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Diversity of Welfare Systems in the EU: A Challenge for Policy Coordination

Gudrun Biffl

Abstract

As the EU economies and societies become increasingly integrated, and as labour market behaviour patterns converge across borders, the EU strives to develop a substantially common social identity. To this end, it seeks to promote the development of a sustainable institutional framework which facilitates flexibility and structural change in the economy and the labour market, while at the same time providing a meaningful social safety net ("flexicurity"). However, it would be unrealistic to try to establish a common EU social protection model under the prevailing great differences in social organisation of the various EU countries. The more immediate object for the EU should be to identify the mechanism by which social protection is ensured, what developments jeopardise the continued universal coverage of all members of society, what factors are responsible for the socio-economic exclusion of groups of people, why these differ by model of social organisation, and last but not least, what the gaps are in the statistical data which prevent a proper evaluation of economic wellbeing under the different welfare models.

The thrust of this paper is that the wellbeing of every society depends upon the interaction of the market, the household/family and the state. The exclusion of the household sector from the regular statistical framework — and orthodox economic theory — ignores the fact that the various models of social organisation give different relative weights to — and impose different roles on — the three pillars of social organisation. A different set of taxes, transfer payments and public services in the various welfare models in the EU results in a divergence of incentives to the private sector and/or the household to provide social services, in particular care work. This results in a different degree of integration of the working age population into the labour force, the quality of work and the price and quality of social protection. Models which allow targeting for individual needs are best able to cope with the current trends of increasing fragmentation and diversity of social functions.

Introduction[•]

The European System of Integrated Social Protection Statistics (ESSOS) is hard pressed to provide adequate information about the development of well being of all members of society in the various member states. This is, amongst other things, due to the different organisational structures of societies (welfare models) manifested in the different roles and weights assigned to the three main pillars of wellbeing – the state, the (labour) market and the family. Countries which relegate a large portion of social services to the household sector, by tax incentives or transfer payments, have a lower labour force participation of women than countries in which the state or private sector (for profit and non-profit firms) are the major suppliers of these services. Does that imply that the degree of socio-economic exclusion is higher or that the wellbeing of society is lower in these countries?

These questions cannot be answered by the kind of data we collect and compare. We only know that women at home are not idle but perform work, which is unpaid in the narrow sense of the word, i.e., they do not get a market wage. But society, by providing social benefits and transfer payments, is in effect paying, at least partly, for goods and services provided for by the household, in particular care work. We simply do not add up (paid) market and (unpaid) household work to gain more insight into the quantity of social services provided in terms of working hours and the quality of the services provided; neither do we know anything about the degree of coverage of all members of society by social services and provider. But even if we leave out the role of the household sector/family for the provision of services and concentrate on market work, we do not distinguish between the quality of work in terms of pay, working hours and career possibilities of persons working in the social services sector in the various welfare models. It does make a big difference to the wellbeing of the worker, however, if he/she is working in the public sector (the Nordic Model) or in small private sector institutions which are not covered by collective wage agreements (the Anglo-Saxon Model) or worse still, in the informal sector (*Fagan – Burchell,* 2002, *Gornick – Jacobs,* 1998).

It is this degree of complexity of information we need in order to provide insight into the different strategies countries have to pursue, when reforming their system of social protection in a quest to ensure universal coverage, reduce socio-economic exclusion, provide decent work and promote economic growth. The EU hopes to combat its weak economic growth performance, high unemployment and rising social expenditures in the main through institutional reform[1]. The development of a common social identity is perceived as a necessary step to achieve that goal.

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[1] Following *North* (1990), the EU acknowledges the importance of institutions for economic growth.

The Amsterdam Agreement, which came into effect in 1999, is the first corner stone of the institutional reform process, which addresses socio-economic institutions as diverse as education, labour market and social protection systems. The EU claims that these reforms are a necessary response to the increased socio-economic and political integration and interdependence between EU member states resulting from the implementation of a Single market and the Single currency. The latter represent a change in paradigm, i.e., they entail greater competition for all economic actors which calls for new alliances, often beyond the national borders, to remain competitive. Barriers to mobility of goods and services and factors of production are dismantled to arrive at a common labour market. However, labour markets and their institutions are linked to the social protection system in more ways than one; thus, the reform of labour market institutions and the co-ordination of employment policies along the lines of a common grid may jeopardise the internal consistency of the national institutional architecture, in particular social policy – this provides an incentive to extend policy coordination and reform efforts to social policy.

Increased integration within the EU is, however, not the only source of pressure on the internal consistency of the national socio-economic institutional framework. The changing pattern of employment, family life and international division of labour as a result of globalisation, technical and social change, also impose pressure on the institutional frame work. The fundamental transformation of one or more of these three pillars of social organisation in the wake of globalisation and changing behaviour patterns, calls for a reassessment of the institutional framework and its continued relevance. Given the heterogeneity of systems of social organisation, the focus of reform differs in the various countries according to the strengths and weaknesses of the various models of socio-economic organisation.

In what follows, the extent to which particular welfare systems affect labour market participation, and stratify employment and unemployment on the one hand, and contribute to social exclusion and poverty of certain socio-economic groups on the other, is discussed. From this analysis flows the conclusion that some systems are better able than others to cope with the current trend of behavioural and economic change. Insight provided by such analysis may encourage the development of additional data sources, in particular household satellite accounts, to adapt the current models of social organisation. This may promote convergence between the various models of social organisation without reducing the efficiency and equity of the socio-economic system in one or the other.

The four welfare models in the EU

The EU distinguishes between four different basic models of social protection in Europe (*European Commission,* 2001)[2]:

[2] The EC bases its distinction on research by *Esping-Anderson*, 1990, and *Scharpf*, 2000.

