with a particularly large rise in the UK (of 16½ % a year, almost as large as the rise in unemployment benefits, almost certainly reflecting their role as an effective substitute for the latter). In contrast to unemployment benefits, however, outlays continued to grow, on average, after 1993 (by 3 % a year) and declined only in Italy, Portugal and the Netherlands, in the latter as a result of the restrictions imposed on the eligibility for benefits over this period.

While spending on long-term invalidity has risen, that on short-term sickness benefits has fallen in the Union since 1993, though the fall has not been general to all Member States, with 8 of the 15 of them showing a rise between 1993 and 1996. In Italy, on the other hand, it declined by 8½ % a year and in Sweden, by 11 % a year.

Old-age pensions and health care, the two largest programmes, are the ones which, by common consent, are likely to show the highest rate of increase in spending in future years and which have been the subject of the most strenuous attempts to limit expenditure. The growth of spending between 1990 and 1996, however, was much the same as on social protection as a whole, averaging around 3 % a year in the Union over the period. Nevertheless, the rise in expenditure on both was more than 3 % a year in almost all Member States. In the case of old-age pensions, spending increased by 3 % a year or more over these six years in all countries, except Greece and the Netherlands — and in the former, it rose by more than this over the last three years of the period — and in the case of health care, in all but Denmark, Italy and Finland. As shown below, much of the growth in pensions seems to be attributable to an increase in the average amount paid to those over retirement age, while the rise in health spending included as part of social expenditure appears to have been accompanied by a similar growth in private spending.

Means-testing

A feature of the growth of expenditure on social protection over the 1990s has been the increase in means-testing in a number of Member States, in an attempt to limit the growth while at the same time concentrating resources on those most in need (i.e. those households with income below a certain level). Although, on average, expenditure subject to means-testing accounted for only around 10½ % of the total in 1996 and was under 1 percentage point greater than six years earlier, in Ireland it amounted to almost 35 % of the total and in the UK, 20 %, and in both it had increased between 1990 and 1996, in the latter markedly so (by 3 % of the total) (Graph 29).

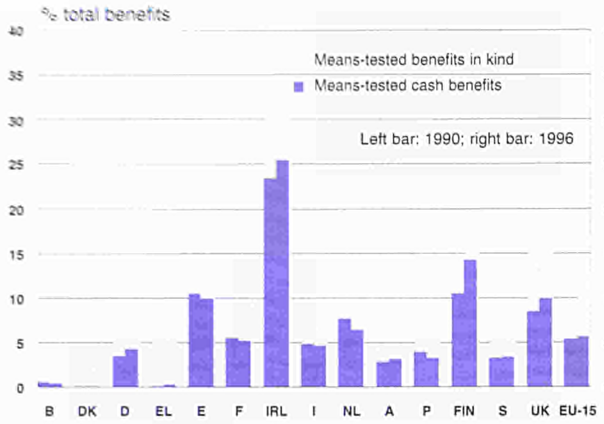
In the rest of the Union, under 10 % of spending was subject to means-testing except in two Member States, Spain (13½ %) and Finland (16 %), where it increased by more than anywhere else in the Union over the period (almost 5 percentage points). In both Germany and France, however, it was only just under 10 % of total spending in 1996 and in both it had become more important over the preceding six years, though in France only slightly so. Its importance also increased in five of the remaining eight Member States (there are no data for Luxembourg). Nevertheless, in three of these — Belgium, Denmark and Austria — it was still very small (under 5 % of total spending).

The growth of means-testing has affected a number of different areas of social protection, though its incidence varies between Member States. In all countries, apart from Ireland, little if any expenditure on either sickness benefits or health care is subject to means-testing (in Ireland, 15 % of spending on health care was means-tested in 1996). By contrast, all of expenditure on housing benefits, as might be expected, was means-tested in all Member States, this accounting for around a third of all means-tested benefits in the UK and France, some 40 % in Sweden and a quarter in Denmark. Similarly, most of the spending on social exclusion was means-tested in most countries — all or nearly all, in Germany, Spain, Ireland, the Netherlands — but, perhaps unexpectedly, none of it in Belgium or Denmark and under a quarter in Greece (reflecting the residual nature of this category).

Table 5 — Growth of social expenditure by function in purchasing power terms, 1990–96 *(% change per year)*

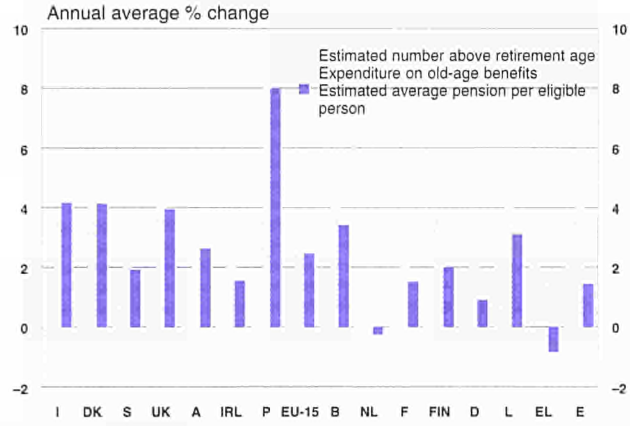
	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EU-15
Sickness																
1990–93	0.4	– 2.0	1.3	– 0.4	8.2	0.5	2.0	– 5.1	8.3	– 2.1	2.5	1.0	– 7.3	n.a.	– 1.3	0.4
1993–96	0.2	4.0	0.2	1.8	– 1.2	– 1.4	1.6	– 8.4	5.5	– 5.3	– 2.1	4.6	0.6	– 11.2	– 3.2	– 1.7
1990–96	0.3	0.9	0.8	0.7	3.4	– 0.4	1.8	– 6.8	6.9	– 3.7	0.2	2.8	– 3.4	n.a.	– 2.3	– 0.6
Health																
1990–93	2.3	4.4	4.1	2.8	6.6	3.7	8.5	0.0	8.3	5.9	4.4	18.7	– 2.8	n.a.	8.6	4.1
1993–96	4.9	– 0.6	3.8	6.3	0.4	1.9	4.4	– 2.0	5.5	– 0.5	2.6	4.5	2.2	2.4	2.7	2.0
1990–96	3.6	1.9	4.0	4.6	3.4	2.8	6.5	– 1.0	6.9	2.7	3.5	11.4	– 0.3	n.a.	5.6	2.9
Disability																
1990–93	– 0.3	4.9	7.0	– 6.9	4.7	5.1	5.6	1.6	4.8	0.1	4.1	6.3	5.1	n.a.	16.6	5.8
1993–96	0.6	5.2	7.5	3.9	2.0	0.0	7.7	– 0.9	5.3	– 1.3	7.9	– 0.9	0.7	3.5	4.4	2.9
1990–96	0.1	5.1	7.2	– 1.6	3.3	2.5	6.6	0.3	5.0	– 0.6	6.0	2.6	2.8	n.a.	10.3	4.1
Old age and survivors																
1990–93	5.5	2.5	2.9	– 0.4	5.2	3.6	3.7	4.8	7.5	1.8	3.4	10.3	4.5	n.a.	6.5	4.1
1993–96	3.6	7.2	2.8	3.7	3.2	2.3	1.9	2.4	3.7	0.5	2.6	7.6	3.4	2.2	2.0	2.6
1990–96	4.5	4.8	2.9	1.6	4.2	2.9	2.8	3.6	5.6	1.1	3.0	9.0	3.9	n.a.	4.2	3.3
Family and children																
1990–93	1.3	4.5	4.8	1.5	6.2	2.5	6.2	– 5.8	8.3	– 2.8	7.2	6.9	2.3	n.a.	12.8	4.0
1993–96	– 0.1	4.8	8.3	8.1	5.8	0.5	9.1	– 0.7	5.5	– 4.2	1.7	2.4	2.9	– 3.6	– 3.0	2.2
1990–96	0.6	4.6	6.5	4.8	6.0	1.5	7.6	– 3.3	6.9	– 3.5	4.4	4.6	2.6	n.a.	4.6	3.1
Unemployment																
1990–93	5.3	10.2	8.5	– 3.1	14.6	7.6	12.4	14.3	9.0	5.5	11.9	42.2	46.5	n.a.	17.4	10.6
1993–96	3.0	– 5.6	0.1	8.6	– 13.3	– 3.1	3.7	– 5.1	14.8	8.5	3.4	9.9	– 2.9	– 3.7	– 5.1	– 2.7
1990–96	4.2	2.0	4.2	2.6	– 0.3	2.1	8.0	4.1	11.9	7.00	7.6	25.0	19.3	n.a.	5.6	3.7
Housing																
1990–93		8.2	9.4	9.0	- 0.7	5.8	2.1	– 3.1	3.3	0.0	– 7.6	– 11.8	21.9	n.a.	12.5	9.0
1993–96		0.3	– 3.4	1.5	3.1	1.6	6.6	2.2	0.2	2.9	– 0.4	4.1	5.6	– 1.2	4.5	2.3
1990–96		4.2	2.8	5.2	1.2	3.7	4.3	– 0.5	1.7	1.4	– 4.1	– 4.2	13.4	n.a.	8.4	5.7
Social exclusion																
1990–93	6.9	8.3	4.0	15.9	20.3	10.6	10.6	10.9	4.9	– 2.9	8.6	26.6	9.7	n.a.	16.8	6.7
1993–96	– 0.5	3.4	9.2	– 7.4	14.8	6.1	8.2	– 3.5	2.3	– 45.0	– 3.4	16.9	5.9	– 2.4	– 9.8	0.2
1990–96	3.1	5.8	6.6	3.6	17.5	8.4	9.4	3.5	3.6	– 26.9	2.4	21.7	7.8	n.a.	2.6	2.5

29. Means-tested benefits in relation to total expenditure on benefits in Member States, 1990 and 1996



Sweden = 1993 and 1996.

30. Change in expenditure on old-age benefits and number of people above retirement age, 1990–96



Sweden = 1993–96.

In the case of unemployment benefits, around half or more of expenditure was means-tested in 1996 in Ireland (almost 75 %), the UK and the Netherlands, and in the first two, the proportion had increased since 1990, while in Spain, Austria, Portugal and Finland, means-testing applied to 20 to 25 % of spending. By contrast, none of the expenditure under this head was means-tested in Belgium, Denmark and Sweden, all countries where total spending on unemployment benefits was relatively high, and only around 17 % in Germany, though here the proportion had risen progressively from 9 % in 1991, reflecting the growth of long-term unemployment and the rising numbers ineligible for insurance-based benefits.

Part of expenditure on disability benefits is means-tested in all Member States, except Belgium and Denmark, though under 10 % in 1996 in Portugal and under 5 % in the Netherlands, Austria and Sweden. In Italy, over half of spending was means-tested and in Ireland, some 35 %, while in the remaining countries, the proportion was between 15 % and 25 %. A significant share of expenditure on family and related benefits was also means-tested in Italy and Ireland (around 40 % in both cases), though this was also the case in Germany, Spain, Portugal and the UK (around 30 to 40 %), while in most of the remaining countries (all except Greece and France – around 20 % in each case), very little (under 3 %) was means-tested.

Finally, in respect of old-age benefits, more than 10 % of expenditure was subject to means-testing in 1996 in only three Member States — Spain (11½ %), Finland (20 %) and Ireland (24½ %), in the first two of which it accounted for a large part of total means-tested spending (around 40 %). Elsewhere, it accounted for only 3 % of expenditure or less (none at all in Denmark and the Netherlands), except in Portugal (5 %) and the UK (8 %).

The figures presented above, though indicative of the extent to which income tests are applied to social transfers in different Member States, give only a partial picture of the importance of targeting across the Union, since they leave out of account fiscal measures taken to claw back some of the amounts paid to higher income groups. As noted above, the revenue yielded by taxes and contributions levied on benefits is relatively large in Denmark, the Netherlands and Sweden, all countries in which the extent of means-testing is below the Union average, and relatively small in Ireland and the UK, where means-testing is most important.

Benefits and beneficiaries

Given the present availability of data, it is difficult to disentangle the different factors underlying the changes in expenditure which have occurred and, in particular, to distinguish changes in the number of people receiving benefits — and within this, changes in coverage as opposed to changes in the number 'at risk' — from changes in the average amount of benefit paid. Although there are no data as yet on the number of benefit recipients, it is possible in the case of old-age pensions and unemployment compensation to relate the figures for expenditure to estimates of the number of people 'at risk', to obtain an indication at least of the relative generosity of systems in different countries and how this has changed over recent years.

Old-age benefits

Over the seven years 1990 to 1996, expenditure on old-age benefits (including survivors' benefits but, in this case, excluding early retirement pensions because of problems of comparability between countries) increased on average by 3½ % a year in the Union in real value terms. The number of people above retirement age (taking the official retirement age in each of the Member States) went up by 1½ % a year, so that by implication the average benefit per person rose by 2 % a year (Graph 30, in which Member States are ordered in terms of the rise in the number above retirement age).

This, it should be emphasised, is a very approximate estimate of the growth in average benefits, given that there is unlikely to be a one-to-one relationship between the number of people above retirement age and the number of people receiving benefits (not least because many of the women above retirement age may not have been in paid employment beforehand and so, in some countries, may not be entitled to benefit in their own right). Moreover, it makes no allowance for the increase in the number of people over the period retiring before the official age who may be in receipt of a normal rather than an early retirement pension (or at least, what in the Esspros accounts is classified in the same way as other pensions). Accordingly, the increase so calculated could be a result of a rise in the relative number of those above retirement age being eligible for benefit rather than — or as well as — individual pensioners receiving more.

In practice, there is not much sign of any systematic relationship across Member States between the growth in the number of people over retirement age and the growth of expenditure on old-age benefits. The increase in numbers was smaller in Denmark than anywhere else in the Union and yet the rise in expenditure under this head was above the Union average, implying one of the largest increases in the average amount of benefit per person. Equally, in Greece, the number above retirement age went up by more than in all other countries except Spain, but the growth in expenditure was lower than anywhere else apart from the Netherlands and the implied average level of benefit per person declined (as it did in the Netherlands). Moreover, the largest rise in spending on old-age benefits occurred in Portugal, where the growth in numbers was also below average (partly because of an increase in the retirement age of women from 62 to 63 over the period). As a result, the implicit average benefit per person increased by 8 % a year, twice the rate in any other country and reflecting the general improvement in pension arrangements which took place over this period.

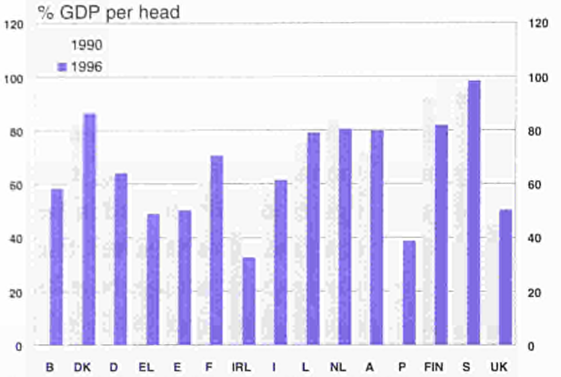
Despite the lack of an apparent relationship between changes in those above retirement age and in expenditure, there seems to be an inverse association between the growth in the former and the change in average benefit per person. Luxembourg apart, all the countries in which benefit per person went up by more than average between 1990 and 1996 had below average increases in the number above retirement age, while all of the countries with above average growth in numbers had below average increases in benefit per person. Although this is consistent with restraints being imposed on average benefit levels in countries with relatively large increases in the number above retirement age, such an interpretation is hazardous given the nature of the estimates of beneficiaries.

The implications for average benefit levels of the above exercise can be summarised by relating the resulting figures to GDP per head in the different countries. This indicates that average payments of old-age benefits in 1996 ranged from over 80 % of GDP per head in the three Nordic Member States and around 60 % to 80 % in most of the other Union countries to below 40 % in Ireland and Portugal (Graph 31). It also indicates that average benefit levels increased in these terms in most Member States between 1990 and 1996, the main exceptions being Ireland and Finland.

Unemployment compensation

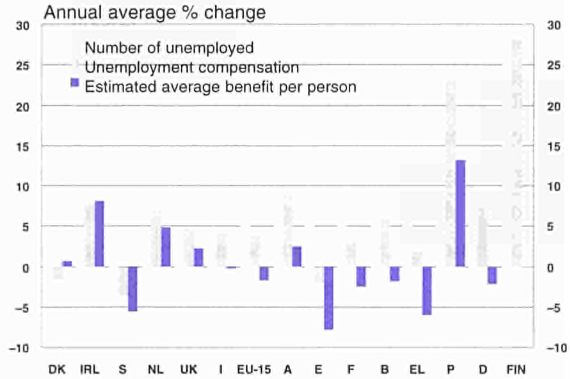
A similar exercise can be carried out for unemployment benefits, though in this case the estimate of beneficiaries involves perhaps an even greater margin of error because of differences between national definitions of the number of unemployed and the international standard definition (adopted by Eurostat to compare unemployment rates between Member States). At the same time, there are more serious doubts about the comparability of the data on expenditure. The latter arises in part from the inclusion not only of cash transfers to the unemployed but also of certain active labour market programmes from which they benefit, especially training courses aimed at improving their employability. In practice, the amounts entered under this head seem to be affected significantly by classification problems and by the difficulty of distinguishing such spend-

31. Average expenditure on old-age benefits per person above retirement age relative to GDP per head, 1990 and 1996



Germany = 1991 and 1996; Sweden = 1993 and 1996; Italy and Luxembourg expenditure includes early retirement.

32. Change in expenditure on unemployment compensation and number of unemployed, 1990–96



ing from other labour market measures. (In the Netherlands, for example, no expenditure at all is classified to this category, despite the training courses available for the unemployed, while in Germany, it includes job subsidies paid to employers, which are outside the scope of Esspros.) To try to reduce the effect of this on the comparisons, the analysis below is confined to unemployment compensation in cash terms, excluding any expenditure on allowances for training, since this seems to include training costs in many countries as well as support for those undergoing training. Two other elements of cash transfer are also excluded, early retirement benefits and redundancy compensation, in both cases because they do not bear any clear relationship to the number of unemployed, as well as in the former case because the data are incomplete in many cases and in the latter because spending fluctuates a lot from year to year. The resulting figure, therefore, can be regarded broadly as income support for the unemployed.

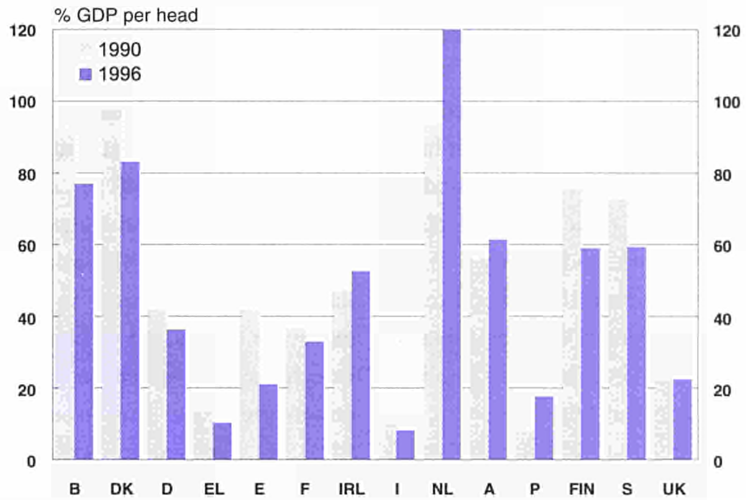
Unemployment compensation defined in these terms increased by just under 4 % a year in the Union in the seven years 1990 to 1996, while the number of unemployed defined according to ILO conventions went up by just over 5½ % a year. Average compensation, therefore, declined by almost 2 % a year (Graph 32).

