Notes and Brief Reports

Social Security Problems in Western European Countries*

In November 1982, the Commission of the European Community released **Social Security Problems: Points for Consideration**, a special report on the current financial problems of social security systems in its member countries.[1] The report noted that:

- Social security costs are rising (as a result of inflation, high unemployment rates, aging populations, and program liberalizations) at the same time as economic growth in these countries is declining; and
- Cost control should be intensified in the areas of health care, benefit indexing, and program administration, while a reexamination of financing mechanisms is necessary to ensure a stable and equitable basis for funding social security in the future.

The report appeared at a time when the Commission was revising downward its projections of economic growth in Europe in the 1980's and recommending readjustments in social policy. The European Community's **Annual Economic Report, 1982–83**, another document from the Commission, stated that the expected 1982 economic upswing did not materialize and that the European economy was "entering into a long period of slow growth, or even depression." It is significant that, for the first time, this annual publication addressed the need for adjustments in social policy, namely, to adapt social benefits and regulations that were established in a macroeconomic environment of high growth and low unemployment to a new set of conditions of low growth, high unemployment, and budget constraints.

The purpose of **Social Security Problems: Points for Consideration** was to stimulate discussion and call for a review of social policies to identify the necessary adjustments in social security. The Commission did not intend to challenge the advances made through social security measures, especially in relation to the protection of disadvantaged groups in society.

Social Security: Definition

Social security is broadly defined by the European Community to include not only legislated programs for old age (including survivors insurance), health care (including sickness and disability), work injury, unemployment, and family allowances, but to also include employers' voluntary programs as well as public and private social assistance measures in these five areas. All member countries under discussion have public (legislated) and private programs in these areas.[2] Old age and health care are the two items that account for the largest shares of social security expenditures in all eight countries (table 1).

Among the various types of programs included under the term social security, the legislated programs comprise the largest share of expenditures and have the greatest impact on the general population and the national economy. The relative level of funding from government (central and local) and nongovernment sources (employer and employee contributions, user fees, and levies on households) reflects, in general, whether the legislated systems are universal or contributory schemes. As shown in table 2, six countries rely heavily on contributory schemes—Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands. In these countries, nongovernment contributions constitute more than two-thirds of the funds. On the other hand are the universal schemes of Denmark and the United Kingdom. Denmark operates an essentially noncontributory, universal scheme that covers the entire population against all risks; governmental funds account for nearly 85 percent of Denmark's total social security receipts. The United Kingdom has contributory schemes for all legislated programs except for health care; the national health system covers all residents and is financed almost exclusively from general revenue.[3]

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[1] Commission of the European Community, **Social Security Problems: Points for Consideration**, 1982. The Commission is the executive arm of the European Community, the current designation of the supranational organization that includes in its membership Belgium, Denmark, France, the Federal Republic of Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom.

[2] Ireland and Greece are not discussed in this summary because of insufficient information.

[3] Comparative Studies Staff, Office of Research and Statistics, Office of Policy, Social Security Administration, **Social Security Programs Throughout the World, 1981** (Research Report No. 58), 1982.

Table 1.—Program benefits as a percentage of total social security expenditures,[1] selected years

