

SOCIAL PROTECTION IN THE EUROPEAN UNION

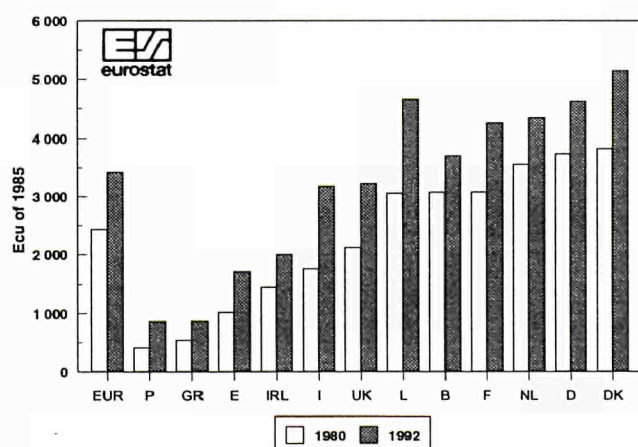
During the twelve-year period 1980-1992, social protection expenditure per head increased in real terms by 40.6% in the European Union. Over the same period, growth of GDP per head was 26.5% in real terms.

The share of total social protection expenditure accounted by the Old age/survivors and Unemployment/promotion of employment increased, whereas the proportion of expenditure on Health and Family/maternity decreased.

As regards the financing of social protection, there was a clear shift away from contributions payable by the employer.

This Rapid Report summarizes the main developments in social protection expenditures and receipts between 1980 and 1992, and also analyses a number of social contingencies in some detail.

Chart 1:
Social Protection Expenditure per head at 1985 constant prices (Ecu)



Social protection expenditure continues to rise throughout the EU

In 1992, average social protection expenditure in the European Union was 4 348 ECU per head. However, expenditure in the various Member States ranged from only 1 127 ECU per head in Greece to 6 687 ECU per head in Denmark, a ratio of 1 to 6. This indicates that there are large divergences in the degree to which European citizens are protected against risks, contingencies and needs such as old age, illness, unemployment or a general lack of resources. This situation can be explained by institutional, structural and financial factors.

The social protection systems in the Member States have evolved quite differently. Some countries have emphasized State provisions while others have developed extensive arrangements related to labour contracts and membership of professional organizations.

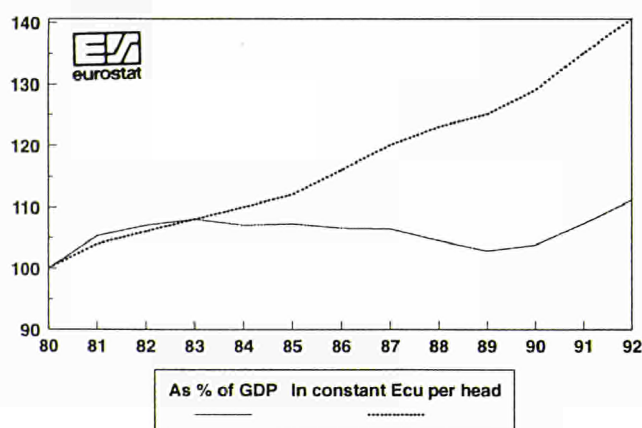
Apart from organizational differences, Member States vary considerably in their liability to social needs, related to demographic, economic, cultural or political factors (for example, the proportion of elderly people in the population, the level of unemployment, etc.).

Finally, available financial resources still vary considerably. In 1992, Gross Domestic Product (GDP) per head measured in ECU in Greece amounted to only 36% of the Union average. The wealthiest Member States, Germany and Denmark, are around 33% above this average.

Although social protection expenditure as a % of GDP for the Union as a whole only in 1992 passed the 1983 level, social expenditure per head shows a steady increase since 1980. In 1992 social benefits per head were 40.6% higher in real terms than in 1980. All Member States shared in this growth.

From 1980 to 1983, social protection expenditure in the Union as a percentage of GDP continued the upward trend of the 1970's. The efforts of governments to reduce the burden of social protection proved to be fairly successful between 1983 and 1989. Since 1989 the ratio is again rapidly growing as a result of more demands on the social protection system and a slack in the economy.

