European Social Policy: An Interim Assessment*

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A Common Social Policy – Europe's Unwanted Child

Since the 1950s, governments, employers, and trade unions have sought to keep social policy outside the European economic and political unification process. For example, during the negotiations on the Treaty of Rome, the French delegation was in favor of including social competences, while it was mainly the German delegation that argued against; both delegations based their arguments on economic reasoning, trying to protect their own economies. The French were motivated by the fact that their welfare state was relatively well developed after World War II, while in Germany the opposite was the case. It is only in the past few years (Treaty of Nice) that some formal common responsibility for limited aspects of social policy and some coordination of national social policies have emerged at EU level (Zapka 2008). These competences are, however, far from being equivalent to common social policies, mainly because of a lack of support from member states.

After the events of 1989, all European governments tried to adjust their respective social protection systems[1] to the new situation. The main goal was to react: (i) to significant changes in domestic economic development, the international division of labor, and Europe's internal and external trade relations; and (ii) to projected fundamental changes in Europe's population structures.

Reforms in Western and Eastern Europe were subject to two conditions. First, governments had to start from different social protection delivery mechanisms, which had evolved historically. It is true that both

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1. For a comprehensive definition of social protection, see EUROSTAT 2008.

systems – depending on their respective (widely differing) economic capacities – provided relatively stable income guarantees to their populations, but the institutional settings differed significantly: democratic welfare state(s) in the West versus communist systems in the East. Both systems had been instrumental in, and subject to, the Cold War. The second condition was that the overarching pattern for reform was provided by the West's new welfare state paradigm. Contrary to prevailing perceptions, the new paradigm was not alien to European philosophical traditions (Hinske 2004; Kaufmann 2001). Basically, it demanded higher individual responsibility in the provision of protection against the contingencies of life. While this rule was congruent with the reasons why peoples in Eastern Europe had wrought the 1989 revolutions and, in a sense, therefore fully met their expectations, in the perception of Western Europeans only a marginal shift was involved, since individual freedom and self-responsibility had always been high on the West's political and societal agendas.

Therefore, this policy was especially successful in Eastern Europe, where it was heavily supported by the World Bank and the West's financial sector (Fultz 2002), with paradigmatic support from the so-called »Washington Consensus«[2] (Scholz 2005a). This was a set of measures and concepts initially devised to help overcome the detrimental economic consequences of military regimes in Latin America and then ingeniously transformed into a purported remedy also for Eastern Europe, where it was broadly applied (Müller 1999), and whence it was »refracted« to Western European politics.

For social protection, the new paradigm appeared to be a double-edged sword as its implementation often resulted in adverse consequences for social system design: many countries significantly reduced income protection for the unemployed (with implications for reservation wages and, accordingly, other social benefit entitlements) and introduced individual savings schemes as substitutes for cuts in public pension provisions.

2. It should be noted that the Washington Consensus was falsely interpreted by many as the sole invention of conservative political and business interests in the USA; in truth, the economics departments of most European universities had, together with their US counterparts, been preparing the ground since the mid-1970s at the latest. The concepts of the Washington Consensus were fully supported by Europe's conservatives and the political discussion on market and product liberalization was already fully under way in the 1980s.

In Eastern Europe, this policy was not only intended to perform necessary functions, such as: adjusting social protection systems to market economy conditions; maintaining their technical functioning under conditions of temporarily collapsing governance structures and dramatically changing labor markets; and maintaining some minimum purchasing power for benefits being paid during periods of hyper-inflation (Scholz/Drouin 1998). It also often required legislation to dismantle organized solidarity. Western European social protection systems had to adjust to a new situation, characterized, among other things, by competition for low labor costs and the media-spun attractiveness of »modernized« social security schemes in the East. Accordingly, also in Western Europe a focus on individualistic »solutions« came in handy as an adequate response to foreseeable problems with financing social protection.

Core arguments supporting this policy were not social but economic: social protection, rather than maintaining its redistributive role, was more and more considered to be a tool for stimulating growth and employment (Dauderstädt 2006; Scholz 2005a, 2006). Ironically, in a number of countries these reforms had the opposite effect: while social protection functioned for decades as one of the central elements of the wider system of societal reference frameworks to which labor markets and economic productivity adjusted (ILO 2005), it has since lost much of that functional capacity.

Broad majorities in European societies do not consider the results of this policy, which stand in sharp contrast to the goals of the Lisbon Strategy, as either economically or socially satisfactory. Social policy has meanwhile lost much of its earlier legitimacy, and societal belief in the existence of a »European social model« has more or less vanished (Klecha 2008). Conceptual remnants still exist in some countries, as well as in regions and enterprises with highly organized labor. But the welfare state, as a concept of socially financed income redistribution and fair income equalization, has lost support in an economically and politically enlarged Europe.

Appearances to the contrary, the economic and labor market impacts of the financial crisis of 2008/2009 will probably *not* contribute to a revival of the concept. The reason is simple. If the currently available economic forecasts for 2009/2010 hold true, Europe's social expenditure ratio will increase to a temporary equilibrium of around four to five percentage points above the long-term level (assuming unchanged legislation). This implies that countries will have to spend much more for social purposes but alongside significant reductions in national income.

In order to reduce pressure on social contributions and tax rates, and also in fulfillment of the Maastricht Criteria, governments will relatively soon have to start (further) limiting benefit entitlements. Implementation of this policy will commence once economies and societies have adjusted to a stabilized post-crisis situation.

Redistributing Income through Social Protection – Where Does Europe Stand?

