

Social protection and the Europe 2020 strategy: part of the problem or part of the solution?

Introduction

Over the past three years social protection systems have come under considerable stress. They have played to the full their role as automatic stabilisers and been used to support company-level policies, thereby helping to limit the economic and social damage inflicted by the worst crisis in recent decades. This crisis has meanwhile served to reveal the highly variable extent to which social protection systems in Europe actually have the capacity to provide protection and alleviate poverty. While many governments, aware of the gaps in their safety nets, put in place various forms of partial and in many cases ad hoc improvement, the available provision continues to display much inadequacy. And yet now, with the return of quite fragile economic growth, a rather different perspective is emerging in relation to social protection systems. After the focus on their capacity to insulate the population against the economic crisis, the main current emphasis would appear to be on their contribution to fiscal deficits and the extent to which they act as disincentives to employment.

It is within this context that the EU2020 strategy and its focus on inclusive growth is being established. Inclusive growth implies a focus on how economic growth benefits the population at large and not only a small proportion of a country's inhabitants. This entails building the growth strategy on a fair sharing of nations' wealth, both via wages and by means of taxation and transfers to redistribute the wealth. In the EU2020 strategy inclusive growth is understood in terms of providing education, employment and poverty alleviation. Social protection systems contribute to all three forms of provision by supporting individuals with benefits and services, by smoothing transition phases, as well as by ensuring that poverty does not occur in the first place.

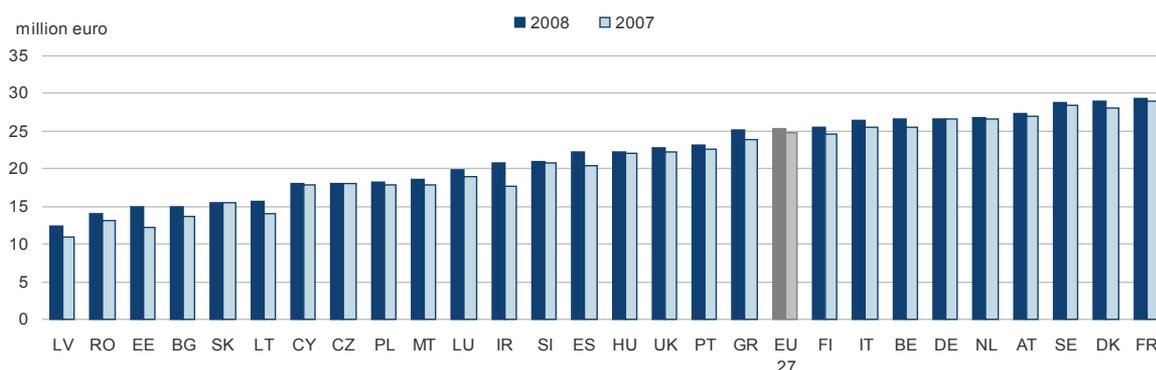
This chapter will focus on some of the main issues that are highlighted in the EU2020 strategy, namely developments in social protection spending, poverty alleviation, pensions and healthcare inequalities.

Topics

> <i>Social security expenditure</i>	45
> <i>Poverty and social protection expenditures</i>	46
> <i>Pensions and the demographic challenge</i>	47
> <i>Health care and inequalities</i>	48
> <i>Conclusions</i>	49

Social security expenditure

Figure 4.1 Social security spending in 2007 and 2008



Data source: Eurostat (2010b) *Social Protection (ESSPROS)*.

Social security spending reflecting its role as automatic stabiliser

In 2008 (latest available data from Eurostat), gross average expenditure on social protection accounted for 25.3% of GDP in the EU27, up from 24.7% in 2007 (see Figure 4.1). The countries with the highest ratios (France, Denmark and Sweden) spent (in relation to GDP) more than twice as much as the six countries with the lowest ratios, namely the three Baltic countries, as well as Bulgaria, Romania and Slovakia.

Social protection expenditure as a percentage of GDP increased in all EU member states from 2007 to 2008 reflecting the ravages following in the wake of financial and economic crisis. The variations in the increase in percentage of GDP spent on social protection across the member states reflect not only the capacity of social security systems to act as an automatic stabiliser in such circumstances, i.e. the degree to which their development is encompassing

and mature, but also the extent of the decrease in GDP and the precise timing of the impact of the crisis. It should not be forgotten, however, that 2007 was a year in which spending on social protection as percentage of GDP was, in any case, at a low (ETUC and ETUI 2010).

