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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

Dynamization of social security benefits

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CORRIGENDUM

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Dynamization of social security benefits

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CORRIGENDUM

- Introduction, page 2 : the second part of the first sentence should be read as follows :

"in the conclusion, the Council is invited to take note of the present communication".

_ Chapter IV, page 25 the first sentence of § 7 should be read as follows :

"the Commission invites the Council to take note of the present communication".

DYNAMIZATION OF SOCIAL SECURITY BENEFITS

(Communication to the Council)

S U M M A R Y

INTRODUCTION

In its Resolution of 21 January 1974 concerning a social action programme for the European Community (1974-76) the Council provides, under point II, "Improvement of living and working conditions so as to make possible their harmonization while the improvement is being maintained", for the gradual introduction of mechanisms to adjust social security benefits to increasing prosperity in the different Member States (Action No 10).

To carry out this mandate the Commission has collected information on the current situation in the Member States with regard to the adjustment of social security benefits. From such data the Commission has prepared a synthesis which compares the various systems and methods adopted by Member States to dynamize social security benefits. This synthesis constitutes the first part of the document.

A more detailed description of the current situation in the various Member States is given in Annex I.

The second part contains the initial thoughts of the Commission staff on the problem.

Government experts and both sides of industry were consulted on the three abovementioned documents at meetings held in 1975 and 1976. The third part contains a summary of the views of the government experts and both sides of industry.

Annex II gives more details on the government experts' positions as reflected in the minutes of the meetings.

Written communications from the experts are contained in Annex IIa.

Annex IIb contains the record of the meeting of 4 and 5 March 1975 with both sides of industry.

The fourth part of the document contains the Commission's general views on this matter, based on the work done and consultations held to date ; the conclusion calls upon the Council to act upon the present communication. The Commission reserves the right to present to the Council whatever propositions it deems appropriate in due course.

CHAPTER I

OUTLINE OF THE EXISTING DYNAMIZATION SYSTEMS FOR SOCIAL SECURITY BENEFITS IN THE VARIOUS MEMBER STATES OF THE EUROPEAN ECONOMIC COMMUNITY

(Situation on 1 January and 1 July 1975)

I. GENERAL COMMENTS

1. The expression "dynamization of social security benefits" refers to the systematic adjustment of these benefits according to certain principles laid down by legislation or established by custom, and not simply to ad hoc adjustments made from time to time.

2. Forms of dynamization (adjustment, adaptation) of social security benefits exist in all the Member States of the Community. Except in Ireland, these systems are governed by legal provisions. In that country, however, the dynamization of social security benefits has become a question of considerable importance; regular adjustments have been made in recent years and the principle has become an established part of Irish social policy.

3. In all the Member States, the greatest progress has been made on legislation concerning dynamization systems for "long-term" benefits (old age, disability and survivors' pensions); under existing provisions, therefore, the latter should enjoy the most realistic and advantageous adjustment to increasing prosperity as regards both the duration and scale of benefits.

4. For "short-term" benefits (sickness, unemployment) and family allowances there are in some cases systems similar to those adopted for the dynamization of long-term benefits; however, the latter frequently operate in a different way.

5. In some Member States all social security benefits are dynamized, but in others, as a result of policy decisions, certain benefits such as unemployment and family allowances are totally or partially excluded.

6. In France and Luxembourg unemployment benefits do not come within the scope of the social security system but are provided by supplementary systems or social assistance. However, in view of their importance, their widespread nature and the laws governing them, and also because they are adjusted according to well-established rules, they also have been taken into consideration in this document.

7. Supplementary company schemes, except for the unemployment scheme in France, and schemes which are generally applied and valid for a whole occupational category or which cover the majority of this category, have not been examined in view of their complex nature and the lack of available information.

8. In certain Member States the numerical basis for adjustments is the price index or the cost of living index, whilst in others the wage index is used. The expressions "general prosperity" (bien-être général) (Belgium) or "prosperity" (Denmark) are also used, but are not defined in detail - which leaves some scope for evaluation or negotiations on the exact coefficients to be used for dynamization.