A decline in the implied real value of compensation is apparent in most Member States (8 of the 14 for which data are available) and was particularly marked in Spain, Greece, France, Belgium and Germany (as well as in Sweden between 1993 and 1996). All of these were countries where the number of unemployed increased by more than average. This, however, is not necessarily a result of a reduction in average benefit. Just as for old-age benefits — indeed, perhaps even more so — it could equally reflect a change in coverage, in this case, of a reduction as benefit entitlement was made more restrictive. (In both Germany and Sweden, benefit rates were reduced during this period, while in Sweden and Spain, there is evidence that eligibility criteria were tightened; see *Social protection in Europe*, 1995 and 1997, Chapter 2.) It could also result from a change in the composition of the unemployed, in particular, from growth in the relative number of long-term unemployed who are no longer eligible for insurance-based benefits but have to rely on social assistance, which tends to be lower in value.

On the other hand, there was a substantial increase in the implied value of compensation per person unemployed in Ireland, Portugal and the Netherlands over this period (by around 5 % or more). In Ireland, this seems to have been due in part to an increase in the average rate of benefit, while in Portugal, and apparently in the Netherlands, it appears to be a result of an increase in effective coverage (in Portugal from a very low level, see Chapter 4 below), in the sense that the number of people receiving income support seems to have gone up by more than the figures for unemployment on the ILO definition. (It is also possible that in the Netherlands, the Esspros figures for unemployment compensation include spending on benefits in kind since, as noted above, no expenditure is reported under this head.)

Indeed, in the Netherlands, the implication of the exercise is that average unemployment compensation in 1996 was 20 % higher than average GDP per head and had risen appreciably in relation to the latter over the preceding six years (Graph 33). Elsewhere, the implied average compensation ranged from around 80 % in Belgium and Denmark and around 60 % in Austria, Finland and Sweden, to 20 % or less in the four southern Member States and the UK. This pattern of variation is broadly in line with estimates of replacement rates (see Chapter 4), though in the case of the UK, as noted above, the effective value of compensation is understated because of the exclusion of housing benefits which are a significant additional element of support (but one which it is hard to estimate the scale of because of the lack of detailed data on how much of these go to the unemployed as opposed to other groups).

33. Average unemployment compensation per person unemployed relative to GDP per head, 1990 and 1996

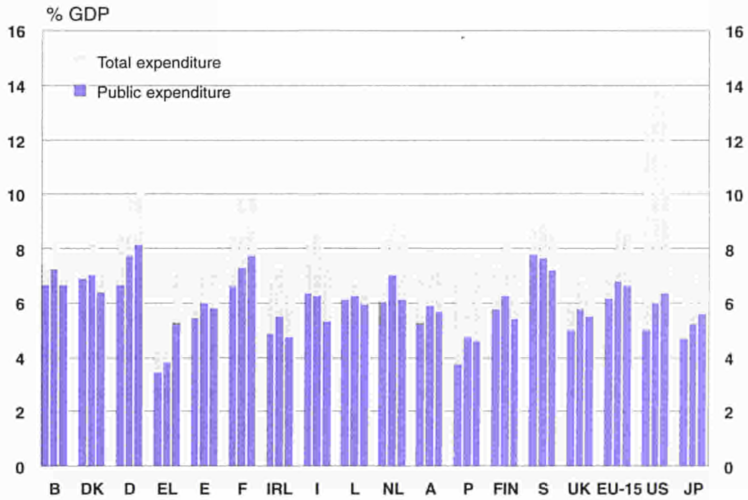


Germany = 1991 and 1996; Sweden = 1993 and 1996.

Public and private health expenditure

The figures cited above on spending on health care across the Union relate only to the socially funded element of this. In practice, this amounts to most of the expenditure incurred in all Member States. In all countries, however, a significant part of health care is delivered by the private sector or is privately funded (through, for example, co-financing arrangements under which people pay directly towards the cost of their treatment, as in the case of the prescription of drugs). The main questions considered here concern the relative scale of this in different countries and the way that it has changed in recent years as constraints have been widely imposed on the public component of expenditure. (Unlike the rest of this chapter, the analysis below is based on OECD rather than Eurostat data since these contain estimates of private expenditure. Accordingly, since the coverage is not precisely the same, the figures for public spending in relation to GDP may differ somewhat from those presented above.)

34. Total and public expenditure on health in relation to GDP in Member States, the US and Japan, 1990, 1993 and 1997



Japan = 1995.

In 1997, private expenditure on health care in the Union amounted to 24 % of the total, adding some 30 % to spending on health included as part of social protection. This was slightly higher than in 1990 (22 %), so that, on average at least, there appears to have been a relative growth of private spending (Graph 34). In the US, by contrast, where most of expenditure is private, the proportion declined from 59½ % to 53½ % over the period. As a result, in 1997, public spending on health care in the US was only slightly less than in the EU and higher than in most Member States, while total spending was considerably higher. (In the US, public spending amounted to just under 6½ % of GDP as against just over 6½ % of GDP in the EU on OECD definitions, while total expenditure in the US was over 13½ % of GDP as compared with 8½ % in the EU.)

The importance of private health expenditure in 1997 varied from 40 % of total spending in Portugal (where it had risen slightly since 1990) and 30 % in Italy (where it had also increased) to just over 15 % in Sweden (where it had risen markedly) and the UK, just under 15 % in Belgium (where it had also risen) and Denmark, and to only 8 % in Luxembourg. Overall, the general tendency over the period was for private spending to grow in relation to public, with eight Member States showing a rise and five — Germany, France, Ireland and the UK as well as Portugal — a decline. In four of these, all except France, social expenditure on health care, as defined in the Esspros accounts and discussed above, increased by significantly more than average. In Italy, Finland and Sweden, growth in private expenditure accompanied a fall in public spending in real terms (as shown by OECD data for Sweden since there are no Esspros data before 1993). In the latter countries, therefore, constraints on public health expenditure may have led to a growth of private provision — perhaps even directly, since the increased use of co-financing may have been one of the ways of achieving a reduction in public spending.

In most Member States, however, growth of public and private spending on health care occurred in parallel.

Sources of finance

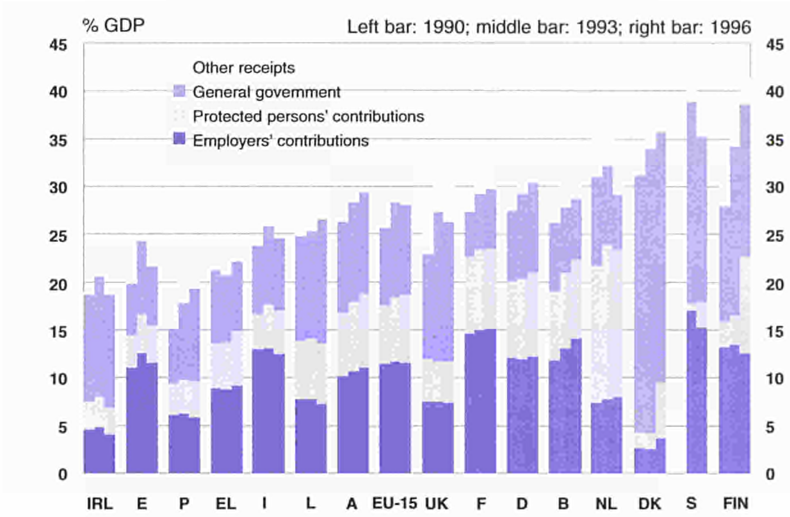
As indicated in *Social protection in Europe 1997* (pp. 73–74), there are marked variations in the relative importance of different sources of funding for social expenditure. Whereas on average some 63 % of total finance in 1996 came from social contributions, this proportion ranged from two thirds or more in France, Belgium, the Netherlands, Germany, Italy and Spain, and only slightly below in Austria to just over half in Luxembourg and Sweden and just under half in Finland, around 40 % or less in Portugal, the UK and Ireland and only 25 % in Denmark. This variation essentially reflects the extent to which systems are based on social insurance principles and centred on those in paid employment (the first group of countries), as opposed to being based on universal coverage of citizens, whether they are in work or not.

Since methods of financing are rooted in the way that systems have developed historically and are linked closely with the way that the expenditure side is managed and entitlement to benefits is controlled, they tend to be slow to change. Despite the increasing concern to limit or reduce the charges falling on income from employment, therefore, Member States have found difficulty in accomplishing this. It should be emphasised that, while social contributions represent the major part of total taxes on employed labour, other taxes account for more than one third of this total on average in the EU. (It should be also emphasised that social contributions as defined here include those paid voluntarily by employers, or employees, to the extent that they go to funding schemes which are classified as social protection and therefore included in expenditure; see 'Notes and sources'.)

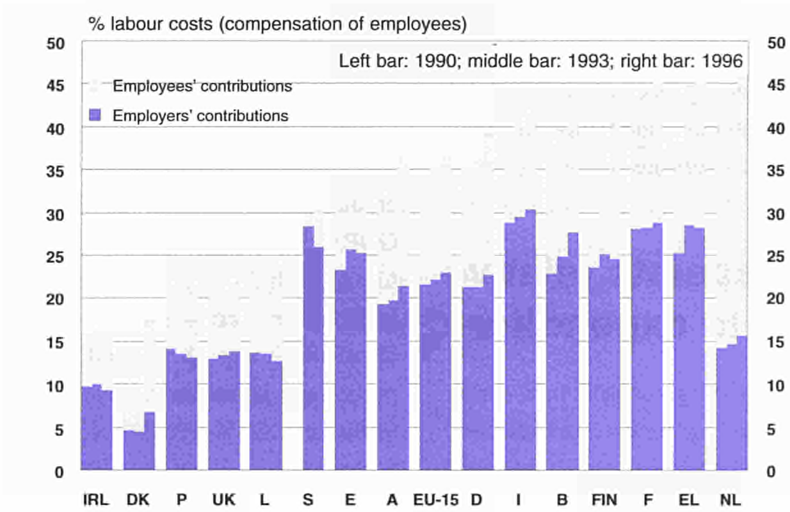
The relative importance of social contributions over the Union as a whole, therefore, declined only marginally between 1990 and 1996 (from just under 64½ % of the total to just over 63 %). All of this reduction, moreover, occurred in the first three years of the period, and after 1993 there was a small increase in their relative importance (Graph 35). This was also the case as regards employers' contributions, their share of total funding falling from 42 % in 1990 to just under 39½ % in 1993, but remaining at this level over the subsequent three years. These changes are mirrored by changes in the revenue from taxes, which increased from 30 % of the total in 1990 to 33 % in 1993 and then fell to 32 % in 1996. Within this, while there was some increase in revenue from earmarked taxes (i.e. those linked specifically to social protection), this remains very small — only 1½ % of the total — although this may reflect the difficulty of distinguishing such revenue in some countries.

Despite the difficulties involved, the share of revenue collected from social contributions changed significantly in a number of Member States between 1990 and 1996, though not uniformly downwards and more in countries where the share was relatively small initially rather than in those where it was large. In Portugal, it declined from 57 % to 43 % over the period, in Ireland and the UK by some 4 percentage points (from 44 % or just over to just under 40 %) and in Germany (where it was over 70 % in 1990) by 3½ percentage points. On the other hand, social contributions became a more important source of funding in Denmark (where their share rose from 13 % to 25 %) and the Netherlands (from 59 % to 67½ %), as well as, more modestly, in Finland, Belgium and Austria. Overall, therefore, there is little sign of any convergence in the proportion of revenue yielded by contributions over this period.

35. Financing of social protection expenditure by source of finance in Member States, 1990, 1993 and 1996



36. Employers' and employees' contributions in relation to labour costs in Member States, 1990, 1993 and 1996



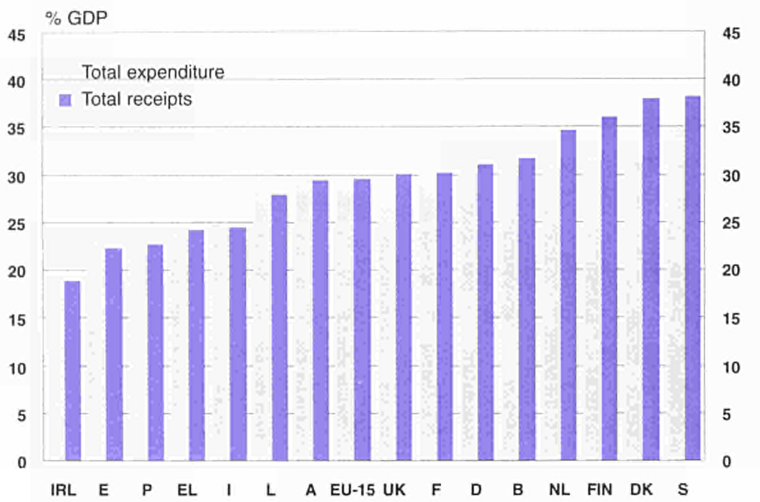
There is, however, some sign of a shift within social contributions from employers to employees (or others who are being protected). In 1990, 65 % of the revenue yielded by contributions came from employers, in 1996, 62 %. Such a shift occurred in the majority of Member States, especially in Denmark and Finland, where total contributions were below the Union average, but was by no means general. Indeed, in most countries, there was comparatively little change over the period.

Since overall funding for social protection has broadly kept pace with expenditure (though there are some differences between countries as noted below), it has also risen in relation to GDP over the 1990s, as has the revenue from social contributions. Since, however, the share of wages and salaries in GDP has tended to fall over this period, particularly since 1993 and the end of the recession, the revenue from contributions has risen significantly in relation to wages and salaries. Despite the concern of Member States to limit or reduce the pressure on labour costs from social charges, therefore, contributions increased from an average of 33½ % of labour costs (as measured by compensation of employees) in 1990 to 37 % in 1996, and employers' contributions from 21½ % to 23 % (Graph 36).

The increase, moreover, occurred in all Member States, except Portugal, where the relative scale of contributions remained much the same, and Ireland and Luxembourg, where it fell slightly. Furthermore, apart from the latter two countries and Spain, social contributions also continued to rise relative to labour costs in the second part of the period, though in a number of countries — Portugal, Sweden, Finland and Greece as well as these three — there was some fall in the employers' component. This fall, however, seems to have been largely the result of a reduction in the voluntary element of this, since in most countries, this declined over the period (on average from 26½ % to 24 %).

Nevertheless, the apparent increase in social contributions relative to overall labour costs needs to be treated with some caution. Although it is in line with the change shown by national accounts data, there is a question mark over the treatment of reductions in social contributions made for labour market or other policy purposes (i.e. concessions made to employers aimed at reducing the cost of labour). In some countries, these may be treated straightforwardly as a reduction in contributions, diminishing the figures for revenue shown. In others, however, they may be treated, quite rationally and perhaps most appropriately, as an explicit subsidy, which, therefore, appears on the expenditure side of the

37. Total social protection expenditure and receipts in relation to GDP in Member States, 1996



public sector accounts, leaving the figures for social contributions unaffected even though actual revenue from these has declined. To the extent that countries adopt the latter procedure, the scale of social contributions in relation to labour costs will be overstated.

Receipts relative to expenditure

While the figures examined earlier in the chapter give an indication of the overall cost of spending on social protection and the total amount of transfers, they do not reveal the full picture. In most countries in the Union, governments collect more in revenue for social protection than they spend, largely because of a concern to build up reserves against future liabilities (the difference may also come from omissions and errors remaining in data provided on expenditure and receipts). In 1996, total finance for social protection amounted on average to 29½ % of GDP, 1 % of GDP more than expenditure (Graph 37, in which countries are ordered in terms of revenue). In Denmark, it was 38 % of GDP, some 7 percentage points more than spending, in Finland, 36 % of GDP, 4½ percentage points more than spending, while in three other Member States, Sweden, the Netherlands and the UK, revenue exceeded expenditure by over 3 % of GDP. In all of these countries, the social protection accounts had been in significant surplus throughout the 1990s.

By contrast, revenue was less than spending in Spain, Italy and France and about the same level in Austria. In these countries, therefore, the social protection accounts were in deficit. Moreover, according to Esspros data, in France, the account had been in deficit in each of the years 1992 to 1995; in Italy, for all the years 1990 to 1995, except one; and in Spain, in four of the six years 1990 to 1995. These deficits are covered by borrowing in the short term, but may imply a need for increased taxes or social contributions in the longer term.

In terms of revenue, therefore, there is a somewhat different ordering of Member States as regards the level of social protection and the amount of transfers it involves than in terms of expenditure. The three Nordic countries still had the highest levels in 1996 relative to GDP (though the order is changed) and the four southern Member States together with Ireland the lowest levels (though Portugal moves ahead of Spain), but between these two extremes, the Netherlands moves ahead of Germany and France and the UK ahead of Luxembourg and Austria, both of which fall below the Union average.

Recent developments in sources of finance

The data on receipts analysed in the text goes only up to 1996. In a number of Member States, measures have been introduced to change the pattern of financing social protection since then. Indeed, a widespread tendency, especially in Member States where they represent the major means of financing systems of social protection, has been to seek to limit the rate of social contributions levied on income from employment and more generally to limit all taxes on employed labour, in order to reduce the charges falling on labour costs, and to replace revenue from this source by general taxation or earmarked taxes.

In addition, a great many countries have introduced special reductions in social contributions for employers taking on people who were previously long-term unemployed or other particularly disadvantaged groups on the labour market, as described in Chapter 4 below. These, however, are not intended to change fundamentally the structure of funding for social protection and are limited in both their incidence and duration.

The attempt to shift the main source of funding from contributions to taxes, in some cases to 'earmarked' taxes levied specifically to fund certain benefits, has perhaps been pursued furthest in France, where the CSG *(contribution sociale généralisée)* was introduced as a 'solidarity tax' in 1991 to replace part of the contributions levied for old-age pensions and family benefits and has, more recently in 1998, been extended to replace part of health insurance contributions, enabling these to be reduced significantly on both employers and employees. Since the tax is levied on all sources of income, including capital and social transfers, it essentially represents a shift away from wage earners and employers to other income recipients. In 1998, therefore, the rate was increased from 3.4 % to 7.5 % (with a reduced rate of 6.2 % on social benefits). As a result, the revenue yielded by the CSG has increased eleven-fold in just seven years and in 1999 is higher than personal income tax. At the same time, the CRDS *(contribution au remboursement de la dette sociale)*, an additional charge levied at a rate of 0.5 % on income, introduced in 1995 to contribute to reducing the deficit of the social protection system, has been extended until 2014, while the tax levied on tobacco for a similar reason has been increased. As a consequence of this shift, social contributions decreased from 23 % of GDP in 1996 to 20½ % in 1998 whereas earmarked taxes levied to fund social protection increased from just over 2 % of GDP, accounting for more than 15 % of total funding for social protection.

