Worldwide Trends in Social Security, 1979

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The data in **Social Security Programs Throughout the World, 1979** indicate that new programs and improved benefits continue to be developed in many countries to increase protection against the economic consequences of old age, invalidity, sickness, work injury, unemployment, and death. A comparison with previous reports in the series reveals that payroll contribution rates have generally been raised to pay for the increased costs generated by improved programs coupled with inflation. Financial difficulties have frequently been compounded by a deteriorating ratio of contributors to beneficiaries as the growth of active workers tends to shrink and that of retirees to rise. As a supplement to higher contribution rates, some countries have sought to meet financial requirements by a number of measures, including expansion of the proportion of earnings subject to contributions, cutbacks in certain benefits, tighter controls on eligibility, and a search for ways to reduce expenses, particularly in the health care area. Also noteworthy are the greatly increased efforts being undertaken worldwide to attain equal treatment of men and women.

Nearly a century has passed since the first social security program was inaugurated in 1883 by Germany in the form of a sickness insurance scheme, followed the next year by a work-injury program. Other programs were introduced in rapid succession in Germany and elsewhere in the industrialized countries of the West. Since 1938 these developments have been registered in successive editions in **Social Security Programs Throughout the World,** a chart book published biennially by the Social Security Administration (SSA).[1] The definition of social security in this reference work is basically the broad definition used by the International Labor Organization and, in most respects, corresponds to that employed in the original U.S. Social Security Act of 1935. This comprehensive definition includes five main branches of social security: (1) Old-age, invalidity, and survivors; (2) sickness and maternity; (3) work-injury; (4) unemployment; and (5) family allowances. In many instances, means-tested programs are included under one or another of these headings.

The following tabulation shows the total number of countries listed in various editions of the SSA chartbook

Program	1940	1949	1958	1971	1977	1979
Any type of program	57	58	80	125	129	134
Old-age, invalidity, and survivors	33	44	58	101	114	123
Sickness and maternity	24	36	59	68	72	75
Work injury	57	57	77	122	129	134
Unemployment	21	22	26	34	38	38
Family allowances	7	27	38	63	65	67

since 1940. By 1979, there were 134 countries reporting some form of social security. Traditionally, a work-injury program has been among the first phases of social security established in any given country, and this has continued to be the norm. The countries with only one program each have a work-injury plan. Old-age, invalidity, and survivors programs are the next most prevalent, existing in 123 countries. In third place are the sickness and maternity insurance programs found in 75 countries.

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[1] The latest edition (with 1979 data) was published earlier this year by the Office of Research and Statistics, Social Security Administration, as Research Report No. 54.

Table 1.—Social security contribution rates as percent of payroll, selected countries, 1971 and 1979

Country	All programs[1]		Old-age invalidity, and survivors insurance		Health insurance	
	1971	1979	1971	1979	1971	1979
Austria	32.85	37.50	17.50	19.50	6.10	9.40
Belgium	38.55	35.30	13.40	14.00	8.75	8.25
France	29.40	47.45	8.75	12.90	15.75	17.95
Germany, West	27.90	33.78	17.00	18.00	8.10	11.28
Italy	44.66	49.57	18.98	23.76	12.95	13.59
Japan	15.15	18.55	6.20	9.10	7.00	8.00
Netherlands	46.45	50.80	16.70	28.10	15.25	18.97
Sweden	15.35	31.85	11.80	20.30	3.20	10.60
Switzerland	11.80	17.80	5.80	9.40	3.10	4.60
United Kingdom	10.30	16.50	......	....	....	......
United States	13.40	16.46	9.20	10.16	[2]1.20	[2]2.10

[1] Includes any or all of the following programs: Old-age, invalidity, and survivors; sickness and maternity; work-injury; unemployment; or family allowances.
[2] Includes the Medicare program only.

Sources: Based on **Social Security Programs Throughout the World, 1979** and previous issues, Department of Health and Human Services, Social Security Administration; and **The Cost of Social Security**, International Labor Office, Geneva, various issues.

Financing Developments

Payroll contributions by workers and employers continue to be the main source of social security financing. The rates vary considerably, according to the types of provisions and degree of development of the system. As shown in table 1, the overall contribution rates among several selected industrial countries range from 16.5 percent in the United States and the United Kingdom to more than 50 percent in the Netherlands.

The rates have increased considerably in most industrial countries since 1971, partly because of continued expansion of programs, but mainly because of financing problems due to aging populations. Contribution rates for old-age, invalidity, and survivors programs—generally the most costly branch of social security—often make up more than half of the total. These rates rose in all the countries.