9. Some countries (Belgium, Luxembourg and, with certain qualifications, Denmark) have a two-tier system of dynamization based partly on the price index and partly on a secondary factor which is defined as a "wage" or "prosperity" index; others use only one reference scale, i.e., the price or wage index, whilst in certain cases one reference scale is used for some benefits and another one for others.

10. Nor should one neglect the importance of the frequency with which adjustments are made (time-lag), which differs greatly from one Member State to another; for example, every two months in Belgium for the price index and about every two years in Germany and Luxembourg for the real wage index.

11. Only Belgium and Luxembourg have systems which enable an almost immediate reaction to changes in the price index. All the other systems are based on periodic adaptation, that is to say, adjustments taking place at regular intervals. However, in the majority of cases, the government is empowered to make more frequent adjustments.

12. Moreover, considerable differences exist between systems modelled on the same principles. Price and wage indices are often calculated according to different methods; for example, the reference products (the "housewife's shopping basket") used for calculating the price index may vary from country to country, while for the wage index some earnings are disregarded, such as those above a certain fixed ceiling or those of workers not covered by social security, whilst in other cases only basic wages approved by collective agreements in certain branches of activity are taken into account. The time-lag between calculating the reference

index and reassessing benefits also varies. In Germany and Luxembourg the amounts of benefits are fixed in relation to average real wages over a period of several years terminating some months before adjustment. There are also differences in the minimum index change necessary to trigger off an adjustment. Many other factors may also influence the real effects of the method of dynamization; many of these are listed in Annex II of this document on the situation in each Member State.

13. Chapter 2 gives a brief, but more detailed, outline of the legislation on the dynamization of social security benefits in the various Member States.

II. MACHINERY FOR THE ADJUSTMENT OF PARTICULAR BENEFITS

A. ADJUSTMENT OF "LONG-TERM" BENEFITS (old age pensions, disability and survivors' pensions)

a. Two-tier systems

(i) Trigger-index number + national prosperity or wage index

14. In Belgium the law of 2 August 1971 provides for the automatic adjustment of social security benefits on the basis of a trigger point. Each time the average consumer price index reaches one of the trigger points in two consecutive months (numbers forming part of a series, of which the first is 114.20 and the following are obtained by multiplying the previous figure by 1.02) an adjustment of the same amount must be made. The advantage of this method is that it enables a rapid response to cost-of-living increases. However, because of the two-month time-lag and the two-point interval between the trigger index numbers, adjustments are always slightly below the consumer price curve.

These provisions were supplemented by the laws of 28 March 1973 and 16 July 1974, under which it became compulsory to review social security benefits each year to keep them in line with "national prosperity". Pursuant to these laws, an adjustment coefficient is fixed on 1 January of each year by Royal Decree, after consideration by the Council of Ministers.

15. Luxembourg also has a system whereby pensions are adjusted in keeping with the cost of living index. Since May 1972, the interval between the trigger points has been 2.5%. This index is fixed by the Prices Office, which is responsible to the Minister for Economic Affairs.

In addition to this system, an adjustment to economic changes is made under the law of 13 May 1964. At least every five years, the government examines the need to adjust pensions in the light of wage and salary trends and submits a report accompanied, if necessary, by a draft law for submission to Parliament.

(ii) Periodic adjustment linked to the cost of living index + national prosperity or the wage index

16. Italy has a complicated system which was introduced in 1974 and revised extensively in the following year. For self-employed workers, who account for a large percentage of the Italian working population, pensions are adjusted annually in line with the price index. Wage and salary earners' pensions are adjusted according to a system of flat-rate increases based on price fluctuations and variable increases based on wage trends. The minimum pension for former wage and salary earners is 30% of the minimum wage, adjusted annually.