Projections of social protection spending (Council of the EU 2010a) indicate that social security spending for the EU27 will increase rather sharply to around 30% of GDP in 2010, before initiating a slight decrease in 2011/2012.

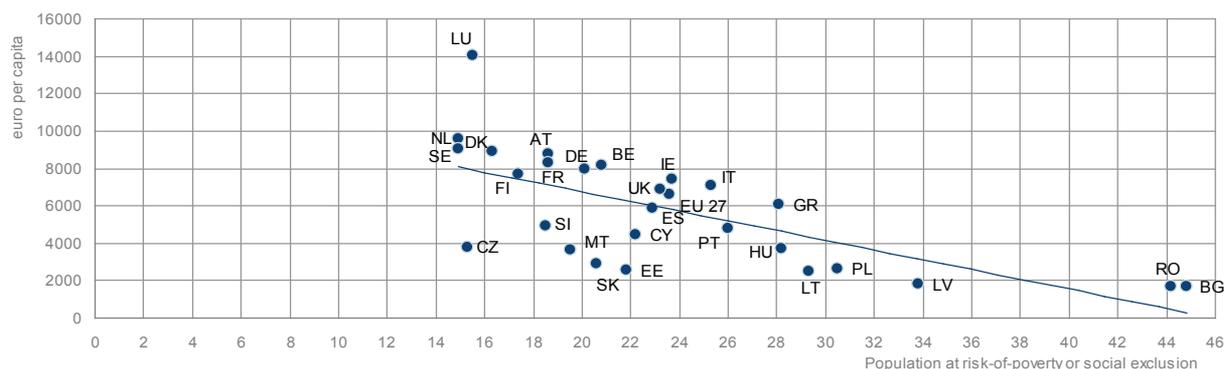
As unemployment rises and GDP falls, spending increases and revenue decreases, obviously giving rise to tension in terms of the short-term financing of social security systems. This is, however, the way in which social protection systems are constructed, endowing them with the capacity to function as automatic stabilisers and thereby mitigate the impact of economic and financial crisis. The strain under which social protection systems are currently labouring can be illustrated by the increase in unemployment benefits and social assistance. For example, beneficiaries of unemployment benefits have risen by 44% in Greece, while social assistance beneficiaries have risen by 190.9% in Lithuania (Council of the EU 2010a). There is, on the other hand, as yet little reporting of significant increases in disability and early retirement benefits. However, this could well change, as unemployment benefits are

generally payable for a limited period only and, insofar as economic growth remains timid, there is likely to be no more than limited scope for job creation of the magnitude required to absorb the unemployment rate.

The fact remains that a significant proportion of citizens in Europe are currently dependent on social security systems in order to avoid poverty, pending the arrival of more sustained economic growth that should, under the most favourable scenario, create quality employment. The current state of affairs is, however, subject to challenge by the austerity measures put in place in most EU member states (see Chapter 1), in the context of which social benefits in many countries are being restricted in terms of their accessibility, amount and duration, alongside a curtailment of the more active forms of labour market policy provision (see Chapter 2).

Poverty and social protection expenditures

Figure 4.2 Change in output and employment, 2009Q2-2010Q2



Data source: Eurostat (2010b).

To achieve the EU poverty target, social protection systems need to be reinforced

One of the headline targets of the EU2020 is to decrease the number of people in poverty in the European Union by 20 million (see Chapter 3). Setting a European target for poverty reduction is positive to the extent that the quantitative targets place a strong emphasis on poverty and the need to tackle it in a multidimensional manner. However, as Chapter 3 emphasised, the way in which the quantitative target is measured sets the framework for the policy formulation. While having a job reduces the probability of poverty, this is not invariably the case (Chapter 3). Nor, on the other hand, will the provision of social transfers alone serve to lift everyone out of poverty, whether relative or absolute. Poverty, as research shows, is a complex and multi-dimensional phenomenon, calling for measures to provide adequate income, accessible services and the possibility of engaging in quality employment. As such, social protection