In addition, the exemption of low earnings from social contributions, introduced in 1993, has been continued, though the maximum level of earnings it applies to has been recently reduced slightly from 133 % of the minimum wage to 130 %. However, this maximum level of earnings is due to be raised substantially to 180 % of the minimum wage from 2000 on as a result of new legislation aimed at reducing working time.

In Belgium, social contributions levied on employers were reduced in two stages in 1998 and 1999, with those on low earnings (just over EUR 1 500 a month), as well as on the earnings of part-time workers, reduced disproportionately. The reduction is linked to agreements on expanding employment and training, which are being monitored sector by sector, with the possibility that the reduction could be postponed in sectors where no agreements have been reached. In addition, it is planned to reduce employees' contributions for those on low earnings from the beginning of 2000, in order to increase their take-home pay (by around EUR 38 a month) and reduce the unemployment trap (i.e. the incidence of cases where take-home pay is not much if any higher than unemployment benefit).

In Germany, efforts have focused on preventing social contributions from increasing any further. Federal transfers to pension funds were, therefore, raised from June 1999 and the proposed 'ecological tax reform' will provide extra finance. In 1999, the contribution rate for pensions was reduced from 20.3 % to 19.5 %. At the same time, those working part time

continued on p. 88

continued from p. 87

(under 15 hours a week) and earning below a certain amount (DEM 630 (EUR 322) a month), who were previously not covered by compulsory sickness and pension insurance, have been brought into the system. From April 1999 onwards, for these workers, employers have to pay a pension contribution rate of 12 % of gross wages and a sickness contribution rate of 10 %, slightly less than for those on earnings above this (19.5 % for pensions), but not unemployment insurance, the entitlement to a pension being reduced proportionately.

In Austria, workers on low wages (around EUR 285 in 1999) can opt to pay voluntary pension and sickness contribution as from 1998, for a flat-rate sum of around EUR 39 a month. Employers of those earning more than 1½ times this are now required to pay pension and sickness insurance contributions at a combined rate of 16.4 % of their gross earnings, while the rate for employees is slightly less. The new provisions, however, apply to only some 6 % of employees, most of them women.

In Italy, the pact signed by the government with the social partners at the end of 1998 included a commitment to reform the whole system of financing of social protection, shifting from contributions to general tax revenue in respect of maternity and family benefits, with the aim of both reducing the charges falling on labour in order to improve cost competitiveness and explicitly recognising the 'national solidarity' nature of the benefits concerned.

Elsewhere, in Ireland, the full rate of employees' contributions was reduced in 1998 from 5.5 % to only 4.5 %. In the UK, the lower limit for the payment of both employers' and employees' contributions is in the process of being substantially raised in order to align them to the tax threshold. In the Netherlands, as noted above, a ceiling has been imposed on the rate of social contributions for financing the State pension, any increase in funding need being met from general taxation.

Chapter 4: Making social protection systems more employment-friendly

In its recent communication, 'A concerted strategy for modernising social protection', the Commission emphasised the role of social protection systems in helping to raise employment levels, an objective which is a central element of overall economic policy in the Union. The potential importance of this role is emphasised in both the broad economic policy guidelines (where it is recognised that tax and benefit systems need to support employability and job creation) and, more specifically, in the employment guidelines, where there are a number of references to the way in which social protection systems need to develop. Both of these guidelines have been endorsed by Member States.

Under the third employment guideline, Member States are committed to raising the number of people benefiting from active measures to improve their employability. This may imply focusing on the needs of individuals and establishing a close link between the administration of benefits and the employment services, whose essential function is to help to get people into work. They are also committed to ensuring that there is an appropriate balance between an individual's entitlement to benefit and their availability for training or other measures.

Under the fourth guideline, Member States have agreed to ensure that tax and benefit systems provide incentives both for the unemployed actively to seek work and for employers to create new jobs. In addition, they have agreed to develop measures, including in respect of social protection, so that older workers are also able to participate actively in working life.

The concern of the chapter is to examine each of these aspects of policy, to consider the approach which Member States are following in each case and the specific action they have taken in the recent past to achieve the objectives which have been set. As such, it updates the review of policy in this area included in *Social protection in Europe 1997* (Chapter 4).

In so doing, it also draws attention to the development and acceptance across the Union of a wider interpretation of the role of social protection, which is conceived less in terms of simply providing income support for people who, for one reason or other, are unable to work or who wish to retire from the labour force and more in terms of both encouraging them to find a job or to keep working and assisting them to do so. As a corollary, there is increasing emphasis on the provision of benefits in kind rather than cash transfers — much as in the case of health care, efforts are concentrated more on treating ailments or preventing them occurring in the first place than on providing sickness benefits to those who fall ill.

Accordingly, it is becoming increasingly difficult to draw a neat distinction between social protection measures, on the one hand, and labour market and employment measures, on the other. Indeed, labour market measures are becoming an ever more important aspect of social protection, though the convention at present is generally to exclude from its definition measures such as job subsidies, which benefit firms as well as individuals. The same convention has been adopted in the rest of the report, but in what follows active measures which take the form of job subsidies or similar kinds of assistance are included in the analysis in order to present a complete picture of developments in this area.

Outline of analysis

The analysis is divided into three main parts. In the first, the level of unemployment benefits relative to earnings in the different Member States is examined, in order to assess the potential financial incentive, or disincentive, they imply for people to remain in employment or actively to seek work if they are unemployed. This is based on a recent empirical (as opposed to theoretical) study of replacement rates, which used the results of the first two waves of the European Community Household Panel (ECHP) to assess what people actually received when they were unemployed and compared this with their take-home pay when they were working. Changes in benefit systems which have occurred since the ECHP data were collected (wave 1 relates to 1993, wave 2 to 1994) and their potential effect on the replacement rates calculated are also examined.

The second section considers the measures which Member States have taken to shift the emphasis of policy from passive income support to active assistance to the unemployed to find work, including measures to alter the conditions governing entitlement to unemployment benefit to encourage job search activity or participation in labour market programmes. Such conditions need to be taken into account in any assessment of the effect of replacement rates on incentives and temper the conclusions which are liable to be reached from merely comparing levels of replacements rates between countries. This section is based in part on the national action plans for employment published by Member States.

The third section examines the empirical evidence on the expenditure on labour market policies actually incurred by Member States and, in particular, the extent to which there has been a shift in spending from passive to active measures, taking account of changes in unemployment which have taken place. It also considers the division of spending between different types of active measure — training as opposed to job placement services or employment subsidies, for example — and the way that this has changed over recent years.

Social benefits and incentive effects

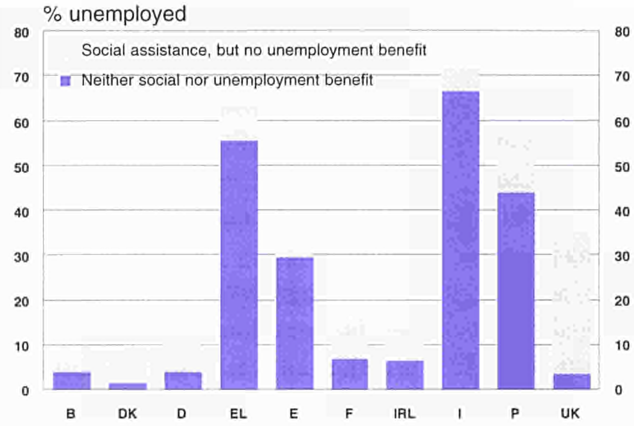
There is a widespread recognition across the Union that systems of social protection need to take account of the changing nature of the labour market, of the high level of long-term unemployment, on the one hand, and of the continuous need for the updating of skills and know-how, on the other. This is very different from the situation over most of the post-war period when social protection systems for the unemployed were largely developed, when their main function was to provide a temporary source of replacement income while the person concerned looked for a job, when labour shortages rather than job scarcity were the major problem and when people could expect to do the same kind of job throughout their working lives.

The concern then, in the interest both of labour market balance and social justice, was to ensure that someone unemployed received a sufficient level of benefit to give them enough time to find a suitable job, that they did not suffer unduly because they could not find employment. In present circumstances, the aim is to ensure that people have a financial incentive to look for work, that they do not spend so long out of work that it harms their chances of finding a job and creates an attitude of dependency, that their employability is enhanced rather than damaged during their spell of unemployment. Accordingly, the focus is on making sure that people are always better off in work than if drawing benefits, that the level of benefit itself, as well as the conditions applying to entitlement, encourages people to find a job as soon as possible and that they are helped to do this through appropriate active measures.

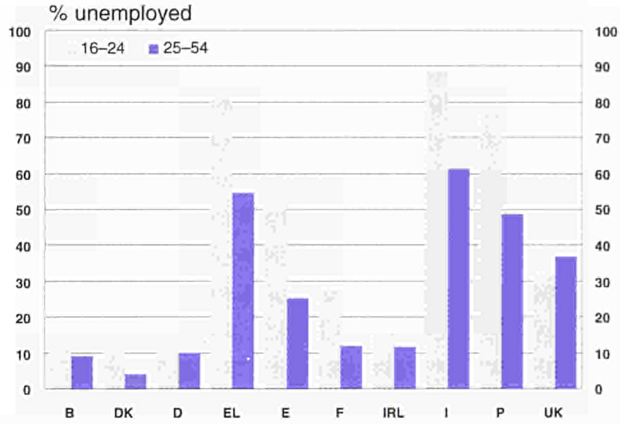
At the same time, benefits still need to perform their main function of providing an acceptable level of income and preventing people sinking into poverty when they are unable to work through no fault of their own. The challenge facing Member States is to set benefit levels and the regulations governing entitlement to them so that these two objectives are achieved simultaneously. The details of the schemes in place, however, suggest that views on where the appropriate balance lies vary markedly across the Union, though they also reflect social attitudes towards the unemployed — and redistribution generally — the way that the system has developed historically and, of course, the level of economic prosperity.

In practice, both the proportion of the unemployed receiving benefits and the amount of benefits received seem to differ significantly between Member States, the main divide for the former being between the north and south of the Union. This is indicated by the first two waves of the ECHP, which provide data on what respondents actually received when unemployed and which throw light on both coverage rates (the proportion of the unemployed in receipt of benefit) and replacement rates (the net amount of benefit received relative to net earnings when the person was in work). Specifically, the data used relate to people aged between 16 and 54 who were unemployed for at least three months over the two years 1993 to 1994 and who had previously been in paid employment (three months was used in order to exclude the very short-term unemployed who might not have had time or did not bother to claim benefit). It should be emphasised that only the first

38. Unemployed (aged 16–54) not receiving unemployment or social benefits in Member States, 1993/94



39. Unemployed by age group not receiving unemployment benefit in Member States, 1993/94



two waves of the ECHP have been used in these analyses and that the results will become more reliable over time, in particular because of the increased number of transitions between unemployment and paid employment that will be observed. The results reported here, therefore, are exploratory and should be interpreted with caution. They will need to be compared with evidence from other studies and to be further investigated as data from new waves become available for analysis. It should also be kept in mind that it is always difficult to gather high quality information on income and transfers through interviews.

Data from the first two waves of the ECHP, which indicate what respondents actually received when they were unemployed (see Box for a description of the data), show that in Italy, Greece and Portugal, over half of those who were unemployed for at least three months over the two years 1993 to 1994 and who had been in work before did not receive any unemployment benefit at all. Moreover, only a small proportion of these seem to have received any other form of social transfer, including social assistance or benefits paid to the household (Graph 38).

These findings, however, need to be treated with some caution, since it remains to be verified from the data for waves 3 and 4 and by more detailed investigation of the cases concerned, whether all social transfers are, in fact, included in the answers given. It should be noted that the benefits included cover all social transfers, even family or child allowances, which are payable whether or not the person concerned is unemployed, which again tends to increase the coverage rates in relation to the actual situation.

In Denmark, Germany and Belgium, in contrast to the southern Member States, only around 10 % or less of the unemployed received no unemployment benefit and most of these obtained some other form of social transfer, leaving very few (only 4 % in Germany and Belgium and around 1 % in Denmark) without any kind of State support.

In between these two extremes, around 15 % of the unemployed received no unemployment benefit in France and Ireland and just over a third in Spain and the UK. In all these countries except Spain, however, a large proportion of these received some other form of social transfer, leaving only 7 % without State support in France and Ireland and only 4 % in the UK. In Spain, on the other hand, some 30 % of the unemployed appear not to have received any kind of social benefit, though again this finding needs to be verified by further investigation.

These figures are affected by the fact that eligibility for benefit is dependent in most countries on having been employed before for a minimum period of time — and, therefore, having acquired the necessary contributions record — and, in some countries, on being above a certain age. In particular, those without a suitable employment record tend not to be eligible for unemployment benefit but to be reliant on social assistance, which in Greece and Portugal as well as France is not payable to anyone under 25, while in Spain and Italy, it is available only at the regional level and so varies between different parts of the country. In consequence, around 90 % of young people aged 16 to 25 who were unemployed in 1993 to 1994 received no unemployment benefit in Italy, 80 % in Greece, 75 % in Portugal, 50 % in Spain and around 30 % in France, reflecting the large numbers who had never worked before (Graph 39).

The European Community Household Panel data used in the analysis

The European Community Household Panel (ECHP), which consists of a sample of households and persons across the Union surveyed each year, is intended to give an insight into social conditions in Member States and how these are changing over time. The survey combines questions on employment status and personal circumstances with questions on income and the sources from which it comes, including social transfers as well as earnings from work and private income. It, therefore, provides a means of examining the benefits actually received by unemployed people and comparing these with the income they earned when they were in work. This, it should be noted, is different from the usual approach to estimating replacement rates, based on the standard amount of benefit payable under social protection regulations to people in particular circumstances and comparing this with the theoretical net earnings from work of someone on the average wage or some proportion of this, given the tax schedules in operation.

The analysis in the text is essentially a summary of the results of a study carried out in 1999 by the Centre for Social Policy at the University of Antwerp for the European Commission, which was based on data from the first and second waves of the ECHP relating to 1993 and 1994. In order to exclude those who might have been unemployed for too short a time to receive benefits, the study focused on people who had been unemployed for at least three months during these two years. Their average benefit was estimated by dividing the total amount of benefit received by the number of months of unemployment, which, it should be noted, gives the average amount of benefit received during their period of unemployment, which may differ from the average amount received for the months in which they were in receipt of benefit. Benefits are measured net of any direct taxes or social contributions payable on them which are deducted at source (but not necessarily those not deducted at source). Earnings from employment, with which benefits are compared, are also measured net of taxes (except in France: both those deducted at source and those possibly deducted later) and social contributions. The possibility that in some countries benefits are measured gross of taxes and/or contributions means that replacement rates may be over-estimated in these cases, though, in most Member States, some or all benefits are not subject to tax.

Only 12 Member States (excluding Austria, Finland and Sweden) were included in both the first and second waves of the ECHP, while Luxembourg, for which the sample size is too small to give reliable results, and the Netherlands, where not all the data required for the analysis are available, were excluded from the analysis reported here.

Nevertheless, even for those aged 25 and over, it was still the case in the four southern countries that a large proportion of the unemployed seem not to have been eligible for unemployment benefit — around 60 % in Italy, around half in Greece and Portugal and a quarter in Spain.

The average level of unemployment benefit (including those receiving no benefit at all) varied from almost 80 % of take-home pay (or net earnings) when the person concerned was in work in Ireland and 70 % or above in Germany, Belgium and Denmark to under 25 % in Italy and the UK and under 10 % in Greece, with France (around 60 %), Spain and Portugal (around 35 %) in between. It should be emphasised again that these and subsequent figures need to be treated with some caution for the abovementioned reasons and in particular because they do not cover social transfers other than unemployment benefit. The latter is especially important in countries where social assistance or transfers to households rather than individuals, such as housing benefits, represent a large share of the income support provided to the unemployed.

The average differed in some degree according to age and between men and women. As regards the latter, the average replacement rate for women (benefits relative to take-home pay) was much the same as for men in Germany, Belgium, Greece and Spain and higher than for men in all the other countries covered except Ireland (Graph 40). These differences reflect the nature of the benefit system in force and, in particular, the relationship between the wage received when the person concerned was in work and the ceiling imposed on benefit payments. Because women tend to earn less than men, the benefits they receive, which in most countries are a proportion of previous earnings up to a maximum amount, will tend to be less affected by the ceiling. Similarly, in the UK, where benefits are a flat-rate amount irrespective of previous earnings, this amount will usually be higher in relation to take-home pay for women than for men.

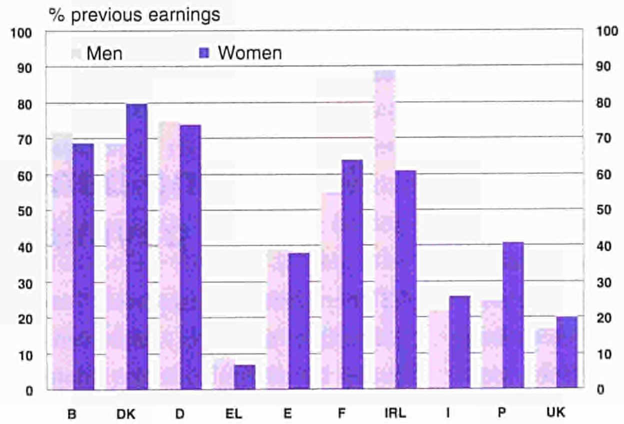
It is more difficult to explain the difference in the average replacement rate in Ireland, where benefits are also mostly flat rate, but where men received much higher benefits in relation to previous earnings than women. The explanation, however, might lie in a large proportion of the men concerned being on relatively low rates of pay when they were working or, perhaps more likely, that, because they were the heads of households, they received more in the form of supplements to the flat-rate benefit for dependants than women.

Average replacement rates, however, can by themselves give a misleading impression of financial incentives, or disincentives, to seek employment, since they reveal nothing about the extent to which rates vary between individuals. A rate of 80 %, for example, is compatible with everyone having a rate around this level or with most people having a lower rate but a few having a very high rate. What is important in this context is the relative number of the unemployed who receive benefits which are close to or above their take-home pay when they were working, who, therefore, have little financial inducement to find a job and perhaps some incentive to stop working. (This, of course, does not mean that there might not be other incentives to be in work, such as social or personal esteem as well as pressure to find a job from the authorities administering benefit payments.)

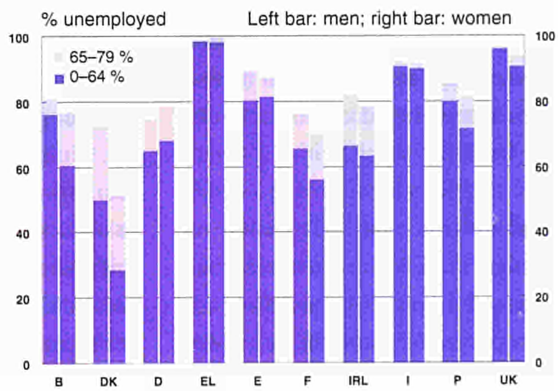
The difficulty is to identify the level of replacement rate which represents enough of a financial disincentive to work that it affects individual behaviour. In practice, this is likely to differ between countries, as well as between areas within countries, and is likely to be influenced by social norms of behaviour (how far it is socially acceptable to be unemployed) as well as by the absolute level of benefit received, since a given percentage variation in net income will tend to be more significant at the bottom end of the income scale than further up. (In this regard, it is important to note that the great majority of the unemployed tend to have earnings when in work well below the average.) Given our state of understanding of this issue, any figure taken is arbitrary, but it can perhaps be assumed that a replacement rate much below 80 % would not in most cases represent a financial inducement to be, or remain, unemployed while a rate much above this might do so.

