Social protection in Europe 2001

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Social protection in Europe 2001 — Executive summary

The present *Social protection in Europe* report is the first to be adopted by the Social Protection Committee since the formal start of its activities in December 2000. In accordance with the Council decision establishing the Social Protection Committee ([1]), it acts as a forum for exchange regarding policy developments in respect of the achievement of the four objectives endorsed by the Council to enhance policy cooperation in the area of social protection, namely: to make work pay and provide secure income; to make pensions safe and pension systems sustainable; to promote social inclusion; to ensure high-quality and sustainable healthcare.

Since the creation of the committee, important steps have been made to strengthen policy cooperation, particularly through the new open method of coordination. However, reflecting the way in which the open method has been applied and the series of mandates which have been handed down by the European Council, progress has not been achieved at the same rate across the different policy branches. Progress has been strongest in the domain of social inclusion, with the submission of national action plans by the Member States in June 2001 and the adoption of a joint Commission/Council inclusion report in December 2001. A similar stage should have been reached in respect of pensions in early 2003, on the basis of national pension strategy reports envisaged for September this year, on which the Social Protection Committee will work jointly with the Economic Policy Committee. Cooperative exchange in the area of healthcare and long-term care for the elderly has recently been started. Until it is feasible to address the full range of four policy fields earmarked for strengthened policy cooperation, the *Social protection in Europe 2001* report will keep broadly the same structure as the *Social protection in Europe* reports issued by the European Commission during the 1990s. It monitors policy developments in the social protection systems of Member States by analysing the trends of social expenditure over the 1990s and describing the most relevant reforms implemented since 1999 from a comparative viewpoint.

([1]) Council Decision 2000/436/EC of 29 June 2000 setting up a Social Protection Committee.

The **introduction** to the report explains the rapid developments in policy cooperation at the EU level in the field of social protection, and, in particular, the open method of coordination. The strengthened policy cooperation should assist the Member States in pursuing reforms in a more effective way, by using the experience of other countries and by helping to articulate the need for change resulting from common challenges and goals in the EU context.

Part I of the report focuses on major trends in expenditure on social protection. The analysis also covers the different ways of financing the social budget and the changes which have occurred over the 1990s. The focus is particularly on the period 1994 to 1999, when EU economies grew fairly steadily. Findings are mainly based on the latest set of Esspros data, the European system of integrated social protection statistics, which offers the most complete comparable statistics on social protection expenditure in the EU.

Part II describes developments in social protection policies in the Member States. The findings are mainly based on studies carried out by experts in each Member State on policy measures which have been introduced or proposed since 1999. The members of the Social Protection Committee have revised and completed the information provided by the studies.

This report on trends in social protection is a valuable source of information, providing comparative data on all Member States and describing long-term tendencies. The intention, however, is not to evaluate the effectiveness of the differing systems within the European

Union. Firstly, it is not necessarily clear whether certain levels and trends of expenditure should be seen as positive or negative developments. Secondly, it is often not clear what constitutes the best basis for presenting comparative information regarding different systems, a point which emerges strongly from the discussion of gross and net levels of spending. Finally, it has to be stressed that more spending does not automatically lead to a better quality of social protection. Therefore, the use of data on expenditure should not be linked simplistically with normative conclusions.

The main findings

The findings of *Social protection in Europe 2001* testify that Member States have been committed to the goal of achieving a high level of social protection and greater social cohesion throughout the European Union in the second half of the 1990s. In the recent period of reduced growth, it is important to keep in mind that medium-term reforms should be pursued without complacency. They are part of the solution to current problems and also help to prepare the ground for renewed growth in the future. The reform of social protection is not a 'fair weather' policy to be adopted in good times, but neglected in bad ones. Sound social policies are policies for all times and conditions, contributing to improving the quality of the workforce, raising productivity and supporting structural change.

As a consequence of the considerable slowdown in economic growth in 2001 and 2002, social protection can be affected negatively. This contrasts with the benign economic environment of the past five years when strong growth, coupled with constructive labour market reforms, added some 10 million jobs to the EU labour market, bringing unemployment down below 8 % and pushing the employment rate above 63 % for the first time for more than a decade.

As was the case at the beginning of the 1990s, the recent economic slowdown may again contribute to growth in social spending. Given a favourable change in the employment content of growth during the last few years, this should be a temporary phenomenon so long as control is maintained over the underlying growth path of expenditure. Maintaining benefits can perform a useful role in sustaining economic activity and preventing a bigger slowdown in growth. On the one hand, care needs to be taken to ensure that a temporary rise does not turn into an increased rate of long-term growth of expenditure. On the other hand, less spending does not automatically lead to a higher degree of sustainability of pension systems. For this, it is important to pursue structural reforms, particularly with a view to ensuring the long-term sustainability and adequacy of pension and health systems in the face of demographic ageing.

Social expenditure continued to grow in the second half of the 1990s, but at slower rates

Spending on social protection throughout the European Union was generally characterised by slow rates of growth in the second half of the 1990s. Real growth remained positive, but slightly below gross domestic product (GDP) growth. As a result, gross expenditure on social protection as a share of GDP declined from its 29 % peak in 1993 to 27½ % in 1999. There continue to be large differences throughout the Union, with spending ranging from 33 % in Sweden to some 15 % in Ireland.

However, **gross figures may overstate cross-country differences** in the scale and cost of social protection. There is less variation between the Member States if taxes and social charges levied on benefits are taken into account. A 'net estimation' diminishes expenditure considerably in the high-spending countries. If an adjustment is made for taxes and social contributions levied on benefits and for so-called 'tax expenditures' (i.e. social transfers delivered through tax concessions), a somewhat different pattern of relative levels of expenditure on social protection across the Union emerges.

Two factors contributed to the **relative slowdown in expenditure growth** during the second half of the 1990s. Firstly, **rising employment** reduced the need to support the unemployed and their families. However, slowdown in expenditure growth is not confined to unemployment benefits but extends into other areas. This reflects Member States' efforts to **consolidate public finances** in the light of the Maastricht Treaty. Despite the slowdown, real expenditure growth occurred in every year and social benefits per capita at constant prices rose by 24 % from 1990 to 1999.

Old-age pensions and healthcare remain by far the largest components of social spending in the Union, accounting between them for almost two thirds of total outlays. Given the large share of health spending on the elderly, the implication is that most expenditure on social protection in Member States went to support those retired from economic activity. In 1999, spending on unemployment benefits accounted for 1.7 % of GDP in the EU, in comparison with 12.1 % of GDP for pensions and 6 % of GDP for health.

The **impact of demographic ageing** on social protection expenditure gives cause for concern in the medium and long run, but the recent trends do not yet reflect the impact. In the second half of the 1990s, spending on old-age pensions and healthcare in the EU increased by less than GDP growth in most countries, even though the number of citizens above retirement age continued to grow. By contrast, **spending on family and childcare benefits** grew faster, significantly exceeding GDP growth. This has also been the case for **measures against social exclusion.**

Marked differences remain between Member States **as to how social protection is funded.** It is still mainly financed by social contributions (to 60½ % on average), but there are Member States where general tax revenues are equally or even more important. The dominating role of contributions as a source of finance declined continuously throughout the 1990s. On average, this decline was concentrated on employers' contributions in the first half of the period and more on employees' contributions in the second half.

Revenues collected to fund social protection continue to be **slightly larger than the overall expenditure,** reflecting the objective of accumulating reserves to cover projected future increases in costs associated with ageing. In 1999, the total revenue raised by governments across the Union to finance social spending amounted to 28½ % of EU GDP, 1 % of GDP higher than the total expenditure. Sweden is the country with the highest revenues relative to GDP, followed by the Netherlands.

Reform efforts have been pursued while maintaining high levels of social protection

In the light of the fairly stable development of social protection expenditure, Member States are finding ways of promoting a high level of social protection while also meeting the budgetary constraints. Reforms aiming at the activation of employment policies, adjustments of pension systems to seek a fair sharing of burdens and the introduction of more ambitious social inclusion policies and of affordable quality health services all help to consolidate social protection systems in Europe and prepare them for future challenges. It will be vital to continue and to step up such efforts.

Promoting social inclusion

As is clear from the common EU objectives agreed at the Nice European Council in December 2000 and the national action plans presented by Member States in June 2001, **social exclusion is now perceived as a multidimensional problem,** requiring an integrated policy approach. Social protection systems are, of course, crucial to reduce poverty levels and help people towards social inclusion. However, policies in other domains, such as employment, education, healthcare and housing, are being reviewed in order to make them more responsive to individual needs and to new risks leading to poverty and social exclusion ([2]).

A stable job providing a steady source of income is recognised as the key factor to preventing social exclusion. Therefore, there has been a growing emphasis throughout the Union on the need to help people into employment, particularly those most detached from the labour market. In a number of Member States, efforts have been intensified to **assist people with disabilities to find a job** and make it easier for them to work, though only half of the Member States have set national targets to increase employment of disabled people. Improvements in childcare support and parental leave arrangements are relevant social inclusion policies especially when they focus on the vulnerable group of **lone parents** to help ease the difficult transition from benefits into paid employment. Some Member States have sought to ensure equitable access to education and training, while a few have sought to enhance job opportunities for immigrants and ethnic minorities.

In addition to the efforts to improve employability, policies to promote inclusion have encompassed **better**

([2]) As demonstrated by the *Joint report on social inclusion* of December 2001 (Council Doc. 15223/01).

access to education, decent housing, good-quality healthcare and social services. The period under review has seen important developments and improvements in minimum-income guarantee schemes, particularly in southern Member States.

Making pensions safe and pension systems sustainable

The number of people aged 65 and over is likely to increase by 40 % between 1990 and 2015, while the number of people of working age is likely to rise very little. Aware of the need to adjust to demographic ageing, a number of governments have sought to **alleviate the financial pressure on pension systems** imposed by the growing numbers of pensioners and, at the same time, to maintain the affordability of future pensions. In most countries, the measures taken during the 1990s included attempts to **raise the effective retirement age** and encourage workers to remain in employment longer, to impose **stricter conditions on early retirement,** to limit the amount of pension payable, and to encourage the growth of personal or occupational pensions.

Recent changes have been made or proposed in a number of countries to reinforce earlier efforts to reduce future pension liabilities while **ensuring the position of those relying on the lowest pensions.** Some Member States have increased the funding of pensions by using the proceeds from the sale of public assets or by increasing the share of pension costs financed from general revenues. Most of the efforts since 1999 have been modest in scale relative to earlier reforms. This, in part, reflects the need to respect acquired rights under insurance-based systems, where contributions have been paid for many years in expectation of a certain pension level.

Ensuring high-quality and sustainable healthcare

Limiting expenditure growth on healthcare while maintaining or improving the quality and accessibility of services is a major challenge. Growth in the demand for healthcare has partly been due to economic development and rising real income levels, and also to growing medical knowledge and the increasing demand imposed by an ageing population.

The measures taken across the Union in the period under review have focused on improving both the efficiency and effectiveness of services. They have included **decentralisation and devolution** of responsibilities to the regional and local levels, a clearer demarcation between providers, consumers and purchasing bodies, and the collection and dissemination of more information on the cost-effectiveness of treatments. Quasi-market mechanisms have been introduced to increase awareness of costs, to foster competition between providers and to create incentives for achieving economies of scale. In most Member States, there is continuing debate about the scope of public provision of healthcare and the relationship between the public and private sectors, which is extending to the increasingly important challenge of the long-term care of the elderly.

Making work pay and providing secure income

Activation has become the main theme of labour market policy reforms in the Member States. Member States' policies have increasingly reflected the objectives set out in the employment guidelines established under the European employment strategy since 1997. During recent years, the activation of labour market programmes has also modestly begun to be extended beyond those officially registered as unemployed to other people out of work. Attempts have increasingly been made to tailor support offered to individual needs.

New target groups for activation policies are people approaching retirement age who have withdrawn prematurely from the labour force, people with disabilities and, in some countries, lone mothers with young children. In virtually all Member States, **more individual advice and counselling** have been provided to those seeking work, often combined with individual action plans. This tendency has been accompanied in some Member States by the restructuring and decentralisation of employment services.

Member States have sought to increase the **financial incentives to take up work.** Measures have included the continued payment of (a part of) benefits after a job has been taken up, tax reforms to increase the take-home pay of low-wage earners and subsidies to employers to improve the chances of disadvantaged persons on the labour market. These measures have been accompanied by **increased pressure** on those on benefits to participate in active labour market programmes, to intensify their efforts to look for work and to accept job offers when they are made. Equally, there has been a tendency to tighten rules governing the entitlement to benefit. Notwithstanding this, in some countries, unemployment benefits have been increased or extended.

In many parts of the Union, **childcare support and parental leave** arrangements have been improved to make it easier for women, in particular, to take up paid employment and to reconcile family responsibilities with the working career.

Introduction

New European cooperation in social protection policies

The conclusions of the Lisbon and Nice European Councils, which emphasise the need to modernise the European social model, invest in people and combat social exclusion, have become even more pressing. The overall objective of modernisation is to strengthen the role of social protection by making it an effective tool for managing change in the EU, while minimising negative social consequences. Change will come inevitably as a result of an ageing population, changing family structures, technological innovation, industrial transformation, globalisation and the imminent enlargement of the European Union. The ageing baby-boom generation will be followed by smaller cohorts as a result of lower fertility and this represents the biggest long-term challenge for social protection systems. It is likely to put further strains on pension and health systems from about 2010 onwards. Member States will have to prepare soon by adopting appropriate measures to ensure adequate pension and healthcare provision without jeopardising the stability of public finances.

Progress has been achieved in the modernisation of social protection, as demonstrated in this report. However, there is still room for further improvement to ensure its medium- and long-term response to social and economic change. Employment rates must be raised substantially and the labour supply, both in terms of numbers and skills, must be maximised to reach the targets set by the Lisbon and Stockholm European Councils. More and better employment is essential to ensure the sustainability of high-quality social protection systems and the social inclusion of vulnerable groups.

Against this backdrop, the decision of the European Union to intensify policy cooperation in crucial areas of social protection is based on a number of reasons.

- Despite the differences in political approaches and institutional frameworks, social protection systems in all Member States face similar challenges, notably the need to adjust to demographic ageing and to changing employment and family patterns. Member States can benefit from analysing together the problems and exchanging good practice to identify possible solutions.

- The launch of the single currency and the European employment strategy created processes of policy cooperation in a number of fields which have implications for social protection. Social protection objectives must be represented in policy coordination at the EU level to ensure the positive interaction between economic, employment and social policies.

- Modernising the European social model and investing in people will retain the European social values of solidarity and justice while improving economic performance. The EU can support the national efforts to achieve the common objectives.

The European Council in Lisbon on 23 and 24 March 2000 established the open method of coordination as the main tool of cooperation in the social area, coupled with a stronger guiding and coordinating role for the European Council to ensure more coherent strategic direction and effective monitoring of progress. A process of mutual learning and of dialogue within and between all the relevant stakeholders in the Member States and the EU has started to bear fruit in the area of social inclusion and is being actively implemented in the area of pensions. Commonly agreed indicators are being developed to assess progress in tackling common challenges. A key aim is to encourage and facilitate the identification and exchange of good practice and innovative approaches of common interest to Member States which will enhance the effectiveness and efficiency of their policies.

The open method applied to social inclusion

Poverty and social exclusion remain issues of major concern within the European Union. Some 18 %, or over 60 million, of the EU's population were at risk of poverty (living in households with less than 60 % of national equivalised median income) in 1998, about half of these on a long-term basis. The risk of poverty rate also indicates the overall impact of the social protection systems on the distribution of income. Without social transfers other than old-age pensions, the risk of poverty would have affected 26 % of the EU population. If old-age pensions were not paid, the risk of poverty would increase to 42 % of the population. Children and young people, the elderly, the unemployed and lone-parent families are particularly at risk.

Since the Lisbon European Council of March 2000, promoting social inclusion has been a key aim of European policy. At Lisbon, the open method of coordination on social inclusion was adopted with the aim of making 'a decisive impact on the eradication of poverty and social exclusion'. This commitment was subsequently made operational in December 2000 at the Nice European Council with the adoption of common objectives in the fight against poverty and social exclusion and an agreement that all Member States would draw up two-yearly national action plans to promote social inclusion based on these objectives.

The Nice objectives reflect the complex and multidimensional nature of poverty and social exclusion. This means that if actions are to be effective they need to be developed across a range of different policy areas in ways which are integrated and mutually reinforcing. The Nice objectives are thus very much in keeping with the emphasis in Union policy on a balanced approach in which the policy triangle of economic, employment and social policies is seen as complementary. Thus, they emphasise the need to facilitate both participation in employment and access for all to resources, rights, goods and services across a range of other key policy fields, such as housing, healthcare, education and justice, and other public and private services, such as culture, sport and leisure.

The Nice objectives provided the framework for each Member State to prepare a two-year national action plan against poverty and social exclusion by June 2001. These 15 national plans were subsequently analysed by the Commission. The resulting *Joint report on social inclusion* documents and analyses the situation across all Member States and spells out the key policy challenges that need to be addressed if social inclusion is to be achieved.

Another important development has been the work carried out on improving European-wide indicators in the field of poverty and social exclusion by a special subcommittee of the Social Protection Committee. This work has emphasised the need to capture the complex and multidimensional nature of social exclusion. As a result, a report recommending an initial set of 10 primary and 8 secondary commonly agreed indicators was adopted at the Employment and Social Affairs Council and then forwarded to the Laeken European Council in December 2001. These common indicators will serve the purpose of monitoring progress towards the common objectives agreed in Nice. Progress on achieving these objectives will also be supported by the new five-year, EUR 75 million, Community action programme to encourage cooperation between Member States to combat social exclusion launched in January 2002.

The open method applied to pensions

As regards pensions, and despite the substantial differences in approach, Member States face the same overriding challenge. A large growth in the relative number of pensioners will require an increase in the resources set aside by those in work. The employment rates and productivity levels of the working-age population will therefore be crucial determinants of the standard of living of those in retirement. Member States will need to modernise or adjust pension systems and labour market practices so that they can provide the basis for the provision of sustainable pensions to the pensioners of the future.

In March 2001, the Stockholm European Council called for 'clear strategies for ensuring the adequacy of pension systems as well as of healthcare systems and care of the elderly, while at the same time maintaining sustainability of public finances and intergenerational solidarity'. The Commission published a communication (COM(2001) 362 final) in July 2001 setting out proposals for the implementation of the open method of coordination in the area of pensions. On the basis of these proposals, the Council agreed in December 2001 on a set of common objectives and a working method which involves producing national strategy reports on the future of pension systems by September 2002. The goal is to ensure that reforms will enable future pension systems to meet the social needs of old people, to be financially sustainable and to respond to rapidly evolving labour markets and societal conditions. In order to address the challenge of the ageing population, the Barcelona European Council called for the reforms of pension systems to be accelerated and set an EU-wide target of increasing by five years the average effective age of retirement. The summit also stressed the importance of the joint Commission and Council report on pensions to be sent to the spring 2003 European Council.

Progress on health policy cooperation

The Gothenburg European Council of June 2001 called on the Social Protection Committee and the Economic Policy Committee, as a follow-on from their work on pensions, to prepare an initial report for the spring 2002 Barcelona European Council on the impact of ageing on healthcare and care for the elderly. A Commission communication (COM(2001) 723 final) of December 2001 identified a number of emerging challenges for the future of healthcare in the Member States and outlined a number of possible directions for cooperative exchange among Member States. On the basis of this communication and of preliminary estimates of budgetary impact on health expenditure over the long run prepared by the Working Group on Ageing of the Economic Policy Committee, the two committees agreed an initial orientation report. On the basis of this report, the Barcelona European Council invited the Commission and the Council 'to examine more thoroughly the questions of accessibility, quality and financial sustainability in time for the spring 2003 European Council'. Work in 2002 in this area will be pursued on the basis of a questionnaire addressed to all Member States, which will help to provide further information regarding the provision of healthcare and long-term care for the elderly.

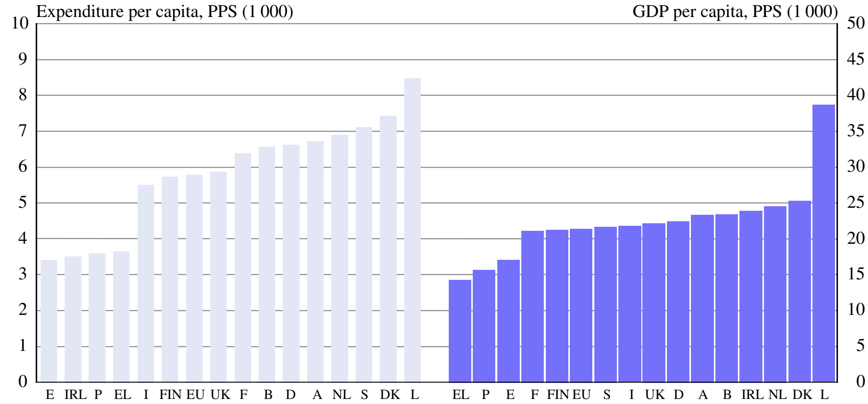
Enlargement — preparing the candidate countries

The Gothenburg European Council invited the candidate countries to translate the Union's economic, social and environmental objectives into appropriate national policies. The Commission is encouraging candidate countries to make use of the Member States' experience. This will include participation in the new Community action programme on social inclusion and assistance in preparing to join the open method of coordination after accession.

The next step will be to integrate the candidate countries into future Commission reports. The next communication on the follow-up to the Lisbon strategy, the synthesis report for the European Council in spring 2003, will, for the first time, integrate the candidate countries. Progressively, and depending on the availability of comparable data, forthcoming *Social protection in Europe* reports will also include the candidate countries. The Commission has launched a series of studies in order to improve the understanding of the challenges to social protection systems. These will analyse the systems in the 13 candidate countries on the basis of a common methodology.

Part I — Trends in social protection expenditure and its financing

1. Social protection expenditure and GDP per capita in the Member States, 1999



Social protection systems involve substantial levels of public expenditure in all Member States. In 1999, the latest year for which data are available for all countries, expenditure amounted overall to 27½ % of EU GDP. If the cost of administration is excluded and spending on social benefits alone is considered, this amounted to just over 26½ % of GDP.

Expenditure has grown continuously over recent decades in most countries, reflecting the growing share of elderly people, the increasing costs associated with healthcare and care for the elderly and the gradual extension of welfare support to people not eligible for social insurance on the basis of their employment records.

There is widespread acceptance of the need for economic prosperity in the EU to be accompanied by greater social cohesion, in order not only to maintain political and economic stability on the basis of a wide social consensus, but to underpin the development process itself by facilitating the structural changes induced by industrial transformation, information technologies and globalisation. At the same time, it is accepted that, in the long run, expenditure on social protection should not grow so fast as to jeopardise the competitiveness of the European economies. The latest figures give evidence that the expenditure growth path has slowed down considerably. While spending increased in real terms faster than GDP growth in the early 1990s, the increase has been lower than GDP growth since the mid-1990s.

