

SOCIAL PROTECTION IN THE EUROPEAN UNION

In the European Union, spending on social protection benefits expressed as a percentage of GDP reached an unprecedented level in 1993: 26.6%. If the new German Länder are taken into account, this figure becomes even higher: 27.5%.

The overall picture for the EU hides variations across Member States in respect both of the developments and the level of resources allocated to social protection. However, the disparities in the shares of GDP spent on social protection in the Member States are reducing.

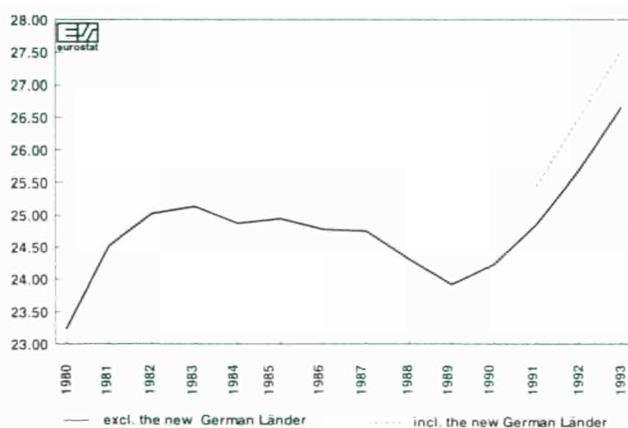
Of all functions, the Unemployment function grew the fastest between 1989 and 1993. In the same period, the Old age/survivors and Sickness functions saw their share in total benefits decrease.

The comparison of total receipts and expenditure reveals surpluses on the current account of most Member States.

In most Member States, employers' and employees' contributions financed the greatest share of social protection expenditure. However, there is a general tendency to increase reliance on government contributions.

N.B.: The data in this Statistics in Focus do not include the new Member States Austria, Finland and Sweden.

Graph 1:
Social benefit expenditure in the EU as a percentage of GDP, 1980-1993



Source: Eurostat - ESSPROS

In the European Union, 27.5% of GDP is spent on social benefits

Expressed as a percentage of Gross Domestic Product, social benefits in the European Union (excluding the new German Länder) increased by 3.4 percentage points between 1980 and 1993, from 23.2% to 26.6%. This rise was the result of a fluctuating development within the observed period. A substantial increase was recorded between 1980 and 1983, followed by a slow decrease until 1989. In 1989 the ratio began to grow again, with ever increasing speed, to reach 26.6% in 1993. With the new German Länder included, the figure for 1993 is 27.5%.

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Per head and in constant prices, benefits in the European Union increased by 44.6% between 1980 and 1993. In 1993, 4299 ECU per person were spent on social benefits. Again, the figure is larger (4375 ECU) if the new German Länder are included.

The ratios of social expenditure to GDP remain dissimilar

Throughout the period 1980-1993, Denmark, the Netherlands, France, Germany (old Länder) and Belgium devoted a larger share of their GDP than the EU average to social protection expenditure¹. Of the relatively high-spending Member States, France and the Netherlands remained fairly stable above the average whereas Belgium and Germany saw their ratios decrease. Denmark showed a very specific development: the share of social benefit expenditure in GDP decreased steadily between 1982 and 1986, at which time a reversal of the trend occurred leading Denmark to record the highest ratio in the Union.

Luxembourg and the United Kingdom fluctuated around the mean. Changes in the definition of GDP explain to a large extent the fall of Luxembourg from above the average to below it. The UK stayed close to it, with a temporary decline for the years 1987 - 1990.

Italy, Spain and Ireland were positioned below the European average. While Italy, and also Spain to some extent, reduced the gap between them and the European average, Ireland moved towards a lower position as a result of economy measures in the late eighties.