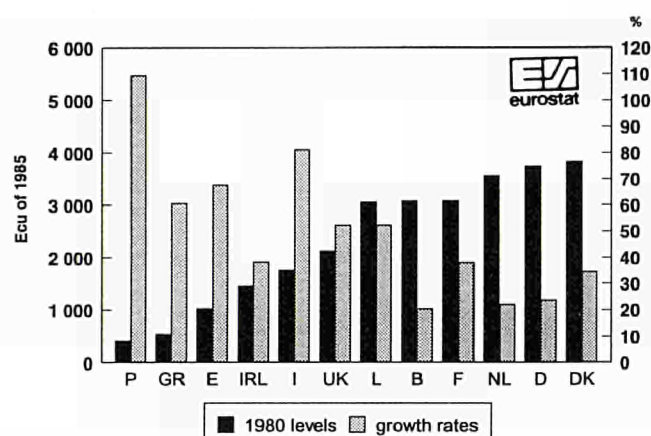
Chart 2:
Development of social current expenditure in the Union (1980 = 100)



Overall social protection expenditure in the various Member States has a tendency to converge.

Over the 1980 - 1992 period, the six lowest spending Member States show a real growth of social protection expenditure per head of 68.2%. The corresponding figure for the six highest spending Member States is only 31.7%.

Chart 3:
Social protection benefits per head, levels in 1980 and real growth rates 1980 - 1992



Union-wide, employers' contributions are the main source of financing social protection. However, their share is falling markedly.

In 1992, the proportion of social protection financed by employers' contributions was 40.5%. This compares with contributions from general government (29.2%), social contributions from the protected persons themselves (24.2%) and other current receipts (6.1%).

Chart 4:
Social protection current receipts by type, 1992

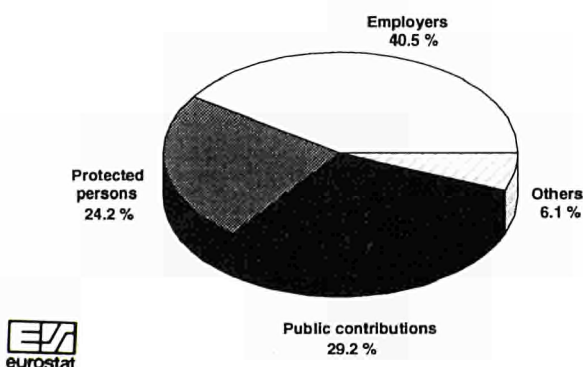
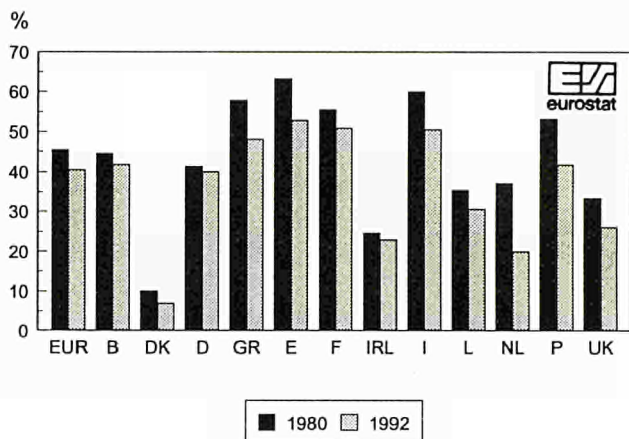


Chart 5 shows that over the 1980 - 1992 period the share of employers' contributions has fallen in all Member States. Overall, it fell from 45.4% to 40.5%. The difference can be accounted for by higher contributions from the protected persons (+ 2.2%), an increase in other current receipts (+ 1.4%) and in government contributions (+ 1.3%).

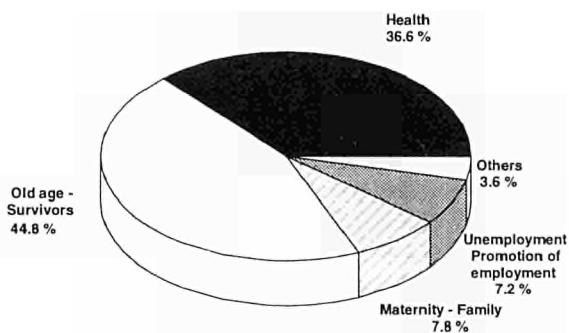
Chart 5:
Employers' contributions in total social protection receipts, 1980 and 1992



In the European Union, the greatest share of social protection expenditure is spent on Old age / survivors and Health.

In 1992, over 81% of all social benefits relate to the functions Old age/survivors and Health.

