

COMMISSION OF THE EUROPEAN COMMUNITIES

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SOCIAL SECURITE PROBLEMS
- POINTS FOR CONSIDERATION -

(Communication from the Commission to the Council)

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INTRODUCTION

1. The budgetary strain which all Member States' social security schemes are currently undergoing is increasingly damaging for the beneficiaries of these schemes and problematic for national budget authorities. The Commission has already drawn attention to the problems for national budgets posed by trends in social security schemes. It did so in its fifth medium-term policy programme, and again on the occasion of the meeting of the joint Council of Ministers for Economic and Financial Affairs and for Social Affairs. Expenditure on health and social security has been a very great factor in the increase in public expenditure over the last ten years. In the current economic situation, characterised in particular by very high levels of unemployment, the combination of increasing expenditure and diminished receipts from contributions has brought about not only a state of chronic financial disequilibrium, but also risk of obtaining piecemeal and sometimes discriminatory policy responses which fall most heavily on those who can least afford them.

2. Discussion on this subject is already under way in the Member States and should be extended to Community level, to help towards the alignment of national policies that is so essential in the present situation. It would also fulfil the demands for such a debate expressed by many both in the European Parliament and in the Economic and Social Committee.

3. The Commission would like to point out that the purpose of this communication is not to call into question the social progress acquired through social protection schemes. This very real progress must be preserved, especially to the extent that it protects the weaker groups in society at a time of particular economic hardship. The Commission notes, however, that the different national schemes are now presenting a certain number of common problems especially with regard to budgetary restrictions and considers that the time has come to compare experiences and encourage an exchange of ideas on the search for solutions. It has therefore drawn up the present communication which, after briefly stating the differences between the economic structures and the social systems in Member States (Part I), then summarises the characteristics of the present situation (Part II), and lastly raises a certain number of questions as to the trend of future policies (Part III).

4. The Commission would like to stimulate extensive discussion at the Community level. It considers that, even when budgetary restrictions are already leading Member States to take economy measures in the sphere of social expenditure, the current economic situation of the Community makes it necessary to undertake a wider review of social security policy. Such a review would take into consideration such things as the existence of a single market, the necessity of maintaining competition between firms and of stimulating economic growth and employment. No effort should be spared to improve the efficacy and equity of public expenditure, in particular social expenditure and its financing. The discussions that it is now opening can help to achieve this objective, especially if they result in converging conclusions about the principal questions posed in this document.

5. The Commission sees this discussion leading to the identification of the subjects requiring further study at Community level, which the Commission would be requested to deal with, and of the more specific measures which might already be incorporated in national policies.

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I. ECONOMIC ENVIRONMENT AND SOCIAL SECURITY

6. Europe for a long time benefited from a conjunction of factors favourable to its economic development and the progress of its social protection system. Now, however, the majority of these factors either no longer exist or are no longer favourable. No study of the future of social protection systems in the Member States can be made without taking account of new social and economic developments. But it is first necessary to give a brief outline of the characteristics of the Member States' economies and social protection systems.

Economic structures

7. The structures vary considerably from one country to another, the differences having, in certain cases, been accentuated by the crisis.

8. A first point of comparison is provided by a breakdown of the working population by sector of activity. This shows first that an increasing proportion is employed in the services sector, greater now than in industry in all the Member States; second that in France, Greece, Italy and Ireland a substantial proportion of the workforce is engaged in agriculture. In 1980, the services sector accounted for between 39.5 % (Greece) and 64.1 % (Netherlands) of the working population, industry accounted for between 30.2 % (Greece) and 43.9 % (Federal Republic of Germany), whilst agriculture accounted for between 2.6 % (United Kingdom) and 30.3 % (Greece). The average for the Community of Ten was 8.0 % for agriculture, 37.5 % for industry and 54.5 % for the services sector. It should be borne in mind that most of the jobs created at the present time are in the services sector.

9. A second yardstick is provided by per capita gross domestic product. In comparison with the European average, four countries were below these figures : United Kingdom, Italy, Ireland and Greece; the others were above, sometimes well above.

