

Social protection: European challenges for the United Kingdom

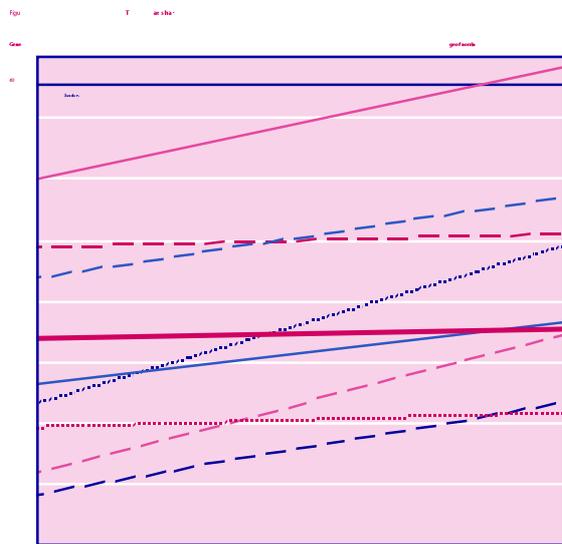
Income protection in the United Kingdom has diminished since benefits ceased to be uprated with earnings. A JRF international policy seminar found that elsewhere in Europe, there has remained a greater commitment to maintaining people's living standards when they are not earning, despite recent fiscal and demographic pressures. A report based on the seminar and papers from leading European experts says that:

-  The UK tax and benefits system does much less to reduce income inequality than those of most other European countries.
-  While taxation in other countries has risen in the past 20 years, in the UK it has remained constant; no other EU country now has a lower tax burden as a proportion of GDP.
-  Despite recent fiscal pressures, other European countries have been able to sustain relatively high social security budgets, partly because they are based on a more genuine 'insurance' principle, in which contributors can see direct links between payments and benefits.
-  One sustaining influence has been the principle of 'solidarity' among insured groups, providing mutual income protection regardless of an individual's risk, rather than explicit targeting of benefits on the poor.
-  However, these systems have been weakened by the growing instability of work throughout Europe: changes are having to be made to help the increasing number of people without contribution-based entitlements.
-  There has also been a trimming of expectations in other European countries, due to new fiscal and demographic pressures. Current welfare systems are unlikely to be sustainable. In some countries there is already an explicit choice between accepting a lower pension or working more years.
-  But despite such common difficulties, the UK could draw lessons from the continuing European principle of universal mutual protection, which is an alternative to the North American concept of welfare as a residual mechanism to rescue an 'underclass'.

Background

The United Kingdom government wants to promote social welfare and cohesion within tight fiscal constraints, and in ways that encourage active participation in society rather than passive dependency. It is particularly concerned to find remedies to social exclusion. These concerns coincide with the perspective across Europe. This JRF exercise brought together European experts to consider what the UK might learn from developments elsewhere on the continent, particularly in respect to two questions:

- How much are we willing to pay for social protection? and
- What kind of framework can gain the popular support and confidence needed to make it sustainable over a long period?



In recent years, most European countries seem to have answered the first of these questions in a more generous spirit than the UK. Figure 1 shows that while many European and other countries have been increasing taxation, in the UK it has remained roughly constant as a proportion of GDP, so that we now share the lowest tax burden in the EU with Greece.

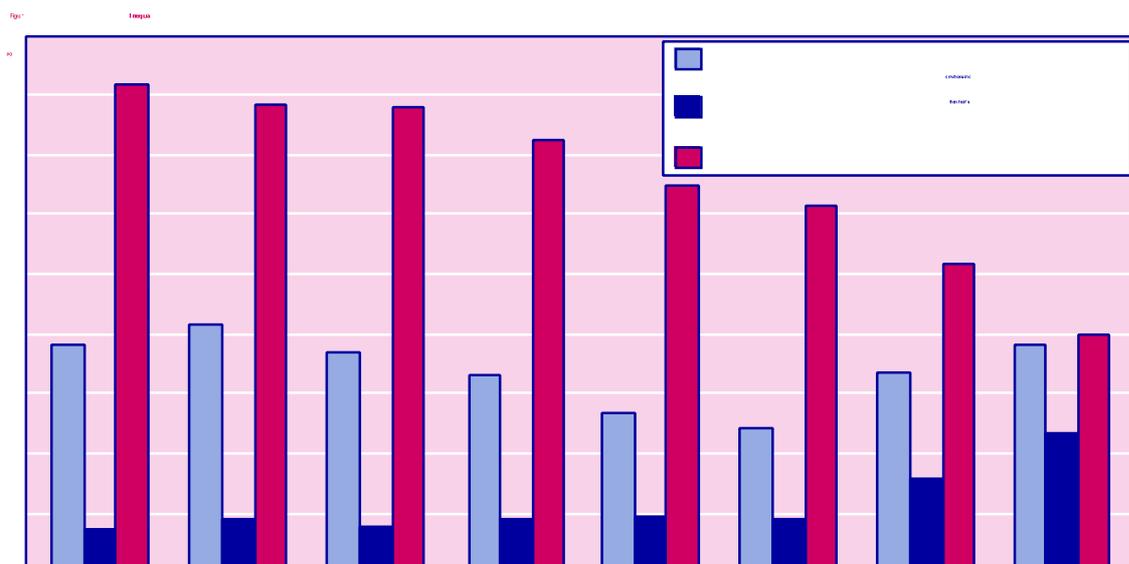
Figure 2 shows that other countries do more to redistribute income than the UK.