17. In Denmark, pensions are adjusted periodically in line with the cost of living. This adjustment occurs twice a year, in April and October. The April increase takes into account the general trend during November, December and January and the October one that in May, June and July. Increases are calculated on the basis of indices published by the Danish statistical office. To trigger an increase in pensions, the index must rise by three points in the reference period; when this occurs, pensions are increased by three points.

Pensions are also linked to economic trends by adjustments every two years on the basis of the results of wage negotiations between the two sides of industry. This adjustment is not legally binding, but for the last fifteen years the negotiations between pensioners' organizations and the bodies responsible for payment have been regarded as entailing legal obligation. The adjustment arrived at is ratified by a special law.

b. <u>Periodic adjustments linked to wage trends</u>

18. In the Netherlands, pensions are linked to the real wage index. Since 1972 they have been reviewed on 1 January and 1 July of each year by Ministerial Decree. The 1 January adjustment is carried out on the basis of the 31 October index and that of 1 July on the basis of the 30 April index. In addition to these periodic adjustments, the Government may order a special increase; in that event, however, this increase is taken into account at the next annual adjustment.

19. In France, pensions under the statutory system, which covers the majority of workers, are adjusted twice a year, on 1 January and 1 July. From 1948 until January 1974, this adjustment was made annually, the July

review being the main one. The latter is based on a comparison between overall average earnings for the year ending 1 April and the same figure for the preceding year. The January adjustment is intended as a provisional increase in anticipation of the July adjustment. In principle, pensions are increased in January by half the rate of increase for the previous year, this being taken into account for the July adjustment. In practice, however, the first increase represents only two-thirds of the rate for the previous year, in view of the exceptionally high rate of inflation. Pensions commencing during the year in question are not included in the adjustment (same measure in Germany and in Italy).

20. In Germany, the adjustment of old age, invalidity and survivors' benefits is linked to changes in the so-called "general basis". This figure represents the average gross annual earnings of all insured workers (not including apprentices and trainees) during the three-year period preceding the year prior to that in which the new benefit rates come into force. For example, pensions payable in 1975 are adjusted according to the percentage difference between average annual earnings for the period 1970-71-72 and 1971-72-73. This time-lag was specifically designed to even out excessive fluctuations in earning levels, introducing an anti-cyclical element into the economy.

The system was supplemented recently by a provision which acts as a safety net to protect the relative value of pensions during periods of rapid increases in wages and salaries; a special adjustment is made if the rate for a hypothetical pensioner, who has been insured for forty years and received an average wage or salary, falls below 50% of the average wage for the last year of the reference period, that is to say the last year but one.

c. Adjustments linked to a variable reference unit

21. Under the new social security legislation in the United Kingdom (Social Security Act 1975), pension increases are linked to wage trends. Adjustments will be made at least once a year. If, however, prices rise more than earnings, the former will be used as a basis for calculating the new pension rates. Provision is also made for different forms of adjustment for basic and supplementary pensions, to be introduced at a later date; the latter supplement the basic pension and vary according to former earnings. Basic pensions will be linked to wage and salary trends whereas supplementary pensions will be linked to price trends.

d. No systematic adjustment

22. Ireland is the only Member State where there is no provision in law for the regular adjustment of pensions; in practice, however, adjustments have been made annually for the past fifteen years - twice in 1975 - and have more than compensated for price and wage increases. The pension system is currently being studied with a view to making radical changes.

B. MECHANISMS ADOPTED FOR ADJUSTING "SHORT-TERM" BENEFITS

a. Sickness, maternity and accident benefits

(i) Adjustments following a similar system to that adopted for pensions

23. In the Netherlands, benefits for short-term incapacity for work are in principle increased in the same way as pensions, i.e., twice a year on 1 January and 1 July. These benefits are calculated on the basis of daily reference wages regarded as being in keeping with the rules fixed by

the Social Security Council*.

24. In Germany, sickness benefits are adjusted each year on the same basis as pensions, except for benefits granted during the year in question, which are not reviewed until the following year. The same system applies to short-term employment injury benefits.