The size of health insurance contributions depends —even more than the other programs—on the extent and type of coverage provided (hospital, medical, maternity, or other) as well as the extent of user charges imposed at the point of delivery. In countries with some form of national insurance, the 1979 rate went up as high as 19 percent (in the Netherlands, for example). The United States figure is not comparable because it is limited to Medicare, a health insurance program that does not cover the entire population.

In some countries, the payroll tax for all social security programs is equally shared by workers and employers. In the majority, however, the employer pays most of the contribution, in part because work-injury and family allowances programs are most often paid for by the employer alone. This relationship is borne out in table 2, which shows employer and employee contribution rates in selected countries for 1979. Only one country—Japan—has contribution rates that are approximately the same for employers and employees. A comparison of contribution rates for old-age, invalidity, and survivors programs only, however, shows that generally the burden is shared more equally. In four of the countries in the table, the two parties pay the same proportion.

A review of the various program details in individual country charts of **Social Security Programs Throughout the World, 1979** indicates that general revenue financing plays some role in most countries. Many countries, such as the United Kingdom, New Zealand, Canada, and Sweden, have national health systems that rely wholly or largely on general revenues. This form of financing is also used in some countries to pay for assistance or welfare-type programs—as in the United Kingdom and the United States. Other countries, such as West Germany, Canada, and Sweden, also pay for family allowances programs through government funds.

Financing Problems and Solutions

In recent years most of the industrially advanced countries have experienced considerable difficulty in financing the increased expenditures needed to pay for their social security programs. Universally rising health care costs have resulted in higher health insurance disbursements. Liberalized benefits (for instance, for disability in the Netherlands and the United Kingdom, and for cash sickness benefits in Norway and Sweden) have also been costly.

Much of the need for increased funds stems from growth in the number of beneficiaries which in turn is caused principally by the rising proportion of aged in the population. The number of beneficiaries also expanded as a result of early retirements. This trend was facilitated in such countries as France and West Germany by liberalized age and eligibility requirements.

Table 2.—Employer and employee contribution rates as percent of payroll, selected countries, 1979

Country	All programs[1]			Old-age, invalidity, and survivors insurance program		
	Total	Employer	Employee	Total	Employer	Employee
Austria	37.50	24.40	13.10	19.50	10.25	9.25
Belgium	35.30	25.40	9.90	14.00	8.00	6.00
France	47.45	37.41	10.04	12.90	8.20	4.70
Germany, West	33.78	17.64	16.14	18.00	9.00	9.00
Italy	49.57	42.12	7.45	23.76	16.61	7.15
Japan	18.55	9.45	9.10	9.10	4.55	4.55
Netherlands	50.80	27.05	23.75	28.10	10.35	17.75
Sweden	31.85	31.65	.20	20.30	20.30	....
Switzerland	17.80	7.60	10.20	9.40	4.70	4.70
United Kingdom	16.50	10.00	6.50	....	....	....
United States	16.46	10.33	6.13	10.16	5.08	5.08

[1] Includes any or all of the following programs: Old-age, invalidity, and survivors; sickness and maternity; work-injury; unemployment; or family allowances.

Source: See table 1.

Financial problems in some countries have been compounded as early retirements have combined with other factors to contribute toward a deteriorating ratio of contributors to beneficiaries. Demographic developments have played a paramount role in this respect. Comparatively low birth rates in the years when the current working-age population was born have often meant a shrinking work force and thus a smaller "taxable base" for social security purposes. The 1974 recession brought a decrease in the number of persons working; additional reductions in overall employment were seen as migrant workers returned to their home countries after being released from their jobs.

A number of countries facing deficits in one or more of their programs have begun to take steps to bring additional revenues into their systems. As discussed in the next section, several systems explored the possibilities of making a greater proportion of payroll subject to social security contributions. Others have considered extending compulsory contributions for health insurance to retirees. France is now in the process of introducing such a levy. West Germany has not only scheduled payroll tax increases for the future, but decided that if average earnings fell below long-range estimates, additional increases in contributions or limitations on benefit expenditures could be required.

In a number of countries that have hitherto exempted benefits from income taxes, plans are underway to change this policy, particularly with respect to benefits provided by programs financed by general revenues. In this regard, New Zealand has already made unemployment insurance benefits subject to income taxes.

On the expenditure side, a number of countries took steps to slow the impact of indexing; others discussed similar measures. Italy, Belgium, West Germany, and Finland placed a cap on increases or altered the indexing formula. In some countries, however, there were simultaneous pressures to improve indexing by alternating price and wage indexes to take into account whichever rose more rapidly. In several countries the retirement test was tightened, and eligibility requirements for disability and for dependency were reviewed for possible economies. Certain technical measures were taken to reduce multiple payments under different programs.