In practice, in most Member States, a relatively small proportion of men who were unemployed had a replacement rate of 80 % or above in 1993–94 (including those receiving no benefit at all). Only in Denmark (27 %), Germany (25 %) and France (24 %) did more than 20 % of men have a rate this high. In Spain, the figure was only around 10 %, in Italy, 8 % and in Greece and the UK, under 4 % (Graph 41). Indeed, except in Denmark, over 65 % of men either had a replacement rate of under 65 % or did not receive any benefit, and in Italy, Portugal, Greece and the UK, well over 70 % of men had replacement rates of under 50 % (in Greece and the UK, virtually everyone).

40. Average replacement rate percentage of previous earnings replaced by unemployment benefit for unemployed men and women (aged 16–54) in Member States, 1993/94



41. Proportion of unemployed (aged 16–54) with replacement rates below 80 % and 65 % in Member States, 1993/94



In the case of women, a slightly higher proportion of the unemployed had replacement rates of 80 % or above in most countries. As for men, over 20 % of women had replacement rates of this level in Denmark (49 %), Germany (21 %) and France (30 %), but also Belgium (23 %) and Ireland (21 %), while the figure was only just below 20 % in Portugal (18 %). In Italy and the UK, the proportion was well under 10 % and in Greece, virtually zero. Nevertheless, in all countries apart from Denmark and France, over 60 % of unemployed women had a replacement rate of under 65 % or received no benefit at all, and in Italy, Greece and the UK, over 85 % of women had a rate of below 50 % (around two thirds in Portugal and 68 % in Spain).

This evidence suggests, therefore, that any financial incentive to be unemployed or not actively look for work is relatively weak for most people in most Member States — or, at least, was a few years ago. Since 1993–94, moreover, while there is no evidence of significant changes in the levels of benefits, the conditions governing entitlement to benefit have been tightened in many countries (particularly in relation to those refusing a suitable job offer, which itself has been more widely defined). These findings have to be taken with some caution. Further investigation should notably pay attention to specific groups such as low paid people who may face a financial incentive to be unemployed or not actively look for work.

At the same time, the calculation of replacement rates leaves a number of factors out of account. As noted above, the unemployed may well be under significant social or administrative pressure to find a job, and the regulations governing eligibility for benefit mean in some countries that payments are withdrawn if a person does not actively seek employment or accept a suitable job if it is offered.

In addition, explicit account needs to be taken of the fact that a significant number of the unemployed in most countries receive social assistance rather than unemployment benefits either because they have an insufficient previous employment record or because they have exhausted their entitlement to benefit. Moreover, in a number of countries, such as the UK and Ireland, such benefits are means-tested and eligibility is based on household rather than personal income. In these cases, the financial incentive to work or not is determined by the effect of doing so on household rather than personal income. If there are two potential wage earners in a household, therefore, it is possible for the household to be worse off, or not significantly better off, if one partner works when the other is unemployed. Indeed, in the UK, for a household to be eligible for means-tested support, partners are required to work less than 25 hours a week.

Policy developments towards the unemployed

The general consensus across the Union, as noted above, is that social policy towards the unemployed as well as others not in work should shift away from passive income support towards active measures to help get them into employment. Such measures can be divided into two broad categories:

- those which are aimed at helping the unemployed find a job either by assisting them in their job search activities or by improving their employability through training or work experience;
- those which provide the unemployed either with direct access to employment through subsiding jobs or reducing the taxes and/or social contributions which employers have to pay or with assistance to start up their own business and become self-employed.

In addition, there is also widespread agreement on the need to coordinate active and passive measures to ensure that those who become unemployed or who have been out of work for some time are properly advised on the active programmes available as well as about their responsibility to find a job, an aspect emphasised increasingly in a number of countries.

Information on government action in different Member States in this broad area is given in the national action plans (NAPs) — the annual reports of efforts being made in pursuit of the European employment strategy and, more specifically, in accordance with the employment guidelines. The following analysis is based in part on this information, though it is supplemented by reports from individual country experts.

Restricting benefit payments

The shift in emphasis towards active measures has been reinforced by efforts to make unemployment benefit systems more efficient or cost-effective, in the sense of ensuring that support is confined to those who are genuinely unemployed and doing their best to find work. This has taken the form of devoting more resources to combating fraud and tightening the regulations governing eligibility for benefit, including widening the definition in many countries of what constitutes a suitable job for the person unemployed to take up and, therefore, restricting the range of job offers which those unemployed can refuse without having their benefit withdrawn. It has also taken the form of reducing the level of benefits and the period of time over which benefits are payable (see Box on activation measures for examples).

Such measures are motivated in part by a desire to limit expenditure on unemployment programmes and to encourage those receiving benefit to find a job as soon as possible or to participate in an active measure. They have been accompanied in a number of Member States by similar attempts to cut expenditure on related social transfers and to reduce the number of people dependent on State support, particularly those on disability benefits, those taking early retirement, lone parents and people with social problems.

In the Netherlands and the UK, in particular, where the number of people receiving disability benefits increased markedly during the 1980s, in effect as a response to rising unemployment and the growing numbers of older workers losing their jobs and having little chance of finding another, the criteria for being assessed as being incapable of working were tightened considerably in the 1990s (see *Social protection in Europe 1997*, pp. 47–48). In both countries, in addition to stricter and more frequent medical examination, the definition of ability to work was broadened to cover all kinds of jobs rather than the one which the person concerned was doing before. In the Netherlands, this, combined with a policy of shifting some of the costs on to employers, has resulted in around half of the 400 000 workers claiming benefit losing their entitlement and having to switch to unemployment benefit instead, which is payable for a much shorter period. In the UK, entitlement to 'Incapacity benefit' was tightened even further in late 1999, with the aim of excluding those who are really long-term unemployed.

Examples of activation measures in Member States

In Denmark, people are considered to have both a responsibility and an obligation to take part in active labour market measures from 1999 on after one year of being unemployed rather than two as before. In addition, those receiving unemployment benefit are expected, after being unemployed for three months out of any 12, to take 'reasonable' employment if it is offered (i.e. any job they are capable of doing with a minimum amount of training), even if this lies outside the area for which they were trained or have experience. The travel-to-work time considered reasonable has also been lengthened (from 3 to 4 hours a day for a full-time job).

In the Netherlands, new legislation was introduced in the 1990s enabling sanctions to be imposed on the unemployed who do not comply with the obligation to accept a suitable job if they are offered one. Moreover, benefit rates have been reduced (from 80 % to 70 % of previous earnings), entitlement to unemployment benefit has become more restrictive and the right of young people to social assistance has been replaced by them being offered jobs by municipalities.

In the UK, under new legislation, people out of work — other groups as well as the unemployed — failing to attend interviews with their personal adviser, appointed under the Single Gateway approach (see text below), or to take up job offers or training options will risk having the benefit payments stopped. Although there will be exemptions for those with heavy caring responsibilities or lone parents with young children under five, for many of these a personal adviser will still be appointed to encourage them to start planning for work in the future when they are less constrained by personal circumstances.

On the other hand, in Germany, legislation introduced in 1997 extending the definition of what constitutes a suitable job offer (see *Social protection in Europe 1997*, p. 106) has recently been reversed and the travel-to-work time deemed acceptable reduced from 3 hours a day to 2½ hours for full-time work and from 2½ hours to 2 hours for part-time work. In order to combat fraud, however, agencies responsible for the payment of various benefits have been permitted, since January 1999, to exchange information about recipients.

The extension of benefit systems

Although in most Member States, the emphasis of policy over the 1990s has been on restricting entitlement to benefit to those who really need it, on reducing the period over which benefit is payable and, in some cases, on lessening the amount of benefit in order to ensure that there is a clear financial incentive to working, in a number of countries steps have been taken to improve the income support provided. This is particularly the case in countries where the extent and availability of support has in the past been relatively limited.

In Italy, as a consequence of the Onofri Commission report (see *Social protection in Europe 1997*, p. 51), the government is in the process of introducing (by the end of 1999) an insurance-based unemployment benefit scheme similar to that in other countries, together with means-tested social assistance for those whose entitlement to benefit has expired. This will assist, in particular, those people not covered by the *Cassa Integrazione Guadagni* scheme, which was designed initially to deal with temporary lay-offs but which in effect came to provide support more or less indefinitely to people who nevertheless retained their contract of employment and therefore had little incentive to look for work (op. cit., p. 108).

Similarly, in Portugal, the period of entitlement to unemployment benefit has recently been lengthened — to 12 months for those under 30, 18 months for those between 30 and 40, 24 months for those between 40 and 45 and 30 months for those over 45 — the amount received still being based on average earnings over the last 12 months of (contribution-paid) work, up to a maximum of three times the minimum wage.

In Germany, compulsory unemployment insurance was extended in 1998 to cover those working over 15 hours a week rather than over 18 hours. In addition, entitlement to benefit, which is usually dependent on a person having worked and paid contributions for at least 12 months during the preceding three years, has recently been made more generous in respect of those who have been looking after children of up to three years old or dependent relatives in need of care by excluding the period over which care has been given from the calculation (i.e. if the person concerned was eligible for benefit before the care period began, they remain eligible afterwards). Moreover, spells of self-employment are allowed to lengthen the reference period up to a maximum of five years in order to provide additional encouragement to people to set up their own businesses (i.e. they remain entitled to claim benefit four years after being in a paid job, so long as this lasted for at least a year).

To encourage the unemployed to take jobs, even if they pay less than their previous one, a special measure has been introduced to ensure that they do not lose out if they subsequently become unemployed again. Under the measure, those becoming unemployed after accepting a job paying less than their last one receive a level of benefit based on the earnings in the higher paid job, though the total amount of benefit is limited to the net earnings in their last job. Part-time unemployment benefits, payable for up to six months, have also been introduced to protect those with two or more part-time jobs who happen to lose one of them, though providing they worked for more than 15 hours a week in each of the jobs in question.

The development of in-work benefits

Benefits have also been extended to those in paid employment in a number of countries, both to assist the transition from unemployment into work and to ensure that those working always receive more by so doing than if they were not working.

In Austria, from 1998 on, people have been allowed to work in temporary jobs of less than two months for up to 15 days a month without losing their entitlement to unemployment benefit so long as they earn less than a certain amount. Similarly, in Germany, to encourage the unemployed receiving means-tested assistance (i.e. typically the long-term unemployed) to gain work experience, a special flat-rate benefit was recently introduced for those accepting fixed-term jobs of up to three months and was extended in August 1999 to part-time jobs of over 15 hours a week.

Moreover, under new provisions, people can earn up to 20 % of their monthly unemployment benefit (but at most DEM 310, or EUR 158.50, in the western part of Germany and DEM 260, or EUR 133, in the eastern part) without suffering any loss of benefit.

In Ireland and the UK, people on low wages with families have been entitled to in-work benefits for some time ('Family income supplement' in the former, 'Family credit' plus housing benefits and 'Council tax benefit' in the latter). In the UK, a more generous scheme, the 'Working families' tax credit' replaced 'Family credit' at the end of 1999 (guaranteeing a minimum income of GBP 200 a week — just over EUR 300), and will, accordingly, mean that more people will qualify (raising total claimants to an estimated 1.3 million, or around 5 % of the total in work). In addition, to assist lone parents in particular, the people concerned will also be entitled to claim 70 % of approved child-care costs (of up to GBP 100 — EUR 150 — for one child and up to GBP 150 for two or more).

At the same time, a new in-work benefit is to be introduced to encourage older people to continue working rather than opt for early retirement. Under the scheme, introduced in pilot areas in October 1999, people unemployed over 50, who often have to accept a lower wage than before if they find a job, will receive an 'Employment credit', guaranteeing them a minimum income of GBP 175 a week (around EUR 255) if they take a full-time job and a 'top up' of up to GBP 40 a week (around EUR 60) if they take part-time work. In addition, for people with disabilities, the 'Disabled persons' tax credit', introduced at the same time, provides a guaranteed minimum income of GBP 155 a week (around EUR 235) for single people who move from benefit into full-time work on the national minimum wage (GBP 3.60 an hour or GBP 144 for a 40-hour week) and GBP 230 a week (around EUR 340) for a single-earner couple with one child under 11. As further encouragement for such people to take up paid employment, there is an assurance that they can return to 'Incapacity benefit' or 'Severe disablement allowance' with the same status and rates as before if the job does not work out.

Nevertheless, when all the new schemes are in place in the UK, it is likely to be the case that more rather than fewer people will be reliant on means-tested benefits than before, even though more of them may be in work. Equally, more of those in work, though better off than before, will be in a position where they face relatively high effective deduction rates from any additional income they earn — the so-called 'poverty trap' — since they are liable to lose their entitlement to benefit if their wages increase by too much. Accordingly, their incentive to increase their earnings or look for a better job is likely to be diminished. Although the new measures introduced attempt to alleviate this problem by reducing the extent to which benefits decline as wages increase, it is difficult to eradicate this inherent feature of in-work benefits, and marginal deduction rates will remain high for many of the people being assisted.

Moreover, in contrast to the scheme it replaces, the new benefit will generally be paid not directly to the people concerned but, as the name implies, as a tax credit through employers. This means that unlike 'Family credit', employers will be aware of the payment being made and its effect on the take-home pay of the employees in question, which, in turn, may reduce their incentive to increase wages and so entrench low pay.

The coordination of active and passive measures

Three of the employment guidelines in particular relate to active labour market measures. The third guideline commits Member States to increase significantly the number of persons benefiting from active measures to improve their employability, while the first two commit them to prevent unemployed people from drifting into long-term unemployment by ensuring that active support is given to young people under 25 before they have been unemployed for six months and to those of 25 and over before they have been out of work for 12 months.

One of the aims, therefore, is to put in place a preventative policy which stops people from becoming long-term unemployed before they actually do so. In three Member States — Sweden, Portugal and Luxembourg — a policy has been introduced of ensuring that all young people have access to active programmes before they reach three months of unemployment and older people before they reach six months. These countries, however, are ones in which long-term unemployment is relatively low. In other countries, however, there is more difficulty in complying with the guideline as stated. In Ireland, for example, a staged approach has been adopted, implementing the activation strategy for successive 10-year age groups, starting with those aged 25 to 34 in April 1999 and covering everyone before they are unemployed for 12 months by mid-2000. From then on, it is planned to shorten the period of unemployment before people are guaranteed access to an active programme to nine months, adopting the same kind of staged approach.

At the same time, there has been a move in many Member States to give more attention to people, of all age groups, as soon as they register as unemployed. In a number of countries, they are interviewed by someone from the employment services with the aim of determining a course of action for finding a job and/or improving their employability. The 'New deal' in the UK is a prominent example with the introduction of a 'single gateway' approach, under which those out of work — lone parents or people with disabilities as well as the unemployed — have a single point of contact with the various services, in the form of a personal adviser, providing help on child-care arrangements and benefits as well as assistance with job search and advice on training programmes. At the same time, the people concerned are expected to take up the advice offered and will be more liable to lose their benefits if they fail to cooperate.

The intention, increasingly elsewhere as well as in the UK, is to take account of individual needs, to tailor personal support to these and to monitor progress through regular meetings. Extra resources are therefore being provided for additional staff to work in guidance and counselling roles — as in France and Spain.

The greater attention paid to the individual needs of the unemployed has been accompanied in many cases by the decentralisation of the employment services and the granting of greater autonomy to local offices in decisions on the programmes to be offered to the unemployed so that more account can be taken of local labour market conditions and needs. As a result, there has been increased interaction with local organisations — both private and public — in the provision of work and training opportunities. (An example is the flexible promotion initiative in Germany, under which local employment offices are able to decide their own means of finding jobs for the unemployed.)

The third employment guideline sets a target for Member States to increase the numbers of unemployed who are offered training or any similar measure, gradually achieving the average of the three most successful Member States and at least 20 %. In practice, though Member States have reported on their performance in achieving this, only a few at the moment have the data available actually to do so at all reliably. Although it seems to be the case that efforts have been stepped up to raise the proportion of the unemployed on active measures, there is, therefore, little real basis for verifying the results reported (which vary from exceeding the target by some way to falling well short).

Measures to assist target groups

The focus of policy is increasingly on the unemployed who have particular difficulties in finding work. Although unemployment remains persistently high across the Union, it is recognised that many of those who lose their jobs are capable of finding work relatively quickly and largely independently but that a significant proportion have major problems. Not only are their chances of getting a job relatively poor when they become unemployed, but they diminish even further the longer they are out of work, both because they lose their aptitude and confidence as well as becoming unfamiliar with new techniques and because employers tend to be reluctant to take on people who have not been working for some time.

The difficulty is to identify such people before they become long-term unemployed. In practice, the approach in the past has been largely to concentrate assistance on those out of work for a long time, whether young people looking for their first job or older people who have lost their job. Although a preventative approach is increasingly being adopted, as noted above, it remains the case that people need to have been unemployed for some time before they are given significant assistance. Initial interviews, the provision of personal advisers and the formulation of a plan of action designed to get the person concerned into work are means of addressing this problem, but in many countries (as indicated in Chapter 1), there is still a large backlog of difficult people to place who make up the long-term unemployed. Inevitably, policy is being concentrated on these at the present time, though in the case of young people, efforts are also being made to ensure that they have at least a minimum vocational qualification before they enter the labour market.

In the guidelines and in individual Member States the priority is given, as noted above, to young people with proven difficulty in finding a job; people of 25 and over who are long-term unemployed; older people in their fifties, or in some countries younger, who lose their job; and women, both those returning to the labour market after interrupting their working career because of caring responsibilities, but also women in general who might face discrimination simply because of their sex.

Measures to assist unemployed young people

The measures taken to help young people into work tend to be very similar in different Member States and include most of the different kinds of labour market programme — further education or vocational training; work experience in private, public and non-profit-making sectors; a subsidised job and business start-up grants for self-employment. Much of the emphasis, however, is on education and vocational training measures, on the premise that the main reason why someone under 25 cannot find a job is that they lack the necessary general education or their skills are not sufficiently relevant to the jobs on offer.

In Germany, Austria and Denmark, the focus on training is particularly relevant because of the strong attachment to the apprenticeship — or dual — system, so that the main concern is to ensure both that they have the level of basic educational attainment required and that sufficient training places are available (in firms as well as colleges). In Germany, the 'Emergency programme to reduce youth unemployment' was introduced in January 1999 to give 100 000 young people a training place or job during the year (by April, 117 000 had participated). The main effort was concentrated in the new *Länder* in the east and, throughout the country, directed at foreign immigrants and other disadvantaged people in the labour market. At the same time remedial courses, in the form of pre-work training programmes, have served to reduce the proportion of young people entering work without suitable qualifications from 9 % when they leave school to 5 to 6 %, so increasing their chances of being accepted into an apprenticeship.