The abovementioned developments continue to have a significant impact on the design and appearance of enlarged Europe's social protection systems. It is understood that a more comprehensive discussion of the current state of Europe's social protection systems must address several key elements, including legal considerations, economics, labor markets, and free movement of labor and capital. In this article, we will focus on aspects of the redistributive capacities of social protection in the EU member states in the middle of the first decade of the twenty-first century.

The EU-27, on average, redistributes resources in the order of 27 percent of GDP (Eurostat 2007). This corresponds to about 5,000 euros per citizen per year (2005).[3]

Table 1 shows a high variance between countries in terms of relative social spending levels. Ranking relative social expenditure spending by country provides a rough overview of the magnitude of intra-European social spending inequalities. A small group of countries – the Netherlands, Austria, Switzerland, Germany, Belgium, Denmark, France, and Sweden, which together represent 201 million persons or two-fifths of the EU-27's population – spend at above average levels, while the remaining majority spend below.

The core reasons for the differences in GDP shares between the two groups of countries cannot generally be found in variations in legislation, but must be attributed to differences in economic development, household income, and employment levels, as well as in the administrative effectiveness of contribution and tax collection, including problems arising

3. If one includes those European countries that do not belong to the European Union the redistributed share of GDP declines by roughly 1.5 percentage points, while spending per inhabitant decreases quite substantially to between 3,000 and 3,300 euros per year. This results from the fact that non-EU European countries have comparatively low GDPs, but relatively large populations.

Table 1

Revenue and Expenditure of Social Protection Systems in Europe

Country/ region	*Total receipts*			*Total expenditure*			*Balance*		
	1995	*2000*	*2005*	*1995*	*2000*	*2005*	*1995*	*2000*	*2005*
	Percentage of GDP								
Austria	28.8	27.9	28.2	28.8	28.1	28.8	0.0	-0.2	-0.6
Romania	–	–	13.6	–	13.2	14.2	–	–	-0.6
France	29.8	30.0	31.0	30.3	29.5	31.5	-0.5	0.5	-0.5
Hungary	–	19.4	21.4	–	19.3	21.9	–	0.1	-0.5
Czech Rep.	16.8	19.3	18.9	17.5	19.5	19.1	-0.7	-0.2	-0.2
Estonia	–	13.8	12.3	–	14.0	12.5	–	-0.2	-0.2
Slovakia	19.3	19.3	16.8	18.4	19.3	16.9	0.9	0.0	-0.1
Malta	15.8	16.5	18.4	15.7	16.5	18.3	0.1	0.0	0.1
Slovenia	–	24.2	23.6	–	24.6	23.4	–	-0.4	0.2
Bulgaria	–	–	16.4	–	–	16.1	–	–	0.3
UK	29.0	27.7	27.1	28.0	26.9	26.8	1.0	0.8	0.3
Italy	24.7	25.5	26.8	24.2	24.7	26.4	0.5	0.8	0.4
Norway	26.5	24.4	24.3	26.5	24.4	23.9	0.0	0.0	0.4
Portugal	20.5	21.2	25.2	21.0	21.7	24.7	-0.5	-0.5	0.5
Poland	–	19.9	20.4	–	19.7	16.6	–	0.2	0.8
Germany	28.7	30.5	30.2	28.2	29.3	29.4	0.5	1.2	0.8
Greece	21.4	24.6	25.0	19.9	23.5	24.2	1.5	1.1	0.8
EU-15	28.4	28.4	28.7	27.7	27.0	27.8	0.7	1.4	0.9
Latvia	–	15.0	13.3	–	15.3	12.4	–	-0.3	0.9
EU-27	–	–	28.2	–	–	27.2	–	–	1.0
Lithuania	–	15.7	14.3	–	15.8	13.2	–	-0.1	1.1
Ireland	15.1	14.9	19.4	14.8	14.1	18.2	0.3	0.8	1.2
Luxembourg	22.4	21.8	23.2	20.7	19.6	21.9	1.7	2.2	1.3
Spain	21.5	21.8	22.2	21.6	20.3	20.8	-0.1	1.5	1.4
Cyprus	–	18.0	21.0	–	14.8	18.2	–	3.2	2.8
Finland	35.3	28.3	29.6	31.5	25.1	26.7	3.8	3.2	2.9
Sweden	36.9	33.9	35.8	34.3	30.7	32.0	2.6	3.2	3.8

Country/ region	Total receipts			Total expenditure			Balance		
	1995	2000	2005	1995	2000	2005	1995	2000	2005
	Percentage of GDP								
Denmark	34.9	32.2	34.3	31.9	28.9	30.1	3.0	3.3	4.2
Netherlands	34.9	32.1	32.9	30.6	26.4	28.2	4.3	5.7	4.7
Belgium	28.4	31.4	34.5	27.4	26.5	29.7	1.0	4.9	4.8
Switzerland	31.3	32.2	34.5	25.6	26.9	29.2	5.7	5.3	5.3
Iceland	20.6	23.9	41.0	18.9	19.2	21.7	1.7	4.7	19.3

Note: The table excludes most non-EU-27 European countries as no reliable information is available. In most of the above-listed countries the repercussions of the 2008/2009 financial crisis will have an enormous impact on the financial position of the social protection system. For countries such as Iceland, the question will arise as to whether it is reasonable (and possible) to continue the aggressive funding strategy of the past. Countries sorted by relative size of balance in 2005.

Source: Eurostat 2007.

from economic informality. The variations between countries within the groups can be ascribed to differing societal values and/or political weighting of the social agenda rather than to economic reasons (ILO 2009a).