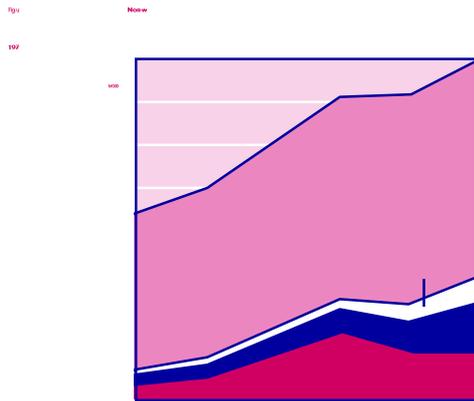
Figure 3 shows why demand for transfers of income from workers to non-workers has increased in the UK. Not only has the number of pensioners risen steeply, but a growing number of households headed by people of working age lack income from work. Although this number may be reduced by measures to encourage work, the number of households without primary earnings will continue to be large.

At present, a high proportion of these workless households depend on public benefits, which differ in two important respects from those in most European countries. First, in the UK, they are paid mainly at a flat rate rather than in proportion to former earnings. Second, they no longer rise in line with earnings, but are pegged to retail prices. So the income of most non-workers in the UK compared to elsewhere in Europe is low and falling.

Social security in Europe

Although none of Europe's post-war social security systems are likely to meet the challenges of the next century without serious reform, there continues to be broad support for certain durable principles. In many countries, retrenchment has so far been less severe than in Britain partly because income protection structures enjoy more widespread social support linked partly to the belief that they operate in everybody's interests. More specifically, the prevailing 'European' version of social protection is characterised by three significant attitudes that could hold lessons for the UK:





(a) Social protection is for everybody, not a targeted minority

In Britain, despite the considerable benefits that the middle classes have gained from the welfare state, the belief has grown that limited public resources, especially for social security, should be 'targeted' on the most disadvantaged.

Elsewhere in Europe, the language is not of a welfare state to help the poor, but of a generalised system of social protection that creates 'solidarity' among different members of society regardless of how they fare as individuals. This creates strong income protection through the lifespan, ensuring that income does not drop excessively during non-earning periods. So for example an ordinary German who retires with a state pension worth 64 per cent of former earnings is strongly committed to social security as a tool for organising a stable social and economic system, not as a way of protecting the poorest.

(b) Public insurance is not taxation

The bulwark of social protection in many European countries is provided through what the British would call national insurance and most Europeans call social security. The system initiated by Bismarck of employers and employees paying a proportion of income to build up various entitlements to pensions, out-of-work benefits and in many cases healthcare, accounts for a high proportion of public spending. But in countries like France and Germany, unlike in the United Kingdom, this form of insurance has been regarded as a system separated from taxation and 'state' (ie central government) spending. Contributions are levied at given rates for specific purposes, and can only be used for that purpose.

Such insurance systems have two big traditional advantages and one growing handicap. First, contributors can see clearly what they are paying for. Second, the insurance principle enjoys voter support because it has come to be seen as just as essential a part of modern life as insuring a car or a home. Private provision is generally seen as too risky. But the growing problem with insurance-oriented systems is that excessive reliance on contributory benefits leaves out a growing number of people as work becomes more fragile (see below).

(c) Social protection is a shared responsibility

Part of the perceived 'solidarity' in European societies derives from the sense of a shared destiny, which obliges all to contribute to social protection. The most manifest form of this sharing is the contributions of both employers and employees to national insurance funds, and indeed the management of these funds by employer and labour representatives.

