

SOCIAL PROTECTION EXPENDITURES OF THE EUROPEAN UNION MEMBER STATES IN 2004-2012

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Abstract:

The aim of the article is to examine the changes in social protection expenditures of the European Union member states. The analysed countries are divided into two groups. The first group comprises Western European states which did not belong to Eastern Bloc and became members of the Union until 1995. The second group are Eastern European states which belonged to Eastern Bloc and became members of the Union in 2004. The analysis spans the years 2004-2012. The paper presents the changes in amounts of social protection expenditures (calculated as a share in GDP) among the EU-25 group as well as the differences in structure of these expenditures among the EU-15 countries and those accepted into the European Union in 2004.

Keywords: social protection, European Union membership, the European Union, social protection benefits, social protection regulations, social protection expenditures.

1. INTRODUCTION

Social protection policies of the European Union member states are different. Over the years European countries developed their social protection systems according to conditions, tradition and citizens' needs. Every member state of the Union is obliged to exercise social protection to its residents. Too big differences in social protection solutions of the members and lack of approval for the same policies caused the viewpoint that creating one uniform system is impossible. However, aims and standards of social protection which showed the course of action for the member states were formulated.

Measures to establish a homogenous internal market, internal migrations, influx of people from abroad and demographic changes are some of many problems which the Union members face. Hence the social protection, a part of wide social policy of the Union, is one of especially important issues. It is connected with certain costs which the member states incur.

The article has three parts. The first one presents the definition and basic law provisions concerning social protection as understood by the International Labour Organization, the Council of Europe and the European Union. The second one describes the European system of integrated social protection statistics, a resource managed by Eurostat to observe social protection in the member states. The third one includes the analysis of social protection expenditures (from the period 2004-2012) in the EU-25 countries as well as of the structure of these expenditures in the EU-15 states and those accepted into the Union in 2004.

2. SOCIAL PROTECTION ACCORDING TO THE INTERNATIONAL LABOUR ORGANIZATION

The notion of social protection is widely used, but it has no single and commonly accepted definition. Although this notion is absent in European legal acts, it is indicated as a goal to be pursued by the state (Jones, 2005). However, worth mentioning is its understanding by the International Labour Organization (ILO), an entity created in 1918 which deals with employment issues. After the Second World War the ILO became an independent organization active also in the field of social protection and cooperated with the United Nations Organization. ILO conventions are the guidelines for handling and financing social protection. The organization emphasises the citizens' responsibility for satisfying their basic social needs.

The ILO understands social protection as follows: "(...) the protection which society provides for its members, through a series of public measures, against the economic and social distress that otherwise would be caused by the stoppage or substantial reduction of earnings resulting from sickness, maternity, employment injury, unemployment, invalidity, old age and death; the provision of medical care; and the provision of subsidies for families with children" (Introduction to Social Security, 1984, p. 2-3.). ILO Convention 102 describes the range of social protection (Social Security (Minimum Standards) Convention, 1952):

- medical care;
- sickness benefit;
- unemployment benefit;
- old-age benefit;
- employment injury benefit;
- family benefit;
- maternity benefit;
- invalidity benefit;
- survivors' benefit.

The same document presents the course of development for all social protection branches. Flexible standards of granting, managing and financing benefits were established. The Convention was an attempt to face national social protection needs and preferences by determining the following (Social Security Governance: A Practical Guide for Board Members of Social Security Institutions in Central and Eastern Europe, 2005, p. 155-156):

- any benefit in cash should be a periodical payment provided "throughout the contingency" that it is designed to address;

- the benefit should replace previous income to a certain specified extent;
- the costs of the benefits and of administration should be borne collectively by way of insurance contributions or taxation;
- the insurance contributions to be borne by the employees should not exceed 50 percent of the total cost of the scheme;
- the State should assume at least general responsibility for the due provision of the benefits and for the proper administration of the scheme; and
- representatives of the persons protected should participate in the management of a scheme, or at least be associated with it in a consultative capacity.