1. The Anglo-Saxon Model (IE, UK)
2. The Continental European Model (AT, BE, DE, FR, LU, NL)
3. The Scandinavian Model (DK, FI, SE)
4. The Southern European Model (ES, GR, IT, PT)[3].

The Anglo-Saxon social model tends to be referred to as market led (liberal), the Nordic Model as social democratic and the continental European as corporatist (conservative)[4]. The functional mechanism of decision-making differs as a result of a different set of institutions and the outcome of the decision process may differ as a result of different motivational forces guiding institutions and socio-economic actors. The models differ in their priorities of protection against risks, their composition of social expenditure, their source of funding and the organisation of service provision.

The Anglo-Saxon (male breadwinner) Model, exemplified by the UK and Ireland, is basically run by the public sector and funded out of general revenue. Access to health services is universal, access to welfare is subject to means testing. This basic scheme of social protection is complemented by private insurance (health and pension schemes), i.e., a system which allows those prepared to pay for it, to enjoy benefits above the minimum provided for by the state (*Biffl,* 1999, *European Commission,* 2001, *OECD,* 1998A, B/99A, B).

In contrast, the continental European (Bismarck) Model is centred around a social insurance system, comprising health, unemployment and retirement insurance, which is funded out of contributions by employers and employees. This basic model is complemented by a system of tax benefits and/or transfer payments to families, based on the number and age of children. The family allowance scheme is paid out of a wage and income tax fund, thus keeping family policy separate from a market oriented wage system. Only a small proportion of the population is not covered by the social insurance scheme, as explained later (Tables 1 and 6).

The Scandinavian model focuses on individual social rights and obligations. The system of social protection is employment centred. Work is not only the source of income but also the means through which the social dividend is distributed. Unemployment insurance is organised by the unions, which explains the high degree of unionisation in Sweden (*Gustafsson,* 1996). Thus, integration into the labour market is vital for the wellbeing of the individuals. Work related income and services are complemented by public sector services, like child and health care, which can be accessed by every resident. The universal character of welfare services reduces the need for special, means tested integration measures.

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[3] AT ... Austria, BE ... Belgium, DE ... Germany, DK ... Denmark, ES ... Spain, FI ... Finland, FR ... France, GR ... Greece, IE ... Ireland, IT ... Italy, LU ... Luxembourg, NL ... The Netherlands, PT ... Portugal, SE ... Sweden, UK ... United Kingdom.

[4] For more details about the differentiation of social models see *Soskice* (1999), *Hollingsworth – Boyer* (1997), *Aoki* (1995).

In the Southern European (family centred) countries, social protection is somewhat differently organised. Health services are universally accessible, while income protection schemes tend to follow the Continental European insurance model. In addition, the family plays an important role as a provider of care and income support, as unemployment insurance and active labour market policies are underdeveloped compared to the other European models.

Table 1 gives an overview of the 3 basic models; the Southern European system of social organisation is not as homogeneous, combining elements of the three models with varying weights depending on country concerned.

Table 1: Typology of European Welfare Systems

	Anglo-Saxon – Beveridge Model	Continental European – Bismarck Model	Scandinavian Model
Countries	IE, UK	AT, BE, DE, FR, NL, LU	DK, NO, SE, FI
Basic principles	Welfare (means tested; services/benefits without prior contributions)	Benefits relative to the former income from work	Benefits relative to the former income from work, universal social services
Target groups	Unemployed, sick, disabled, older persons, jobless parents	Unemployed, sick, disabled, older persons, families with children	Unemployed, sick, disabled, older persons, families with children
Functional profile	Benefits to cover subsistence, education and health system	Benefits to cover subsistence, education, health system, income related social insurance	Benefits to cover subsistence, education, health system, income related social insurance, universal social services
Organisational framework	State provision (including unemployment benefits)	Public sector	Public sector and unions
Funding	In the main taxes	In the main social security contributions	In the main taxes

Source: *Scharpf* (2000), http://www.uni-bamberg.de/sowi/europastudien/dokumente/es_sozialstaat.pdf

Significant difference in labour market outcomes of welfare models

The above typology of the welfare models indicates that the interaction between the three pillars of socio-economic systems, the market, the family/household and the state, is organised differently in the various models. All models except the Scandinavian share the notion of a male breadwinner, which features in the system of wages, taxes and transfer payments. Men are at the top of the job and wage scale[5], not least because women are

[5] *Gill* (1990) points out that 'the formulation of gender specific needs laid the foundation for the formal system of discrimination of pay on the basis of sex'.

relegated to do the major part of household work, thus leaving little time and flexibility for market work[6].

The male breadwinner model and concomitant family wage is diluted in the Continental and Southern European model through the introduction of a system of family and child allowances[7]. Since family allowances are paid out of a tax fund, wages may be kept below a 'family wage' while sustaining an adequate living standard for single parents. However, the introduction of individual taxation[8], which replaced the joint (husband and wife) income tax base, effectively reduced the marginal income tax rate on the earnings of the wife, thus providing an incentive for women to enter the work force. Depending on the provision of child and other care services by the market and/or state, women entered the labour market as full- or part-timers (*Villota – Ferrari,* 2002). France, for example, has a long tradition of providing comprehensive full-day public childcare and schools. Thus, women are empowered to pursue life-time careers similar to men. In contrast, German-speaking and Southern European countries do not provide child care as a legal right, and nor are day-schools the rule. This limits the opportunity of women with children being able to pursue careers similar to men. Opening hours of schools introduce a certain rigidity of working hours of women; they act as segmentation devices for female employment.

