EQUAL, Transnational Partnership/Endeavour, Topic to be covered by Austria (IdA) Rotterdam, 6.-8. March 2003

The Dividing Line Between Labour Market and Social Policy: Institutional and Legal Framework

With special emphasis on the "endeavour" partners: Austria, France, Germany, Ireland, Netherlands, United Kingdom

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Introduction

The Lisbon summit (spring 2000) placed special emphasis on the extension of the policy sphere of co-ordination to social policy and its interlinkages with economic, employment and education policies. (*Biffl,* 2001) The objective is not only to promote economic and employment growth, in particular to raise the employment rate, but also to combat social exclusion and to reduce unemployment. While it is clear that these objectives are important in their own right, the question of the costs and benefits of social policies, which go hand in hand with employment and integration policy, become the focus of analysis. The questions asked pertain to the role of the various elements of the welfare system and their sustainability in the face of globalisation and massive structural change both on the employment and family/household front. Economic and social forces are at the origin of an increasing fluidity of personal and job relationships (*Biffl,* 2002A).

In the course of time, member states chose different routes and developed different institutional set-ups to ensure social protection against the vagaries of life. They served their purpose within the national setting but may have lost some of their original effectiveness as the EU economies and societies become more integrated and as labour market behaviour patterns converge across borders. The objective of the EU is, to modernise the systems of social protection in order to promote flexibility and structural change of the economy and the labour market in the wake of globalisation, technical change, and changing family

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• I thank Julia Bock-Schappelwein for valuable research assistance.

structures by providing a safety net adapted to the changing environment (flexicurity, *European Commission*, 2002B).

In order to render social protection more effective in all member states, it is important to

1. understand the different organisational structures, and
2. to provide insight into the motivational forces endogenous to each system, in order
3. to devise instruments which ensure
    - cost-efficient integration of persons and groups of persons into society and the labour market who are currently at the margin or excluded from socio-economic participation,
    - an equitable sharing of the social dividend, and
    - protection against risks and uncertainties over the life cycle.

The task of this transnational endeavour is to increase the understanding of the systemic differences in achieving the objective of social protection. As a first step we provide an overview of the expenditure on social protection and its components in the various member states. In a second step, we relate these different expenditure structures to the systems of social organisation. That juxtaposition indicates the differences in logic of the various social protection models. It fosters an understanding of systems and the endogenous motivational forces at work. It helps explain why in some countries unemployment is the major instrument/ source of labour market and social exclusion/social expenditure while in others it is early retirement and/or disability pensions.

The search for best-practice instruments and policies of social and labour market integration has to be seen in the context of rising social expenditures. The decline in fertility rates and the ageing of the population is one explanatory factor; another is the limited success in combating unemployment and poverty. The former continues to be a challenge in view of the rise in life expectancy, the latter in view of the increasing mismatch of labour supply and demand in our period of rapid structural change and the resulting impediments to economic growth and eventually wellbeing of the societies.

In order to be successful in trying to develop a common social identity of the EU, all socio-economic and political actors have to be integrated in a social dialogue. This is why the EU strives to introduce them into a process of policy development and co-ordination – labour, firms, provider organisations for social security, governments, social partners, finance institutions, NGOs – to address the issues involved in the social agenda, and to devise co-ordinated solutions, which find general acceptance *(Biffl,* 2002B).

The modernisation process of the system of social protection follows four principle objectives (*European Commission,* 2001B):

- promotion of social integration

- ensuring the sustainability of retirement pay systems
- ensuring the sustainability of a health care system of high standard
- ensuring a living wage.

Systems of Social Protection in the EU

The literature distinguishes between four different basic models of social protection in the EU (*Esping-Anderson,* 1990, *Scharpf,* 2000, *European Commission,* 2001B):

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)[1].

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. After WWII, the UK put a welfare system to work (Beveridge model), which is funded out of general taxes and basically run by the public sector. Access to welfare is subject to means testing, access to health services is universal; this basic social protection scheme is complemented by a pillar of private insurance (health and pension schemes), i.e., a system which allows the individual to go beyond the minimum provided for by the state (*Biffl,* 1999, *European Commission,* 2001B, *OECD,* 1998AB/99AB).

In contrast, the continental European countries have chosen a model of social insurance, based on contributions by employers and employees into health, unemployment and retirement funds. The objects of this model are to protect the individuals against the risk of sickness and unemployment on the one hand, and to ensure economic survival in old age on the other (Bismarck model). This model has, in addition, strong familial components of contributions and tax benefits. The latter make families with children better off than in the British model.

