INSTITUTE FOR FUTURES STUDIES

Research Report

Joakim Palme | Kenneth Nelson | Ola Sjöberg | Renate Minas

European Social Models, Protection and Inclusion

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Contributors

Joakim Palme is Director of the Institute for Futures Studies and Professor of Political Science at Uppsala University.

Kenneth Nelson is a Researcher at the Institute for Futures Studies and Associate Professor at the Swedish Institute for Social Research, SOFI, Stockholm University.

Ola Sjöberg is a Researcher at the Institute for Futures Studies and Associate Professor at the Swedish Institute for Social Research SOFI, Stockholm University.

Renate Minas is a Researcher at the Institute for Futures Studies and Assistant Professor at the Department of Social Work, Stockholm University.

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Executive Summary

In this report we systematically compare the various social models of the 27 EU Member States. Existing systems of social protection are analyzed, as are ongoing social reforms in major program areas of relevance for social inclusion. We cover social protection for sickness, work-accidents, unemployment, early retirement/ disability, and social assistance. Both benefit levels and dependency are examined, thus leading us to relate benefit generosity to other program characteristics that are in place to promote labor market participation and employment.

Social protection is good for inclusion for a number of reasons. One reason is that cash benefits provide income security and economic well-being during periods of work incapacity. The productive aspects of social protection, which involve the ways in which transfers and benefits contribute to the reproduction of a highly skilled workforce, provide another reason. Yet, in the absence of active labour market policies and rehabilitation programs, as well as other forms of 'activation', social protection systems may increase benefit dependency and social exclusion. This report offers a first step towards the development of a comprehensive institutional approach to evaluating European social models along these dimensions.

The discussion of European systems of social protection, and the institutional indicators used in this report, both complement the efforts of the European Commission and the EU Member States to increase our understanding of factors associated with social inclusion on the labour market, as well as in other spheres of society. The report also reflects the recent interest shown by the European Commission in improving the analytical tools necessary to provide comprehensive analyses of social Europe.

The organization of social protection varies considerably among the EU Member States. Social insurance replacement rates range from 100 percent of lost earnings to below 20 percent. Such differences obviously impact upon the ability of existing schemes to provide income protection. A similar degree of variation in benefit levels is also observed in relation to social assistance, which in some EU Member States bears a greater burden than social insurance. The most generous social assistance program in the EU provides benefits that, in real terms, are more than nine times the size of those of the least generous program.

There are also major differences across Europe in the extent to which social protection places an emphasis on labour market integration. A number of mechanisms whereby countries can influence labour market participation and employment are embodied in the regulations governing cash benefits, for example: waiting days, proofs of incapacity, job search rules, and participation in work related activities. Other mechanisms are located on the service side of social protection and include activation and rehabilitation.

In relation to sickness insurance, European governments have experimented with eligibility criteria and benefit levels, often making it tougher and less attractive to receive benefits. In some countries, a focus has also been directed at the role of employers, e.g. by extending employer-provided sick pay periods and by requiring employers to play a greater part in relation to rehabilitation and the provision of healthy work-places.

Unemployment insurance is often complemented by active labour market policy, as a means of mitigating the potential negative effects of generous provisions on the labour supply. The coverage of active labour market policy is particularly high in the Nordic countries and in some parts of Continental Europe. Activation measures have also increasingly been introduced in relation to social assistance, something which has involved political, administrative, and financial decentralization in the provision of social welfare.

Some EU Member States have also tried to reintegrate people who have left the labour force for various reasons. An increased emphasis on rehabilitation and the reassessment of benefit claims are two of the measures that some countries have employed to this end. Another strategy that has been used involves reducing the scope of programs that regulate the pathways to an early exit from the labour market. This involves, for example, the abolition or gradual phasing out of early-retirement schemes in Europe.

In most EU Member States, reductions in non-health related labour market withdrawals are seen as an important means of counteracting the financial strains caused by demographic changes and increased unemployment rates. The way social protection is funded is critical in this respect, since this has important consequences for the sustainability of European social models. Most of the variation found across Europe with regard to funding responsibilities is related to the proportion of funding covered by state financing and the relative size of individual contributions. The share covered by employers' contributions varies considerably less across countries.

The financing of social protection not only has ramifications for the sharing of funding responsibilities; financial sustainability is also critically dependent on the number of future tax payers, which makes inclusion on European labour markets a very important issue. One particular challenge facing existing policies is that of creating a work friendly environment while simultaneously offering high quality social protection to combat social exclusion. Here it is essential to continuously examine the achievements made by the various European social models and to provide a framework that promotes 'learning' as an element of European integration.

Foreword

This report is submitted to the Swedish Government in association with its second presidency of the European Union, during the fall of 2009. It is first presented at the High Level Conference on Labour Market Inclusion in Stockholm, October 26–27. It is the result of a Swedish governmental commission to the Institute for Futures Studies to outline how the EU Member States approach the issue of promoting both social protection and social inclusion in relation to the labour market.

The report is based on ongoing research by the authors and their colleagues. The text is the result of a collective effort on the part of Renate Minas, Kenneth Nelson, Ola Sjöberg and myself. We have also received valuable comments from a variety of individuals on earlier drafts of the report. It goes without saying, however, that we ourselves take full responsibility for the report's contents.

The data have been drawn from ongoing work at the Swedish Institute for Social Research (SOFI), Stockholm University, and in particular the Social Citizenship Indicator Program (SCIP) as well as from other databases specified in the report. The authors wish to thank Katharina Wesolowski and Hrvoje Kap for their excellent research assistance in the collection of data for this report and David Shannon for copy editing. The authors also wish to acknowledge financial support from the Swedish Government, the Bank of Sweden Tercentenary Foundation, the Swedish Council for Working Life and Social Research, and the Swedish National Research Council.

Stockholm October 2009

Joakim Palme
Director,
Institute for Futures Studies

1. Introduction

The European Union (EU) has been extended to include almost 500 million people, and European populations are today facing a common future in a number of important respects. Amongst other things, these include an ageing of populations, a changing working life and a new gender balance. For more than a decade now, this has been discussed in the context of the 'modernisation of social protection'. Moreover, the concept of a European Social Model has been launched to strengthen the political ambition to place social objectives high on the EU agenda. The President of the Commission has clarified that, in his view, one of the ultimate goals is to promote social inclusion and equality of opportunity. This illustrates how closely the notion of a European Social Model is tied to the Lisbon Agenda, in which the EU Member States have agreed not only to create a competitive knowledge-based economy but also to maintain a strong commitment to social cohesion.

In this process, the countries of Europe need to adapt to the ongoing economic and social changes that are resulting from globalization, for example, and increasing old-age dependency ratios. The emerging vision of a new social Europe rests on three mutually interrelated pillars: economic growth, quality jobs, and comprehensive social policy. The Open Method of Coordination (OMC) is being promoted as a means of achieving these goals and to provide content for the European Social Model of the 21st century.

There is still a fair amount of confusion however as to the nature and direction of the European Social Model. In part, this is due to insufficient institutional knowledge about the social models of the various, now 27, EU Member States. The lack of adequate concepts and comparative data in the area of social protection has contributed to this. The vast organizational differences that characterise social policy arrangements across the EU Member States and the large number of ongoing national reform initiatives in the social policy arena, place great demands on policy makers and government officials to identify best practices and to foster mutual learning through concerted action. This report constitutes an attempt to make a contribution in this area by identifying broad patterns in policy organization and institutional change. It seeks to describe the social security systems and welfare arrangements currently in force in the EU Member States. The report highlights both similarities and differences in institutional arrangements, paying close attention to ongoing reforms. It draws heavily on ongoing research based at the Institute for Futures Studies and the Swedish Institute for Social Research (Stockholm University).

As far as possible, we have attempted to describe social protection systems in Europe empirically, providing new comparable data and policy evidence in relation to the institutional organization of these systems. The ambition has been, whenever possible, to include all 27 sovereign states that have acceded to the European Union. We use the concept of 'social policy models' to simplify the process of analyzing institutional variation cross-nationally. In contrast to the notion of the European Social Model, which constitutes a *vision* about society and which is based on common goals, the social policy models discussed throughout the text are based on actual social policy institutions with potential consequences for patterns of social inclusion in terms of labour force participation, employment, and economic well-being. We aim to provide some of the key institutional tools that are necessary to interpret achievements in relation to poverty, employment, and dependency. In this, the report supplements the list of commonly agreed indicators on social inclusion (the Laeken Indicators), set up by the European Council for use in the monitoring and reporting of social progress in the EU.

Social protection may affect social inclusion in different directions. By providing adequate income, social benefits protect people from poverty and from the negative effects of low income on social integration. By providing various kinds of rehabilitation and/or retraining, the programs may also help people to return to gainful employment. However, in the absence of measures aimed at fostering employability, social protection may serve to increase benefit dependency and thus social exclusion in the sphere of employment. This is why the focus of this report is directed at both cash benefits and active measures. We also highlight the division of responsibilities embodied in the programs described, and the role of various actors or stakeholders, such as the insured persons, the employers, and the state. This includes among other things an analysis of the way the financial burden is shared between these three actors.

Although this report is ultimately about social policy structures promoting inclusion and preventing exclusion, it is beyond the scope and purpose of the present report to systematically analyse the policy effects on social inclusion outcomes. Nor will we distinguish EU Member States by designating good or bad examples. Whether a certain policy is well designed or not also depends on the objectives used for benchmarking. However, we note that policies may have unintended and negative effects and that it may prove difficult to isolate the impacts of individual programs, over and above those of adjacent policies. Successful policy for promoting social inclusion involves the complicated task of simultaneously choosing appropriate responses in a number of policy areas. This brings us back to the three pillars of the new social Europe from which we began this introductory exploration of the European Social Model: economic growth, quality jobs, and comprehensive social policy. The detailed assessment of European systems of social protection offered in this report will thus outline the institutional framework in relation to the third pillar.

The report is structured as follows: We begin by outlining various models for organising social protection. The objective here is to provide an initial framework for identifying broad cross-national differences in system and program designs. Thereafter, the focus is directed at individual programs that are central to the relationship between social protection and inclusion. We begin this section by describing sickness and work accident insurance as well as programs aimed at rehabilitation. The next section looks at unemployment insurance and active labour market policy. The description of these programs is followed by a section on pensions and other benefits that provide pathways to retirement, such as disability benefits and early retirement programs. A special section is then devoted to social assistance and related activation programs. Due to recent trends towards decentralisation in some areas of social protection, the program-specific chapters are complemented by a section on scaling and coordination between different levels of government. This is followed by a section focused on the distribution of financial responsibilities. The *conclusions* are followed by a *discussion* which completes the report. The data are described in an appendix.