In Denmark, the 'Faster route to jobs and training' programme provides training courses lasting up to 18 months for young people leaving school without qualifications, followed by a normal vocational training course if they fail to find a job. As an incentive, those undertaking courses are paid grants at levels higher than the normal unemployment benefit.

In France, the TRACE programme aims to help job seekers find a training course which suits their capabilities and experience. In addition, the TRACE programme was introduced in 1998 to provide a pathway into the labour market for young people with family or social difficulties, starting with a skills diagnosis and following this with the provision of suitable training and close guidance for 18 months.

In the UK, the 'New deal 18–24' offers a gateway of four options after six months of unemployment to young people to take up further study, subsidised employment in the private sector or work experience in the voluntary or non-profit sectors. Failure to accept one of these can result in loss of benefit.

In Greece, young people unemployed for six months or more have the option either of subsidised work experience with an employer lasting at least 12 months (which can be extended for a further six months if the employer does not shed any labour during the initial 12 months) or a start-up allowance for self-employment that lasts between 16 and 30 months. Moreover, in Greece, as well as Italy — where, unlike in other Member States, rates of unemployment among those with university level education tend to be similar to rates for those with lower education levels — specific measures have been introduced to provide better employment opportunities for graduates. In Italy, SMEs are offered a tax credit for hiring unemployed graduates, while in Greece graduates can participate in a training programme of 11 months work experience in the area in which they studied.

Measures to assist the long-term unemployed

For a number of Member States, the long-term unemployed adult now represents the main target group under the guidelines, especially since the number of unemployed young people is tending to decline partly because more young people are remaining longer in education. In most Member States, the measures available to help the long-term unemployed of 25 and over are similar to those to assist young people — indeed, in Greece, the measures are identical. Generally, however, more emphasis is placed on reintegrating the people concerned into employment by means of job subsidies and work experience in the non-profit-making sector than on vocational training.

Moreover, some Member States have specific options for those who have been unemployed for two or three years. In Sweden, larger job subsides have been introduced for people of 25 and over out of work for three years or more, giving employers hiring them a tax reduction equal to 75 % of their total wage cost during the first six months of employment and 25 % in the following 18 months. In Belgium, those unemployed for two years or more are offered work experience in the public sector, while in Finland, they are offered subsidised work in the voluntary sector.

In Finland also, support is provided for self-motivated training under the 'Training guarantee system' under which participants can claim unemployment benefit during their studies.

Originally intended only for the long-term unemployed, it has recently been extended to professionals who have been out of work for four months or more as a form of professional upgrading, but the scheme has had a poor take-up. A similar scheme, the 'Adult education initiative', was introduced in Sweden in July 1997 for the period up until 2002 and is designed to enable people of 20 and over who are unemployed to make up deficiencies in their education to upper secondary level with the aid of a special grant equivalent to unemployment benefit. Courses are full time and last for about 20 weeks.

In most Member States, remedial training programmes are in place for the long-term unemployed whose lack of qualifications or often a basic level of education make it difficult for them to find a job, and in those where they are not, they are in the process of being introduced. In Spain, plans have been announced to offer the long-term unemployed of 25 and over with poor qualifications compensatory education to improve their basic knowledge, while in Portugal, 'second-chance' education is being provided to the long-term unemployed aged 25 to 44 with a lack of basic schooling. In Ireland, many of the training courses run by FAS (the employment services) are not accessible to many of the long-term unemployed because they are not sufficiently well educated to benefit. FAS has, therefore, embarked on a policy of extending the range of training schemes available to try to ensure that they meet the needs of the long-term unemployed, including, in particular, bridging programmes to help them reach standards for more advanced training.

Older people, work and pensions

Under the fourth employment guideline, Member States are committed to develop, in the context of a policy for active ageing, measures such as maintaining working capacity, lifelong learning and other flexible working arrangements, so that older workers are also able to participate actively in working life. Over the years, a number of factors, such as attitudes towards age, industrial restructuring and the possibility of obtaining an early retirement pension, have pushed older workers out of the labour market. In a context of high unemployment, replacing older workers by younger employees was preferred by governments, employers, unions and older workers themselves. This trend has led to loss of know-how, lower labour market participation and further pressure on social protection systems. In a context of an ageing population and a prospective decline in the number of people of working age before too long, the emphasis of policy has generally shifted, though to varying degrees, towards trying to keep older people in employment, not only in their own interest but to reduce the cost of social transfers and to help prevent the labour force from contracting.

Policy is taking three broad forms:

- financial disincentives against early retirement, both by reducing the pensions payable to the people concerned and by imposing penalties on employers laying off older workers;
- subsidies or reductions in social contributions or taxes to encourage employers to recruit older workers or to keep on those who they already employ;
- access to continuing training for older members of the workforce.

Discouraging early retirement

In many Member States, the statutory age of retirement and/or the number of years of contributions required to be eligible for a full pension has been increased in recent years (see Chapter 2 above and *Social protection in Europe 1997*, Chapter 2). This has been accompanied by measures to reduce the financial incentive for people to retire early, or more specifically, to withdraw fully from the workforce, since measures to encourage partial retirement (i.e. reducing the hours worked in return for a partial pension) have been intensified.

In a number of Member States, therefore, including Denmark and Finland, the rules on the possibility of older workers combining early retirement with continued part-time work have recently been relaxed, emulating the schemes introduced earlier in a number of countries, especially in France, where the possibility of partial retirement was introduced in the 1980s and where significant numbers now take this option rather than withdrawing completely from the labour force. In Denmark, as well as scrapping the limit on the number of hours, it is possible to work while in receipt of a pension; those who continue working after the age of 60 can receive a special tax allowance for every three months of full-time work. In other countries, including Austria, Denmark, the Netherlands and Portugal, pension systems have been reformed to increase the financial attraction of taking up a pension at a later rather than an earlier age (in Portugal, for example, this takes the form of a bonus payment for those deferring retirement until the statutory age).

In some countries, financial penalties have been introduced to discourage companies from laying off older workers. A prime example is the Delalande initiative in France, under which companies have to pay a supplementary contribution when dismissing workers over 50. Recently, this penalty has been doubled to the equivalent of two months' wages for the individual concerned in those companies employing over 50 people, rising with age so that dismissal of someone of 56 or over gives rise to a fine of 12 months' pay. In Austria, a similar bonus malus scheme is in operation, penalising firms laying off older workers and giving reductions in social contributions to those hiring older people who are unemployed.

Employment measures for older unemployed people

In around half of the Member States, active labour market measures have been implemented specifically to assist older people who are unemployed. These usually take the form of job subsidies or reductions in employers' social contributions, which, of course, are equivalent in terms of their effect on labour costs. Eligibility for assistance, however, varies between Member States, from age 45 and over in Finland and Spain and 50 in Germany (where it has recently been reduced from 55) and the UK, to 55 and over in a number of countries. In Germany, the minimum period of unemployment giving access to integration subsidies for older employees has been reduced from 12 months to 6 months. Similarly, in the UK, under the recently introduced 'New deal' for older people, those of 50 or over are eligible for active labour market assistance after being unemployed for six months instead of the usual two years. This is in addition to the new 'Employment credit', described above, which will guarantee them a minimum level of income if they take a job.

There is also evidence that in some Member States, such as the Netherlands, greater pressure is being put on older unemployed people to find work, whereas in the past those approaching retirement age were expected not to be actively looking for a job (as is the case in most countries). Up to the age of 57½, therefore, people in the Netherlands are liable to have their benefits withdrawn if they do not actively seek work and are obliged to accept a suitable job offer if they receive one.

Maintaining the position of older people in the labour market

In order to try to overcome the threat of job loss among older workers, in many Member States, including Germany, Austria, the Netherlands and Finland, it has been recognised that there is a need to ensure that they have access to continuing training so that their skills are kept up to date. In these countries, fiscal incentives have been introduced to encourage firms to continue to provide training to employees over the age of 40, while, at the same time, the support of the social partners has also been enlisted, these being encouraged, for example, to include provision for such training in collective agreements.

Measures to assist people with disabilities

In many Member States, growing attempts have been made to give people with disabilities who are able to work the chance to do so, while at the same time restricting their ability to claim disability benefit by tightening the criteria for assessing a person's inability to work, as noted above. In a number of cases, this has taken the form of obliging companies to employ a minimum number of such people. In France, for example, companies of over 20 employees have to ensure that 6 % of these are people with disabilities.

In Ireland, a pilot programme was introduced in 1998 for people with disabilities, with a coordinator in each region to provide one-to-one support in order to integrate them into employment or training. This was accompanied by the auditing of all training centres to ensure their accessibility to those with disabilities, while tax allowances have been introduced for companies employing people with disabilities who had been unemployed for 12 months or more.

At the same time, there has been a shift in emphasis away from special programmes to make it possible for those with disabilities to participate on normal training courses along with other disadvantaged groups. In France, some 60 000 places have been reserved for such people in 'fresh start' programmes and in Finland, 5 000 places are reserved on adult labour market training courses. In Ireland, responsibility for training programmes has recently been switched from the Department of Health to the Department of Enterprise, Trade and Employment.

In the UK, under the 'New deal', help is provided for those with disabilities who wish to work in the form of a personal adviser to help with job search, assess training needs and advise on in-work benefits and access to work placements, work trials and training. As elsewhere, there is no compulsion for those with disabilities to participate in labour market programmes or accept job offers. At the same time, advice has also been made available to employers seeking to employ or retain people who are disabled on the appropriate steps to take.

Women

The EU employment strategy recognises explicitly that women still face special difficulties in gaining access to the job market, in advancing their careers and in reconciling professional and family life. The employment guidelines, therefore, specify a set of actions, relating to the operation of social protection systems and that of policy in other areas, which Member States need to follow to improve the position of women in the labour market, in particular:

- to ensure that women have access to active labour market measures in proportion to their share of unemployment;
- to reduce tax-benefit disincentives which may deter women from working;
- to reduce obstacles which might hinder women seeking to set up in business for themselves;
- to ensure that women are able to benefit from flexible forms of work organisation.

A major aspect of Member State policy in implementing the guidelines is the adoption of a 'gender mainstreaming' approach, which, in order to be effective, entails a need for the collection of relevant quantitative data both to identify the need for action and to monitor and evaluate progress.

Efforts to ensure that women, especially those who are disadvantaged in the labour market or who are returning after a spell out of work because of caring responsibilities, have access to active labour market programmes take a number of different forms. In virtually all Member States, however, as part of a general move to collect more information on the position of women in the labour market and the problems they face, their participation on courses arranged by the employment services and other public bodies has begun to be monitored systematically. Moreover, in many cases, concrete targets are being set, in line, for example, with their share in unemployment, which in most cases is significantly higher than their present participation. This policy is being widely supported by counselling and by increased child-care facilities. Indeed, even in countries where this has traditionally been left to the family, consideration is beginning to be given to the need to improve the provision of facilities.

In Germany, from 1999, all children aged three will be entitled to a nursery school place. In France, more financial aid is being given to women who have difficulty undertaking training courses to fund child care and provide home help for those with caring responsibilities. In the Netherlands, child-care facilities for single parents receiving social assistance who embark on training courses have been introduced, additional to tax relief for child care introduced in 1996. Twenty-six thousand extra places for after-school child care are planned to be created between 1997 and 2000 as part of a scheme to help the long-term unemployed back to work.

In Greece, a systematic analysis is planned of problems of women in the labour market, including an evaluation of present policies in cooperation with women's organisations and the social partners, as a necessary prelude to the design of effective policies. In the meantime, women are being given priority in training and other programmes with the aim of bringing their participation up to their share of the unemployed (around 60 %). In addition, nursery schools and 'creative play centres' for children are being established to provide child care in a country where traditionally the extended family has been the source of this.

Changes in the means of financing social protection to promote employment

In addition to special reductions in social contributions aimed at helping young people, the long-term unemployed, older workers and other disadvantaged groups to find jobs, there is a more general concern in a number of Member States to shift the burden of financing social expenditure from employers to other sources such as energy. (In the UK, for example, the

'New deal' programmes have been financed by a windfall tax on privatised utilities.)

The emphasis, in particular, is on reducing social contributions at the bottom end of the scale on lower paid jobs, while at the same time imposing taxes on expenditure or the use of resources for which there are social and economic reasons for discouraging. In addition, as noted above, there is increasing focus on the interaction between benefit payments and the tax and contribution system to try to ensure that the gap between the former and take-home pay is sufficient to give a financial incentive to work. In France, therefore, it is proposed to reduce the social contributions payable on employees earning up to 180 % of the minimum wage in 2000. This is in line with steps taken in the UK over a number of years to reduce or eliminate contributions on low-paid workers. In addition, in Greece, legislative proposals are currently being discussed for reducing taxes on profits by an amount equal to 50 % of employers' contributions when companies take on new recruits.

Changes in public expenditure on labour market policy

Expenditure on labour market policy, both on income support and active measures, has declined from a peak of 3.7 % of GDP in the Union in 1993, at the bottom of the recession of the early 1990s, to 3 % in 1998 (Graph 42). This has broadly followed the fall in unemployment, from just over 11 % in 1994 to under 10 % in 1998 (note that Italy is excluded from the EU average because of the lack of comparable

Social protection measures for job creation

The employment guidelines commit Member States to re-evaluating the effect of tax and benefit systems from the perspective of both people who are out of work (to provide real incentives for unemployed or inactive people to seek and take up work or training opportunities) and prospective employers (to reduce the fiscal pressure on labour and non-wage labour costs, especially on unskilled and low-paid labour).

In a recent study ('Activating social protection to be more employment-friendly'), the Netherlands Economic Institute identified four main ways in which social protection measures are being used to encourage job creation across the Union. These are through job subsidies, reductions in tax and/or social contributions payable by employers, in-work benefits and measures to assist the unemployed to set up their own business. In practice, the last of these takes a number of other forms as well as reductions in social contributions, while the first, job subsidies, are not strictly a social protection measure. Their effect in reducing labour costs, however, is equivalent to a reduction in social contributions and, as such, ought to be considered in the same light.

Indeed, the first three of the measures listed essentially perform the same function, so that the use of one rather than another is largely a matter of political rather than economic choice. This should be clear in respect of job subsidies and lowering social contributions, which have an equivalent effect on labour costs. It may be less clear in respect of in-work benefits, but these also serve to reduce the cost of labour to employers relative to the take-home pay of workers and, in the same way as the other two measures, therefore, make it possible for them to take on more people at any given level of the gross wage.

In-work benefits

In practice, in-work benefits are a significant part of the social protection system only in Ireland and the UK, as described in the text above. However, in the UK, while the system is soon to be replaced by the 'Working families' tax credit' and made more generous, its significance has been moderated in some degree by the introduction for the first time of a legally binding minimum wage. (This at the same time serves to limit any tendency for employers to set wages deliberately low because they know take-home pay will be raised by the tax credit.)

In both countries, moreover, it is possible for people who were unemployed to continue to claim benefits, such as the 'Back to work allowance' and 'Child dependent allowance' in Ireland and 'Extended housing' and 'Council tax benefit' in the UK, for several months after taking up work, in order to ensure that they are no worse off from taking a job.

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Direct wage cost subsidies and reductions in social contributions

In the majority of Member States, employers can receive a wage cost subsidy, either in a direct form or an indirect one through reductions in social contributions — or, more rarely, in taxes — if they hire someone who had previously been unemployed for some time. Most direct subsidies are paid for between 6 and 12 months, though the duration tends to depend on the severity of the situation of the target group (in Sweden, for example, employers can receive a subsidy for up to 4H years for people with disabilities who were previously unemployed). The amount payable is typically related to the minimum wage rather than to the level of unemployment benefit.

Reductions in social contributions as a means of reducing labour costs are particularly prevalent in countries where the rate levied on employers is relatively high, such as in Belgium, France, Germany, Austria and the southern Member States, excluding Greece, though they are also available in the UK, partly because of administrative convenience, partly because of political hostility to direct subsidies. They are typically payable for between one and three years.

Overall evaluation of the effectiveness of subsidies is difficult, largely because of the problem of isolating them from other factors, changes in underlying employment conditions, in particular. Generally, however, studies suggest that more than half of the people assisted remain in work after the subsidy has elapsed, which at least might imply that they have some effect in redistributing available work more evenly between people even if they might not add very much to the overall level of employment.

Promotion of self-employment

In most Member States, unemployed people can obtain financial assistance if they become self-employed for periods ranging from a few months to a few years. In Belgium, Ireland, Luxembourg and Spain, they continue to receive unemployment benefits. In the UK, the Netherlands, Sweden and Germany, they are entitled to a subsistence allowance instead, though the amount involved tends to be equivalent to, or close to, the level of unemployment benefit. In France, Greece, Italy and Portugal, they are paid a lump-sum subsidy or grant. (In Portugal, for example, as from 1999, the unemployed wishing to set up in business for themselves can receive the unemployment benefit they are entitled to in a single lump sum if they are able to present a suitable business plan.)

data). In terms of the two main components, spending on active measures has fallen by less than spending on unemployment compensation, its share of total expenditure rising from just under 34 % in 1993 to just under 37 % in 1998. Nevertheless, despite the emphasis in Member States on shifting the policy effort from passive to active measures, the shift which has occurred in practice since 1994 and the end of the period of economic recession in the Union has been relatively small and active measures accounted for the same share of total spending in 1998 as in 1990.

In relation to unemployment, expenditure on both active and passive measures was slightly lower as a proportion of GDP in 1998 than in 1990, though on passive measures, significantly lower than in 1994, largely because of the reduction in spending on early retirement for labour market reasons, which increased markedly during the recession of the early 1990s (Graph 43, which shows expenditure on labour market policy at a constant 5 % rate of unemployment in each of the Member States to adjust explicitly for variations in the actual rate). Expenditure on active measures at the Union level has remained unchanged in relation to GDP over the period of economic recovery if allowance is made for the fall in unemployment.

In most Member States, however, spending on active measures was either lower in 1998 than eight years earlier or much the same, if explicit account is taken of the rise in unemployment over the period. This is particularly the case in Finland and Sweden, where the number of unemployed has increased substantially over the 1990s. It is also true, if to a smaller extent, in Germany, where unemployment has risen as well. On the other hand, in Denmark and the Netherlands, where unemployment has fallen, expenditure on active measures adjusted for unemployment has risen significantly in relation to GDP, though these were the only countries in the Union, apart from France, where expenditure in these terms has increased by more than 0.1 % of GDP. There are also comparatively few countries apart from Denmark and the Netherlands — Spain, Ireland and Luxembourg being the only other three — where spending in these terms has risen by more than 0.1 % of GDP over the period of economic recovery since 1994.

Expenditure on passive measures of income support in most countries (8 of the 14) was also lower relative to GDP in 1998 than in 1990 if allowance is made for the change in unemployment. Since 1994, however, expenditure on passive measures adjusted to a 5 % rate of unemployment has declined in all Member States in relation to GDP, except Greece (where it has remained broadly unchanged), Luxembourg and the Netherlands. Indeed, in the last of these, it has risen markedly over this period, as the slight fall in spending has not matched the significant reduction in unemployment which has occurred. The decline in passive expenditure has been particularly large in these terms in Germany and Austria.