3. SOCIAL PROTECTION REGULATIONS BY THE COUNCIL OF EUROPE AND THE EUROPEAN UNION

Along with the ILO, the Council of Europe was another international organization regulating social protection. The European Social Charter which includes human social and economic rights is its most important document adopted in 1961. In 1991 the Protocol amending the Charter and in 1996 the Revised European Social Charter were approved. The Article 12 (The right to social security) of the 1961 act determines the common standards of widely understood social protection (European Social Charter (Revised), 1996, Article 12):

- to establish or maintain a system of social security;
- to maintain the social security system at a satisfactory level at least equal to that necessary for the ratification of the European Code of Social Security;
- to endeavour to raise progressively the system of social security to a higher level;
- to take steps, by the conclusion of appropriate bilateral and multilateral agreements or by other means, and subject to the conditions laid down in such agreements.

The Community Charter of Fundamental Social Rights for Workers, the next act approved in 1989, describes the social protection scope for employees. It contains the regulations on (Community Charter of Fundamental Social Rights of Workers, 2016):

- free movement of workers;
- employment and remuneration;
- improvement of working conditions;
- social protection;
- freedom of association and collective bargaining;
- vocational training;
- equal treatment for men and women;
- information, consultation and participation of workers;
- health protection and safety at the workplace;
- protection of children, adolescents, elderly persons, and disabled persons.

The following was stated about social protection itself: “Every worker of the European Community shall have a right to adequate social protection and shall, whatever his status and whatever the size of the undertaking in which he is employed, enjoy an adequate level of social security benefits. Persons who have been unable either to enter or re-enter the labour market and have no means of subsistence must be able to receive sufficient resources and social assistance in keeping with their particular situation” (Community Charter of Fundamental Social Rights of Workers, 1989, Paragraph 10). Due to lack of unanimity the Charter remained only a solemn declaration of social policy actions.

Enacted during the summit in Nice on 07.12.2000, the Charter of Fundamental Rights of the European Union became the breakthrough document for social protection. For it was not binding, it was incorporated as the second part into the treaty establishing the European Constitution. However, the treaty did not come into effect due to failure of its ratification (Tendera-Właszczuk, 2010, p. 67-68). In order to make the Charter a legally binding act, it was acknowledged by the Treaty of Lisbon signed on 13.12.2007 and acquired the same force as treaties. The Charter is in effect from 01.12.2009 (Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community, 2007, Article 6.1.).

The Article 34 of the Charter contains provisions directly related to social protection. The Union emphasises the protection’s significance in the domain of maternity, illness, industrial accidents,

dependency or old age, and in the case of loss of employment. Attention was paid to the right to social benefits of the people legally resident in the Union with respecting national laws (Charter of Fundamental Rights of the European Union, 2012, Article 34).

Addressing European social protection, worth mentioning is the coordination of its systems. The regulations on this issue are included in two legal acts: Regulation (EC) No 883/2004 of the European Parliament and of the Council of 29 April 2004 on the coordination of social security systems; and Regulation (EC) No 987/2009 of the European Parliament and of the Council of 16 September 2009 laying down the procedure for implementing Regulation (EC) No 883/2004 on the coordination of social security systems (Zasady koordynacji systemów zabezpieczenia społecznego, 2016). According to them, the European coordination comprises the following benefits:

- pensions;
- invalidity pensions;
- family pensions;
- accidents at work and occupational illness;
- family benefits;
- sickness, maternity and paternity benefits;
- unemployment benefits;
- health services, including medical care;
- funeral benefits;
- pre-retirement benefits.

The coordination of national social protection systems is based on four fundamental rules (Zasady koordynacji systemów zabezpieczenia społecznego w UE, 2016):

- equal treatment – this rule protects migrants from any discrimination (direct or indirect) while applying social protection provisions
- coherence of applied law – this rule prevents a situation when a person working in one or many states is not covered by social protection in any of them or is covered by it in multiple states at the same time
- maintaining acquired rights and during acquisition – this rule guarantees that regardless of place of residence an entitled person receives benefits granted in a member state
- totaling insurance periods – this rule considers insurance or other equivalent periods in different member states while determining the right to social security benefits.