The Scandinavian model focuses on individual rights and obligations. The welfare model is employment centred; work is not only the source of income but also the means through which the social dividend is distributed; employment is also the hub for social protection. 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, which can be accessed by every resident. The universal character of the provision of welfare services reduces the need for special, means tested integration measures. Unemployment insurance is organised

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

by the unions, which explains the high degree of organisation of labour (unionisation) in Sweden (*Gustafsson,* 1996).

In the Southern European countries, social protection is somewhat differently organised. While health services are universally accessible, i.e., the system is similar to the Beveridge model, income protection schemes tend to follow the Bismarck tradition. As unemployment insurance and active labour market policies are less developed than in the continental European model, family ties and support play a major role in the provision of income support and the satisfaction of basic needs. Table 1 gives an overview of the 3 major models; the Southern European model is omitted because it is more complex and embraces elements of all three basic models.

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
Funding	In the main taxes	In the main social security contributions	In the main taxes

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

Expenditure on social protection in the EU

Social expenditures encompass all expenses by public and private institutions which cover the costs of individuals and private households which arise from risks or needs over the life cycle for which the recipient does not pay the full cost of the service or good. The risks and needs which establish a right to social protection are the following (*European Commission,* 2001B):

- Old age, Survivors
- Sickness/health care, Disability
- Family/children
- Unemployment
- Housing, social exclusion (e.g., welfare, housing benefit, exemption from fees).

Table 2 indicates the various functions/purposes social expenditures serve – retirement and survivors' pay represents an income support measure during old age, while family benefits cover some of the additional expenditures resulting from childbearing and rearing.

Table 2: Social Protection in the EU by Functions

	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, motherhood 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

S: *European Commission* (2002B).

Expenditures may have various components – in the case of sickness, income support is provided for the period of sickness, in addition the costs for medical services are covered to a large extent.

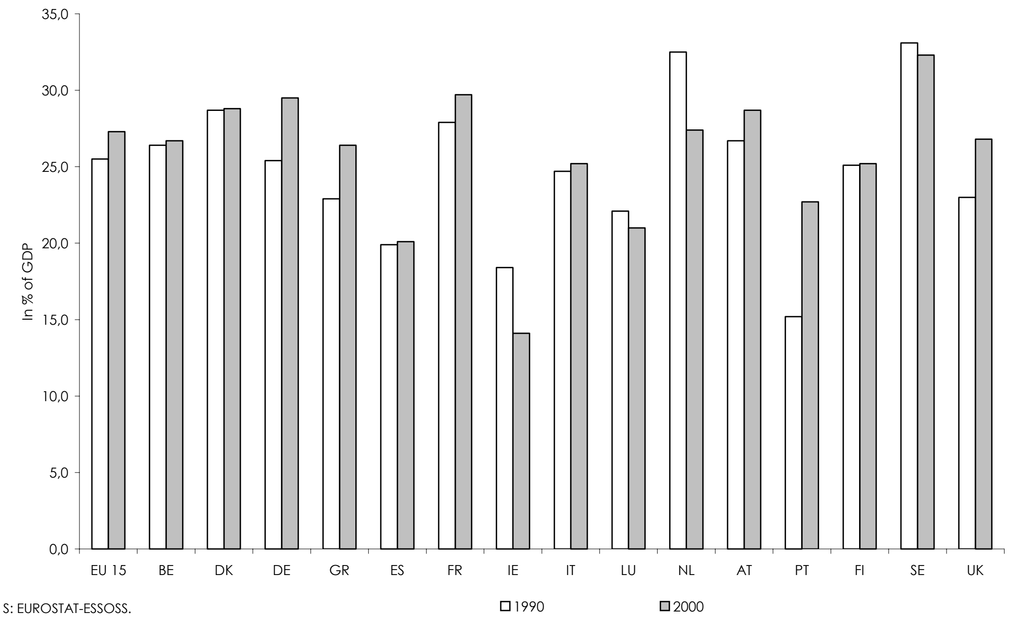
Benefits may be in kind, e.g., health services, or in cash, e.g., retirement pay.

Some social protection measures are means tested, others are universally accessible, and yet others are a right emanating from prior payment of contributions into some sort of an insurance fund.

Extent and composition of social expenditures in the EU

Social expenditures (and revenues) are closely linked to economic developments – 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 (*Bauernberger – Guger,* 1998).

Graph 1: Social expenditures in percent of GDP 1990/2000



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[2], 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 the responsibility for those in need while the Nordic countries organise care to a large extent formally. Thus, a larger proportion of older persons lives in nursing homes or receives home help by trained personnel in the Nordic countries than in Southern European countries.