Chart 6:
Social Protection Benefits in the EU by groups of functions - 1992



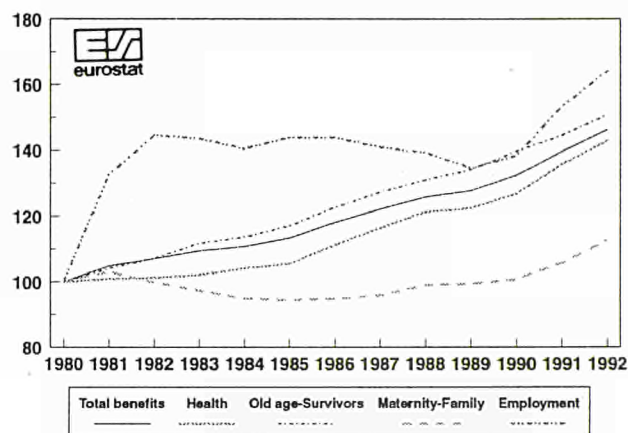
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In most Member States, Old age/survivors benefits are predominant; only in Ireland, Portugal and the Netherlands is the Health function more important. In Germany expenditure on Old age/survivors and Health roughly balance. In the Union as a whole, Old age/survivors and Health benefits account for 44.8% and 36.6% respectively of total expenditure.

The share of expenditure amongst the other functions in the Union is 7.8% for Family/maternity, 7.2% for Unemployment/promotion of employment and 3.6% for the residual functions, notably Housing and General neediness.

The relative weight of the various functions varies considerably from one Member State to another, reflecting both institutional and structural differences (see table 5).

Chart 7:
Real growth of social protection benefits by function (1980 = 100)



The share of Old age/survivors increased on a Union level from 43.4% to 44.8% in the 1980-1992 period due to an ageing population and more generous benefits. The share of the Health function fell from 37.5% to 36.6%. More pronounced was the decrease in the Family / maternity share from 10.5 to 7.8% over these years. The proportion of expenditure on Unemployment and Promotion of employment increased from 6.4% in 1980 to 7.2% in 1992. Chart 7 summarizes the developments within the 1980 - 1992 period.

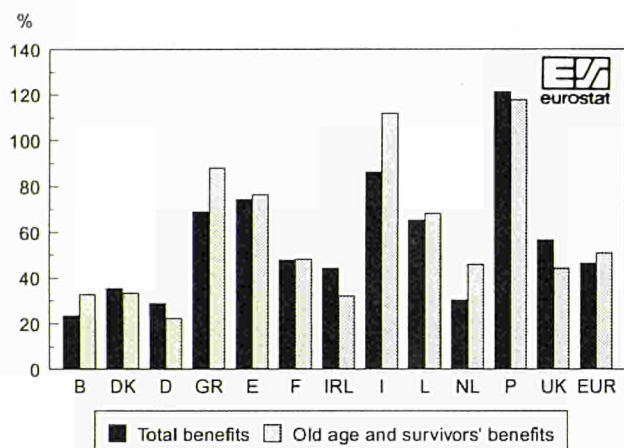
In the following pages, some social protection functions are analysed more in detail, notably old age / survivors, sickness, unemployment, general neediness (part concerning the minimum guaranteed income benefit) and family.

OLD AGE AND SURVIVORS' FUNCTIONS

Expenditure on old age and survivors' benefits increased by 50.8% in real terms between 1980 and 1992.

Over the period 1980-1992, the growth in real terms in expenditure on old age and survivors' benefits in the EU as a whole was greater than the growth in total social benefits (50.8% and 46.1% respectively). This trend applies in particular to Belgium, Greece, Italy and the Netherlands. In Germany, Ireland and the United Kingdom on the other hand, the variation in real terms in old age and survivors' benefits was considerably smaller than the increase in total benefits.

Chart 8:
Growth in real terms between 1980 and 1992



Old age and survivors benefits per head

The average benefit paid per person to those aged 65 and over can be interpreted as an indicator of the generosity of the systems in the various countries, even if the retirement age is less than 65 in some countries (notably in Italy where, before the reform of 1992, the retirement age was 60 for men and 55 for women).