Country	Total	OASI	Health and disability	Work injury	Unemployment[2]	Family allowances	Other[3]
Belgium:							
1970	100	37.8	28.7	4.5	4.3	18.7	6.0
1975	100	38.0	31.8	4.0	7.4	14.3	4.5
1980	100	38.2	31.2	3.4	12.8	11.6	2.8
1981	100	38.2	30.9	3.0	15.6	11.3	1.0
Denmark:							
1970	100	36.3	42.7	1.5	2.8	13.2	3.6
1975	100	32.0	41.4	.8	11.9	11.9	1.8
1980	100	35.5	36.1	.6	13.0	10.0	4.8
1981	100	34.9	34.5	.4	16.1	9.7	4.4
France:							
1970	100	41.1	34.4	4.4	2.0	14.8	3.3
1975	100	41.7	34.4	3.9	3.9	14.9	1.2
1980	100	42.1	33.4	3.5	6.9	10.6	3.5
1981	100	41.3	33.2	3.4	8.5	10.0	3.6
Germany, Federal Republic of:							
1970	100	45.6	37.4	3.9	2.0	9.2	1.9
1975	100	41.9	37.5	3.4	6.3	9.4	1.5
1980	100	43.3	38.6	3.4	5.9	7.5	1.3
1981	100	42.6	38.0	3.2	7.5	7.4	1.3
Italy:							
1970	100	39.1	40.8	3.4	1.1	12.9	2.7
1975	100	38.0	44.8	2.3	2.6	11.6	.7
1980	100	43.8	44.1	2.2	2.4	7.3	.2
1981	100	43.5	44.0	2.2	2.7	7.4	.2
Luxembourg:							
1970	100	63.0	18.3	6.9	(4)	11.2	.6
1975	100	52.6	32.2	5.9	.2	8.8	.3
1980	100	48.7	38.2	4.1	.7	8.1	.2
1981	100	49.2	38.1	3.8	1.0	7.8	.1
Netherlands:							
1970	100	40.4	42.5	(5)	3.3	13.4	.4
1975	100	36.0	46.9	(5)	6.1	10.6	.4
1980	100	33.0	49.3	(5)	6.3	9.3	2.1
1981	100	32.3	47.9	(5)	8.8	8.8	2.2
United Kingdom:							
1970	100	46.8	36.4	1.3	4.5	8.7	2.3
1975	100	46.0	37.6	1.2	5.7	8.7	.8
1980	100	42.8	33.2	1.2	9.8	11.4	1.6
1981	100	42.0	31.0	1.1	12.4	11.0	2.5

[1] Includes legislated and private schemes as well as public and private social assistance programs.
[2] Includes placement, vocational guidance, and resettlement.
[3] Includes public and private social assistance in housing and in areas other than the five branches of social security.
[4] 0.03.
[5] Included in expenditures for health and disability.
Source: Eurostat, **Social Protection**, 1979, No. 1, pages 2-5, and 1983, No. 1, pages 3-10.

Summary of Report

Economic Environment

The social security systems in the Community member countries, despite their differences in structure and funding, operate within a similar European social and economic environment and share a common set of problems. **Social Security Problems: Points for Consideration** describes how recent changes within this general environment have pushed up social security costs and suggests what should be done to put financing on a more stable basis.

Since World War II, European countries have benefited from a combination of factors favorable to their economic development and the improvement of their social security programs. Now, however, the majority of these factors either no longer exist or are no longer favorable. European Community countries are experiencing declines in gross domestic product (GDP) growth rates, rises in consumer prices and unemployment, as well as shifts in the labor force structure.

The growth rate of GDP in these countries began to decline in the second half of the 1970's, just as inflation and unemployment rates started to climb. The average annual rate of inflation during 1974-82 (the period after the 1973-74 oil crisis) was substantially higher than that during the 1960's and early 1970's (table 3). The Community's average annual inflation rate was 5.2 percent during 1960-74, but it was 10.8 percent during 1974-82. The unemployment rates in these countries also increased sharply following the 1973-74 oil crisis, a trend that continued well into the early 1980's (table 4). The shifts in labor force participation from declining industries to the services sector has led to structural unemployment—so that even an economic upswing is unlikely to solve the unemployment problem in the short run.