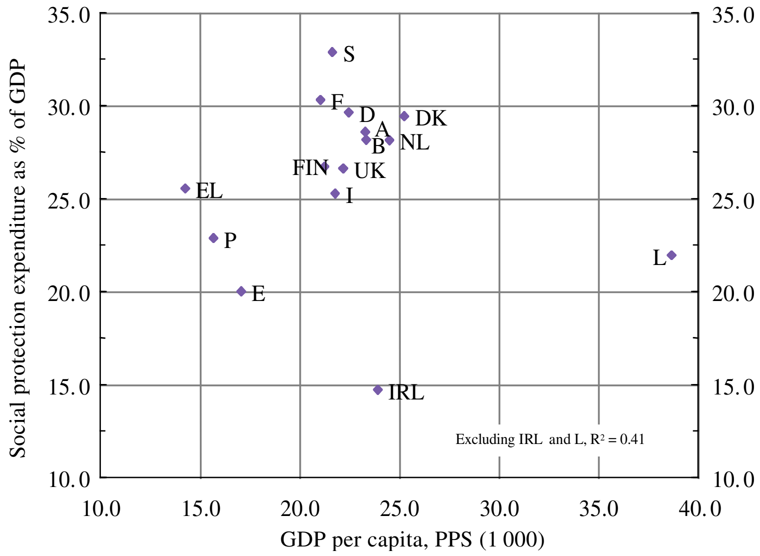
This report examines both the scale of expenditure on social protection and the rate of increase over the past few years, highlighting the differences across Member States and distinguishing between the different functions involved. The report is based on data compiled by Eurostat in the Esspros system of accounts (the European system of integrated social protection statistics). The means of financing expenditure and developments in the sources of funding are also examined.

The scale of social expenditure

The average figure for expenditure on social protection in the EU in 1999 of 27½ % of GDP translates into a figure for average spending per head of population of around EUR 5 800. Taking account of differences in price levels between countries — i.e. measuring spending in terms of purchasing power standards (PPS) (3) — expenditure varied from 8 500 PPS per capita in

(3) Expenditure valued in terms of purchasing power standards is adjusted for difference in price levels between countries as well as differences in exchange rates — i.e. for the fact that the general level of prices of goods and services expressed in euro terms is higher in, say, Finland than in Portugal and, therefore, for the fact that a given amount of euro is capable of purchasing more in the latter than the former (for further explanation, see annex).

2. Social protection expenditure and GDP per capita in the Member States, 1999



Luxembourg to 3 400 PPS per capita in Spain (Graph 1 — for the EU as a whole, the PPS figure is the same as the euro figure, 5 800). Four groups of countries can be considered in terms of public social spending per capita:

- the four cohesion countries — Greece, Spain, Ireland and Portugal— where expenditure was around 3 500 PPS per capita;
- Italy, Finland and the UK, where it was around 5 500 to 5 900 PPS;
- Belgium, Germany, France and Austria, where it was between 6 400 and 6 700 PPS;
- Denmark, Luxembourg, the Netherlands and Sweden, where it was above 6 900 PPS.

In general, there is a relationship between expenditure on social protection and GDP per capita throughout the EU but it is not strong (Graph 2). Other factors beyond GDP per capita influence social spending, such as the age structure, the level of unemployment and the share of private social services.

The main exceptions to the relationship are Ireland and Luxembourg. In the Irish case, the fact that public expenditure was less than would be expected given the level of prosperity as measured by GDP reflects the very rapid increase in GDP per capita in the years leading up to 1999, which outpaced the growth of social expenditure, as well as the relatively small share of people above retirement age which tends to reduce the need for expenditure on healthcare as well as old-age pensions and the relatively greater reliance on private pensions and private provision for healthcare. In Ireland also, the low level of social expenditure relative to GDP may be partly explicable in terms of the relatively large share of GDP, or income, which is in the form of profits earned by foreign-owned companies and which are not wholly available to finance social protection spending ([4]). In relation to GNP (gross national product), which excludes such income and transfers abroad and which was over 13 % less than GDP in 1999 — by far the biggest difference between the two in the Union — expenditure on social protection amounted to 17 % in 1999 as against a figure of some 14½ % in relation to GDP.

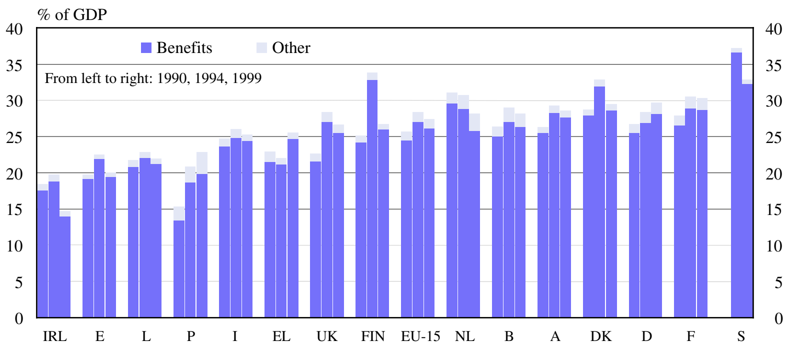
In Luxembourg, the fact that GDP per capita exceeded the second highest value among EU countries by some 40 % accounts for its outlier status.

Allowing for such exceptions, a positive correlation between levels of social spending and average living standards seems to hold. The three countries with the lowest GDP per capita also had low levels of expenditure on social protection relative to GDP. The countries with above-average expenditure had above-average levels of GDP per capita.

A high level of social gross expenditure cannot in general be taken to indicate a high level of social protection. A more in-depth quality analysis is necessary in order to assess the extent to which the social benefits, the social services and the delivery systems in a specific country ensure adequate income and living conditions for those deprived of sufficient own earnings. Account should also be taken of the efficiency in the use of resources: more spending does not necessarily lead

([4]) Although they might potentially yield as much direct tax as the same value of domestic profits, they could give rise to a lower level of taxes on expenditure because they might not all be spent in Ireland.

3. Social protection expenditure in relation to GDP in the Member States, 1990, 1994 and 1999



to better protection. Furthermore, it is also necessary to take into account the role of private resources, as well as of informal solidarity links in ensuring adequate protection, in addition to those provided by public systems. For all these reasons, this report does not suggest drawing normative conclusions from the analysis.

Net versus gross expenditure

There is one further reason why the figures presented above need to be interpreted with caution. Because the figures for expenditure are measured, following the conventional method, in gross expenditure terms, they do not take into account any taxes or social charges levied on them. Any such taxes and charges have the effect of reducing both the amount received by beneficiaries and the true cost incurred by governments.

In addition, the Esspros data cover only direct expenditure in respect of benefits and exclude so-called 'tax expenditures', or transfers made by means of tax concessions rather than directly through cash outlays ([5]). In principle, there is no difference between these two forms of transfer, in that they perform the same task of distributing purchasing power to those in need and are often alternatives so far as policy is concerned (though their distributional effects might well differ). Indeed, there are examples of policy shifts over time in a number of countries from one to the other, especially as regards support for families, where child — or dependent — tax allowances have been deployed as a substitute for, or a compliment to, family benefits. Moreover, tax concessions are widely used across the Union as a means of encouraging people to behave in particular ways to further social objectives, such as to contribute to occupational or personal pension schemes.

Accordingly, the figures for gross expenditure measure neither the net amount transferred under the social protection system nor the effective cost to government of the policy in place, the two issues which are of key interest so far as policy assessment is concerned. Since, moreover, the policy mix between taxes and social contributions and benefits and tax concessions differs across the Union and can change over time, the gross expenditure figures presented above are not necessarily indicative of the comparative level of net expenditure in different Member States or even of how this has changed over the past few years.

Estimates have been made of the scale of taxes and social charges levied on benefits and of tax expenditures for some countries in the EU. These are neither comprehensive nor up to date and inevitably involve some uncertainty because the taxes and social contributions which are levied on social benefits are not always recorded in detail. They are, therefore, of uncertain comparability across Member States and should be interpreted with caution ([6]). Nevertheless, pending the outcome of work by Eurostat to develop a special module of Esspros on net expenditure, they provide the only basis at present for adjusting the gross expenditure figures to allow for the tax effects. The results should be regarded as indicative only and are presented here mainly to show the relative orders of magnitude involved if the gross expenditure figures are adjusted to a net basis.

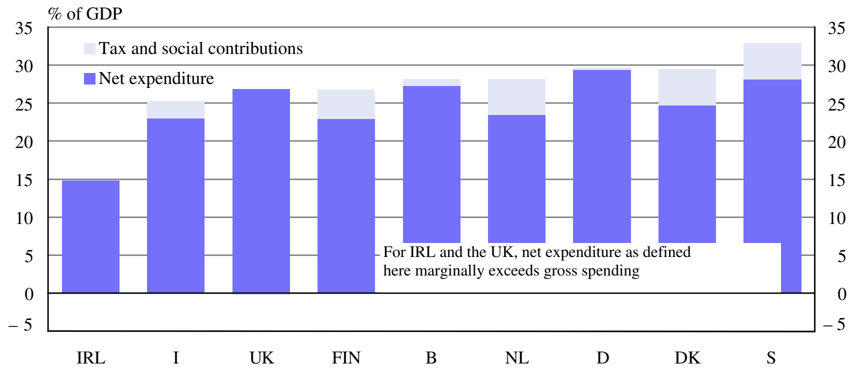
([5]) See tables on expenditure at the end of the text. To be precise, the Esspros data include figures for the revenue side of the accounts, but these relate only to the sources of finance rather than to these forms of tax expenditure as such.

([6]) For an estimation of net expenditures see Adema, W., 'Net social expenditure', Second edition, *Labour Market and Social Policy Occasional Papers*, No 52, OECD, 2001.

Graph 4 suggests that taxes and/or social charges levied on benefits are more important than transfers via tax expenditures, except in Ireland and the UK. In Denmark, the Netherlands and Sweden, they are estimated to have amounted to 4 to 4½ % of GDP in 1997 and in Austria and Finland to some 3½ to 4 % of GDP, whereas in Ireland and the UK, they were very small (under ½ % of GDP). Applying such estimates to the gross expenditure figures for 1999 (on the assumption that they remained the same in relation to gross spending as in 1997) and allowing for estimated tax expenditures ([7]), estimates of net expenditure can be made.

The estimates of net expenditure on social protection show less of a variation between Member States than the gross figures and a different rank order of countries in terms of spending relative to GDP. Expenditure in Sweden in 1999 is reduced to below the level of Germany (to around 29 % of GDP as opposed to 30 %) which has relatively high tax expenditures. Expenditure in Denmark, the Netherlands and Austria is reduced to below the level of the UK. These estimates, as emphasised, need to be treated with a good deal of caution and should be regarded as preliminary only. If extended to other Member States, comparisons of social protection measured as net benefits would certainly reveal - additional differences as regards the comparison between Member States. Those countries (e.g. Spain)

4. Gross and net expenditure on social protection, 1999



where most social benefits (and, in particular, pensions) are not subject to social contributions or taxes, and where there are extensive tax reductions for households, would see their social expenditure increase in terms of GDP.

Growth of social expenditure, 1990 to 1999

Gross expenditure on social protection in the Union increased by less than GDP between 1994, which marked the end of the economic recession, and 1999, when economic recovery was well under way. On average, it declined from 28½ % of GDP to 27½ % over this period (Graph 3). The fall was concentrated in the last years, 1996 to 1999, when GDP growth increased (from 2 % a year to an average of over 2½ % a year) and unemployment began to come down. In consequence, some of the increase in expenditure relative to GDP which occurred over the recession years (from just under 25½ % of GDP to 28 %) was reversed. In addition, the policy effort aimed at modernising social protection systems, as discussed in Part II, may have exerted a significant downward pressure on some categories of social expenditure.

The decline in social spending relative to GDP was common to most Member States over the period 1994 to 1999 (Graph 3), just as the rise which occurred over the preceding four years was equally widespread. In only three Member States — Greece, Portugal and Germany — did expenditure rise in relation to GDP over the five years following 1994. In the first two countries, this reflected the development of the social protection system. In Germany, it stemmed from the relatively low rate of GDP growth and the relatively high rate of unemployment which prevailed in this period (in part reflecting the persisting problems in the new *Länder*).

The decline in spending relative to GDP after 1994 was particularly marked in countries where GDP growth was relatively high — Ireland, especially, but also in Spain, Finland, Denmark and Sweden. However, in all of these, apart from Ireland, growth of expenditure was also comparatively low as it rose by under 1 % a year in real

([7]) Tax expenditures amount to almost 2 % of GDP in Germany, under 1 % of GDP in Austria, around ½ % of GDP in Belgium, Ireland and the UK and close to zero for the other five countries.

terms (i.e. adjusted by the increase in the average price of GDP) ([8]). This compares with an increase of just under 2 % a year in the Union as a whole between 1994 and 1999. Spending increased by more than the EU average in this period in five Member States: Greece and Portugal, where it rose by around 6 % a year in real terms; Ireland and Luxembourg, both of which recorded much higher GDP growth rates than elsewhere (9½ % a year in the former, 5½ % a year in the latter); and Germany.

The average growth of expenditure on social protection in real terms over the five years from 1994 was under half that in the four preceding years (1.8 % a year as against 3.9 % a year in the earlier period). Moreover, there are few signs of any increase in the growth of spending as the recovery has continued. Indeed, the growth in the last three years of the period, 1996 to 1999, was slightly less than in the first two (Graph 5).

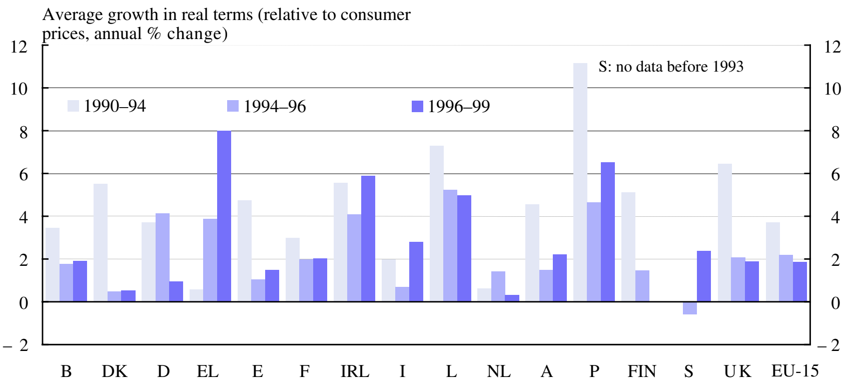
The reduction in the rate of growth of social expenditure in the years after 1994 as compared with the years before can be partly explained by the development in expenditure on unemployment benefits, which in turn reflects the evolution in the numbers of the unemployed (a significant rise in the early 1990s, a significant fall thereafter). However, this does not provide a complete explanation of the reduction in growth. Spending on benefits in the Union excluding unemployment compensation, which had risen by 3½ % a year in 1990 to 1994, still rose by an average of just under 2½ % a year between 1994 and 1999.

Adjusting for unemployment benefits per se makes comparatively little difference to the relative rate of expenditure growth in the period 1994 to 1999 as compared to that in 1990 to 1994 in most countries. It should, however, be borne in mind that in most countries support for those out of work is not only delivered through the unemployment compensation system, but also through other kinds of social benefit, in particular through social assistance, disability benefits, early-retirement pensions, or even, for shorter periods, through sickness benefits, as well as through housing benefits and other miscellaneous transfers. All these are grouped in the Esspros data under the heading of social exclusion benefits. As noted below, these kinds of benefit generally showed a smaller rate of increase in expenditure after 1994 than before. Although it is impossible to determine how much of this slowdown was the result of the fall in unemployment and the general improvement in economic conditions, it is almost certain that this combination of developments made a significant contribution. In Greece, Ireland and Portugal, spending on social protection grew by 6 % a year or more in real terms over these three years — and by more in Ireland, in particular, if account is taken of the substantial reduction in unemployment over this period (from 11½ to 5½ %) — reflecting the development and improvement of the social protection systems.

Social expenditure per capita

Per capita expenditure on social protection in EU-15 increased in the period 1990 to 1994, a period of economic recession or slow growth and rising unemployment in the EU, by approximately 3.7 % a year in real terms (Table 1a). The growth was particularly marked in Portugal (over 9 % a year) and the UK (over 7 % a year). Indeed, Greece was the only country in the EU where real expenditure per capita fell, while, in the Netherlands and Italy, growth had averaged under 2.5 % a year.

5. Growth of expenditure on social benefits in real terms in the Member States, 1990–99



([8]) In Finland, spending fell marginally over the period in these terms (the fall was greater in relation to the consumer price level, which gives a better indication of the change in the purchasing power of the overall amount transferred).

As the EU economy began to recover, however, and unemployment began to fall, the growth of expenditure per capita slowed. In the first two years of recovery, when average growth of GDP per capita rose to almost 2 % from under 1 % a year in the previous four years, expenditure per capita in real terms grew by 1.7 % a year on average, under half the rate of the preceding four years. In the UK, expenditure growth slowed to 1.4 % a year and in Portugal to 5 %. In both countries, the fall reflects in part the large reduction in unemployment benefits, a factor which was also evident in other Member States (apart from Greece, where unemployment continued to rise).

Over the subsequent three years, 1996 to 1999, economic recovery in the EU was stronger. Average growth of real expenditure per capita over this period was much the same as in the previous two years (1.6 % a year). This was significantly below the growth of GDP per capita, which increased to 2.5 % a year over this period. Indeed, in all countries apart from Greece, Italy and Portugal, average growth of social expenditure per capita in real terms was less than the rise in GDP per capita, with the consequence that, as noted above, expenditure fell in relation to GDP. In Finland, social spending per capita actually fell in real terms over this period and, in Denmark, it remained unchanged.

The low average expenditure growth over the period 1996 to 1999, however, conceals an acceleration in real expenditure growth in 1999 when overall spending per capita increased by 2.4 % a year in real terms, a marked rise over the rate for the previous two years of 1.3 %. Nevertheless, this was still no higher than the growth of GDP per capita (2.4 %). There were five countries in which spending growth in 1999 exceeded GDP growth. These were Germany, Austria, Italy, Greece and Portugal. The increase was particularly marked in the last two countries, Greece and Portugal (8.4 and 5.3 %, respectively), continuing the high growth of previous years, and reflecting a large rise in expenditure on social exclusion, child and family benefits and healthcare. In Austria, spending growth exceeded 4 % in 1999 where the increase was particularly evident on social exclusion, housing and sickness benefits. In both Germany and Italy, growth of real spending per capita was under 3 %.

The pattern of social expenditure

Spending on old-age pensions (including survivors' pensions) continued to be the largest component of total expenditure on social protection across the Union in 1999, as in previous years. In the EU as a whole, it accounted for some 44 % of the total, or 12 % of GDP (Table 2). Except in Ireland, it was the largest component in all Member States, reaching 62 % of total outlays in Italy, some 15½ % of GDP. In all EU countries, apart from the three Nordic Member States, the Netherlands, and Ireland, pensions accounted for over 40 % of total spending. Only in Ireland, partly reflecting the comparatively small proportion of people above retirement age but also the comparatively higher weight of private funds in the pension system, was the share under a third of the total (only 24 or 3½ % of GDP).

These figures give a reasonably (9) accurate view of the relative importance of transfers to those in retirement in the Union, though they may overstate this slightly in some cases by including elements of expenditure more properly included elsewhere, especially in respect of pensions paid to those retiring early.

Spending on old-age pensions is examined more closely below, where an attempt is made to differentiate between the generosity of the pension scheme in place and the relative numbers of people of retirement age who need income support.

Healthcare is the second largest component of total expenditure on social protection at the EU level as well as in all Member States except for Ireland, where it is the largest one. In 1999, it accounted for just under 22 % of total spending, or 6 % of GDP, for the Union as a whole. The share was lowest in the three Nordic countries, where it ranged from 16 % (in Denmark) to 18½ % (in Sweden), and in each it was below the EU average in relation to GDP. This is not so much a reflection of a low level of spending in these countries, but of a clearer distinction than elsewhere between the provision of long-term care for the elderly (not included in this category) and healthcare as such.

Expenditure growth on healthcare was also well below the EU average in relation to GDP in Greece, Spain,

(9) There are some problems of comparing the division of expenditure by function as between Member States (see box on the Esspros data and annex for further details).

The Esspros data used in the analysis

The data on social protection expenditure and receipts come from the Esspros database 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 1999, except for Sweden, where there are no data for the years 1990 to 1992 (and the data for 1998 and 1999 involve some estimation for Belgium as they most certainly do to varying extents for other countries). In a number of cases, data are also available for the 1980s (though on a slightly different basis of classification). 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 marked differences in the systems of social protection across the Union and the difficulties of allowing for these, the data are not fully comparable between Member States. Although the degree of comparability is improving from year to year, there are, nevertheless, some differences between countries, in particular, as regards the division of spending between functions.

Specifically, data for survivors' benefits are in most cases not always distinguishable from those for old-age pensions and have, therefore, been aggregated with them in the analysis; data for disability benefits include those paid to people with disabilities in retirement in some cases, whereas these are included in old-age pensions in most. 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 (but see the note in the text on this) and with disability benefits when they go to those no longer capable of working.

The data for unemployment benefits raise particular 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, expenditures on wage subsidies paid to those employing certain people at risk are included in unemployment benefits. They should not be according to the Esspros methodology, and are, therefore, excluded from the figures analysed here (see annex for more details).

Italy and Ireland (in the last, despite accounting for a third of total spending). In all these cases, this reflects the specific systems of healthcare provision in place, which tend to be based on a relatively higher share of private expenditure (particularly in Greece and Italy).

Almost two thirds of expenditure in the EU in 1999 was, therefore, on the two items, old-age pensions and healthcare. Given that around half of spending on healthcare goes to those of 65 and over, at least half of outlays on social protection went to those retired from economic activity. If part of the expenditure included under other functions — disability, housing and social exclusion, in particular — is added to this, then it is almost certainly the case that the greater part of spending in the Union was devoted to the elderly.

This was also true in individual Member States, with the possible exception of the Nordic countries, where family, disability and unemployment benefits were all larger than elsewhere in relation to GDP. In each of the Nordic countries, these three benefits together with sickness benefits, which predominantly go to those of working age, amounted in aggregate to over 11 % of GDP in 1999, compared with an average of under 7 % for the EU as a whole and under 5 % in Greece, Portugal and Luxembourg and only some 3 % in Italy. Since, with the exception of unemployment benefits which are examined in more detail below, the share of the population who fall into the categories assisted is unlikely to differ much across the Union, these variations reflect significant differences in the scale of support given to people of working age between Member States.