4. METHODOLOGY – EUROPEAN SYSTEM OF INTEGRATED SOCIAL PROTECTION STATISTICS (ESSPROS)

In order to examine social protection expenditures of the European countries, the data of the European system of integrated social protection statistics (ESSPROS), managed by Eurostat, was used. Developed since 1970s, the ESSPROS is a tool which allows to observe social protection phenomena in the Union. ESSPROS is composed of the core system and of modules. The core system contains annual data (starting from the year 1990) collected by Eurostat on (Glossary: European system of integrated social protection statistics (ESSPROS), 2016:

- quantitative data: social protection receipts and expenditures by schemes (a distinct body of rules, supported by one or more institutional units, governing the provision of social protection benefits and their financing);
- qualitative database: metadata by scheme and detailed benefit.

Social protection benefits are direct transfers, in cash or in kind, by social protection schemes to households and individuals to relieve them of the burden of one or more of the defined distinct risks or needs; benefits via the fiscal system are excluded. Social benefits are paid to households by social security funds, other government units, non-profit institutions serving households (NPISHs), employers administering unfunded social insurance schemes, insurance enterprises or other institutional units administering privately funded social insurance schemes. Benefits are classified according to eight social protection functions (which represent a set of risks or needs) (Social protection statistics – background, <http://ec.europa.eu/>):

- sickness/healthcare benefits – including paid sick leave, medical care and provision of pharmaceutical products;

- disability benefits – including disability pensions and the provision of goods and services (other than medical care) to the disabled;
- old age benefits – including old age pensions and the provision of goods and services (other than medical care) to the elderly;
- survivors' benefits – including income maintenance and support in connection with the death of a family member, such as survivors' pensions;
- family/children benefits – including support (except healthcare) in connection with the costs of pregnancy, childbirth, childbearing and caring for other family members;
- unemployment benefits – including vocational training financed by public agencies;
- housing benefits – including interventions by public authorities to help households meet the cost of housing;
- social exclusion benefits – including income support, rehabilitation of alcohol and drug abusers and other miscellaneous benefits (except healthcare).

5. SOCIAL PROTECTION EXPENDITURES

The analysed period exhibits an increase in social protection expenditures from 26.5% GDP in 2004 to 29.5% in 2012 (by 3%) in the case of the EU-15 states and from 26.2% GDP in 2004 to 28.8% in 2012 (by 2.6%) in the case of the EU-25 countries. The expenses were reduced only in Poland (by 2.6% GDP comparing 2004 to 2012), Sweden (by 0.5%) and Germany (by 0.3%). The countries with the biggest rise in outlays are Greece (9% GDP), Ireland (6.5%) and Spain (5.6%). Examining social protection expenditures in the Union, attention should be paid to their diversity. The least money was spent for this purpose (as a share in GDP in 2012) by the countries which joined the Union in 2004 and belonged to the former Eastern Bloc (except for Malta). Worth mentioning here are Latvia (14.2%), Estonia (15%), Lithuania (16.3%), Poland (17.7%), Slovakia (18.1%) and Malta (18.5%). The EU-15 countries which assigned the biggest means for social protection were France (33.3%), Denmark (32.2%), Greece (31.6%), the Netherlands (30.9%) and Finland (30.1%).

Table 1: Total expenditures on social protection as a percentage of gross domestic product (GDP)

