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SOCIAL PROTECTION IN THE EUROPEAN UNION

During 1994, social protection expenditure expressed as a % of GDP fell slightly for EUR 12 from 28.8% to 28.6%. Expenditure stabilised or even fell slightly in real terms in certain countries.

Overall, between 1980 and 1994, there was a reduction in the proportion of total social protection benefits allocated to the sickness and family functions, whilst the fastest growth over the same period was recorded for the unemployment function.

Social contributions by employees and employers are the main source of finance for social protection expenditure, although the proportion of tax-related general government contributions rose from 27.9% in 1980 to 30.2% in 1994.

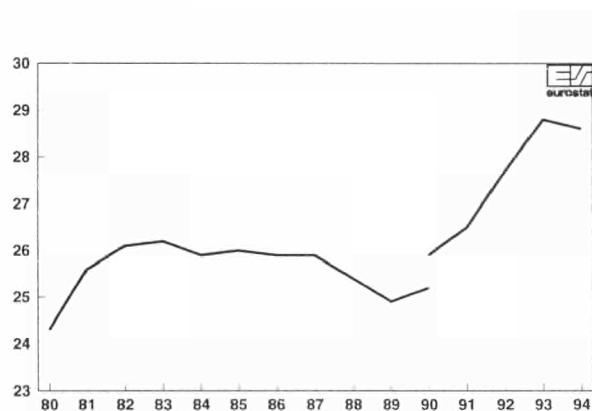
According to provisional data for 1994, social protection expenditure reached an average 28.6% of GDP in EUR 12.

Between 1980 and 1994, the ratio of expenditure to GDP rose by over four points (as of 1990 the data include the new German Länder). The pattern was not regular over the whole period (Figure 1): an appreciable increase between 1980 and 1983 was followed by a slight fall up to 1989, before a further increase pushed the figure up to 28.8% in 1993, primarily as a result of the slowdown in the growth of GDP and the increase in the unemployment rate.

During 1994, expenditure on social protection as a percentage of GDP fell in several countries, bringing the overall ratio for EUR 12 back down from 28.8% to 28.6%. An upturn in the GDP growth rate contrasted with the trend for social protection expenditure, which stabilised or even fell slightly in real terms in Spain, Italy and the Netherlands as a result of efforts to curb expenditure.

In Finland, the only new Member State for which data are available from 1990 onwards, social protection expenditure rose from 25.4% of GDP in 1990 to 34.8% in 1994.

Figure 1:
Social protection expenditure in the EU as a % of GDP, 1980-1994



EUR 12. The new German Länder are included from 1990 onwards.

Source: Eurostat - ESSPROS

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The ratios differ considerably from country to country

Between 1980 and 1994, there was virtually no change in the ranking of countries in terms of social protection expenditure as a proportion of GDP: Portugal and Greece have the lowest ratios (19.5% and 16% respectively in 1994), and Denmark (33.7%) and the Netherlands (32.3%) the highest (Table 1). However, when the new Member States are taken into account, it is Finland which records the highest rate of social protection expenditure as a percentage of its GDP at 34.8% in 1994, and the ratio for Austria is also relatively high at 30.2%. Data are not yet available for Sweden.

Table 1:
Social protection expenditure in the EU Member States as % of GDP, 1980 and 1994

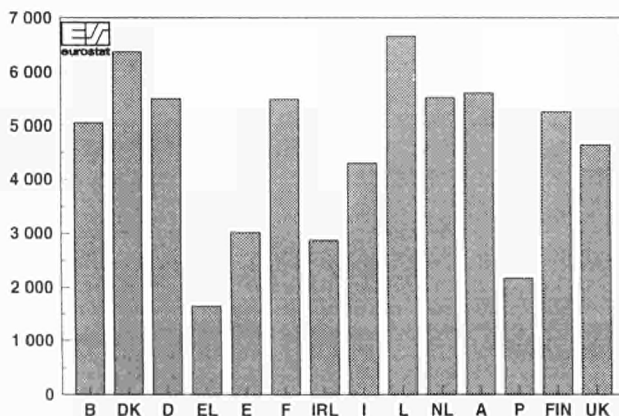
| | 1980 | 1994 |
|----------------|------|------|
| Belgium | 28.0 | 27.0 |
| Denmark | 28.7 | 33.7 |
| Germany* | 28.8 | 30.8 |
| Greece | 9.7 | 16.0 |
| Spain | 18.1 | 23.6 |
| France | 25.4 | 30.5 |
| Ireland | 20.6 | 21.1 |
| Italy | 19.4 | 25.3 |
| Luxembourg | 26.5 | 24.9 |
| Netherlands | 30.1 | 32.3 |
| Austria | | 30.2 |
| Portugal | 12.8 | 19.5 |
| Finland | | 34.8 |
| United Kingdom | 21.5 | 28.1 |
| EUR12 | 24.3 | 28.6 |