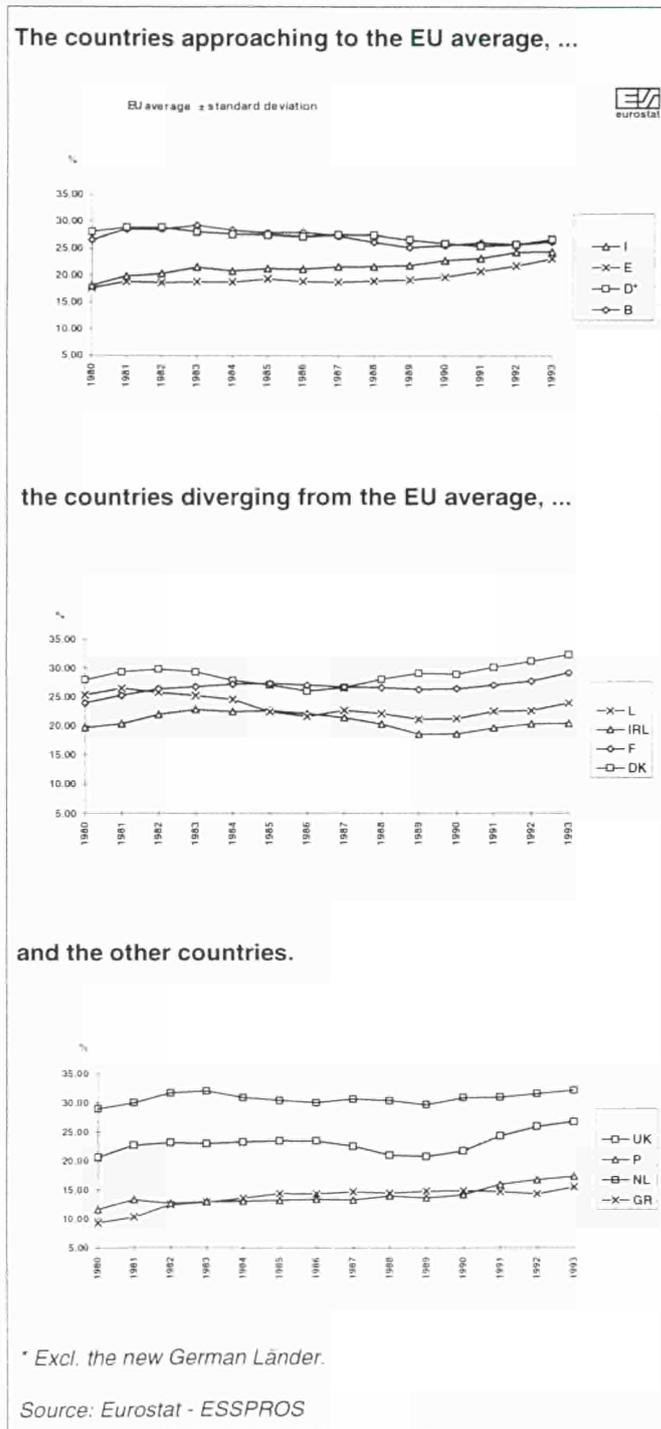
Greece and Portugal remained below the mean in spite of the efforts undertaken during the decade to catch up with the rest of the EU countries.

The overall effect of these changes was a reduction of the dispersion of the Member States' ratios of social protection expenditure to GDP around the EU average. This may be illustrated by the drop in the value of the standard deviation from 5.0% in 1980 to 3.4% in 1993.

Nevertheless, it was only a minority of countries which clearly contributed to this convergence, in particular the old Länder of Germany and Belgium, which decreased their relative spending, and Italy, which considerably increased its ratio.

The ratio of social protection expenditure to GDP is clearly influenced by both nominator and denominator. Social benefit expenditure did not stop growing in real terms between 1980 and 1993, with an average growth rate of 3.2% a year. The fall of the ratio between 1983 and 1989 is explained by the fact that social benefit spending grew less rapidly (an average of 2.6% a year in real terms) than GDP (3.5% a year). The years between 1989 and 1993 are characterised by a rapid