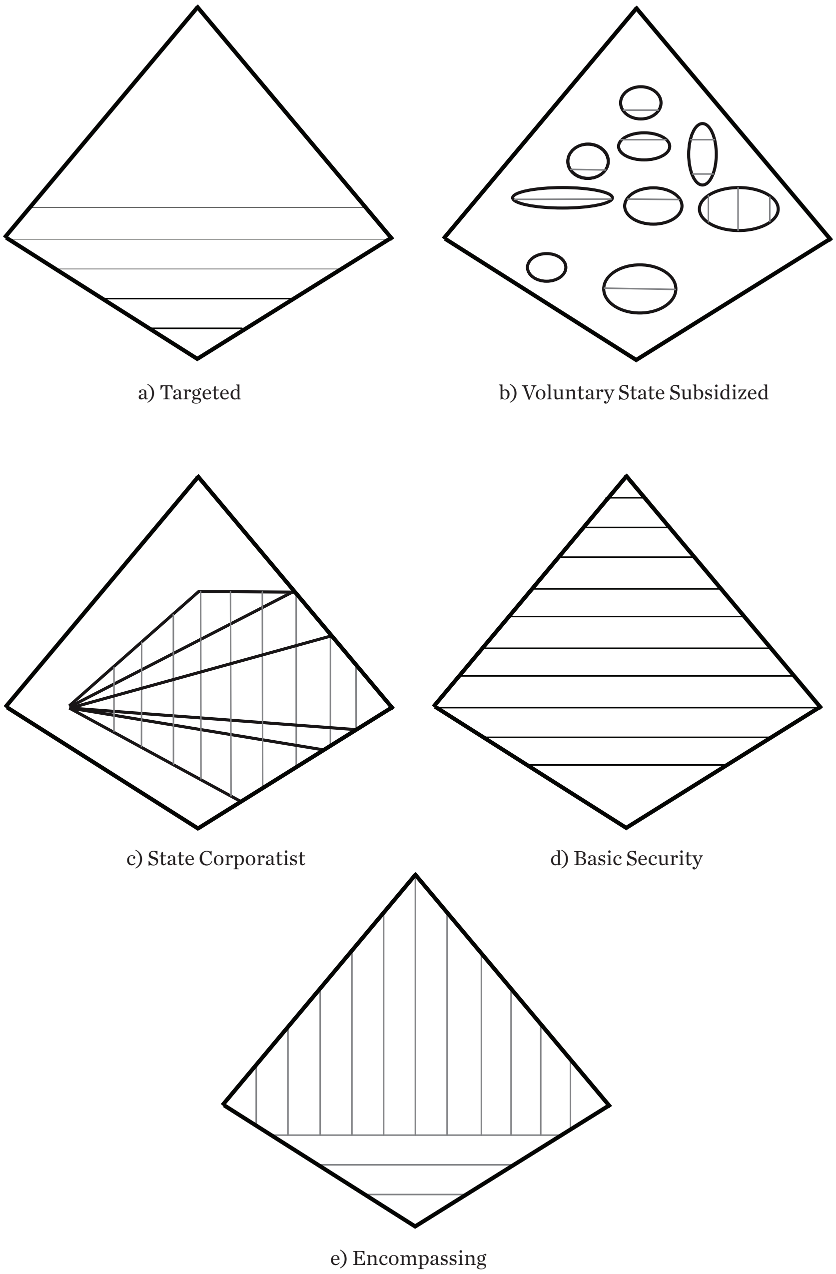
2. Models of Social Protection

The organization of social protection in the EU Member States can be characterized along different dimensions. In order to bring some order to the institutional complexity surrounding this policy area, the discussion presented here will centre on the various models of social protection that can be distinguished in the European context. Any attempt to categorize social policy systems naturally involves simplifications of institutional structures. Nevertheless such typologies often constitute a fruitful starting point for social policy analysis and debate.

Whereas the earliest attempts to classify welfare states argued that there is a process of modernization from a least-developed, residual welfare state to a more developed welfare state (Wilensky and Lebaux, 1958), later contributions emphasised the parallel existence and development of different models (Titmuss 1974). In this section, the social policy models outlined by Korpi and Palme (1998) serve as a frame of reference for our discussion of institutional variation across countries and over time. These comprise the targeted model, the basic security model, the voluntary state subsidized model, the corporatist model, and the encompassing model. Embodied into these five models are different strategies and principles for determining eligibility and entitlement levels, and financing, all of which are factors of the utmost importance for program coverage and benefit generosity. One advantage of this typology is that it has a strict focus on institutional aspects of the social protection programs as such, and it does not confuse the institutional models with either their political driving forces or their potential outcomes.

These five social policy models are illustrated in *Figure 1*. The diamond shaped figure symbolizes the social structure (income distribution), with high-income earners at the top and low-income earners at the bottom. The broad middle-class lies between the two but is closer to the bottom than to the top. Horizontal lines indicate flat-rate benefits independent of earnings levels or the size of contributions paid into the scheme. Vertical lines symbolize earnings-related benefits, providing higher amounts for those with larger salaries. Most European countries have initiated reforms in the area of social protection, and we will discuss the extent to which policy changes introduced across Europe strengthen the analytical relevance of social policy modelling.

Figure 1. Ideal Typical Models of Social Protection Systems.



Source: Korpi and Palme, 1998.

Benefits in the targeted model are typically very modest in character, providing mostly for the necessities of life. Living standards above this basic level are expected to be covered by private or occupational alternatives. In Europe, the principle of low-income targeting is employed mainly in residual areas of social protection, such as social assistance and minimum income benefits. Nevertheless, it would not be unreasonable to expect a relative shift in the emphasis placed on low-income targeting in response to the budget constraints that most European governments will face in the near future, following the global financial crisis and dramatically increased unemployment rates. Later on in this report we also add a section on social assistance.

One model that is rather peripheral in Europe today is the *voluntary state subsidized* form, which is used in connection with unemployment insurance in the Nordic countries (Denmark, Finland, and Sweden). In the Finnish case, state subsidies were not introduced until the 1960s. Outside of the EU, Switzerland also relies on this form of governance for sickness insurance. In the voluntary state subsidized model, mutual societies and other voluntary organizations provide social insurance to protect members against loss of earnings. Such benefit funds constitute crucial instances of control and administration, and the role of the state is primarily limited to the exercise of a regulatory and supervisory function. In the early phase of development, benefits were typically paid in the form of flat-rate daily benefits, but nowadays entitlements are related to earnings. The voluntary state subsidized model is sometimes referred to as the "Ghent system", after the Belgian town of Ghent where this form of governance was first introduced.

Social insurances of the *basic security* type provide relatively modest benefits, which are typically flat-rate in character. In cases where benefits are formally earnings-related, the income ceiling is often too low, or the graduation of benefits by income usually not sufficient, to guarantee a high degree of income security during periods out of work. There are two variants of the basic security model in existence today, in which eligibility is based either on contributions or on citizenship. The latter form is usually associated with higher levels of coverage. Nevertheless, even in countries where eligibility for basic benefits is dependent on individual contributions, nearly all citizens qualify for provisions thanks to relatively low participation fees. Social policy systems resembling the basic security type are found in Denmark, Ireland, the Netherlands, and the United Kingdom. By and large, countries tend to apply the same model for pensions and sickness insurance, with some deviations in certain countries when it comes to unemployment and work-injury insurance. Thus, the general picture of consistency, and with it the fruitfulness of the classification system, is not distorted to any significant extent by institutional deviations across programs in individual countries. We should nonetheless note, however, that in the Netherlands, for example, both sickness insurance (Kangas, 2004) and work-accident insurance (Kangas, 2000) exhibit strong similarities to other continental European state corporatist systems.

Eligibility in *state corporatist* systems is based on a combination of contributions and membership of specified occupational categories, and benefits are clearly earnings-related. This earnings-related character often produces higher levels of benefit than those of basic security systems. Typically there are no minimum benefits for low-wage workers. The fragmentation of citizens into different occupational classes undermines the coverage of benefits within the total population, and groups positioned outside of the labour market have traditionally been excluded from benefits. Nowadays, however, homemakers may qualify for derived rights, which can be claimed via the insurance of the working partner. Historically, high income earners were typically excluded from the system. Austria, Belgium, France, Germany and Italy have all instituted the state corporatist form of social protection.

The *encompassing* model combines citizenship-based universal benefits with earnings-related entitlements for the economically active population, and therefore shares important features with both basic security and state corporatist programs. In the encompassing model, all citizens have access to flat-rate basic social insurance benefits of a type similar to those of the basic security model described above. For those in work, income benefits are related to the level of wages, up to specified income ceilings. Large parts of the population qualify for relatively generous entitlements, similar to those of the corporatist model. Among the EU Member States it is primarily Finland and Sweden that are associated with this form of social protection, but outside the EU, Norway is also usually placed in this group of countries.

Social protection in Greece, Portugal and Spain, which are all countries that began their democratic consolidation in the mid 1970s, shares the fragmented structure of the corporatist model. Another similarity with the corporatist model is the strong reliance on the family as welfare provider, which is even stronger than in continental Europe. Some deviations from the corporatist model can also be observed in these three Southern European countries, most notably the substantial variation that exists in the quality of social protection arrangements across program areas. Whereas old-age pension benefits are relatively well developed, protection against sickness and unemployment is less extensive. Further, social assistance and other types of minimum income benefits are often under-developed, or even non-existent. Some authors have therefore argued for the designation of a special 'Latin-rim' or Mediterranean cluster with regard to the provision of social protection, which sometimes also includes Italy (Ferrera, 1996; Leibfried, 1992; Martin, 1997). Other scholars have argued against this classification and have instead proposed that social protection in Southern Europe merely constitutes a variant of the state corporatist model practiced in continental Europe (Katrougalos, 1996).

It is difficult to identify a single model that characterizes social protection in the new Member States of Central Eastern Europe (CEE). Countries in this area have tended to move in different directions, although social policy reform has been somewhat restricted and confined as a result of both macro economic factors and earlier developments. Several CEE countries have nevertheless historically had some affinity with the state corporatist model and continue to share important trademarks of this mode of organizing social protection. Following the transition to democracy and the market economy, several CEE countries also strengthened the state corporatist character of their social protection systems, partly in emulation of the social policy organization of neighbouring continental European welfare states (Offe, 1993). The importance of the Bismarckian or state corporatist model in the context of these countries' reform efforts was evident, for example, in the arguments that the goal of social protection should primarily be that of helping people to preserve their social status in the event of lost earnings and not so much that of aiming to reduce income inequalities.

In policy areas such as family benefits and old-age pensions, policy makers in many CEE countries inherited a package of programs from the former regime, even though social protection was in need of substantial reform in order to comply with the new market economy. In relation to the problem of unemployment, however, there was essentially no pre-existing institutional structure from which ideas could be borrowed. Most governments had to start from scratch in organizing appropriate institutional frameworks to handle the new social problems that began to arise in connection with the appearance and legitimacy of unemployment (Elster *et al.*, 1998). The profound transformations of the economies and labour markets of the CEE countries have also resulted in low coverage and recipiency rates for many important social protection programs, particularly sickness and unemployment insurance.

2.1 Ongoing Reforms and Trends

It is difficult to assess the degree to which ongoing reforms and the changes that have already taken place in social protection enhance the relevance of the models distinguished above. Whereas some developments may have placed countries even closer to the core of their respective models, other changes tend to move countries in other directions. In the following, we present a number of additional observations that are of relevance to the issue of how countries are classified and how their systems have evolved over recent decades.

Generally speaking, there is a fair amount of variation among countries that are classified in the basic security category, depending for example on whether eligibility is based on contributions or citizenship. This includes developments in Denmark, Ireland, the Netherlands, and the United Kingdom. Since the early 1980s, several noteworthy changes have taken place with regard to the fundamental orientations of the basic security model. The United Kingdom is interesting, since developments witnessed there during the 1980s represent the clearest example of retrenchment in social insurance among the Western countries (Korpi and Palme, 2003). Some of the cutbacks involved are visible in the programs and indicators described in this report, with two examples being found in the abolition of earnings-related social insurance supplements and the introduction of the taxation of benefits. One exception to this downsizing of social security is found in the public old-age pension system, which has increased substantially since the end of the 1970s as a result of the maturation of the earnings-related SERPS-system, although the UK government launched a number of measures in the 1980s to reduce the importance of this additional component of old-age provision. Similar curtailments to those witnessed in the United Kingdom also took place in Ireland, but were there of a more modest character.