Although the evidence seems to suggest that passive measures tend to crowd out active ones when unemployment increases — reflecting the difficulty of reducing expenditure on income support at such times and the fact that active measures cannot in most cases simply be substituted for passive ones, at least in the short term — it also appears to indicate that Member States which have a relatively high expenditure on one element also tend to have high expenditure on the other. The Netherlands and Denmark, therefore, have the highest spending relative to unemployment and GDP on both active and passive measures, while Spain and Greece have the lowest expenditure on both. (The relative level of expenditure in different countries on income support, it should be noted, is very much in line with the estimates of replacement rates presented above, in the sense that countries with high replacement rates also have high spending on passive measures per unemployed person.)

The composition of active expenditure

The division of expenditure between different types of active measure varies markedly across the Union and has, moreover, changed in different ways over the 1990s. There is, in other words, little sign of a common pattern of effort or common trends.

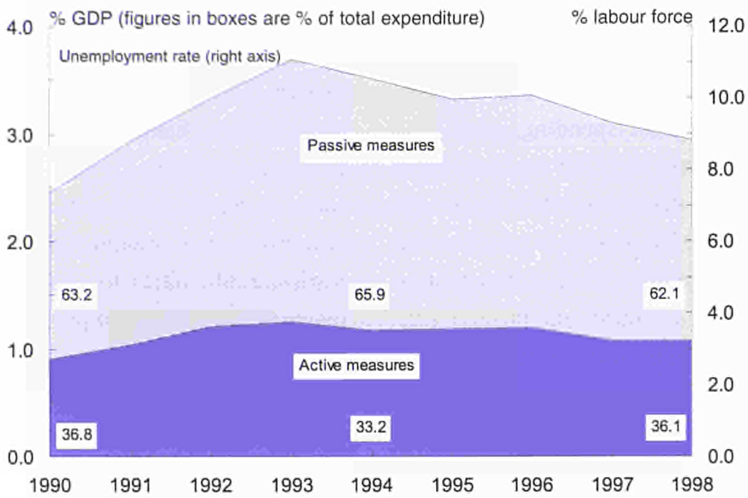
Over the Union as a whole, around a third of spending on active measures in 1998 went on providing training, especially to the unemployed (over 90 % of the total spent on this item). Another third went on employment subsidies of various kinds, mainly on direct job creation in the public sector and the support of jobs in the private sector, though also, to a very small extent, on assisting people to become self-employed (which accounted for only around 1½ % of total spending on active measures). The employment services accounted for just over half of the remainder (around 17 % of total expenditure), while the rest (around 16 % of the total) went on special measures for people with disabilities (Graph 44).

This division, however, is not representative of the way expenditure is split in many Member States, though it should be emphasised that this may be due to differences in classification as much as actual differences in allocation. (There may be particular difficulties, for example, in distinguishing spending on people with disabilities from spending on other groups or spending on the employment services from the administrative functions these are typically responsible for.) In three countries — Denmark, Portugal and the UK — more than half of spending on active measures went on training in 1998, while in four countries — Belgium, Ireland, the Netherlands and Sweden — under a quarter went on this item. In the first two of these countries, this reflects relatively high expenditure on employment subsidies; in the last two, high expenditure on measures to assist people with disabilities. The latter, however, may simply reflect the greater ability in these countries to distinguish measures for this group from those for other groups, though in both cases most of the expenditure in this category went on the provision of work for the people concerned.

In addition to Belgium and Ireland, four other Member States — Spain, France, Luxembourg and Finland — also allocated a relatively large proportion of expenditure to subsidies (over 40 %), while in Denmark, Portugal and the UK, these accounted for only a small proportion of spending (20 % or less), reflecting the concentration on training (in the UK, the figure was less than 1 %).

The relative allocation of expenditure to the public employment services was highest in the UK (43 % of the total)

42. Public expenditure on active and passive labour market measures in the Union, 1990–98



and Greece (34 %), in both cases reflecting the relatively low level of spending on active measures overall as much as the priority attached to the employment services as such. Indeed, in both countries, such expenditure was lower in relation to GDP than the EU average (though in the UK, slightly higher if allowance is made for the below average rate of unemployment). At the other extreme, spending on the employment services accounted for under 10 % of total expenditure in Denmark and Spain and only slightly over in Finland.

Over the 1990s, the main feature of changes in the pattern of expenditure at the Union level was the growth of spending on employment subsidies and the decline in the resources devoted to training. Between 1990 and 1998, the share of subsidies in total spending increased by almost 12 percentage points, while that of training declined by 8 percentage points. This may reflect the increase in the relative importance of long-term unemployment as a problem as compared with youth unemployment, for which the provision of training is a more frequently used response, as noted above. Expenditure on both the employment services and measures for the disabled declined by around 1½ ^{s} of the total over these eight years. Although the shift in expenditure towards subsidies was less pronounced in the second half of the period from 1994 on, it was still evident (the share of spending on this item increasing by some 4½ percentage points), as was the shift away from training. Within subsidies, the main element on which expenditure has risen over the 1990s has been direct job creation in the public or non-profit-making sector, though since 1994 there has been a shift back towards subsidising employment in private enterprises.

This general pattern of change, however, was by no means common to all Member States. Indeed, the overall shift of expenditure towards subsidies at the EU level largely reflects the growth of spending on these in Germany (up by 16 % of the total) and France (up by 13 % of the total). Although there was also a significant shift in the same direction in Ireland, Luxembourg, the Netherlands, Austria and Sweden, in the other seven Member States there was a shift of spending away from subsidies, particularly in Denmark and Portugal (the share declining by around 30 percentage points in both cases).

The relative growth of spending on subsidies in the first group of Member States was accompanied by a relative decline in expenditure on training in all the countries except Luxembourg (where spending on measures for people with disabilities fell markedly) and Austria (where spending on such measures also fell, as did that on the employment services). In all the countries in the second group, there was a relative increase in expenditure on training, with the exception of Greece and the UK, in both of which there was a larger decline in the share of spending on training than for subsidies, and the share of expenditure on the employment services rose significantly. Nevertheless, in the UK, this increase in share was associated with a decline in expenditure on employment services relative to GDP, the only country in the Union where this was the case apart from Spain.

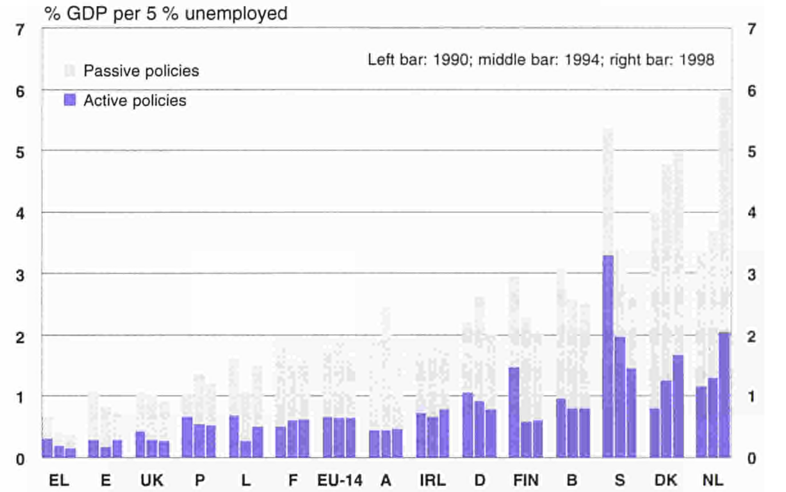
In 11 of the 14 Member States for which data are available — the exceptions being Greece, Spain and the UK — spending on measures for people with disabilities declined as a share of total expenditure on active labour market measures between 1990 and 1998. In seven of these, expenditure also fell in relation to GDP over the period. The relative decline in this item, however, may have more to do with 'mainstreaming' — i.e. assisting people with disabilities through general labour market policies — rather than reflecting an actual reduction in spending on measures to help such people.

Concluding remarks

While there is evidence of some shift of expenditure from passive to active labour market measures across the Union in recent years, it has not been large nor is it common to all Member States. Moreover, the emphasis on training which is evident in the employment guidelines and which is a special focus of attention in the NAPs is not reflected in the actual figures for expenditure on labour market policies. This may, however, be because the expenditure figures do not relate to a sufficiently recent period to pick up the shift in emphasis. Indeed for five Member States, including France, the latest data available are for 1997, before the current employment strategy in the Union took effect, while for Ireland, they relate to 1996. Nevertheless, in half the countries for which data are available, spending on training declined over the 1990s, not only as a share of total expenditure on active labour market measures but also in relation to GDP.

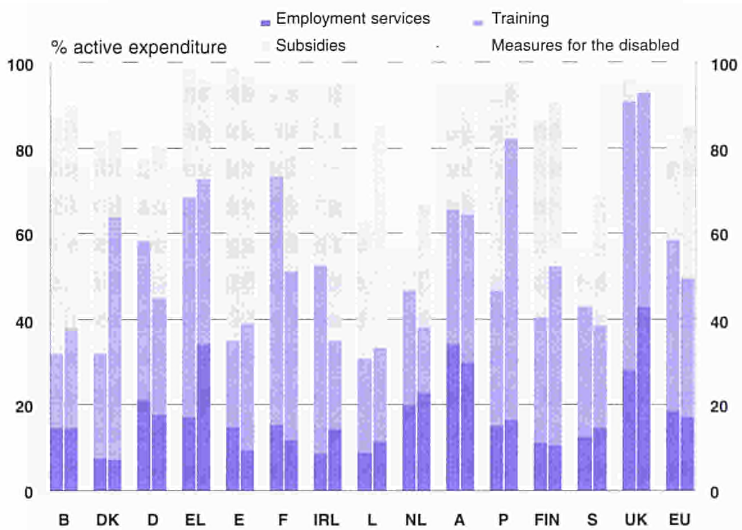
There does seem, however, to have been a widespread reduction in relation to GDP in expenditure on passive measures of income support per unemployed person. This is in line with the common concern in Member States to reduce the financial incentive to be out of work and to be dependent on State transfers, though the evidence of the first part of the chapter suggests that in most countries, any such incentive was limited anyway.

43. Public expenditure on active and passive labour market policies in Member States, 1990, 1994 and 1997/98



No data available for Italy; Belgium, Greece, France, Luxembourg and Portugal = 1997; Ireland = 1996

44. Active labour market measures by broad categories in Member States, 1990 and 1998



Chapter 5: Social protection systems in candidate central and eastern European countries

This chapter surveys key issues and developments in social protection in recent years in the 10 countries in central and eastern Europe that are candidates to join the European Union (CEECs hereafter). The chapter focuses on the situation and developments in the fields of pensions and health care and support for unemployed people and their families, and measures to help with reintegration into work — fields with an intimate bearing on the four objectives followed in the main report, although a somewhat broader and simpler approach has been taken. As the chapter concerns social protection policies and structures in the round, no attempt is made to offer an analysis of the implementation of the directives and regulations providing for equal treatment in social security and the coordination of schemes for migrant workers. The material in this chapter draws significantly on drafts of cross-country surveys done in the course of projects under the Phare Consensus programme [1].

Support for the unemployed

Unemployment

The typical situation faced is one of slow, in some cases negative, employment growth coupled with persistently high levels of unemployment, particularly for the young and unskilled. Informal and undeclared working is commonplace.

Graph 45 gives trends on unemployment rates [2]. These peaked in most CEECs around 1994; for the Czech Republic and Estonia the peak came in 1996. They are now significantly lower, again excepting the Czech Republic and Estonia, with the greatest reductions in Latvia, Lithuania and Poland. Unemployment rates increased significantly in 1998 in Bulgaria and the Czech Republic, moderately in Romania, Slovakia and Slovenia, and fell slightly elsewhere. Bulgaria has the highest rate, 16 %. Latvia and Lithuania have rates in excess of 13 %, Poland and Slovakia more than 10 %. The lowest rates are in Romania at 6.3 % and the Czech Republic, 6.5 %. The proportion of unemployed people who are long-term unemployed has seen a slight reduction since 1994 everywhere except Bulgaria and Hungary, but remains at 50 % or more of the total in Hungary, Slovakia and Slovenia. Regional variation in unemployment is strongest in Poland and Slovakia.

As a consequence of reducing demand for unqualified and unskilled labour, those with incomplete or only basic school education are disproportionately affected by unemployment in most CEECs. Youth unemployment is significant and widespread. People aged less than 25 years account on average for around a third of people unemployed in 1998, with the highest proportion in Romania at 43 %. This situation is fairly static, with only small recent increases in the proportion in the Czech Republic, Hungary and Slovakia, and decreases in Bulgaria, Estonia, Latvia, Lithuania and Poland. Graph 46 compares unemployment rates for women and men. Rates are generally higher for women than for men, with the largest disparities in the Czech Republic, Hungary and Poland. In Estonia the female rate is significantly lower than that for men.

There are clear discrepancies between registered unemployment and labour force survey (LFS) results. In Estonia, Latvia and Lithuania registered unemployment is below LFS levels but rising. This suggests that coverage of the unemployed is improving and that disincentives to register presented by low benefit levels and scarcity of labour offices are being overcome. In Hungary, Slovakia and Slovenia registered unemployment is well in excess of LFS levels and has risen further, suggesting at least a difference between official defi-

(1) 'Monitoring the development of social protection reform in the CEECs', Parts 1 & 2. The cross-country reports under these projects were drawn up by Luis Capucha, Jochen Clasen, Charles Normand, Joakim Palme, Wolfgang Ricke, Winifried Schmähl, Virginie Suzor and edited by Martin Evans and John Ditch.

(2) Corresponding to ILO criteria.

nitions of unemployment and the ILO convention used in LFS, and probably an increase in working in the unofficial economy. In the Czech Republic and Poland the two levels are more or less congruent.

Unemployment benefits

Largely as a response to the onset of widespread structural unemployment around the beginning of the decade, all of the CEECs have focused on developing insurance-based systems of unemployment benefits except Estonia which has a tax-funded unemployment assistance system providing means-tested flat-rate benefits. Schemes are commonly part of a general social insurance fund. Unemployment insurance is generally compulsory for employees, and in the Czech Republic and Slovakia also compulsory for the self-employed. Contributions are levied on employers and employees, with the exception of Poland where the latter are not required to pay. Contribution rates range below 5 % of earnings for employers, and close to or below 1 % for employees. Subsidy from taxes varies over time and between CEECs. In 1998 none was needed in Hungary and Slovakia and it was negligible in Latvia, whereas in Slovenia the contribution from general revenues had increased to stand at 90 % of scheme income.

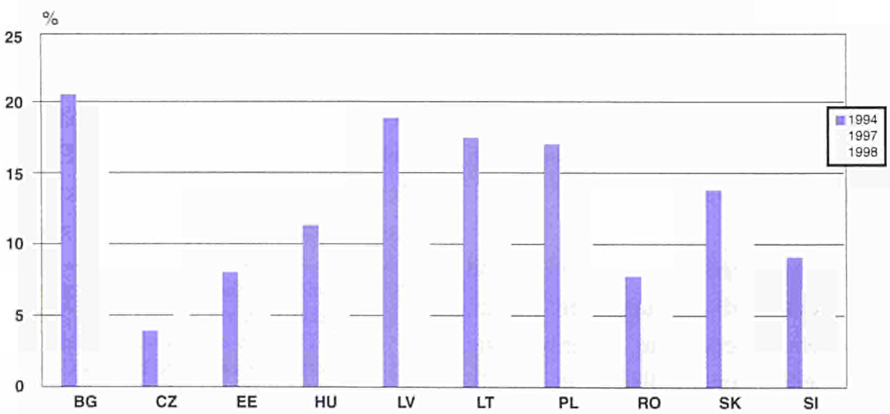
The minimum insurance record required to qualify for benefit ranges from six months in Estonia and Romania through nine months in Latvia to 12 for the rest except Lithuania where contributions must have been paid on two years' earnings. Taking account of maximum qualifying periods that can elapse between the insured period and a claim, entitlement conditions are strictest in Bulgaria, Latvia and Slovenia, and least so in Hungary, the Czech Republic and Slovakia. Maximum duration of benefit is generally in the range of six to twelve months. Earnings-related benefit levels are prevalent, with the majority of CEECs granting benefit proportional to individual earnings subject to maxima. Such data as are available show average benefits at a low percentage of average wages, suggesting that a high proportion of those in receipt of benefit had been among lower earners.

The coverage of unemployment insurance schemes has been in general decline during the 1990s. Graph 47 gives the proportion of persons registered as unemployed who were in receipt of insurance benefit in 1998. In Bulgaria, Lithuania, Poland, Slovakia and Slovenia beneficiary rates were 30 %, and less than 40 % of the unemployed are in receipt of insurance benefits in all CEECs except the Czech Republic. Decline since 1995 has been greatest in Hungary, Lithuania and Poland. This falling coverage of insurance reflects the preponderance among the unemployed of those whose benefit entitlement has been exhausted and younger people who have never had the opportunity to contribute.

Undesirable consequences of this trend have been the loss of incentive for individuals to remain in contact with labour offices and employment services, or even to register in the first place, and an increasing reliance on forms of social assistance which may lack any strong labour market focus or on earnings from the informal economy. Another consequence of falling beneficiary rates has been lessened demand on the insurance funds to the extent that the Czech Republic, Latvia, Romania and Slovakia have accumulated surpluses. Sources of potential negative pressure on scheme finances are further increases in unemployment, contribution non-compliance — a particular problem in Estonia, Hungary, Latvia and Lithuania — and a general reduction of tax revenues in the face of growth in the informal economy.

Since the schemes were established the pattern of reform has been one of gradual but frequent change, adjusting, rationalising and strengthening schemes. Earlier

45. Unemployment rates (percentages), 1994, 1997 and 1998



Source: Employment in Europe 1999.

reforms tightening access to benefits and reducing levels in response to concerns about sustainability and the need to strengthen incentives to work have to an extent served to exacerbate the decline in coverage, and encourage informal working. More recent measures and proposals show evidence of some change in emphasis towards pursuit of active regimes to promote the reintegration of benefit recipients. These are considered below after the support that is available to unemployed people and their families from non-contributory social assistance.

Support from social assistance schemes

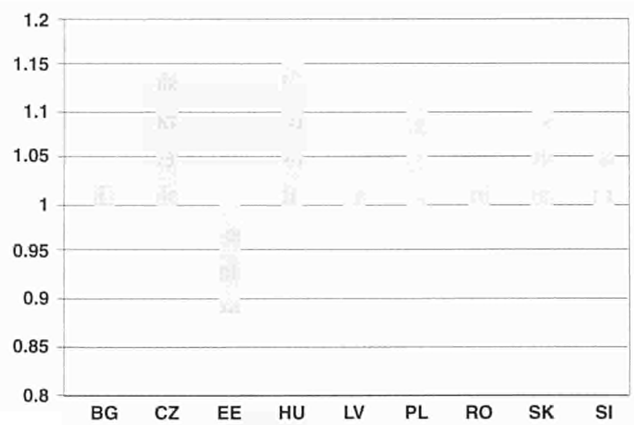
Non-contributory support is of increasing importance given the generally small and decreasing proportion of jobless people who are entitled to unemployment benefits. Despite the earlier decision of most CEECs to concentrate on insurance benefits, all now have some kind of means-tested forms of social assistance to supplement or replace these benefits, although in some cases this is rudimentary or still under development. In addition to Estonia, where all support for the unemployed is under the unified non-contributory scheme, Bulgaria, Hungary, Romania and Slovenia have systems specifically for people whose unemployment benefits have been exhausted.