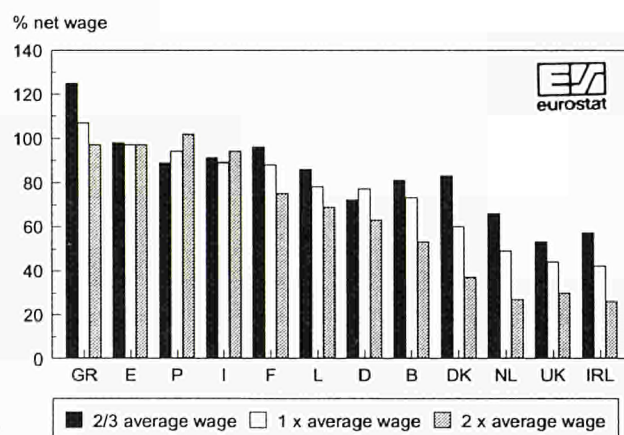
Three groups of countries can be distinguished on the basis of this indicator: the most generous (Luxembourg, Italy), the least generous (Portugal, Ireland, Greece and Spain) and the intermediate countries. The disparity between the countries has diminished over the last decade: in 1980, the ratio between the maximum and the minimum, measured in PPS, was 5.3. In 1992, it was 4.7.

Table 1:
Average old age/survivors' benefit per person aged 65 or over (in PPS, EUR=100)

	1980	1992
B	110.5	103.9
DK	94.9	87.9
D	122.9	109.5
GR	40.7	52.5
E	61.6	61.1
F	115.3	117.2
IRL	45.9	44.9
I	123.4	135.6
L	152.6	172.0
NL	123.8	116.8
P	28.9	36.8
UK	75.7	79.6
EUR	100.0	100.0

A study on replacement rates at the moment of retirement by the compulsory old age pension schemes shows that retired persons in the four southern European countries receive the highest replacement ratios, where the benefits are equal to or greater than 80% of the last wage. However, in Greece, Portugal and Spain, wages are substantially lower than in the rest of the EU to begin with. The lowest replacement rates are in the countries where public pensions are paid according to standard rates and regardless of the wage level (Denmark, Ireland, the Netherlands and the United Kingdom). In these countries, the system of old age benefits is applied across the board, with all residents being eligible. However, pensions may be supplemented by benefits from voluntary schemes.

Chart 9:
Net replacement ratios (full career without dependent spouse)



SICKNESS FUNCTION

The Sickness function belongs to the group of functions relating to Health, which also includes Invalidity/disability and Accidents at work/professional diseases. In the European Union, the sickness function represents 25% of total benefit expenditure.

In the Member States of the EU, major differences exist in the level of sickness expenditure per head.

In 1991, average expenditure in the Community as a whole was ECU 968 per head. In five Member States, the level was higher. These included Germany which was over 50% higher, and France and Luxembourg with 28% higher than the Community average.

The Mediterranean countries, particularly Greece, Portugal and Spain spent much less on sickness benefits, as shown in Table 2 (for Greece also due to methodological problems).

Table 2:
Expenditure on sickness benefits and GDP per head, 1991 (ECU)

	Sickness expenditure per head	GDP per head
B*	878	15 167
DK	1 167	20 444
D	1 486	21 547
GR*	104	5 190
E	592	10 935
F	1 204	17 007
IRL	550	10 262
I	937	16 392
L	1 206	19 505
NL	1 036	15 560
P	283	6 423
UK	721	14 112
EUR	968	15 762

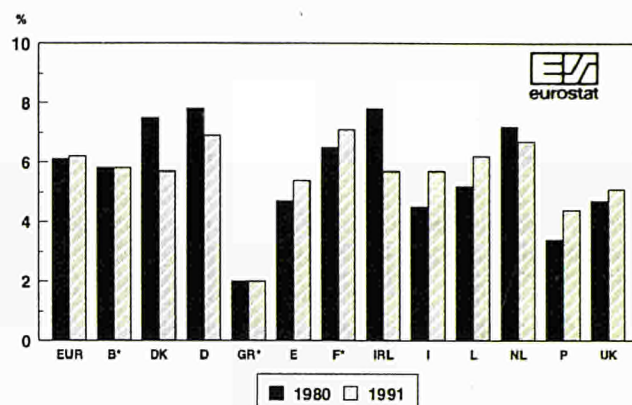
* For Belgium and Greece, 1990 figures

Table 2 shows the correlation existing between the resources of a country, measured here by the GDP per head, and the level of sickness benefit expenditure per head. The higher the GDP, the more countries tend to spend on sickness benefits.