Denmark has followed a different path by comparison with the other Nordic countries. In the absence of statutory earnings-related benefits, several Danish governments have also sought to encourage an expansion of collective earnings-related programs, which has led to an extension of social insurance coverage. In the other parts of the social insurance system, middle income groups have suffered as a result of a shrinking of the earnings-ceilings used for benefit purposes. This is a consequence of both political priorities and non-decisions, whereby inflation and wage growth have also eroded replacement levels for workers earning ordinary wages. In Denmark, the introduction of a shift in social spending from cash benefits to social services has also been made a clear political priority.

The system of social protection in the Netherlands exhibits substantial similarities to that of Denmark, and by comparison with other countries in the basic security group, benefits are much more generous. The Netherlands was classified as 'social democratic' along with Denmark by Esping-Andersen (1990) in his 'three worlds of welfare typology'. While the universal character of social benefits has been retained, changes in other parts of the system indicate a tendency towards less generosity. Formal replacement levels have been lowered and the income-ceilings designated for benefit purposes have not kept pace with wage increases. These income-ceilings have not declined to Danish levels, however. The most remarkable development is perhaps the gradual increase in employer responsibility in relation to the provision of sickness benefits, which began in the mid 1990s and culminated a few years into the new millennium. Today, employers in the Netherlands carry the full responsibility and costs for sickness insurance for up to two years. This period can be extended to three years if employers fail to fulfil their obligations. Slightly over ten percent of employers with workers reaching the two year limit have to continue payments for longer than originally expected (OECD, 2008). The shift of responsibilities to employers and employees in the Netherlands to some extent lowers the level of compulsory risk-sharing that is typical for social insurance, while simultaneously leaving the level of social entitlements intact. It is as yet too early to judge what the consequences of this 'new type' of insurance will be for the political economy of the welfare state.

Finland and Sweden have both introduced changes that warrant comment. Like other countries, Sweden has experienced problems in adjusting the earnings-ceilings used for benefit purposes to match the growth in real wages. In the Swedish case, the decline in income ceilings is in part due to the price indexing principle employed in relation to social insurance. The gradual erosion of earnings-ceilings reduces the level of income security for middle and higher income earners, and thus generates problems for middle class inclusion in these systems. It should be remembered that this is one important element that distinguishes the encompassing model from the basic security model. Finland maintained high ceilings for benefit purposes throughout the 1990s, yet both Finland and Sweden introduced marked cuts in replacements levels for most, if not all, citizens. These curtailments were a direct response to the economic recession witnessed in both Sweden and Finland during the early 1990s (Kautto, 2001). The potential consequences of these institutional changes for the model classification of the Swedish and Finnish social protection systems are somewhat unclear. Whereas Kangas (2004) suggests a shift back towards the basic security group for sickness insurance in Finland, Montanari (*et al.*, 2008) still refer to Finland and Sweden as essentially encompassing countries.

The state corporatist countries appear more stable, and sometimes even 'frozen' (Palier, 2000). Several of these countries also resisted post-World War II ambitions to universalize social protection (Korpi, 2001). In recent decades the corporatist countries have been more resilient in avoiding major cuts in social insurance, although there are examples of changes that warrant further comment in the program specific sections below. The dualization of labour markets found in several corporatist countries is likely to interact with the organization of social protection, having negative repercussions for social insurance coverage. In several regards, developments in Greece, Portugal, and Spain indicate remarkable progress from rudimentary to some kind of fully fletched welfare states, even though some areas of social security are still lagging behind Northern and Continental European standards (Guillén and Matsaganis, 2000). It is argued, for example, that health care in Greece has not achieved universal coverage, in contrast to the situation in many other European countries (Petmesidou, 1996). Initially, priority was for the most part given to the expansion of retirement benefits for protected categories, but over time some progress has also been made in relation to protection against other social risks, such as unemployment and ill-health. In the coming years, it is anticipated that social policy developments in southern Europe will focus more attention on demographic trends. The population crisis of contemporary welfare states is particularly apparent in southern Europe, with large declines in fertility rates and the 'greying' of populations.

In Central Eastern Europe, the structural adjustment programs of the early transition process rarely included any major social reforms (Inglot, 1995). Instead, attention was mainly focused on reforming financial institutions into privatized markets (Orenstein and Hass, 2002). During later waves of reforms, several Eastern European countries introduced social policy cutbacks, particularly in the area of non-contributory benefits. For example, recent social policy cutbacks in Slovakia have coincided with an overall structural reform agenda for the early 2000s, and have involved more simplified calculations, and decreasing levels, of basic social benefits (World Bank, 2005). In Hungary, non-contributory benefits have not kept pace with wage increases, and particularly the rise in minimum wages witnessed in 2001 and 2002. The recent decentralization of social assistance in Hungary has also involved curtailments of benefits (World Bank, 2006).

Based on the typology of social protection systems outlined above, none of the EU countries have been re-classified as a result of recent policy innovations. It may be the case that the classification system is too crude and thus incapable of reflecting important changes. Nevertheless, several of the most recent changes appear to have strengthened the relevance of this modelling. There is very little to suggest that the models are converging or that countries are moving towards any one distinct 'European Social Model'. Perhaps we are observing a 'recalibration' of existing models rather than a 'recasting' of social protection (Ferrera and Hemerijck, 2003). However, successive recalibrations or non-decisions might in the future result in more fundamental re-orientations of program design. It also appears that the new Member States from the CEE area are in the formative stages of social protection development. There are therefore good reasons to closely follow the ongoing reform work within the EU and to consider not only the basic configurations of social protection, but also in what direction countries are evolving.

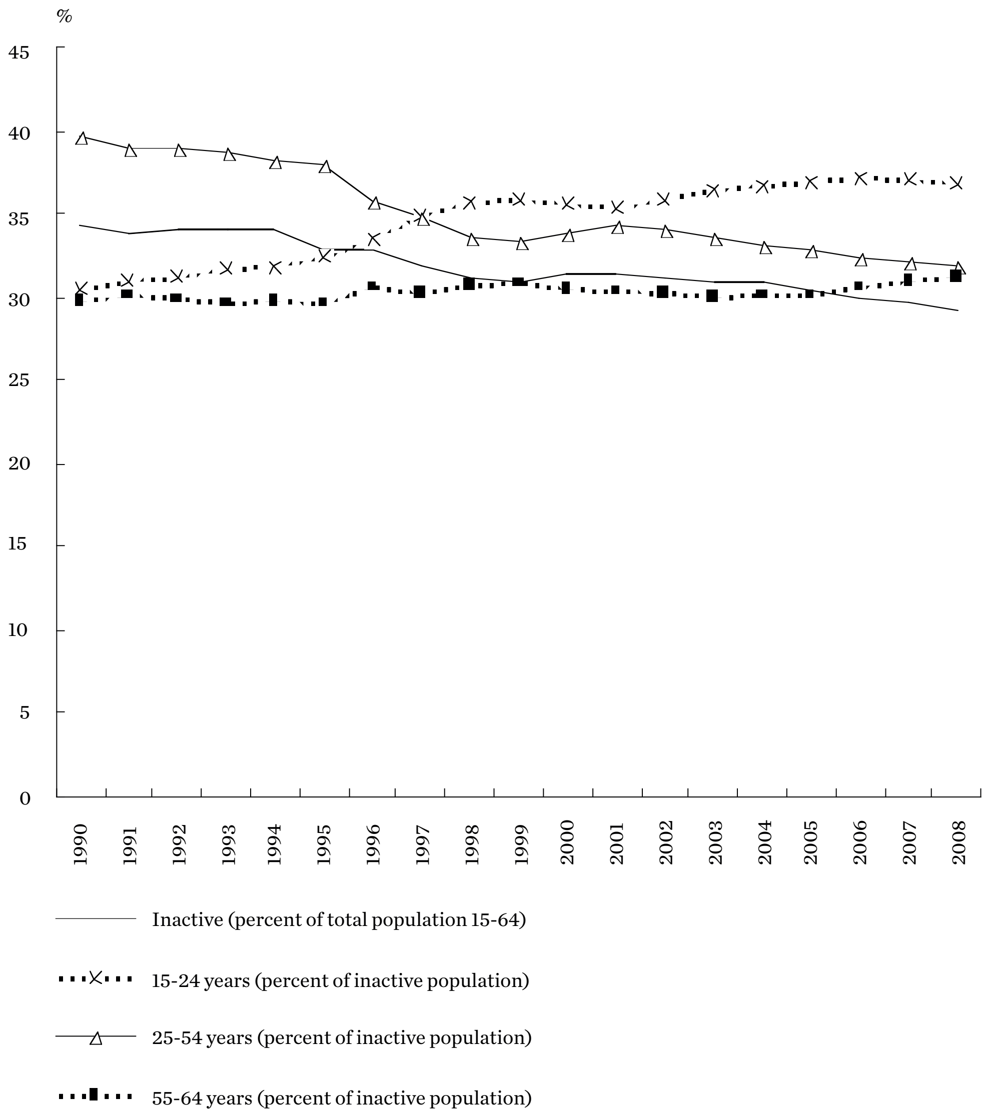
It is important here to note a caveat in the present study, namely that we do not include family policy. This does not of course imply that such policies are irrelevant to social inclusion and labour market participation. On the contrary, there is an increasing body of evidence to suggest that the way family policy is organised has significant consequences for the inclusion of women in the labour market and for their participation in paid employment (e.g. Ferrarini, 2006). It is however beyond scope of the present assignment to incorporate family policy into this report. The question of gender, however, should not be tied exclusively to the family concept, and is relevant to a much broader area than that of family policy alone. There is a gender dimension to every branch of social protection. This is something that we will return to when we shift our attention to various social protection programs that are of particular relevance for social inclusion in general and for labour market integration in particular. Our focus is further directed at the situation in specific countries, rather than at underlying social models, reflecting our ambition to be as precise as possible regarding program designs.

3. Protection Against Social Risks and Exclusion

Protections against basic social risks for people of working age are highly developed in the EU Member States. In part, the aim of such programs is to provide compensation for losses in earnings due to sickness, work-injury, and unemployment, thus facilitating smooth transitions into and out of employment. It has also long been recognized that social protection has unintended and negative effects that may increase welfare dependency and the problems associated with labour market exclusion. Such concerns were recently accentuated in a new OECD report on social provision and partial work capacity (OECD, 2009a). The background to such fears can be found in high inactivity rates in many European countries.

On the basis of labour force survey data from Eurostat, *Figure 2* depicts inactivity rates for the population aged 15–64 years in the EU Member States over the period 1990 to 2008, and describes the composition of the group of inactive citizens by age. Inactivity is defined as total population less employed and unemployed persons. Thus, the inactive represent a heterogeneous category, in which the main groups comprise: those who have been laid off and are awaiting recall to work, the sick and disabled, those with family responsibilities, individuals in education or training, those who have retired, and discouraged unemployed workers.

Figure 2. Inactivity Rates and Composition of Inactive Persons by Age, Averages of 27 EU Member States 1990–2008.



Source: EUROSTAT.

The average inactivity rate in the EU has decreased between 1990 and 2008 – from around 34 percent in 1990 to below 30 percent in 2008. A larger proportion of the inactive were aged between 15 and 24 years in 2008 by comparison with 1990, while there has been a corresponding decrease among those aged 25–54. The proportion of inactive individuals comprised of persons aged between 55 and 64 years remained relatively stable between 1990 and 2008. The average figures presented in Figure 2 are based on the countries that were members of the EU during the year in question. This means that the population upon which these figures are based has changed over time as more countries have become members of the EU. If we restrict ourselves to only EU15, the fall in inactivity rates is more pronounced: from 34 percent in 1990 to 26 percent in 2008.