Among the four special schemes, those of Bulgaria and Slovenia are apparently little used and in decline, whereas the Hungarian and Romanian schemes provide benefits to significant numbers of people (around a half and a quarter of registered unemployed respectively). In the other CEECs unemployed people rely on such general safety-net schemes as are available to other client groups. Unemployed people make up a sizeable proportion of all minimum benefit recipients, accounting for almost 50 % in Slovakia and more than 60 % in Bulgaria and Slovenia.

The setting of minimum levels varies widely. For example, Slovenia has reference to a proportion of the minimum wage, Lithuania and Romania to a constructed poverty line. Rates have elements of discretion, and are generally less generous in real terms following retrenchment in the 1990s. The limited data available suggest cash values of minimum income benefits for a single able-bodied person of the order of 20 % of average gross wages. Information on the effectiveness of schemes to alleviate poverty is similarly sketchy, not least because most CEECs have yet to perfect sufficiently developed measurement tools, for example household budget surveys, but it is difficult to imagine that life could be easy on the kinds of benefit levels some CEECs are able to pay at present.

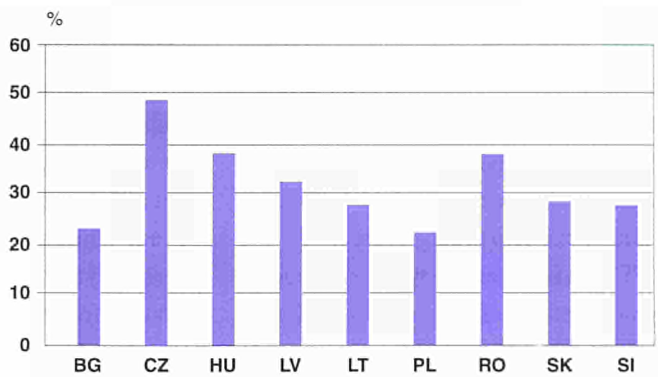
Legislation establishing new assistance schemes has not always been matched by the required levels of funding from State or local budgets. Now that some CEECs are enjoying a degree of economic and increasing stability there may be scope for the enhancement of social assistance programmes, although this is likely to be tempered by continuing political resistance to increasing benefit levels. The potential effect of increasing benefit levels on work incentives has been a recurrent theme in discussions of

46. Ratio of female unemployment rate to male rate, 1997



Source: Employment in Europe 1999, key employment indicators derived from Eurostat Labour Force Survey data.

47. Unemployment insurance recipients as a percentage of persons registered as unemployed, 1998



Source: 'Monitoring the development of social protection reform in the CEECs'.

reform. Nevertheless there are signs of positive improvements for those dependent on minimum benefits. Slovenia proposes to introduce a unified system of cash social assistance providing higher levels of assistance with living costs to all who need it. The Bulgarian government intends to repeat a successful winter-heating benefit scheme to help some 600 000 of the poorest cope with the effects of fuel price liberalisation.

Measures to support and encourage employment and reintegration

An emphasis on trying to provide income replacement, with little apparent attention to helping people back into work, has been an understandable initial response to the sharp and steep onset of structural unemployment earlier in the 1990s. Since that time a range of measures to improve individuals' employability and employers' ability to employ them has been tried and implemented. The ratio of spending on active labour market programmes to cash transfers has increased in Bulgaria, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia, although total spending remains limited.

At the most basic level, benefit entitlements have been restricted or reduced to encourage job searching. Not surprisingly, the small differentials between minimum benefits and minimum wages, or between minimum and maximum benefit levels, typical of the CEECs have been identified as a source of disincentive effects, e.g. in the Czech Republic and Slovakia. In an attempt to improve work incentives and contain expenditure, Latvia proposes to limit the level of unemployment benefit to 75 % of the full rate after three months' unemployment, to 50 % after six months and to withdraw benefit at nine months. Slovakia has tightened the entitlement conditions and the maximum levels and duration for unemployment benefits and for assistance payments to the unemployed, which may be lower than for other groups.

Benefit-related measures reinforcing the contingency of benefit receipt on individuals meeting labour market criteria have been introduced. All CEECs impose some kind of conditions of availability and active search for work, along with participation in training and active employment schemes. Requirements for registration and regular attendance at employment offices have been strengthened, for example in the Czech Republic and Latvia. Most have introduced the condition of accepting suitable work or training offers and tightened the definition of suitable work, most recently in Slovenia, where claimants must be sure they can be contacted for at least three hours per day. Lithuanian jobseekers must demonstrate they are physically capable of working.

In Poland regional variations in benefits are geared to the state of the local labour market, with shorter maximum duration of benefit in regions where unemployment is below the national average, longer duration where conditions are worse. Slovenia has aligned the conditions for access to insurance and assistance benefits, at the same time as extending the maximum duration of unemployment benefits from 6 to 12 months for low income groups at the expense of reducing longer-term receipt by other groups. Relatively lenient requalification conditions in Slovenia allow jobseekers to take potentially unstable types of employment without necessarily risking loss of all of their entitlement record should the employment end quickly.

Other major activities to help benefit recipients into work have included improvement of the links between benefit agencies and labour offices, and some improvement of the operation of the offices themselves, subsidies to employers, and training and public work schemes. The hitherto poor operation of labour offices particularly affected those most affected by unemployment, that is women, the young and the unskilled. These offices have begun to deploy new but simple methods of supporting the long-term and harder-to-place unemployed, for example by providing information on local labour market needs and opportunities to train to meet them.

The reduction or waiving of social insurance contributions for employers recruiting from among the long-term unemployed was significantly expanded in 1997. In Hungary the level of subsidy varies according to the length of unemployment or recruitment from target groups such as the young. Slovenian employers who recruit young people to their first job, and older people and those unemployed long term receive reimbursement of half of social security contributions. Other subsidies and inducements to employers include refunds for training costs, and direct wage subsidies such as those in place in Estonia, Romania and the Czech Republic where they are particularly focused on recruitment and training of those leaving education. Overall, spending on subsidised employment has increased from a third to more than half of total spending on active measures since 1997.

The value of training for younger and low-skilled unemployed people has gained wide recognition and can be supported by social protection policies. In Hungary entitlement to unemployment benefits for job-starters was withdrawn in 1996 and the resources saved redirected to training and work experience schemes for this group. Training allowances in the Czech Republic, Estonia, Hungary, Lithuania and Poland are set higher than benefit levels as an incentive to follow training programmes. Spending on, and in support of, training is generally eclipsed by other measures, particularly temporary public work programmes. These continue to be major but declining forms of labour market intervention, e.g. in Hungary and Poland. Financial supports for these programmes include exemption from social security contributions, and as the allowances paid under the schemes are often higher than benefit levels they can constitute an important source of income for those without entitlement to benefit.

Little information is available yet on the effectiveness of the measures described. Training appears to have a positive impact on job prospects; wage subsidies and public works less so. Further development is expected and the present financial surpluses in CEEC national labour market funds should, at least in principle, offer scope for further reductions in non-wage labour costs or increasing resources for active labour market programmes.

Pensions

The importance of reforming pension systems to ensure safe and sustainable incomes for pensioners has long been recognised in the CEECs. Following a lengthy period of planning, against a background of political change and the urgent need to manage profound economic upheaval, a range of major reform projects is emerging. Most CEECs have recently legislated for, or implemented, major pension reforms, or soon will. There is a great diversity both in the precise nature of the arrangements adopted or planned, and in the state of development of different CEECs' reform processes. However, some common trends are evident in this diversity. The pay-as-you-go (PAYG) principle is retained for financing basic compulsory pension provision in all of the CEECs, and changes to pension levels and retirement age have been widely used to help contain growth in scheme expenditure. The reforms enacted thus far have typically involved broadening of the basis of provision with the introduction of an additional tier or tiers, and greater involvement of private sector providers.

The background to reform

These reforms have been driven in large part by the need for structural changes to accommodate the fundamental change in the organisation of economies, to meet changed individual expectations and political priorities, and in response to pressing fiscal imbalances. The need to ensure sound financing of pensions and avoid undue and unwanted burdens on public finances is familiar to all

Table 6 — Estimated indicators for basic pension, 1997

	Expenditure % of GDP (a)	Average gross pension % of average gross earnings (b)	System dependency ratio (and inverse) (c)
Bulgaria	7.5	55.0	0.759 (1.32)
Czech Republic	8.9	45.3	0.503 (1.99)
Estonia	7.3	32.5	0.604 (1.66)
Hungary	7.8	27.4	0.593 (1.69)
Latvia	10.7	38.7	0.654 (1.53)
Lithuania	6.5	31.3	0.708 (1.41)
Poland	14.3	69.6	0.565 (1.77)
Romania	5.3	30.2	0.689 (1.45)
Slovakia	8.2	44.7	n.a.
Slovenia	14.4	42.7	0.597 (1.68)

Source: 'Monitoring the development of social protection reform in the CEECs'.
Note: (a) Hungary 1994; (b) Hungary 1996; (c) Hungary 1996, Poland 1998.

Member States. However, the situation faced by CEECs has been more pressing by degrees for a number of reasons.

An historical legacy of centralised pension schemes, which were typically funded chiefly by the employer or State agencies, left much of pension provision concentrated in the State sector with a strong and direct link to public finances. Estimates of the extent of pension spending as a percentage of GDP in 1997 are given in Table 6. There is a considerable spread, with the higher figures comparable to the higher figures for EU Member States, e.g. Poland and Slovenia show a total expenditure of more than 14 % of GDP, and the lower ones clearly below EU average.

The average level of gross basic pensions relative to average gross earnings is comparatively high with the majority of CEECs having figures close to or exceeding 40 %. System dependency ratios are also high. The estimates of system dependency ratio in Table 6 show that only the Czech Republic has close to two contributors for each pensioner, whereas the other CEECs have closer to one and a half, or worse. Ratios of this order can have a number of causes. Mass unemployment, contribution avoidance, and strong growth in informal and undeclared working have all depressed contributor numbers. At the same time there are relatively many pensioners. Historically high levels of employment for men and women have translated quite simply to high numbers qualifying for a pension, and retirement ages in the CEECs tend to be low compared with elsewhere. Added to this, demographic ageing is predicted for all of the CEECs, although at widely differing rates.

Basic pensions

The Czech Republic, Estonia, Hungary, Latvia, Lithuania and Poland have all already legislated for major reform of their basic pension schemes, and Slovenia is expected to do so before the end of 1999 as part of a comprehensive reform of pension provision there. Proposals for further reforms are under consideration in Bulgaria, Romania and Slovakia.

Despite great variety in the detail of the provisions chosen, there are some clear similarities in the approach to basic pension provision in the CEECs. Without exception compulsory PAYG regimes have been retained for the financing of first tier pensions, and all the CEECs have either separated the pension fund from State budgets or established a discrete account within the State budget. These schemes are organised on a defined benefit basis with the exception of Latvia and Poland where reforms have seen the introduction of PAYG-financed defined contribution first tier pensions employing individual contributor accounts. All reforms have seen the introduction of price indexation, with the exception of Hungary which has chosen to index pensions with regard to prices and earnings.

The interesting departure by Latvia and Poland in establishing defined contribution schemes serves to strengthen and make more explicit the link between contributions and benefits, a feature more typical of second and subsequent tier provision. Other CEECs are beginning to explore ways of achieving such a stronger link, for example by extending the period over which qualifying contributions must be paid, or by identifying or introducing an earnings-related component in defined benefit schemes as will be introduced in Estonia in 2000.

Increased transparency of this kind holds particular advantages in the attempt to secure the funding of first tier schemes. Making the level of benefit to be expected clearly contingent on contributions is a strong aid to improving contribution compliance, and tackling contribution avoidance by the insured and employers is an important goal for all of the CEECs. It also helps to change contributors' attitudes towards an acceptance of the need to shift increasingly from an historic emphasis on employer contributions towards a greater one on employee contributions as the main source of scheme revenue. This change of emphasis is under way to some degree in most of the CEECs, notably in Latvia and Hungary.

Another important trend driven by the need to ensure sustainable basic pension provision in the face of demographic ageing and generally low pension ages, but also with clear implications for supplementary provision, is the increasing of effective retirement ages across the CEECs. The simplest and most common approach here is a gradual increase in the minimum age at which basic pension can be paid. Some CEECs, for example Lithuania, have chosen to retain different pension ages for men and women, whereas others, e.g. Estonia, Hungary and Latvia, have taken the opportunity to equalise them. Reform proposals in Slovenia envisage partially closing the gap between male and female first tier pension ages at the same time as adjusting the pension calculation so that women are not disadvantaged by virtue of their shorter maximum possible contribution history. The approach embraced by Latvia and Poland described above also holds the potential to increase effective retirement age by influencing behaviour through an inverse link between the level of pension available at minimum pension age and life expectancy.

Supplementary pensions

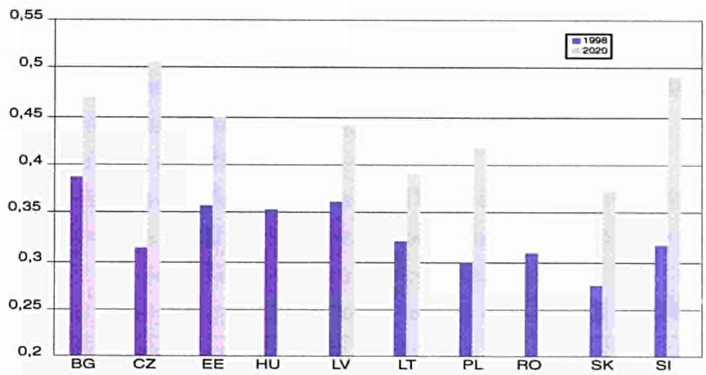
The potential that supplementing the basic PAYG pensions with one or more tiers of additional provision can hold for helping to ensure sustainability of pensions has been universally recognised. All of the CEECs have either implemented new schemes or are in the process of legislating or planning them. There is diversity between the CEECs in what has been done or is envisaged, covering both compulsory and voluntary 'second tier' supplementary pension schemes, and 'third tier' private pensions. However, the schemes that have been introduced all have in common fully-funded financing and individual accounts for pension holders.

Compulsory supplementary pension schemes have been established as an element of wider pension reforms in Hungary (1998) and in Poland (1999). The new scheme is compulsory for all new workers in both countries and for those aged less than 30 years in Poland. Joining the scheme is optional up to a maximum age limit which stands at 47 in Hungary and 50 in Poland. Proposals for compulsory provision are in hand or under discussion in Bulgaria, Estonia, Latvia, Romania, Slovakia and Slovenia. Both the Czech Republic and Slovakia have voluntary supplementary schemes in place, the Czech scheme being funded by a mixture of contributions and State subsidy. A legislative framework governing the provision and regulation of 'third tier' private pensions has already been put in place in Estonia, Latvia and Lithuania, and in Hungary as part of a three tier system which was introduced in 1998 and which is now the subject of early evaluation. Bulgaria, Poland, Romania, Slovakia and Slovenia all have plans or proposals to enable third tier provision.

The scale and pace of transition to new forms of pension provision have accentuated certain impacts of change. Despite the introduction of new supplementary schemes, compulsory or not, the well-being of the former PAYG schemes remains vital for the support of many pensioners and older pension holders who may not be able to benefit from the new arrangements. There is already a trend across CEECs to attempt to stabilise typically high contribution rates. Where, as in Hungary and Poland, an element of contributions made is in effect diverted to the compulsory supplementary scheme the revenue base of the PAYG schemes shrinks. In Hungary the resulting deficit has so far been underwritten by government, and Poland is also considering supporting this cost of transition from State revenues. Among the factors influencing the eventual extent of potential PAYG deficits are the numbers and behaviour over time of those who can exercise a choice of scheme. Predicting this will be important for other CEECs who are presently considering an effective reduction of contributions to PAYG schemes in this way.

The new schemes also place new demands on administrative and institutional structures, which CEECs are striving to meet. The ability to operate individual pension holder accounts effectively, whether within basic PAYG or funded supplementary schemes, requires suitable management and information systems. Developing these carries costs, in terms of both initial investment in development and the impact on administrative running costs. The success of the apparent trend towards including at least an element funded of provision clearly depends on access to sufficiently robust and well-regulated financial markets and services. These can in turn be enhanced by the arrival of pension funds as institutional investors,

48. Demographic dependency ratios, 1998 and 2020 (+ 60/20–59)



Source: 'Monitoring the development of social protection reform in the CEECs'.

as appears to be the case from increasing demand for investment instruments in Poland's capital markets.

Health care

Over the past decade all of the CEECs have been engaged in reforms directed at securing sustainable financing of health care, more precise control of costs, and rationalisation of services and the organisation of their providers. The different countries are at different points in the reform process, for example, in the course of 1999 both Bulgaria and Romania introduced major reforms to the funding of health care, while the Czech Republic and Poland embarked on significant programmes consolidating and building on earlier reforms. Some issues of common interest and responses to them are outlined below.

Before looking at specific areas of reform it is worth considering the circumstances under which these health-care systems must operate and develop. Economic development has a clear bearing on the levels of spending on health care that are possible, with countries with higher GDP per capita generally able to spend a proportionately greater share of that GDP on health care. Conversely, where the economic capacity is relatively lower, the availability of funding is likely to bear more critically upon the development of services. Table 7 gives estimates comparing health-care spending with GDP in the CEECs for 1997, alongside an index of per capita GDP. This shows a considerable spread both in GDP and the share apportioned to health care. The figures given should be treated with a degree of caution as they do not include unofficial or illegal contributions to the cost of health care, which can be substantial.

The general health and longevity of individuals, and the potential impact on them of poor socioeconomic conditions, are important factors in the evolution of health care in the developing economies of the CEECs. The interrelation with social conditions is considered later. Estimates of life expectancy at birth are given in Table 7.

Financing

The insurance principle has been adopted in all of the CEECs, at least partially separating the financing of health care from its erstwhile reliance on direct State funding. The two most recently introduced schemes are the Bulgarian National Health Insurance Fund and Romania's Social Health Insurance System, launched in March and April of 1999 respectively. At the beginning of the same year Poland began implementation of reforms to strengthen the health insurance system, alongside a major overhaul of social insurance and public administration. In the Czech Republic a plan to consolidate the health-care system has been adopted which includes proposals to underpin the operation of funding mechanisms.