The spending differentials between EU member states constitute just one indicator showing that Europe is not far from losing its special status of being the sole world region with *true* social protection: Sweden (Europe's highest spender) spends 18 percentage points more than Romania (Europe's lowest spender). Europe's average spending level is less than 10 points higher than in the USA (2005), 20 points higher than in South Korea (2005), and 22 points higher than in Thailand (2008). Korea's and Thailand's spending ratios are only just under 10 points below Romania's. These latter differences do not take into account the fact that Thailand, as a result of past pro-active government decisions and currently planned[4] crisis-induced social program improvements, will probably be spending almost twice as much as today in the next decade – in other words, it will be approaching Romania's social spending levels.

A comparison of poverty-exposed populations before and after the payment of social transfers shows that, generally speaking, Europe's social protection systems effectively achieve a reduction of household ex-

4. As of June 2009.

posure to poverty risk. It is evident, however, that system capacities have declined (Deutsche Rentenversicherung Bund 2008). The *intensity of the reduction of poverty exposure* varies considerably. This points to substantial differences in the effectiveness of social protection regulations and their execution. While Europe's social protection system (EU-25), across all countries, reduces poverty exposure on average by almost 40 percent, the reduction is more than 50 percent in the Netherlands, the Czech Republic, Finland, Denmark, Sweden, and Norway, while it is less than 20 percent in Latvia, Bulgaria, Italy, Spain, and Greece.[5]

Poverty exposure is being reduced by means of many different social programs and their respective mechanisms. The primary programs are (i) health and sickness (including disability), which seeks to prevent poverty in case of illness that (in the absence of protection) could turn out to be financially catastrophic, and (ii) old age (including survivor) benefit systems, which seek to avert poverty after the permanent loss of primary income sources; both programs usually absorb 80 percent or more of all social expenditure in the EU member states (Eurostat 2007). Logically, at given overall social expenditure levels, countries are able to allocate less to unemployment and family benefits, housing or social inclusion the more they spend on the primary programs.

This observation is especially relevant with reference to the *flexicurity* proposal, by means of which the EU has for the last few years been trying to attain some competences in the social policy debate. In essence, the flexicurity concept proposes substantial increases in unemployment benefit replacement rates in return for weakening workers' individual labor contract security. Flexicurity is fiscally expensive and could be implemented, in the current fiscal situation, only if matched by reductions in relative old age and/or health spending. In most European countries, further reductions in these programs will not be possible, however, as pension systems in most countries have been cut back to minimal acceptable levels (European Commission 2006) and scope for further cuts in health system accessibility is limited by the health needs of aging European societies.

Accordingly, the EU, in giving substance to its flexicurity proposal, but also in order to overcome its traditionally passive social policy posi-

5. The intensity of poverty reduction was measured as the *difference* between the population's poverty risk exposure before and after transfers, expressed as a percentage of the pre-transfer population's poverty exposure.

tion, should promote the expansion of the *fiscal space* (to be made) available for social expenditure. Technically speaking, the EU should advocate active increases of Europe's overall social expenditure ratio (as opposed to mere passive increases resulting from economic and political crises). This policy could be pursued, in a first step, by addressing the social expenditure ratios of the »low spenders« among the European countries. It is well understood that »addressing the social expenditure ratio« of countries is not a substitute for operational social policy; the relevant policy proposals would have to be formulated in detail. However, the formulation of quantitative fiscal goals (criteria) has been accepted by Europe's political class, at the latest with the Treaty of Maastricht. An adequate formulation of a social spending goal could serve to send a message about the EU's social orientation to the people of Europe.

A social spending goal would provide orientation, especially for the Eastern EU member states, in which the importance of social spending for social cohesion and economic development ranks (too) low on the political agenda. The implementation of a European social spending equalization system (see below) could help to overcome fiscal limitations in the East; such a system is also advisable because of the political need to overcome – or at least to reduce – the large de facto variance in absolute and relative social spending levels in the EU (Table 1). This high variance must be overcome as the European project is at risk if people do not feel the benefits of EU membership in their day-to-day lives.

We will look at three social functions – unemployment, health care, and pensions – chosen because of the additional light they shed on Europe's high social expenditure variance.

Income Protection in Case of Unemployment

With few exceptions, the unemployment benefit formulae in EU countries pursue a common approach, which takes into account (MISSOC 2009): a national reference wage (earnings); individual earnings over a defined past period prior to unemployment; the age of the unemployed person at the inception of unemployment; the number of contribution or insurance years; and family status and dependants. Almost all countries apply ceilings to the reference wage from which contributions are deducted (in the case of contributory schemes, which are predominant). Ceilings not only limit contributions, but also implicitly define maximum benefits.

In several countries, benefit formulae explicitly define minimum and maximum benefits. Countries tend to pay benefits at higher levels if the unemployed person takes care of financially dependent family members. Maximum payment duration is often extended after long contribution periods; this measure helps employers to replace older employees with younger ones. Older employees, once they become unemployed, are able to »bridge« the period until they reach statutory retirement age.

In most countries, the payment of unemployment benefits terminates after a maximum of six months. This limitation is based on the generalizing assumption that employability is significantly reduced after a predefined period. Accordingly, once they reach the end of the maximum payment period unemployed persons are transferred to general income support systems, while participating in »activating measures.« In some countries, this policy has been accompanied by the significant downsizing of long-established employment promotion measures. While this policy is reasonable in countries with high labor demand, it clearly lacks a rationale in countries where demand is weak.