25. In Ireland, where there is no systematic adjustment, short-term benefits are, in practice, adjusted in the same way as long-term benefits.

(ii) Adjustments by a system other than that chosen for pensions

- Periodic adjustments linked to the price index

26. In the United Kingdom, basic short-term benefits must be adjusted annually in line with the price index; however, the law permits more frequent adjustments. Supplementary proportional benefits reflect individual earnings during the preceding financial year.

There is no regulation concerning the index to be used. In theory, the Government may choose whichever index it considers most appropriate, or draw up a new index. In practice, adjustments are based on the price index published by the Department of Employment.

- Periodic adjustments linked to wage trends

27. In Denmark, sickness, accident and maternity benefit ceilings have, since 1 April 1973, been adjusted annually in line with the trend of average wages for all manual workers. The benefits themselves are calculated individually on the basis of the wages which the persons concerned would have received if they were still working; they are adjusted twice a year.

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* Statutory Advisory Body which also supervises the application of the social security laws.

28. In France the daily sickness benefit rate represents half the individual's daily wage up to a ceiling fixed on the basis of the maximum level of earnings liable for social security contributions. The latter is reviewed annually in keeping with general wage trends. Moreover, variable adjustments in basic wages are made for workers who are ill for more than six months. At the present time there are several readjustment coefficients, which are applicable to basic wages depending on the year in question.

(iii) Adjustments linked directly to wage trends

29. In Luxembourg, the law of 2 May 1974 provides that sickness benefits will be fixed at a percentage of the gross wage which the worker would have earned if he had not fallen ill. Real wages, and changes therein, are taken into consideration. The period for which compensation is payable was extended to 52 weeks.

(iv) No adjustment after award

30. In Italy and Belgium, sickness benefits represent a percentage of earnings received immediately before illness and are not adjusted (except where collective agreements include retrospective provisions concerning salaries). In Italy, benefits are granted for a maximum of six months and in Belgium, for one year.

31. It should be noted that in France, Denmark and Luxembourg, sickness benefits are more closely linked to wage trends than pension rates. Luxembourg is an extreme example, where potential individual earnings increases are immediately reflected in the amounts of short-term benefits.

32. In the United Kingdom, the basic amount of the sickness benefits is linked to price trends, whereas pensions are linked to wage trends. However, wage-related supplements are paid in the case of short-term benefits so that total benefits reflect previous earnings with a time-lag of between one and two years according to the date on which the illness began.

b. Adjustment of unemployment benefits

(i) Adjustments on a similar system to that for pensions

33. In Belgium, unemployment benefits and the ceiling on the related contributions are both linked to changes in the consumer price index; however, the contributions ceiling is also raised by an amount linked to the growth in national prosperity.

34. Since 1 October 1974, unemployment benefits in Germany have been linked to changes in the "general basis" adopted for the calculation of old-age and invalidity benefits.

35. In the Netherlands, unemployment benefits, like pensions, are reviewed every six months. Daily reference wages are determined in the same way as for sickness benefits.

(ii) Adjustments on a similar system to that for sickness benefits

36. The ceiling for unemployment benefits in Denmark (and in Luxembourg the unemployment benefits themselves) is adjusted according to the rules applying to sickness benefits; however, benefits granted before the new regulations came into force are calculated on the basis of earnings in the last five weeks worked, no provision being made for adjustment.

37. In the United Kingdom, the flat-rate portion of the unemployment allowance is linked to the price index, as for sickness benefits. Earnings-related supplements are so calculated that the total benefit reflects previous earnings with a one- to two-year time-lag, depending on when unemployment began.

(iii) No systematic adjustment

38. In France, unemployment benefits are not part of the Social Security system but are covered by a supplementary scheme agreed by both sides of industry and backed up by the social assistance system. The adjustment of benefits is negotiated ad hoc.

39. Italy has a standard flat-rate allowance payable to all workers, supplemented by various special systems of proportional benefits for particular industries.