During the past decade, sickness expenditure expressed as a percentage of GDP has progressed very differently from one Member State to another.

As a result of the policies aimed at reducing expenditure on sickness benefits, the proportion of GDP allocated to the sickness function was reduced in four Member States - Denmark, Germany, Ireland and the Netherlands - between 1980 and 1991. It should be pointed out that Ireland's GDP increased substantially over the same period (196% at current rates), which goes some way to explaining the reduction in expenditure on sickness benefits as a proportion of GDP. This ratio remained stable in Belgium and Greece.

Chart 10:
Social protection expenditure, sickness function, as a proportion of GDP



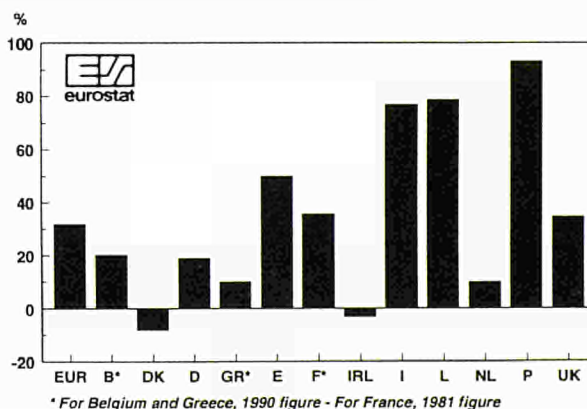
* For Belgium and Greece, 1990 figure - For France, 1981 figure

In the other countries, however, expenditure on sickness benefits as a proportion of GDP increased. This is not surprising in Spain, Italy, Portugal and the United Kingdom, in view of the initially lower level of such expenditure. France and Luxembourg, however, in spite of their efforts, have not managed to curb the increase in expenditure on sickness benefits, which not only continues to grow in absolute terms but is accounting for an increasingly large proportion of GDP.

Moderate growth in relative terms (constant ECU, 1985=100) over the period 1980 to 1991

If the effects of inflation are removed, it can be seen that the increase in expenditure in sickness benefits was greatest in Spain, Italy, Luxembourg and Portugal, and substantially smaller in other countries. Furthermore, in Ireland it was practically zero while in Denmark it was negative. These differences can be explained either by the rate at which the evolution of the price of health care benefits specific to the sickness function differs from the general consumer price index or by the changes in volume of these benefits.

Chart 11:
Variations in expenditure on sickness benefits between 1980 and 1991 (constant ECU, 1985 = 100)



* For Belgium and Greece, 1990 figure - For France, 1981 figure

UNEMPLOYMENT COMPENSATION

Pushed by the growth in unemployment, real expenditure on unemployment compensation benefits is increasing

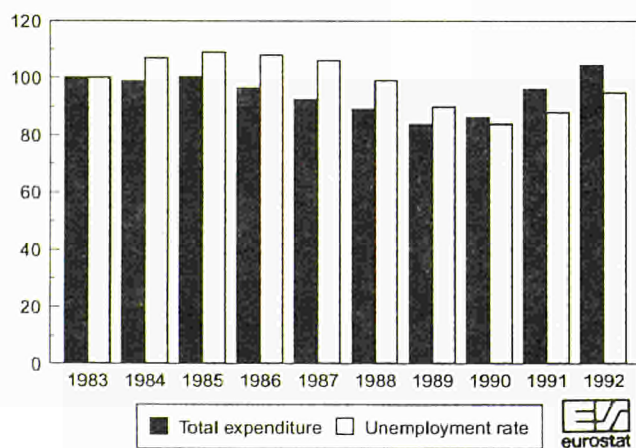
In the European Union, a rate of increase of 14.7% between 1989 and 1991 represents a reversing trend compared with the decline of 14.2% experienced in the period 1984 to 1989. Provisional data for 1992 shows a further increase of 8.8% over 1991.