Social protection functions

The broad functions, or areas of need, distinguished in the Esspros classification system and set out in Table 2 are as follows.

Sickness/healthcare: Income maintenance and support in cash in connection with physical or mental illness, excluding disability. Healthcare intended to maintain, restore or improve health, irrespective of the origin of the ailment, includes, *inter alia*, paid sick leave, medical care and the supply of pharmaceutical products.

Disability: Income maintenance and support in cash or kind (except healthcare) in connection with the inability of people with physical or mental disabilities to engage in economic and social activities, includes, *inter alia*, disability pensions and the provision of goods and services (other than medical care) to the disabled.

Old age: Income maintenance and support in cash or kind (except healthcare) in connection with old age, includes, *inter alia*, old-age pensions and the provision of goods and services (other than medical care) to the elderly.

Survivors: Income maintenance and support in cash or kind in connection with the death of a family member (e.g. survivors' pensions).

Family/children: Support in cash or kind (except healthcare) 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, includes, *inter alia*, unemployment benefits and vocational training financed by public agencies.

Housing: Help towards the cost of housing, includes interventions by public authorities to help households meet the cost of housing.

Social exclusion not elsewhere classified: Benefits in cash or kind (except healthcare) specifically intended to combat social exclusion where they are not covered by one of the other functions, includes income-support benefits, rehabilitation of alcoholics and drug addicts, and various other benefits (other than medical care).

Growth of social expenditure by function

The highest rate of growth in expenditure in the Union over the period 1990 to 1999 occurred not in old-age pensions or healthcare, but in policies against social exclusion, which, as noted above, is really a mix of different measures which cannot readily be categorised to specific functions (Table 3 — see box for the definition of the different functions). The annual growth rate in purchasing power terms reached nearly 6 % over that period in the EU. In Greece, the Netherlands, the UK and Portugal, in particular, there was substantial growth of spending under this heading from 1994 onwards, which in the case of Portugal reflects the development of a minimum-income guarantee scheme.

The significant growth of expenditure on housing benefits over the nine-year period of nearly 4½ % a year in purchasing power terms represents the second largest rate of increase at the EU level. This rise was concentrated in the early part of the period and partly reflects the increase in unemployment which occurred at the time. This is especially so in the UK, where such benefits represent an important part of the overall support for the unemployed — accounting for 6 % of total spending on social protection in 1999, far higher than in other parts of the Union — and where spending increased by almost 10 % a year between 1990 and 1994. In France, growth of expenditure on these benefits was also the result of their extension to students. Although expenditure on this item rose markedly in Spain, Italy and

Luxembourg from 1994 onwards, it remained nevertheless very small in relation to GDP (under 0.2 % in each case).

Family benefits, including maternity allowances, showed the third largest rate of increase, along with pensions, of some 3½ % a year in purchasing power terms. The average rate of growth in this case was around twice as high in the second part of the period after 1994 as in the first. Nevertheless, there is considerable disparity around this average rate: in four countries (the Netherlands, Austria, Finland and Sweden), spending on this item declined over the five years 1994 to 1999, while there was growth of over 7 % a year in Germany, Spain, Ireland, Italy and Luxembourg. These disparities in growth rates are examined further below.

Spending on old-age pensions in the Union also rose by around 3½ % a year in purchasing power terms during the 1990s. In this case, the growth rate was slightly lower in the second part of the period. Nevertheless, in 6 of the 15 Member States, expenditure rose by 4 % a year or more in the five years from 1994. Growth was particularly high in Greece and Portugal (over 6 % a year over this period) and highest in Luxembourg and Ireland (11 % a year).

Expenditure on disability benefits went up by just under 3½ % a year in purchasing power terms between 1990 and 1999, with the increase being concentrated in the early part of the period in most Member States, reflecting the rise in unemployment which occurred and the deployment of these benefits as a means of providing support for those with long-term problems in finding work. In the Netherlands, it fell by 3 % a year over the same period, reflecting the attempts to tighten access to benefits and the shift in responsibility from the State to employers (compensated by lower social security contributions).

Expenditure on healthcare increased by some 3 % a year on average between 1990 and 1999, again with a slightly lower rate of growth in the later part of the period than in the earlier one. There are, however, eight Member States in which annual growth was 4 % or more over the years 1994 to 1999.

Spending on sickness benefits remained virtually unchanged in purchasing power terms in the Union over the 1990s and increased by more than 3 % a year in Luxembourg only. Over the five years 1994 to 1999, it declined on average and fell significantly in Belgium, Germany and the UK.

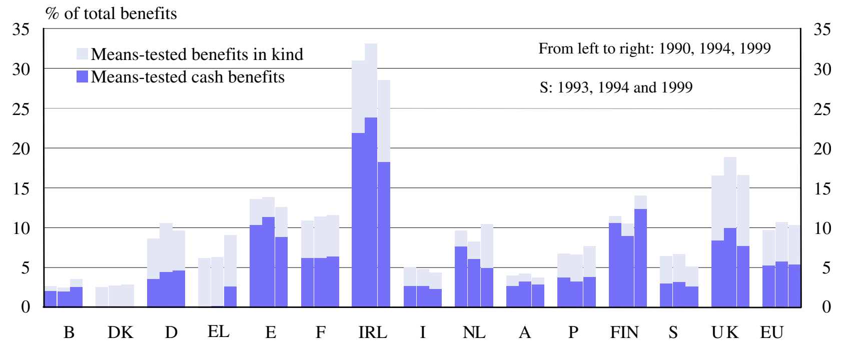
Finally, spending on unemployment benefits in the Union was broadly the same in purchasing power terms in 1999 as in 1990, despite the higher rate of unemployment (9.2 % as opposed to 7.6 %). While expenditure increased throughout the Union in the first four years, except in Greece, it fell in most Member States in the five years after 1994, the only exceptions being Greece — where unemployment rose and the benefit system was being developed — Luxembourg and Austria, in the second of which unemployment remained largely unchanged over the period.

Means testing

Part of the expenditure analysed above is subject to means testing, which ensures that benefits go to people whose income is below a specified level. Means testing tends to occur when entitlement to social insurance-related benefits becomes exhausted, especially in the case of unemployment (which happens after significantly different periods of time across the Union) or where a particular risk is excluded, either in full or in part, from social insurance coverage.

The two countries in which means testing is most prevalent are Ireland, where such benefits amounted to almost 29 % of total expenditure in 1999, and the UK, where the figure was just under 17 %, although less than half of this spending was on cash benefits (Graph 6). In both countries, the proportion of spending

6. Means-tested benefits in relation to total expenditure on benefits in the Member States, 1990, 1994 and 1999



subject to means testing declined between 1994 and 1999, whereas it had risen in the four years preceding this. In both countries, also, the decline was most pronounced in the last three years, reflecting the improvement in underlying economic circumstances and the decline in the numbers out of work. In Ireland, it also reflects the extension of social insurance coverage and the increased participation of women in the workforce, which tends to give them social insurance coverage in their own right.

In Spain, where means-tested expenditure at the start of the decade was the third highest in the Union, the share of such expenditure also increased in the first part of the 1990s to 14 % of the total, but has fallen since. The share of spending subject to means testing declined over the most recent years in Germany as well, where it had been the fourth highest in the Union.

Elsewhere in the Union, however, there was a tendency for means testing to increase in importance since 1994. This was particularly the case in Finland, where the means-tested proportion of spending rose by some 3½ percentage points between 1994 and 1999 to 14 % of the total. The proportion also increased significantly in Greece and the Netherlands (by over 2 percentage points in both cases), and to a lesser degree in Belgium, France and Portugal.

The areas of social protection in which means testing is important are similar between countries. In all cases, minimum income support or transfers to combat social exclusion are means tested, almost by definition, as are housing benefits. Old-age benefits are for the most part not means tested in most countries, though in Ireland, means testing applied to 21½ % of total spending under this heading in 1999 (down from 26 % in 1994), and in Spain to 10 % (the figure tending to fall slightly over time). Access to healthcare is also, in general, not subject to a means test, but, in Ireland, some 14 % of such expenditure was means tested, and, in Spain, 3½ %; elsewhere, only in Belgium and Germany was the proportion more than 1 % of spending.

Of the other benefits, means testing is most important in respect of those relating to unemployment and family support. In Ireland, 48 % of all expenditure on unemployment was means tested in 1999, just over 40 % in both the Netherlands and the UK and between 22 and 28 % in Germany, Spain, Austria, Portugal and Finland. In both Ireland and the UK, the proportion tended to decline after 1994, partly reflecting the fall in long-term unemployment, while in both Germany and Finland, and especially in the latter (where it was only 6 % in 1994), it rose significantly.

A relatively high proportion of family benefits — 40 % — was also subject to a means test in Ireland (mainly additional payments to lone-parent and other low-income families), though this was less than in Greece (45 %), where its use increased markedly in 1997 (the proportion had previously been around 20 %). In the other three southern Member States, the figure was around a third or slightly higher (in Italy tending to fall over time). Elsewhere, means testing was also significant in Germany (28 %), France (33 %), Luxembourg (17 %) and the UK (38 %), but was under 5 % in other Member States.

In all countries apart from Denmark, means testing is used to some degree to target spending on disability benefits, though the proportion of expenditure covered varied from 38 % in Ireland, around 25 % in Italy and the UK and around 20 % in Belgium, Germany and France, to only around 2 % in the Netherlands and Austria.

Benefits and beneficiaries

There is very little comparable data available at present on the number of people in receipt of benefits of different kinds, which makes it difficult to assess the extent of coverage of various aspects of the social protection system across the Union or the relative scale of the average amount transferred. It also makes it difficult to identify the main reasons for any observed changes in expenditure over time and, in particular, to assess how far this is due to changes in the number of recipients — either through growth in the number at risk or through extension to more people — as opposed to a change in the average level of payment. Although steps are being taken by Eurostat to fill this gap, it is likely to be some time before a comprehensive set of data on beneficiaries is available.

The analysis below represents an attempt to throw light on the relationship between transfers and recipients for three items of social expenditure — old-age benefits, unemployment benefits and family benefits — by using estimates of the number of people eligible for benefits, in the sense that they fall into the category of those at risk. It should be emphasised at the outset that this analysis is tentative and is at best indicative of the relative scale of average transfers under the particular headings examined or of the proximate reasons for changes in spending over time.

Old-age benefits

Over the four years 1990 to 1994, expenditure on old-age benefits in the Union (including survivors' benefits but excluding early-retirement pensions ([10])) rose by an average of around 4 % a year in purchasing power terms. The number of people above retirement age in the different Member States (taking the official age in each case) increased by just under 1½ % a year. This suggests that the average benefit paid per person above this age, therefore, rose by 2½ % a year (Graph 7).

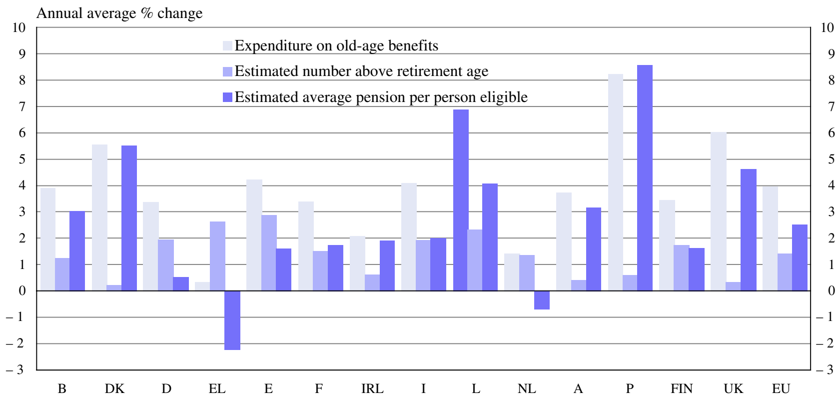
This should be treated with caution since the number of people receiving an old-age pension may in reality differ significantly from the number above retirement age. Furthermore, part of the amount transferred almost certainly goes to those below the official retirement age since payments within different schemes cannot always be distinguished.

A comparison of increases in expenditure over this period with changes in the number of beneficiaries across Member States indicates that there is no clear relationship between the two. Countries in which spending increased most were generally not those in which the number of people above retirement age rose fastest. Indeed, in Portugal, Denmark and the UK, where the overall rise in spending on pensions was among the highest in the Union, the number above retirement age increased by less than average. On the other hand, in Spain and Italy, the relatively large rise in expenditure on old-age pensions over this period seems largely attributable to the significant increase in the number of elderly people.

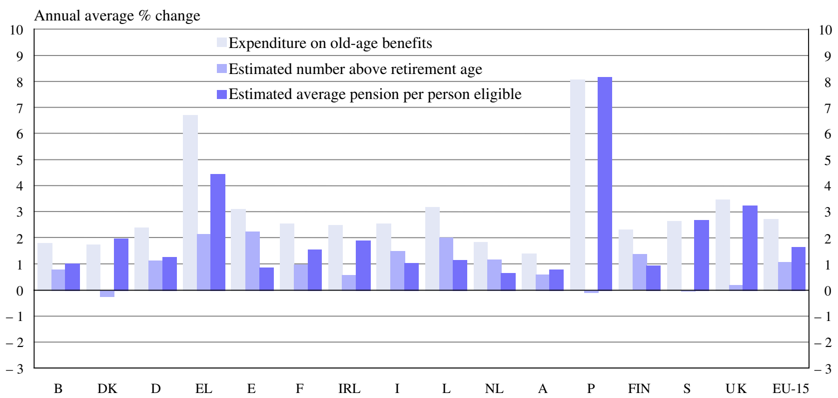
Over the following five years from 1994 to 1999, spending on old-age benefits in the Union increased by just over 2½ % a year in purchasing power terms, while the number above retirement age rose by just over 1 % a year. Implied average spending per person in retirement, therefore, rose by just over 1½ % a year (Graph 8).

As in the earlier period, no systematic relationship is evident between the rise in expenditure and the number above retirement age. Apart from Greece and Portugal, where the implied average pension increased markedly, and the UK, where it rose by 3 % a year, in all other Member States, growth was between ½ and 2 % a year.

7. Change in expenditure on old-age benefits and number of people above retirement age, 1990–94



8. Change in expenditure on old-age benefits and number of people above retirement age, 1994–99

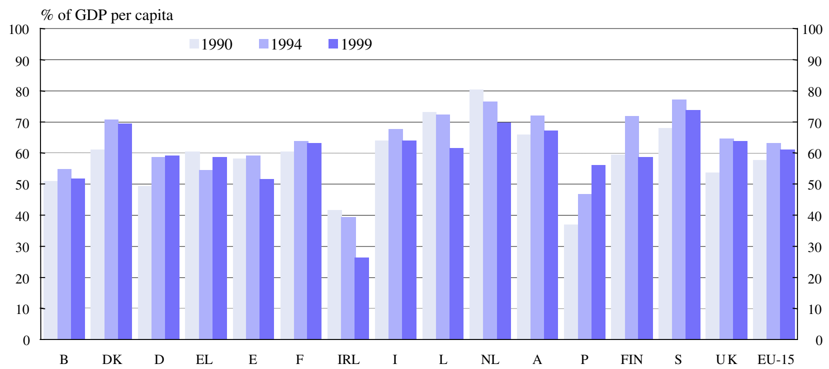


([10]) With all the limitations mentioned above.

The same approach of relating expenditure on old-age benefits to the number of potential recipients can also be used to compare the average level of benefit paid across countries. Relating the results to average GDP per capita gives an indication of the relative level of transfers to those above retirement age in each Member State as compared with average income per capita as measured by GDP. This shows that the average old-age benefit in 1999, calculated in this way, varied from around 70 % of GDP per capita in Denmark, the Netherlands and Sweden to around 50 % in Belgium and Spain and only around 25 % in Ireland (Graph 9). In Ireland, this in part reflects the relatively large reliance on private pensions, as noted earlier, and the relatively restricted coverage of social insurance in past years, a situation which is gradually changing as the system is extended.

The exercise also shows that there was a decline in average pensions relative to GDP per capita over the five years 1994 to 1999 in most countries, the exceptions being Germany, Greece and Portugal.

9. Average expenditure on old-age benefits per person above retirement age relative to GDP per capita, 1990, 1994 and 1999



Unemployment compensation

A similar exercise can be undertaken for unemployment benefits, in this case measuring the number of unemployed in terms of the Eurostat harmonised data, which are compiled on the basis of the International Labour Organisation (ILO) internationally agreed definition. These, in some cases, diverge markedly from the administrative figures for unemployment in Member States, being based on registration with the employment services, which is a precondition for benefit eligibility (11). The harmonised data are more comparable and give a reasonable indication of the number of those who are out of work and actively seeking a job.

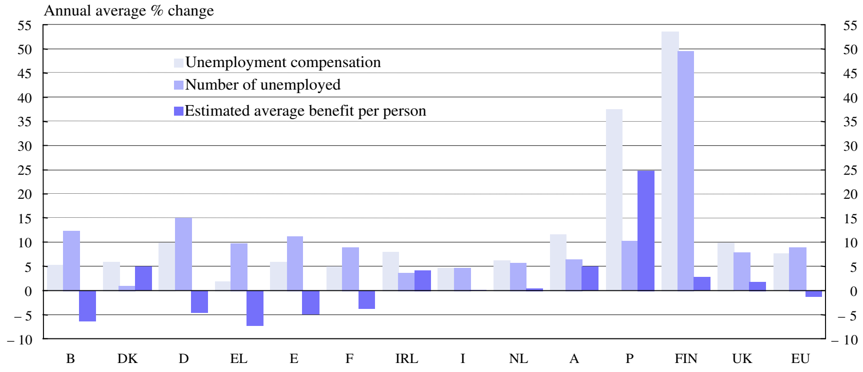
Comparability across Member States is affected by differences in the treatment of those who have effectively retired from the workforce as well as of the assistance given to the unemployed to find a job or increase their employability. In so far as the data allow, spending on these items has been excluded from the analysis, which is, therefore, so far as possible, confined to unemployment compensation as such.

A comparison of expenditure on unemployment compensation with the number of unemployed over the period 1990 to 1999 indicates that, over the first four years, the number of unemployed rose by more than spending on benefits in purchasing power terms in most Member States. In the EU as a whole, while expenditure on benefits (which here includes only cash support) increased by 8 % a year in 1990 to 1994, the number of ILO unemployed went up by 9 % a year (Graph 10). Implied spending per person, therefore, declined by some 1 % a year. This may partly reflect the increasing proportion in unemployment of both young people, entitled to a lower level of benefit, and the long-term unemployed, whose entitlement to insurance-related benefit may have expired, rather than any reduction in benefit rates as such. An implied fall in average benefit was evident in five Member States and was particularly marked in Belgium and Greece.

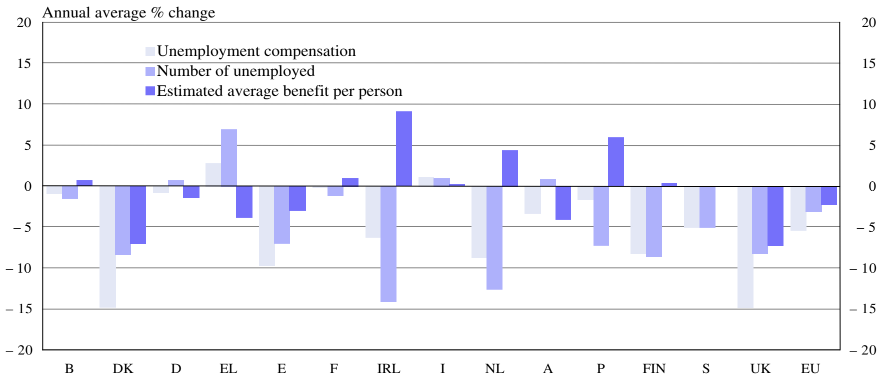
Expenditure on unemployment compensation also declined relative to the number of unemployed over the next five years, and at a higher rate than before. Between 1994 and 1999, spending in purchasing power terms in the Union fell by 5½ % a year, while the number of ILO unemployed decreased by 3 % a year, implying a fall in expenditure per person of some 2½ % a year (Graph 11).

(11) However, not all those registered will necessarily qualify for payment, not least because their entitlement to benefit might have expired.

10. Change in expenditure on unemployment compensation and number of unemployed, 1990–94



11. Change in expenditure on unemployment compensation and number of unemployed, 1994–99



These trends should be interpreted carefully, as they refer to the number of unemployed as defined by ILO standards and not in terms of recipients of unemployment benefits. They seem to indicate, however, that spending has been falling faster than unemployment in 12 EU countries. This may indicate a change in the structure of unemployment (greater share of young and long-term unemployed) as well as a result of the adoption of increasingly high eligibility conditions.

The number of unemployed defined according to ILO conventions is a rather poor proxy for data on recipients. It can be very different from those registered as unemployed at national labour offices and from the actual recipients of unemployment benefits. From 1998, a more consistent approach to measuring implied spending per person has been made possible by the 'Labour market policy' (LMP) module of Esspros ([12]).

([12]) The 'Labour market policy' (LMP) module of Esspros has been developed in the context of the European employment strategy to provide detailed information on labour market policy measures and collects data on recipients of benefits (and participants in active programmes) as well as expenditure.

The category 'Out-of-work income maintenance' within this module measures mainly unemployment benefit and unemployment assistance as compensation for loss of earnings for a person capable of working and the number of beneficiaries. The estimates of expenditure and beneficiaries under this category give an average unemployment compensation which can be related to the GDP per capita of the Member State. This provides a reasonable indication of the average scale of income support for those unemployed and eligible for benefit. Data are available for 1998 for 12 Member States.

The results (Graph 12) show that the distribution of average unemployment compensation is mainly between 30 and 50 %. Average spending per beneficiary in Ireland, Portugal and the UK was less than 30 % of GDP per capita, while in Denmark, Germany and Austria, it was over 50 %. It should be emphasised, however, that these figures do not include all the benefits to which someone in unemployment might be entitled. In particular, they do not include housing benefit, which is an important means of support in some countries, especially the UK.

Family benefits

The same approach can also be adopted in respect of family benefits, using demographic data on the number of children who ought to be eligible for benefits on the basis of the age limitations in force in different Member States. (In practice, in many Member States, students continuing in full-time education retain an entitlement to benefit beyond the normal age, and estimates of these are included in the following analysis on the basis of data on enrolments in education and vocational training.)