There is no systematic adjustment.

40. In Ireland there is no statutory adjustment scheme for these benefits. However, in practice they are adjusted regularly.

c. Adjustment of family allowances

(i) Adjustments on a similar system to that for pensions

41. Belgium is the only country in which all family allowances follow the same adjustment system as long-term benefits; that is to say, fluctuations of the consumer price index with an annual increase linked to the growth of national prosperity.

42. In the Netherlands, the allowance for the first child is "frozen" at the amount in force on 1 July 1972. Benefits for subsequent children are adjusted twice a year on the basis of wage trends. This is an interesting example of inflation being used deliberately to whittle away a benefit so as to shift the emphasis of the Social Security scheme towards areas which have assumed greater priority (in this case, the disabled).

(ii) Adjustment systems differing from those for pensions

43. In Denmark, family benefits are adjusted twice a year on the basis of the price index; the country's prosperity trends are not taken into consideration. Since 1975 it has been decided to increase family

allowances by only 50% of the rise in prices, in view of the fact that they are not not taxed and their value is therefore greater than the indexed increase in wages and salaries.

44. In France, family benefits follow the price index. Adjustments are normally made only once a year but can be greater than would be warranted solely by price trends. The "single earner" allowance - principally for mothers without paid employment - is not adjusted, in line with a deliberate policy to reduce this benefit.

45. In Luxembourg, family benefits are linked to the cost of living index.

(iii) No systematic adjustment

46. In Germany, Ireland, Italy and the United Kingdom there is no provision for the systematic adjustment of family allowances.

III. FINANCING THE ADJUSTMENT OF SOCIAL SECURITY BENEFITS

47. In those countries (except Denmark) where Social Security benefits are adjusted regularly by law, the adjustments are financed primarily by simultaneously adjusting the contributions by insured persons and employers - usually by raising the ceiling on the latter.

48. In Denmark, the majority of Social Security are financed from the national budget; there are important contributions from the general budget in some other countries.

Chapter II : INITIAL THOUGHTS OF THE COMMISSION'S STAFF

The Major Principle

The Council resolution of 21 January 1974 speaks of the progressive introduction of machinery for adapting social security benefits to increased prosperity. Several Member States have in fact for some time past used "national prosperity" as a criterion against which the value of social security benefits should be assessed, but the concept is not given a precise definition - indeed it seems to be used deliberately to introduce an element of flexibility which might otherwise be lacking in a system of measurement against a formal index.

However the major element in quantifying national prosperity in practice has always been the level of earnings, and the relation between social security benefits and earnings is surely the crucial comparison from the point of view of these living on social security benefits. This is what fixes their status and dignity vis à vis the rest of society. Therefore in translating the Council resolution into operational terms the Commission proposes that the Community should seek to secure the evolution of all social security benefits in line with the evolution of average earnings in the Member State concerned. National prosperity can of course be accepted as an adequate criterion in so far as it encompasses this requirement.

The mere price protection of social benefits is clearly not enough to satisfy the Council mandate, although the phrase "progressive introduction" could imply this as a first stage. Every country which uses the concept of prosperity linked increases implies something beyond price protection.

The Measurement of Earnings

The measurement of earnings varies between Member States. In some countries social benefits are tied to the evolution of earnings on which social security contributions are levied. Thus earnings over a certain ceiling are usually excluded, as well perhaps as very small earnings and earnings in certain occupations. This would seem to be a convenient and acceptable

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method of measurement, and is consistent with the contemporary insurance concept since the evolution of such "reckonable earnings" is reflected directly in the level of receipts to the scheme which in justice should pass on to the level of benefits. In other systems "earnings" are based on amounts fixed by collective agreements, often excluding premium payments such as overtime and rest day working. Although this may understate the real growth in earned incomes, the Commission does not feel it should intervene in this field.