* The 1980 data do not include the new German Länder.
No data are available for Sweden.
Source: Eurostat - ESSPROS

The differences from country to country are more pronounced when the expenditure is expressed in PPS per capita.

When per capita social protection expenditure is expressed in PPS (see page 4), the differences between the Member States are more pronounced (Figure 2). In 1994, Luxembourg and Denmark spent over 6 000 PPS per capita on benefits, while

Figure 2:
Per capita social protection benefits in PPS, 1994



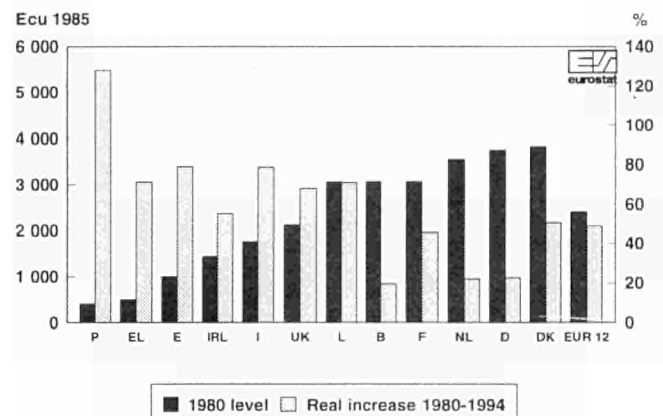
No data available for Sweden.
Source: Eurostat - ESSPROS

reas Greece and Portugal spent substantially less, at 1644 and 2162 PPS per capita respectively.

In 1994, therefore, the difference between those EU countries which spent the most per capita on social benefits and those which spent the least was of a magnitude of 1 to 4; in 1980, the ratio had been 1 to 5.5.

The gap has therefore narrowed, thanks to a greater increase in expenditure measured in real terms (ECU 1985) in those countries which spent the least in 1980, i.e. Portugal, Greece, Spain and Ireland (Figure 3).

Figure 3:
Social benefits per capita, 1980 levels and real increase 1980-1994 (ECU 1985)



No data are available for Sweden.

Source: Eurostat - ESSPROS

In most Member States, the old age and survivors functions account for the lion's share of total benefits.

In 1994, in most Member States, old age and survivors benefits made up the largest item of social protection expenditure (Table 2). This is especially true of Italy and Greece, where these two functions account for over 60% of all benefits.

In Ireland, the Netherlands, Portugal and Finland, on the other hand, the sickness, disability and accidents at work functions combined account for the largest share of total benefits.

There are major differences between the Member States when it comes to the relative importance of unemployment-related benefits. These account for over 15% of the total benefits in Spain, Ireland, Denmark and Finland, but less than 3% in Greece, Italy and Luxembourg. It should be noted that the total amount of "unemployment" benefits is not always explained by the level of unemployment in these countries. There are, in fact, still substantial differences when it comes to the coverage and amount of unemployment benefits.

Finally, on average in EUR 12, the family and maternity functions accounted for 7.6% of all benefits in 1994 and the housing and other functions 3.5%.

Table 2:
Social protection benefits by group of functions as a % of the total, 1980 and 1994