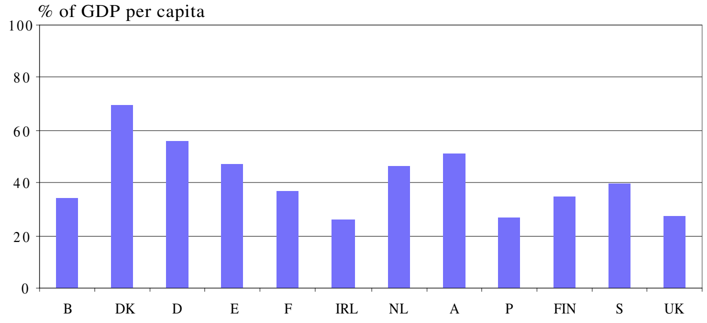
Spending on family benefits (both in cash and in kind) in the Union increased significantly in purchasing power terms over the period 1990 to 1999. In the first half of the period, expenditure in these terms rose by around 2 % a year, while the number of children eligible for benefits fell by just under ½ % a year, so that implied spending per child increased by some 2½ % a year (Graph 13). Since expenditure increased everywhere apart from in Italy and the Netherlands, implied average benefits per child rose significantly in most countries — by 3 % a year or more in purchasing power terms.

In the following five years, 1994 to 1999 (Graph 14), expenditure on family benefits in the Union rose at a higher rate in purchasing power terms than previously, by just over 4 % a year, while the number of children eligible fell at a similar rate (by under ½ %) to that over the preceding four years. Accordingly, the implied average benefit per child went up by more, by over 4 % a year. As over the preceding four years, most Member States showed an increase in implied average benefits per child over this period, the only exceptions being the Netherlands (as previously) and Sweden. The increase was especially pronounced in Germany, Spain and Ireland (over 7 % a year in each case).

Extending the analysis to a comparison of relative levels of benefit per child across the Union shows that average payments on this function ranged from 14 to 15 % of GDP per capita in Denmark and Sweden in 1999 to only around 4 % in Italy and Portugal and under 2 % in Spain (Graph 15). Account must be taken, however, of the fact that, in a number of countries (e.g. Spain), family support is provided largely through child tax allowances.

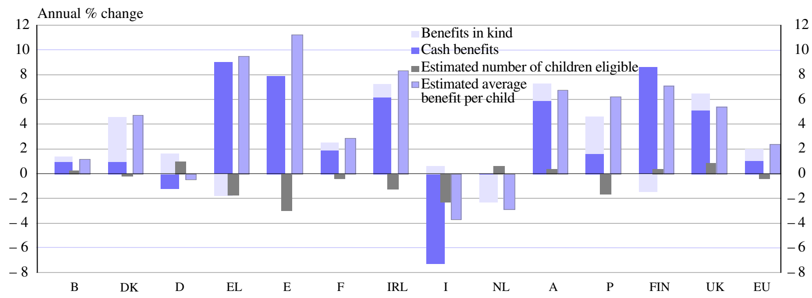
In most Member States, implied expenditure per child was higher in relation to GDP per capita in 1999 than nine years earlier (in 10 of the 14 countries for which data are available), suggesting that govern-

12. Average out-of-work-income maintenance relative to GDP per capita, 1998

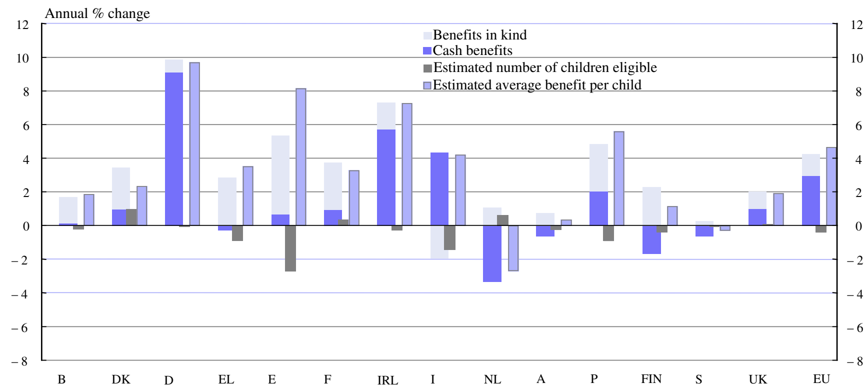


Source: Eurostat.

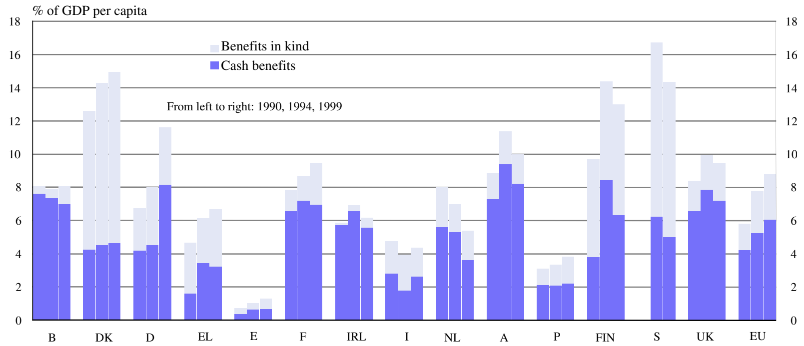
13. Change in expenditure on family benefits, 1990–94



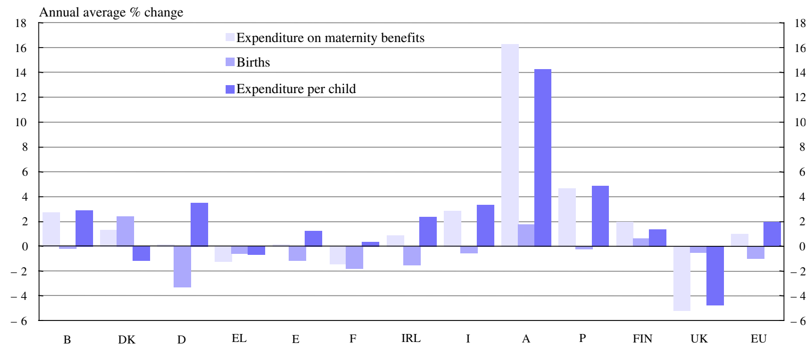
14. Change in expenditure on family benefits, 1994–99



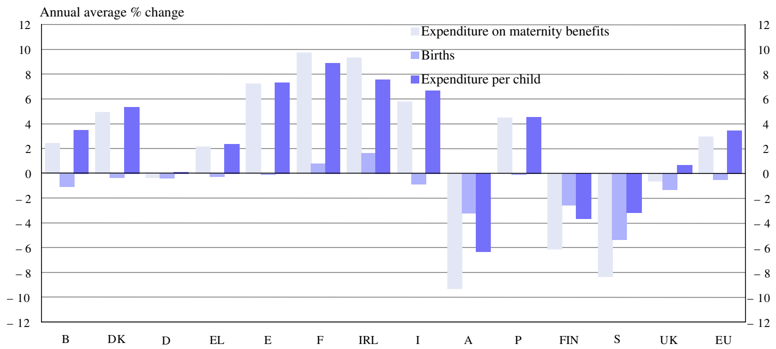
15. Expenditure on family benefits per child relative to GDP per capita, 1990, 1994 and 1999



16. Change in expenditure on maternity benefits and number of births, 1990–94



17. Change in expenditure on maternity benefits and number of births, 1994–99



ments gave an increased priority to family benefits. In four of these cases (Ireland, Austria, Finland and the UK), however, it was also lower than in 1994, as it was in the Netherlands and Sweden as well. In Ireland, however, this reflects the rapid growth of GDP per capita over this period rather than any reduced priority given to family benefits.

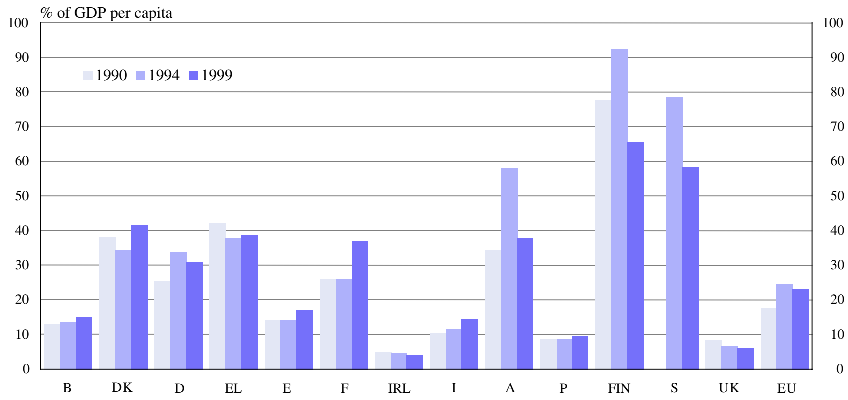
A further point to note is the significant variation in the division of expenditure between benefits in cash and in kind. Whereas most spending in Denmark and Sweden and around half in Finland takes the form of benefits in kind — in the provision of childcare support and services — in most other countries, cash benefits predominate.

Maternity benefits

The same kind of analysis can be undertaken for maternity benefits (income maintenance benefits in the event of childbirth plus birth grants), this time using the number of births to give an estimate of those eligible for payment. As in the case of children, the number of births has tended to decline in the Union. Between 1990 and 1994, it fell on average by around 1 % a year. Since transfers to women giving birth generally increased in Member States in purchasing power terms — the only countries where they fell being Greece, France and the UK — the average benefit per confinement also rose. In Germany, Italy, Austria and Portugal, it rose by over 3 % a year (Graph 16). In Denmark, Greece and the UK, though not in France, the average benefit declined in real terms.

Over the subsequent five years, 1994 to 1999, the number of births continued to fall, though at a slower rate, while expenditure on maternity benefits in purchasing power terms rose in eight Member States, fell in four and remained broadly unchanged in Germany (no data are available for Luxembourg and the Netherlands — see Graph 17). In three of the four countries in which spending fell — Austria, Finland and Sweden — this fall exceeded the decline in births, so that implied spending per birth fell. By contrast, in Denmark, Spain, France, Ireland, Italy and Portugal, expenditure per birth rose markedly over this period (by over 4 % a year in each case). Despite the substantial fall in implied expenditure per birth, the average benefit paid in Finland and Sweden was still higher in 1999 in relation to GDP per capita than anywhere else in the Union (Graph 18). In Finland, it was as high as

18. Expenditure on maternity benefits per child relative to GDP per capita, 1990, 1994 and 1999



65 % of annual GDP per capita and in Sweden, almost 60 %. In contrast, in Portugal, the implied figure was under 10 % and, in Ireland and the UK, it was around 5 %.

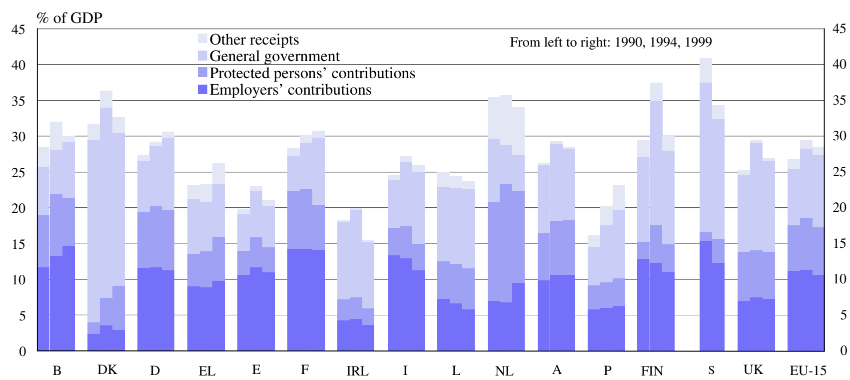
Sources of finance

As indicated in previous *Social protection in Europe* reports, there are marked differences across the Union in the way that social protection is funded. In broad terms, countries can be divided between those which finance spending largely from social contributions and those in which general taxes play an equally important part, or, in the case of Denmark, a far more important one. In the first group are Belgium, Germany, Spain, France, the Netherlands and Austria, where around two thirds of revenue for social protection came from social contributions in 1999 — 72 % in Belgium. In the second group are the other Member States, where revenue from contributions ranged from 60 % of total revenue (in Greece and Italy) to 28 % in Denmark (Graph 19).

In the Union as a whole, contributions declined continuously in importance as a source of revenue over the 1990s, from 66 % in 1990, to 63½ % in 1994, and to 60½ % in 1999, in part reflecting the growing objective to reduce taxes on labour in order to promote job creation. This fall was evident in most Member States. Nevertheless, the relative importance of contributions increased over the period in Belgium (though only slightly after 1995), Denmark (where they were non-existent in 1990), the Netherlands and Sweden (at least from 1993). By contrast, the fall was particularly marked in France (from just under 80 % in 1990 to 67 % in 1999) and Italy (from 70 to 58 %).

The decline in the relative amount of revenue raised from contributions was concentrated on employers' contributions in the first half of the decade, but more on employees' (or, more precisely, since it includes the self-employed and social benefit recipients, protected persons') contributions from 1994 onwards. Indeed, in 7 of the 15 Member States, the share of total funding derived from employers' contributions increased between 1994 and 1999. This was most marked in Belgium, where it rose from 42 to 49½ % and the Netherlands, where it went up from 19 to 28½ %. In Belgium, however, there was a change in classification in 1995, which resulted in an apparent increase in employers' contributions. After adjusting for this change, employers' contributions accounted for much the same proportion of total receipts in 1999 as five years earlier. In general, these figures also need to be interpreted with caution, since they include voluntary contributions made by employers to finance expenditure for the common benefit of their employees, which is treated as part of social protection in the Esspros accounts, for example contributions to supplementary pension schemes.

19. Financing of social protection expenditure by source of finance in the Member States, 1990, 1994 and 1999

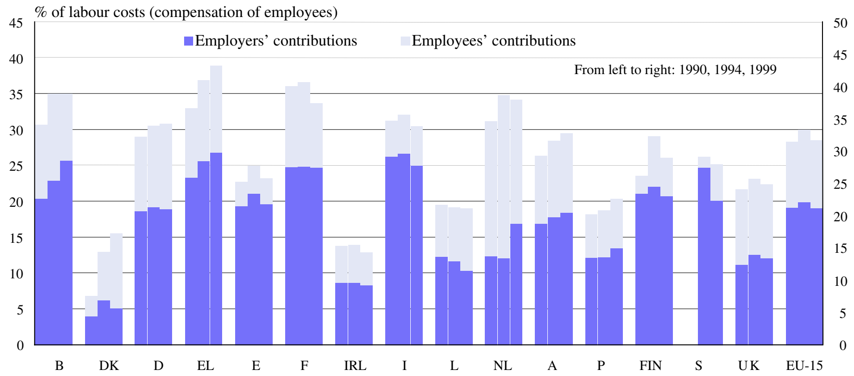


It is possible that changes in voluntary contributions of this kind mask changes in statutory contributions in an opposite direction in some countries.

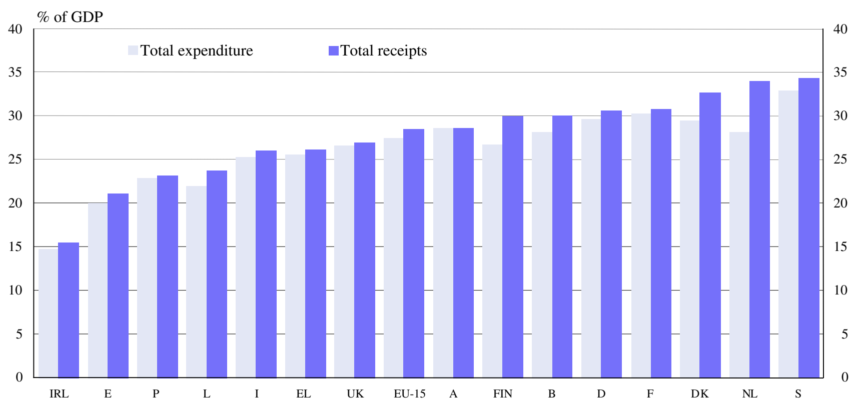
In relation to GDP, the funds raised from social contributions declined slightly over the period 1990 to 1999, despite having risen over the first part of the period to 1994. Only in a few countries — specifically, Belgium, Denmark, Greece and Austria — did the total revenue from contributions increase significantly over the decade, and only in Belgium and the Netherlands was the same true of revenue from employers' contributions (in the Netherlands, there was a shift from employees' to employers' contributions between 1997 and 1998).

In relation to wages and salaries — or labour costs — which declined slightly in relation to GDP over the 1990s, the yield of social contributions at the EU level was marginally higher in 1999 than in 1990, though lower than in 1994. Employers' contributions declined by around 1 % of labour costs over the period 1994 to 1999 and employees' contributions by just under 1 %, in both cases reversing the increases of the first four years of the decade (Graph 20). However, overall contributions declined by more than 2 % of labour costs in two countries only — France and Finland — while there were also two countries — Denmark and Greece — where contributions increased by more than this.

20. Employers' and employees' contributions in relation to labour costs in the Member States, 1990, 1994 and 1999



21. Total social protection expenditure and receipts in relation to GDP in the Member States, 1999



Receipts relative to expenditure

The figures for expenditure on social protection in relation to GDP, examined earlier, mask the fact that, in most countries, the revenue collected is larger than current expenditure because of a concern to accumulate a reserve to cover future prospective costs, especially of retirement pensions. In 1999, total revenue raised by governments across the Union to finance social spending amounted to 28½ % of EU GDP, 1 % of GDP higher than total expenditure (Graph 21, in which countries are ranked by revenue in relation to GDP rather than by expenditure).

In all Member States, except Austria, revenue exceeded spending in 1999, though by widely differing amounts, ranging from almost 6 % of GDP in the Netherlands (i.e. revenue was some 20 % higher than expenditure) and over 3 % of GDP in Denmark and Finland to very little in Portugal and the UK. In Austria, receipts were marginally lower than spending.

These differences mean that the relative cost of social protection as between countries is slightly different if measured in terms of revenue than in terms of expenditure. Sweden remains the country with the highest costs relative to GDP, but the Netherlands moves above Austria, Belgium, Germany and France, while Denmark moves above Germany and France.

Developments in sources of finance since 1999

Since 1999, the last year for which Esspros data on sources of funding for social protection are available, measures have been introduced in a number of Member States which affect the pattern of financing. In some cases, these have been designed specifically to reduce reliance on social contributions in order to relieve the burden on labour costs.

In France, in particular, social contributions levied to cover sickness were replaced by a tax (the generalised social contribution, or CSG). In addition, employers' social contributions on low-wage earners were reduced for those companies which have introduced a 35-hour week (or, more specifically, which have complied with the scheme), on a sliding scale to give the biggest reductions on the lowest paid jobs. To compensate for the loss in revenue, taxes on tobacco were raised by 10 %.

In Portugal, a deliberate attempt was made to prepare the way for a widening of the sources of finance for social protection through the introduction of legislation in August 2000, the ultimate aim being to reduce reliance on employers' contributions in order to lower non-wage labour costs. In Sweden, the overall rate of employers' contribution was reduced by 0.14 % in 2000 to 32.92 % of gross earnings. However, this reduction represents a shift towards employee or protected pensions' contributions rather than an overall reduction. In Sweden, therefore, the rate of old-age pension contribution was increased for employees and the self-employed, as were health insurance contributions for the latter. In Austria, pension contributions of the self-employed and farmers were increased by 0.5 % of earnings in January 2000; for the former, the minimum earnings level on which contributions are payable was reduced at the same time, while for farmers it was increased.

In Ireland, an opposite tendency is in evidence: the income ceiling on employers' contributions has been abolished, effectively increasing the average rate as well as the revenue collected from this source, this being regarded as some offset to the substantial reduction in business taxes made over recent years. A further effect will be to raise the cost of employing high-paid workers relative to lower-paid. At the same time, the rate of contribution for employees has been reduced from 4.5 to 4 %.

In Austria, benefits in case of occupational diseases and accidents at work were made subject to tax in January 2001, the revenue expected to be raised amounting to some 2 to 3 % of expenditure on them.

Part II — Developments in the modernisation of systems of social protection

Providing high levels of social protection is a challenge facing governments across the Union. This is most important for people who are unable to work, whether because of sickness, disability, failure to find a job, old age or a need to look after young children or other dependants. Systems of social protection also need to be consistent with achieving sustained economic growth and high levels of employment on a sustainable basis. Achieving such a balance is made all the more difficult by the demographic trends common to all Member States. The proportion of the population aged 65 and over will be ever increasing and, accordingly, there will be a growing number of people in need of income support and healthcare in retirement.

The Commission's communication 'A concerted strategy for modernising social protection' (COM(1999) 347), published in 1999, drew attention to this challenge. Then, in March 2000, the Lisbon European Council recognised the role of the European social model, with its developed systems of social protection, in underpinning the transformation to the knowledge economy. However, these systems need to be adapted as part of an active welfare state to ensure that work pays, to secure their long-term sustainability in the face of an ageing population, to promote social inclusion and gender equality, and to provide quality health services.

The second part of the report presents a comprehensive overview of Member States' efforts to modernise their social protection systems and to make them more cost-effective. It monitors recent policy developments in four areas corresponding to the key objectives identified by the Commission and the Council and confirmed by the Lisbon European Council [13]:

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

Promoting social inclusion

It is becoming clear from the implementation of the open method of coordination and, in particular, from the national action plans against poverty and social exclusion prepared by all Member States that the overarching challenge for public policy in relation to poverty and social exclusion is to ensure that the main mechanisms which distribute opportunities and resources — the labour market, the tax system, social protection, education, housing, health and other services — address the needs of those who are at risk of poverty and social exclusion and to enable them to access their fundamental rights. This means ensuring that these systems are responsive to individual needs and adapt themselves to cope with both traditional and new risks of poverty and social exclusion.

Promoting social inclusion thus increasingly involves taking account of a number of important structural changes occurring across the EU. These may lead to new risks of poverty and social exclusion for particularly vulnerable groups unless the appropriate policy responses are developed. These changes are: major structural changes in the labour market; the very rapid growth of the knowledge-based society and information and communication technologies; the increasing number of people living longer coupled with falling birth rates resulting in growing dependency ratios; a growing trend towards ethnic, cultural and religious diversity fuelled by international migration and increased mobility within the Union; and changes in family and household structures.

[13] The objectives were initially set out in the Commission's communication 'A concerted strategy for modernising social protection' (COM(1999) 347).

While the scale and intensity of the problems vary widely across Member States, the overall policy challenge can be broken down into eight core challenges which are crucial to addressing poverty and social exclusion. These are: developing an inclusive labour market and promoting employment as a right and opportunity for all; guaranteeing an adequate income and resources to live in human dignity; tackling educational disadvantage; preserving family solidarity and protecting the rights of children; ensuring good accommodation for all; guaranteeing equal access to and investing in high-quality services (health, transport, social, care, cultural, recreational and legal); improving the delivery of services; and regenerating areas of multiple deprivation ([14]).