Once a Member State is committed to the principle of earnings dynamisation it can be left to domestic processes, in which the social partners and other organisations will have their part, to work out its application. The same goes for the choice and formulation of cost of living indices, which is relevant to the section on price protection given below.

Benefits to be dynamised

All Member States except Ireland recognise the principle of earnings related dynamisation for "long term" benefits (old age, survivors and invalidity) in their main social security arrangements, either through direct indexation or as the principal component in the assessment of national prosperity. However the situation varies with regard to "short term" (sickness, maternity and unemployment) and family benefits. It is arguable that dynamisation for these two types of benefit is less important than for long term benefits, since the first set of benefits are of limited duration and the second are income supplements, not income replacements. Although there is some validity in this contention it is difficult to accept it without reservation. In some states the description short term benefits is inappropriate for they can be drawn for extended periods, and even six months is not an insignificant period for a family to fall markedly below its normal income.

In the case of earnings related short term benefits (i.e. benefits as a percentage of past earnings) it seems unjust to allow those who have been sick or unemployed longest to drift below the standard of those whose misfortune is of shorter standing. As regards flat rate benefits, these were all when first legislated tacitly or explicitly determined by the prevailing level of earnings; to allow this relativity to shift adversely by reason of the dynamisation mechanism is to deny the dignity that the country originally decided to accord the sick and employed. ./.

The latter consideration also applies to family benefits, whose main component in each Member State is flat rate family allowances.

As a general principle therefore the Commission believes that all social security benefits should be earnings dynamised. Short term benefits can be excepted from this however when they are genuinely short term (i.e. not over 1 year duration) and are related to up-to-date earnings at the time of award. On the same principle earnings related long term benefits in several states are not dynamised during the first year after award, since they are already based on up-to-date earnings.

As a general rule any flat rate element in short term benefits should be systematically revalued in relation to earnings, as should flat rate family benefits. Earnings related short term benefits that have been in payment for a year or more should be subject to systematic revaluation in relation to more recent earnings levels.

Since in practice most nations are some distance from achieving this, full implementation could well be deferred to the second stage in a "progressive introduction".

A further problem remains; no nation can be denied the right to alter the structure of its social security arrangements, if necessary by reducing the value of some benefits. While a system of dynamisation does no more than conserve the value of the benefits concerned relative to wages or prices until such time as the Government decides to raise or lower it, strict adherence might be construed as denying a means of lowering a benefit painlessly by leaving it to be whittled away by inflation. While not endorsing this method of restructuring the system, the Commission could accept a policy of "freezing" some benefits considered marginal to the overall system. - e.g. family allowances for the first child in the Netherlands. Provisionally the list of benefits excused dynamisation might include family allowances for the first child, mothers' allowances and smaller lump sum arrangements such as birth and death grants. The status of other benefits could be considered as the occasion arose in the context of the mechanisms for concerting social security policy also proposed in the Social Action Programme.

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Time Lags

The ideal system is probably one which responds directly to the movement of an index without awaiting the set date for a review. However since this exists only in Belgium and Luxemburg and then only in relation to price changes, it is not considered that the Commission could reasonably require this throughout the Community. Indeed it has been pointed out that this would be administratively impossible without a complete reform of some national systems.

As regards periodic dynamisation, every Member State now revalues at least at annual intervals (this is true even of Ireland, although there is no legislative commitment to annual review) and three revalue at six monthly intervals. From the point of view of the beneficiaries the more frequent the increases the better, but for the moment the Commission does not feel that the Community should extend a six monthly régime to all Member States. Rather it should concentrate on securing that all major benefits are adequately dynamised within each State's existing rythm of revaluation with the proviso that States with an annual pattern should guarantee earlier reviews in periods of exceptionally sharp inflation.

The other aspect of time lag is the degree to which a revaluation is up to date at the time it is implemented. Index figures are published one or two months after the period to which they relate and it takes a certain time for regulations to be drafted and put into effect. This administrative lag is unavoidable unless the revaluation is to contain an element of estimation to allow for the delay. What the Community should seek to avoid is deliberate lags built into the system.