In contrast, the Scandinavian model is based on the right of every individual, male or female, breadwinner or not, to market work with full social security coverage. A tax system based on individual taxation with high marginal tax rates provides the incentive for every family member to engage in market work. This system was introduced towards the end of the 1960s and further developed in the 1970s; it established the most comprehensive state welfare system in Europe, in which the public sector is the main provider of social services. In the other welfare models they tend to remain in the household sector to a significantly larger extent, particularly care work. In Scandinavia, the state welfare system provided jobs for women, allowing female labour force participation to rise to male levels. A solidaristic wage policy reduced the wage gap between men and women to one of the lowest in Europe in spite of a pronounced gender segmentation of work – men are predominantly working in private industries and women cluster in care-oriented public services[9].

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[6] Employment by occupation and working hours is highly gendered as a result; equal pay legislation ensures that women are granted a man's wage if they are doing 'men's work'; in 'female' jobs, however, the determination of the 'proper' wage remains a topic of debate.

[7] The latter explains why families with children are better off in continental Europe than in the UK.

[8] Individual taxation was introduced in the UK in 1989, i.e., much later than in the continental European countries. The Scandinavian countries were first (late 1960s) followed by Austria in the early 1970s. For details see *Siv Gustafsson* (1996).

[9] Research on gender segregation of work demonstrates that high levels of occupational segregation of work exist in all modern industrial societies, also in Scandinavia. There is considerable consistency across countries in the extent to which women are concentrated in certain major occupational groups (see *Richard Anker,* 1998).

Table 2: Indicators of the European Welfare Systems

		Scandinavian Model	Continental European Model	Anglo-Saxon Model	Southern European Model
Total employment (In % of population 15-64)	High	yes		yes (UK)	
	Middle		Yes	yes (IE)	
	Low				Yes
Female employment (In % of total employment)	High	Yes		yes (UK)	
	Middle		Yes		
	Low			yes (IE)	Yes
Employment in the public sector (In % of total employment)	High	Yes			Yes
	Middle		Yes		
	Low			yes	
Social expenditures in % of GDP	High	Yes			
	Middle		Yes	yes (UK)	
	Low			Yes (IE)	Yes
Poverty	High			Yes	Yes
	Middle		Yes		
	Low	Yes			
Income inequality	High			yes	yes
	Middle		Yes		
	Low	Yes			

Source: *Esping-Andersen et al.* (2001), WIFO.

Thus, the system of socio-economic organisation does not only influence the activity rate of men and women, but also the division of work between market and household work, the mix of part-time and full-time work, occupational segmentation, and lifetime earnings. This can be seen in Table 2. The degree of integration of the population of working age into gainful employment declines as one moves from the North to the South of Europe as does the proportion of women in employment and the share of the public sector in total employment. The same is true in the case of social expenditures in percent of GDP.

In contrast, the degree of poverty and income inequality is lowest in the Nordic countries, in the middle in the Continental European countries and highest in Southern Europe (*Mejer – Linden,* 2000).

The Anglo-Saxon model tends to differ somewhat in that it has a comparatively high degree of integration of the population into the labour market, but at the same time tolerates a high degree of poverty of groups of people.

There are also marked differences between the four European models of social organisation as to the degree of socio-economic exclusion. This may be demonstrated by differentiating between long-term and short-term unemployment and labour market exclusion proper, i.e., the non-participation rate of the population of working age.

We use three unemployment indicators:

U1, the long term unemployment rate; it is calculated as the number of workers, who have been without a job for one year or more as a proportion of the labour force (whereby everybody working for one hour or more per week is considered employed);

U3, the traditional internationally used unemployment rate, i.e., the number of unemployed as a percentage of the labour force (as defined above); and

U5, a more comprehensive measure of unemployment; it includes the marginally attached and discouraged workers amongst the unemployed.

In addition, we look at the non-participation rate of the 15 to 64 year olds. This group of people is made up of housewives, students, early retirees, disability pensioners and people in penitentiaries and other institutions[10].

Accordingly, the Nordic countries have the lowest non-participation rates in the EU (between 20 and 25 percent), and the Southern European countries have the highest (between 36 and 40 percent). The maximum difference in labour resources not used in market work, i.e., between Italy and Denmark, amounts to 20 percentage points in the year 2000.

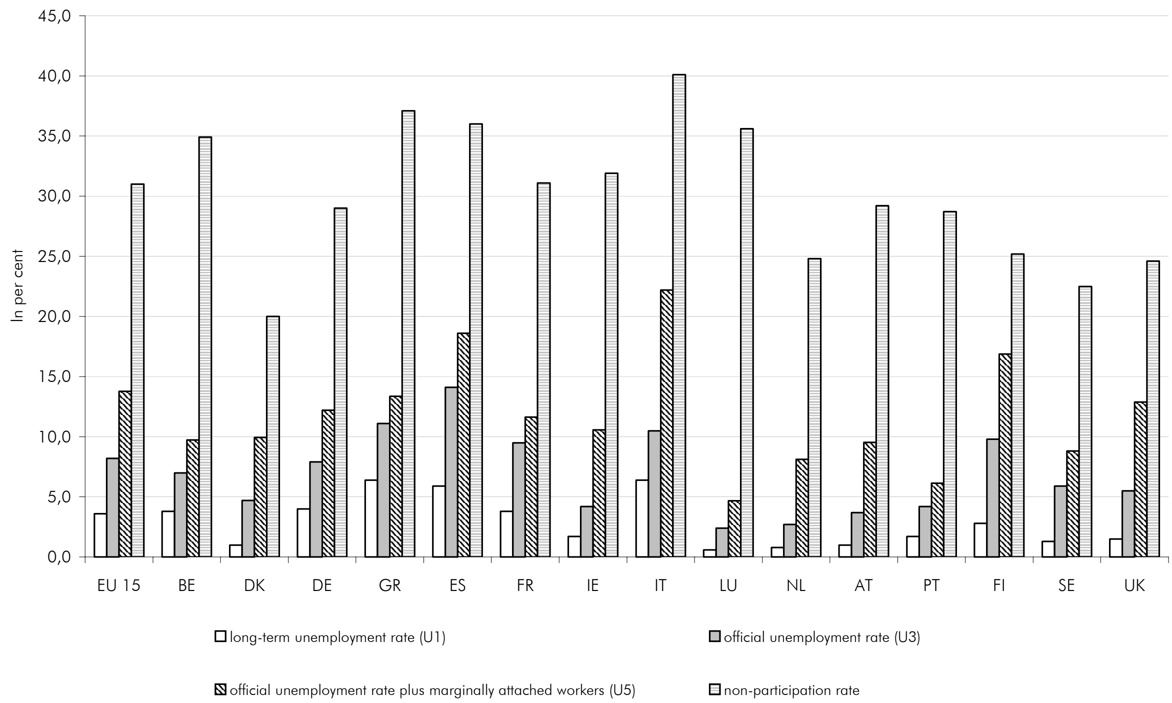
The UK and the Netherlands have almost as low a non-participation as the Nordic countries (24.6 percent and 24.8 percent), the unemployment component of labour market participation is, however, much higher in the UK than in the Netherlands; but the Netherlands have a higher incidence of part-time work than the UK. Thus, the volume of working hours on a per capita basis does not differ much between the UK and NL; the degree of socio-economic exclusion differs, however, between the two countries and to that extent the system of redistribution.