Member States are developing a broad range of social inclusion policies across these key areas, and this is reflected in the different national action plans on social inclusion. For example, there is general agreement across Member States of the importance of promoting access to employment not only as a key way out of poverty and social exclusion but also as a means of preventing these. There is also a close linkage between the national action plans on social inclusion and those on employment. Furthermore, the importance of access to employment as a means of promoting social inclusion is reinforced in the employment guidelines of 2002 (Guideline 7).

The measures adopted to increase the attractiveness of working and to assist both the unemployed and others not in work into employment play a major role in tackling social exclusion. The emphasis of policy throughout the Union has shifted markedly in recent years from ensuring passive income support to those unable to find a job or who are not economically active at all to positive action to get people into work.

Policies for social inclusion tend to be based on helping people to find jobs both by providing job-search advice and assistance and by increasing their employability.

The chances of people finding stable employment over the long term, however, do not depend only on the availability of labour market programmes, but on their level of education, the circumstances in which they live, the health and social services they have access to and the general support they can draw upon. While enhancing access to employment is a very important element in promoting social inclusion, it is not sufficient to ensure inclusion for all. For some, for instance because of age (i.e. too young or too old to work) or because of particular factors such as disability or ill health, access to employment may not be a realistic option. For people in these situations, the policy challenge is to ensure that they have access to an adequate income, decent accommodation and good-quality services in areas such as health, social services, education and training, cultural and recreational activity, transport, etc. It is also clear that the ability to access employment is greatly enhanced by supportive policies in these areas. Furthermore, given the fact that across the Union children and young people face a higher risk of poverty and social exclusion than adults, it is very important to invest in policies which will promote the inclusion of children and which will cut through the recurring cycle of poverty and prevent intergenerational poverty.

It is clear from the national action plans that policy approaches to promoting social inclusion generally consist of a mix of market-oriented responses, public policy provision and civil society action. Across the different policy areas, it is possible to identify three general goals which they seek to promote. Firstly, they aim to promote universality by enhancing the adequacy, access and affordability of mainline policies and provisions. Secondly, they promote a level playing field by addressing specific disadvantages that can be overcome (e.g. lack of skills) by the use of appropriate policy. Thirdly, they aim to support social solidarity by compensating for disadvantages that can only be partially or never overcome (e.g. disabilities).

Measures to help the socially excluded into work

Measures have been taken across the Union to provide training for those with inadequate qualifications or those whose skills have become redundant because of changes in technology or in the structure of economic activity. At the same time, access to income support has, in many cases, been made conditional on participation in active labour programmes. In Finland and Sweden, for example, those applying for social assistance because of their unemployment have an obligation to register as a job-seeker with the employment

([14]) The challenges outlined here are elaborated on in more detail in the *Joint report on social inclusion.*

services. In Portugal, those unemployed but not eligible for unemployment benefit are required to participate in activities of social interest in order to be able to receive a social allowance (which is equal to the minimum wage).

All Member States have increased their efforts to assist registered jobseekers within 6 months (young people) or 12 months (adults) of becoming unemployed, in conformity with the employment guidelines. Attention has subsequently shifted to those already out of work for longer than this, who are especially difficult to place in a job and who, accordingly, are at particular risk of social exclusion.

In many countries, job subsidies have been introduced, whether in the form of reductions in employers' social contributions or direct payments to companies, to provide an incentive for employers to take on people who have been unemployed for a long time. This is the case in Belgium and Sweden (for those who have been out of work for four years or more), for example, as noted above. In Austria, the long-term unemployed are offered, and are expected to take up, community service jobs, for which they receive a premium of 20 % on top of their benefit. Similarly, in the Netherlands, those unable to find a full-time permanent job are offered 'inflow/outflow' jobs for up to five years, i.e. jobs in the public sector involving such activities as guarding or supervising buildings or communal areas. In the UK, under the 'New deal', those unemployed for more than two years have a choice between a subsidised job, work-based training or employment in the voluntary or environment sectors. Active employment insertion income was introduced in Spain in February 2000, consisting of a cash income linked to the completion of actions in matters of active policies that do not entail salary payments, with respect to the long-term unemployed aged over 44, and with family dependants, who have exhausted the contributory or non-contributory unemployment benefit.

Similar policies have also been applied to people with disabilities who are, nevertheless, capable of working but who, in the past, have had access to social benefits and have not necessarily been expected to find a job — or, indeed, as noted earlier, have been actively discouraged from so doing. In Ireland, the qualifying period for entitlement to the 'back to work allowance' for those receiving disability benefit has been reduced from five years to three. In the Netherlands, the government has, since 2000, set a target that 10 % of the 'inflow/outflow' jobs described above should be filled by people with disabilities. In Denmark, as part of the reform of the early-retirement pension scheme that will come into force in 2003, specially adapted 'flexi-jobs' will be created for those with disabilities instead of giving them early-retirement pensions. Due to the difficult labour market situation of disabled people, the Austrian Federal Government launched a training and employment initiative ('Behindertenmilliarde') to facilitate the integration of disabled persons into the labour market and/or to safeguard precarious jobs. The target group comprises persons with a physical, psychological, mental or sensory disability who cannot obtain or retain a job without support measures. EUR 73 million per annum was made available for the years 2001 and 2002. The measures have benefited about 15 000 disabled people annually. In 2001, roughly 370 projects were approved and for 2002 approximately 350 projects are planned.

At the same time, obligations have been placed on employers to take on people with disabilities. In Germany, as from January 2001, all companies with 20 or more employees are statutorily obliged to ensure that at least 5 % of their workforce consists of people with disabilities, while, at the same time, the rights of those concerned and the representation of their interests within the company have been strengthened. A similar obligation has been introduced in Italy, where employers also receive partial or full exemption from social contributions if they take on employees with disabilities. Spain has favoured the recruitment of certain groups of people belonging to groups at risk of social exclusion by granting subsidies to employers for direct recruitment. More specifically, the benefits for the financial inclusion of the disabled trebled between 1995 and 2000, with a growth of up to 47 % in 1996 and of 62 % in 1999.

The shift in emphasis towards activating labour market policy is also evident as regards lone parents and women in general in a number of countries, especially in those where the rate of labour force participation by this group has been low in the past. In Luxembourg, for example, lone parents with a child under six have, since March 2000, no longer been exempt from actively looking for work in respect of their entitlement to benefit. In addition, across the Union, measures have been taken to increase the availability of childcare facilities.

There has been particular focus on lone parents, or lone mothers, in the UK, where the numbers tend to be higher than elsewhere and where their participation rates have historically been below those in other Member States. Following the ‘New deal for lone parents’, introduced nationally in 1998 and targeted on providing active assistance to those with a child aged five or over, almost 34 000 who were not in work before had found a job by early 2000. Subsequently, and after evaluation studies, policy effort has centred on easing their transition from benefits into paid employment and reducing the uncertainty and fear of loss of income attached to such a move. Accordingly, financial help of up to some EUR 1 600 a year is provided for childcare when they move from income support into work, together with an extra two weeks of benefit to bridge the gap before wages are paid.

A similar aim of helping to ensure that those with children are better off when in employment than when not has been pursued in Sweden by setting an upper limit on the fees parents pay for childcare as from 2002.

Ethnic minorities and immigrants have been a particular focus of attention in some Member States. In Greece, where the problem is especially acute (368 000 registered former illegal immigrants), a new law provides illegal immigrants with a second chance to be legalised and integrated into the active labour force with the same rights and obligations as Greek citizens. In the beginning, they are provided with a six-month residence permit and within this period they can apply for a work permit for a time period of up to one year.

In Finland, where immigration is on a much smaller scale, measures were introduced in May 1999 to help immigrants enter the labour market by giving them access to social assistance and labour market programmes. In Sweden, a special benefit will be introduced for persons older than 65 who have not qualified for a sufficient old-age pension (from January 2003).

Other inclusion measures

In most Member States, healthcare is available to all, either free of charge at point of delivery or at an affordable, reimbursable price. In a number of cases, however, there are small groups who have been excluded and, in some countries, attempts have been made in recent years to ensure that they are adequately covered. In France, arrangements for guaranteeing universal coverage were implemented in 2000, with contributions to healthcare insurance being made compulsory for everyone and with those with a monthly income of below EUR 535 being exempt from payment. In Spain, legislation was passed in 2000 to give illegal immigrants access to emergency healthcare in the case of those aged 18 and over and the right to full coverage in the case of those under 18 as well as of pregnant women.

Access to affordable housing is also considered an essential part of social inclusion across the Union and, in many cases, those in receipt of social benefits are entitled to housing subsidies. In some countries, additional measures in this regard have been adopted since 1999. In Ireland, in a move to encourage participation in active labour market programmes, a housing allowance of around EUR 40 a week was introduced in 2000 for those enrolling in a training course or taking up a part-time job. In Portugal, low-income households have been able to obtain interest-free loans for up to 30 years to cover the cost of renovating their houses. In the UK, the government set a target in 1999 of halving the number of homeless by 2002 and put aside a budget of EUR 310 million for the purpose, enabling local authorities to provide the homeless with temporary housing for up to two years. In Greece, legislation was passed in 2000 to provide housing for ethnic Greek repatriates from the former Soviet republics.

In Spain, there are territorial plans to fight against poverty and social exclusion within the autonomous communities and local corporations are using the indicators agreed upon for their follow-up.

Minimum-income schemes

In Nordic countries, extensive individualised and universal rights to social security benefits and social and healthcare services, guaranteed to all permanent residents of the country, have turned out to be an efficient way to fight against social exclusion. This applies also to those persons who have particular difficulties in gaining employment and thus find themselves particularly exposed to the risk of exclusion. While in most EU countries a minimum level of income is, in principle at least, guaranteed to everyone under the social protection systems, in a few southern Member States this aspect is still in the process of being developed.

In Italy, a pilot programme giving selected municipalities responsibility for ensuring a minimum level of income to everyone was extended to more of them until the end of 2002.

In Belgium, the minimum-income guarantee scheme for the elderly was replaced by a new system (GRAPA) in 2001 aimed at ensuring equality between men and women of all ages and in all personal circumstances (whether, for example, they are married or cohabiting). In addition, the minimum allowance is set to be increased by 4 % in 2002. In Austria, in contrast, automatic indexation of social assistance for the long-term unemployed was stopped in January 2001.

In Germany, legislation was passed in December 2000. It imposes an obligation on the two bodies responsible for income support, the social welfare authorities responsible for social assistance and the local employment offices responsible for unemployment assistance, to cooperate in order to improve the efficiency of the welfare system as a whole.

Making pensions safe and pension systems sustainable

During the period since 1999, governments across the Union have focused on the financial pressure on pension systems created by the growing numbers of people above pensionable age and their continuing expansion in future years as the post-war baby-boom generation retires from working.

Over the 10 years 1990 to 2000, the number of people of 65 and over — the official age of retirement in most Member States — increased by almost 1½ % a year in the Union, though with marked variations in the rate of increase between countries. In Spain, Italy and Luxembourg, the number increased by over 2 % a year and, in Greece, by almost 3 % a year, while, in Denmark, the number declined slightly and, in Sweden and the UK, rose by very little. Over the 15 years 2000 to 2015, the number of people of 65 and over in the Union as a whole is forecast to grow at about the same rate as over the past 10 years, but this time with less variation between Member States. Only in Greece is the number projected to increase by less than 1 % a year. In the case of Spain, the increase is forecast to slow down significantly from 2.4 to 1.18 %. The number of pensioners is likely to be around 20 % larger in most EU countries in 2015 than at present and, on average, 40 % larger than in 1990 — in Greece, Luxembourg, the Netherlands and Finland, over 50 % larger and, in Italy, just under 50 % larger than in 1990.

The problem of financing the growth of pensions associated with such an increase is exacerbated by the fact that the number of people of working age, who, for the most part, will have to finance the additional pensions, is likely to rise relatively little. Over the Union as a whole, the number is forecast to be just 1 % larger in 2015 than at present. In four Member States — Germany, Spain, Italy and Finland — the number is expected to be smaller in 15 years' time than now. In Italy, it is projected to be over 15 % smaller, which means that, combined with the relatively large increase in the number of pensioners, funding problems are likely to be acute. Finland also faces a particular funding challenge in that the number of people of working age is set to decline by 4 %, while the number aged 65 and over is forecast to increase by more than anywhere else in the EU, by some 35 %.

According to current demographic projections, the old-age dependency ratio — the relationship between those above retirement age and the working-age population — will more than double from the current 24 % to 49 % by 2050. Projections of public expenditure on pensions indicate that, as a result of ageing, increases of between 3 and 5 percentage points of GDP or more can be expected in most countries.

Faced with this problem, which has now been well understood for a number of years, Member States have reacted in various ways. They have tried to reduce both the present and, more importantly, the future costs of providing pensions to those who have retired from economic activity. Equally, in a number of cases, they have sought to ensure that the funds needed to finance pensions will be available without imposing an unacceptably high burden on those in work, both by setting up pension funds to meet future commitments and by trying to increase the number of people in work so reducing the rates of tax or social charges which need to be levied.

More specifically, the measures adopted have included:

- raising the pensionable age;
- reducing the incentive or the possibility of taking early retirement and encouraging people to remain in work longer;
- increasing the number of years of contribution required to qualify for a full pension;

- reducing the amount of pension payable in relation to a given level of contributions or the income earned when at work;

- reducing the effective rate of pension indexation, by, in particular, uprating the amount payable in line with price inflation instead of wage inflation, so maintaining the real value of pensions but lowering their relative value compared with earnings;

- encouraging a shift from reliance on State pensions to occupational and private pension schemes in order to relieve the government budget — or the public pension fund — of some of the burden of providing income support;

- increasing the income which pensioners are allowed to earn on top of their pension or reducing the extent to which this is taxed in order to encourage pensioners to supplement their pension.

The measures taken since 1999, however, have in most countries been relatively modest in scale given the scale of the demographic challenge ahead, though there are exceptions as described below. This, in part, is because of the deeper reforms introduced in previous years in a number of countries (as in Spain, Italy, Finland and Sweden — see *Social protection in Europe,* 1997 and 1999). But it is also a consequence of the difficulties of making fundamental changes to insurance-based systems, where contributions have been paid for many years in expectation of a certain level of pension.

At the same time, the measures introduced have been conditioned by a concern to avoid social exclusion. Measures were designed to protect the worst-off members of society and to ensure that everyone in retirement has access to an acceptable level of income and standard of life. Moreover, in a number of countries, efforts have been made to increase the equity of the system, so that people in similar circumstances are not differentially treated. The aim of pension reform has not just been to reduce the financing burden on the State and to safeguard the financial viability of systems, but to ensure that they fulfil their ultimate social function of providing an acceptable level of income for people in their retirement.

Reform of pension systems

A substantial reform of pension arrangements has been decided upon and has started to be implemented in Germany, where the strengthening of both the second and the third pillars — through the introduction of a supplementary and capital-funded pension — is designed to produce eventually a new intergenerational balance of contributions and benefits. A ceiling has been set for the increase in the contributions to the public pension system.

In addition to harmonising the provisions applying to pensions in the public and private sectors, Luxembourg is increasing the basic rate of pension by just under 12 %. A bonus will be paid for every year of contribution and minimum pension levels will be raised by almost 5 %. Moreover, workers who have paid contributions for 38 years or more and remain in employment over the age of 55 will have their pension rate (i.e. the rate relative to earnings when in work) raised slightly.

In Greece, a full reform of the pension system is envisaged in order to curb expenditure growth and will include some consolidation of the many different schemes which exist in particular sectors. For example, in the banking sector, it is intended to bring all employees, at present dispersed between five different schemes, into the IKA basic pension scheme (the largest social insurance organisation in the country) and to establish a unified fund for supplementary pensions. An important result of such consolidation, combined with the implementation of a planned integrated information system in IKA, might be to reduce the scale of contribution evasion, which is substantial in Greece, thus helping to improve the financial viability of the pension system.

Raising the effective age of retirement

One of the main themes running through the measures introduced in recent years has been to increase the number of older people in employment, by extending their working careers and making it less attractive for them to retire early.

The most obvious way of seeking to do this has been to raise the official age of retirement or to increase the number of years of contributions required to earn entitlement to a full pension. In Belgium, Germany, Austria, Portugal and the UK, steps were taken some years ago to increase the retirement age of women to 65 to bring it into line with that of men — a measure which not only serves to ensure equality of treatment between women and men, but which also reduces the number of pensioners. These measures, however, will take effect at varying times — by 2004 in the case of Germany and from 2010 in the UK, but only from 2018 in Austria, where the process will not be complete until 2034.

In France, the 1993 reform has been progressively implemented and the number of years of contribution for a full pension entitlement gradually raised from 37½ to 40, a move which will be completed in 2003. In addition, the shift from the reference wage used in the calculation of the pension being based on the best 25 years of earnings instead of the best 10 will be completed in 2008. In Sweden, where a new pension system was introduced in 1999, new rules were introduced from September 2001, allowing people to work until 67 rather than 65. Similarly, in Spain, incentives have been established to keep older workers in active life, and the recommendations of the Toledo Pact regarding the postponement of retirement age have been incorporated into law with effect from 1 January 2002.

In Denmark, on the other hand (as described in *Social protection in Europe 1999*), the age of eligibility for the full State pension has been lowered from 67 — the highest in the Union — to 65 for those turning 60 on or after July 1999, who will therefore be entitled to a full pension in 2004. Denmark has done so in connection with a reform of the early-retirement scheme with incentives to stay longer in the labour market.

At the same time, measures have been taken to discourage early retirement in a number of countries, especially in those where partial pension schemes (i.e. the payment of a partial pension to compensate someone for working part-time after they reach a certain age) had been introduced recently. In Germany, those retiring between 60 and 63 will have their pension reduced by 0.3 % for each month it is drawn early. In Austria, under 'Pension reform 2000', the age at which people are eligible to take early retirement is being raised progressively from 55 to 56½ for women and from 60 to 61½ for men between October 2000 and October 2002. At the same time, the amount by which the pension is reduced for every year a person retires before 65 has been increased from 2 to 3 %. In Denmark, the unemployment benefit payable to those effectively retiring at 60 rather than 65 has been lowered to 91 % of the maximum amount payable. People withdrawing after 62 will receive a higher benefit (100 % instead of 91 %) and persons will receive a tax-free reward when postponing retirement from the labour market until after the age of 62.

In Spain, a new partial retirement scheme was introduced in 1999 for workers aged 60 to 64, with the aim, in part, of persuading such people to continue working, even if for fewer hours a week, rather than to withdraw from the labour force completely. In a similar way to schemes in other countries (such as in France, Germany and Austria), it enables workers in this age group to receive a proportion of their pension if they reduce their working time by a minimum of 30 % and a maximum of 77 %, providing that someone unemployed is taken on to fill the gap created in the workforce. In Germany, the conditions governing entitlement to a partial retirement pension were relaxed in 2000 in order to encourage a larger take-up, which had been well below what was forecast when the measure was introduced in 1996. Under the new provisions, employers, who are paid the benefit, are no longer obliged to fill the particular vacancy left by the person reducing their hours of work, though they would still need to take on someone from the unemployment register.

Such schemes have a number of different objectives. They are a means of easing the transition of people from work into retirement and, at the same time, of providing work for the unemployed. Equally importantly, they keep older workers in employment, so that their skills and know-how are not lost but continue to be used in the productive process and, perhaps, passed on to their younger counterparts. Just as importantly, they also serve to reduce the amount paid out in benefits by the State, if the alternative is full retirement. In practice, however, the schemes have been taken up by only a minority of workers — though more in France than elsewhere. In Sweden, as part of the recent reforms, the partial retirement scheme has been abolished and replaced by flexible retirement. Both the income-related pension and the pre-funded pension are payable when a person reaches the age of 61. There is no upper limit. Full or partial pensions are available, which give the opportunity to combine partial pension with partial work.

In two Member States, financial incentives have been introduced with the same aim of encouraging workers to remain longer in employment. In Portugal, those working past the age of 65 and who have paid contributions for more than 40 years receive an increase in their pension. The same is true for women over the age of 60 and men over 65 in Austria who continue to work. They receive a bonus payment of 4 % for each year retirement is delayed. This replaces the former arrangement under which a variable bonus of between 2 and 5 % was payable depending on the age of the person concerned. In addition, the limit imposed on the amount someone can earn while receiving an old-age pension has been abolished, so giving more incentive for people to work. Similar incentives to work longer have also been introduced in Germany. Those who reach the legal age of retirement of 65 and postpone drawing their pensions are entitled to an increase of 6 % for every year the pension is postponed.

In Italy, legislation passed in 2001 enables the receipt of a pension to be combined with earnings from employment. In a number of other countries, including Belgium and the UK, the amount pensioners are able to earn has been increased. In Belgium, moreover, those over 50 who accept a less well-paid job than they had before will have earnings on which their pension is based replaced by an inclusive sum if this is more favourable to them, i.e. it gives a higher pension entitlement. In Sweden, under measures introduced in 2000, pensioners who take up a job can still claim housing benefits so long as the earnings involved are not too high.

How successful such measures are in keeping older workers in employment depends ultimately on the situation in the labour market and the opportunities open to older workers. In this regard, it is worth noting that in Austria, for example, almost half the people who opted for early retirement in 1999 were either unemployed or on sick leave.

Encouraging the growth of occupational and private pensions

In many Member States, attempts have been made recently to encourage the growth of supplementary pensions, and, in particular, occupational or personal pension schemes, in order to relieve the burden on the basic State pension. In a number of cases, tax concessions have been granted to make it more attractive for people to contribute to schemes of this kind. At the same time, measures have been taken to supervise the growth of occupational and private pensions in order to protect them against the possible mismanagement of funds as well as fraudulent practices.

In the UK, where private pension schemes had recently given rise to a number of problems, stakeholder pensions were introduced in April 2001 following the Welfare Reform and Pensions Act. These took two forms: personal pensions sold to individuals by private providers and occupational pensions provided by employers (though contracted out to specialist providers). They are aimed at people who do not currently belong to an occupational scheme or have a personal pension. (Figures indicate that some 72 % of men working full-time and 64 % of women were either members of an occupational scheme or had a personal pension; the proportions for part-time workers were, however, much lower — 15 % for men and 34 % for women — which, given that almost half of women in employment in the UK work part-time, represent a substantial number.) The main features of the pensions are the low charges made by the providing companies, the possibility of stopping and restarting the payment of contributions without any penalty and the ability to transfer funds from one scheme to another.

In Germany, the law on additional private pension provision became effective by 2002. Beneficiaries continue to pay compulsory contributions to the statutory pension insurance and in addition can pay up to 4 % of their gross income into privately funded plans. The new contracts have to fulfil certain statutory criteria in order to receive financial support from the State. In principle, the pension cannot be drawn before the age of 60. The capital accumulated is to be transformed entirely into this pension. Subsidies, composed of a basic subsidy and a child subsidy, are planned to reach a yearly EUR 12 700 million level after the new scheme is fully phased in by 2008. Social partners have begun to review and adjust existing occupational pension schemes or to enter into new collective agreements. The framework for occupational pension schemes has been improved by a personal entitlement of every employee to an occupational scheme and by lowering the conditions for vesting and transfer of occupational pension credits.