GROSS DOMESTIC PRODUCT PER HEAD OF POPULATION CURRENT PURCHASING POWER PARITIES										1981 '000 PPS
B	DK	DE	FR	GR	IRL	IT	L	NL	UK	EUR 10
8928	9397	9756	9343	4795	5301	7.428	9912	8733	7815	8459
in ECUs										
8652	10059	10000	9451	3414	4324	5471	9093	8789	8015	8108

10. Third yardstick : the rate of rising consumer prices or the rate of inflation. Over a long period this rate has been much higher in some countries (United Kingdom, Ireland, Italy, France, Denmark) than in others.

PRICE DEFLATOR OF PRIVATE CONSUMPTION (National currency)											
Annual Growth Rate											
	B	DK	DE	FR	GR	IRL	IT	L	NL	UK	EUR 10
1960-74	4.3	6.7	3.9	5.3	4.8	6.6	5.8	3.5	5.5	5.7	5.2
1974-82	7.9	10.6	4.8	11.4	18.2	16.3	17.4	8.0	7.0	14.4	10.8

11. A final yardstick is the overall tax structure. Here again there is a sharp distinction between countries where direct or indirect taxation (France, Italy, Ireland) predominates.

12. The comparison could include other factors, but has been limited to those which seem to play a prominent role.

13. Reference should be made to the table below for a more general view of differences between Member States. It enables each Member to be compared with the rest of Members of the Community in terms of population, economy and social security. For some countries (Belgium, Denmark, Germany, France, Luxembourg or the Netherlands) the contribution to the gross domestic product of the Community is greater than their relative population size. The same may be said for social security and here the disparity emerges even more clearly. Relative size of the population prevails over the other parameters.

CLASSIFICATION OF MEMBER STATES - EUR 9 = 100

COUNTRY	1980		
	Population	G.D.P.	Social benefits
B	3.8	4.2	4.4
DK	2.0	2.4	2.7
DE	23.6	29.5	32.9
FR	20.6	23.5	23.5
IRL	1.3	0.6	0.6
IT	21.8	14.2	12.1
L	0.1	0.2	0.2
NL	5.4	6.0	7.3
UK	21.4	19.4	16.3
TOTAL	100	100	100

Figures for Greece not available. Eurostat

Social security schemes

14. Social security is defined here as the field covered by social insurance including unemployment, health services and family benefits. There are sharp contrasts in the social security schemes in force in the Member States of the Community.

15. This section will in turn outline the organisation of those social security schemes, the coverage they provide, the funds with which they finance that coverage and the weight they carry within their respective national economies.

a) Organisation

16. Two countries, Denmark and the United Kingdom, operate a single scheme covering the entire population against all risks, with the exception of unemployment of the self-employed (although changes are emerging in the latter case in Denmark).

17. A similar formula is applied in the Netherlands, where the entire population is covered against certain risks, employees being given additional coverage for the other risks.

18. In Belgium, there are two general systems : one for employees, the other for the self-employed, and a few special schemes. It represents the transition between countries with a single system and those with a fairly extensive range of schemes : Germany, France, Greece, Italy, Luxembourg.

19. It should, however, be noted that in France and Luxembourg general coverage is becoming available through a variety of schemes, whereas in Germany and Italy certain categories of the self-employed are excluded. Ireland is a special case in that insurance is compulsory only for employees, with assistance still of great significance.

20. Another interesting point is that national health services operate in the United Kingdom, Italy and Denmark while in the other countries the medical services are organised more on a market basis.

b) Risks insured against

21. There are far more points of convergence in this field than in respect of organisation. All Member States offer protection against the risk of sickness, maternity, unemployment, invalidity, old age, death, industrial injuries and occupational diseases as well as family benefits.

22. If a distinction is made between cash benefits and benefits in kind, it will be seen that in all countries cash benefits by far outweigh benefits in kind (health care). They represent at least 60 % and often more of total expenditure. On the other hand, it should be borne in mind that the growth rate of benefits in kind had for some time now being several points ahead of cash benefits.