The relative homogeneity of legal entitlement conditions may have contributed to a general perception that the living conditions of the unemployed in Europe are relatively similar. The reality, however, is that the EU-27, on average, spends slightly above 1.5 percent of GDP on unemployment benefits and employment promotion measures. Only four countries spend 2.5 percent or more, while almost all Eastern European countries spend 0.5 percent or less (Table 3). Accordingly, the »high-spenders« spend, relative to their respective GDPs, five to ten times as much as the »low-spenders.«

Typically, relative spending is positively correlated with unemployment rates and primary income levels; at higher primary income levels, Europeans obviously accept the higher state deductions required for the payment of higher benefits (tax, contributions). However, it is negatively correlated with spending on other social programs: the more governments spend on public health and pensions, the less they spend on unemployment and employment promotion.

In a number of countries, benefit entitlement conditions for the unemployed were tightened between 1995 and 2005; for example, through reductions in reservation wages. These policies were aimed at achieving a better match between low labor productivity levels and wages. In most countries, minimum wages help to prevent low-productivity workers from falling below the poverty line.

Table 2

Expenditure on Unemployment in Europe

Country/region	*2000*	*2005*
	Percentage of GDP	
Estonia	0.2	0.2
Lithuania	0.3	0.2
Bulgaria		0.3
Iceland	0.2	0.4
Romania		0.5
Latvia	0.6	0.5
Italy	0.4	0.5
Poland	0.9	0.6
Hungary	0.8	0.6
Norway	0.7	0.6
Czech Republic	0.7	0.7
United Kingdom	0.8	0.7
Slovakia		0.7
Slovenia	1.1	0.8
Cyprus	1.1	1.1
Luxembourg	0.6	1.1
Greece	1.5	1.2
Switzerland	0.8	1.3
Malta	1.0	1.4
Ireland	1.3	1.4
Portugal (2004)	0.8	1.4
EU (27 countries)	1.7	1.7
Netherlands	1.3	1.7
Austria	1.4	1.7
Euro area (13 countries)	1.7	1.9
Sweden	2.2	2.0
Germany	2.5	2.1
France	2.1	2.4
Finland	2.6	2.5
Spain	2.4	2.6
Denmark	3.0	2.6
Belgium	3.1	3.6

Source: Eurostat 2007.

Public Health Spending

In the EU, health services are usually delivered in kind: that is, the patient receives health services (doctors, hospitals) free of charge. In other words, most public health spending reflects financial flows to providers, not to patients. For this and other reasons, the level of health spending can be used only with caution as an indicator of the quality of a country's health system. Nevertheless, some core health indicators are significantly correlated with countries' relative health spending levels (see below).

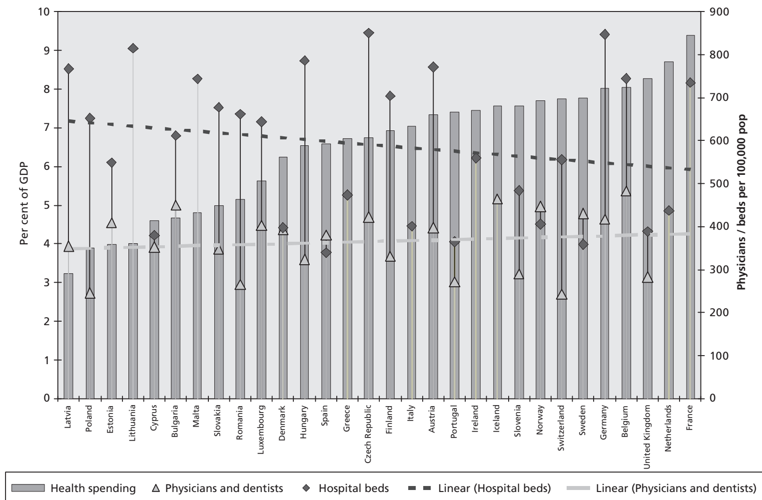
Europe allocates around eight percent of GDP to social health. Only five countries – Germany, Belgium, the United Kingdom, the Netherlands, and France – spend more (Figure 1). The highest spender, in relative terms, is France (just over nine percent of GDP), and the lowest, Latvia (just over three percent). There is considerable country variation in the numbers of hospital beds per 100,000 inhabitants (ranging from 850 beds in the Czech Republic to only 339 in Spain). There is less difference between countries with regard to the number of practicing physicians and dentists (ranging from 482 in Belgium to 243 in Switzerland).

Countries' health spending shares in GDP are not significantly correlated with the number of beds or the number of practicing doctors, however. One reason for this is that beds and doctors' services are utilized not only for patients covered by social health systems, but also for those with private insurance or who pay out of their own pocket. Furthermore, the number of beds per inhabitant is obviously not dependent on general income levels; otherwise, it could not be explained that, for example, Sweden, the United Kingdom, the Netherlands, and Denmark have much lower numbers of beds than, for example, Germany, France, Belgium, Austria, and Finland, while all these countries have similar levels of GDP per capita. Instead, the variance in the number of beds appears to be a result of different approaches to health service delivery. With the exception of Hungary and Poland, the number of practicing physicians increased in all countries (with statistics available) between 1995 and 2005.

At an aggregate level, Europe's current supply of doctors and beds should be considered sufficient. Nevertheless, health status, measured by life expectancy at birth and infant mortality, varies widely (Figure 2), pointing to regional imbalances and indicating that there are variables that have an impact on peoples' health.