STATES/TIME	2004	2005	2006	2007	2008	2009	2010	2011	2012
EU 25	26.2	26.2	25.8	25.6	26.2	28.9	28.7	28.4	28.8
EU 15	26.5	26.6	26.2	26.0	26.7	29.5	29.3	29.1	29.5
Belgium	26.9	26.8	26.6	26.2	27.7	30.0	29.4	29.7	29.9
Czech Republic	17.8	18.0	17.6	17.7	17.9	20.1	20.1	20.1	20.5
Denmark	29.9	29.5	28.4	29.1	28.9	32.8	32.8	32.3	32.2
Germany	29.0	28.9	27.8	26.8	27.1	30.5	29.8	28.6	28.7
Estonia	13.0	12.5	12.0	12.0	14.7	18.8	17.6	15.6	15.0
Ireland	16.5	16.7	16.7	17.3	20.1	23.9	24.5	23.2	23.0
Greece	22.6	24.1	23.7	23.7	25.3	27.3	28.6	30.4	31.6
Spain	19.9	20.1	20.0	20.3	21.4	24.4	24.7	25.4	25.5
France	30.4	30.6	30.3	30.0	30.3	32.6	32.7	32.5	33.3
Italy	25.0	25.3	25.6	25.7	26.7	28.8	28.8	28.5	29.3
Cyprus	16.5	16.7	16.8	16.6	17.7	19.3	20.1	20.8	21.0
Latvia	12.6	12.1	11.8	10.5	12.0	16.7	18.1	15.1	14.2
Lithuania	13.4	13.2	13.3	14.2	15.9	21.0	18.9	16.9	16.3
Luxembourg	22.1	22.1	20.8	19.7	21.2	23.8	22.9	22.3	23.0
Hungary	20.4	21.5	22.0	22.2	22.5	22.9	22.7	21.7	21.4
Malta	17.3	17.1	17.1	17.2	17.6	19.0	18.7	18.2	18.5
Netherlands	26.6	26.2	26.9	26.4	26.5	29.3	29.9	30.1	30.9
Austria	28.2	27.9	27.5	27.0	27.6	29.6	29.6	28.9	29.2
Poland	20.3	20.0	19.6	18.3	19.4	20.4	19.6	18.6	17.7
Portugal	23.4	23.8	23.7	23.0	23.4	25.8	25.8	25.8	26.4

Slovenia	22.8	22.6	22.3	20.9	21.0	23.7	24.4	24.5	24.9
Slovakia	16.9	16.2	16.0	15.7	15.7	18.5	18.3	17.9	18.1
Finland	25.6	25.6	25.4	24.4	25.1	29.0	29.2	28.8	30.1
Sweden	29.8	29.5	28.6	27.4	27.7	30.1	28.6	28.2	29.3
United Kingdom	24.8	24.8	24.6	25.4	26.4	29.1	28.8	28.7	28.8

Source: own calculation based on Eurostat

Due to differences in amounts of social protection expenditures as a share in GDP among the EU-15 and the EU-25 states worth observing is the structure of these expenditures. Over 60% of expenses in the first group was related to sickness/health care and old age benefits. The structure of social protection costs exhibits no major changes over the analysed time span. The biggest increase (by 2.42%) took place with old age benefits whereas a decrease appeared with those for disability (by 1.07%) and sickness/health care benefits (by 0.88%). In 2012 overall expenditures on social protection benefits amounted to 96.3%, on administration to 2.93% and on other purposes to 0.77%. The years 2004-2012 present a rise in outlays on social protection benefits at the expense of administration and other ends.

Table 2: The structure of the EU-15 social protection expenditures

BENEFITS/TIME	2004	2005	2006	2007	2008	2009	2010	2011	2012
Sickness/Health care	27.19	27.41	27.55	27.50	27.70	27.39	27.11	26.74	26.31
Disability	8.92	8.82	8.82	8.56	8.40	8.16	8.09	8.04	7.85
Old age	35.18	35.47	35.35	35.50	35.62	35.28	35.83	36.64	37.60
Survivors	5.87	5.78	6.00	6.12	5.92	5.76	5.45	5.45	5.39
Family/children	8.91	8.76	8.82	9.18	9.38	9.18	9.06	8.81	8.61
Unemployment	6.81	6.60	6.21	5.75	5.60	6.81	7.01	6.84	6.87
Housing	1.40	1.45	1.49	1.39	1.45	1.48	1.55	1.55	1.49
Social exclusion	1.82	1.81	1.93	2.11	2.10	2.20	2.24	2.22	2.17
Social protection benefits	96.12	96.11	96.18	96.10	96.18	96.26	96.33	96.28	96.30
Administration costs	3.06	3.08	3.09	3.02	2.93	2.86	2.86	2.92	2.93
Other expenditures	0.82	0.82	0.73	0.88	0.89	0.88	0.81	0.79	0.77