In Spain, the tax concessions applying to occupational pensions have been made more generous and the maximum contribution allowable increased, while legislation has been passed compelling companies to externalise their occupational schemes in order to provide a higher degree of protection to workers.

In Ireland, a pension bill was published in July 2001 on retirement savings accounts (PRSAs), with the aim of extending the coverage of occupational and personal pensions from under 50 % of the workforce to 70 % of those over 30. Like the UK scheme, it is intended to be easily accessible and flexible and have low costs. All employers will be obliged to provide at least one standard PRSA for their workforce.

In Belgium, measures to promote occupational pensions are under scrutiny. Based on the law relating to company pension plans and the pension fund law, the Federal Pension Fund for Public Employees was set up in Austria on 1 January 2000; further measures to promote occupational pensions are also currently under scrutiny.

In 1993, Italy adopted a law aimed at the creation of supplementary pensions and, in particular, occupational pension schemes. Since that date, funds have been increasing, involving, at present, about 2 million workers. All private sectors have created their own funds, and so-called *fondi aperti,* in particular, have been increasing.

Matching benefits and contributions

Concern about the financial implications of the prospective growth in the number of pensioners has led governments across the Union to try to ensure that there will be sufficient funds available to meet future pension commitments without imposing an unacceptable burden on those in work. This, in turn, has led to a number of steps being taken both to increase the prospective size of funds and to limit commitments. It has also led to some shift away from the pay-as-you-go (PAYG) principles towards pre-funding. Under PAYG principles, present pension payments are funded by present contributions; this has been the main basis for pension systems across the Union. Under pre-funded schemes, present pensions are financed, and indeed determined, by past contributions. The shift has been accompanied by a shift from defined benefit commitments to defined contributions, i.e. to schemes under which the level of pension paid to an individual depends on the value of their contributions paid into the fund over the contribution years.

In a number of Member States, governments have sought to increase the funds available in ways other than raising the rate of contribution. The proceeds from the sale of public sector assets have been a major source. In Ireland, the Social Welfare Pension Reserve Fund will be financed in part from the sale of the State telephone company. In Belgium, in 2001, the pension fund was supplemented by the revenue raised from the sale of universal mobile telecommunications system (UMTS) licences, while, in Germany, some EUR 1 300 million was added to the pension fund from the annual yield of an ecology tax. In France, a reserve fund (*fonds de réserve des retraites* — FRR) has been set up to accumulate EUR 152 000 million by 2020 to help finance (first-pillar) pensions over the following 20 years. The fund is financed from taxes, the sale of UMTS licences and the budget surplus of the social security system. It is estimated to reach EUR 13 000 million by the end of 2002.

As well as seeking to expand funding, governments have also attempted to limit amounts paid out in pensions in line with the finance available, both in the shorter and longer term. The main means of doing this has been through the variable indexation of pensions. A common tendency across the Union in recent years has been for pensions to be uprated in line with price inflation rather than the increase in average earnings, so maintaining their real value but reducing the relative income of pensioners as compared with those in employment. The sustained rate of economic growth which has occurred since the mid-1990s and the resulting improvement in public sector accounts have, however, enabled governments in a number of countries to increase pensions ahead of price inflation without needing to raise contribution rates. In the second half of the 1990s, pension expenditure growth only slightly exceeded the growth of GDP (see Part I).

In Germany, the contribution rate was reduced by 1 percentage point in 1998 and, from 2001, the indexation of pensions has been based on average wage increases rather than price increases. The target has been set of maintaining the defined level of pension above 67 % of net income in 2030 (as against 70 % in 2002).

In Spain, minimum and non-contributory pensions were increased above the rate of inflation in both 1999 and 2000. Contributory pensions will by law be adjusted at the beginning of each year according to the corresponding consumer price index foreseen for the mentioned year, with a later regulation if the actual consumer price index is higher than planned. In the UK, the basic State pension was increased by around 5 % above inflation in 2001 and is due to rise by around 2 % above inflation in 2002. In Ireland, pensions were raised by around 5 % in real terms in 1999, 3 % in 2000 and 6 % in 2001. In Finland, by contrast, the normal pension was increased by much the same as the rate of inflation in 1999 but by around 2 % below inflation in 2000, while occupational pensions were raised by similarly low amounts. These low increases were compensated, however, by increased tax relief.

In Sweden, one of the main features of the reform was the shift to defined contributions, instead of defined benefits, with part of these going into a fund to meet future rather than present commitments. In conformity with the principle of adjusting pensions to the finance available, pensions will, as from spring 2003, be uprated by a lower amount (according to a 'balance index') if the liabilities of the pension system at any point in time exceed the assets.

Helping those most in need

A widespread response of governments to the financing problems caused by demographic trends has been to strengthen redistribution in favour of those most in need. Firstly, this has been achieved through means testing in a number of countries, the amounts payable being raised in some cases, such as in the UK with the introduction of the minimum-income guarantee. Also, in the UK, the State second pension will reform the State earnings-related pension scheme (SERPS) in April 2002. It will benefit low and moderate earners as well as carers and the disabled. Higher earners will get the same benefit from the State second pension as they would have from SERPS. In Italy, means-tested payments to pensioners were raised in 2001, while increases in contributory pensions were concentrated on the poorest pensioners with no other source of income, with proportionately larger rises being given to older pensioners who are likely to have the greatest need.

Secondly, it has also been achieved through expanding services provided free of charge, or benefits in kind, which tend to avoid the problem of take-up inherent in means testing.

In Denmark, since March 2001, pensioners with savings below a certain level have been entitled to a reduction of 85 % in their contribution to the cost of healthcare services. In Ireland, electricity/gas, telephone and TV licence allowances were extended to all those aged 75 and over since October 2000 and to those aged 70 and over since May 2001. In the UK, the winter fuel allowance paid to all pensioners was increased once in 1999 and twice in 2000 and, since November 2000, pensioners over 75 have been entitled to a free television licence. In Greece, a measure was introduced which is aimed at income support for pensioners by providing low-income pensioners with EKAS (pensioners' social solidarity supplement). Since 1997, the grant has been paid once a year through electronic connection of the funds' files with the Finance Ministry's electronic centre, requiring no action on the part of the pensioner.

Ensuring high-quality and sustainable healthcare

Growth in the demand for healthcare is a common and prominent feature of economic development in all countries. In Europe, all Member States have faced increasing pressure on health service budgets over the years, not only because of an ageing population and the growing number of people in their 70s and older who impose a growing burden on the service, but equally importantly because of growing levels of real income and advances in medical know-how which have expanded the demand for treatment. Given the commitment to ensuring the universal availability of a high level of healthcare, this pressure has focused attention in all countries on the means of limiting expenditure without reducing the quality of services or the accessibility. Reforms aim at increasing the efficiency with which resources are used and the cost-effectiveness of the care provided. There has been assessment of the scope of public sector provision, of the division of care between the public and private sectors and of the extent to which treatment, care and other services should be free of charge and, where this is not so, of the appropriate level of pricing.

The Commission's communication of 2001 ([15]) on the future of health-

([15]) European Commission communication, 'The future of healthcare and care for the elderly: Guaranteeing accessibility, quality and financial viability' (COM(2001) 723 final, 5.12.2001).

care and care for the elderly stressed the three main objectives of ensuring accessibility, quality and the financial sustainability of systems. The Commission's communication of 1999 ([16]) had already called upon Member States to:

- *contribute to improve the efficiency and effectiveness of health systems so that they achieve their objectives within available resources. To this end, ensure that medical knowledge and technology are used in the most effective way possible and strengthen cooperation between Member States on evaluation of policies and techniques;*

- *ensure access for all to high-quality health services and reduce health inequalities;*

- *strengthen support for long-term care of frail elderly people by,* inter alia*, providing appropriate care facilities and reviewing social protection cover of care and carers;*

- *focus on illness prevention and health protection as the best way to tackle health problems, reduce costs and promote healthier lifestyles.*

The measures taken since 1999 have predominantly been a response to these objectives, though they have taken different forms in different countries. This reflects the differences in the historical development of the national systems in place, the way that they are organised and funded, and the prevailing standard of service. The main organisational difference is between countries in which there is a national health service free at the point of delivery, such as the Nordic countries, the UK and Ireland, where expenditure is funded mainly through general taxation, and countries in which there is an insurance-based system, where contributions are levied specifically for access to healthcare and where people are reimbursed for the services they purchase.

Decentralisation of responsibility for health services

A common way in which attempts have been made to increase the efficiency of healthcare provision is through devolving responsibility to the regional and local levels and even, in some cases, to individual hospitals or general practitioners. The aim is to enable more account to be taken of local needs and better coordination to be achieved between needs and resources. This has been coupled in a number of countries with a clearer separation between the demand for care and the supply of services and by the appointment of professional administrators to improve the management of the service. Moves in this direction have been particularly prominent in the southern Member States and Ireland.

In Greece, a proposed reform was announced by the government in summer 2000, the intention being to create separate regional health authorities (PeSYs) in each of the 16 administrative regions of the country and to develop an integrated health system between them. Under the proposal, hospitals would become independent, decentralised units of PeSYs run by professional managers rather than appointed directors, who are likely to lack the necessary managerial expertise. At the same time, it is planned to establish an integrated geographical information system to record and monitor local healthcare needs and guide the development of health and social services as well as of preventive measures.

In Spain, intense public debate was generated by the increase in managerial autonomy given to hospitals under legislation introduced in 1997 and 1998, which was extended in 2000 to the 10 regions managed by Insalud (the central health authority). Up to the beginning of 2001, 40 hospitals had been established in the country as a whole, each of which had the legal form of a public or private foundation, a consortium or a public enterprise.

In Italy, the pace of devolution of healthcare to the regions quickened in 1999 and 2000, with services being progressively consolidated at regional level. Since January 2001, regional governments have had full responsibility for financing the health service under their jurisdiction. At the same time, a special interregional fund is in the process of being established to redress regional disparities in funding capacity, especially between the lower-income regions in the south and the more prosperous ones in the north. In addition, hospital head physicians are currently undergoing peer review by a three-member commission and, according to the results, will be either confirmed in office or transferred to non-managerial positions. The system does not work well and is about to be

([16]) European Commission communication, 'A concerted strategy for modernising social protection' (COM(1999) 347, 14.7.1999).

changed, allowing doctors to offer private professional treatment even if they work under public contract.

In Portugal, legislation was introduced in 1999 to establish local health systems (LHS), each comprising health centres, hospitals and other facilities, both public and private, in a particular area. The main objective was to rationalise the resources available, so improving access to healthcare and the efficiency of the service.

In Ireland, large-scale structural reform was initiated in 1999, with a new regional health authority being established in the east of the country. It has responsibility for the strategic planning of services — community as well as primary and acute services — for the region and the commissioning of care and treatment from the voluntary sector as well as from the resources available in the health service itself. The authority is not directly involved in the delivery of care and treatment as such, which is the responsibility of three new area health boards, but manages the overall service, essentially acting as an intermediary between consumers and suppliers.

Measures to increase cost-effectiveness and the quality of treatment

Efforts to increase the efficiency of resource use have taken other forms. In particular, there has been a widespread tendency across the Union to improve the information available on the cost of treatment of different ailments, to try to ensure that more account is taken of costs in determining the provision of services and to rationalise these.

In Belgium, a new database was established by the Ministry of Social Affairs in May 2000, containing both medical and financial information on the use of services of various kinds across the country (the consumption and cost of drugs, the number and duration of hospital stays, etc.). This will enable comparative data to be grouped by 600 different types of pathology, so encouraging hospitals and practitioners to examine their own costs in relation to others and to look for ways of reducing them.

In Germany, hospitals and sickness funds are under an obligation to introduce a comprehensive pricing system by 1 January 2003, while a system for evaluating the need for, and quality of, treatment is in the process of being introduced for hospitals, general practitioners (GPs) and healthcare centres. Attempts are also being made to increase efficiency through coordinating the delivery of treatment between general and specialist practitioners, medical and non-medical services and outpatient and inpatient care.

In Greece, the new draft reform bill contains provision for the establishment of cost and quality control and the introduction of a unitary accounting system in hospitals. In Spain, in May 2000, the government announced proposals to unify the criteria for defining waiting lists across the country, to publish information about these and to establish maximum waiting times for each type of ailment.

In Luxembourg, a proposal has been made to increase the extent of intra-regional cooperation within the wider 'Saarlorlux' area (encompassing the Luxembourg province in Belgium, Lorraine in France and Trier and Koblenz in Germany as well as Luxembourg itself), and to coordinate the planning of hospitals and different kinds of treatment and care with the neighbouring regions. The aim is to rationalise services and take advantage of the potential cost savings from increased specialisation.

The UK Government established the National Institute for Clinical Excellence (NICE) as a key part of its agenda for quality in the National Health Service (NHS). A key part of NICE's role is to promote the use of the most clinically and cost-effective treatments and to discourage those which are unproven or ineffective. NICE will help to ensure that the NHS provides the best possible treatment with the available resources. The goal is to ensure that all patients, everywhere, have access to the most beneficial drugs and other treatments.

Quasi-market mechanisms

A widespread feature of the changes in health services which have occurred across the Union in recent years, or which are currently being planned, has been an attempt to introduce market mechanisms as a means of increasing efficiency. Such measures include the clearer demarcation between supply and demand noted above. Formal contracts between purchasers, or consumers (specifically, consumer representatives in the form of health authorities), and providers have been introduced, stipulating the services to be provided and the terms and conditions applying to these, and the establishment of internal pricing systems (or shadow prices), and increasing patient awareness of the costs involved in their care and treatment.

In Greece, under the draft reform, it is proposed to create a new body (the ODIPY) as a private legal entity to manage the funding allocated to health services by the social insurance organisations and from the State budget. Its intended role will be to distribute resources between the regional health authorities (PeSYs) on the basis of demographic, social, economic, epidemiological and other criteria and to be responsible for purchasing health services from hospitals, health centres and other providers in each PeSY.

In Ireland, under the new arrangements described above, the regional health authority effectively acts as a purchaser of services from hospitals (formerly funded directly by the Department of Health), on the basis of written, legally binding agreements specifying conditions and obligations on both sides.

At the same time as introducing market features into health services, governments have also faced difficulties in drawing the line between public and private provision and in determining the extent of private sector involvement in the public services.

In Italy, where the 'Bindi' reforms (named after the health minister at the time) were implemented in 1999 and 2000, controversy was sparked by a proposal to control the fees earned by doctors from treating patients privately if they have a full-time contract of employment with a public hospital. Under the proposal, hospitals rather than doctors were to be responsible for organising such care and to receive part of the fees charged. The aim is to reduce the incentive for doctors to increase their private practice in relation to their main employment responsibilities. Implementation has proved difficult, not least because of the additional organisational responsibilities transferred to the local health authorities which manage hospitals. They have been allocated almost EUR 1 000 million to cover the costs involved in administration and in ensuring that doctors have the facilities and staff for treating private patients.

In Italy, 'life medicines' (or fundamental need pharmaceuticals) are provided by the National Health Service and are therefore free; for all other medicines, there is a co-payment system by means of an income-based ticket. The rate of co-payment, on the other hand, has been raised since 1999 in both Luxembourg and Austria, where fees for doctors' certificates and outpatient charges have also been introduced, the latter in order to encourage people to visit doctors rather than the more costly out-patient service in hospitals. In Finland, the patient fee system was modified in 2000 through the introduction of a ceiling on fees in order to limit the costs for those in need of care, though this was combined with raising fees for certain kinds of treatment. It is intended that the effect of these changes on the revenue of the municipal authorities responsible for health services as well as on the pattern of treatment will be monitored and any necessary changes will be made in 2002.

In Sweden, where competition was introduced into the provision of healthcare some time ago, new legislation, which came into force in January 2001 for the period up to the end of 2002, imposed restrictions on profit-making hospitals. It stipulates the services which can be provided for profit and those which cannot. An obligation has been imposed on every county to ensure that there are sufficient hospitals with emergency facilities for those who need immediate treatment and that such hospitals are not operated by profit-making companies.

In the UK, where certain ancillary services have been privatised for some time, the government concluded an agreement in November 2000 with the Independent Healthcare Association under which the National Health Service could use private hospital facilities to treat patients and relieve pressure on NHS hospitals. In addition, provision has also been introduced, under the private finance initiative (PFI), for the private sector to build new hospitals for subsequent rental to the NHS. As a result of decisions of the Court of Justice of the European Communities, the UK Government decided to give English healthcare purchasers the right to purchase healthcare throughout the European Economic Area (EEA).

Reducing expenditure on drugs

In addition to requiring patients to pay part of the costs of drugs prescribed for their treatment (co-payment), with the aim of encouraging them to economise in their use, more direct action has also been taken in a number of Member States to reduce expenditure on pharmaceuticals both by encouraging the use of generic drugs and by restricting or prohibiting completely the use of certain expensive branded pharmaceuticals.

In Belgium, in an attempt to ensure that only drugs with proven effectiveness are used and doctors take account of the cost involved when prescribing treatment, an information campaign to raise awareness of these matters was launched by the government among doctors and pharmacists at the end of 2000.

In Germany, the Health Reform Act 2000 prepared the way for the future introduction of a 'positive list' of pharmaceuticals which doctors will be able to prescribe with those not on the list being banned, except in exceptional circumstances.

In Spain, where expenditure on pharmaceuticals has continued to grow rapidly (by 10 % in 1999 and 8 % in the year to September 2000), measures were introduced in 1999 and 2000 to encourage the use of generic drugs, in part by publishing a reference price list for particular types of treatment using such drugs, and also by reducing the margins earned by intermediaries.

In France, under legislation on the financing of social security passed in 1999, the prices of certain drugs which the authorities were prepared to reimburse were reduced. This particularly concerned antibiotics, antidepressants and other drugs whose use was growing fastest. The prescribing of generic drugs was encouraged. Further action was taken in the latter regard in 2000 through the introduction of financial incentives. The use of generic drugs was also promoted in Portugal through legislation passed in 2000. In the UK, the Welsh Assembly abolished prescription charges in Wales for all persons under 25. Noting that persons in this age group usually have more difficulty in paying as they are more often than not in education or have on average lower incomes than other non-exempt age groups, the Welsh took this step as part of their drive to ensure more equal access to healthcare for all the people of Wales.

In Italy, free medical treatment policies for both low-income people and people with special diseases, and preventive and educational policies for people at special risk were adopted; for people who need long-term treatment (elderly people and people with chronic diseases) and for non-self-sufficient patients, so-called RSA (sanatoriums for the elderly) are provided where medical treatment is integrated with social care.

Long-term care

As noted above, the elderly impose a disproportionate demand on health services across the Union. This implies that the pressure on services could increase at an even faster rate than in the past in future years as the number of people in their 70s and older rises significantly. Much of this pressure, however, comes not from the provision of medical treatment for the elderly as such, but from their need for long-term care. As the number of people requiring care has risen and the possibilities of providing care within the family have diminished, the need for care provision has expanded in many Member States and has become an increasingly important challenge for social policy, in terms of both the provision of care facilities and their financing.

The debate, therefore, is not only about who should be responsible for providing these facilities, but, more importantly, who should pay for them. So far, long-term care has become an integral part of the social protection system in some of the Member States only. Germany, Austria and Luxembourg are the most recent examples. The three Nordic countries have had extensive social services in place to provide care for some time. These systems are changing over time. In particular, institutionalised care is being reduced in favour of care in the elderly person's own home. This is usually in line with the wishes of the elderly persons, but is also often, but not always, less costly. In some Member States, such as Italy, non-profit-making organisations play a major role in offering care. Also, the role of the family remains important, in particular in the care of the elderly and disabled.

In other countries, efforts have been made to address the growing need for care services. In Spain, where the regions are responsible for the provision of long-term care, there has been an increase in both home and institutional care, though the data do not exist to determine the extent of the increase or how it relates to demand. Nevertheless, the need for long-term care has been recognised as one of the risks which the social protection system should cover and, as such, it is included in the national plan for the elderly *(plan gerontológico nacional)* for the period 2001 to 2005.

In France, the means-tested dependency benefit introduced in 1997 was improved in 2001 for those over 60 through a new allowance *(l'allocation personnalisée d'autonomie)* related to the degree of dependency and the income of the person concerned.

In Ireland, the national development plan sets out the intention of developing a range of facilities for the elderly, including community nursing units. In 2001, additional finance was allocated to the elderly to fund free medical care for those aged 70 and over, additional community services and more generous subventions for nursing homes, which are mainly privately owned or run by voluntary (largely religious) organisations.

In the UK, where benefits for carers and those in need of care were introduced in the mid-1970s on a relatively restricted basis, the provision of nursing care has moved increasingly from the NHS, free at the point of delivery, to means-tested provision organised by local authorities and often provided in private residential nursing homes. Although 7 out of 10 elderly people qualify for local authority help, the effect has often been to impose heavy costs on the elderly, or their families, who fail to qualify for support. In response to the recommendations of a royal commission set up to investigate the subject, the government, in July 2000, announced that, in England and Wales:

- *NHS-funded nursing care would be available in all settings. For those who do not qualify for local authority support, this was introduced in England on 1 October 2001 and in Wales on 4 December 2001;*

- *personal care would continue to be charged for, though means-tested assistance would be available as before;*

- *means-testing rules were to be relaxed slightly by raising the savings threshold (i.e. the amount of savings which someone is allowed to have without losing eligibility for assistance);*

- *a national care standards commission would be established to regulate standards.*

In Scotland, the Scottish Executive is introducing free personal care at home and in care homes for all those aged 65 and over and free nursing care for all from July 2002. Assistance towards accommodation costs in care homes will continue to be provided on the basis of a means test.

Increases in benefits for carers of children and adults with disabilities and of infirm elderly people were announced in October 2000.

In Finland, the emphasis is increasingly on preventive action and rehabilitation and an expansion of open-care services. The aim is to provide the frail elderly and those with disabilities with a greater possibility to live at home by improving their living conditions through the use of technology and an increase in home help.

Making work pay and providing secure income

Increasing attention has focused across the Union in recent years on systems of unemployment compensation and on their effect in encouraging and assisting people receiving benefit to find a job. This attention was stimulated by the substantial rise in unemployment in the recession years of the early 1990s and by the slowness of the fall in unemployment in most Member States after the recession had come to an end. As a result, there has been a common shift in the emphasis of policy away from the passive provision of income support to the unemployed towards active support, which will also assist them in finding a job and in improving their chances of doing so.