The continental Europeans Germany, France, and Austria are in the middle with average non-participation rates, average proportions of part-time work, but significant differences in unemployment, depending on type of indicator used.

If we compound all four exclusion indicators into a total rank order (Table 3), a better perspective of the ranking of the EU member states may be obtained in terms of the degree of exclusion of people of working age from gainful employment. On this basis, the Netherlands, Luxembourg and Denmark are the countries with the lowest degree of social and labour market exclusion in the EU. This means that, on a quantitative basis, they can be seen as the best practice models in the EU, closely followed by Sweden, Austria and Portugal. Portugal has a relatively large number of long term unemployed while Austria has a relatively large marginalised and discouraged work force.

[10] There is a clear positive correlation between U1 and U5 within the EU (0.73 in the year 2000). The correlation between U1 and the non-participation rate is also significant but not that high (0.46).

Figure 1: Longterm unemployment rate (U1), Unemployment rate (U3), Unemployment rate including marginally attached persons and discouraged workers (U5) and Non-participation rate (15 to 64): 2000



S: EUROSTAT, WIFO.

Table 3: Ranking of EU countries by labour market indicators in the year 2000

	Unemployment rate U1	Unemployment rate U3	Unemployment rate U5	Non-participation rate	Total rank order
BE	10	9	6	11	9
DK	3	6	7	1	3
DE	12	10	10	7	10
GR	—	14	12	14	13
ES	13	15	14	13	14
FR	10	11	9	9	10
IE	7	4	8	10	8
IT	14	13	15	15	15
LU	1	1	1	12	2
NL	2	2	3	4	1
AT	3	3	5	8	4
PT	7	4	2	6	4
FI	9	12	13	5	10
SE	5	8	4	2	4
UK	6	7	11	3	7

Source: EUROSTAT, WIFO. 1: min, 15: max.

We may not automatically deduce from this ranking that it corresponds to the order of wellbeing in the various EU member states. To establish a wellbeing rank order, more information about the type of work (decent work), the remuneration and career opportunities, the income levels and distribution, the state of health and living conditions and other indicators of wellbeing is called for. In order to obtain this information one would have to link the various welfare models, i.e., the different combinations of state, family and market work, with labour market outcomes, household income (taking the role of tax/benefits and their redistributive effect into account, see *Ferrani – Nelson,* 2002) and other determinants of wellbeing, like health.

Table 4: International Trends in Income Distribution

Summary results from national and cross-national studies

	Early/mid 1970s to mid/late 1980s	OECD study 1980s	Mid/late 1980s to mid/late 1990s
Australia	0	+	+
Austria	0	0	++
Belgium	0	+	+
Canada	-	0	+
Finland	-	0	+
France	-	0	+
Germany	-	+	+
Japan	0	+	++
The Netherlands	0	+	++
New Zealand	0	+	+++
Norway	0	0	++
Sweden	-	+	+
UK	++	+++	++
USA	++	++	++

+++ Significant rise in income inequality (more than 15 percent)
++ Rise in income inequality (7 to 15 percent)
+ Modest rise in income inequality (1 to 6 percent)
0 No change
- Modest decrease in income inequality (1 to 6 percent)

Sources: *Atkinson et al.* (1995), *Gottschalk - Smeeding* (1997, 2000), *Atkinson* (1999), *Forster* (2000), *Atkinson – Brandolini* (2001), http://www.lisproject.org/keyfigures/.

Evidence from comparative analyses of aggregate outcomes of welfare systems suggest that more generous systems redistribute economic resources more effectively and consequently lead to a more equal income distribution than less generous schemes. Our knowledge about the role of the various elements of a model in ensuring efficient and equitable outcomes is rather limited, however, as the elements tend to complement each other in their impact on individuals and groups of people. In what follows, we want to shed more light on the trend of income inequality in the various countries, since it is difficult to compare levels of inequality, because of different income measures, equivalence adjustments and other factors in the various studies of income inequality (*Atkinson et al.,* 1995, 2001; *Gottschalk – Smeeding,* 1997, 2000; *Gottschalk et al.,* 1997; *Atkinson,* 1999; *Forster,* 2000). Table 4 shows that it is safe to say that from the late 1980s to the late 1990s, inequality rose in practically every OECD country.