Health insurance contributions totalling some 13 % of earnings are shared by both worker and employer in

Table 7 — Relative GDP per capita, health spending as a percentage of GDP and life expectancies at birth

	GDP per capita where Latvia = 1	Health spending % of GDP	Life expectancy at birth	
			M	F
Bulgaria	1.4	3.5	67.2	74.4
Czech Republic	3.3	7.2	70.5	77.6
Estonia	1.2	6.1	64.7	75.9
Hungary	2.7	6.7	66.1	74.9
Latvia	1.0	4.5	63.0	74.5
Lithuania	1.2	4.7	65.1	76.1
Poland	2.3	5.0	68.2	76.6
Romania	1.2	2.8	65.0	73.0
Slovakia	2.2	7.1	68.4	76.5
Slovenia	3.8	7.8	71.2	79.0

Source: 'Monitoring the development of social protection reform in the CEECs.'
Note: Data are for 1997 or for the most recent year for which reliable information is available. GDP and spending figures do not include illegal payments.

the Czech Republic, Hungary, Latvia, Slovakia and Slovenia, with an emphasis on employer contributions except for Slovenia where they are equal. Latvia is moving towards similarly equalised contributions. In Estonia and Poland contributions are paid solely by the employer or employee respectively. Lithuania supports a low employer contribution of 3 % with an earmarked 30 % of income tax receipts. Contribution rates are being finalised in Bulgaria and Romania.

All of the CEECs have introduced charges on patients towards drug costs. In the Czech Republic, Estonia, Latvia, Lithuania, Poland and Romania patients are also required to pay towards treatment costs, particularly in primary care or for specified treatments. These charges are typically nominal, but in Latvia they can be 25 % of cost of basic care, and in Lithuania, Romania and Slovakia the whole cost of certain services is demanded. Charges are to an extent replacing unofficial payments to practitioners, a hangover from the old systems, but they can also be an important contribution to overall funding, e.g. in Latvia nearly a third of spending is from sources outside health insurance scheme.

Membership of the insurance schemes is open to all in principle. Those who are not in a position to contribute, for example the unemployed and retired, are generally supported through contributions underwritten by the State, although other arrangements have been introduced such as in Latvia where the uninsured are directly financed on a separate track. Other areas where State support or subsidy continues across the CEECs include meeting the costs of new or expensive treatments excluded from insurance and of health promotion and public health activities, and contributing to the capital costs of estates and equipment. Regimes of resource-based budgeting for these capital costs are under development, e.g. in Poland, in an attempt to avoid distortions in the distribution of facilities and the quality of service they are equipped to provide.

Contributions are collected from payroll with income taxes, or, more transparently, alone or with other social contributions. Whatever the method, difficulties with contribution collection and compliance have contributed to some significant deficits in health insurance funds. Reasons for failed collection include simple employer debt and insolvency, an increase in the complexity and cost of assessing and collecting contributions that has come with the relatively swift introduction of atypical working patterns on a large scale, and reported unscrupulous behaviour by employers exploiting the situation to lower the contributions paid. The approach taken in Poland has been to strengthen the incentive to pursue contributions by withdrawing State underwriting of fund equilibrium.

It is widely recognised among the CEECs that effective control over the costs of health care is essential to the sustainability of schemes, particularly given the general scarcity of resources, widespread deficits and difficulty collecting contributions. Meeting this imperative has seen a trend towards the narrowing of the route of payment between funds and service providers to enable greater financial control. Some, e.g. Latvia, have achieved this with a straightforward 'single payer' arrangement. Elsewhere a similar effect has been achieved by linking funds to a central fund (e.g. Estonia) or by limiting the number of funds (Slovakia).

Potentially costly fee-for-service payments to health-care providers have widely been replaced with mechanisms that embody greater control. Capitation-based funding has been adopted by the majority of CEECs, often combined with fee-for-service payments for secondary care to enable better targeting of resources on specific services. Points based systems have also been introduced as the main mechanism (Latvia) or in conjunction with capitation and fees (Bulgaria, Czech Republic). Other measures used in the drive to improve the management of costs include controls on the range and prices of services offered, on access to secondary care, and over the prescribing and referring behaviour of primary care practitioners.

Provision and organisation

Reforms of financing of health care have been accompanied by substantial change in the extent and organisation of health-care services. Graph 49 shows significant reductions all round in bed counts since 1990 which have brought many CEECs much closer to levels to be found in the EU. Graph 50 shows a similar approximation in practitioner numbers.

These indicators of capacity are certainly suggestive of movement towards levels compatible with more efficient service delivery. However, behind them lie the need for continuing development of the quality and use of existing capacity. In particular there is a widely acknowledged need for investment in capital equipment, not least for pharmaceutical manufacture, and for the development of appropriately skilled and organised primary health-care services.

As part of a general political trend of decentralisation, the role of central government as a direct manager of service providers has been reduced in all CEECs. This process has involved the establishment of quasi-governmental institutions, a greater involvement of local government in managing health care, e.g. in Estonia, Hungary, Latvia, Lithuania and Poland, and increasing engagement of the private sector.

Privatisations have been rapid and extensive, and of greatest importance in primary care and pharmacy services, with provision of secondary and tertiary level care more frequently left in the public sector. Privatisation of the scale and pace seen has not been without difficulties. Experiences have included some loss of strategic control by central policy makers, at least temporarily, the creation of perverse incentives to shift costs from privatised primary care to public secondary care services, and problems with the feasibility of privatising large specialist hospitals. As part of a review of provision the Czech Republic has decided to suspend the privatisation of a number of facilities which had been agreed by a previous administration.

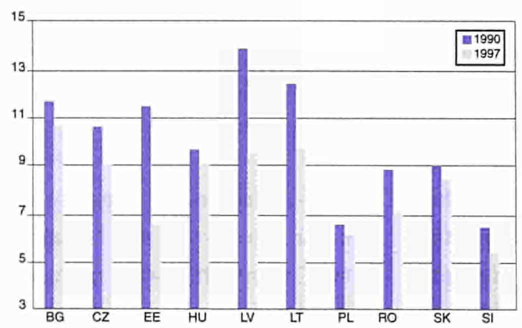
Reforms of health service financing and organisation in the CEECs have served to highlight the need for administrative and institutional capacity equal to the task of implementing new regimes and running them successfully. This requires suitable management structures and information systems and a workforce competent in the disciplines needed to administer effectively the new kinds of devolved institutions and associated financial and contracting processes that are emerging. Some CEECs, e.g. Romania, are focusing urgently on these human resources' issues, but in general there is much yet to be done, and done in the face of competition from other employment sectors for staff with the required skills.

Effectiveness of health-care systems

In addition to being financed sustainably and organised efficiently, health-care systems must of course offer effective services to individuals who need them. Access to quality heath care for all is one of the four broad objectives identified in the recent Commission communication. It is difficult to gain a clear picture of the quality of services offered under schemes in the CEECs as outcome and quality indicators are among the management tools that are in need of development, and little reliable information is available. Measures of relative spending on health care, such as the estimated percentage of GDP in Table 2, hold circumstantial evidence about the likely ability of CEECs to provide high quality facilities and services.

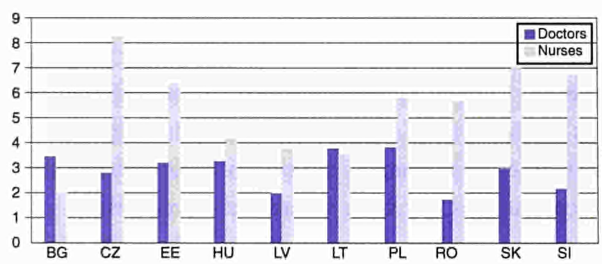
The principle of universal access is accepted by all of the CEECs with limited exceptions (for example some classes of self-employed people in the Czech Republic are not covered by the main insurance scheme). The risk that introducing health insurance would reduce access to care has been coun-

49. Hospital beds per 1 000 of population, 1990 and 1997



Source: 'Monitoring the development of social protection reform in the CEECs'
Note: Data are for 1997 or the most recent year for which reliable information is available. Data for 1990 derived.

50. Doctors and nurses per 1 000 of population, 1997



Source: 'Monitoring the development of social protection reform in the CEECs'.
Note: Data are for 1997 or for the most recent year for which reliable information is available.

tered by State guarantees of participation in insurance for those who are not in a position to contribute. The levels of resources available clearly have a bearing on actual access to care. Maintaining universal access in the face of severe pressure on finances has led to some definition or restriction of the range of services that are available to all the insured. Latvia has chosen to finance basic care for the uninsured direct from State funds. However good the range of basic services that can be offered, these restrictions carry the risk of real or perceived inequality in access to health care. This is an important concern in the continuing reforms, alongside other factors with potential to increase inequity such as the prevalence and extent of fees and other payments for care by patients in CEECs, and asymmetries in the geographical distribution of health-care facilities.

Adverse economic and social conditions not only affect access to health care and its quality, they also have a significant influence on demand for services. Deprivation, social inequalities and unemployment affect people's health, with those in lower socioeconomic positions suffering higher rates of death and morbidity. In the CEECs many indicators of health worsened with increasing unemployment and social dislocation through the 1990s. The death rate from diseases of the circulation system has risen in CEECs to stand almost twice that in western Europe, and the rate of deaths from cancer is also significantly higher. These trends are accompanied by evidence of lifestyles detrimental to health. For example, in all of the CEECs more than a third of men smoke, in Poland and Lithuania more than a half do. There are of course other factors. Lifestyle risks such as smoking and alcohol abuse are only part of the wider complex of risks and deprivations that typifies social exclusion. Poor housing, environment, and education figure alongside material poverty in affecting individual well-being and the likely need for health-care services.

Notes and sources

Acknowledgement

This report has been prepared in close cooperation with Eurostat (Statistical Office of the European Communities), officials from which provided most of the data for the analysis and gave helpful advice on the statistics and their use.

The two main sources of data used are the European System of Integrated Social Protection Statistics (Esspros) and the first two waves of the European Community Household Panel (ECHP). Data from the Community Labour Force Survey (LFS) are also used to examine employment and labour market developments as well as changes in the structure of households. These three sources are described in turn below.

Esspros

The analysis of trends in expenditure on social protection in Chapter 3 is based on the revised Esspros classification. Data on this classification exist for all Member States, though for Greece, at the time of writing, only provisional figures were available for all the years. Moreover, only 6 of the 15 countries (Denmark, France, Ireland, Luxembourg, Austria and Sweden) were able to provide final data for 1996. For the other countries, the figures involve some estimation and some problems of comparability, as noted below. They are, therefore, subject to revision as more information becomes available.

The core system, which covers social protection as conventionally understood, 'encompasses all interventions from public or private bodies intended to relieve households and individuals of a defined set of risks or needs, provided that there is neither a reciprocal simultaneous nor an individual arrangement involved'. As such, it includes both the financing and provision of benefits (benefits in kind — which include not only the direct provision of goods or services but also the reimbursement of personal expenditure on specified goods and services — as well as cash transfers) and the related administrative costs. It also includes, in principle at least, benefits provided by employers to their employees, so long as these cannot reasonably be regarded as payment for work, such as payment of wages and salaries during periods of sickness or maternity, as well as pension schemes, however funded and nominally designated, where the principle of social solidarity applies, such as occupational, company and certain personal schemes.

In practice, the expenditure included in Esspros depends ultimately on the data which Member States are able to provide and on how they apply the formal definitions when compiling these. Since, as noted, national statistical offices have limited experience as yet in complying with the revised conventions, it is inevitable that there are differences in the way that definitions have been interpreted in the initial data provided. In certain cases, therefore, the comparisons presented here need to be interpreted with caution and with due regard to the notes set out below. Over time, such differences ought to diminish in importance as experience is gained and as national systems of data collection adapt to the new conventions.

Problems of comparability also extend to the functional classification of benefits which is intended to divide spending between the different needs which social protection is aimed at meeting. The broad functions, or areas of need, distinguished in the system are as follows:

- sickness/health care: income maintenance and support in cash in connection with physical or mental illness, excluding disability. Health care intended to maintain, restore or improve health irrespective of the origin of the ailment;
- disability: income maintenance and support in cash or kind (except health care) in connection with the inability of people with physical or mental disabilities to engage in economic and social activities;

- old age: income maintenance and support in cash or kind (except health care) in connection with old age;
- survivors: income maintenance and support in cash or kind in connection with the death of a family member;
- family/children: support in cash or kind (except health care) in connection with the costs of pregnancy, childbirth and adoption, bringing up children and caring for other family members;
- unemployment: income maintenance and support in cash or kind in connection with unemployment;
- housing: help towards the cost of housing;
- social exclusion not elsewhere classified: benefits in cash or kind (except health care) specifically intended to combat social exclusion where they are not covered by one of the other functions.

Since institutional arrangements for delivering benefits in these areas differ markedly between countries and since a given type of benefit is often aimed at meeting more than one kind of need, it can be difficult for Member States to divide expenditure precisely between these different functions and they may, indeed, lack the detailed information to be able to do so. Early retirement pensions, for example, which may be given in part for labour market reasons and which to this extent ought to be partly classified to unemployment, are an important case in point. In practice, for some Member States, such expenditure is at least partly included under unemployment, in others, not at all, though it is hard to know whether this reflects genuine differences or merely statistical difficulties.

The social exclusion category gives rise to a similar difficulty. In so far as this is intended to cover expenditure which is not primarily incurred under one of the other heads, the spending included in this function in any Member State might well be affected by practical problems of allocation, though again, it is hard to identify the extent to which this is the case. In addition, expenditure included in the unemployment function should, in principle, encompass the provision of vocational training to those out of work, in so far as this is funded by public authorities. In practice, it is included in some countries but not in others. Similarly, it should exclude payments made to employers, in the form, for example, of job subsidies, but this is not always the case. These are further sources of difficulty in comparing spending between Member States both under this head and in total.

The analysis in Chapter 3, on the one hand, aggregates expenditure on old age and survivors, partly because of the potential difficulties of distinguishing consistently between the two, and, on the other hand, separates expenditure on health care (benefits in kind in the sickness/health-care function) from sickness benefits (cash transfers in the sickness/health-care function). Because of the comparability problems noted above, however, the analysis of the functional division — the pattern of social protection spending — should be interpreted as being indicative only.

As emphasised in the text, the figures for expenditure are gross of any taxes or social charges levied on transfers, which are important in some countries and which reduce both the value of the benefit to recipients and the effective cost to governments. They also exclude transfers provided through tax concessions, rebates or allowances, which also vary in importance between countries, and to this extent understate the overall financing implications of social protection.

For receipts, the data include contributions imputed to employers as well as actual social contributions. These are intended to reflect the costs to them of providing social benefits to their employees, other than through insurers or through a separate reserve. Since such benefits are included in expenditure, the related need for financing has to be included in receipts.

The main focus of the analysis in the text is on the period 1990 to 1996, for which reasonably consistent data are available for most Member States, though not all — data exist for Sweden only from 1993 and for Luxembourg only the aggregated figures by function are available.

Germany

Data in this report for Germany include the former East German *Länder* throughout. Since consolidated figures exist only from 1991, the figures for 1990 have been estimated from the data for the former West Germany (specifically, the change for West Germany between 1990 and 1991 is applied to the 1991 figure for total Germany to derive an estimate for 1990 which is comparable to that for later years). This is also the case in respect of LFS data.

United Kingdom

Esspros data for the UK are on a financial year basis (i.e. April to March) rather than a calendar year one as for other countries. Figures for GDP and for the relevant price indices have been adjusted approximately to the same basis when calculating expenditure relative to GDP and changes in real terms.

European Union

Figures for the European Union relate to total expenditure in the Member States indicated relative to total GDP in these countries or to population or are weighted averages of changes in Member States (where the weights are expenditure in the base year).

GDP

The GDP figures used in the report with which the expenditure data are compared are the latest available as of October 1999.

PPS

Expenditure is expressed in terms of the purchasing power standard (PPS), which takes account of differences in price levels between Member States (specifically of those of consumer goods and services), when making comparisons of the level of spending in different countries. For the Union as a whole, figures in terms of PPS are the same as Euro figures for households' final consumption expenditure.

Country notes

Denmark: Disability benefits include early retirement lump-sum benefits paid to those with a reduced capacity to work. Incomplete data exist to divide contributions of protected persons between employees, the self-employed and pensioners and other benefit recipients. They are allocated here wholly to employees, who are by far the largest contributors.

Germany: Unemployment benefits exclude some wage subsidies paid to employers (which are included in Esspros) to encourage the employment of certain groups at risk on the labour market (amounting to around 14 % of total spending on this item in 1996). The new long-term care benefit introduced in 1995 is included partly in old age (accounting for around 2 % of spending on this item) and partly in disability (accounting for around 3 % of spending).

France and Ireland: Old-age pensions exclude benefits to the disabled who have reached retirement age which are included in the disability function.

Italy: Old-age pensions include early retirement benefits paid to those unable to find employment. Unemployment benefits include spending under the CIG (Cassa Integrazione Guadagni) paid to those on lay-off (amounting to some 21 % of expenditure on this item in 1996).

Luxembourg: Data by function are available only for total expenditure on each — i.e. there is no breakdown between cash benefits and benefits in kind or between means-tested and non-means-tested benefits. The figures for health care, which are not separately distinguished from sickness benefits in the Esspros data, are estimated on the basis of OECD data for public expenditure on health care (specifically, it is assumed that health care represents 85 % of total spending on the sickness function in each year)

Austria: Unemployment benefits include some subsidies to employers (though these accounted for under 1 % of spending on this item).

Portugal: 'Other expenditure', which is included in the total but not in the spending on benefits, includes transfers to institutions dealing with vocational training (IEFP and others) and for which the detailed information following the Esspros classification is not available. Some or most of this would seem to belong to the unemployment function.

Sweden: The unemployment function includes start-up benefits and placement services and job-search assistance benefits.

For more details on the Esspros data, see *Esspros Manual 1996*, Eurostat, 1996 and *Social protection expenditure and receipts, 1980–1996*, Eurostat, 1999.

European Community Household Panel

The ECHP is an annual survey of a representative panel of households and the individuals who live in them, covering a wide range of topics, including living conditions, employment status, health, education and, most importantly for the analysis in Chapter 4, income and the various sources from which it comes. The aim is to interview the same households and individuals over a number of consecutive years so that changes in their circumstances over time can be monitored. The survey is based on a harmonised questionnaire, drawn up by Eurostat, and subsequently adapted by the national agencies responsible for collecting data in each of the countries to take account of their own institutional features.

The first two waves of the ECHP, which at the time of preparation of this report are the only two for which data are available, were conducted in 1994 and 1995 in the 12 Member States which comprised the Union in the earlier year and covered some 60 500 households in total (about 170 000 individuals) and 5 000 or more in most Member States. (For a detailed description of the ECHP methodology, see *The European Community Household Panel (ECHP): Volume 1 — Survey methodology and implementation*, Eurostat, Luxembourg, 1996.)

The ECHP was the source of the study carried out by the Centre for Social Policy of the University of Antwerp (UFSIA) on comparing social protection benefits and replacement rates for the Employment and Social Affairs DG, which is the basis of the analysis of unemployment replacements rates in Chapter 4.

European Community Labour Force Survey

The LFS, which is the basis for the analysis in Chapter 1, is also an annual survey of households, though the sample size is considerably larger than the ECHP. Conducted each year since 1983 and covering all 15 Member States, it is focused more narrowly than the ECHP on employment issues and is similarly based on a common set of questions and definitions, so abstracting from national differences in methods of classification and institutional arrangements.

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