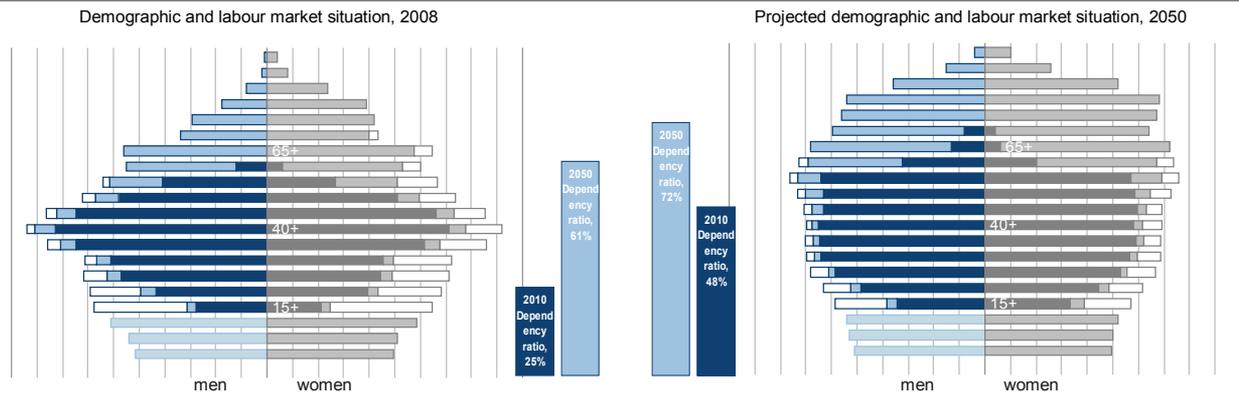
systems bear an important responsibility in terms of providing the services and transfers that may enable individuals and families to participate more fully in society in its varying aspects.

Figure 4.2 displays the correlation between the EU headline target indicator (see Chapter 3 for definition) and social protection spending in purchasing power standards (PPS) per capita. It displays a clear positive correlation indicating that, the more encompassing a country's social protection system, the lower its risk of poverty and social exclusion. Hence, in a period of economic downturn, when jobs are scarce, poverty alleviation via an appropriate social security system is vital. A strategy based on the effort to decrease poverty and social exclusion via employment alone is bound to fail due to the complexity of the phenomena entailed. Likewise, however, a poverty-eradication strategy based solely on the social protection system will be equally prone to failure. As Figure 4.2 shows, certain countries might need to step up their efforts to provide adequate income and access to social services, insofar as their at-risk-of-poverty and social exclusion rates are close to 30 percent and their spending in PPS per capita remains very low, while other countries, which already spend a considerable amount on social protection, would do well to explore new avenues for fighting poverty. What the figure indisputably shows

is that the starting point for the strategy against poverty is far from identical everywhere and that, while countries can indeed learn a great deal from taking note of each others' experiences, the main policy focus will vary considerably from one country to the next. Having said this, any strategy based exclusively on employment and increasing efficiency and effectiveness in social protection will fall short of the mark.

Pensions and the demographic challenge

Figure 4.3 Demographic versus economic dependency ratios for Austria



Source : AK-Wien.

The economic dependency ratio clarifies the genuine challenge of demographic change

The adequacy and sustainability of pension provision has been on the European agenda for the past decade, and will continue to form part of the policies monitored by the EU2020 strategy. As the demographic landscape is changing, with rather low total fertility rates and increasing longevity, the debate on pensions tends to be focused on the sustainability of public finances and their ability to continue to provide pensions. This debate is mainly driven by the awareness of the projected increase in old-age dependency ratios from 26% today to 50% in 2050, accompanied by the biased interpretation that there are currently four people to support every person aged over 65 (i.e. the retirement age), whereas by 2050 there will only be two persons to support each person aged over 65. This interpretation then leads to the policy