More insight into differences between countries is provided by *Table 1*, which shows inactivity rates and the composition of the inactive group in the EU Member States in 2008.

Table 1. Inactive Persons (Percent of Total Population 15–64) and Composition of Inactive Persons (Percent of Total Inactive) in three Age Groups.

	Inactive	Change	Change	15–24 years (2008)		25–54 years (2008)		55–64 years (2008)	
	2008	1990–99	2000–08	Men	Women	Men	Women	Men	Women
BE	32,9	-0,6	-0,2	18,1	19,1	3,8	10,1	7,6	10,0
BU	32,2	-	-0,8	20,3	21,5	5,4	8,6	5,7	9,6
CZ	30,3	-0,1	0,2	19,7	21,4	2,7	10,3	5,6	10,8
DK	19,2	0,2	-0,1	12,5	12,6	5,5	10,5	8,6	12,8
DE	23,5	-0,1	-0,7	17,0	18,0	4,4	12,3	6,2	9,6
EE	26,0	1,4	-0,5	24,2	27,1	2,8	10,4	3,9	7,2
IE	28,0	-0,6	-0,6	16,2	18,1	5,1	16,5	4,0	7,2
EL	32,9	-0,5	-0,4	15,9	17,7	2,8	15,3	5,1	10,0
ES	27,4	-0,5	-0,9	14,6	16,2	4,7	15,4	4,8	9,6
FR	29,6	-0,2	-0,2	18,4	20,3	2,9	8,9	8,8	10,1
IT	37,0	0,0	-0,4	13,7	15,2	4,0	15,5	6,4	9,6
CY	26,4	-	-0,6	17,9	21,6	3,7	13,2	4,1	9,3
LV	25,6	-	-0,9	22,9	27,1	4,7	8,8	4,2	7,3
LT	31,6	-	0,4	24,0	26,3	5,8	8,2	3,9	6,9
LU	33,2	-0,3	-0,3	17,6	18,0	3,3	13,8	7,2	7,9
HU	38,5	-0,6	-0,2	16,8	18,3	5,3	11,1	6,4	9,6
MT	41,2	-	-0,1	11,5	12,6	2,1	19,1	6,0	10,8
NL	20,7	-0,8	-0,6	11,6	11,7	4,1	13,3	7,9	13,0
AT	25,0	0,0	-0,5	12,5	15,2	4,6	12,1	7,7	11,7
PL	36,2	0,2	0,3	18,2	19,9	4,8	10,3	5,9	10,0
PT	25,8	-0,2	-0,4	18,6	20,0	4,1	10,9	6,0	9,6
RO	37,1	0,8	0,8	18,4	20,7	6,1	12,4	4,5	7,5
SL	28,2	-0,4	-0,5	17,7	18,5	4,9	6,4	8,3	12,3
SK	31,2	-	0,1	21,9	24,7	3,4	9,0	4,6	9,7
FI	24,0	-1,6	0,1	17,4	17,6	5,6	8,7	8,8	9,4
SE	20,7	0,3	-0,5	23,5	22,3	5,0	8,9	5,7	7,6
UK	24,2	0,2	-0,1	14,5	16,5	5,3	14,2	5,5	9,5

Source: EUROSTAT.

The cross-national differences portrayed in the table are reasonably well captured by the ideal-typical social policy models discussed earlier. On average, inactivity rates are lowest in the encompassing countries (Sweden and Finland), closely followed by the basic security countries (the Netherlands, Denmark, Ireland and the United Kingdom). It is worth noting here that the difference in inactivity rates between men and women is smaller in the encompassing countries than in both the basic security and the state corporatist countries, and is comparable to that found in the CEE countries. On the other hand, the encompassing countries are also characterized by the fact that a large proportion of those who are inactive are young, particularly by comparison with the basic security countries. This, however, is largely due to the fact that by comparison with the EU average, a much larger proportion in Sweden and Finland state that their reason for not working is that they are in education or training. Moreover, it is characteristic of the encompassing countries that a large proportion of those who are inactive state that the reason for this is illness or disability.

The CEE countries constitute a rather heterogeneous group when it comes to inactivity rates: while inactivity rates lie at well over one-third in Hungary, Poland, Bulgaria and Romania, the corresponding rates in Slovenia, Slovakia, the Czech Republic and the Baltic States are comparable to the EU average – at around 30 percent. However, two characteristics are present in most of these countries: the inactive group contains a high proportion of young persons, while the proportion of women is relatively low. As in the encompassing countries, it is also characteristic of the CEE countries that a large proportion of those who are inactive state that the reason for this is illness or disability. The CEE countries also have relatively large proportions (particularly of men) who state that they are inactive because they believe that no work is available.

Inactivity rates are close to the EU average in the state corporatist countries as well as in the three southern-European countries, Greece, Portugal and Spain. However, inactivity rates are particularly high in Italy and to a somewhat lesser extent also in Belgium and Greece, although these rates are comparable to those in the encompassing and basic security countries of Germany, Austria and Portugal. However, what the state corporatist countries do seem to have in common is that a large proportion of those who are inactive are relatively old (between 55 and 64 ears of age).

In recent years, a number of reforms have been introduced in European countries in order to overcome some of the negative effects of social protection, thereby decreasing inactivity rates. Most countries have also witnessed a decrease in inactivity rates, as shown above. It should be remembered that it is probably more difficult to decrease inactivity rates in countries where these rates are already comparatively low to begin with. The changes have involved not only a pronounced move towards new and tightened requirements for benefit recipients, but also altered responsibilities for key actors in social protection, such as employers, medical professionals, and public administration. It should also be noted that the inactivity rates portrayed in Table 1 and the organization of social protection described below involve an important gender dimension. Although social protection legislation and regulations very seldom discriminate citizens on the basis of gender *per se*, the outcomes generated by existing policies and employment history may nevertheless impact negatively on the social rights of women. One reason for this is the lower activity rates of women and the fact that unpaid care work does not generate entitlement to earnings-related benefits.

One prominent characteristic of the most recent developments is the growing number of activation measures that have been adopted across Europe involving both changes in cash benefits and social services. An active inclusion policy can facilitate transitions from unemployment to paid work, and such policies have for a long time been a prominent feature of the Northern European welfare states. The OECD also recognizes the potential benefits of active inclusion, which when properly designed is believed to counteract the potential negative effects of generous benefits on the supply of labour. Active inclusion is even considered an alternative policy response for facilitating the re-entry of groups who have traditionally been furthest away from the labour market, such as the increasing number of people with disabilities and of citizens in early retirement (MISSOC ANALYSIS, 2008).

In the following sections we describe the organization of social protection in relation to major social insurance programs and means-tested social assistance. For each program we have selected a number of key indicators to describe its basic organization and ongoing reform initiatives. Although we have chosen, for ease of presentation, to describe each program separately, it should be noted that there are strong interdependencies between programs. Programs can even be described as communicating vessels, where changes in one program have consequences for the functioning of programs in other parts of the social protection system. Relevant interactions of this kind are noted in the text.

3.1. Sickness and Work Accidents

All EU Member States have systems in place that compensate citizens for income shortfalls due to illness, work-accidents, and disability. Despite the existence of a similar structural need to organize protection against such fundamental social risks, there is plenty of variation in the institutional designs employed across Europe, which resembles the patterns described above. One exception is found in the programs in the Netherlands, where sickness insurance (Kangas, 2004) and work-accident insurance (Kangas, 2000) exhibit strong similarities with other continental European state corporatist systems.

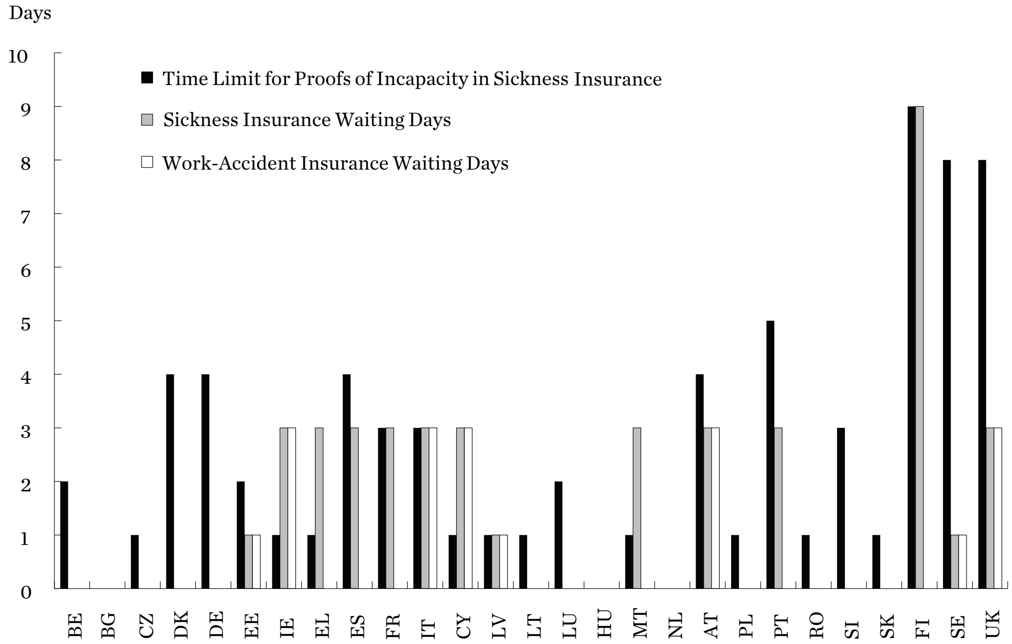
Compared to other social risks, such as old age and unemployment, issues related to sickness, work-accidents, and disability involve perhaps a wider network of key actors or stakeholders. One reason for this is found in the rehabilitation chain and the close links that exist between cash provision and wider health service structures. In most countries, for example, physicians may be required to authorize sickness certificates and medical opinion is often called upon in establishing the type and extent of work-injuries. Health services therefore have an important role to play in reducing the inappropriate use of sick-leave and the moral hazard embodied in sickness and work-injury insurance. Health services are also essential for the rehabilitation chain whereby benefit recipients are encouraged to re-enter the labour market and paid employment. Despite the close relationship that exists in such programs between cash provision and health services, it is beyond the focus of this report to detail the functioning of medical services and nursing *per se*. Instead we will describe the extent to which formal linkages between cash and care are embodied in the institutional framework governing social insurance, e.g. in relation to proofs of incapacity.

Ill-health constitutes a major economic concern in most industrialized countries. Medical problems today constitute a serious obstacle to increasing labour force participation and levels of paid employment, in part because entry into disability benefit programs is often preceded by periods of long-term sick leave. Disability often involves a near permanent withdrawal from the labour force, even for people with a partial work capacity. The prevention of inflows into disability benefits and the re-integration of disability beneficiaries therefore constitute both an economic and a social issue. Several EU Member States have also introduced measures to increase labour market participation among this stock of beneficiaries (OECD, 2009a). This emphasis on the labour market integration of people with disabilities also involves a focus on the routes into disability benefits, which in turn encompasses the division of responsibilities between key actors in sickness and work-accident insurance. Whereas some EU Member States have concentrated their efforts on the obligations incumbent upon benefit recipients not to misuse the program and to enter employment when possible, other countries have focused, either instead or in combination, on the responsibilities of employers and medical professionals.