Cost Increases in Social Security

The costs of social security have continued to rise at

Table 2.—Percentage distribution of social security receipts, by source, 1980

Country	Total	Contributions		Government and taxes	Interest and other
		Employer	Household [1]		
Belgium	100	41.0	20.1	34.7	4.2
Denmark	100	9.6	1.8	84.9	3.7
France	100	56.0	23.7	17.7	2.6
Germany, Federal Republic of	100	42.7	22.1	26.7	8.5
Italy	100	58.8	13.6	24.9	2.7
Luxembourg	100	36.2	22.6	31.6	9.6
Netherlands	100	37.1	25.8	20.4	16.7
United Kingdom	100	33.3	14.6	43.6	8.5

[1] Includes contributions by employees and levies on users and households.
Source: Commission of the European Community, **Social Security Problems: Points for Consideration**, 1982, page 5.

Table 3.—Average annual growth rates of consumer prices, 1960–74 and 1974–82

Country	1960–74	1974–82
Belgium	4.3	7.9
Denmark	6.7	10.6
France	5.3	11.4
Germany, Federal Republic of	3.9	4.8
Ireland	6.6	16.3
Italy	5.8	17.4
Luxembourg	3.5	8.0
Netherlands	5.5	7.0
United Kingdom	5.7	14.4
9-country average	5.2	10.8

Source: Commission of the European Communities, **Social Security Problems: Points for Consideration**, 1982, page 2.

the same time that economic growth has slowed. Social security expenditures as a percent of GDP have grown from an average of 18.1 percent in 1970 to 23.7 percent in 1975 and to 25.9 percent in 1980 (table 5).

The Commission maintains that the upward trend in social expenditures should be viewed in the context of slowed growth in GDP, large budget deficits, and—in certain countries—high rates of inflation and unemployment. The slowing of economic activity and the resultant rise in unemployment "constitute the main immediate reason" for the financial difficulties of social security programs. Thus, the report says:

> social security schemes are increasingly incapable of absorbing the cost of levels of unemployment three or four times as great as in the past. Not only do they have to provide a substitute income for ever greater numbers of unemployed—essential not only for social reasons, but also for the maintenance of demand in the economy—but also face a fall-off in social security contributions and taxes which may be an even more important factor in their financial difficulties than the increased benefits they have to pay out.[4]

[4] **Social Security Problems: Points for Consideration**, page 7.

In all eight countries shown in table 1, unemployment benefits as a percentage of total social security expenditures rose rapidly, outpacing cost increases in any other social security programs during 1970-80. Also, a comparison of annual growth rates of GDP, consumer price indexes (CPI), and social security expenditures in these eight countries from 1970 to 1980 reveals sharp increases in social security expenditures following the oil crisis in the early 1970's (table 6). These increases roughly parallel rises in prices and unemployment rates in the same period (see table 4).

Apart from the impact of the economic crisis, the Commission also attributes higher social security expenditures to at least three other long-standing trends. These trends are the benefit liberalizations and expansion of social security coverage since World War II, the aging of the populations, and the growth in health costs.

During past periods of prosperity, the European Community countries introduced new benefits, raised the levels of existing social security benefits, eased qualifying conditions for awarding benefits, and extended coverage to categories of persons not previously insured. Moreover, there has been a tendency to link adjustments in benefits to average wage or price increases so that recipients could maintain their previous standards of living, rather than simply receive a minimum income.

The rise in social expenditures has resulted also from an increase in the proportion of the population aged 65 or older, coupled with the lowering of the retirement age in many countries.[5] In the past 15–20 years, the percentage of persons aged 65 or older in the total population has risen from about 11 percent to 15 percent in many European countries. The increase in the number of elderly persons involves considerable growth not only in old-age benefits, but also in areas of social assistance and health care expenditures.

Health care expenditures represent the area in which social security costs have not only increased but also are likely to expand even further.[6] The aging population is an important contributing factor. Compared with average health care costs for those aged 14–64, per capita costs are about three times greater for those aged 65 or older and five times greater for those aged 75 or older.[7] Moreover, advances in medical techniques have introduced more expensive forms of treatment. Better accessibility to health care facilities combined with the "hazards" of modern life—pollution, work and traffic

[5] The European Community has supported flexible retirement age, thus allowing early retirement. For a discussion of this policy, see page 21.