This shift is reflected in the employment guidelines which are at the centre of the European employment strategy. Increasingly since the strategy was adopted at the end of 1997, they have emphasised the importance of Member States pursuing active policies to encourage people to look for paid employment and to help them by providing both support in their search for a job and training and other measures to improve their employability. Guideline 2 in 2002, therefore, calls upon each Member State to:

- review and, where appropriate, reform its benefit and tax system to reduce poverty traps, and provide incentives for unemployed or inactive people to seek and take up work or measures to enhance their employability and for employers to create new jobs;

- endeavour to increase significantly the proportion of unemployed and inactive persons benefiting from active measures to improve their employability with a view to their effective integration into the labour market, and improve the outcomes, outputs and cost-effectiveness of such measures.

Member States should, in accordance with Guideline 3, develop policies for active ageing with the aim of improving the incentives for older workers to remain in the labour force as long as possible, in particular by reviewing tax and benefit systems in order to reduce disincentives and make it more attractive for older workers to continue participating in the labour market.

Implementing these guidelines is essential for achieving the employment rate targets set by the European Council for 2005 (overall employment rate, 67 %; women, 57 %) and 2010 (overall employment rate, 70 %; women, 60 %; older workers, 50 %). It will also make a major contribution to the financial sustainability of social protection.

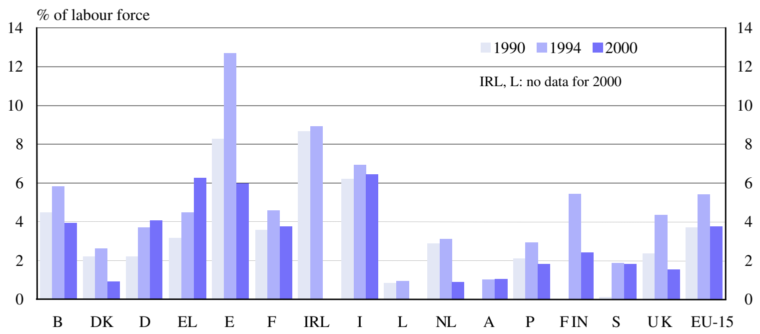
However, it would be insufficient to focus such an activation approach only on those registered as unemployed. The review extends to other people not in work, such as those in early-retirement schemes or receiving disability benefits, many of whom may experience, or be threatened by, social exclusion. It also covers a significant change in family-related benefits. A major aim of these is to ensure that people with children — and women, in particular, on whom responsibility for the care of these tends predominantly to fall — have a secure income as well as practical support, so that care responsibilities do not become an insurmountable obstacle to the pursuit of a working career.

The measures introduced in Member States since 1999 had, in general, the aim of improving active support to re-enter the labour market. In many cases, Member States have attempted to tailor the assistance to individual needs. In virtually all Member States, therefore, there has been an increase in the advice and counselling provided to the unemployed and others seeking work. Often, this has included the formulation of an individual action plan setting out the steps to be taken. As a corollary, there has been increased pressure on those being assisted to participate in active labour market programmes, to step up their efforts to look for work and to take a job when it is offered. In several countries, there has been a continuing tightening of the rules governing entitlement to benefit. This has been combined in a number of countries with efforts to increase the financial rewards from working as compared with drawing unemployment or other kinds of benefit. On the other hand, several measures increased the access to unemployment compensation and its duration.

The particular focus of policy has continued to be on the young unemployed seeking to enter the labour market for the first time, especially on those with inadequate qualifications, and on the long-term unemployed. Although long-term unemployment declined from 4.9 % in the first quarter of 1998 to 3.4 % in the last quarter of 2000, the number affected has continued to remain relatively high. In 2000, the long-term unemployed still represented 46 % of the total number of unemployed in the Union, only slightly less than in 1994 at the end of the recession (Graph 22). In Greece, Spain and Italy, the long-term unemployment rate was 6 % or more, which in the case of Spain represents a significant improvement given the very high level reached in 1994 (over 12 %). The rate of unemployment among young people has also fallen by more than the overall rate, but, in 2000, some 25 % of all the unemployed in the Union were under 25, only slightly less than in 1997, and, in Greece, Italy and the UK, over 30 % were below this age.

As unemployment has declined, policy attention has tended to be extended to others not in work, especially those with disabilities or older workers who have withdrawn prematurely from the workforce. These, in practice, may overlap since in some countries — Denmark, the Netherlands and the UK — it is acknowledged that disability benefits have effectively been used as a substitute for early-retirement pensions. In other cases, such as in Germany or Spain, unemployment benefits paid to older workers, especially those who have been unemployed for some time, have served the same function, those in

22. Long-term unemployment rates in the Member States, 1990, 1994 and 2000



Source: Eurostat.

receipt not being expected to look for work, and, indeed, often being discouraged from doing so.

Activation measures

There has been a widespread tendency across the Union to persuade those out of work to increase their efforts to find a job or to participate in active labour market programmes. This has included the increased threat of sanctions and the withdrawal of benefit for those who do not cooperate sufficiently or who turn down suitable job offers. It has also included attempts to improve the coordination between the administration of unemployment benefits and other income support for those out of work with the management of active programmes for helping benefit recipients into employment.

The public employment services have an important role to play in this, providing detailed advice and guidance to those out of work and helping to draw up individual action plans for vocational training, retraining, work experience or participation in other kinds of programme according to the needs, qualifications, experience and attributes of the person concerned. In Greece and Italy, the employment services are in the process of being radically restructured so that they can perform this task efficiently, especially for young people under 30 who represent the majority of the unemployed in both countries. As part of this restructuring, services are being decentralised to the regions in order to take better account of variations in labour market conditions and the skills required in different parts of the country. In Italy, private employment services for both normal and temporary work have been introduced. In 2002, a new legislative framework for a freer structure of the labour market is being created. In Greece, the four-year plan is due to be fully implemented by 2004.

During the 1990s, Denmark made efforts to change a passive approach into an active approach. This meant that after a short period of receiving social assistance the responsible authority should launch activation measures vis-à-vis the person concerned. This policy has been developed and refined in recent years.

In a number of countries, access to active labour market programmes has been extended beyond the commitment under the employment guidelines to provide training or other assistance to those under 25 before they have been unemployed for six months and to those of 25 and older before they reach 12 months out of work. Active measures in the early stages of unemployment have also been intensified in Germany (where further measures are planned for 2002), Spain, Ireland, Portugal and Finland. In Sweden, benefits payable to the unemployed engaged in active measures were increased by around 40 % in 2001 and will be increased by a further 55 % or so over the next two years to encourage people to participate. In France, as from 2001, all job-seekers receive, within months of becoming unemployed, an in-depth interview and have a personalised plan of action formulated for them setting out the steps to get them back into work. In the UK, active measures have been strengthened in regions of high unemployment.

Increased assistance to those out of work to help them find a job has been coupled in many cases with a tightening of the regulations surrounding continued entitlement to benefit, in order to increase the pressure on people to find a job or participate in an active labour market programme. In Italy, where the pressure on those receiving benefit tended to be limited, sanctions were introduced in April 2000 to penalise the unemployed refusing to take up a job which matches their qualification and which is reasonably close to where they live. In the UK, where the evidence showed that young people were much more likely than their older counterparts not to cooperate with the employment services (between April 1998 and June 2000, sanctions were imposed on 32 151 people under 25 as compared with 2 222 people of 25 and over), the penalty for non-cooperation or refusal to accept a suitable job offer was increased in 2000 (first for those under 25, and then for all age groups) from loss of benefit for two to four weeks to up to 26 weeks. Sanctions were also strengthened in Luxembourg from March 2000 and in Finland (for those under 25) from September 2001.

In Sweden, on the other hand, the regulations have recently been relaxed. The loss of benefit for 60 days for the first refusal of a suitable job offer has been replaced by a phased arrangement, under which a job refusal entails a reduction of 25 % in benefit for 40 days, the second, one of 50 %, and the third, complete withdrawal of benefit. In Belgium, efforts have been made to tailor penalties more appropriately to the particular breach of regulations concerned. In order to increase the female employment rate, the Austrian national action plan on employment 2001 formulated the objective that 50 % of the funds allocated to an active employment policy should be dedicated to measures promoting women.

In-work benefits and fiscal measures

Most governments across the Union have set out to increase the relative attractiveness of working as opposed to being unemployed or inactive by trying to raise the returns from employment rather than reducing unemployment benefits. This strategy avoids significant cuts in income support to those out of work. The measures adopted have included allowing those taking up jobs to continue to receive some support, which is effectively a form of in-work benefit. The principal motivation is to ease the transition from unemployment into work, though they are also used to encourage people to take up low-paid or part-time jobs.

In Ireland, for example, where the back to work allowance scheme allows people to retain part of their benefit on top of earnings, the period over which benefit is withdrawn on entering employment or training was extended from three to four years in 2000 and the number of places on the scheme increased by 2 000 in 1999 and by 5 000 in 2000. In addition, the earnings threshold for qualification for family income supplement (an in-work benefit) was raised in each of the three years 1999 to 2001.

In the UK, where in-work benefits are more important than elsewhere, family credit for low-wage earners with children was replaced by working families tax credit in 1999 at higher rates of eligibility, which increased the number of recipients from just under 833 000 to 1.3 million. At the same time, the marginal deduction rate (i.e. the amount by which benefit is withdrawn as earnings increase) was reduced from 70 to 55 %, so reducing the importance of the poverty trap. In addition, entitlement to housing benefit and council tax benefit was extended to four weeks after starting work, while, in 2001, the same provision was also applied to mortgage interest payments. In the same year, the amounts which lone parents and people with disabilities can earn without deduction of benefit were also increased (though not for the unemployed, who can earn very little while still retaining their entitlement to benefit). As an additional inducement to take up employment, provisions were introduced to provide immediate help (instead of having to wait for 40 weeks) with mortgage payments if the persons concerned were to lose their job and return to income support. A similar provision was introduced for those with disabilities, enabling them to receive the same rate of incapacity benefit if they subsequently lost or had to relinquish a job which they had taken up.

At the same time, in a number of Member States, tax schedules have been modified at the bottom end of the scale to increase the take-home pay of low-income earners. In Belgium, Spain, France, Italy and Sweden, as well as in Ireland and the UK, tax thresholds and allowances have been increased and/or social contribution rates cut to reduce the tax and/or charges paid by low-income earners or to exempt them completely from tax.

A further means of achieving more employment is by reducing the firm's labour costs through subsidies to employers. Such measures have been introduced or extended in a large number of countries to assist target groups into employment or to maintain jobs. In Belgium, there was an increase in the scale of the reduction in employers' social contributions in April 2000, thus raising to almost 24 % of earnings the cut in labour costs for employees earning the minimum wage, with lower rates of reduction applying to those on higher wages. Additional reductions are available for employers hiring low-qualified workers under the First Job Convention, providing that these represent at least 3 % of their workforce. Further reductions exist for those taking on someone who has been unemployed for a year or more, or six months or more in the case of older workers.

In Austria, in a move to encourage the employment of older workers, employers have been exempt from paying unemployment insurance contributions for employees who are hired after the age of 50 since October 2000. In the UK, direct subsidies to employers hiring young people under the 'New deal' were increased in April 2000 by 25 % to around EUR 120 a month for six months, with a sum of EUR 1 200 payable to cover the cost of training. In Sweden, employers taking on the very long-term unemployed — those out of work for four years or more — became eligible for a subsidy of 75 % of labour costs for the first six months and 25 % for the following 18 months as from August 2000. In Spain, the policies aimed at improving employment by reducing the cost of labour through discounts made for the employers' social contributions brought about an increase in expenditure with respect to this item of 465 % in the year 2000 as compared with 1997.

Changes in unemployment compensation schemes

The improvement in economic conditions until 2001, the sustained rate of economic growth and the decline in unemployment — to 7.6 % in the EU in July 2001, the lowest for over 10 years — have reduced the pressure on public budgets. It has become somewhat easier for governments to increase their efforts to assist the young and the long-term unemployed and to expand measures for helping others out of work into employment. In southern Member States, the improvement in economic conditions has facilitated the development of the unemployment benefit systems, which were less extensive and which provided a lower-than-average level of protection.

In Greece, unemployment benefits were raised by 10 % in 2000, though they remain well below the EU average at only 51 % of the minimum wage. In Italy, the standard unemployment benefit was increased from 30 % of previous earnings to 40 % at the end of 2000, while the period of entitlement for those over 50 was extended from six to nine months of unemployment. In Portugal, where comparatively few workers are eligible for unemployment benefit, the system was extended in April 1999 and the period of payment was increased to 12 months for those under 30, 18 months for those aged 30 to 40, 24 months for those aged 40 to 45 and 30 months for those over 45 (the last receiving two additional months for each five-year period of contributions during the 20 years before becoming unemployed). In Spain, there was an extension of the period of entitlement to benefits for the long-term unemployed over 45 who have dependants and who participate in a retraining programme.

Elsewhere in the Union, the changes tended to increase the duration and accessibility of income support. In Finland, the earnings-related unemployment benefit is due to be increased in March 2002 and, since September 2000, there has been a significant increase in the availability of means-tested support through a reduction in the amount of earnings of a person's spouse which are taken into account (the amount disregarded was increased fivefold relative to 1999). In Belgium, the time spent on active labour market programmes has been counted since the end of 2000 as part of the six months' work which is required before a person becomes re-eligible for unemployment benefits. As a result, those on training and other similar programmes are less likely to see their benefits stopped.

In France, the rules governing entitlement to unemployment benefits were relaxed slightly in October 2000 with a reduction in the period for which contributions need to have been paid, from 8 of the previous 18 months to 4. From the beginning of 2001 onwards, moreover, unemployment benefits are no longer reduced as the spell of unemployment lengthens (the *allocation unique dégressive* being replaced by the *allocation d'aide au retour à l'emploi*).

Only in Austria was there a reduction in the rate of unemployment benefit, which was reduced from 57 % of previous earnings to 55 % in January 2001. In addition, the maximum rate payable for those with children, who receive a supplement, was fixed at 80 % of previous earnings, so affecting large families, in particular, while the period of employment required to requalify for benefit was extended from 26 weeks to 28.

Since the flat-rate job-seekers allowance is uprated in line with price inflation in the UK, its value relative to earnings will decline if earnings grow at a greater rate than inflation. An important part of social security payments to the unemployed and other benefit recipients is housing benefit and mortgage interest payments. These benefits are uprated in line with rent increases and changes in mortgage interest costs. While some benefits in recent years have been uprated at the rate of inflation plus a percentage (see section on pensions), most social security benefits continue to be uprated on the same basis as job-seekers allowance.

Early-retirement schemes

The growth in the number of people withdrawing from the labour force before reaching the official age of retirement has been a marked feature of labour market development over the past 20 years or so across the Union. In 2000, under half of men aged 55 to 64 were in employment (47.5 %) and only just over a quarter of women (28 %). Given the demographic trends outlined above, such low figures represent a significant waste of potential resources and one which will become increasingly important in future years as these trends continue. The Stockholm European Council responded in 2001 by setting the new target of achieving an employment rate of 50 % among people aged 55 to 64 by 2010.

Many of the people who stop working in their late 50s and early 60s are eligible for early-retirement pensions, which were expanded in the 1980s in order to encourage older workers to withdraw from the labour market and to relieve competition for scarce jobs particularly from young people. In many countries, however, as noted above, those retiring early are sometimes supported by other types of benefit, for example unemployment or disability benefits with relaxed conditions of eligibility. Against the background of the impending decline in working-age population in many countries and the increasing scale of the transfers involved, there has been a widespread tendency for governments to tighten their policy on early retirement and to try to encourage older workers to remain in employment. Attempts have, therefore, been made to reduce the financial incentives for early retirement and to increase those for continuing in work. The improvement in the labour market has created more favourable conditions for such attempts. However, concrete achievements remain modest overall.

In a number of countries, governments have introduced measures to enable people to take partial rather than full retirement, as in Denmark and Spain, or have made existing measures more attractive, as in Germany. These measures are described above in the section on pensions. In Austria and Portugal, pension bonuses have been introduced for those postponing retirement beyond the official age, while the effective amount payable to those retiring prematurely has also been reduced in a number of cases, including Austria, as also described above.

In two Member States, more positive action has been taken to enable older workers to remain in employment longer. In Finland, the availability of training has been increased for those over 45 in order to improve their employability. In Denmark, plans have been announced to create jobs (flexi-jobs) also for older workers with a diminished capacity to work.

Disability benefits

As noted above, disability benefits have often been used as a substitute for early-retirement pensions or unemployment benefits, most of the recipients being in older age groups. In many Member States, the rules governing entitlement to benefit have been tightened in recent years and, in some cases, the systems substantially reformed, such as in the Netherlands and the UK (see *Social protection in Europe 1999* for details), with the aim of reducing the high number of claimants and, accordingly, encouraging those who can to take up paid employment. At the same time, such measures have been combined in some cases with increased efforts to provide adequate levels of income support for those who are genuinely incapable of working, as part of attempts to target transfers more effectively on those in need.

In Sweden, new rules were introduced in 2000 to enable people with disabilities to test their ability to work whilst retaining their right to benefit. The disability benefit can be retained for a maximum of three months in a 12-month period. If the person continues to work thereafter, the disability benefit may be dormant for the remaining part of the period granted without the right to benefit being lost. It is possible for the disability benefit to be wholly or partly ‘dormant’. Similarly, in Finland, those on full disability benefit have been able, since 1999, to suspend receipt of this for up to six months while they look for work and receive a special disability allowance instead, with the option of being able to reclaim the full benefit if they are unsuccessful in their efforts.

In the UK, conditions governing entitlement to incapacity benefit were tightened further in 1999, following the introduction of the ‘all-work test’ in 1995 (see *Social protection in Europe 1997*). In addition, the severe disablement allowance was abolished from April 2001, with the result that most recipients will have to apply for means-tested income support if their income falls below the minimum level. These measures have been coupled with the introduction of the disabled persons tax credit in October 1999 to replace the disability working allowance (which had been taken up by only just over half of the 30 000 forecast in 1990 when it was announced), the aim being to provide more of an incentive to work by guaranteeing a minimum income of around EUR 250 a week for a single person and around EUR 370 a week for a couple with one child under 11.

In Austria, early-retirement pension due to reduced working capacity was abolished in May 2000. This was largely taken up by unskilled workers, few of whom were likely to qualify for invalidity benefit and who, as a result, were otherwise likely to have to apply for unemployment benefit or social assistance. Therefore, access to invalidity benefit was facilitated for employees at the age of 57 and older. Pensions due to occupational diseases and accidents became liable to taxation in January 2001. For those whose capacity to work is reduced by 70 % or more, the pre-tax pensions are increased to compensate for the potential effects of the tax on their net income.

In Ireland, the measures taken to increase the incentive for those with disabilities to work included: an increase in the upper income limit for the qualified adult allowance in 1999 (so raising the potential net pay of spouses of those with disabilities); a rise of 50 % in the earnings for recipients of means-tested disability allowances in 2000; and a relaxation in 2001 of the exemption limit for entitlement to these. At the same time, benefit levels more than doubled between 2000 and 2001, while people with disabilities became eligible for the back to education allowance and those in receipt of invalidity benefit for the back to work allowance as well.

Denmark is implementing a reform of the anticipatory pension system. The reform implies operating with a new criterion of 'working capacity' which focuses on the individual's resources and development potential rather than his or her limitations. The effectiveness of all these measures in getting people into work, whether addressed to early-retirement pension recipients or those receiving disability benefits, depends ultimately on both jobs being available and the people looking for jobs possessing the necessary skills. Both factors are positively influenced by policies promoting a more favourable attitude of prospective employers as well as by the availability of training programmes in the public sector. On this latter point, in particular, data from the European Community household panel suggest that, in most Member States, less than 10 % of those of 50 and over received any form of vocational training during 1996.

Family benefits and support to help reconcile work and family

In all Member States, families with children and women giving birth receive special income support, aimed, in part, at the well-being of children and, in part, at the well-being of mothers. Since in most countries the same amount of family benefit is paid irrespective of whether or not parents are in employment and irrespective of the level of earnings, benefits tend to have a neutral effect on the decision to work or not to work (though the income from benefits may make it easier for one of the parents to decide not to work).

There was a significant increase in the expenditure of Member States on family and child benefits between 1994 and 1999 (see Part I). A common tendency across the Union has been to increase the provision of childcare support and, equally importantly, parental leave entitlement, so making it easier for people to reconcile the pursuit of a career with their family responsibilities.

In both Ireland and the UK, family benefits have been increased substantially since 1999 — in Ireland, by 9.5 % in 1999, 23 % in 2000 and around 55 % in 2001; in the UK, by some 36 % for the first child between April 1998 and April 2001, with further significant increases promised for 2002 and 2003. In Belgium, France and Finland as well as in Ireland, the age limit on payment of benefit has been extended, or is likely to be so in the near future, to take explicit account of the fact that children now tend to stay longer in education and longer with their families. In France, the age limit has been raised from 19 to 20, while, in Ireland, means-tested benefits for children in low-income households have been extended to 22 for those in full-time education. Access to means-tested family benefits was also broadened in Ireland, as well as in Italy and Greece. In Spain, the annual allowances for a dependent child have been increased since January 2000, at the same time that new benefits for a newborn child and for multiple birth were introduced.

At the same time, tax allowances in respect of children were raised in Italy, Austria and Greece, while, in the UK, their reintroduction was announced in April 2001 after a gap of some 25 years since the mid-1970s when they were replaced by child benefits.

Parental leave entitlement has been increased in nearly all Member

States, especially so far as fathers are concerned. In Germany, the conditions for leave were made more flexible in January 2001, with parents being entitled to receive parental allowances even if they do not take leave, so long as they work less than 30 hours a week (rather than 19 hours as in the past). In addition, provision was given to parents to split the three years of leave per child to which they are entitled between themselves and, providing their employer agrees, to postpone 12 months of entitlement up to when the child is eight, so making it possible, for example, for parents to be at home during their children's first year at school.

With effect from 1 January 2002, the childcare allowance was introduced in Austria as a new family policy benefit. In line with its nature of a family benefit, entitlement to childcare allowance is not subject to (dependent) employment before childbirth and is therefore granted to all mothers and fathers. The childcare allowance of EUR 436 monthly is paid during a period of two and a half years or during a period of three years if shared with the second parent. An additional allowance of EUR 182 monthly is granted to one-parent families and socially disadvantaged couples. The childcare allowance significantly increases the discretionary earnings cap as compared with the respective limit under previous legislation (annual gross amount: EUR 14 535). This aims at supporting (re)integration into the labour market and encouraging fathers to take parental leave.