23. If the benefits are classified according to the risks they are designed to cover, it can be seen that two functions involve easily the greatest expenditure in all countries : old age and health. The others (invalidity, family allowances, accidents at work and occupational diseases, unemployment) are a long way behind. Old age takes first place nearly everywhere, seldom dropping below 30 % of the total. Health is usually in second place, whether or not there is a national health service.

PROPORTION (AS % OF TOTAL SOCIAL SECURITY BENEFITS)
OF FOLLOWING FUNCTIONS)

1980

FUNCTIONS	B	DK	DE	FR	IRL	IT	L	NL	UK
Health	22.5	26.8	29.8	26.2	36.3	23.2	23.6	29.3	21.6
Old age	25.8	35.1	25.8	34.9	27.0	34.0	31.1	27.9	40.4
Family	11.6	10.0	8.1	12.5	8.9	7.4	7.9	9.2	11.5
Unemployment	10.4	11.9	3.7	6.5	8.2	1.9	2.1	6.3	8.6
Other functions	29.7	16.2	32.6	19.9	19.6	33.5	35.3	27.3	17.9
TOTAL	100	100	100	100	100	100	100	100	100

Figures for Greece not available

c) Financing

24. Social security schemes are financed by contributions from employers and employees and by taxation. The role played by either of these sources of financing differs greatly between the different Member States.

25. Contributions constitute the large component of receipts in six countries. Taxation plays the same role in Denmark and Ireland, while the United Kingdom falls midway between the two. It must be noted that for contributions it is those of employers which are greater and these represent between 40 % and 60 % of all social security receipts. As these contributions are added to salary costs they have a direct bearing on a firm's production costs.

RECEIPTS BROKEN DOWN BY TYPE IN 1980

	B	DK	D	F	IRL	I	L	NL	UK
Employers' contributions	41.0	9.6	42.7	56.0	25.1	58.8	36.2	37.1	33.3
Household contributions	20.1	1.8	22.1	23.7	11.4	13.6	22.6	25.8	14.6
Taxes and subsidies	34.7	84.9	26.7	17.7	62.5	24.9	31.6	20.4	43.6
Income from capital and other receipts	4.2	3.7	8.5	2.6	1.0	2.7	9.6	16.7	8.5
TOTAL RECEIPTS	100	100	100	100	100	100	100	100	100

Figures for Greece not available

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d) Social security and gross domestic product

26. The share of gross domestic product allocated to social security in all Member States has continued to grow, despite the crisis, at a higher rate than gross domestic product itself. It was already of the order of 12-18 % of gross domestic product when the European Economic Community was established, whereas now the proportion for social security is between 20 and 30 %, as shown in the table below.

SOCIAL SECURITY EXPENDITURES AS % OF G.D.P.

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

Figures for Greece not available

27. What is notable here is not so much the differences between the Member States as the high average percentage, which is a long way from being matched in most other industrialised countries and the general pattern of increased social effort against a background of diminished economic growth.

II. CHARACTERISTICS OF THE PRESENT SITUATION

28. The upward trend in social expenditure should be seen in a new economic and social context characterised by low economic growth, large budget deficits, extensive employment and, in certain countries, a high rate of inflation. This upward trend can be attributed in part to a series of causes which will be discussed at greater length below and which are, so to speak, "inherent" in the social protection systems.

29. It is the economic crisis, however, which is as much if not principally responsible for the present difficulties, rather than problems inherent in the systems. The slow-down in economic activity and the resultant rise in unemployment constitute the main immediate reason for the difficulties which the social security schemes are now experiencing. Social security schemes are increasingly incapable of absorbing the cost of levels of unemployment three or four times as great as in the past. Not only do they have to provide a substitute income for ever greater numbers of unemployed - essential not only for social reasons, but also for the maintenance of demand in the economy - but they also face a fall-off in social security contributions and taxes which may be an even more important factor in their financial difficulties than the increased benefits they have to pay out.

30. With expenditure increasing geometrically at the very moment when revenue has ceased to grow - and in some cases had diminished - chronic imbalance is inevitable. Faced with such a situation, governments normally react by taking restrictive measures, reducing the level of some benefits or restricting access to them. Such policies generated by immediate financial or budgetary considerations can have social repercussions, especially for the most vulnerable categories of the population.