Figure 1

Health Spending and Supply of Beds and Doctors in Europe (2005)



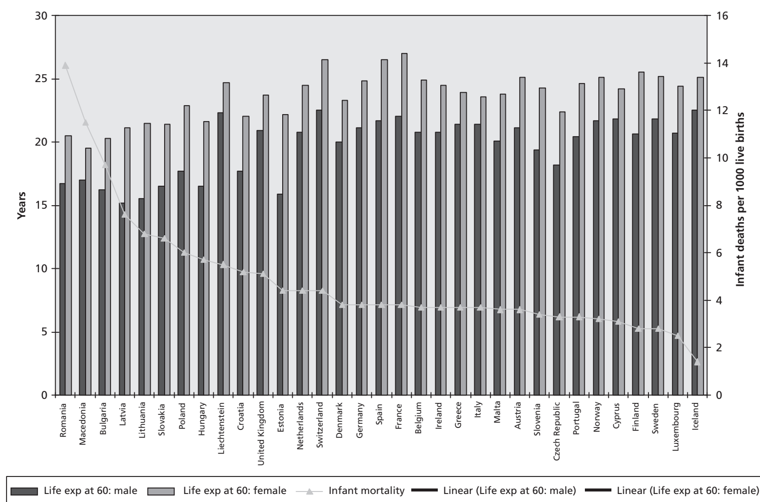
Source: Eurostat 2007.

Indirectly, Figure 2 supports the established hypothesis that life expectancy correlates positively with general income levels. On average, people with shorter working time and earlier retirement, and who drink and smoke less – all indicators of decent personal incomes and quality lifestyles – can expect to live longer than those who have to work under harsher conditions, retire later, and/or consume more alcohol and cigarettes. The widest differences in terms of life expectancy at age 60 are, for men, between Latvia and Liechtenstein (around seven years), and for women, between Bulgaria and France (around eight years). These extremes highlight the observation that Eastern Europeans, once they have reached 60 years of age, can on average expect to live between 30 and 50 percent fewer years than their Western European counterparts.

Furthermore, infant mortality (Eurostat 2003), usually a precise indicator of the quality of health services, correlates negatively with general income levels: countries with low per capita income experience signifi-

Figure 2

Life Expectancy at Age 60 (Male, Female), and Infant Mortality in Europe (2005)



Source: Eurostat 2007; ILO 2009.

cantly higher infant mortality than those with high per capita income. This finding is not surprising as the organization of effective health services requires substantial resource input, which must be complemented by a favorable general public infrastructure (including clean water and a secure energy supply). However, it must be observed that there seem to be exceptions to the rule (for example, Liechtenstein, the United Kingdom, Estonia, the Czech Republic, and Cyprus).

Income Protection after Retirement

Europe's spending on old age (including widows, widowers, and orphans) varies between five percent (Ireland) and 16 percent (Italy) of GDP; the average is around 13 percent. With the exception of Luxembourg, Portugal, the Netherlands, Belgium, France, and Italy, all countries spend less than about 1.5 percent of GDP on survivor pensions. Denmark is the only country paying no survivor pensions.

Comparison of average pensions[6] produces astounding results: the highest gross average pensions are around 20 times higher (Luxembourg) than the lowest (Latvia, Bulgaria, Estonia, Romania, Lithuania, Hungary). Austria, Denmark, and France pay around 40 percent higher gross pensions than Italy, Finland, and Germany.

The fact that Italy ranks highest in spending 16 percent of GDP on public pensions as a whole, while ranking only in the middle with regard to *average* pensions, can be explained as follows. The Italian population is one of the most »aged« in Europe; accordingly, it must allocate a high share of GDP to its older generation. It does so, however, only at a minimal level of generosity, hence the comparatively modest average pensions. Mutatis mutandis, the same applies in Germany. In both Italy and Germany, the share of persons aged 60 or over currently amounts to about 30 percent of the total population. In France, the same share is currently about 26 percent and, accordingly, average public pension levels are higher. However, these differentials in population shares cannot fully explain the variance of average pensions. There are also differences in public attitudes towards social generosity, stipulated in differing eligibility rules for pension entitlements, including early retirement rules.

Financing Europe's Social Protection

Social protection expenditure has to be financed. Over the 10-year period 1995 to 2005 a constant level of 28–29 percent of Europe's GDP was earmarked for financing social protection. This was around one percentage point above expenditure, which implies that social protection, at the aggregate level, has accumulated reserves[7] (Table 1; see also European Commission et al. 1993).

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6. Average pensions (including pensions paid to former civil servants) were calculated on the basis of the assumption that the volume of public pension payments – including administration costs – is allocated only to persons aged 60 or over.
7. After 1989, reserves in Eastern Europe were virtually zero, while in the West social protection systems had accumulated reserves at different levels. These reserves varied between cash buffers and full funding, as well as within and between countries and types of schemes. Estimates indicate that the reserves of »Europe's social protection system« by the middle of the decade amounted to between 7 and 12 percent of GDP, equivalent to between 20 and 30 percent of annual social protection expenses – that is, covering social expenses for about three to four months.

While in most countries revenue correlates highly with expenditure – in Table 1, this comprises all countries from Austria to Spain – there are a few in which revenue significantly – and increasingly – exceeds expenditure, pointing towards strategies of pre-funding future expenses (in Table 1, this comprises all countries from Cyprus to Iceland). Although a few countries, including the Netherlands and Denmark, long since embarked on such a strategy, others – such as Belgium, Sweden, and Iceland – followed only in the second half of the 1990s. Present legislation implies similar trends for more countries in future as several have in the meantime taken steps to foster individual savings, the effects of which are not yet visible in Table 1.[8]

With regard to the structure of social protection revenue, many European countries have pursued – at different paces – policies of relatively reducing social contributions levied on the persons protected, while maintaining the level of the employers' share and increasing the state transfer share (Table 3).