Graph 2:
Social benefits as a % of GDP in the Member States of the EU



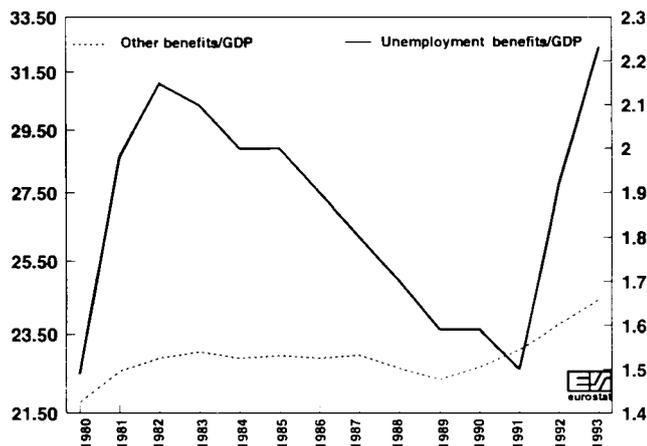
growth of social protection expenditure while GDP was slacking. These are the effects of the economic recession, where a slowdown in economic growth is usually accompanied by an accrued demand on the social pro-

1 It should be noted that this expenditure is recorded gross of taxes and social contributions payable on benefits. If a net recording was applied the ratios would have been considerably lower for countries like the Netherlands where benefits are typically subject to levies.

tection system, and in particular on the unemployment compensation system.

It is interesting to observe that the increase in benefit expenditure is not limited to unemployment benefits, although it is true that these benefits show more accentuated fluctuations.

Graph 3:
Unemployment and other benefit expenditure as a % of GDP in the EU, 1980 - 1993



Excl. the new German Länder

Source : Eurostat - ESSPROS

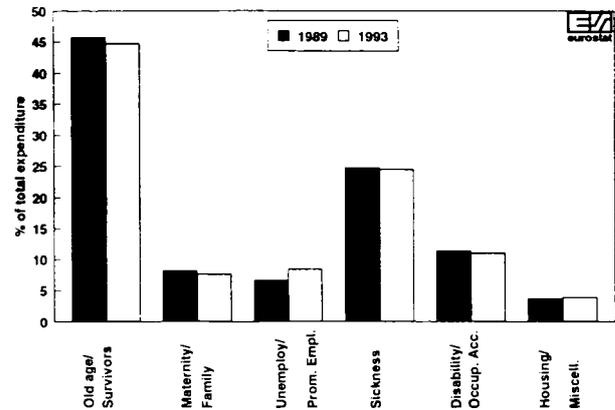
The analysis in the following paragraphs will concentrate on the last phase of the cycle, that is the period covering the years from 1989 to 1993.

Unemployment benefits were the fastest growing category between 1989 and 1993

Between 1989 and 1993, it is the unemployment function (including promotion of employment benefits) which showed the highest growth among all functions. Although unemployment benefits represented only 6.6% of total benefit expenditure in 1989, their growth accounted for about a quarter of the increase recorded in total social protection benefits as a percentage of GDP. In 1993, unemployment and promotion of employment benefits took a higher share of social protection benefits than in any year since 1986: 8.4%. In Spain, Denmark and in the new German Länder this share was much higher (21.1%, 18.9% and 17.3% respectively).

Unemployment and promotion of employment benefits per head of population grew the most in Portugal (+278% in real terms), followed by Greece, Spain and Luxembourg (with growth rates above 60%), Denmark, Italy and the United Kingdom (with growth rates around 50%).

Graph 4:
Structure of social benefit expenditure by function in the EU*



* Excl. the new German Länder.

Source: Eurostat - ESSPROS

The rise in unemployment recorded in the early 1990s is not the only explanation of the rapid growth of unemployment compensation expenditure. Other factors play a role, such as changes in the structure of unemployment and the characteristics of the benefits. Large inflows into unemployment, often of workers with long employment records, result in an increased proportion of recipients eligible for high benefits, and as a consequence in a higher average benefit per unemployed person. In Portugal, the exceptional rise in expenditure is mainly due to more generous benefits and an extended coverage of the system.

Old age and survivors benefits saw their share in total benefits decrease

In the EU, old age and survivors benefits still take the largest share of benefit expenditure, even if their relative weight decreased from 45.7% in 1989 to 44.7% in 1993. Only in Italy, Belgium and the Netherlands did the relative importance of the old age and survivors functions increase further. In Italy, in 1993, they represented 62.8% of total benefits.