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

The transnational partner countries ("Endeavour"), Austria, Germany, France and the Netherlands, had above average social expenditures in relation to GDP throughout the 1990s, while Ireland was considerably and the United Kingdom somewhat below the EU-average.

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 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, from changes in social expenditure per capita and/or from changes in GDP growth.

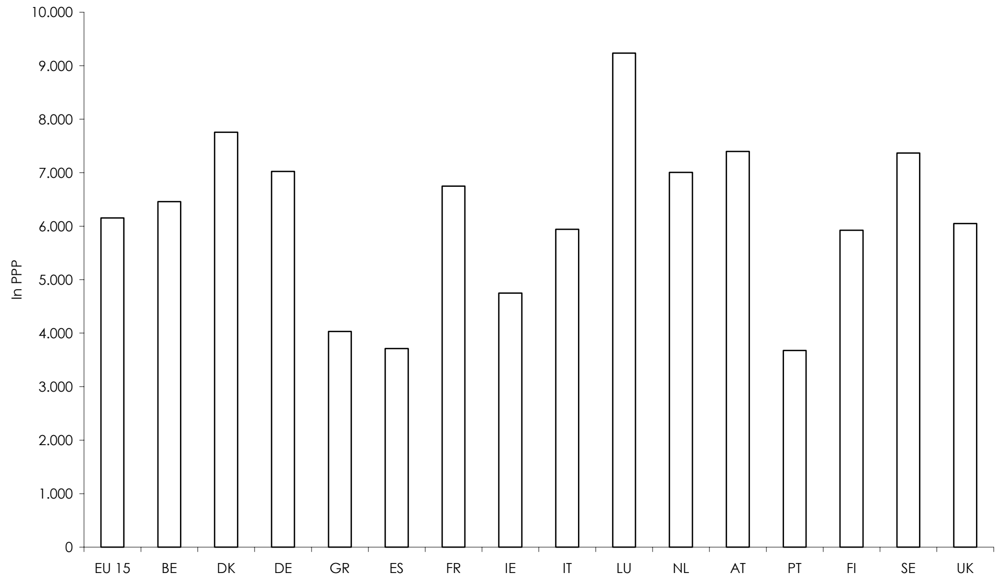
The calculation of social expenditures per capita in € (PPP[3]) provides some insight into the different expenses between the EU-member states per person. (*Mayrhuber,* 2003). The differences in expenditures are more pronounced between countries if calculated on the basis of purchasing power standards 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 2000.

The transnational partners in "Endeavour", Austria, Germany, France, the Netherlands and the United Kingdom have above average expenditures on social protection per capita, whereas Ireland has relatively small ones.

[3] 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.

Graph 2: Social expenditures per capita in PPP (2000)



S: EUROSTAT-ESSOSS.

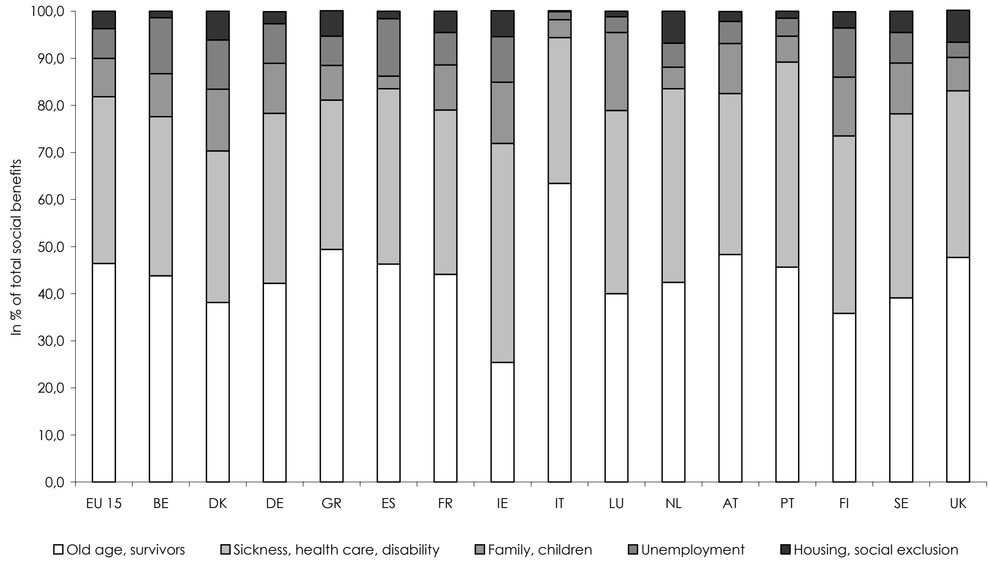
Social expenditures by function

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 exceptions 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).