Source: own calculation based on Eurostat

The structure of social protection expenditures among the states accepted into the Union in 2004 is different to that of the EU-15 countries. Total sickness/health care and old age benefits have a bigger share in overall expenses: from 68.41% in 2004 to 70.7% in 2012. Over this period more money was spent for old age benefits (by 3.74%) and less for sickness/health care (by 0.88%) and disability benefits (by 0.77%). Other outlays showed no significant changes. In 2012 overall expenditures on social protection benefits came to 97.84%, on administration to 1.76% and on other purposes to 0.4%. A decrease in outlays on administration and an increase in those for social protection benefits is also visible over the examined time span.

Table 3: The structure of social protection expenditures in 10 states which joined the Union in 2004¹

BENEFITS/TIME	2004	2005	2006	2007	2008	2009	2010	2011	2012
Sickness/Health care	27.82	28.30	28.55	28.60	28.53	27.18	26.25	26.48	26.37
Disability	8.16	8.03	8.04	7.83	7.74	7.45	7.43	7.46	7.39
Old age	40.59	40.53	40.15	40.54	40.17	40.63	42.02	42.89	44.33
Survivors	5.11	5.09	5.61	5.55	5.35	5.18	5.13	5.14	5.22
Family/children	9.20	9.31	9.15	9.23	9.88	9.88	9.59	9.17	8.34
Unemployment	3.59	3.35	3.28	2.96	3.09	4.66	4.12	3.53	3.31

¹ Lack of data on 2004-2012 other expenditures in Hungary and on 2005-2006 housing benefits in Slovakia.

Housing	0.82	0.74	0.81	1.13	1.09	1.08	1.03	0.96	0.74
Social exclusion	2.05	2.06	1.97	1.80	1.69	1.88	2.20	2.30	2.14
Social protection benefits	97.34	97.40	97.55	97.62	97.53	97.94	97.77	97.92	97.84
Administration costs	2.29	2.31	2.26	2.19	2.10	1.92	1.95	1.80	1.76
Other expenditures	0.38	0.30	0.19	0.19	0.37	0.14	0.28	0.28	0.40

Source: own calculation based on Eurostat

6. CONCLUSIONS

The differences in amount and the structure of social protection expenditures among the EU-15 states and those accepted into the European Union in 2004 result from many factors, notably different economic growth level, diversified social protection systems, demographics and migration.

The analysis of the EU-25 expenditures showed their increase over 2004-2012. A decrease was observable only in Poland, Sweden and Germany. There are major differences in social protection expenses among the EU-25 states. The smallest amount of outlays calculated as a share in GDP is evident in the countries which joined the Union in 2004, especially Latvia, Estonia, Lithuania, Slovakia, and Malta. The EU-15 states which spend most money for social protection are France, Denmark, Greece, the Netherlands and Finland. It is worth mentioning that 2012 social protection expenditures in Latvia, Estonia or Lithuania were two times smaller than those in France or Denmark.

The differences between the EU-15 states and those accepted into the Union in 2004 pertain also to the structure of expenditures. In both groups most money in 2012 was spent for old age benefits: 37.6% in the former and 44.33% in the latter. This purpose exhibits the biggest increase over the analysed time span. The second biggest social protection outlay are sickness/health care benefits which amount to about 26% in overall expenses of both groups. This kind of support presents a downward tendency in both. A major difference is visible with unemployment benefits to which the EU-15 allocated 6.87% of all expenditures and the other states 3.31%. The latter assign less financial means also for housing benefits. Other ends, that is to say disability, survivors, family/children and social exclusion benefits, remain at a similar level.

Furthermore, the differences between the examined groups are observable in the case of social protection benefits. In 2012 overall expenditures on social protection benefits amounted to 96.3% among the EU-15 states and to 97.84% among the others. The same year demonstrated administration costs of 2.93% in the former and 1.76% in the latter. In both groups administration outlays were reduced for social protection benefits.

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