The growing income disparities are only partly attributable to increased wage inequalities. The changing family structure is also responsible (*Burtless – Smeeding,* 2000; *Borland – Gregory – Sheehan,* 2001). While skilled married women tended to fill in the middle income group by entering employment, single parents tend to fill the rank of lower income groups. Single parent families easily fall into a poverty trap. They do not have the time flexibility the labour market increasingly requires, thus contributing to the rising proportion of jobless households, many of them with children.

Challenge of institutional reform

The major challenge of institutional reform is the adaptation of the institutional framework and built-in incentive systems to new needs. The latter arise from changes in standard employment and family patterns (*Biffl,* 2002). The employment centred insurance system of social protection is based on the assumption that work of the (male) breadwinner is full-time and life-time, thus ensuring the wellbeing of employees and their dependents over the working-life cycle. However, de-standardisation of employment relationships increasingly challenges this tenet, thus undermining the universality of income support and provision of health services in the Continental and Southern European welfare models.

The strong familial component of the Continental and Southern European model exacerbates the problem of socio-economic exclusion and loss of social protection of groups of people over the life cycle. The model was built on the premise of stable family relationships and close family ties; the family is to provide a social safety net in case of unemployment, sickness and old age where the insurance system fails to provide adequate support. However, family structures are rapidly changing (decline of fertility, rising divorce rates, increasing numbers of single (parent) households), as are the expectations of women, as a result of their increased investment in higher education, changing wage determination mechanisms (equal opportunities legislation), and urbanisation. The geographic mobility and the physical separation of family members from the household in different phases of personal development, further diminish informal exchange and assistance between generations and partners.

In the face of this changing family pattern, if the state does not step in to provide services (childcare, nursing homes) and/or benefits in periods of transition between spells of employment, intermittent education and training, the socio-economic stability needed for the building of a competitive knowledge society will be impaired; this may not only jeopardise social cohesion but also economic growth prospects (*Biffl,* 2001).

Thus, if we ignore the interaction between the market, the household/family and the state in the provision of goods and services for the wellbeing of a society, we obtain a partial rather than a comprehensive picture of the wellbeing of a society and the overall efficiency of the economic system. This is reflected in the inadequate conceptual framework of economic theory and consequently the statistical base. It does not allow a proper evaluation of the efficacy of the four models of social organisation and their impact on the wellbeing of their respective societies. We may only deduce from GDP per capita, the degree of socio-economic integration of the population into working life, income inequalities and the change over time, which model is better fit to ensure socio-economic inclusion and economic growth.

Positive correlation between GDP per capita and social expenditure by capita (PPP)

Countries with a high standard of living tend to have a greater capacity to provide for their citizens in terms of socio-economic inclusion and protection than poor ones. This can be shown by taking GDP per capita as an indicator of the living standard of a country and regressing it against social expenditure per capita (Figure 2). GDP per capita and social expenditure per capita (standardised purchasing power), are highly correlated (as the correlation coefficient of 0.82 for the year 2000 indicates). Ireland is an outlier; it had the third highest GDP per capita in the year 2000 but was only number 12 in the ranking of social expenditure per capita. The main reason for the low social expenditure is its comparatively young population; in addition, its welfare system is not universal – it targets only low income groups (means tests) –, and care work is organised to a large extent through the household sector (family) rather than the market.

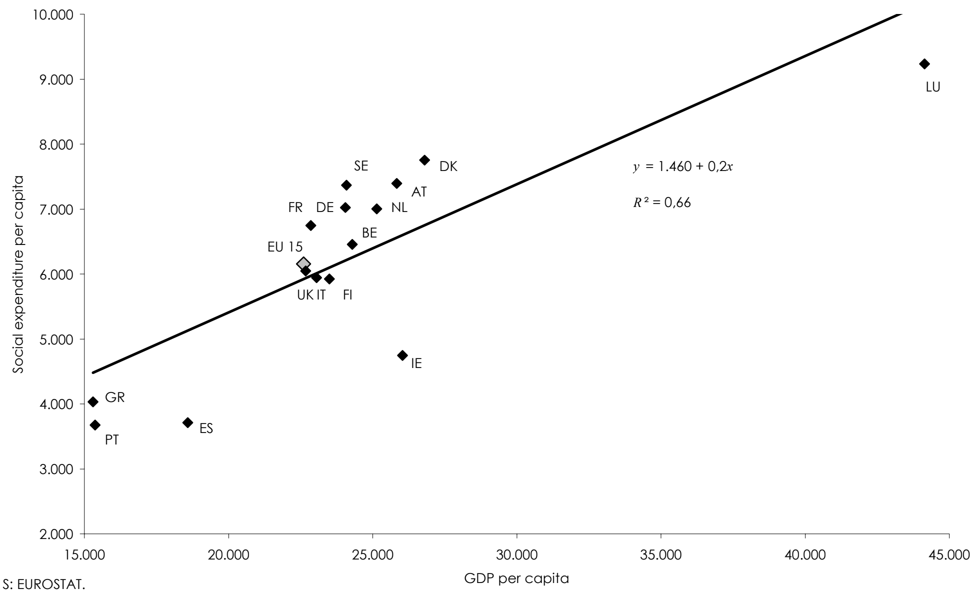
The Southern European countries are at the bottom of the list of both GDP per capita and social expenditure per capita (PPP). These countries relegate many of the social services to the household sector.

The remaining 9 EU member states, Austria, Belgium, France, Denmark, Germany, Italy, Luxembourg, the Netherlands and Sweden, are above the EU average living standard (in terms of purchasing power parity). The United Kingdom, Finland and Ireland joined the high growth economies in the last couple of years of the 1990s (*Behrens,* 2000, 2003).

While there is a high correlation between GDP per capita and social expenditure per capita, the dynamics of the various components vary by model of socio-economic organisation.