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).

Graph 3: Social expenditures by function in the year 2000



S: EUROSTAT-ESSOSS.

- 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 employment activity rate of women, explains the comparatively small public expenditure component (*European Commission,* 2001B).
- 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 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).

In the partner countries "Endeavour" Austria and the UK spend relatively more on old age pensions. Germany, Ireland and the Netherlands have above average expenditure shares in the area of health related benefits. Germany, France, Ireland and Austria have high relative expenses for family and child support. Germany, France and Ireland have above average relative expenses on unemployment support (*Biffl,* 2000). All partner countries except Austria, had above average relative public expenses on housing subsidies and benefits to combat social exclusion (*Guger – Steiner,* 1997).

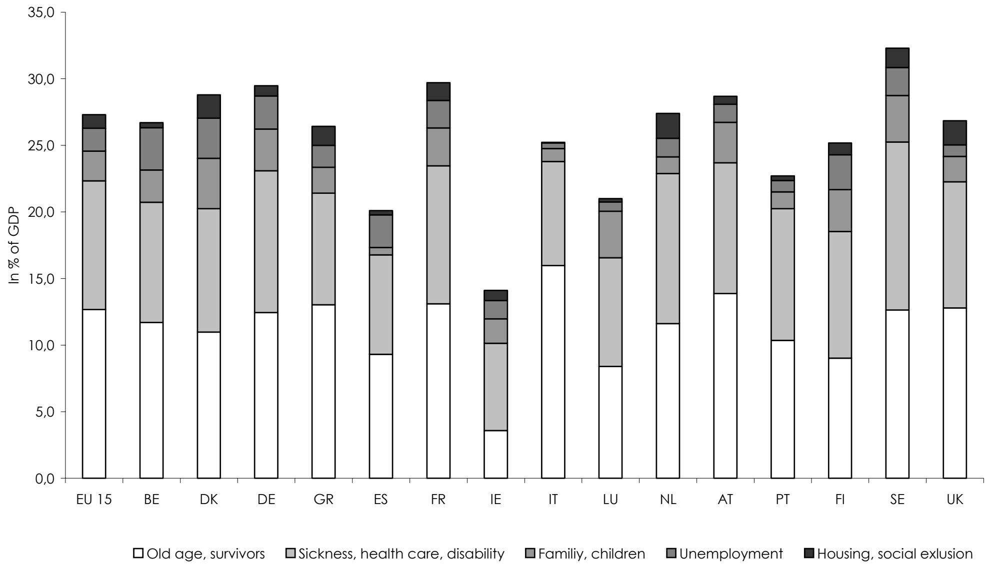
Social expenditures in percent of GDP by functions

- In the year 2000, 12.7 percent of GDP were spent on average in the EU(15) on old age pensions and survivors, Italy and Austria being the leading countries (16 percent of GDP in Italy and 13.9 percent in Austria).
- For health matters 9.7 percent of GDP were spent on average in the EU, in which Sweden and the Netherlands headed the group of countries (in both cases with some 12 percent of GDP).
- Family related expenses were highest in Denmark and Sweden with more than 3.5 percent of GDP compared to 2.2 percent in the EU average; unemployment was the major cost component in Belgium and Denmark – with more than 3 percent of GDP compared to 1.7 percent in the EU on average.
- Housing /social exclusion is a major expenditure in the Netherlands, the UK and Denmark, with some 2 percent of GDP compared to 1 percent on average in the EU.

The ranking of social expenditure by function reflects not only the demographic structure, but also the socio-economic organisation of the society, i.e., the type of welfare model, and the differing priorities in social and labour market policy.

- Austria, France and Finland, for example, have chosen early exit routes (early retirement and disability pensions) to counter the rise in unemployment which resulted from economic restructuring in the 1980s and 1990s, while others preferred higher documented unemployment, e.g., Belgium and Denmark.
- Family and child related public expenditure in relation to GDP does not differ much between EU countries, spanning from 0.5 percent of GDP in Spain to 3.8 percent of GDP in Denmark, the labour market outcomes of the different welfare models in terms of activity and employment rates of women differ significantly, however.

Graph 4: Expenditures on social protection in percent of GDP by function in the year 2000



S: EUROSTAT-ESSOSS.