Also, in nearly all Member States the increase of benefits per head for the old age/survivors functions was equal to or lower than the rise for all functions taken together. Again, Portugal recorded the fastest growth of real benefits per capita (+46.4%).

Many Member States, faced with an ageing population, the reduction of the work-force paying contributions and increasing government budget problems, have recently introduced changes in their pension systems in order to contain growth in expenditure. Major reforms have been undertaken in Germany, Greece, France and Italy. In general, the changes did not affect the acquired rights of older workers and will take effect progressively. As a result, their impact on social protection expenditure will only be felt in the future.

Table 1: Growth of benefits per head in real terms (%), 1989-1993

	Old Age Survivors	Maternity Family	Unemployment Promotion of Employment	Sickness	Invalidity Occupational accidents	Housing Miscellaneous	Total
Belgium	12.7	-0.9	14.1	10.5	3.7	31.2	10.4
Denmark	7.2	13.6	51.2	2.6	14.7	33.7	15.7
Germany*	1.9	1.9	36.3	7.0	8.9	-6.1	5.9
Greece	-3.8	-27.4	82.7	42.8	-17.7	24.4	1.8
Spain	21.5	26.3	64.4	26.2	20.3	4.1	29.5
France	10.1	3.4	45.5	12.5	0.7	32.7	12.4
Ireland	12.6	22.7	41.1	29.7	24.8	17.9	24.2
Italy	22.4	-17.0	50.9	11.4	9.6	-20.6	17.0
Luxembourg	23.8	47.8	62.9	26.9	16.2	-51.0	25.6
Netherlands	14.0	-3.5	10.1	15.0	9.6	-9.4	10.7
Portugal	46.4	8.8	277.8	53.2	24.5	25.7	47.3
United Kingdom	21.5	31.8	50.9	17.2	27.4	59.4	26.9
EUR12*	13.1	8.7	45.1	14.5	12.7	27.8	15.8

Source: Eurostat - ESSPROS

Table 2: Structure of social benefit expenditure by function (%) - 1993

	Old Age Survivors	Maternity Family	Unemployment Promotion of Employment	Sickness	Invalidity Occupational accidents	Housing Miscellaneous	Total
Belgium	45.3	7.9	11.6	22.9	10.9	1.4	100
Denmark	34.0	11.8	18.9	18.8	9.3	7.2	100
Germany*	41.1	7.7	7.6	27.9	12.2	3.4	100
Germany**	40.8	8.0	9.4	26.8	11.7	3.3	100
Greece	66.2	1.1	3.4	14.8	9.8	4.7	100
Spain	40.4	1.8	21.1	25.2	9.9	1.5	100
France	43.6	9.5	8.3	26.4	7.6	4.6	100
Ireland	28.1	12.7	17.1	29.7	7.4	5.1	100
Italy	62.8	3.8	2.2	22.2	9.0	0.0	100
Luxembourg	46.8	12.6	1.0	24.8	14.5	0.3	100
Netherlands	37.1	5.4	9.2	22.2	22.4	3.8	100
Portugal	40.6	5.4	6.5	30.7	13.8	2.9	100
United Kingdom	41.3	11.4	7.3	19.2	12.1	8.6	100
EUR12*	44.7	7.6	8.4	24.4	11.0	3.8	100
EUR12**	44.3	7.7	8.9	24.3	10.9	3.7	100