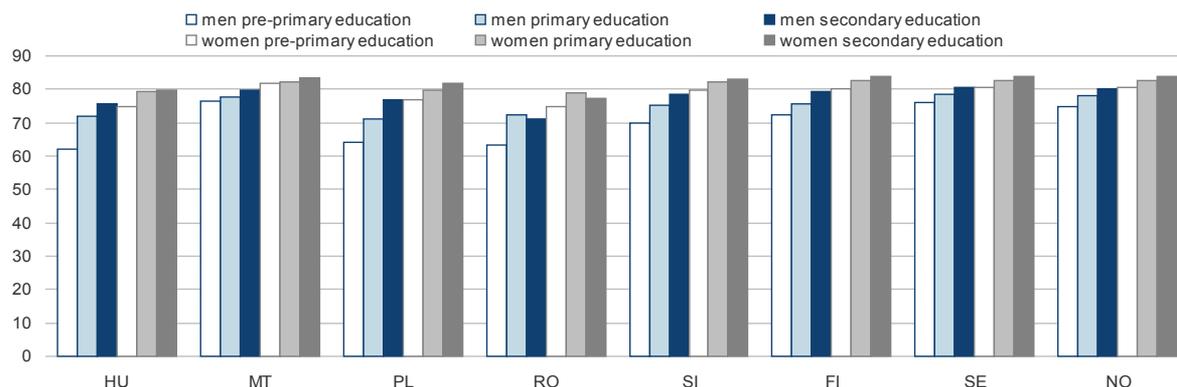
conclusion that the current system is unsustainable, that people must save for their own pensions and, furthermore, that both the effective and the statutory pension age will have to be raised as longevity increases (European Commission 2009a; Jepsen 2011). This stance is reflected in the EU2020 strategy and the Green paper on pensions issued in 2010.

There is, however, a more fine-tuned and encompassing manner in which to address the demographic challenge and pensions, this being to address the issue via economic dependency ratios (see Figure 4.3). The main idea behind the economic dependency ratio is that it will be influenced not by demographic trends alone but also by labour market developments. The focus is thus shifted from a purely demographic approach to one of seeking broader and more encompassing solutions to the demographic challenges, and this is an approach that was reflected in the pre-2005 European employment strategy. In Figure 4.3 this point is illustrated in relation to Austria. The age pyramid on the left side displays the demographic as well as labour market situation in 2008 with the demographic dependency ratio equalling 25% and the economic dependency ratio equalling 61%. This discrepancy in dependency ratios is due to the fact that not all people in the 15-64 age group are economically active and thus contributing to the payment of pensions and other benefits, for,

in actual fact, only a rather small proportion (yellow area) make such contributions. Hence, as the demographic landscape changes in the run-up to 2050 (age pyramid on the right side), there is a need to reassess the labour market and ensure that larger groups of the working-age population are in employment, and not to focus on the older age cohort alone as this will be a rather limited and perhaps inefficient manner of framing the issues at stake. The age pyramid illustrates this idea by applying the current Danish labour market situation (in particular a higher employment rate for women and older workers) to the demographic projections for Austria in 2050, the result being that the economic dependency ratio would, in this case, increase from 61% in 2008 to 72% in 2050, an increase that appears somewhat more manageable than that resulting from the exclusive focus on a strictly demographic dependency ratio rising from 25% to 48% in 2050. Such an approach leads also to a more pronounced need for broader and more encompassing strategies geared towards increasing labour market participation for the working-age population as a whole, e.g. via work-life balance policies, rather than a narrow policy geared exclusively to cost containment and directed towards older people.

Health care and inequalities

Figure 4.4 Life expectancy at 1 year for men and women per educational attainment, 2008



Data source: Eurostat, (2010b).

Decreasing health inequalities are a question of decreasing social inequality

Easy access to affordable quality health care lies at the heart of the European welfare states, making this one of the key issues dealt with in the 'European platform against Poverty and Social Inclusion' (European Commission 2010b). The combination of ageing populations, i.e. increasing life expectancies, increasing expectations and demands, and rising technical costs has led to increasing expenditure. As health care is to a large extent financed via public funding, and perceived as a universal good by the European population, this has led to an even stronger focus on financial issues as well as health inequalities in the EU2020 strategy. Health inequalities, which can be conceptualised in terms of life expectancy, are important across a host of socio-economic factors, among which gender, as well as educational attainment, as can be seen from Figure 4.4, are some of the more important. The data available from

Eurostat displays a worrying difference in life expectancy between the Nordic countries and central-eastern European countries, especially for men. The most dramatic picture is drawn for Hungary with a life-expectancy difference of 15 years for men with below lower-secondary education and those with tertiary-level education.

On a more general level, there are still many barriers to health service access and affordability, with more specific issues remaining, in particular for members of lower socio-economic groups and older people, in terms of access to medical services. Better educated people tend to have access to medical specialists and dentists more easily and more frequently, while people with lower incomes tend to use more general practitioners and emergency services only when they are seriously ill, even when their access to health services is free. Hence, when addressing health care and especially health inequality, it is important to think in terms of how to integrate the issue of health inequality reduction into a more general strategy of inequality reduction – for health inequality is clearly a result of socio-economic inequality and vice versa.