The Southern and Central European countries transfer funds to the household sector (cash benefits) in order to provide the means to care and cater for children, poor and disabled, thus contributing to the comparatively low activity rate of women. In contrast, the Nordic model tends to provide these services to a larger extent through the public sector, i.e., full-day child care and schools, nursery homes, etc., thus promoting female employment in the public sector. The access to certain aspects of social protection is influenced by the type of social organisation, i.e., the family provider model versus the state provider model.

The Nordic model differs from the Beveridge and Bismarck model above all in its focus on persons and families of working age, whereas the other two models tend to focus on older persons and/or they target persons in need (means tested).

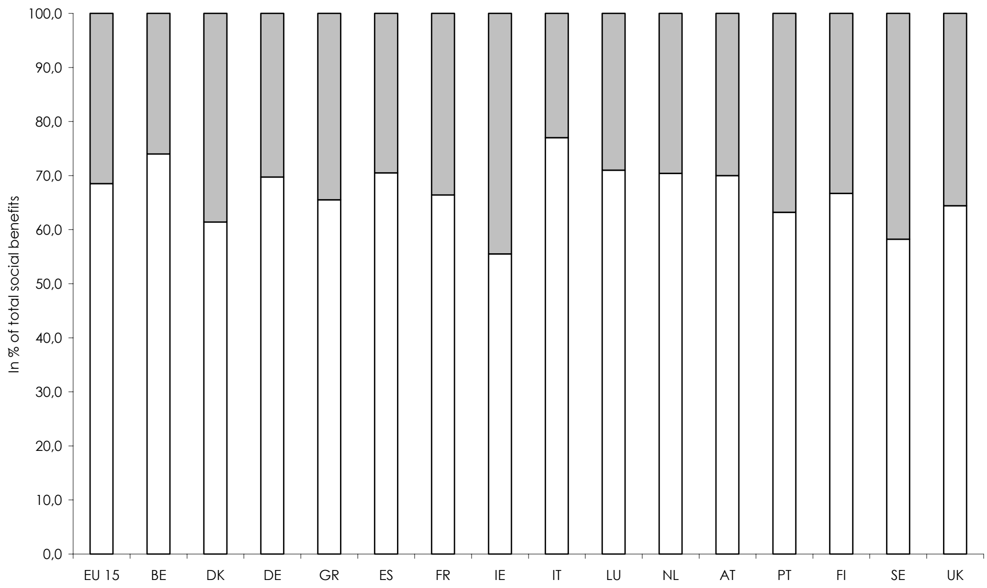
Consequently, the proportion of benefits which is targeted to particular groups, differs significantly between the welfare models. While all countries tend to have some element of means testing, i.e., targeting groups, the proportion is particularly high in Ireland (29 percent of all benefits), the UK (17 percent of all benefits), followed by Finland, Spain and France (*European Commission,* 2002B, *Whiteford,* 2002). In Austria, less than 5 percent of all social expenditure was the result of means testing in 1999.

The transnational partner countries ("Endeavour") Austria and France spent above average amounts of money in percent of GDP on old age pensions and survivors, Germany, France, the Netherlands and Austria on health, and Germany, France and Austria on families. Ireland and the United Kingdom had the largest social expenditures in percent of GDP which were means tested.

Cash benefits and benefits in kind

- In 1999, the major part of social benefits in the EU was paid out in cash, i.e., 68.5 percent (18.8 percent of GDP), while benefits in kind like medical services, services for families (e.g., child care), subsidised housing, transport services, telephone, etc., accounted for just 8.7 percent of GDP on average. (*Abramovici,* 2002B)
- The split between cash benefits and benefits in kind depends on the particular welfare model and the functional distribution of expenses. Old age and survivor's benefits tend to be cash benefits, as are unemployment and early retirement benefits.
- On the other hand, the second biggest expenditure item, health related expenditures, are in the main benefits in kind (70 percent).
- All other functional expenditures tend to be more evenly balanced between cash and in kind benefits.

Graph 5: Social expenditure by type (1999)