Waiting days and proofs of incapacity for work, such as medical certificates, are two elements of sickness and work-accident insurance whose aim is in part to reduce levels of moral hazard, of sick-leave, and of the misuse of benefits. To increase and speed up re-entry into work, rehabilitation is often offered in addition to benefits, in particular in connection with work-accidents. In most EU Member States, participation in rehabilitation is also required in return for benefits. Unfortunately there is a lack of comparative data on this dimension and it has therefore not been possible to include a detailed assessment of rehabilitation in this report.

Figure 3 shows the day of illness from which proofs are required and the number of waiting days prior to the payment of sickness and work-accident insurance benefits. Medical opinion, however, is also often requested in cases concerning this latter type of benefit. Unfortunately we do not have sufficient information to conduct a systematic comparison in this regard. Proofs of incapacity must be issued by medical professionals in all EU Member States. In Sweden, for example, the medical certificate states the diagnosis and explains how it affects the capacity to work. In order to reduce discretionary powers and avoid substantial local variations in the length of sick-listings for the same illness, the National Board of Health and Welfare publishes recommendations on the number of days needed to recover from various diagnoses.

Figure 3. Time Limit for Proofs of Incapacity in Sickness Insurance and Sickness Insurance and Work-Accident Insurance Waiting Days in the EU Member States.



Note: Information concerning the time limit for proofs of incapacity has not been possible to obtain for Bulgaria. Hungary has no formal time limit for medical proofs and the Netherlands rely on other control mechanisms in this regard. If countries lack any bar concerning waiting days, it simply means that no waiting days are in force.

Source: SCIP and MISSOC.

In many EU Member States, proofs of incapacity are required from as early as the first or second day of illness, although some countries have added a few days to this time limit. In Sweden and Finland, for example, medical certificates are required only after the eighth or ninth day of sick leave. However, Swedish employers may require a medical certificate from as early as the first day of illness, after consultation with local union representatives. Hungary has no formal time limit for such credentials, although proofs of incapacity are required in order to receive the next salary. In the Netherlands, persons on sick leave have to establish contact with appointed inspectors and must be available for home visits.

Sickness insurance waiting days exist in slightly more than half of the EU countries. Waiting days shift the responsibility for social protection to the individual, or to the employer in cases where occupational benefits apply. Historically, waiting days were sometimes an administrative necessity due to the time required to manually process benefit claims. Typically, sickness insurance involves three waiting days, although a few countries have only one waiting day. Finland may appear as an extreme case, employing a nine day waiting period for statutory sickness insurance benefits, but labour law arrangements in general make it compulsory for employers to continue to pay wages during this waiting period until statutory benefits can be collected. Most countries have no waiting day for work-accident insurance. In those eight EU countries (Estonia, Ireland, Italy, Cyprus, Latvia, Austria, Sweden, and the United Kingdom) where waiting days also apply to work-accident insurance, the number of days is the same as that employed in relation to sickness insurance.

Once recipients are transferred to some form of disability benefit program (see further below) rehabilitation requirements are typically relaxed. Some EU countries have nevertheless introduced measures or initiated discussions focused on also increasing outflows from such disability benefit programs. In the Netherlands, for example, the number of disability beneficiaries under age 50 was recently cut by more than half by means of a reassessment of entitlements (OECD, 2008). It is unclear whether these reassessments exclusively involved a change in diagnosis, or whether they also included changes in the interpretation of frameworks governing access to benefits. Spain and Luxembourg constitute two examples of countries that regularly employ specially appointed medical inspectors to monitor and reassess ongoing sickness cases (OECD, 2007). In such cases, the termination of sickness benefits is based on administrative records, which of course requires very detailed and accurate data concerning each case. One alternative strategy is to use individual action plans that are continuously updated and adapted to changing circumstances. This procedure is used in Denmark, for example, in cases where long-term illness or loss of work capacity might be expected. Here, appointed case workers and sickness benefit recipients collaborate to formulate the action plan.

Although reassessments may provide a powerful tool to reduce the stock of benefit recipients and cut social expenditure, the activity must be organized carefully in order to ensure that the process does not produce unintended and negative consequences. Fears of loosing benefit can be harmful in relation to the goal of rehabilitation and may also provide incentives to fail, particularly during periods of economic recession when the labour market for people with partial work capacity or who are returning from a period of long-term sickness may be particularly weak. In the context of this kind of scenario, the Swedish example of using economic incentives to encourage beneficiaries to re-enter the labour market constitutes an alternative strategy for positive labour market integration. In Sweden, permanent disability beneficiaries can earn a significant amount of money before benefits are progressively reduced. Beneficiaries can also drop into and out of the Swedish sickness pension (*Sjukersättning or Aktivitetsersättning*) without reassessments of their medical status (OECD, 2009b).

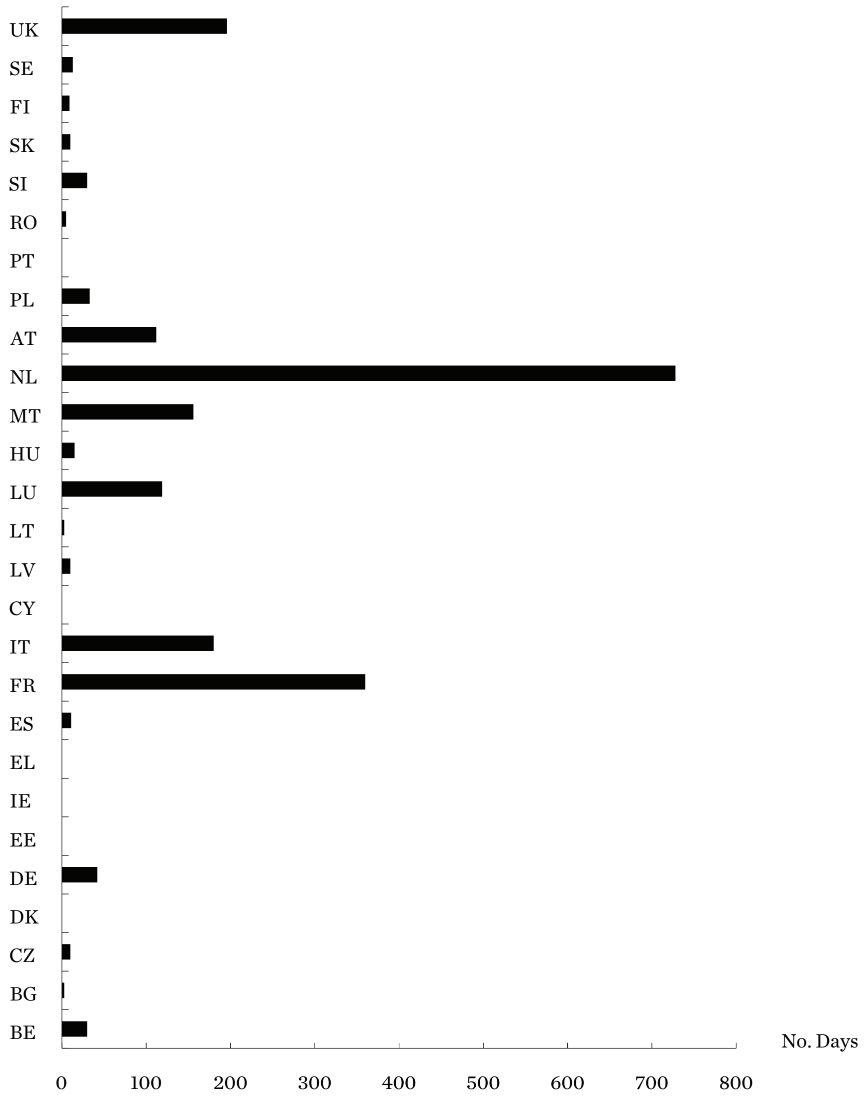
Most EU countries recognize that employers have a key role to play in fostering labour market integration. In part this is also manifested in EU frameworks, particularly in the areas of anti-discrimination policy and health and safety at work. There are nonetheless extensive variations across Europe with regard to the ways in which such regulations are integrated into labour law. In terms of legally obliging employers to prevent sickness absenteeism, Finland has recently become one of the forerunners within the EU. Finnish employers are now required to provide occupational health services and to create healthy working environments. Public subsidies are used to compensate employers for these additional costs (OECD, 2008). Similar legislation also exists in the Netherlands and Sweden.

Many EU Member States have also transferred the financial liability for sickness insurance payments to employers, thereby increasing the incentives for employers to prevent ill-health, promote rehabilitation, and avert inflows to disability benefit programs. The Netherlands has gone furthest in relation to the introduction of such co-payments and of employer-financing of sick-pay periods. Here, payments for sickness insurance benefits have been shifted in full to employers as part of a major overhaul of the social security and welfare systems (Van Oorschot, 2006). Between

2003 and 2006, employers in the Netherlands even paid for most of the costs of disability benefits for former workers for periods of up to five years (OECD, 2009a). Since 2006, Dutch employers only have to pay such benefits for workers with partial work capacity, but now for a period of up to ten years. Persons with full and permanent incapacity instead receive a publicly financed benefit. One chief objective of this so-called “no risk policy”, which was introduced in 2003 and extended in 2006, was to increase the employment rate of people with disabilities.

Figure 4 shows the maximum number of statutory employer co-payment and employer provided sick-pay days in the EU Member States. The responsibility of employers to finance sickness insurance payments varies substantially across the EU Member States, but at least five groups of countries can be identified. One group, consisting of Bulgaria, Denmark, Estonia, Greece, Ireland, Cyprus, and Portugal does not shift benefit costs to employers. Employers in Romania and Lithuania do have to pay sickness insurance benefits, but only for a few days. A larger number of countries oblige employers to finance sickness insurance benefits for a period of between one week and one month. Included here are Poland, Belgium, Germany, Slovenia, Spain, Hungary, the Czech Republic, Sweden, Latvia, Slovakia, and Finland. Employers in Italy, Malta, the United Kingdom, Austria, and Luxembourg have to pay for sickness benefits for over a month and up to a year. Finally, we have the Netherlands and France where employers bear the responsibility for sickness insurance payments for about one year or more.

Figure 4 . Maximum Number of Employer Co-Payment and Employer Provided Sick-Pay Days in the EU Member States.



Note: In France and Malta the number of employer provided sick-pay days can be extended. In Austria, Belgium, Latvia, and Slovakia the rate of benefits paid by employers varies over the duration of receipt of benefit.

Source: SCIP and MISSOC.