The Community should therefore ensure that social security benefits are revised at least annually to maintain their value in relation to average earnings assessed at some point in the six months prior to the entry into force of the new rates of benefit. Any increase over 2 per cent should be allowed for. The same considerations should apply to revaluation in line with price movements during any interim stage in the introduction of a fully earnings dynamised system.

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Price Protection

Price protection is more urgent than earnings related dynamisation and even more self-evidently a matter of social justice. However there remain benefits in some countries which are not price protected, including major benefits as well as benefits now considered obsolescent. It is proposed therefore that even if the implementation of some aspects of full earnings related dynamisation is deferred to a second stage, full price protection should be given to all benefits at the earliest opportunity.

Complementary and Special Schemes

Schemes which stand in lieu of the main state social security scheme for certain categories (e.g. civil servants or farmers) should be subject to the same dynamisation requirements. Complementary schemes (i.e. provided by private employers in addition to the state scheme) should also be included at least in so far as they are the only providers of a basic branch of insurance (e.g. unemployment insurance in France) or carry partial exemption from participation in the state scheme.

Summary of proposals

Phase I To be implemented before the end of 1978

A. Long Term Benefits (Old Age, Invalidity, Survivors)

1. All benefits shall be systematically adapted to the general evolution of earnings in the Member State concerned.

2. Adaptation shall take place at least at annual intervals.

3. Adaptations should be based on earnings levels current at some date in the 6 months prior to the entry in force of the new rates of benefit.

B. Short Term Benefits (Maternity, Sickness and Unemployment)

1. All benefits shall as a minimum be adapted to the evolution of consumer prices in the Member State concerned.

2. Adaptations shall take place in accordance with points A. 2. and 3. above.

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3. However this requirement need not apply to individually assessed earnings related benefits within the first year of award.

C. Family Benefits (Family Allowances and Ancillary benefits)

1. Family allowances for second and subsequent children shall as a minimum be adapted to the evolution of consumer prices in accordance with points A. 2. and 3. above.

2. Family allowances for the first child and ancillary benefits are exempt from this requirement where it is the clear and deliberate policy of the Member State to reduce emphasis on these benefits in favour of other categories of social security beneficiaries.

Phase II To be implemented before the end of 1980

1. All Benefits shall be systematically adapted to the general evolution of earnings in the Member State concerned.

2. Adaptations shall take place at least annually with provision for more frequent interventions during periods of particularly sharp price rises.

3. Adaptations shall be based on earnings levels current at some date in the six months prior to the entry in force of the revised benefit rates.

4. The exception in relation to earnings related short term benefits noted in point B. 3. above (Phase I) shall apply.

5. Exceptions may be made where the Member State can demonstrate that in not dynamising a benefit it is acting with the deliberate intent of restructuring its social security arrangements to accomodate changing priorities.

CHAPTER III : SUMMARY OF THE OPINIONS OF THE GOVERNMENTS EXPERTS AND THE TWO SIDES OF INDUSTRY

The Commission consulted the social security experts of the Member States and representatives of the two sides of industry to learn their views on the dynamisation of social security benefits and the initial proposals put forward by the Commission staff. Special attention was paid to the need for Community legislation making compulsory or recommending the dynamization of all or most social security benefits by 1978, as a first step.

The Government experts stated unanimously that the greatest possible prudence was required at present. In some Member States certain social security benefits, e.g. family allowances, had even been cut back, while other Member States were preparing restrictive measures. In one Member State, certain general adjustments provided for by legislation had not been applied in full because of their possible effects on the index or national prosperity.

Some Government experts were opposed to the compulsory periodic adjustment of family allowances, which could entail excessive expenditure and would meet with serious financial difficulties, especially in countries where social security is almost completely financed from the national budget. It was pointed out that this benefit was meant to supplement wages, not replace them. Others stressed the difficulties associated with compulsory regular adjustment of unemployment benefit.