* excluding the new German Länder

** including the new German Länder

Source: Eurostat - ESSPROS

Table 3: Receipts of social protection by type (%) - 1989


	Government contributions	Contributions in respect of employees				Self empl. contributions	Other pers contributions	Other income	Total
		Total	Employers' actual contributions	Employers' imputed contributions	Employee contributions				
Belgium	25.8	61.4	31.6	9.3	20.5	3.4	0.7	8.7	100
Denmark	79.8	13.6	2.4	6.4	4.8	0.0	0.0	6.7	100
Germany*	25.1	62.9	25.9	15.0	22.0	1.2	7.4	3.5	100
Greece	19.2	76.3	28.8	21.6	25.9	0.0	0.0	4.5	100
Spain	27.7	61.7	42.9	9.9	8.9	5.0	3.2	2.3	100
France	17.3	74.5	42.3	9.8	22.4	5.1	0.9	2.4	100
Ireland	59.9	37.9	15.8	8.0	14.1	1.1	0.0	1.1	100
Italy	29.4	62.6	37.6	14.8	10.2	4.7	0.0	3.3	100
Luxembourg	37.8	52.3	24.0	8.8	19.5	2.6	0.6	6.7	100
Netherlands	18.8	55.9	25.1	5.6	25.2	2.1	6.9	16.4	100
Portugal	28.8	64.8	36.8	8.8	19.2	1.9	0.1	4.3	100
United Kingdom	37.6	44.5	21.2	7.2	16.1	0.8	0.4	16.7	100
EUR12*	27.7	60.5	30.9	11.2	18.4	2.8	2.8	6.3	100

Source: Eurostat - ESSPROS

Table 4: Receipts of social protection by type (%) - 1993


	Government contributions	Contributions in respect of employees				Self empl. contributions	Other pers contributions	Other income	Total
		Total	Employers' actual contributions	Employers' imputed contributions	Employees' contributions				
Belgium	21.0	66.3	32.7	8.8	24.8	1.6	1.0	10.1	100
Denmark	81.2	11.9	2.2	4.6	5.1	0.0	0.0	6.9	100
Germany*	26.1	61.9	25.8	14.2	21.9	1.1	7.4	3.5	100
Germany**	27.4	60.4	25.7	12.7	22.0	1.0	7.9	3.3	100
Greece	17.6	74.5	27.6	19.3	27.7	0.0	0.0	7.9	100
Spain	28.9	60.4	39.9	12.5	8.0	4.4	4.2	2.2	100
France	19.6	72.2	40.2	9.6	22.4	4.9	0.8	2.5	100
Ireland	60.7	37.1	15.4	7.7	14.0	1.3	0.0	0.9	100
Italy	30.1	59.4	34.0	15.1	10.2	6.8	0.0	3.7	100
Luxembourg	41.0	50.7	25.3	7.0	18.4	2.7	0.5	7.2	100
Netherlands	21.9	52.9	14.9	5.3	32.7	1.6	7.9	15.8	100
Portugal	37.2	52.4	35.8	4.5	12.1	1.5	0.1	8.8	100
United Kingdom	43.9	40.6	18.9	7.2	14.5	0.7	0.4	14.4	100
EUR12*	29.6	58.1	28.7	11.1	18.3	2.9	3.0	6.2	100
EUR 12**	29.9	57.9	28.5	10.8	18.6	2.8	3.5	5.9	100

* excluding the new German Länder

** including the new German Länder

Note: Employee contributions for DK and GR include contributions by self-employed and "other" persons.

Source: Eurostat - ESSPROS

The sickness and maternity/family functions experienced moderate growth

The sickness function ranks second in respect of expenditure by function (table 2). However, as with old age-survivors benefits, the relative share of this function in total spending slightly decreased between 1989 and 1993, from 24.7% to 24.4%.

In the EU as a whole, sickness real benefits per head between 1989 and 1993 increased less rapidly than overall social protection expenditure (14.5% against 15.8%, see table 1). Growth of real expenditure per head was particularly moderate compared to the average in Denmark and the old German Länder (+2.6% and 7.0% respectively). This was made possible mainly by shifting an increasing part of the burden of medical cost on the patient. On the other hand, in Greece and Portugal spending increased considerably (by 42.8% and 53.2% respectively).

Growth in real benefits per head in the EU was very modest in the maternity/family function (8.7%). Negative developments are recorded for Greece (-27%) Italy (-17%), the Netherlands (-3.5%) and Belgium (-0.9%). Large increases are recorded in those countries where a revaluation of the rate of family allowances took place: Luxembourg (48%), the United Kingdom (32%), Spain (26%) and Ireland (23%). However, the Spanish maternity/family benefits are still at a very low level and in 1993 they represented only 1.8% of total benefit spending in Spain.