Several countries deferred program improvements in order to curb cost increases. The United Kingdom postponed introduction of a noncontributory invalidity pension for housewives. The Netherlands delayed extension of a new basic invalidity benefit to housewives and women receiving survivors benefits.

In the field of health care costs, a few instances of slackening rates of increase have occurred very recently. West Germany and the Netherlands, as a result, after years of increases were able to decrease contribution rates slightly from 1977 to 1979. In West Germany, this was made possible by a complex program of health care cost control regulations introduced in 1975. The Netherlands, however, has continued to require small increases in contributions for medical care expenditures. These increases, nevertheless, have been more than offset—at least temporarily—by reduced demands for cash sickness benefits.

Ceiling on Contribution Rates

No exploration of contribution rates is complete without considering contribution ceilings. Although the term "contributions" usually refers to the contribution rate applied to payroll, in most cases only a portion of payroll is subject to a social security levy. Usually there is an upper limit, or ceiling, above which a worker's earnings are not subject to compulsory contributions. The ceiling is usually raised by an automatic adjustment formula that aims at keeping abreast of wages, prices, or a combination of the two. Some countries considered raising the ceiling on an ad hoc basis as a temporary expedient to gain additional revenue. Such measures, however, have limitations. In most countries, the ceiling is also related to benefit levels; thus, in the long run, raising the ceiling leads to increased revenues that are then offset by higher expenditures. In this respect, nonetheless, West Germany has taken steps to disconnect the two functions. It has temporarily suspended automatic adjustments of the formula normally applied to earnings levels for benefit computation purposes, and has substituted lower ad hoc increases. Meanwhile, the ceiling on earnings levels for contribution purposes continues to be raised the full amount provided for in the formula.

Table 3 presents data for nine countries with ceilings on contribution rates. From 1971 to 1979, each of the countries raised its ceiling at a faster rate than the

Table 3.—Contribution rate ceilings and percentage increase in wages and prices, 1971-79

Country	Ceiling			Percentage increase 1971-79	
	Amount [1] 1979	Percentage increase 1971-79	As percent of average wage [2] 1979	Wages	Consumer prices
Austria	S18,600	97	147	118	65
Belgium	BF52,025	199	152	169	83
France	F4,470	171	162	220	110
Germany, West	DM48,000	116	179	80	48
Japan	Y 380,000	280	144	179	106
Netherlands	f.3,662	134	163	122	77
Sweden	Skr98,250	105	142	102	98
United Kingdom	£135	350	159	223	180
United States	$22,900	194	164	87	79

[1] In national currency units. Monthly figures for Austria, Belgium, France, Japan, and the Netherlands; yearly figures for West Germany, Sweden, and the United States; weekly figures for the United Kingdom.

[2] Average wage in manufacturing.

Source: See table 1. Wage and price data based on **Yearbook of Labor Statistics,** International Labor Organization, Geneva, various years; and **International Financial Statistics,** International Monetary Fund, Washington, D.C., various issues.

increase in prices. The relationship of ceilings to wage levels is mixed. Although in most countries the ceiling increased at a faster rate than wages, Austria and France were exceptions. France, nonetheless, has virtually eliminated the ceiling with regard to health insurance contributions, so that a larger portion of French payrolls is subject to contributions than a simple comparison of ceiling levels would suggest.

Traditionally, the ceiling has been set at a level considerably higher than the average wage in manufacturing. This relationship still holds for most countries.

Equal Treatment of Men and Women

Equal treatment of men and women under social security has become an increasingly important issue. Three countries have recently introduced provisions to ensure that pension benefits are equally shared when a married couple is divorced. In West Germany, New Zealand, and Canada, pension rights acquired during marriage are considered to be joint property and are thus subject to equal division in case of divorce. In West Germany, such credit splitting applies to all public and private pension entitlements; in New Zealand, only private pensions are covered; and in Canada, pension division applies only to the earnings-related social security pension.

Equal coverage for men and women in Italy has been mandated for all benefits and entitlements. In Portugal, legislation was passed to ensure equality in old-age, invalidity, and survivors benefits. Equal rights were made part of the employment-related pension program in Denmark.

Australia revised its supportive mothers benefit program that paid benefits to single mothers (women who were widowed, separated, divorced, or unmarried). Renamed the supportive parents benefit, the program now pays means-tested benefits to single fathers also. Other new legislation was aimed not so much at equal treatment of men and women as at compensating women for the years they spend in child care rather than in paid employment. In the United Kingdom, child care "drop-out" provisons have been enacted. These provisions permit the exclusion of years with low wages (or no wages at all) from the calculation of average pensionable earnings. The years dropped, however, are counted as years needed toward a full pension.