| EUROSTAT | Sickness / Disability / Accident at work | | Old age / Survivors | | Family / Maternity | | Unemployment / Employment promotion | | Housing / Other | |
|----------|------------------------------------------|------|---------------------|------|--------------------|------|-------------------------------------|------|-----------------|------|
| | 1980 | 1994 | 1980 | 1994 | 1980 | 1994 | 1980 | 1994 | 1980 | 1994 |
| B | 34.6 | 35.4 | 41.5 | 44.2 | 11.3 | 8.1 | 11.6 | 11.0 | 0.9 | 1.3 |
| DK | 35.8 | 27.0 | 35.7 | 36.6 | 10.8 | 11.6 | 12.9 | 16.8 | 4.8 | 8.1 |
| D* | 40.3 | 38.8 | 42.6 | 41.2 | 10.1 | 7.6 | 4.5 | 9.2 | 2.4 | 3.1 |
| EL | 26.2 | 24.5 | 66.1 | 66.8 | 3.6 | 1.2 | 2.7 | 2.7 | 1.4 | 4.8 |
| E | 37.2 | 36.2 | 41.0 | 42.6 | 4.4 | 1.7 | 15.7 | 18.1 | 1.7 | 1.4 |
| F | 35.6 | 34.0 | 43.9 | 43.7 | 12.7 | 9.6 | 5.1 | 8.1 | 2.7 | 4.7 |
| IRL | 43.4 | 36.8 | 31.4 | 27.5 | 11.5 | 13.1 | 8.8 | 17.2 | 4.9 | 5.4 |
| I | 34.9 | 29.9 | 55.1 | 64.0 | 7.5 | 3.6 | 2.3 | 2.5 | 0.1 | 0.0 |
| L | 40.4 | 38.0 | 47.5 | 46.0 | 10.0 | 13.6 | 0.9 | 2.3 | 1.2 | 0.2 |
| NL | 48.5 | 43.6 | 31.0 | 36.8 | 8.5 | 5.4 | 6.1 | 10.4 | 5.9 | 3.8 |
| P | 44.8 | 47.9 | 39.4 | 40.1 | 8.0 | 5.2 | 2.8 | 5.8 | 5.0 | 1.1 |
| UK* | 32.9 | 31.3 | 42.8 | 41.3 | 13.1 | 11.4 | 9.6 | 7.3 | 1.6 | 8.6 |
| EUR12* | 37.5 | 35.2 | 43.3 | 44.2 | 10.5 | 7.6 | 6.4 | 9.2 | 2.3 | 3.5 |
| A | | 35.6 | | 44.5 | | 12.9 | | 5.3 | | 1.7 |
| FIN | | 35.6 | | 32.3 | | 13.6 | | 15.2 | | 3.3 |

* the new German Länder are included in 1994, 1993 data for the United Kingdom.

No data are available for Sweden.

Source: Eurostat - ESSPROS

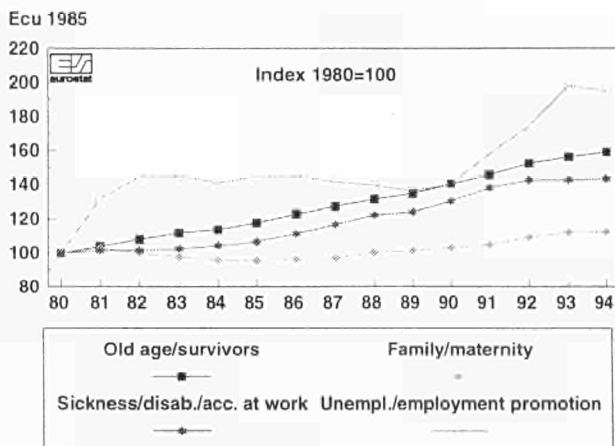
There was a change in the structure of social protection expenditure between 1980 and 1994.

Between 1980 and 1994, the structure of social protection benefits was subject to a number of changes which reflected the different growth rates recorded by the various groups of functions (Figure 4).

The changes observed result from both the way in which needs have evolved and the changes which have taken place in social protection legislation.

Old age and survivors benefits increased by 59% in real terms between 1980 and 1994 in EUR 12, raising their share of total benefits from 43.3% in 1980 to 44.2% in 1994. In Italy, where expenditure on these functions was already high in 1980, the increase was greater than in other countries, and their share of total benefits soared by 9 points between 1980 and 1994 (Table 2).

Figure 4:
Trend in expenditure on social benefits by group of functions in the EU, 1980 and 1994 (ECU 1985)



* EUR 12

Source: Eurostat - ESSPROS

The causes of this increase can be traced to pension schemes reaching maturity and the high incidence of early retirement during the 1980s. Faced with an ageing population, several countries are currently carrying out reforms to their pension schemes, the effects of which will gradually become apparent over the course of time.