The developments in the other functions

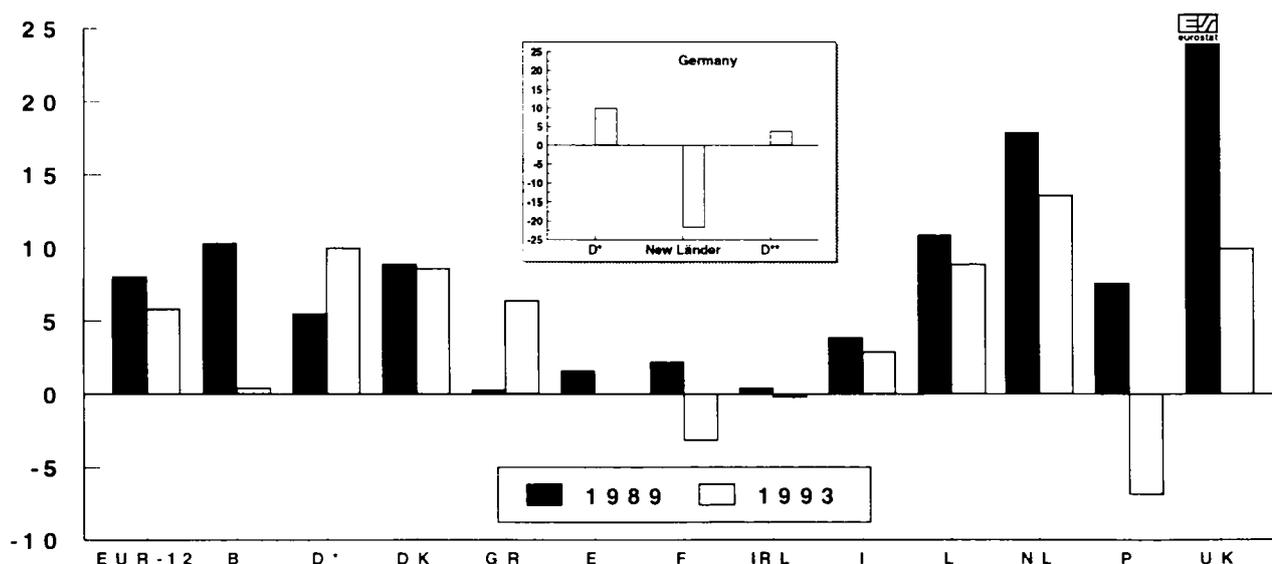
The functions invalidity and occupational accidents and diseases experienced moderate growth (table 1): between 1989 and 1993 real benefits per head increased by 12.7%. The United Kingdom showed the highest increase (+27.4%), while Greece and France recorded growth rates below or around 0%. In 1993, the share of this group of functions in total benefit spending was 11% (table 2). This share was highest in the Netherlands but decreasing (from 22.6% in 1989 to 22.4% in 1993). Restrictive measures adopted in recent years should result in further reductions in the future.

Housing and other benefits per head of population grew considerably in the United Kingdom (+59.4% in real terms). Belgium, Denmark and France recorded growth rates above 30% (table 1). This group of benefits only represented 3.8% of total social benefit spending.

The comparison of total receipts and expenditure reveals surpluses on the current account of most Member States

Nearly all Member States showed current receipts of social protection in excess of current expenditure. Various reasons may cause surpluses. In countries where many (pension) schemes use the capital reserve system, high receipts are needed in the period the funds are in the build-up stage. Furthermore, pay-as-you-go systems usually require the creation of contingency funds to meet financial setbacks. Finally, for some years, windfall profits may occur when receipts are higher and/or expenditure is lower than originally foreseen.

Graph 5:
Surplus or deficit on the current account of social protection (% of expenditure)



* excluding the new German Länder
** including the new German Länder

The insert specifies 1993 data for Germany: the surplus of the old Länder, the deficit of the new Länder (both before West-East transfers) and the surplus for the whole of Germany.