[6] Of the eight countries listed in table 1, five (Belgium, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands) showed that the growth in health care expenditures during 1971–80 surpassed the rapid rise of total social security costs during the same period.

[7] **Social Security Problems: Points for Consideration**, page 8.

Table 4.—Unemployment rates, 1971–82

Country	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Belgium	2.2	2.8	2.9	3.2	5.3	6.8	7.8	8.4	8.7	9.4	11.6	13.8
Denmark	(1)	.1	.9	2.1	5.1	5.3	6.4	7.3	6.1	7.0	9.2	9.4
France	(1)	2.7	2.6	2.8	4.1	4.4	4.7	5.2	5.9	6.3	7.3	[2] 8.7
Germany, Federal Republic of	.8	1.1	1.2	2.6	4.7	4.6	4.5	4.3	3.8	3.8	5.5	7.7
Ireland	7.2	8.1	7.2	7.9	12.2	12.3	11.8	10.7	9.3	10.3	13.5	16.5
Italy	5.4	6.4	6.4	5.4	5.9	6.7	7.2	7.2	7.7	7.6	8.4	9.1
Luxembourg	(3)	(3)	(3)	(3)	.2	.3	.5	.7	.6	.7	1.0	[2] 1.3
Netherlands	1.6	2.8	2.8	3.5	5.0	5.3	5.1	5.0	5.1	5.9	9.0	12.4
United Kingdom	3.5	3.8	2.7	2.7	4.1	5.7	6.2	6.1	5.7	7.4	11.4	[2] 13.1

[1] Data not available.
[2] Estimated.
[3] Less than 0.1 percent.

Source: International Labour Office, **Yearbook of Labour Statistics**, yearbooks for 1981 and 1982, and **Bulletin of Labour Statistics**, 1983, No. 3.

accidents, stress, overeating and other unhealthy habits—have also served to inflate health expenditures.

Suggested Corrective Action

Although the Commission does not regard social security costs as simply a "burden on the economy," it does see a need to better control these costs. Increases in expenditures have led to higher taxes and social security contributions, which in turn have pushed up labor costs. European products, priced to absorb these rising costs, have become increasingly vulnerable to competition in the world market. The Commission argues, however, that these social expenditures are a "precondition for maintaining a higher level of skills, efficiency and motivation in the economic life of Europe." Moreover, the taxes and contributions levied are reintroduced into the economic circuit in the form of benefit payments that help maintain a certain level of economic activity. The social security systems, for example, create work either directly—for physicians, pharmacists, and so forth—or indirectly—by sustaining the pharmaceutical, chemical, electronics, and other industries.

Nevertheless, the Commission urges that the growth in social expenditures needs to be controlled. Cost containment, according to the Commission, should be achieved by coordinating and controlling increases to ensure effective use of available resources while meeting real needs, rather than by freezing social expenditures at a given level. The Commission also warns against reacting to budget imbalances by taking piecemeal restrictive measures that may result in negative repercussions for the most vulnerable sectors of the population.

The Commission recommends more effective cost control in the following areas:

- Health care—by keeping a rein on the types of care offered and by promoting public awareness of personal and environmental health, especially preventive care. This would require concerted efforts by the government, medical and health insurance carriers, and insured persons;
- The periodic adjustment of benefits—by carefully reviewing existing procedures on the basis of the requirements of social justice and the objectives of responsible economic policy; and
- The administration of social security systems—by preventing fraud, eliminating overlapping payment of benefits, and cutting excessive administrative expenditures. At the same time, simplified procedures may also help insured persons.

In addition to cost control, however, the Commission maintains that a reexamination of social security financing is in order. The Commission proposes reordering the financing mechanisms so that funding of social programs becomes more stable and equitable. At present, for programs in which the bulk of receipts depends on employer/employee contributions, financing often suffers from fluctuations in employment. Moreover, the Commission argues that the current financing structure in most countries places a heavier contribution burden on labor-intensive than on capital-intensive firms. This factor is particularly important since small- and medium-sized labor-intensive enterprises have become the main creators of new jobs in recent years.