In Portugal, fathers have become entitled, since 1999, to five days' leave during the baby's first month in addition to 15 consecutive days around the time of the birth, in both cases being paid an allowance equal to their current wage by the social protection system. In the UK, in December 1999, employees were given entitlement to three months' unpaid leave for each child under five, while, in Ireland, a new social insurance-based carers' benefit, payable for up to 15 months, was introduced in 2000 to assist those needing to take time off work for care reasons. In France, as from 2002, fathers have the right to 11 days' leave during the four months after the baby is born (or adopted). This leave is paid by social security according to the same rules applicable to maternity leave. Its purpose is to support the sharing of parental responsibilities from early childhood. In Greece, measures intended to give greater flexibility to reconcile work and family include the possibility of arranging work time on an annual basis in a more flexible way and the possibility to reduce working hours (two hours less per week) by agreement between the company and the employees. Measures to increase the attractiveness of part-time work also contribute to the reconciliation of the family and work in that they allow people, in particular working mothers, to have greater flexibility in choosing their work time pattern.

In Italy, parental leave was extended in 2000 to a total of 10 months and parents with children aged three to eight became entitled to take five days' paid leave a year. In Luxembourg, parents are entitled to two days' paid leave a year while the child is under 15, if the child is ill, disabled or has had an accident. In France, under legislation introduced in 2001, parents with children suffering serious illnesses or disabilities are entitled to work part-time temporarily or to have three periods of leave of up to four months each, with an allowance to compensate them in part for loss of earnings. In Spain, entitlement to leave for care of family members other than children was extended to up to three years at the end of 1999. In the Netherlands, provision for entitlement to 10 days' paid leave a year to care for a dependant plus an allowance of 70 % of current earnings is in preparation. From 2002, parental insurance in Sweden was extended from 460 to 480 days. The 480 days are divided equally between the parents. A parent may transfer her or his days to the other parent, except for 60 days, which are reserved for the mother and the father. The minimum guaranteed benefit for the first 390 days for parents with low income or no income at all has been raised from around EUR 7 to EUR 14 a day.

Maternity leave provisions have also been improved in a number of Member States. In the Netherlands, maternity leave was increased to 16 weeks, in Portugal to 120 days (17 weeks) and in Ireland to 18 weeks. In Italy, arrangements for leave were made more flexible, with women being able to take up to four months off after the birth of their child and a minimum of one month before the birth. At the same time, maternity benefit was introduced for atypical workers so long as they were insured for at least three of the nine months before becoming pregnant, while benefits for those without insurance and on low income were increased. Ordinary maternity leave was extended from 14 to 18 weeks in the UK in April 2000. The periods of leave and maternity pay are to be further extended from 18 to 26 weeks in 2003.

Perhaps the most important aspect of social protection for working families is the provision of either free or affordable childcare facilities, and action has been taken to increase availability in a number of Member States where facilities were inadequate. In Greece, over 100 creative children's centres to take care of children aged 5 to 12 were created in 1999 and 2000, along with many nursery schools. A similar programme is planned for developing daycare centres for the elderly. In Portugal, a programme ('Crèches 2000') has been launched to create 50 000 childcare places. In the UK, some 140 000 new childcare places were created between May 1997 and March 2000 for pre-school children as a result of a government undertaking to double the number of nursery places for three-year-olds by 2002 and, in October 2000, additional funds for deprived areas were announced. In both Ireland and the Netherlands, financial incentives have been introduced to encourage the private sector to provide child daycare facilities, and, in the Netherlands, childcare for those up to 13 will, in future, be tax deductible.

The Austrian Federal Government allocated a total of EUR 87.2 million between 1997 and 2000 to establish additional childcare facilities in the *Länder*. Since the *Länder* and communities at least doubled this amount, additional investments in this area totalled EUR 174.4 million. Childcare facilities are available for some 32 000. Moreover, measures to extend opening times in the afternoon and during school holidays as well as projects promoting the integration of disabled girls and boys were funded. There have also been moves to improve the situation in Finland and Sweden, where childcare facilities are already well developed. Here, attention has focused on limiting the cost of care for parents. In Finland, a ceiling of around EUR 185 a month was applied to daycare fees in 2000 (previously around EUR 170 since 1997), while, in Sweden, a maximum fee will be imposed in January 2002. In Sweden, also, the unemployed have been guaranteed access to childcare places since July 2001, and, in Finland in 2000, most municipalities began to provide pre-school education for children under six.

Table 1 — Growth of expenditure on social protection, 1990–99

Annual % change

	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EU
Total expenditure on social protection																
Expenditure in real terms (i.e. adjusted by GDP deflator)																
1990–94	3.7	5.2	3.6	0.1	4.5	3.2	5.2	2.1	7.3	1.7	4.9	9.3	5.8	3.7	7.5	3.9
1994–99	1.8	0.4	2.5	6.1	1.0	2.0	3.4	1.3	4.2	1.6	2.0	5.7	– 0.1	0.4	1.4	1.8
1990–99	2.6	2.5	3.0	3.3	2.6	2.6	4.2	1.7	5.6	1.7	3.3	7.3	2.5	1.8	4.1	2.9
Change in relative prices (consumer prices relative to GDP deflator)																
1990–94	– 0.3	– 0.2	– 0.3	0.1	– 0.2	0.1	– 0.3	0.1	0.1	0.8	0.3	– 1.1	0.8	1.2	1.0	0.1
1994–99	0.0	– 0.1	0.3	– 0.2	– 0.3	0.1	– 1.7	– 0.4	– 0.8	0.4	0.1	– 0.6	– 0.7	– 0.9	– 0.4	– 0.1
1990–99	– 0.1	– 0.2	0.0	0.0	– 0.3	0.1	– 1.1	– 0.2	– 0.4	0.5	0.2	– 0.8	0.0	0.0	0.2	0.0
Expenditure in purchasing power terms (i.e. adjusted by consumer prices)																
1990–94	3.9	5.5	3.9	0.0	4.7	3.1	5.5	2.0	7.2	1.0	4.6	10.5	4.9	2.5	6.5	3.8
1994–99	1.8	0.5	2.2	6.2	1.4	2.0	5.2	1.8	5.0	1.3	1.9	6.4	0.5	1.2	1.9	2.0
1990–99	2.8	2.7	2.9	3.4	2.9	2.5	5.4	1.9	6.0	1.1	3.1	8.2	2.5	1.8	3.9	2.9
Expenditure on benefits																
Expenditure in purchasing power terms (i.e. adjusted by consumer prices)																
1990–94	3.5	5.5	3.7	0.6	4.8	3.0	5.6	2.0	7.3	0.6	4.6	11.2	5.1		6.5	3.7
1994–99	1.9	0.5	2.2	6.3	1.3	2.0	5.2	2.0	5.1	0.8	1.9	5.8	0.6	1.2	2.0	2.0
1990–99	2.6	2.7	2.9	3.7	2.8	2.4	5.3	2.0	6.1	0.7	3.1	8.1	2.6		3.9	2.8
Excluding unemployment benefits																
1990–94	3.4	5.2	3.9	0.7	4.4	3.1	5.2	1.8	7.2	0.1	4.3	10.4	2.3		6.3	3.5
1994–99	2.2	1.7	2.5	5.8	2.8	2.3	6.3	2.2	5.2	1.7	1.9	6.2	1.6	2.0	2.6	2.5
1990–99	2.7	3.3	3.1	3.5	3.5	2.6	5.8	2.0	6.1	0.9	3.0	8.1	1.9		4.3	3.0

Table 1a — Social expenditure per capita in real terms, 1990–99

Annual average % change

	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EU-15
1990–94	3.3	4.9	2.9	– 0.6	4.3	2.7	4.7	1.9	5.8	1.0	3.9	9.3	5.3	3.0	7.2	3.7
1994–96	1.2	– 0.1	3.8	3.9	0.8	1.7	2.8	– 0.4	4.3	1.0	1.4	5.1	0.1	– 1.8	1.4	1.7
1996–99	1.9	0.0	1.3	7.1	1.0	1.6	2.2	2.2	1.9	1.1	2.2	5.8	– 0.8	1.5	0.7	1.6
1996–98	*1.7*	*– 0.1*	*0.5*	*6.5*	*1.0*	*1.4*	*1.3*	*2.0*	*1.0*	*0.7*	*1.2*	*6.0*	*– 2.0*	*0.9*	*0.6*	*1.3*
1998–99	*2.2*	*0.3*	*2.9*	*8.4*	*0.9*	*2.0*	*4.0*	*2.7*	*3.7*	*2.0*	*4.2*	*5.3*	*1.7*	*2.9*	*0.9*	*2.4*

GDP per capita

Annual average % change

	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EU-15
1990–94	0.8	1.5	1.5	0.4	1.0	0.4	2.9	0.6	4.4	1.2	1.1	1.1	– 2.3	– 0.8	1.2	0.9
1994–96	1.7	2.1	1.0	2.0	2.4	1.0	8.0	1.8	2.2	2.5	1.6	3.9	3.5	2.0	2.4	1.8
1996–99	2.7	2.2	1.7	3.3	4.0	2.4	8.9	1.7	5.6	3.3	2.5	3.7	4.9	3.3	2.4	2.5
1996–98	*2.7*	*2.5*	*1.6*	*3.3*	*4.0*	*2.3*	*8.5*	*1.7*	*6.1*	*3.5*	*2.3*	*4.0*	*5.5*	*2.8*	*2.8*	*2.6*
1998–99	*2.8*	*1.8*	*1.8*	*3.2*	*4.0*	*2.6*	*9.7*	*1.5*	*4.5*	*3.0*	*2.8*	*3.2*	*3.8*	*4.4*	*1.7*	*2.4*

Table 2 — Division of current expenditure on social protection by function, 1999

% of total expenditure

	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EU-15
Sickness	4.0	3.2	5.1	3.1	4.8	2.3	4.2	2.7	3.0	8.5	3.8	1.9	4.4	6.4	2.6	3.9
Healthcare	18.9	15.8	22.0	20.8	23.5	24.5	34.2	20.1	21.3	18.6	22.0	27.3	18.0	18.5	21.2	21.7
Disability	8.5	11.8	7.5	6.1	7.6	5.6	4.8	6.0	13.9	11.1	8.5	10.5	13.8	11.5	9.6	7.9
Old age and survivors	40.2	37.0	40.6	49.0	44.9	41.9	24.0	61.8	40.1	36.7	45.9	38.1	34.2	38.9	44.2	44.0
Family and children	8.5	12.7	10.1	7.4	2.0	9.3	12.4	3.5	15.0	4.0	10.0	4.5	12.5	10.4	8.5	8.1
Unemployment	11.3	10.8	7.1	5.5	12.5	7.0	10.6	2.1	2.4	5.8	5.2	3.3	11.0	8.0	3.1	6.2
Housing	0.0	2.4	0.6	3.0	1.2	3.0	3.3	0.0	0.3	1.4	0.3	0.0	1.5	2.3	5.8	2.1
Social exclusion	2.1	3.6	1.9	1.9	0.7	1.4	1.9	0.1	0.8	5.4	1.2	1.5	2.0	2.5	0.9	1.6
Administration	4.1	2.8	3.4	3.2	2.4	4.0	4.5	2.6	2.4	4.6	1.9	3.7	2.6	1.6	3.3	3.3
Other	2.4	0.0	1.6	0.0	0.4	1.1	0.1	0.9	0.8	3.8	1.1	9.1	0.0	0.0	0.8	1.3
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

% of GDP

	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EU-15
Sickness	1.1	0.9	1.5	0.8	1.0	0.7	0.6	0.7	0.7	2.4	1.1	0.4	1.2	2.1	0.7	1.1
Healthcare	5.3	4.7	6.5	5.3	4.7	7.4	5.0	5.1	4.7	5.2	6.3	6.2	4.8	6.1	5.6	6.0
Disability	2.4	3.5	2.2	1.6	1.5	1.7	0.7	1.5	3.0	3.1	2.4	2.4	3.7	3.8	2.6	2.2
Old age and survivors	11.3	10.9	12.0	12.5	9.0	12.7	3.5	15.6	8.8	10.3	13.1	8.7	9.1	12.8	11.7	12.1
Family and children	2.4	3.7	3.0	1.9	0.4	2.8	1.8	0.9	3.3	1.1	2.9	1.0	3.3	3.4	2.3	2.2
Unemployment	3.2	3.2	2.1	1.4	2.5	2.1	1.6	0.5	0.5	1.6	1.5	0.7	2.9	2.6	0.8	1.7
Housing	0.0	0.7	0.2	0.8	0.2	0.9	0.5	0.0	0.1	0.4	0.1	0.0	0.4	0.8	1.6	0.6
Social exclusion	0.6	1.0	0.6	0.5	0.1	0.4	0.3	0.0	0.2	1.5	0.3	0.3	0.5	0.8	0.2	0.4
Administration	1.2	0.8	1.0	0.8	0.5	1.2	0.7	0.7	0.5	1.3	0.5	0.9	0.7	0.5	0.9	0.9
Other	0.7	0.0	0.5	0.0	0.1	0.3	0.0	0.2	0.2	1.1	0.3	2.1	0.0	0.0	0.2	0.4
Total expenditure	28.2	29.4	29.6	25.5	20.0	30.3	14.7	25.3	21.9	28.1	28.6	22.9	26.7	32.9	26.6	27.5

Table 3 — Growth of social expenditure by function in purchasing power terms, 1990–99

Annual % change

	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EU
Sickness																
1990–94	3.8	– 3.5	1.6	– 3.1	5.2	1.3	0.2	– 3.2	4.6	– 2.1	2.1	1.7	– 6.2		9.5	1.4
1994–99	– 6.0	3.1	– 3.7	3.6	0.0	2.9	5.3	– 0.3	6.7	2.5	0.4	0.0	4.1	8.5	– 4.4	– 1.2
1990–99	– 1.2	– 0.2	– 1.1	0.2	2.6	2.1	2.7	– 1.7	5.7	0.2	1.3	0.9	– 1.2		2.3	0.1
Healthcare																
1990–94	1.7	3.4	4.9	3.2	4.4	3.1	7.4	– 1.3	6.6	2.9	4.2	15.9	– 2.6		6.1	3.4
1994–99	4.0	3.4	1.7	6.6	2.6	2.5	11.1	2.3	6.9	1.1	4.3	7.3	3.8	4.8	4.0	2.8
1990–99	2.8	3.4	3.3	4.8	3.5	2.8	9.2	0.5	6.7	2.0	4.3	11.5	0.5		5.1	3.1
Disability																
1990–94	5.8	5.7	7.1	– 5.1	3.8	1.0	5.3	1.7	6.5	– 3.2	5.7	7.7	4.1		10.9	4.2
1994–99	5.5	5.4	6.9	6.4	2.9	2.3	9.8	– 1.4	10.2	– 2.9	7.0	2.0	– 0.5	2.2	1.2	2.4
1990–99	5.6	5.6	7.0	0.5	3.4	1.6	7.5	0.2	8.3	– 3.1	6.3	4.8	1.8		5.9	3.3
Old age and survivors																
1990–94	4.3	5.7	3.2	– 0.1	4.4	3.3	3.1	4.0	6.5	0.9	3.4	9.4	3.7		5.0	3.7
1994–99	2.2	1.3	2.8	8.1	4.0	3.1	4.0	3.2	4.0	2.5	2.1	10.2	3.1	3.3	4.4	3.3
1990–99	3.3	3.5	3.0	3.9	4.2	3.2	3.6	3.6	5.2	1.7	2.7	9.8	3.4		4.7	3.5
Family and children																
1990–94	1.5	6.5	3.1	5.5	4.6	2.2	6.8	– 6.9	12.8	– 3.8	8.6	4.5	5.4		5.7	2.5
1994–99	3.9	2.1	10.8	3.2	7.3	2.4	8.9	7.2	10.7	– 0.8	– 1.8	5.8	– 0.9	– 2.5	2.9	4.6
1990–99	2.7	4.3	6.9	4.4	5.9	2.3	7.8	– 0.1	11.7	– 2.3	3.3	5.2	2.2		4.3	3.5
Unemployment																
1990–94	3.5	7.2	2.3	– 3.4	6.4	2.2	7.5	6.6	9.9	6.3	9.4	27.4	33.1		8.3	4.8
1994–99	– 0.3	– 8.5	– 0.7	22.1	– 7.9	– 0.9	– 2.5	– 7.0	1.1	– 10.8	1.9	– 4.0	– 7.3	– 7.1	– 13.4	– 4.8
1990–99	1.6	– 1.0	0.8	8.6	– 1.0	0.6	2.4	– 0.4	5.4	– 2.7	5.6	10.6	11.1		– 3.1	– 0.1
Housing																
1990–94		6.5	3.6	6.9	– 4.5	5.7	3.7	1.8	7.1	7.7	– 6.1	– 7.3	23.2		9.7	7.4
1994–99		0.6	3.4	8.3	33.8	2.2	7.5	11.2	16.9	2.8	4.7	– 5.8	3.5	– 7.6	0.1	1.3
1990–99		3.5	3.5	7.6	13.0	4.0	5.6	6.4	11.9	5.2	– 0.8	– 6.5	12.9		4.8	4.3
Social exclusion																
1990–94	2.0	9.8	8.0	– 1.9	15.4	12.5	10.2	1.7	6.5	– 1.5	6.2	20.8	7.4		0.3	6.2
1994–99	6.2	– 3.0	0.0	30.4	8.4	8.5	8.0	6.0	1.4	24.5	0.3	48.1	1.0	– 2.8	14.7	5.3
1990–99	4.1	3.2	3.9	13.1	11.8	10.5	9.1	3.8	3.9	10.7	3.2	33.8	4.1		7.2	5.7

Annex

Acknowledgement

This report has been prepared in close cooperation with Eurostat (the 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 main source of data used is the European system of integrated social protection statistics (Esspros). Demographic data and data on harmonised unemployment rates are also used to provide estimates of the population potentially in need of support in respect of old-age pensions, family benefits and unemployment benefits.

Esspros

The analysis of trends in expenditure on social protection is based on the revised Esspros classification. Data on this classification exist for all Member States, though for a number of countries the figures involve some estimation, particularly for 1999, the latest year covered, for which the data are provisional for all 15 Member States, except Denmark, Ireland, Luxembourg and Austria. For Sweden, no data are available for the years 1990 to 1992 and the EU figures for this period involve some estimation in order to adjust them to a comparable basis with those for later years. There are also some problems of comparability of expenditure between countries, as noted below.

The core Esspros 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 benefits include, for example, 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.

For Belgium, Denmark, Greece, France, Ireland, Italy, Portugal, Finland, Sweden and the UK, figures are calculated according to the new national accounts methodology (ESA 95) for all years. This methodology is also used for Germany from 1991, the Netherlands from 1994 and Spain and Luxembourg from 1995, but in the other years, the previous methodology (ESA 79) is used, as it is for all years in Austria. This may cause some break in the series for those countries where the method changed and also some problems of comparability with the other countries in the case of Austria, but it is difficult to determine the scale of the problems.

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. Although the data are becoming more comparable over time, the comparisons presented in the text need to be interpreted with a certain amount of caution and with due regard to the notes set out below. They may also be subject to some revision in the future.

Problems of comparability affect, in particular, 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 explained in an extra section.

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 under unemployment, are an important case in point. In practice, for some Member States, such expenditure is at least partly included under unemployment, while 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 headings, 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. Similarly, 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. Furthermore, 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 heading and in total.

The analysis in the text aggregates expenditure on old age and survivors, partly because of the potential difficulties in distinguishing consistently between the two in Member States. It separates expenditure on healthcare (benefits in kind in the sickness/healthcare function) from sickness benefits (cash transfers in the sickness/healthcare function).

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. To this extent, the figures tend to overstate the net value of benefits and the actual financing costs involved. They also exclude so-called ‘tax expenditures’ — transfers provided through tax concessions, rebates or allowances — which are similar in effect to expenditure on benefits and which also vary in importance between countries. To this extent, the figures understate the net amount transferred and the overall financing implications of social protection.

On the receipts side, 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 a separate reserve. Since such benefits are included in expenditure, the related need for financing has to be included in receipts. This means that employers’ contributions can be larger than the statutory amounts levied by governments.

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).

Purchasing power standards

Expenditure is expressed in terms of purchasing power standards (PPS), which take account of differences in price levels between Member States (specifically of those of consumer goods and services), as well as exchange rates, when making comparisons of the level of spending in different countries. To compare expenditure on social protection between countries, we must first express that expenditure in the same currency: the euro is used accordingly.

This gives, for example, a 1999 figure for social protection expenditure of EUR 4 856 per capita in Italy and EUR 9 152 per capita in Denmark (88 % more than Italy). But this difference is ‘nominal’, since it takes no account of the general level of prices (of goods and services), which in 1999 was 39 % higher in Denmark than in Italy. The difference in real terms (i.e. in terms of purchasing power) was thus only + 35 % (188/139 = 1.35). To allow the user to make direct, real-term comparisons between countries, statisticians show expenditure in purchasing power standards:

- Italy: 5 507 PPS per capita in 1999;

• Denmark: 7 440 PPS per capita in 1999 (35 % higher than Italy).

As such, the figures derived measure the effective command of benefit recipients over goods and services. For the Union as a whole, figures in terms of PPS are the same as euro figures.

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: Data in this report for Germany include the former East German *Länder* throughout. Since consolidated figures exist from 1991 only, 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). For the analysis of old-age pensions, unemployment benefits and family benefits, 1991 figures have been used instead of 1990 figures.

Unemployment benefits exclude some wage subsidies paid to employers (which are included in the published Esspros tables) to encourage the employment of certain groups at risk on the labour market (amounting to around 16 % of total spending on this item in 1999).

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 *Cassa Integrazione Guadagni* (CIG) paid to those on lay-off, who may be effectively unemployed, but who may not necessarily be actively looking for a job (amounting to some 13 % of expenditure on this category in 1999, as compared with a peak of 31 % in 1993).

Luxembourg: A new care allowance *(assurance dépendance)* was introduced in 1999 for people with disabilities and the elderly who have difficulty taking care of themselves. This is included wholly under disability benefits, though part should be included under old age.

Austria: Unemployment benefits include some subsidies to employers which should be excluded from the Esspros accounts (though these accounted for under 2 % of spending on this item).

Portugal: Old-age pensions exclude benefits to the disabled who have reached retirement age which are included in the disability function. 'Other expenditure', which is included in the total but not in the spending on benefits, includes transfers to institutions dealing with vocational training (the 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. ('Other expenditure' in Portugal amounted to 9 % of total spending on social protection in 1999, or 2 % of GDP, as compared with under 1 % of the total in the rest of the EU.)

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

UK: Esspros data for the UK are on a financial year basis (i.e. April to March) rather than that of a calendar year 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.

Data for old age do not include 'appropriate personal pension schemes'.

For more details on the Esspros data, see *Esspros manual 1996*, Eurostat, 1996, and *Social protection expenditure and receipts, 1980–99*, Eurostat, 2001.

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