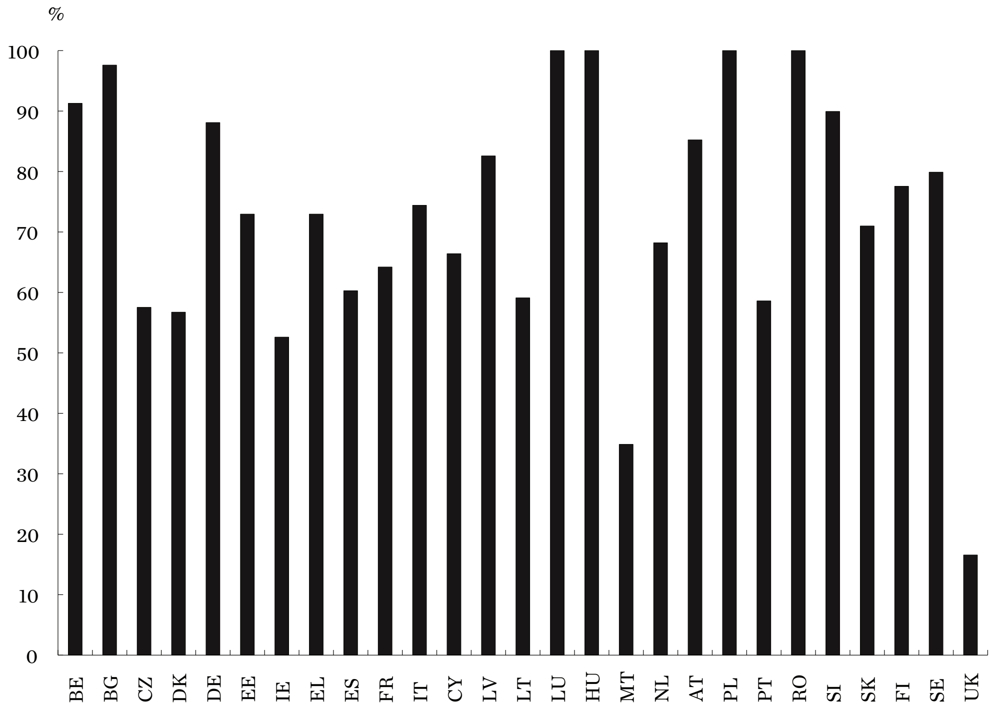
The political feasibility of transferring large parts of the cost of social insurance payments onto employers varies of course across countries and depends on national circumstances. One such circumstance may be the extent to which employers have actually used long-term sick leave and disability benefits to get rid of unwanted staff. Benefit levels are another factor that affects the financial burden placed on employers in connection with the financing of sickness insurance. Entitlement levels are also interesting from another point of view. For example there is the widespread fear that generous benefits may distort incentives to work. Even though it has proved difficult to figure out the exact relationship between benefit levels and the willingness to work, there is an ongoing discussion among both academics and policy makers suggesting that protections against core social risks are perhaps too extensive in many EU Member States. However, the calibration of benefit levels must take several aspects into consideration besides labour market integration alone. One such additional consideration is social integration and equality of opportunity more generally, where a foothold on the labour market is one core element.

Another important element is the ability to uphold basic or standard levels of living when gainful employment is difficult to perform. We can expect that the current global economic crisis will increase the demand for effective distributive policies in the near future. This emphasis on economic compensation may not only come from dramatically increased unemployment rates. During economic downturns, increased pressures on those who are still gainfully employed may translate into a growth in the number and length of periods of sick-leave. During the 1990s, for example, both ill-health and multiple deprivation became more widespread in the Swedish population (SOU, 2001). During the first half of the 1990s, Sweden was struck by an economic crisis of approximately the same magnitude as the current one. Multiple deprivation implies that the individual simultaneously experiences problems in a number of areas of life, such as financial problems together with illness (Korpi et al., 2007).

In many EU Member States, earnings security has been eroded in both sickness and work-accident insurance since the mid 1980s. It is not possible here to assess the extent to which this development is due to fears of moral hazard among policy makers. Over recent decades there have been a number of pressures to downsize social security that compete with one another for explanatory power, e.g. economic globalisation and the aging of society to mention just a couple. Despite common trends among countries in relation to the long-term development of social security, the end result has so far not been policy convergence. Quite the reverse, sickness and work-accident entitlement levels differ more extensively across EU Member States today than they did two decades ago. The process of policy divergence appears to have occurred irrespective of recent EU enlargements. Despite common pressures to reform social security, countries appear to have responded to these pressures rather differently. Countries with less generous benefit levels have tended to make the largest cutbacks, which would increase the extent of variations across the EU Member States (Montanari *et al.*, 2008).

Figure 5 shows sickness insurance net replacement rates for the EU Member States in 2005. The calculation of social insurance replacement rates is described in the data appendix. In one group of countries, sickness insurance replaces lost earnings in full. Included here are Hungary, Luxembourg, Poland, and Romania. Four countries, Austria, Belgium, Germany, and Slovenia, have replacement rates slightly above or close to the 90 percent level. Another group of countries, including Estonia, Finland, Latvia, and Sweden, have replacement rates at around the 80 percent level. Five countries, Cyprus, Greece, Italy, the Netherlands, and Slovakia, have sickness insurance replacement rates at around the 70 percent level. At the 60 percent level and below we find the Czech Republic, Denmark, France, Ireland, Lithuania, Malta, Portugal, Spain, and the United Kingdom.

Figure 5. Sickness Insurance Net Replacement Rates in the EU Member States, 2005.

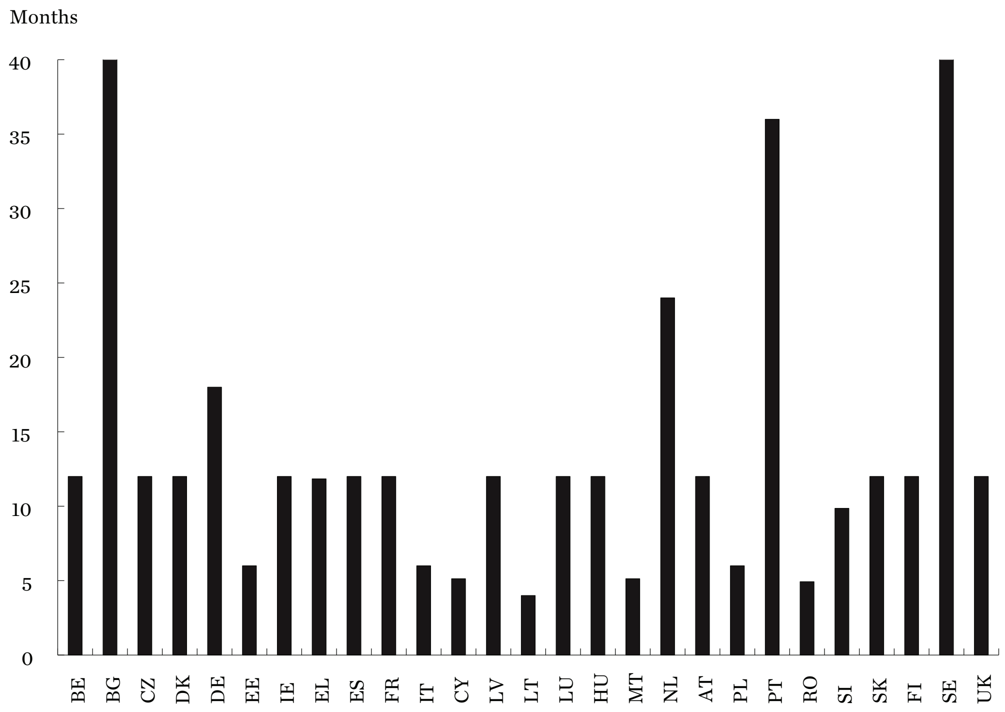


Source: SCIP and MISSOC.

It is evident that benefits are provided at comparatively high levels in some of the CEE countries. With the exception of Slovakia, Lithuania, and the Czech Republic, sickness insurance net replacement rates in the CEE countries are on a par with or even higher than those of the state corporatist and encompassing models that reflect the social protection systems of Continental Europe and the Nordic countries. The general character of sickness insurance in these three groups of European countries is that benefits are clearly linked to the level of earnings, something that typically results in higher benefit levels than those found in the flat-rate systems of the basic security type. Among countries with earnings-related programs, the generosity of benefits is largely determined by the fixed compensation rate and the earnings-ceiling. Countries in the most generous category often lack such ceilings or apply the fixed percentages even at higher incomes.

Despite the high replacement rates found in CEE countries, it is difficult here to establish any close linkages between the size of benefits and the redistributive impact of social insurance in the CEE area, and thus ultimately the influence of benefits on social inclusion. One reason for this is the duration of benefits, which in some CEE countries is clearly below the EU arithmetic average of around fourteen months and the median of twelve months. *Figure 6* shows the duration of sickness insurance in the EU Member States according to program regulations, measured in terms of the number of months. In particular, Slovenia, Estonia, Italy, Poland, Cyprus, Malta, Romania and Lithuania have comparatively low levels of duration, ranging from ten down to four months.

Figure 6. Duration of Sickness Insurance in the EU Member States (Months).

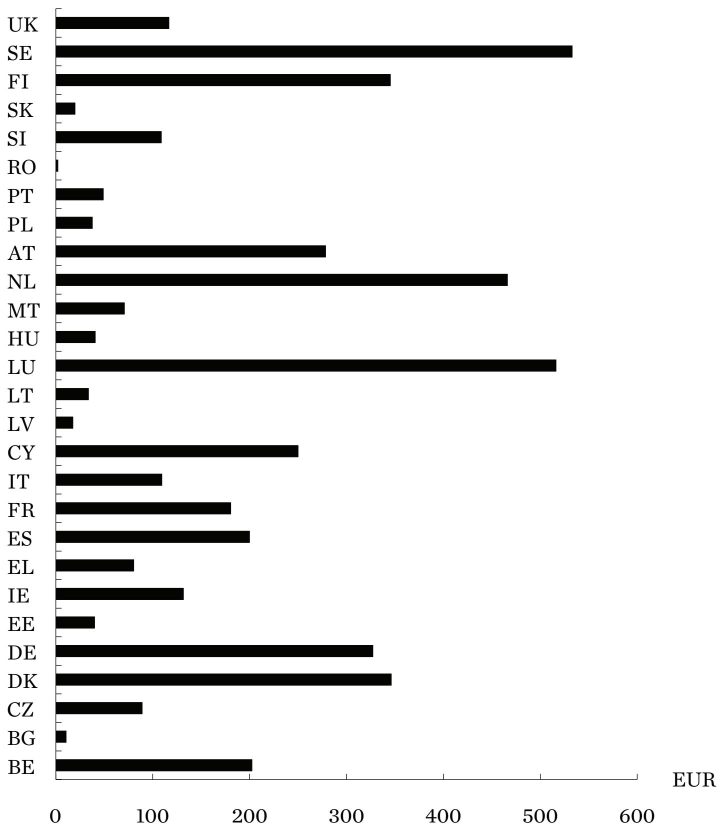


Note: No formal limit of duration in Bulgaria and Sweden. In Greece duration can be shortened to 182 days or increased to 720 days depending on contribution record. In Spain, Cyprus, and Poland duration can be extended if the recipient can become capable of work; plus 6, 5, and 3 months, respectively. In case of long-term sickness, duration in France is 24 months. If contribution record in Hungary is less than 12 months, duration is equal to the length of the contribution record. In Austria, some insurance funds extend duration to 18 months. In Bulgaria and Sweden there is no formal period of duration.

Source: SCIP and MISSOC.

Another factor to consider in relation to the redistributive effects of social insurance is coverage rates, i.e. the proportion of eligible citizens in relevant population categories that qualify for benefits. Here we might expect that the eligibility criteria employed in some CEE countries would exclude large segments of the population from participating in the program. Unfortunately it is beyond the scope of this report to present reliable data on program and benefit coverage. However, the expenditure data reported in *Figure 7* at least partly illustrate the problem of incomplete coverage. Figure 7 presents sickness insurance benefit expenditure per inhabitant in the EU Member States for the most recent year possible.

Figure 7. Sickness Insurance Benefit Expenditure per Inhabitant in the EU Member States 2006.