Sweden takes the lead in social expenditure as a percentage of GDP, followed by France, Germany and Denmark. At the bottom end of the line are Ireland, Luxembourg and the Southern European countries. The question arises as to the cause for high social expenditures – to what extent the policy underlying the institutional framework is responsible, and to what extent economic growth.

Figure 2: Correlation between GDP per capita and Social expenditure by capita (PPP, 2000)



S: EUROSTAT.

Table 5: Ranking of countries by GDP per capita and social expenditure per capita in the year 2000

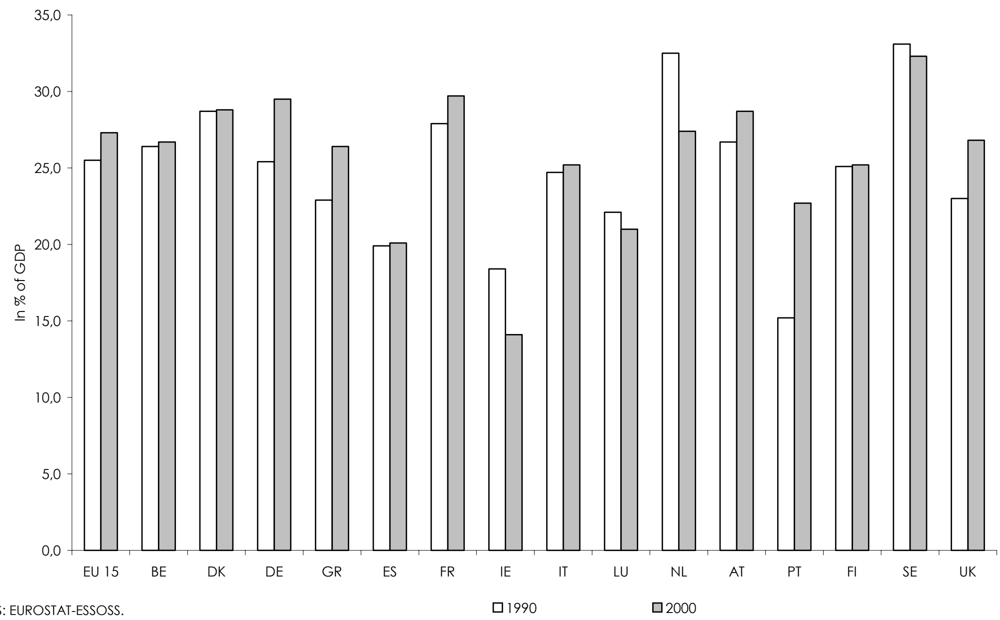
	GDP per capita (PPP)	Social expenditure per capita (PPP)
BE	6	8
DK	2	2
DE	10	5
GR	14	13
ES	13	14
FR	11	7
IE	3	12
IT	9	10
LU	1	1
NL	5	6
AT	4	3
PT	14	15
FI	8	11
SE	6	4
UK	12	9

Source: EUROSTAT, WIFO-calculations. (1: max, 15: min).

Social expenditures (and revenues) are closely linked to economic growth – in periods of economic decline, expenditures on unemployment benefits and early retirement rise while contributions to the social security system decline due to the linkage of contributions to employment; the contrary holds in periods of economic upswing.

In the year 2000, social expenditures in the EU (15) amounted to 27.3 percent of GDP (*European Commission,* 2002B, *Abramovici,* 2002A, *Abramovici,* 2003). The country with the lowest expenditures in relation to GDP was Ireland with 14.1 percent of GDP, the country with the highest expenditures was Sweden with 32.3 percent of GDP[11], followed by France (29.7 percent) and Germany (29.5 percent). The reasons for this wide span in social expenditures, i.e., 18.2 percentage points between the upper and lower end in 2000, is a result of various factors, the primary factor is the systemic difference, others are attributable to different demographic structures, differing levels of wealth and other socio-economic factors. An example for a systemic difference is the role attributed to the family as a provider of assistance. The Southern European countries, for example, encourage families to take prime responsibility for those in need while the Nordic countries provide care to a large extent formally through the state. Thus, in the Nordic countries, a larger proportion of older persons live in nursing homes or receive home help by trained personnel than in Southern European countries.

Figure 3: Social expenditures in percent of GDP 1990/2000



Expenditures on social protection increased in the 1990s from 25.5 percent of GDP in 1990 to 27.3 percent 2000. Portugal, the UK, Germany, Greece and Austria had above average increases, while Ireland, the Netherlands, Luxembourg and Sweden could reduce their expenses relative to GDP. The rise in expenditures of the former was, on the one hand, the result of the ageing of the populations and the associated rising costs of medical care, and

[11] The data source is EUROSTAT (ESSPROS), the integrated social protection statistics (*Abramovici,* 2002A, 2003).

on the other, the extension of provisions to jobless people who were in need and were not eligible to benefits from former employment.

Thus, changes in the expenditure on social protection in percent of GDP may result from demographic or institutional changes, and/or from changes in GDP growth.

The calculation of social expenditures per capita in € (PPP[12]) provides some insight into the different expenses between the EU member states per person (*Mayrhuber,* 2003). The differences in expenditures are more pronounced between countries if calculated on the basis of purchasing power standards rather than as a percentage of GDP, and the rank order is somewhat different.

In the year 2000 the average social expenditures per capita amounted to € 6,200 PPP. They were highest in Luxembourg (9.200 PPP), followed by Denmark (7.800 PPP), Sweden (7.400 PPP) and Austria (7.400 PPP), and lowest in Portugal (3.700 PPP). In the 1990s the expenditures per capita increased on average by 2.8 percent p.a., and the differences between the countries diminished somewhat. The ratio between the countries in the EU (15) which spent most and those that spent least diminished from 3.2 in 1991 to 2.5 in 2000.