1. Growth in social expenditure

31. Apart from the impact of the crisis on the level of unemployment, there are a number of other reasons for the increase in social expenditure :

a) Improved cover

32. The protection offered by social security is highly developed, even if certain sectors of the population do not enjoy very satisfactory cover, especially in those Member States where benefits are relatively low. This extension has by and large been a matter of political consensus. Improvements have varied from country to country : social security has been extended to categories of persons not previously covered; new benefits have been introduced; the level of benefits has been improved; conditions for the

award of benefits have been eased; and there has been a tendency for benefits to increase in proportion to income in order to maintain a previous standard of living, rather than simply to provide a minimum income.

b) Aging of the population

33. In the last 12-15 years, the percentage of persons aged over 65 has risen sharply. Even if, in certain countries, this trend will come to a halt in the period 1980-1985, the present percentage is already as high as 13-15 % in most countries. At the same time, the increase in life expectancy, which had slowed down during the Sixties, returned to its previous rate by 1970 in the majority of European countries. The result is a decline in the ratio of the working population to those in retirement.

34. The increase in the number of elderly persons involves a considerable increase in social security expenditure. As regards pensions, not only has the number of beneficiaries risen, but the amount of the pensions has also increased. The trend has been reinforced by an increasing number of schemes for early retirement. Moreover, the aging of the population - and particularly the growing number of very old people - increases the volume of social assistance benefits and health expenditure.

c) Rapid growth in health expenditure

35. There are a number of causes, of which the aging of the population is the most important. Health costs increase rapidly with age; the average cost per capita is up to three times greater for those aged over 65 than for the population aged between 14 and 64; for those aged over 75, the cost is five times greater and the proportion of the latter among those aged over 65 is steadily growing.

36. Progress in medical techniques and the introduction of more sophisticated forms of treatment have generally meant more expensive treatment. In general efforts to limit or control increases in expenditure have failed and treatment is provided regardless of cost.

37. Lastly, one may wonder if there are no growing social and physical costs for modern economic activity in the form of pollution, accidents (notably traffic accidents), activities involving stress, in short a series of factors which, when added to certain habits deriving from a relatively high standard of living (over-eating, increasing use of medication for minor disorders) combine to inflate the health expenditure budget.

2. High cost of social protection : its effects

38. Given the high level of protection offered by the different social protection schemes in the majority of Member States there are undeniable repercussions on the social and financial situation of those protected, as well as repercussions on the economy.

39. Social protection is not to be considered as a burden on the economy. Social protection is a precondition for maintaining a high level of skills, efficiency and motivation in the economic life of Europe. Furthermore, the amounts levied do not drop out of the economic circuit; they are reintroduced in the form of benefits which play an important role in maintaining economic activity and thus preventing an even greater decline, especially in certain regions. Furthermore, the social systems are themselves major employers. The health service in particular employs a large workforce, providing direct employment for doctors, chemists, dentists, etc., and sustaining various industries (pharmaceuticals, chemicals, electronics).

40. Labour costs are higher in the Community than in most other countries in the world. These disparities are due not only to differences in wages, but also to differences in the level of social protection, which are financed by taxes and social security contributions falling in part on the employer. High labour costs may have a critical effect on the competitiveness of undertakings, especially in certain sectors vulnerable to the competition of third world countries, such as textiles, clothing, footwear and shipbuilding. The potential damaging effect on employment is self-evident.

41. When the pressure of taxation and social security reaches a certain level (up to 50% of GDP in some Member States), it meets with the resistance of tax payers and contributors, who evade taxes and contributions by moonlighting and bartering goods and services. Tax payers and, to a lesser extent, contributors are keenly aware of their outgoings and are not always conscious of the public services and benefits they receive. There is thus a danger that increased contributions will slow down economic activity by discouraging the spirit of enterprise and possibly producing (especially among the lower paid) a disinclination to work for a salary, given the level of benefits offered.

