

Project SO/01/010

'Dynamics of social security in Europe'

A Synthesis

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The Dynamics of Social Security in Europe: a Synthesis.

During the last two decades the welfare state has been confronted by important socio-demographic and economic transformations. These transformations dramatically changed the structural basis on which the welfare states were constructed. As a result, welfare states have been under considerable pressure to adapt themselves to these new structural circumstances. This provided the setting in which the present research project about the evolution of the architecture of the social security was set up. It concerns a short-term, preliminary investigation. The main aim was to document the current state of international theoretical knowledge about the development and transformation of welfare states in the post-war period (part I). This would lead to a research proposal with relevance to the Belgian social security policy (part II). This proposal, which is the main output of this project, should be the starting point for further investigation.

I. Conclusions from the international literature

Before studying the recent changes that challenge the architecture of social security, it was first recommended to hold the origin and evolution of welfare states under closer scrutiny. Following Esping-Andersen (1990), three welfare state regimes are usually distinguished. In social-democratic welfare states (mostly Scandinavian countries) the state plays a central role and the social services and benefits are allocated universally. On the other hand, the liberal welfare states (mostly Anglo-Saxon countries) leave much to the market and allocate social provisions on a selective basis. Finally, the corporatist welfare states (mostly continental-European countries) are built around a traditional male breadwinner model. They are characterised by a strong link between social security and labour participation. Moreover, the social partners are central actors in the corporatist welfare regime. Usually, Belgium is said to be a corporatist welfare state. The social security system is focused on wage earners, which results in wage related insurances to protect against the risks with which this category of the population is often confronted. The social insurances are mainly financed by contributions. Decision-making and implementation are in hands of labour unions and employer organisations. These characteristics are a legacy of the origin and development of social security, in the context of the social question at that time.

The structural basis, on which the old architecture of social security is built in the different welfare state regimes, is under increasing pressure. In international literature several social transformations are held responsible for this evolution, such as economic shifts, demographic transformations, changes in family formation, a changing labour market, cultural changes, globalisation and European integration (Table 1).

Table 1: Important social transformations according to the international literature.

Economics	<ul style="list-style-type: none"> - globalisation & European integration - shift towards service sector - knowledge based economy
Labour market	<ul style="list-style-type: none"> - stagflation & structural unemployment - increasing female labour market participation & two-earner families - flexibilisation - new risks for - least educated <ul style="list-style-type: none"> - highly educated - postponed entrance & early retirement
Demographics	<ul style="list-style-type: none"> - population aging & double aging - second demographic transition¹
Values	<ul style="list-style-type: none"> - changed concept of risk - emphasis on individual freedom
European Integration	<ul style="list-style-type: none"> - economic integration and its implications for social policy - social dimension of Europe (since Lisbon Summit, 2000)

These social transformations have created new challenges for social security (Table 2). The existing architecture of social security appears as incongruent with recent evolutions, and old problems are put in a new dimension. Social policy contains four aspects: personal scope of application and entitlement conditions; level of benefits and provisions; way of financing; and way of administration. Each of these aspects has to deal with several challenges, which can be handled in different ways. Furthermore, decision-making is also an important determinant of social security, since it gives concrete shape to policy measures. Here too new challenges have emerged. Finally, the consequences of labour market flexibilisation for social security should be considered. These challenges can be embraced by the concept of ‘flexicurity’ and are worth to be mentioned separately.

¹ Increasing number of divorces, a lower marriage rate, unmarried cohabitation as an alternative, an increasing number of single persons, more voluntary childless couples, lone parent families ...

Table 2: Challenges for the architecture of social security

1. Personal scope of application
<ul style="list-style-type: none"> - Labour as entrance to social security - The challenges of a changing family structure - More selectivity as an answer to cost containment policy?
2. Level of benefits and provisions
<ul style="list-style-type: none"> - The active welfare state - Social division of welfare: the importance of occupational and fiscal measures
3. Financing methods
<ul style="list-style-type: none"> - Social contributions: a valid way of financing? - The cost problem of pensions
4. Administration and organisation
<ul style="list-style-type: none"> - Privatisation of social security
5. Decision making
<ul style="list-style-type: none"> - On which level: regional, national or European? - Industrial bargaining and the welfare state
6. Flexicurity: how to build social protection on a flexible labour market?