Going into more detail, as a percentage of GDP (see Table 3): employers' contributions range from 3.5 percent (Denmark) to 17.7 percent (Belgium); contributions by the protected population range from 0.1 percent (Estonia) to 11.3 percent (the Netherlands); government transfers range from 1.6 percent (Romania) to 21.7 percent (Denmark); and other receipts range from 0 percent (Estonia) to 14.4 percent (Iceland).

Employers' contributions (2005) amount to: less than five percent of GDP in three countries; between five percent and 10 percent of GDP in 15 countries; between 10 percent and 15 percent of GDP in 11 countries; and 15 percent of GDP and over in one country.

Contributions paid by protected persons (2005) amount to: less than five percent of GDP in 19 countries; between five percent and 10 percent of GDP in seven countries; and between 10 percent and 15 percent of GDP in two countries.

Government transfers (2005) amount to: less than five percent of GDP in five countries; between five percent and 10 percent of GDP in 13 countries; between 10 percent and 15 percent of GDP in 10 countries; and 15 percent of GDP and over in two countries.

8. It remains to be seen, however, to what extent such policy intentions might be adjusted as a result of the 2008/2009 international financial crisis and its economic aftermath.

Table 3

Social Revenue by Type, Europe

	Total receipts			Social contributions paid by: Employers			Social contributions paid by: Protected persons			General government transfers			Other receipts		
	1995	*2000*	*2005*	*1995*	*2000*	*2005*	*1995*	*2000*	*2005*	*1995*	*2000*	*2005*	*1995*	*2000*	*2005*
	Percent of GDP														
Estonia	–	–	12.4	–	10.9	9.8	–	–	0.1	–	2.8	2.5	–	0.0	0.0
Latvia	–	15.1	13.3	–	7.6	6.3	–	2.5	2.2	–	5.0	4.7	–	0.0	0.1
Romania	–	–	13.6	–	–	6.8	–	–	3.2	–	–	1.6	:	:	2.0
Lithuania	–	15.7	14.4	–	8.5	7.7	–	0.9	0.9	–	6.1	5.7	–	0.2	0.1
Bulgaria		–	16.4	–	–	7.0	–	–	3.0	–	–	5.9	–	–	0.5
Slovakia	19.3	19.3	16.9	9.0	9.3	10.4	3.1	3.6	3.8	6.8	6.0	2.4	0.4	0.4	0.3
Malta	15.8	16.4	18.3	7.2	7.5	8.0	3.0	3.5	3.5	5.1	5.0	6.3	0.5	0.4	0.5
Czech Rep.	16.8	19.2	18.9	9.0	9.6	10.3	4.1	4.6	5.0	3.5	4.8	3.4	0.2	0.2	0.2
Ireland	15.1	14.8	19.5	3.4	3.7	4.8	2.1	2.2	3.0	9.5	8.7	10.5	0.1	0.2	1.2
Poland	–	19.9	20.4	–	6.1	5.7	–	4.9	4.6	–	6.5	8.0	–	2.4	2.1
Cyprus	–	18.0	20.9	–	3.7	4.1	–	3.0	3.1	–	8.1	11.3	–	3.2	2.4
Hungary	–	19.4	21.4	–	9.1	9.0	–	2.5	3.4	–	6.1	7.4	–	1.7	1.6
Spain	21.5	21.8	22.3	10.7	11.3	10.9	3.7	3.5	3.5	6.5	6.4	7.4	0.6	0.6	0.5
Luxembourg	22.4	21.8	23.2	5.8	5.4	6.2	4.9	5.2	5.7	10.5	10.2	10.5	1.2	1.0	0.8
Slovenia	–	24.1	23.6	–	6.5	6.5	–	9.5	9.4	–	7.6	7.5	–	0.5	0.2

				Social contributions paid by											
	Total receipts			*Employers*			*Protected persons*			*General government transfers*			*Other receipts*		
	1995	*2000*	*2005*	*1995*	*2000*	*2005*	*1995*	*2000*	*2005*	*1995*	*2000*	*2005*	*1995*	*2000*	*2005*
	Percent of GDP														
Norway	26.5	24.4	24.3	6.0	6.0	7.2	3.8	3.4	3.6	16.5	14.7	13.5	0.2	0.3	0.0
Greece	21.3	24.6	25.0	8.0	9.4	8.9	5.0	5.5	5.7	6.2	7.2	7.7	2.1	2.5	2.7
Portugal	20.5	21.2	25.2	7.4	7.5	8.0	3.6	3.7	4.0	6.5	8.3	10.6	3.0	1.7	2.6
Italy	24.7	25.5	26.8	12.4	10.9	11.2	4.3	3.8	4.1	7.4	10.4	11.1	0.6	0.6	0.4
UK	29.2	27.6	27.1	7.4	8.3	8.8	6.8	6.2	4.2	14.7	12.8	13.7	0.3	0.3	0.4
EU(27)	–	–	28.2	–	–	10.8	–	–	5.8	–	–	10.6	–	–	1.0
Austria	28.8	28.0	28.1	11.1	10.9	10.7	7.5	7.6	7.7	9.9	9.1	9.3	0.3	0.4	0.4
EU(15)	28.3	28.4	28.8	11.1	11.0	11.0	7.0	6.3	6.0	9.1	10.1	10.9	1.1	1.0	0.9
Finland	35.3	28.3	29.6	11.9	10.7	11.5	4.8	3.4	3.4	16.2	12.2	12.9	2.4	2.0	1.8
Germany	28.6	30.5	30.3	11.6	11.7	10.6	8.2	8.4	8.4	8.1	9.7	10.8	0.7	0.7	0.5
France	29.8	30.0	31.1	14.1	13.8	13.9	8.2	6.0	6.5	6.4	9.1	9.5	1.1	1.1	1.2
Netherlands	34.9	32.0	32.8	7.3	9.4	11.0	14.9	12.2	11.3	6.0	4.6	6.5	6.7	5.8	4.0
Denmark	34.9	32.2	34.2	3.6	2.9	3.5	4.8	6.5	6.3	24.3	20.6	21.7	2.2	2.2	2.7
Switzerland	31.4	32.1	34.5	10.0	9.4	9.5	9.5	10.0	11.1	6.0	6.7	7.7	5.9	6.0	6.2
Belgium	28.4	31.3	34.4	13.9	15.6	17.7	6.3	7.0	7.6	7.4	7.9	8.5	0.8	0.8	0.6
Sweden	37.0	33.8	35.8	13.7	13.7	14.7	2.0	3.2	3.1	14.8	15.5	17.2	2.9	1.4	0.8
Iceland	20.6	23.9	41.0	6.3	9.4	10.8	1.7	2.2	2.3	12.6	12.3	13.5	0.0	0.0	14.4