Source: Eurostat - ESSPROS

For 1993, large surpluses on the current account were recorded in the Netherlands (13.6%), the United Kingdom (10.0%), the old Länder of Germany (10.0%), Luxembourg (8.9%) and Denmark (8.6%). In Portugal and France, on the other hand, deficits resulted (-6.9% and -3.2%), implying that in these countries existing reserves were run down or that current expenditure was financed through raising loans. It should be noted that these are global data: the position of individual schemes may deviate considerably from the global national outcomes. In Germany, important West-East transfers took place in the domain of pensions (since 1991) and unemployment (since 1992). Without these transfers, social protection in the new German Länder would have run insurmountable deficits.

In most Member States, social protection is mainly financed by employers' and employees' contributions...

The extent to which government contributes to the financing of social protection by raising taxes varies widely among the Member States. On average their share in total receipts was 29.6% in 1993, but in Denmark and Ireland it was much higher (81.2% and 60.7%) and in Greece and France distinctively lower (17.6% and 19.6%).

The share of social contributions paid in respect of employees, either directly by themselves or by their employers, amounted to 58.1% at the Union level in 1993. On top of the list came Greece and France (74.5% and 72.2% respectively), while Denmark was lagging far behind (11.9%).

The category "other income", mainly represented by interest received by social protection schemes, took the

largest share in total receipts in the Netherlands and the United Kingdom (15.8% and 14.4% respectively). In these countries, funded pensions systems are more widespread than elsewhere in the Union.

In 1993, the share of total receipts paid by the self-employed was 2.9% for the Union as a whole. This compares with 6.8% in Italy, 4.9% in France and 4.4% in Spain. Pensioners and other persons paid more than 7% of all current social protection receipts in Germany and the Netherlands.

... however, government contributions are taking a larger share in social protection receipts

When comparing the financing of social protection in 1989 and 1993, a clear shift is noted towards increased government contributions (from 27.7% to 29.6% at the Union level). The only exceptions are Belgium and Greece. In accordance, the shares of social contributions paid in respect of employees decreased (from 60.5% to 58.1% on the Union level) except for Belgium. This was mainly due to a reduction in actual employers' contributions.

On average, the shares paid by the self-employed increased slightly (from 2.8% in 1989 to 2.9% in 1993). It is remarkable that their share was halved in Belgium to reach 1.6%, while the self-employed in Italy paid more (a rise from 4.7% to 6.8%). The share of "other income" decreased slightly at the Union level (from 6.3% to 6.2%). "Other income" receipts declined particularly in the United Kingdom, which apparently suffered more from a reduction in interest rates than several other Member States did.

THE EUROPEAN SYSTEM OF INTEGRATED SOCIAL PROTECTION STATISTICS

The ESSPROS (European System of integrated Social Protection Statistics) classifies data on social protection expenditure and receipts for each country of the European Union (data for Austria, Finland and Sweden will be available in 1996). Social protection expenditure is broken down into three main categories: social benefits, administration costs and other current expenditure.

Social benefits consist of transfers, in cash or in kind, to households and individuals to relieve them of the burden of a number of risks or needs - called "functions" -, specifically: old age, survivors, disability, occupational accidents and diseases, family, maternity, sickness, unemployment, placement and vocational guidance, housing and miscellaneous.

Social protection receipts are classified by type - i.e. social contributions paid by the employers, the employees, the self-employed and other persons, contributions from the Government, other income - and by sector of origin - i.e. households, enterprises, Government, Social Security funds, private non-profit institutions, rest of the world.

The ESSPROS is currently under revision. The new envisaged statistical system has an open-ended and more flexible design: it will be made up of a core, assembling regular data on social protection receipts and expenditure, and an indefinite number of modules, concentrating on specific aspects of social protection. Data belonging to the core will contain a great level of detail: by type of scheme, by category of benefit, by functions... This will allow the user to regroup the basic statistical information according to different analysis needs.

For reference :

- Social Protection Expenditure and Receipts (1980-1993)
- Digest of statistics on social protection in Europe,
 - Volume I: Old Age;
 - Volume II: Invalidity/Disability;
 - Volume III: Survivors;
 - Volume IV: Family;
 - Volume V: Sickness;
 - Volume VI: Maternity;
 - Volume VII: Unemployment,
 - Volume VIII: General Neediness.

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