Structure of social expenditure by function

As shown in Figure 4, the lion's share of social expenditures in the EU tends to go to old age pensioners and survivors – in the year 2000, on average 46.4 percent of total social expenditures. The only exception in the EU are Ireland and Finland. In those two countries the major cost elements are health related – 46.5 percent in Ireland (and 25.4 percent of expenditures going to old age and survivors) and 37.7 percent in Finland (and 35.8 percent of all social expenditures go to old age pensioners and survivors).

In Ireland health care is the major cost component, in Finland disability pensions – a result of the early exit route from employment which was put in place to reduce open unemployment. In Ireland, the proportion of older persons in the total population is comparatively small as a result of high fertility rates until recently, and significant inflows of migrant labour, thus reducing the old age dependency ratio. In addition, private funds play a relatively important role in the funding of retirement pensions in Ireland (*European Commission,* 2002B, *Abramovici,* 2002A, *Abramovici,* 2003).

Table 6 provides an overview of the basic elements of the EU system of social protection.

[12] PPPs are obtained as a weighted average of relative price ratios in respect of a homogeneous basket of goods and services, comparable and representative for each member state.

Table 6: Functions of the system of social protection in the EU

	Income support	Cash Benefits	Benefits in kind	Means test
Old age, Survivors	✔	Old age pensions, Survivors pensions, Benefits to cover costs for care and rehabilitation of older persons (60+)	Goods and services for older persons (except medical services)	In most EU countries not means tested, except in IE 21.5% & ES 10% of the expenditure
Sickness/health care,	✔	Medical services and medication	–	In most EU countries not means tested, except in IE 14%, ES 3.5%, BE 1%, DE 1% of expenditure
Disability	✔	Disability pensions, Benefits to cover costs for care of persons under 60	Goods and services for disabled persons (except medical services)	In all EU countries means tested except in DK
Family/children	–	Benefits to cover costs of pregnancy, birth, mother-hood and adoption, of parenting and care for other family members		In all EU countries means tested
Unemployment	✔	Unemployment benefits; vocational education and training by labour market services; early retirement due to unemployment	Goods and services	In all EU countries means tested, in some countries only for elements of the schemes
Housing	–	Housing benefit		In all EU countries means tested
Social exclusion	–	Income support, Rehabilitation of alcohol and drug addicts	Goods and services (except medical services)	In all EU countries means tested

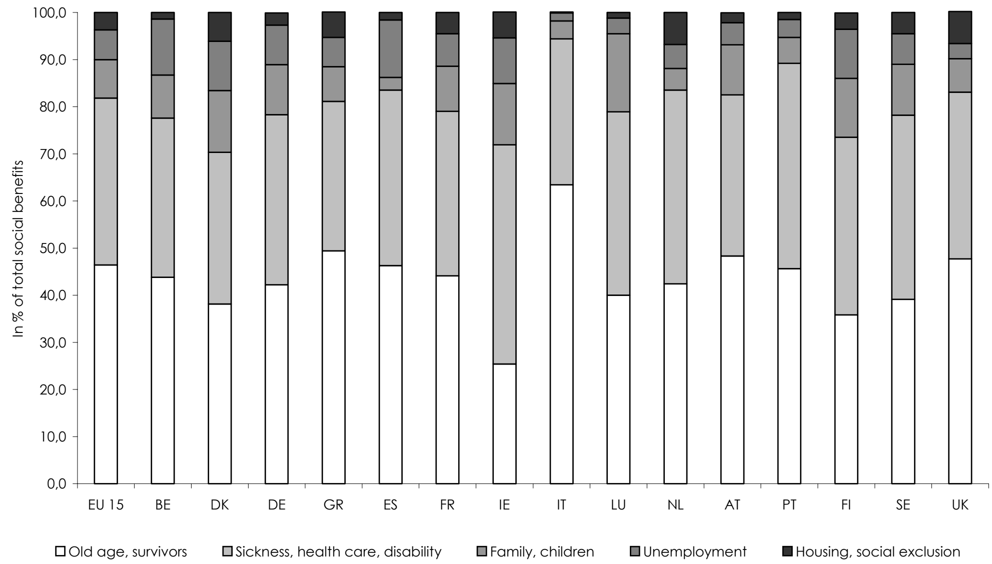
Source: *European Commission* (2002A).

The second largest component of social expenditures in the EU are health related expenses including disability pensions, accounting for 35.4 percent of total expenditures on average in the year 2000. Third in line are expenses related to families and children (8.2 percent of total expenditures), followed by unemployment benefits (6.3 percent) and housing subsidies and benefits to counter social exclusion (3.7 percent).

- Italy and Greece had by far the highest relative expenses on old age pensions and survivors in the EU (more than 50 percent of total expenditure), while the Scandinavian countries and Ireland were at the lower end.
- As to expenditures on health and disability, Portugal and Ireland have the highest expenditure share in the EU countries (around 45 percent of all social expenses).
- In the area of family related expenses Luxembourg, Ireland and Denmark occupy the front rows (around 13 percent of all expenditures), while the Southern European countries had the lowest expenditure share in that category. The household and family structure in the latter, in particular the low activity rate of women, explains the comparatively small public expenditure component (*European Commission,* 2001).

- In contrast, the Nordic countries have transferred many traditional household functions to the labour market, thus raising female activity rates and, at the same time, public sector employment and public expenditure on families and children.
- Spain and Belgium have above average expenditure shares in the area of unemployment (12 percent of total social expenditures); the Netherlands and the UK, in contrast, have above average costs on housing and other means tested benefits to combat social exclusion (7 percent).
- Housing subsidies represent a major financial contribution to the poor in France and the UK, in particular to jobless people, in France also to students (*Biffl et al.,* 2002).

Figure 4: Social expenditures by function in the year 2000



S: EUROSTAT-ESSOSS.