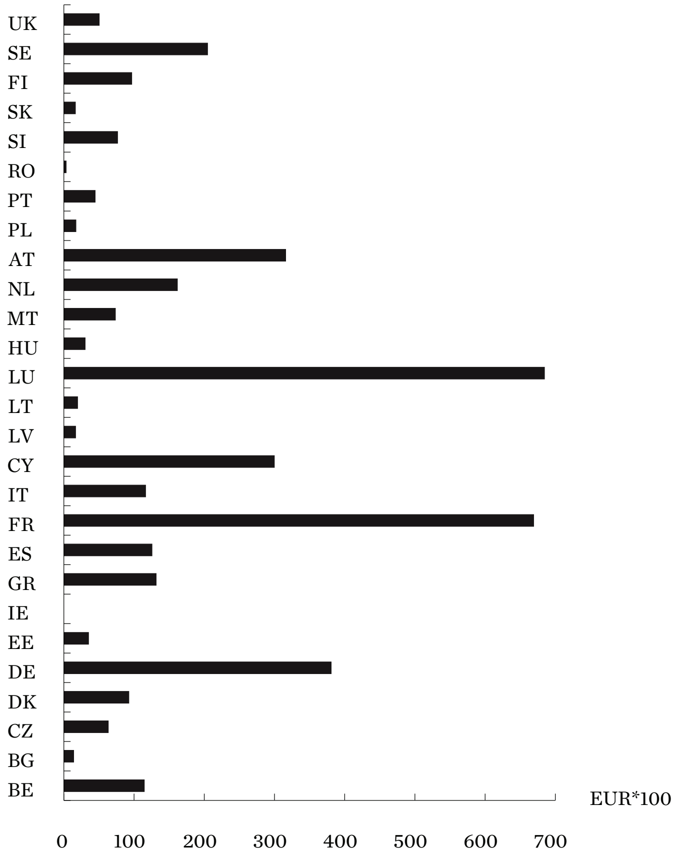


Note: Numerator is variable SNTCPSICK, paid sick leave benefit (non meanstested) at constant 2000 prices. Denominator is total population.

Source: EUROSTAT.

Despite fairly generous benefit levels, the CEE countries spend considerably less money on sickness insurance. It is doubtful that such substantial cross-country differences can be explained by reference to variations in the frequency and duration of sick-leave periods alone (the type of explanation that partly explains the high level of expenditure in Sweden, for example). Similar cross-country patterns emerge if sickness insurance benefit expenditure is instead related to the number of inactive citizens reporting sickness or disability as the main reason for their absence from paid employment, *Figure 8*.

Figure 8. Sickness Insurance Benefit Expenditure per Inactive Citizen due to Sickness or Disability in the EU Member States, 2006.



Note: Numerator is variable SNTCPSICK, paid sick leave benefit (non meanstested).
Denominator is variable ILLDIS, own illness or disability.

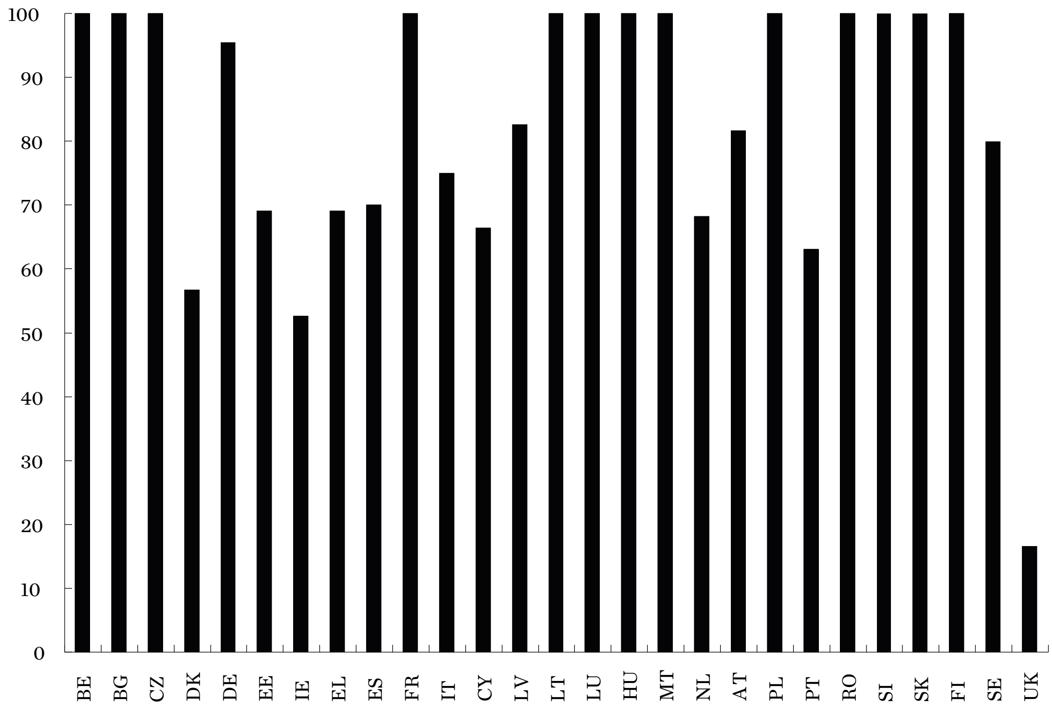
Source: EUROSTAT.

Furthermore, among the EU15 there is a moderate positive relationship between the size of benefits and expenditure levels, whereas this correlation disappears when the analysis is broadened to include the CEE countries. One tentative explanation for this lack of a relationship between benefit and expenditure levels in the EU27 might be found in the interplay between eligibility criteria and labour market structures in the CEE countries, which together produce lower coverage rates.

The remarkably low benefit levels of the United Kingdom also deserve some comment. In the comparisons of net replacement rates produced for this report, we have only taken public entitlements into consideration. Thus private and occupational schemes that can significantly boost the financial situation of specific households are excluded from this data. Here we might expect that in the case of the UK, such alternative sources of income could be substantial. Moreover, the comparisons only consider statutory public insurance provisions. Thus alternative income- and means-tested benefits for which low-income households can qualify are not taken into consideration here. Furthermore, the procedure employed to measure benefit generosity in this comparison may negatively bias the income position of beneficiaries in certain countries. In some countries, such as Germany, Sweden and the United Kingdom, for example, an income-tested housing benefit may be provided in addition to social insurance. An explicit focus on means-tested social assistance, which includes potential housing benefits, is included below.

Figure 9 shows work accident net replacement rates in the EU Member States. Work-accident net replacement rates are often somewhat higher than those of sickness insurance. On average, work-accident net replacement rates in the EU are 20 percent higher by comparison with those of sickness insurance. One reason for the greater generosity of work-accident insurance might be that it involves less intrusion into the wage formation processes than sickness insurance (Väisänen, 1992). Another reason may be that fears of moral hazard and cheating, whereby citizens receive benefits illegitimately, are less widespread in relation to work-accidents. Similar program differences also appear in coverage rates, where work-accident insurance typically covers larger proportions of the labour force than sickness and unemployment insurance (Kangas, 2000).

Figure 9. Work Accident Insurance Net Replacement Rates in the EU Member States, 2005.

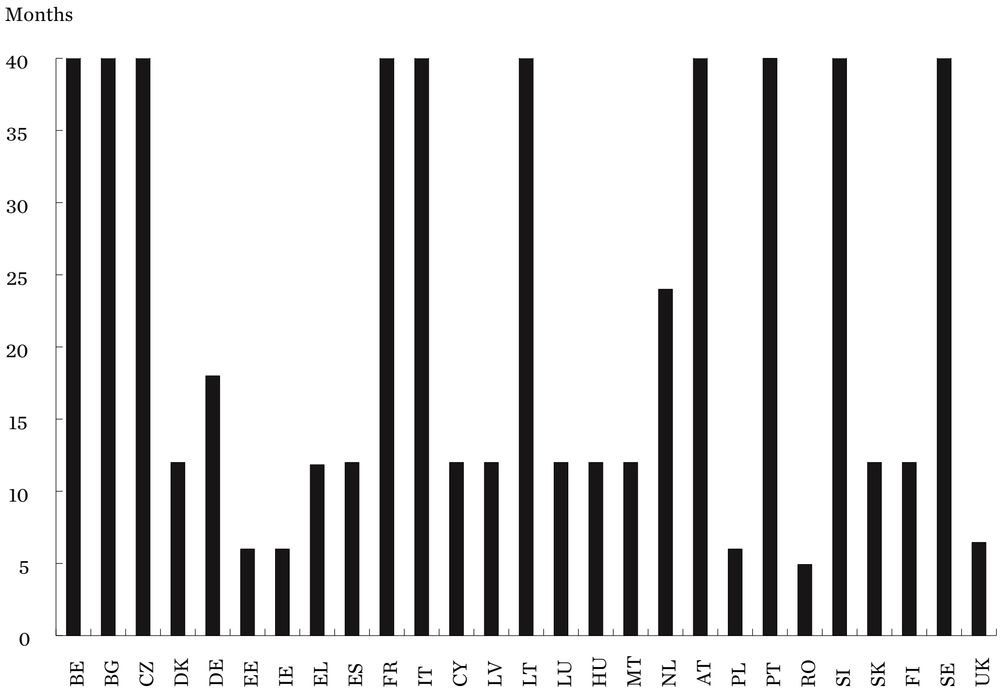


Source: SCIP and MISSOC.

The grouping of countries is somewhat different in relation to work accident insurance replacement rates, with a larger group of fourteen countries replacing lost earnings in full. In this group we find Belgium, Hungary, Luxembourg, Poland, Romania, Bulgaria, Slovenia, Estonia, Finland, Slovakia, France, Lithuania, the Czech Republic and Malta. Germany has replacement rates slightly above or below the 90 percent level. Four countries, Latvia, Austria, Sweden and Italy, replace lost earnings by about 80 percent. The remaining eight countries (the Netherlands, Cyprus, Greece, Portugal, Spain, Denmark, Ireland and the United Kingdom) provide work-accident net replacement rates below the 60 percent level. Once again caution should be exercised in connection with the question of the distributive implications of the replacement rates of the CEE countries.

Figure 10 shows the duration of work-accident insurance according to program regulations in the EU Member States. Most countries apply the same type of duration for work-accident insurance as for sickness insurance. Among the most notably exceptions to this pattern we find Austria, Belgium, the Czech Republic, Italy, Lithuania, France and Slovenia, where worker's compensation is provided until recovery or a permanent condition is established. This also characterizes the duration of work-accident insurance in Bulgaria and Sweden. In Portugal, workers' compensation is provided for the duration of medical treatment and occupational rehabilitation. Ireland and the United Kingdom have lower levels of duration for work-accident than for sickness insurance, whereas the opposite is the case for Cyprus, Malta and Finland.

Figure 10 . Duration of Work-Accident Insurance in the EU Member States (Months).



Note: No formal limit of duration in Belgium, Bulgaria, the Czech Republic, France, Italy, Lithuania, Austria, Portugal, Slovenia, and Sweden.

Source: SCIP and MISSOC.

Recent reform initiatives in the area of sickness and work-accident insurance have focused on activation and the promotion of social inclusion by means of gainful employment. In some EU Member States, one of the chief objectives has been to reduce the sometimes large numbers of people relying on this type of support as their main source of income. There are several mechanisms that governments can use to reduce sick case listings and payments of workers' compensation. At the individual level, stricter or harsher eligibility criteria and reduced benefit levels have been two alternatives. Other mechanisms have involved focusing on the role of employers to provide payments and rehabilitation. In addition, the functioning of health care systems and the medical profession in relation to insurance utilization has also been highlighted in national reforms, although it has been beyond the scope of this report to analyze this aspect of social provision in greater detail. Here we should also mention a potential gender dimension of sickness insurance which is difficult to portray in analyses that are strictly confined to a focus on questions of institutional organization. In most European countries, women report illness-related problems more frequently than men. To the extent that sickness insurance does not provide adequate income protection, this higher level of risk for ill-health is of course disadvantageous for women. The problem is further aggravated by lower activity rates and the poorer earnings-record of women compared to men.