While several studies have highlighted the beneficial role of health care services in addressing health inequalities with regard to fair access, affordability and responsiveness, other studies have drawn attention to the role of socio-economic

inequality in the determination of health equality and hence life expectancy (see Potvin *et al.* 2010; Wilkinson and Pickett 2010 for a good overview). Research findings indicate that it is important to act upon people's individual characteristics as well as on health service access and affordability, together with a host of social policies, in order to devise an encompassing strategy for the reduction of health inequalities.

Addressing health inequality and better access to health services within a framework based on increasing competition might not seem to be the right way forward, to judge from the research findings. When people pay for social protection, their expectations are likely to focus on the accessibility, coverage and the responsiveness of services, especially in situations of emergency. These issues are different from those which influence decisions in a situation of direct consumption, i.e. when health is regarded as a normal consumer good such that you pay for what you get, in relation, for example, to the quality or availability of alternative treatments. However, many debates concerning health care, such as arguments for 'centres of excellence' in medical care or those for developing choice via competition, ignore the former criteria in favour of the latter.

Conclusions

EU2020 – a narrow approach to addressing the complexity of social security

The EU2020 strategy includes a headline target on risk of poverty and social exclusion as part of measuring progress towards the goal of 'inclusive growth'. While this target should be welcomed, insofar as it provides a focus on poverty and a space where this complex phenomenon can be discussed and policy solutions put forward, there is a need, at the same time, to direct criticism at the way in which this part of the EU2020 strategy is being fleshed out.

As this Benchmarking chapter has indicated, the European process dealing with social protection has been integrated into the 'European Platform against poverty and social exclusion'. While there is a clear rationale underlying integration of the anti-poverty strategy into the process of social protection, there is an equally clear case for putting up warning signs, as will be developed below.

The EU2020 strategy sets out a framework based on the need to concentrate on quality of social protection systems and priority-setting; it promotes the need to enhance the efficiency and effectiveness of social protection systems and a clearer focus on their capacity to deliver. The strategy, however, currently seems less clear about what it is that should be delivered – apart from providing more incentives for employment while ensuring that costs are contained. As this strategy is currently configured, there seems to be little room for the notion that its ultimate goal should be an overall increase in wellbeing. This omission may be perceived as rather worrying, insofar as the promotion of inclusive growth surely demands a vision of education, employment, and transfers, able to increase wellbeing for all. There

is a need, as such, for a reality check on where social protection has failed and where it has succeeded. There is a need, also, for a willingness to acknowledge that more and not less spending might perhaps be the right way forward.

The European Union is facing a protracted period of ongoing fiscal constraint that will inevitably entail difficult choices. Some of these choices will affect social protection in general, as well as specific aspects of existing arrangements. Some of the questions likely to be asked, for example, are whether public pensions should be provided as income replacement in old age or solely as a poverty-avoidance measure, and how far publicly provided health care should go in raising the general health of the population at large. Should the state be responsible for provision of social protection targeted only towards those members of the population suffering particular distress, in other words, poverty alleviation, or should it continue to provide a safety network for the population at large and to offer universal access to affordable quality health care and income replacement in old age? The linking of social protection with poverty alleviation alone, as seems to be the case in EU2020, might seem like the foretelling of a subsequent redefinition of the European Social Model based on the notion of a residual welfare state. These are some of the questions thrown up by a reading of the EU2020 strategy with its focus on efficiency, effectiveness, prioritisation and cost containment.

This Benchmarking chapter has demonstrated that socio-economic inequality lies at the heart of health inequality, risk of poverty and social exclusion. Low pension provision is another element of a similar equation. While access to quality employment is clearly one of the key solutions, it cannot be put forward in isolation. An encompassing strategy designed to tackle inequality, focused on a redistribution of wealth both before and after taxation and transfers, would, in the current socio-economic situation, have been more appropriate than the much narrower poverty-based approach. Unless we envisage a fundamental change in the model that is currently unfolding,

and seriously attempt to address the broader and deeper causes of inequality, there would seem to be very little chance that we will succeed in reducing poverty across Europe – with or without the EU2020 strategy.