Source: Eurostat 2007.

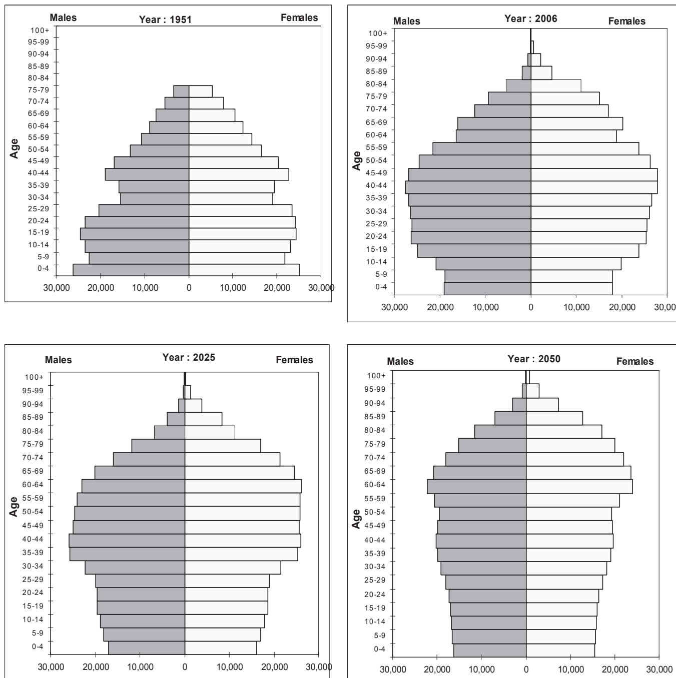
Digression: The Demographic Challenge

Europe's social policies have been hit over the past 20 years by the so-called »demographic challenge,« the essence of which is that (i) Europeans' individual life expectancy has continually increased, while (ii) in most European countries the number of children born has, for around three decades, been significantly below cohort replacement level.

The resulting problems have been widely described and can be summarized most easily in terms of demographic dependency ratios. The ratio between (retired) older people and those in the labor force will increase significantly, implying that the »active« will have to pay more

Figure 3

Demographic Development in Europe (1950 to 2050)



Source: ILO (UN population model).

(from their primary incomes) to the »inactive.« On the other hand, they will have to pay less to the younger (next) generation (children/young people).

A more indirect visualization of the problem is provided by the sequence of population pyramids in Figure 3. The estimates underlying the pyramids in the figure imply that Europe's population will decline by almost 70 million between 2005 and 2050, clearly indicating room for managed immigration policies, although at present that option does not seem acceptable to the general public. Resistance to such policies may be one result of social welfare reforms, as increased income insecurity may result in increased xenophobia.

Similar projections (Figure 3) have been used all over Europe for the past two decades as quantitative justification of policies which, while searching for solutions to demography-related financial problems, have focused predominantly on reductions in benefit entitlements, increasing working-time and labor-market flexibility, and other measures. Measures to increase labor productivity – including by means of social protection (Scholz 2005b) – were widely ignored. The Lisbon Process, with its self-proclaimed vision of making Europe, within one decade, the world's leader in terms of technological progress, but also to provide »better jobs and greater social cohesion« has signally failed.

The implications for retirement income policies become obvious when pension spending as a share of GDP is factored out into its different cost drivers (European Commission 2006):

$$\frac{\text{Total pension expenditure}}{\text{GDP}} = \frac{\text{Dependency ratio} \times \text{Coverage ratio} \times \text{Benefit ratio}^{9}}{\text{Employment ratio}}$$

This formula is not used in concrete pension scheme policy contexts, but it provides valuable guidance with regard to the principal remedies available for addressing the »ageing problem.« Among other things, it stipulates that a society's relative pension burden declines as a result of increased labor productivity (all else remaining equal, pensions not

9. Dependency ratio: population above retirement age as a percentage of the population between 15 and retirement age; coverage ratio: number of pension beneficiaries as a percentage of the population above retirement age; benefit ratio: average pension as a percentage of average labor productivity; employment ratio: number of employed persons as a percentage of the population between 15 and retirement age.

indexed to productivity). However, Europe's reaction to ageing populations so far has been almost exclusively confined to changing demographic relations, as indicated in the above formula. There has been no general attempt to increase labor productivity.