42. It would be incautious to try to evaluate with any precision the relative effects of the positive demand and negative supply factors, but at the present economic juncture and the degree of imbalance in the financing of social security having reached a new peak, the risk of worsening negative effects must be taken very seriously.

3. Relative effectiveness of the system

43. Social security systems have a certain redistributive effect. They bring about a transfer of resources from the active working population to the rest of the population (from those in good health to the sick; the employed to the unemployed; the working population to pensioners). There are also a number of benefits, particularly benefits in kind to which all income groups have equal access.

44. In the case of other benefits, like pensions, the method of their calculations means that a person at the lower end of the incomes scale (which is often the situation for women) usually only benefits from a much lower level of social protection than other insured persons. The problem of poverty, therefore, still remains. In particular, the longer severe unemployment persists the more new categories of poor are added to the traditional groups. Moreover, the restrictive measures taken by government during recent years have affected more those with the lowest incomes or those whose sole source of income was social benefits. This effect is of course felt more in those Member States where cover is relatively low.

45. Apart from the complexity of procedures which puzzle the user and breed excessive bureaucracy, the rigid structures of social security schemes render them incapable of meeting certain social needs even in cases where cover is provided. A fixed age for compulsory retirement is an example. More generally, these schemes have been constantly added to and adjusted to match social considerations or economic constraints so that, over a period of time, the system has become increasingly incoherent and irrational.

III. PRINCIPAL AREAS FOR CORRECTIVE ACTION

1. Containment of growth in social expenditure

46. Any fall-off or halt in economic growth jeopardizes all public services. Thus, excessive expansion of one of these functions takes place to the detriment of the others, sometimes with contradictory effects in terms of broad social policy aims. The economic security and wellbeing of the individual arguably depends as much, if not more, on education, housing and the environment as on social security. If all the public services are to function simultaneously, the growth in their expenditure must be controlled. This does not mean that expenditure must be frozen at a given level but that increases must be coordinated and uncontrolled upswings avoided.

47. In this respect, measures already adopted in some countries and studies carried out suggest that priority could be given to action in certain specific areas of social security.

- a) Particular attention should be paid to health expenditure which accounts for such a large proportion of social security expenditure and which offers unlimited scope for further expansion. On the supply side, urgent consideration needs to be given to introducing measures to keep a rein on the types of care offered (medical, pharmaceutical, etc.). The demand side is possibly more difficult to control, but there is scope for improved information efforts which could influence public attitudes to health care and for a greater attention to preventive measures.

Experience has shown that concerted action by all those responsible (medical staff, insurance bodies, government, insured persons, hospital administrators, etc.) can achieve substantial results. Coordination among these groups and the better planning of health care requirements should be more systematically introduced. Consideration should also be given to ways of making insured persons more aware of the benefits they receive, acting both on the offer of treatment as well as on requests for treatment. Finally, more attention needs to be given to the possible ways and means of reducing the social costs of economic activity (pollution, accidents, etc.) which in the end are paid for by the social protection system in one way or another (sickness, premature disability, accidents at work). This would require a wide range of action over a number of policy fields and demand a major effort of coordination within national administrations.

- b) Special attention should be given to the basis for the reassessment of social benefits. Benefits are reassessed periodically in accordance with a set of rules, which vary widely from Member State to Member State as regards the intervals between reassessments (once a year, several times a year), the automaticity of the reassessment and the reference values (wages trend, prices trend or both together). Piecemeal measures have been taken in recent years in a number of countries, either to correct certain aspects of the reassessment procedures or to suspend their application, or again to revise the basis of the reference values. A close study of the effects of existing reassessment factors might allow a clearer view to emerge of reassessment criteria which will reconcile the requirements of social justice (protection of the purchasing power of social benefits) and the objectives of economic policy (efforts to contain inflation).
- c) The simplification of the social security systems is a desirable end so far as the individual user is concerned, but it could also be valuable from an economic point of view if it enabled available means to be used more effectively by preventing frauds and the overlapping of benefits and by reducing administrative costs.