Comment

The European Commission is the executive arm of the European Community and also the initiator of proposals that conform with overall Community interests. Its suggestions, as outlined in **Social Security Prob-**

Table 5.—Social security expenditures as percentage of gross domestic product, selected years

Country	1970	1975	1980	1981
Belgium	18.5	24.5	27.6	30.2
Denmark	19.6	25.8	28.7	29.3
France	19.2	22.9	25.9	27.2
Germany, Federal Republic of	21.5	28.0	28.7	29.5
Ireland	13.2	19.4	22.0	23.4
Italy	17.4	22.6	22.8	24.7
Luxembourg	16.4	22.4	25.6	27.1
Netherlands	20.8	28.1	30.5	31.7
United Kingdom	15.9	19.5	21.4	23.5
9-country average	18.1	23.7	25.9	27.1

Source: Eurostat, **Social Protection**, 1983, No. 2, page 1.

Table 6.—Annual growth rates of gross domestic product (GDP), the consumer price index (CPI), and social security expenditures (SSE), 1971-81

Country	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Belgium:											
GDP	9.3	11.9	13.6	17.3	10.6	13.7	8.1	7.5	6.6	7.1	3.6
CPI	4.3	5.5	7.0	12.7	12.7	9.2	7.1	4.5	4.5	6.7	7.6
SSE	11.6	17.1	17.2	22.4	28.3	13.4	15.3	7.8	5.8	9.7	14.3
Denmark:											
GDP	10.5	15.1	15.3	11.5	11.1	16.2	11.2	11.5	9.9	9.7	9.3
CPI	5.8	6.6	9.3	15.2	9.6	9.0	11.1	10.0	9.6	12.3	11.7
SSE	17.3	15.9	17.3	26.2	20.0	12.2	12.8	15.0	14.8	14.3	13.5
France:											
GDP	11.5	12.5	13.6	14.7	13.6	15.5	12.3	13.6	13.9	13.1	11.9
CPI	5.5	6.2	7.3	13.7	17.8	14.3	12.6	7.5	7.3	11.6	13.4
SSE	12.2	13.7	15.5	18.5	26.8	16.4	17.0	18.0	15.9	15.5	18.3
Germany, Federal Republic of:											
GDP	11.2	9.4	11.2	7.5	4.8	8.3	6.8	7.4	8.4	6.4	4.2
CPI	5.2	5.6	6.9	7.0	6.0	4.2	3.7	2.7	4.1	5.5	5.9
SSE	13.0	13.3	13.7	14.5	18.3	8.5	12.8	6.0	6.2	7.8	7.4
Italy:											
GDP	8.9	9.7	19.5	23.4	13.2	25.0	21.3	16.9	21.6	25.5	17.4
CPI	4.8	5.7	10.8	19.1	17.0	16.8	18.4	12.2	14.8	21.2	19.5
SSE	(1)	(1)	(1)	(1)	19.4	24.5	18.0	24.2	17.6	25.2	28.0
Luxembourg:											
GDP	3.7	10.7	23.0	21.1	−5.6	14.8	2.3	10.0	11.2	7.5	(1)
CPI	4.7	5.2	6.1	9.6	10.7	9.8	6.7	3.1	4.6	6.3	8.0
SSE	12.1	10.7	16.3	17.5	27.9	20.7	11.9	9.3	9.9	9.8	11.8
Netherlands:											
GDP	13.2	13.2	14.6	13.2	10.1	14.7	14.5	8.0	6.4	6.3	4.4
CPI	7.6	7.8	7.9	9.7	10.2	8.8	6.7	4.0	4.3	6.5	6.7
SSE	19.7	19.1	17.3	20.5	22.6	16.2	13.2	11.0	9.9	8.3	8.4
United Kingdom:											
GDP	12.2	10.7	15.1	13.6	26.6	18.7	15.4	14.9	16.9	16.9	9.9
CPI	9.4	7.1	9.2	15.9	24.3	16.5	15.9	8.3	13.4	18.0	11.9
SSE	14.9	16.1	13.7	28.4	32.6	17.5	16.4	17.9	17.2	22.6	19.6