Labour as entrance to social security

The link between labour participation and the entitlement to social security is a typical characteristic of the Bismarckian tradition of continental, corporatist welfare states. Benefit entitlements are based upon one's attachment to the labour market or that of a close relative in the case of derived rights. People who lack a normal labour career or who find themselves in an unstable family situation are denied access to the system because they can make no claim to the rights of the social security system. Thus the link between social security rights and paid labour appears as problematic. As a consequence, the question arises which solutions can be found. A first alternative is to follow the example of the Scandinavian countries, where citizenship opens the right to social security. In connection with that, a second solution can be put forward, being the idea of a basic income. A third proposition refers to the notion of labour itself, which should encompass all activities in which one can be socially useful.

The challenges of a changing family structure

Since their social security system has been conceived around a traditional male breadwinner model, corporatist countries have to cope with problems concerning recent trends in the family sphere. In view of the changing family composition, two challenges have to be faced. Firstly the use of derived rights and family modalisation can be questioned, which is reflected in the discussion on the individualisation of social security rights. Secondly a number of new risk groups emerge, such as single persons, one-earner families, unemployed couples,

divorced persons and lone parent families. This indicates the need for a new social security architecture, adapted to the new family context.

More selectivity as an answer to cost containment policy?

Since the 1980's a policy of cost containment has come to replace welfare state expansion. In the international literature, economic globalisation, a shift towards the service sector, the maturation of the welfare state and population aging are held responsible for this retrenchment. This retrenchment however endangers the principal aim of social security, namely the fight against social exclusion. A way to compromise both retrenchment and social inclusion, is to assign social benefits and services on a more selective basis. Though, selectivity also holds disadvantages. That's why the pros and the cons of selectivity and universality have to be weighed against each other. Beside that, an alternative way to compromise savings and social inclusion is to consider social security as a productive factor, and to reject the assumption that a reduction of social expenditure is needed.

The active welfare state

The social security system is increasingly blamed for being too passive. By emphasizing the compensatory role of replacement incomes, the system neglects prevention and reparation. Activating the welfare state can be a solution to this. The main aim is to reduce the number of people that are dependent on social transfers and to enhance social integration. In order to do so, existing poverty and inactivity traps have to be counteracted. This can be achieved by lowering the level of benefits, by tightening qualifying conditions and by guiding the unemployed in their search for a new job. Another solution is the activation of benefits, which means that resources aimed to compensate the inactive are converted into employment grants.

Social division of welfare: the importance of occupational and fiscal measures

Social benefits and services make up the visible core of the welfare state. However, in addition to these, there exists a much broader area of intervention with similar objectives. Following Titmuss (1958), a distinction is made between social welfare, occupational welfare and fiscal welfare. Recent policy propositions and measures point out that the emphasis in Western European countries is shifting away from social to fiscal and occupational welfare. This raises the question to what extent such measures are providing adequate alternatives to the classic social security provisions, not only regarding their purpose, but also regarding their functioning and their effects. The more the share of such fiscal and occupational measures

grows, the more difficult it becomes to construct a correct picture of the whole social security field, as it is difficult to find enough information about these measures.

Social contributions: a valid way of financing?

The social security systems in continental, corporatist countries are traditionally based on the principle of social insurances. In these countries, a considerable part of social security is financed by social contributions raised on wages. However, it seems that this parafiscality challenges the welfare state in two respects. On the one hand, the social burden on labour is too heavy, evoking an impediment to employment. On the other hand, social security is confronted with a financial crisis, because the amount of contributors is declining while the amount of dependents is growing steadily. An important consideration to be made is whether other ways of financing with less adverse effects are preferable. Should the question on which basis solidarity shall be organised become the focal point of this discussion?

The cost problem of pensions

Because a declining group of labour market actives has to pay for a growing group of pensioners, the funding of pension programmes is threatened. Causes of the rising retiree dependency ratio are not only population aging but also several socio-economic developments, like postponed entrance, early retirement and the increasing instability of the group of workers. Especially the pay-as-you-go systems are confronted with these problems, and therefore a transition from pay-as-you-go to funding is often advocated. This solution however encounters several difficulties: in the transitional stage double contributions have to be paid, the weaker groups in society fail to build sufficient pension rights, and it brings huge dissavings in the future. Even if the pay-as-you-go system is maintained, crucial decisions have to be made, for example whether contributions should be raised or benefits should be reduced. Another possibility is to raise the pension age, but this solution lacks support from the public opinion. Less drastic is the introduction of a flexible pension age. A good pension however starts at birth and depends on the investments made in education and training of children and youngsters.