European societies are also starting to realise that social partnerships need to include more than just the two sides of industry. As more people are becoming excluded from traditional work structures, there is a need for a wider community partnership. The growing role of non-governmental organisations in a common fight against social exclusion has been important for example in France and in Ireland, where anti-poverty groups have helped formulate national strategies against exclusion underpinned by legislation.

Adapting to new conditions

Traditional social protection systems are starting to break down in the new Europe. They are starting to adapt, often with difficulty, to social and economic change - in particular in three ways:

(a) By protecting people marginalised by employment-oriented protection

The idea of earning lifetime entitlement to social protection through contributions made when you were working was ideal for the immediate post-war period of near full employment. But recently, with work becoming more fragile, and migration and casual work increasing, more people lack adequate entitlements through work-based insurance. They are particularly vulnerable in countries where not just income protection but also health care entitlement is linked to work-based insurance. Tax-funded social assistance is strong in some countries, such as Sweden. But in France and Germany, assistance has been conceived as a last-resort option, and has only recently attempted systematically to cover the many groups who are falling through the social security net.

Efforts to link social protection with citizenship and thus make it more universal, for example in France, have encountered considerable opposition. For groups who have received favourable benefits while paying relatively low income taxes, the options are not attractive. Either their entitlements need to be cut or their taxes need to be raised. Over the next few years, such countries will test whether it is possible to create a form of protection that simultaneously retains the consent of those in the mainstream employment system and covers those outside it.

(b) By giving greater recognition to work that is not full-time employment

Many European countries would still like to retain the insurance principle at the heart of social security, even a more inclusive variety. To do so at a time when full-time stable employment has become less important may mean broadening the routes to insurance.

Several countries have for a long time given extra insurance credits to mothers looking after children; Germany has recently extended them to people looking after other dependants. It has also started to

recognise the contribution of people caring for relations by allowing them to receive as cash a new benefit that would otherwise be spent on buying professional care services.

(c) By making realistic choices that address new needs at affordable cost

Europeans have been reluctant to accept a reduction in the generosity of any aspect of social protection. However, one advantage of the ear-marked nature of European social insurance is that some kinds of trade-off can be more visible and thus more feasible than under pooled general taxation. For example, public pensions in both Sweden and Germany have been cut, but more so for people who retire earlier, and less for those who choose to work beyond the normal retirement age. The link with remaining life expectancy is made visible, just as is the case with the purchase of private personal pensions in the UK.

Germany also demonstrated an acceptance of the need for trade-offs in its recent introduction of social care insurance. Employers were reluctant to contribute, but trade unions insisted that they should share the cost. The compromise was that employers pay their share, but workers agreed to abolish a public holiday to help compensate for the rise in unit labour costs.

In search of a new social solidarity

The British have come to accept, more rapidly than most other European nations, that economic and social changes make citizens more vulnerable and inevitably reduce the protection of the old welfare state. They have also learned to live with greater inequality, and a reduced role for the state in counteracting it.

The UK's European neighbours have not found ideal, transferable solutions. Their welfare systems are unlikely to be sustainable in their present forms. But there is now emerging a common European desire to create new forms of protection that maintain the principles of inclusiveness and social solidarity.

Will the UK participate in this social reconstruction? The British still appear to be more inclined than Americans to want the state to work towards a cohesive society that avoids the worst results of inequality and exclusion. But to do so, the state will need to construct new relationships with its citizens, so that the majority of people feel that they have a strong stake in the form of social protection that is on offer.

About the study

The Joseph Rowntree Foundation is the largest funder of the Council of Europe's project on Human Dignity and Social Exclusion, a three-year study of poverty and exclusion in Europe whose findings will be published in early 1998. In conjunction with this project, leading social security experts from seven countries attended a JRF International Policy Seminar in York in May 1997 to discuss recent trends in income protection and their implications for the UK.

The report on which these *Findings* are based drew on the proceedings of the seminar, as well as on discussions by a team of prominent UK experts brought together by the Foundation to explore the future options in paying for welfare. The report includes an overview of the seminar and country briefing papers. The exercise was co-ordinated by Donald Hirsch, adviser to the Joseph Rowntree Foundation.

Further information

A full report, *Social protection and inclusion: European challenges for the United Kingdom* edited by Donald Hirsch is available from York Publishing Services Ltd, 64 Hallfield Road, Layerthorpe, York YO3 7XQ, Tel: 01904 430033, Fax: 01904 430868 (ISBN 1 899987 66 5, price £11.95 plus £1.50 p&p).

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