[1] Data not available.
Source: International Monetary Fund, **International Financial Statistics, 1981 Yearbook** and issue for April 1983; International Labour Office, **Yearbook of Labour Statistics**, yearbooks for 1981 and 1982; and Eurostat, **Social Protection**, issues for 1979-83.

lems: **Points for Consideration** were not intended to be binding on member states but rather to encourage discussion and provide guidelines for public policy. It is nevertheless useful to examine the report in the context of the European Community's existing social security policy.

The Commission's recommendations for cost containment reflect the major concerns of the European Community's social security policy—that the distribution of the financial burden be equitable and that the population groups most vulnerable to economic fluctuations be adequately protected. Despite growing concerns over costs in recent years, the Community continues to support full coverage for migrant workers and equal treatment for men and women under social security. The Commission's recommendations identify general areas for cost control in medical care, benefit adjustment procedures, and administration, as well as the possible restructuring of funding mechanisms. These proposals do not target any social or economic groups for benefit cuts or higher contributions. Indeed, the Commission cautions against *ad hoc* solutions and discriminatory policy responses that may place a heavy burden on the socially and economically disadvantaged segments of the population.

The Commission's report passes over raising the retirement age as a viable cost-cutting measure and instead supports a flexible retirement age. This position is consistent with earlier views expressed by the various institutions of the European Community. On December 10, 1982, the Community's Council of Ministers formally adopted a recommendation for this policy, suggesting that member countries should work toward providing greater flexibility in fixing the retirement age by granting workers (1) the freedom to choose the time of their retirement after a given age or within a prescribed age limit or (2) the option of early or deferred retirement in cases where there is an established retirement age. The Council's decision thus accommodates the prevailing preference among European workers for early retirement.[8]

Provisions for early or deferred retirement already exist in six member countries (Belgium, Denmark, France, the Federal Republic of Germany, Italy, and Luxembourg). Many European governments also see a flexible retirement age as a means of allowing older workers in declining, traditional industries to depart from the work force before statutory retirement age. More importantly, as large numbers of the European workers favoring early retirement take advantage of the granted

[8] Daniel Wartonick, "European Attitudes Toward Retirement," **Social Security Bulletin**, June 1980, pages 26-28.

"flexibility," positions may open up for the growing number of unemployed youths in the otherwise stagnant job markets.[9]

Finally, several institutions in the European Community have been trying since 1979 to develop capabilities for reevaluating social programs and their financial resources. Awaiting debates in the Community's European Parliament (and eventually the approval of the Council of Ministers) is a proposal for making 4-year medium-term projections of social expenditures and for analyzing the financing mechanisms of social programs. The proposed project would provide current information through annual reports of social expenditures and receipts, including yearly medium-term projections. These reports would replace the quinquennial publication of the **European Social Budget** (the most recent edition covered 1976–80) that has been more useful for analyzing past developments than for diagnosing the present and forecasting into the future. In addition, the contents of the annual reports would be expanded beyond a listing of expenditures and receipts to include data needed for in-depth policy analysis (for example, data about after-tax income received by the various categories of beneficiaries—the sick, elderly, unemployed, dependent children, and others). These yearly reports and annual 4-year term projections would supply timely estimates for social security financing in a period of rapid changes and would help identify real needs and determine priority for social policies.

[9] On April 25, 1983, the Commission of the European Community reported that of the more than 12 million unemployed in the Community, over 4.5 million were youths under age 25. ("Young People and Employment," **European Industrial Relations Review**, June 1983, No. 113, pages 25–32.)