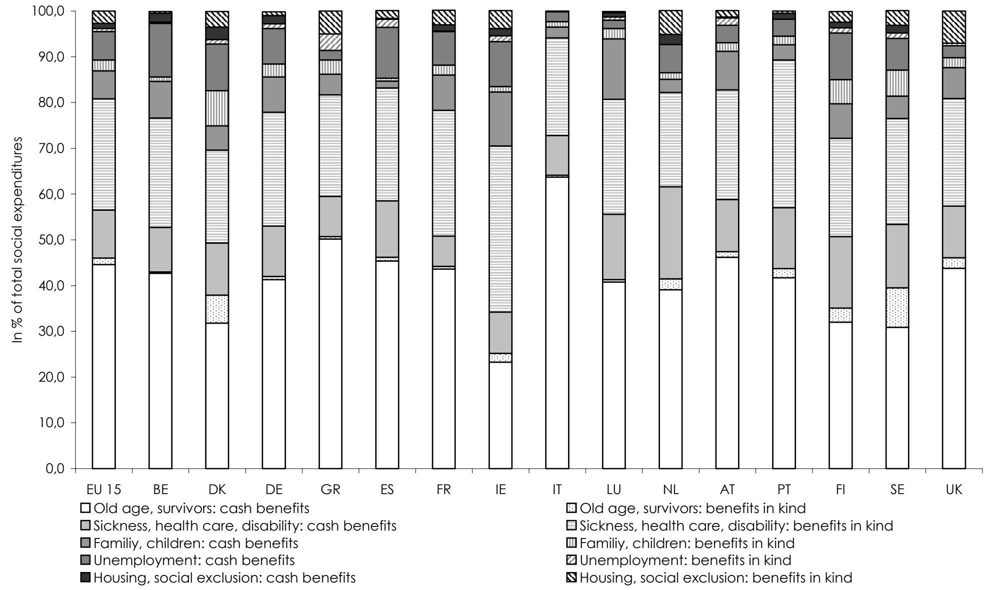
S: EUROSTAT-ESSOSS.

Italy, Austria, Belgium, Luxembourg, the Netherlands, Spain and Germany have above average cash contributions. This is mainly the result of the welfare model, which is largely contribution based. But structural factors like an above average share of pensioners, also account for the high cash component of social expenditures. The Anglo-Saxon and the Scandinavian models tend to favour benefits in kind, whereas the Continental European Social Security model favours cash benefits.

The composition of expenditures by type of benefit shows that welfare models, which are predominantly contribution based tend to be strong in cash benefits, whereas models which are in the main tax based tend to favour benefits in kind.

In 1999, tax-based benefits represented the major part of social expenditure in Ireland and the UK, whereas contribution based expenditures dominated in Austria, Germany, France and the Netherlands.

Graph 6: Social expenditures by type and function (1999)



Q: EUROSTAT-ESSOSS.

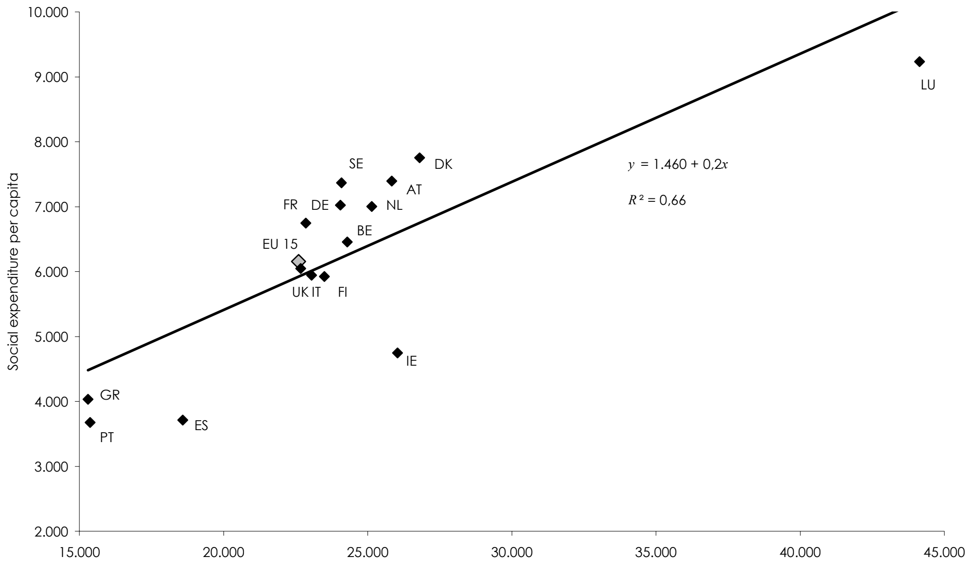
In 1999, 46 percent of total social expenditure in the EU was spent on old age and survivors pensions, 44.6 percent in cash and 1.4 percent on benefits in kind. In all member states, cash benefits were the major expenditure category in this functional group. In the continental and Southern European countries, the proportion of cash benefits is highest and close to 100 percent, and lowest in Scandinavia with 83 percent.

The ageing of the European population is responsible for rising expenditures on care for the elderly, which result in an increase of benefits in kind.