Privatisation of social security

Neoliberalism and consumer sovereignty have enhanced privatisation or at least stimulated private supplements in social security, health care and welfare provisions. The public – private dilemma is an important topic in social security literature. A uniform conclusion often

emerges: pure voluntary private insurances cannot provide social protection because of various reasons. Yet there is more. As seen before, provisions present four aspects: personal scope of application, level of benefits and services, way of financing and way of administration. It is possible for only one or two of these aspects to be subject of privatisation, while the others are not. Furthermore, private insurances also appear to be promising as 'supplementary' insurances, more particular in the context of the second and third pillar. This could give rise to the problem of a dual society, in which certain groups of people get the opportunity to take out extra insurance while others do not have that opportunity. A sufficiently broad solidarity must be safeguarded. In that respect, private insurances can be applied for social protection, provided that certain preconditions are fulfilled.

On which level: regional, national or European?

At present, social security is mainly a national matter, but the call for a social Europe is getting stronger. Furthermore, a trend towards increasing regional authority can be distinguished. In other words, this invites the question about the ideal mix of regional, national and European policy level. While in the past harmonisation of social policy and the development of a *European* social contract was emphasized, recently the plea in favour of a reformation of *national* social contracts in the European framework was held more strongly. The open method of coordination seems to be the suitable method; yet its power, efficiency and legitimacy can be questioned. Despite that, the European dimension can no longer be ignored for the future and therefore an optimal mix of regionalisation, nationalisation and European integration should be aimed for.

Industrial bargaining and the welfare state

The industrial relations make up an important aspect of the institutional structure of welfare states, in view of their crucial role in the realization of labour market regulation and social security provisions. A distinction can be made between liberal welfare states with rather limited social bargaining and a low level of protection on the one hand, and continental and social-democratic welfare states with a tradition where industrial bargaining goes along with well developed labour market and social security provisions on the other hand. The latter two regimes differ significantly with respect to the population that is represented in industrial bargaining. Social-democratic institutions represent the whole society and succeed in combining a flexible labour market with high levels of labour market participation and income equality. The structure of industrial bargaining and decision making in corporatist

welfare states (including Belgium) can be questioned though. Does the corporatist character of decision making still fit the current structure of the labour market? Could it be that significant participants are excluded from industrial bargaining? Maybe the corporatist character opposes broader social provisions which could also be useful for the economically non-actives.

Flexicurity: how to build social protection on a flexible labour market?

Several structural and cultural factors have increased the need for a flexible labour market. Flexibility creates a greater demand for social protection, though the architecture of social security seems to be insufficiently adapted to the flexible labour patterns and atypical work. This leaves the flexible part of the working population unprotected. An answer to these problems can be found in a policy that stresses 'flexicurity'. Flexicurity attempts to promote flexibilisation of labour, labour organisation and labour relations on the one hand, and to provide more security, especially for weaker groups in- and outside the labour market on the other hand. This can be achieved either by flexibilisation of social security, or by the development of new welfare provisions like sabbatical leave benefits and care benefits. These can be allocated in the shape of vouchers. However, if these are based upon credits built during the career, the existing inequality might persist. Moreover, these arrangements might have to face cost problems. Unlinking labour performance, contributions and benefit payments, can solve the difficulties that flexible workers encounter in building their social rights. Yet, it is necessary that enough incentives to work remain.

II. Towards a research proposal

Most of these problems and proposed solutions in the international literature are also relevant in the Belgian context. This is reflected in the Belgian literature about social security. Moreover, several topics were already extensively documented in Belgian research, and continue to be so. Thus, in elaborating a new research proposal, which can only be of limited scope taking into account the budget and the period of time, it would be redundant to repeat these research lines. It is all the more important to find a subject that systematically escaped the attention of research teams, but that would prove to be of great relevance to social policy in Belgium. So far, Belgian researchers paid little attention to the following themes: 1) the importance of fiscal and occupational welfare and of second and third pillar provisions, 2) the

implications of labour market flexibilisation for social security, and 3) the consequences of these two themes for decision making and industrial bargaining.

Our research proposal starts from the idea that social security aims for three objectives – namely minimum protection, wage related protection and reintegration – which are meant to lead to social cohesion. Focusing on these objectives of social security and on the three themes mentioned above, three research questions could be formulated:

- How and to what extent is the present mix of social, occupational and fiscal welfare provisions capable to safeguard the assumed objectives in the context of labour market flexibility?
- Have new measures been developed to meet the new needs and risks accompanying a flexible labour market, and which innovations are further required within the three pillars?
- How can decision-making be adjusted in view of maintaining social cohesion?

This research project showed that these research questions are of great relevance, not only with respect to theoretical knowledge, but also with respect to possible policy reform in Belgium. That's why they invite for further investigation.