2. Re-examination of financing methods

48. The crisis in the financing social security had been described in paragraph 29 above. In addition to the problems of financial equilibrium, there have been doubts as to whether the traditional methods of financing have not penalized employment. A review of financing systems seems timely. This could have a two-fold objective :

- these systems should be given a more stable basis by providing a better balance between contribution receipts (which fluctuate according to the employment situation) and tax receipts. It is possible that to obtain this balance it will be necessary to study the best way of financing the various types of benefits by distinguishing, in particular, the benefits which constitute replacement incomes from benefits to which the population as a whole is entitled;

- steps should be taken to ensure that the financing system does not distort employment and production structures. This point is particularly relevant (if the effects of other costs are left aside) in the case of social security contributions that weigh more heavily on labour intensive firms than on capital intensive firms. In this context, it is worth recalling that it is in the small- and medium-sized firms, where the share of capital is often secondary, that have become the main creators of jobs in recent years. Contributions in respect of part-time workers should be re-examined; where contributions are calculated on maximum earnings, firms may be deterred from taking on part-time workers because of the expense.

3. How to make the social protection system more effective

49. Social security schemes have expanded substantially in all Community countries. Their financial resources are considerable, but they also have to meet new needs that are increased or revealed by current economic and social changes. An attempt simply to increase social security receipts is not an entirely adequate response to these needs. It may also be necessary to reorganise present systems to make them more effective, i.e. to make them more capable of meeting current social needs.

50. It is not the task of the present paper to suggest how this reorganisation can be implemented or what its precise aims should be. A few trains of thought relating to specific goals are outlined below :

- a) surely the system should be more flexible? It is difficult to justify some of the existing constraints which in certain cases are clearly contrary to the interests of the insured person. One of the inflexible rules, the fixed age for retirement, has already been the subject of proposals by the Commission to increase flexibility;
- b) is it legitimate to maintain differences in treatment between different categories of insured persons ? Certain areas of discrimination can, at all events, no longer be tolerated. A typical example is measures which discriminate against women, on which Community legislation already exists and further Commission proposals are in the pipeline;
- c) how can social protection be extended gradually to cover people who are not covered or whose cover is insufficient ? This could be done in various ways, either by extending social security schemes, or by guaranteeing a minimum income for the whole population, or by combining the two measures;

- d) surely the time has come to make the law and administration of social security clear. It has been noted that the complexity of the subject and procedures deprive certain beneficiaries of the benefits to which they are entitled, particularly those who are the most deprived. Measures have been adopted in several countries to rectify the situation by giving social security a "human face". These measures should be taken further and applied generally;
- e) what action can be taken against misuse, wastage and overlapping of benefits? Such breakdowns in the system, which are already critical in normal times, become intolerable when resources have been reduced and when the resources which are available are diverted from the purpose for which they are intended to the detriment of those who should be the genuine beneficiaries.
- f) Is it not true to review some of the existing situations? The social security system might be made fairer by obliging everyone to contribute to it according to their real means of contribution (this raises the question of contribution ceilings) and secondly, should the occasion arise, be more selective to give priority to the most needy. It is in this context that the taxing of social benefits could be considered along with their upgrading over time, taking account of economic trends;
- g) should social security always be seen in terms of increasing cash benefits? Individual protection might be better served by increasing the range of benefits in kind in the form of services provided. There has been a remarkable expansion in social protection in quantitative terms. Perhaps now it would be desirable to improve the quality of what is provided.

51. This document does not seek to cover the full range of problems with social security systems but only addresses itself to the principal ones, and it is not the intention to propose solutions at this stage.

The Commission hopes that a wide-ranging debate can be held on the broad subjects outlined above, which are of course interrelated. The aim of bringing higher expenditure under control is conceived not to restrict social security systems, but to ensure that available means are used most effectively to meet real needs which are not satisfied by current public policies.

In the face of the gravity of the present economic situation, the wide range of financial problems and the difficulties of international competition the Commission feels that this debate should be taken up in due course by the Council. It is essential that national measures be inserted into the economic context of a single market and that the whole of the Community benefit from the results of experience gained in the different Member States.