Several experts felt that any legal measures adopted should not go into details but should allow the Member States a certain freedom of action depending on national needs. They favoured defining or describing the targets to be achieved rather than fixing Community standards.

Most experts said that it was technically impossible to meet an annual deadline for adjustments where the development of prosperity over the six months preceding adjustment was to be taken into account.

With regard to the Commission staff's first thoughts on the second stage, some experts felt that they were not yet in a position to give an opinion on the subject, while others gave no opinion.

The two sides of industry, on the other hand, favoured Community action.

Workers and employers agreed unanimously that adjustment should be linked to the development of wages and that statutory arrangements should be introduced in all Member States.

Their views diverged on several points. The workers supported, in principle, the adjustment of all benefits while the employers felt that in a given country the State should be free to choose which aspects of the social security system ought to be changed. The workers accepted this proposal, on condition that the Member State proved that the non-adjustment of any benefit was part of a reorganization of the whole social security system.

The employers' proposal that for financial reasons a safeguard clause should be included was rejected by the workers.

Both employers and workers felt that adjustments should apply to general and special schemes, industrial schemes and those for farmers and the self-employed. Nearly all the workers wanted company schemes included.

The employers found the deadline for the introduction of Community measures (end of 1978) too early.

Both sides of industry rejected the idea that a 2 % rise in the index should be required before any adjustment could take place.

Details of these opinions are contained in the minutes of the meetings of 16 June, 11 and 12 December 1975 (Annex II), 4 and 5 March 1976 (Annexe II b) and in the document Annex II a "Opinions of the Government experts on how to achieve dynamization".

CHAPTER IV : CONCLUSIONS OF THE COMMISSION

1. Only one Member State at present does not possess a system of adjustment established by law, but in practice adjustments take place regularly on the basis of a commitment by the political parties.

   In all other Member States statutory systems for the dynamisation of benefits already exist. Sometimes the adaptation follows the price index, sometimes the earnings index. Sometimes both factors are taken into account for the adjustment of benefits or they may be adjusted some according to the one and others according to the other criteria.

2. Given the spread of mechanisms for the systematic adjustment of benefits especially in the 1960s, the present moment might be considered opportune for the Community to draw together these varied developments and establish certain common standards. But the commitment to systematic adjustment has faltered in the last two years with the economic crisis.

3. In the face of this situation the Commission is impressed by the arguments not to impose too tight a Community requirement at this juncture. The long term arguments for protecting the standard of living of social security beneficiaries in an era of economic growth remains. In the short term, however, there are pressing problems which face all Member States especially in relation to their social security systems.

4. The opinions of the government experts reflect this hesitation to accept fresh commitments. On the other hand the social partners share the view that, some Community action in this field would be desirable and are prepared to go further than the government experts in admitting the imposition of Community standards, whilst the employers side is anxious that any requirement should not be too detailed and should allow room for manoeuvre in difficult economic circumstances.

5. Despite the divergent views which have been submitted to the Commission, the Commission notes that it was the Council Decision of 21 January 1974 relating to a social action Programme which foresaw the progressive introduction of mechanisms for the adaptation of social benefits to the growth of prosperity in the Member States. It considers that even though certain Member States have since introduced restraining measures in this area, these do not imply a renunciation fo the principle, but are motivated by particular current difficulties. If, for the time being, it is not safe economically to allow benefits to follow the movement of earnings, none the less, and especially as regards benefits which substitute for earnings they should at least follow the cost of living.

6. Most Member States already go beyond price protection at least for benefits which substitute for earnings, although there are certain benefits in certain countries which do not enjoy guarantee (e.g. unemployment benefits in Italy). Even this limited guarantee should ensure that the living standards of the weakest sectors of the population are not sacrificed in the economic difficulties which face the Community at this time.

7. The Commission invites the Council to act upon the present communication. It reserves the right to present to the Council whatever propositions it deems appropriate in due course.