Table 3:
The rate of increase of unemployment compensation expenditure (% change at 1985 constant prices)

	92/89	89/84	84/80	92/80
B	19.5	-10.1	23.6	32.8
DK	21.9	-6.2	32.3	51.2
D	0.5	-2.4	92.8	89.2
GR	86.6	38.1	149.0	375.5
E	44.9	22.7	18.4	102.6
F	30.7	19.1	65.7	158.0
IRL	33.5	-0.6	96.6	160.9
I	19.2	-40.1	93.5	38.2
L	64.4	-24.3	75.0	118.0
NL	1.9	-20.5	121.6	79.6
P	146.3	31.9	-17.5	168.5
UK	59.3	-59.8	20.9	-22.6
EUR	24.7	-14.2	51.7	61.4

Chart 12 shows that, between 1989 and 1992, spending on unemployment benefits has been growing at a faster rate than the level of unemployment. The real average allowance per unemployed worker has risen in all the countries except Denmark. In Portugal, total expenditure per unemployed persons has more than doubled in those four years, and in Luxembourg it has increased by almost 48%.

Chart 12:
Amount of expenditure on unemployment compensation and unemployment rate in the EU (1983 = 100)



During the eighties, coverage of unemployment compensation schemes has been affected by the fact that those less likely to be eligible for unemployment compensation - youths, married women, long-term unemployed - have formed an increasingly large share of the total number of unemployed. Recently, by contrast, the proportion of the expensive categories of unemployment compensation is increasing, thus affecting growth in expenditure.

Furthermore, in countries where the compensation system is less developed, such as in Portugal and Greece, the effective coverage of unemployment insurance has increased, and benefits have become more generous, either in terms of higher replacement ratios or in terms of longer duration.

However, considerable differences continue to exist in the coverage and the amount of unemployment compensation in the Member States.

This is reflected in very different levels of expenditure expressed as a percentage of GDP. It should be noted that the level of expenditure is not always explained by the level of unemployment. In Denmark, followed by the Netherlands and Belgium, expenditure is very high (3.7%, 2.7% and 2.6% of GDP respectively), yet the unemployment rate is close to the average of the EU of 9.4%. On the other hand, Italy spent less than 0.5% of its GDP on unemployment compensation while recording a rate of unemployment above the EU average.

Chart 13:
Unemployment rate and unemployment compensation expenditure as a % of GDP - 1992



Expenditure expressed in PPS per unemployed person is highest in the former three countries and lowest in the latter; it lies well below the average also in Portugal, Greece and the United Kingdom, and above the average in Germany.

In Italy, general unemployment insurance replaces only 20% of the previous wage. Besides unemployment insurance, a special fund has been set up for compensation of workers who become redundant in the industrial sector, the CIG. The effective coverage of these measures is however quite low.

MINIMUM GUARANTEED INCOME

In most Member States, social assistance benefits not related to any specific risk may be paid. Social assistance is means-tested and is granted on an individual basis to those persons who do not have enough resources to meet the basic needs of living. This type of benefit is called "Revenu Minimum d'Insertion (RMI)" in France, Income Support in the UK, or Minimex in Belgium.

Table 4:
Minimum guaranteed income benefits per month in ECU - 1992

	Amount for a single person	Amount for a couple
B	450	600
DK	372	745
D	241-275 ⁽¹⁾	433-494 ⁽¹⁾
GR	-	-
E	-	226
F	316	474
IEL	302	497
I	188-313 ⁽¹⁾	251-439 ⁽¹⁾
L	649	872
NL	533	761
P	-	-
UK	249	391

(1) Regional differentiation; for Spain and Italy figures are given as examples only

In Northern European countries, a person in a situation of financial need can receive support through a national scheme, while in Southern Europe the citizen can rely only on a variety of non profit institutions or local administrations providing discretionary allowances. Information for the latter countries is only partly available, while for the former it is possible to have a fairly complete picture of the amounts paid.

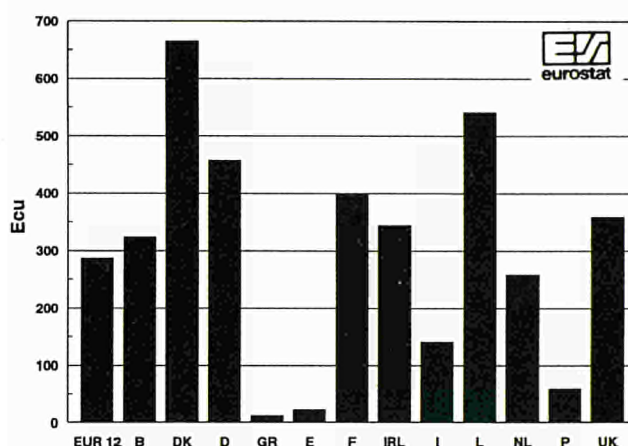
Luxembourg pays the highest amounts to the beneficiaries, but total expenditure expressed as a percentage of GDP and per head is highest in the United Kingdom (1.4% of GDP and 211 PPS per head) followed by Denmark (1% of GDP and 151 PPS per head).