In 1994, expenditure in the EU on the sickness/disability/accidents at work group of functions accounted for a smaller share of total benefits than in 1980. This is due to the fact that expenditure on this group of functions grew at a relatively slower pace than expenditure on benefits as a whole: 43.5% as against 48.8% between 1980 and 1994. The Netherlands made the largest contribution to this group (43.6%), but this too was less than in 1980, as a result of the efforts made since 1991 to curb expenditure in this field.

Figure 4 shows that 1985, 1989 and 1993 were the turning points as regards the trend in real expenditure on unemployment benefits in the EU. These benefits shadowed the trend in unemployment, although the sharp increase between 1993 and 1994 was more the effect of reforms made to the unemployment benefit system in certain countries (particularly Spain).

Between 1980 and 1994, the share of total expenditure allocated to unemployment benefits rose in all the Member States, with the exception of Belgium and, in particular, the United Kingdom, where a series of changes made to the benefits system over this period made it less generous.

Expenditure on family benefits fell in proportion to the total in almost all the Member States, mainly as a result of the fall in fertility recorded in all the developed countries.

In 1994, social security contributions were the largest source of finance for social protection in almost all the Member States.

In 1994 for EUR 12 as a whole, the main sources of funding for the social protection system were contributions by employees and employers (58% of total receipts), followed by tax-related general government contributions (30.2%, Table 3).

The European averages conceal considerable differences between the Member States as regards the structure of social protection funding.


Social contributions by employees and employers are particularly high in Belgium, Greece and France, where this type of

finance accounts for over 65% of the total receipts. They are also high in Austria (64.2%).

At the other end of the scale, Denmark finances its social protection system mainly through taxes, whose relative share of total receipts is in excess of 75%. Ireland and France are also heavily dependent upon general government contributions.

It should be highlighted that the tendency is for an increasing share of total receipts to be in the form of general government contributions. For the EU as a whole, this figure has risen from 27.9% in 1980 to 30.2% in 1994. Only in Belgium, Denmark, Ireland and the Netherlands has there been a fall in the proportion of total receipts coming from general government contributions.

**Table 3:
Social protection receipts by type as a % of the total, 1994**

|  Eurostat | B | DK | D | EL | E | F | IRL | I | L | NL | P | UK** | EUR 12 | A | FIN |
|-------------------------------------------------------------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| General government contributions | 20.6 | 75.6 | 26.7 | 19.2 | 29.6 | 21.5 | 61.0 | 35.0 | 42.6 | 16.3 | 37.4 | 43.9 | 30.2 | 29.2 | 44.7 |
| Contributions by employees and employers | 67.2 | 19.3 | 60.9 | 72.3 | 59.6 | 71.2 | 36.7 | 56.8 | 48.0 | 57.2 | 53.2 | 40.6 | 58.0 | 64.2 | 34.7 |
| Contributions by other protected persons* | 2.4 | : | 9.4 | (1) | 8.7 | 5.5 | 1.5 | 6.0 | 3.3 | 10.7 | 2.5 | 1.1 | 6.3 | 4.2 | 14.2 |
| Other receipts | 9.8 | 5.1 | 3.0 | 8.5 | 2.1 | 2.0 | 0.8 | 2.2 | 6.1 | 15.8 | 6.9 | 14.4 | 5.5 | 2.4 | 6.4 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

* Self-employed, pensioners and others

** 1993 data for the United Kingdom

No data are available for Sweden.

(1) included in Contributions by employees and employers

Source: Eurostat - ESSPROS

Methodological note

The data on social protection current expenditure and receipts for the Member States of the European Union contained in this analysis have been compiled in accordance with the 1981 version of the methodology for the European System of Integrated Social Protection Statistics (ESSPROS). A revised methodology has just been published, and data relating to this will be available in the course of 1997. Please refer to Eurostat's 1996 ESSPROS Manual.

It should be noted that in the ESSPROS the data on social protection expenditure are recorded gross before taxes and social contributions payable on social benefits.

The 1994 data are provisional. Provisional data are also available for Finland and Austria, although they only joined the European Union on 1 January 1995. The data for Sweden are not yet available. The EU averages refer to EUR 12.

Purchasing Power Standards, or PPS, are obtained by means of a conversion rate (purchasing power parity) based on the relative prices of a basket of comparable products, and express the real purchasing power of the currency within the country concerned.

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