Meanwhile, the long-term projections of member states' pension and health systems show that old age poverty will relatively soon become a reality for increasing parts of the older generation in many countries (among others, Germany, Poland, and the United Kingdom), while age-related health cost increases may actually turn out not to be as high as earlier, perhaps simplistic, calculations suggested (European Commission 2006). A recent ILO study on Germany's social budget provides findings that may prompt a reconsideration of preconceived hypotheses (ILO 2009b). The abovementioned studies imply that financial consolidation of Europe's social protection systems has been broadly achieved at the expense of growing future poverty. Meanwhile, there is increasing need for benefit improvements. The required fiscal space can be gained by means of policies enhancing labor productivity and, in some countries, revenue system reforms (ILO 2009b).

In the years to come, not least as a result of the 2008/2009 financial crisis, structural pension benefit improvements will have to be given prominence, in combination with minimum benefit guarantees. It should be recalled that many governments' justification for tightening social pension entitlements was based on the promise that such reductions would be outperformed by the new private provisions (promising higher returns than public systems). Logically, to the extent that these promises do not materialize, governments must now redesign the public systems.

Striving for a Transnational Social Benefit Equalization System

Structural improvements are required not only with regard to state pensions, but also unemployment benefits (we have already mentioned flexicurity) and health care expenditure; after all, ageing societies need better rather than worse health provisions.

Europe should pursue such improvements actively rather than reactively. Implementation could take place, in a first step, by focusing on the social finance needs of Europe's poorer member states. One obvi-

ous difficulty, in this context, is that the Community is currently neither legally nor politically in a position to directly lift the social spending of its poor member countries, for example through direct budget support to social security institutions. In other words, there are no Community-based instruments that make it possible to boost unemployment benefits, pensions, sickness benefits, and health services in those countries in which state resources are lacking. Addressing these problems would need technical support in the form of implementation of a European social benefit equalization system. Blueprints for such a system exist at national level; for example, countries employ (health) resource allocation systems that could easily be adapted to Community level and purposes. In passing, it should be mentioned that such systems are neither costly nor administratively cumbersome. Technology and the required data exist and, after political clearance, any implementation phase should not exceed two years.

Intra-European redistributive income policies would not have to exceed acceptable financial limits. Costing was undertaken for two simple cases which, of course, would have to be complemented by more detailed calculations if the system was actually introduced. The results are as follows:[10]

1. To lift all countries (as listed in Table 1) that spend less than 20 percent of GDP on social protection to the 20 percent level would require a total of about 15 billion euros (2005), which is slightly below 1.5 per mille of the GDP of those countries that spend 20 percent and more.
2. Alternatively, lifting all countries to a minimum annual social spending of 4,000 euros per capita would require a total of close to 300 billion euros (2005), slightly above 2.5 percent of the GDP of those countries already spending 4,000 euros or more.

Such transfers could (and would) directly improve the lives of many who would otherwise remain exposed to poverty, while not overstretching the financial capacities of the paying countries; they would also help to boost local demand and, therefore, local economic development. The positive impact of social spending on economic growth has been widely discussed, and endorsed, for example, by the respective bodies of the ILO (ILO 2005).

10. These estimates must not be misinterpreted as concrete policy recommendations, but understood as orders of magnitude showing that a redistributive social income policy at EU level is not financially unrealistic.

It is obvious that the proposal would have to overcome the usual nationalistic European reflexes. Also, a serious discussion might be prevented by concerns about opaque public administration in some of the potential recipient countries. Notwithstanding this concern, however, the social protection institutions in almost all European countries function relatively well, administratively speaking, such that the non-corrupt use of intra-European monies could easily be achieved by means of adequate institutional arrangements. One indicator supporting this positive view is the low average administrative costs of Europe's social systems, amounting to only slightly above three percent of total expenditure.

Summary and Conclusions

As a direct result of the lack of community action and insufficient coordination of fiscal and employment policies (Brandolini et al. 2007), the differences between social systems within Europe may soon be wider than the differences between the EU-27, on the one hand, and the United States, Korea, or Thailand, on the other. The post-communist EU member states in particular have contributed to this situation by embarking on social protection reform strategies aimed at maximum conformity of envisaged new (capitalist) market structures with the related financial market requirements (Dauderstädt 2006; Hagemejer 1999; Müller/Ryll/Wagener 1999).

In order to restore Community coherence – which (although not only) as a result of the international financial crisis, is currently under higher political and economic pressure than usual – the EU needs its own institutional competences, allowing for social benefit transfers to combat poverty by partly or fully compensating member states' high social benefit spending inequalities. As illustrated above, the necessary resources are of manageable magnitudes.

More generally, such a policy would require the revival of income policies in Western Europe and their implementation for the first time in Eastern Europe. Any prospective benefit improvements would have to focus mainly on pensions and on measures to increase income security in the case of unemployment. Because of the depth of past reforms of European social protection systems, under the new paradigm any new beginning would have to start from the given basis. There is little danger that such policies would revert to »old ways« that have proven unsustain-

able. In many countries, future social protection reforms must probably focus on the revenue side first, before instigating benefit improvements.

It is evident that Europe will in future face growing economic and environmental challenges. It will cope better if mechanisms are established that provide better income security to those likely to suffer the most from foreseeable future trends.

Europe's traditional welfare state approach remains a model to other world regions. There is broad agreement that the world will not be able to master future problems unless reliable income protection mechanisms exist. Europe has the chance, the economic power, and the institutional capacities to implement income policies within its own boundaries, which could serve as a blueprint for other regions in the world. The same policy could also serve as a signal to the world that Europe is bolstering domestic demand as a contribution to reducing increasingly dangerous international current account imbalances.

It is time that Europe strengthened its internal constitution, also as a prerequisite of more actively pursuing its growing international obligations. Only in such a setting could Europe act as an example to other world regions in which governments are struggling to implement (more) social security for their people, while, at the same time, seeking better integration of their countries at regional level.

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