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

GDP per capita may be taken as an indicator of the living standard of a country. According to this indicator, 9 EU member states, Austria, Belgium, France, Denmark, Germany, Italy, Luxembourg, the Netherlands and Sweden, were consistently above the EU average living standard (in terms of purchasing power parity) during the whole period 1995 to 2000. The United Kingdom, Finland and Ireland joined the league only in the last couple of years of the 1990s (*Behrens,* 2000, 2003).

Graph 7: Correlation between GDP per capita and Social expenditure by capita (PPP, 2000)



S: EUROSTAT.

Table 3: 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

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

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 outlier; it had the third highest GDP per capita in the year 2000 but was only number 12 as to the ranking of social expenditure per capita. The major reasons for the low social expenditures are the comparatively young population, a welfare system which targets only low income groups (means tests) and a tendency to organise care through the household sector (family) rather than the market.

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

The dividing line between labour market and social policy

In the Amsterdam treaty, the EU has spelled out the objective to maximise the degree of integration of the population of working age into gainful employment. Accordingly, it aims to reduce the three unemployment indicators U1 (long term unemployment rate), U3 (traditionally used in international comparisons), and U5 (including the marginally attached and discouraged workers) as well as the non-participation rate. By compounding all four exclusion indicators (total rank order in Table 4), a perspective is obtained of the ranking of the EU member states in terms of the degree of exclusion of people of working age from gainful employment.

Table 4: 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

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

Table 4 illustrates that 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.

To learn more about the qualitative aspects of socio-economic integration, a closer look at income inequalities and the structure of employment in connection with the welfare models is warranted.

Table 5: 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			

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

Table 5 indicates that 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. The same is true in the case of social expenditures in percent of GDP. The contrary holds, however, if one examines the degree of poverty and income inequality (*Mejer – Linden,* 2000). It is lowest in the Nordic countries, in the middle in the case of the Continental European model and high in the Southern European countries. The Anglo-Saxon model tends to differ somewhat in that it has a comparatively high degree of integration of the population into employment, but at the same time a high degree of impoverishment of groups of people in the society.

This goes to show that the various welfare models represent different modes of social organisation. 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 – maximising the degree of social inclusion and economic integration and providing an equitable distribution of the social dividend – than the other welfare models at hand in Europe.

The models of the Southern and Central European countries are unable to cope with the increasing fluidity of family relationships. The fragmentation of families suggest that these models are less capable of delivering the comprehensive social protection originally designed for them. But the need for individual support arises not only from the increasing flexibility of personal relationships but also, and above all, because of an increasing complexity of the labour market. The changing labour market requirements 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. Thus, economic dependence is 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 one wants to preserve socio-economic integration and a more equitable society (*Biffl,* 2002A).

Table 6: 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/.

The Anglo-Saxon model, with its strong dependence on market forces and trust in the assumption of the capacity of the individuals to provide for themselves, is hard pressed to ensure a fair and sustainable income distribution. Eligibility criteria and benefit levels are amongst the most sensitive policy issues, as social protection is paid out of general taxes and is to a large extent targeted at people in need. Targeting is a policy challenge as social assistance is intended to ensure a decent living in periods of transition on the one hand, and continued incentives to work on the other. As the data show, the model has led to a high degree of integration of the population of working age into the labour market, high unemployment, as well as income inequality.

While it is difficult to compare levels of inequality due to 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), 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 equally 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.

Thus, the major challenge ahead is the reform of the institutional infrastructure to ensure that the society can cope with the changing needs resulting from the increasing de-standardisation of employment and household patterns.

The national social protection systems and their links with the labour market

The dividing line between labour market policy and social policy is characterised by different criteria of eligibility for benefits and the right to access social services. In order to gain some insight into the challenges of an adequate provision of social protection and the costs associated with it, we rank the costs of the various protection measures in percent of GDP by country.

Table 7 indicates that Sweden takes the lead in terms of social expenditures in percent of GDP, followed by France, Germany and Denmark. At the bottom end of the line are Ireland, Luxembourg and the Southern European countries. Every expenditure item has a link with the labour market, implying that the labour market plays a key role in the development of social expenditures. The expenditure on retirement pay, for example, depends not only on the retirement system but more importantly, also on the age of retirement. The dividing line between the retired population and the active work force is somewhat arbitrary and, 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.