Link between social expenditure and the labour market

A closer look at the expenditure items shows that every function of social protection has a link to the labour market, implying that the labour market plays a key role in shaping social expenditures as well as economic growth.

The expenditure on retirement pay, for example, depends not only on the monetary benefits of the retirement system but also on the age of retirement. The dividing line between the retired population and the active work force is somewhat arbitrary and is, at least partially, a policy decision. The prospects for drawing a larger proportion of the ageing population into the economically active population, depend not only on appropriate macro-economic policy to ensure adequate aggregate demand, but also on an efficient operation of the labour market. Ageing is thus not only a demographic process but also a socio-economic phenomenon, which poses challenges for the adaptation of institutions and policies. A welfare model which is endowed with incentives to early retirement may contribute to the drain of resources resulting from an aging population and thus hamper economic growth.

The incentive to work is affected, among other factors, by the system of health and income support services. Thus, in the contribution-based European welfare model, persons of working age are eligible for replacement income during unemployment, disability, sickness and maternity leave if they have worked for a certain period of time prior to the incidence. The level and duration of the replacement rate depends on the income level and period of employment. i.e., on the contributions paid into the respective funds. This linkage provides an incentive to work and to invest in human capital to ensure a stable longterm employment relationship.

If income support is means tested, low-income households may have limited incentives to work if work does not add significantly to take-home pay. This may lead to social exclusion (poverty trap) of the poor. In the year 2000, in the EU on average 4.5 percent of all persons lived in jobless households. The share was particularly high in Ireland, France, Spain and Italy (*European Commission,* 2002B). To eliminate the poverty trap, coordination between tax (earned income tax credit) and social policy may be called for (*Dawkins,* 2002)

Another element of social expenditure, namely, health services, affect labour market participation and quality of work. In the Nordic and Anglo-Saxon model, the public sector is the major provider of health services, thus offering job opportunities particularly for women. In contrast, in the Continental and Southern European model, transfer payments to sick and disabled (Pflegegeld) promote casual employment, employment in the informal sector and/or care in the family. Not only are conditions of work and pay of the carer inferior in the latter model, but also the earnings profile over the life cycle.

Concluding remarks

The interaction of demographic and socio-economic forces on the one hand and value systems on the other, which are at the root of systems of social organisation, result in greater complexity of factors affecting employment and social policy outcomes. In those circumstances it is hard to envisage a best practice solution which covers the whole sphere of socio-economic integration, decent work and well-being of all members of society. Every welfare model has its own logic and consistency. The current changes in the nature of labour demand and supply, have no clear-cut directional effect upon the funding of the system of social protection. While intermittent employment of male and female workers tends to put pressure on public finance in the short term (unemployment benefits) and longterm (retirement pay), increased employment of women tends to counter that development by increasing the social dividend to be distributed. However, the fact that the major share of female employment growth in Europe takes place in the public sector, i.e., in education, health and personal services, diminishes the positive effect on the state budget. The ageing of Europe's populations is, however, a clear-cut challenge for the sustainability of the welfare system and thus one of the major current driving forces behind institutional change.

The Nordic model, which is based on individual rights and obligations, appears to be better able to cope with the current substantial socio-economic changes and the ageing problem – maximising the degree of social inclusion and economic integration and providing an equitable distribution of the social dividend – than the other welfare models in Europe.

The models of the Southern and Central European countries are increasingly unable to cope with the rising fluidity of family and employment relationships as well as the ageing of societies. Activity rates of older persons are lower than in any other model and the rising labour force participation of women jeopardises the role of the family as a major provider of social protection. The changing employment relationships exacerbate the problem. They result in a departure from standard gender-age-status transitions. People frequently move from school into work, then into training, re-training or further education, back into work with intermittent phases of unemployment. This makes economic dependence a recurring phenomenon in the working life cycle of a majority of individuals, often reversing the traditional roles of men and women and even of young and old in society. Thus the need for individual and specialised social protection systems arises if flexibility is to be obtained without the price of increasing insecurity and socio-economic exclusion. The Netherlands, which share features of the Continental Model, have been successful in adapting their system of social organisation to the new needs, which may indicate the road to take.

The UK is addressing the problem of poverty of jobless parents by offering tax credits to working parents (WFTC, introduced in 1999, *Duncan,* 2002) together with generous additional support if they have to pay for child-care. This is to serve the dual purpose of increasing the incentive to work of low income families while at the same time promoting employment growth in child care services.

The reforms undertaken in the late 1990s indicate a convergence of models of social organisation towards greater complexity in the sense that elements of one or the other model are adopted and integrated into each model. Some form of minimum income provision, which allows the satisfaction of basic needs and protects against the vagaries of life (basic guaranteed income) is in every model; the functional mechanism of market wages is not tampered with unduly, while at the same time trying to avoid the poverty trap on the one hand and the productivity trap on the other. Means-testing also plays a role in order to minimise costs. Funding of welfare through progressive general taxes may be necessary in view of population ageing.

All that said, the breadwinner/individual dichotomy of the social security model as well as the division of responsibility for wellbeing between the state, the market and the household, will have to be reconsidered. The challenge of any reform lies in the details of the system's design. In order to be better informed about the road to take, additional data sources will need to be compiled in the comparative analytical framework of EUROSTAT; in particular, estimates of the value and composition of household production and its role in the provision of social protection for family members. (Ironmonger 1996) Inclusion of such data will not only help to evaluate more confidently the level of economic well being promoted by the different models of social protection, it should also help to identify the factors causing social impoverishment, and so make apparent any necessary institutional fine tuning.

The overall objective of welfare reform should be to pursue economic efficiency and social justice in which the two goals can complement each other without undue damage to either economic growth or the welfare system. Both are important in their own right and are material factors in the overall wellbeing and political stability of the community in the long run.

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