FAMILY BENEFITS

In Greece, Spain, Portugal and Italy, the amount of benefits that households receive to meet the cost of bringing up children and caring for other members of the family is far below the European Union average of 292 ECU per head. The levels in Belgium, Ireland and the

United Kingdom are relatively close to the Union average. Clearly above average are family benefits granted in the Netherlands, France, Germany and specifically in Luxembourg (541 ECU) and Denmark (665 ECU).

Chart 14:
Benefits for the family function in ECU per head - 1992



The total amount of family benefits depends, on the number of eligible children and also on the relative importance that a country attaches to providing protection to the family unit. Chart 15 shows for each Member State both the number of children under 18 years per 1000 inhabitants and the level of family benefits as a percentage of that Member State's GDP.

Chart 15:
Number of children under 18 years per 1 000 inhabitants and family benefits as a % of GDP - 1992

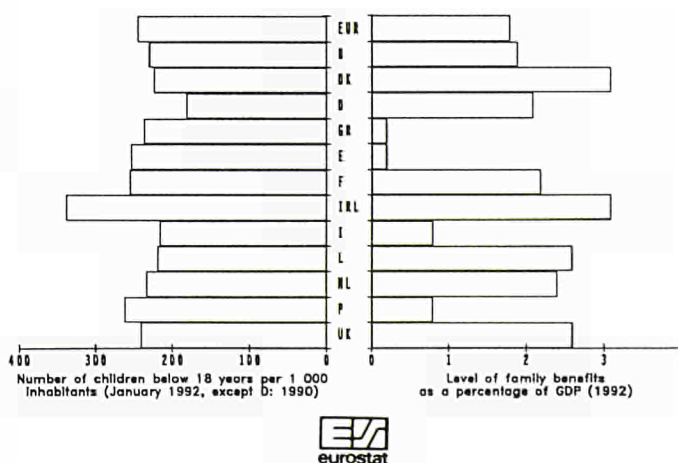


Table 5:
Social Protection Benefits by Function, 1980 and 1992

(as percentages of total benefits)

	Health		Old age - survivors		Maternity - Family		Unemployment - promotion of employment		Others	
	1980	1992	1980	1992	1980	1992	1980	1992	1980	1992
Europe	37.5	36.6	43.4	44.8	10.5	7.8	6.4	7.2	2.2	3.6
Belgium	34.6	34.4	41.5	44.7	11.3	8.1	11.6	11.4	0.9	1.4
Denmark	35.8	28.5	35.7	35.1	10.8	12.0	12.9	17.2	4.8	7.2
Germany	40.5	41.0	42.7	40.6	9.9	8.9	4.5	6.2	2.5	3.3
Greece	26.0	18.7	61.9	69.0	4.5	1.7	2.5	5.3	5.1	5.3
Spain	36.9	36.6	40.8	41.3	4.4	1.8	16.2	18.5	1.8	1.9
France	35.6	34.6	43.9	44.1	12.7	9.5	5.1	7.7	2.7	4.1
Ireland	42.5	36.0	29.7	27.2	15.1	17.4	7.8	14.6	4.9	4.8
Italy	34.9	31.6	55.1	62.8	7.5	3.9	2.3	1.7	0.1	0.0
Luxembourg	40.4	39.3	47.5	48.4	10.0	11.1	0.9	0.8	1.2	0.4
Netherlands	47.8	45.2	32.9	36.9	9.2	5.4	6.1	8.4	3.9	4.2
Portugal	44.8	45.4	39.4	38.8	8.0	5.6	2.8	5.0	5.0	5.2
United-Kingdom	32.9	36.4	42.8	39.4	13.1	10.9	9.6	6.0	1.6	7.4

Further information:

- Social Protection Expenditure and Receipts (1980 - 1992).
- Digest of statistics on social protection in Europe, Volume I: Old age; Volume III: Survivors; Volume IV: Family; Volume V: Sickness; Volume VII: Unemployment; Volume VIII: General neediness (August 1994).
- Old age replacement ratios, Volume I: relation between pensions and income from employment at the moment of retirement.

Further information may be obtained
from the unit "Living Conditions"
tel. 4301 - 32032, 4301 - 32056