Table 7: Ranking of EU countries by categories of social expenditure in the year 2000

	Social expenditure in % of GDP	Old age, survivors	Sickness, health care	Disability	Family, children	Unemploy-ment	Housing, social exclusion
BE	8	8	9	9	8	1	11
DK	4	10	13	2	1	2	2
DE	3	7	3	9	5	4	8
GR	9	4	6	14	9	8	5
ES	14	12	12	12	15	4	12
FR	2	3	2	11	7	7	6
IE	15	15	13	15	11	9	8
IT	10	1	10	12	14	15	15
LU	13	14	15	6	2	14	12
NL	6	9	4	4	12	9	1
AT	5	2	5	8	6	11	10
PT	12	11	7	5	13	12	12
FI	10	13	11	2	4	3	7
SE	1	6	1	1	2	6	4
UK	7	5	7	7	10	12	2

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

In the contribution based 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 replacement rate depends on the income received and the contributions paid into the respective funds. Social assistance payments on the other hand are means tested. This has important implications for the incentives to work. Low-income households may have limited incentives to work if work does not pay, i.e., if income from work does not improve the household income situation. This may result from the loss of benefits in kind together with social assistance payments, which in effect constitute above average marginal tax rates of low income workers. In that context, family allowances and tax/benefit systems require special attention. The poorer the coordination of tax and social policy, the higher the barriers to entry of jobless, with and without children, into the labour market (*Dawkins,* 2002). In the year 2000, on average 4.5 percent of all persons lived in jobless households. The share was particularly high in Ireland, France, Spain and Italy (*Europäische Kommission, 2002C*).

Another form of social protection comes from health and medical support schemes. These do not only depend on the age structure of the population but also on conditions of work, the industrial employment structure and institutional regulations, in particular the provision of care by the public and private sector (Nordic and Anglo-Saxon model) or the household (Continental and Southern European model). The latter has a significant impact on the activity rate, particularly of women.

Unemployment benefits and social assistance

Germany and Austria have two safety nets, unemployment insurance and social assistance. The majority of unemployed have the right to unemployment benefits due to prior payment of contributions into the unemployment insurance fund. However, those who do not have the required number of weeks of employment to be eligible for benefits, would be entitled to access social assistance provided they can prove extreme hardship and show that all other sources of income support have been tapped. Thus assistance from the community comes as a last resort. In spite of this narrow definition, the numbers of persons on social assistance are continually rising (*Hanesch,* 2002). The integration of persons on social assistance into the labour market is difficult, not least because the communities lack the institutional capacities of the labour market service to match labour demand and supply.

Table 8: Funding of unemployment benefits and social assistance in the EU

	Unemployment Insurance Funding Principle			Social Assistance Funding out of taxes		
	Government Contributions (out of taxes)	Contributions by employers & employees	Alternative Funding	Federal State	States/ Regions	Communities
BE	Yes	Yes	Yes (out of value added tax)	Yes (50%)		Yes (50%)
DK	Yes (covers possible deficit)	Yes		Yes		Yes
DE	Yes (unemployment assistance, covers possible deficit)	Yes			Yes (25%)	Yes (75%)
GR	Yes (covers possible deficit)	Yes			–	–
ES	Yes	Yes			Yes	
FR	Yes (social assistance)	Yes		Yes		
IE	Yes (covers possible deficit)	Yes		Yes		
IT	Yes	Yes				Yes
LU	Yes		Yes (out of gasoline tax)	Yes		
NL	–	Yes		Yes (90%)		Yes (10%)
AT	Yes (covers possible deficit)	Yes			Yes	Yes (certain elements of social assistance)
PT	–	Yes		Yes		
FI	Yes (66%)	Yes (34%)		Yes (22%)		Yes (78%)
SE	Yes	Yes				Yes
UK	Yes (income-based Jobseeker's Allowance)	Yes		Yes		

S: MISSOC (Mutual information system on social protection in the EU Member States and the EEA).

France and Ireland have similar income support systems as Germany and Austria, i.e., one contribution based element and a second assistance scheme (*Gautrat et al.,* 2002). In contrast, the Netherlands combine the Bismarckian employment insurance scheme (earnings related benefit) with a Beveridgean national insurance system with benefits as a percentage of the statutory minimum wage (*de Haan – Verboon, 2002*).

The United Kingdom has a single national system of social security benefits, which combines the two functions of unemployment insurance and social assistance. It has thus a single benefit administration, i.e., it does not need a bridge between two institutional set-ups as the Continental European countries. (*Ditch – Roberts, 2002*)

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 an enormous complexity of factors affecting social policy outcomes. In those circumstances it is hard to envisage best practice solutions which cover 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 functional mechanisms. These have to be tested for their continued relevance in terms of comprehensive coverage and motivational impact. One may, however, take up ideas and practices which are conducive to socio-economic integration from one or another country/model and adapt them to one's own model such that there will be a slow osmosis and convergence of views and best practice models.

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