3.2. Unemployment

There are different objectives that may motivate the institutional form of unemployment insurance program chosen by a given country. Unemployment insurance systems have typically tended to meet some, or a combination, of the following objectives:

(I) *Income replacement.* Central to most schemes is the provision of short-term financial support to workers who are laid off from their jobs, typically through no fault of their own, thereby cushioning workers in the transition to new employment.

(II) *Social safety net.* Many unemployment benefit programs also have the objective of protecting segments of the workforce against poverty due to unemployment. Programs that emphasize a social safety net objective typically provide relatively low levels of benefits, rather than seeking to replace a high percentage of prior earnings.

(III) R*ewarding labour force attachment.* An essential, but often overlooked, aim of unemployment insurance schemes is to provide an incentive for individuals to join the formal labour market. The existence of what is often referred to as an entitlement effect means that the more generous unemployment benefits are, the more attractive it becomes for the unemployed and those outside the labour force to qualify for these benefits through employment.

(IV) *Improved matching.* Relatively generous unemployment benefits may allow people to stay unemployed for long enough, as well as providing them with the necessary resources, to find a job that suits their skills and level of education. Unemployment benefits may therefore be viewed as a "search subsidy" with the potential to reduce mismatches between the unemployed and job opportunities.

(V) *Macroeconomic stabilization.* During the post-war expansion of the welfare state, social policies and full-employment policies were commonly regarded as complementary and mutually supportive. While high aggregate employment would finance the welfare state and rein back expenditures, social polices were also believed to contribute to full employment. The most obvious example of such complementarities is found in the way that unemployment benefits may reduce the volatility of households' disposable income relative to their market income, thus acting as an automatic stabilizer over the business cycle.

(VI) *Promoting economic restructuring.* In times of structural change which include large layoffs, unemployment insurance benefits can be seen as a way to reduce workers' resistance to such changes. This was an important motivation behind the enactment of relatively generous unemployment insurance systems in many of the CEE countries.

One important reason for the controversies surrounding the introduction and subsequent reform of unemployment benefits is the belief that the generosity and duration of benefits produce a number of unintended consequences with detrimental effects on unemployment rates and the labour supply, and in consequence also on economic growth (Bean, 1994; Sjöberg, 2000). According to what are referred to as job-search models, which have come to dominate the theoretical thinking on the incentive effects of unemployment benefits, these benefits will raise the reservation wage of the unemployed and therefore allow them to become relatively more choosy in relation to job offers. Unemployment insurance is also believed to create an upward pressure on wages that is not compatible with the wage levels of a full employment economy. Moreover, taxes imposed on employers to finance unemployment benefit schemes might increase labour costs and thereby reduce employment, an argument that also applies to the total burden of social security financing.

An increasing body of literature since the late 1980s has also been devoted to the potential macro-level implications of unemployment duration effects, a term which refers to changes in the skills, motivation, or search behaviour of the unemployed as a function of the duration of their unemployment, and/or of employers' perceptions of such changes. The long-term provision of unemployment insurance benefits, combined with relaxed job-search obligations, is here assumed to increase the long-term unemployment rate, and ultimately to act as a mechanism that encourages the persistence or hysteresis of unemployment (Ljungqvist and Sargent, 1998).

In this context of potentially conflicting objectives and possible unintended (negative) consequences, initiatives focused on reforming unemployment benefits have to large extent been aimed at reconciling the need for income protection with incentives for gainful employment. In this section we analyze a number of key attributes of unemployment insurance with relevance for these efforts. In addition, we discuss how unemployment insurance – or so-called passive labour market policy – is integrated with or linked to active policies, such as job training and job search assistance.

3.2.1. Unemployment Insurance

We will restrict our discussion to unemployment insurance schemes – i.e. schemes based on contributory financing, where benefits are set to reflect past earnings, which are of limited duration and where eligibility depends on an individual's employment history. However, it should also be noted that in 2005, twelve of the EU countries had an unemployment assistance scheme coexisting with an unemployment insurance scheme. Unemployment assistance is typically awarded to those who have exhausted their right to unemployment insurance benefits or to those having no (or only a minimum level of) prior employment history. Moreover, benefits are generally flat-rate, based on some form of means-test and are of long, often unlimited, duration. The distinction between unemployment assistance and regular social assistance, however, is often blurred and difficult to specify.

3.2.1.1. Qualifying Conditions, Waiting Days and Job Search Rules

All unemployment insurance schemes in the EU Member States specify a required record of paid employment for benefit eligibility. These requirements are most often expressed in terms of a combination of the following four factors (Clasen et al., 2001):

(I) A minimum work record, measured by e.g. length of time spent in work, contributions made or income earned.

(II) A reference period, stipulating the period during which the minimum work record has to be established.

(III) Work intensity, which refers to the extent of previous labour market attachment. Work intensity is typically expressed as the number of weekly working hours.

(IV) Work concept, which denotes activities defined as work. In some cases, various forms of atypical work are not considered as meeting the criteria for benefit qualification.

One way of depicting the extent and strictness of such qualifying conditions is to relate the minimum work record to the reference period by calculating the ratio between the two (*Table 2*). For example, a program with a minimum work record of nine months within the twelve months prior to unemployment (reference period) is assigned a value of 0.75 (9/12) on this composite indicator. Higher values on the indicator indicate stricter qualifying conditions. The absolute lengths of the minimum work record and the reference period are not considered here, which is of limited importance since the variation in minimum work requirements across the EU countries is relatively limited. In 2005, only Lithuania (18 months) and Slovakia (36 months) had a longer minimum work record than twelve months, and in no country was this period shorter than six months. This indicates that the main source of cross-national variation in this composite indicator is to be found in differences in reference periods. In 2005, the reference period varied between nine months (in Bulgaria and the Netherlands) and 60 months (in Spain), with an EU average of slightly over 24 months.

Table 2. Composite Indicator of Qualifying Conditions for Unemployment Insurance in the EU Member States.

Low (0–0.49)	NL, ES, HU, FR, FI, CZ, DK, DE, EL
Medium (0.50)	EE, IT, CY, LT, LU, MT, AT, RO, SE, UK
High (0.60–1.00)	BE, PL, SI, IE, LV, PT, SK

Source: SCIP and MISSOC.

On average, the qualification conditions for unemployment insurance have been tightened over the last decade. Generally, this has been accomplished by means of an increase in the minimum work record, from an average of nine months in 1995 to eleven months in 2005, whereas the length of the reference period has been more stable. The most noticeable changes between 1995 and 2005 are the less restrictive work requirements in France (from four months in the last eight months to four months in last eighteen months in 2001, and then to six months in the last 22 months) and the increase in the minimum work records in the three Nordic countries in 1996 and 1997. There has also been a tightening of qualification conditions in several of the CEE countries. In Slovakia, a rather drastic change took place in 2004, when the minimum work record increased to 36 months of contributions paid during the last four years.

The existence of a waiting period, i.e. a number of days before a newly unemployed individual may collect benefits, has historically also been important in providing disincentives for any excessive use of unemployment insurance benefits. The majority of EU countries had no waiting period in 2005 (*Table 3*). The number of waiting days in unemployment insurance schemes in the EU countries has been relatively stable since the 1990s. The most notable exceptions to this are Finland, where the waiting period was increased from five to seven days in 1997, Sweden, where a one-week waiting period was re-instated in 1995 (it had been abolished in 1988), and France, where a period of eight waiting days was introduced in 1995.

Table 3. Waiting Days for Unemployment Insurance in the EU Member States.

No. of waiting days	
0	AT, BE, CZ, DK, DE, HU, LV, NL, PT, SI, SK, ES, MT, LU, BU, RO
3	IE, UK, CY
6	EL
7	EE, FI, IT, LT, PL, SE
8	FR

Source: SCIP and MISSOC.

In addition to the eligibility criteria described above, the receipt of unemployment benefits is also conditioned by obligations to engage in job search activities. At a more general level, job search obligations are fairly similar across the EU Member States. Typically, recipients must be registered at the employment office and must actively search for a new job, and they must also accept suitable job offers. Job search requirements are often enforced by sanctions such as benefit reductions and the temporary or permanent cessation of payments. Job search obligations therefore play an important role in the mix of instruments employed to regulate the rights and duties of the unemployed. Job search requirements may offset the disincentive effects that might be associated with benefits of long duration and with high replacement rates, and thus effectively reduce a given replacement rate. It should also be noted that job search requirements may be seen as having distributional effects – whereas the sanctions tied to such requirements only affect those who do not comply with the requirements, lower benefit levels or shorter durations (as a means of strengthening incentive effects) affect all beneficiaries.

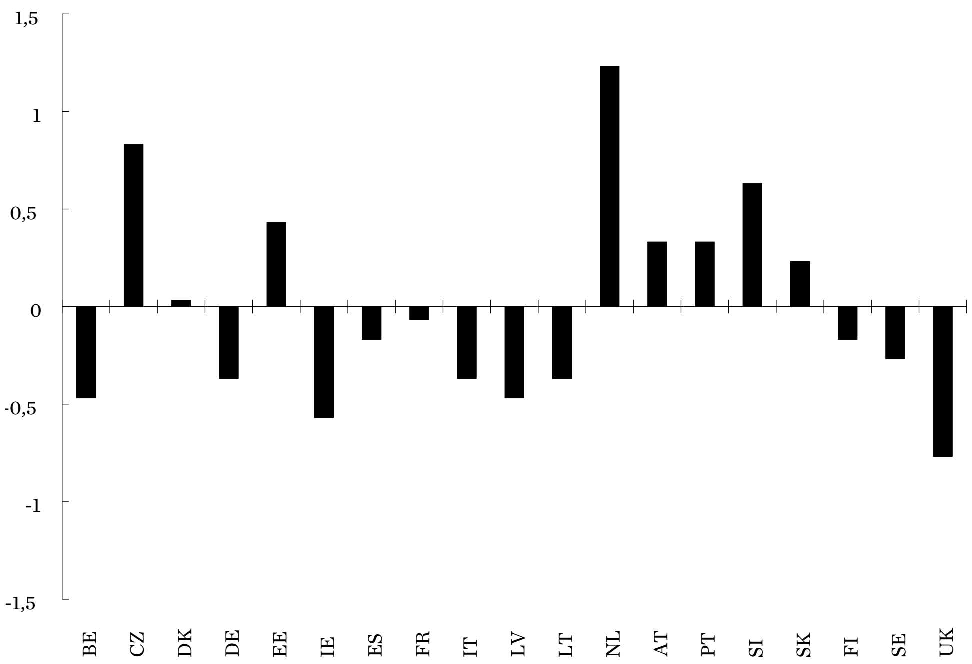
However, whereas the average conditions outlined above are reasonably good approximations of the conditions surrounding eligibility in the EU Member States, job search requirements are often much more detailed and complex and are described in each country's labour market legislation. These conditions relate, for example, to the extent to which the unemployed must provide evidence of job-search activity, requirements relating to both geographical and occupational mobility, and to what constitute valid reasons for refusing job offers. Moreover, these conditions are often applied with a certain degree of discretion.

Bearing this caveat in mind, *Figure 11* depicts the extent of such job search requirements along eight different dimensions for a selection of EU countries, based on the formal rules described in each country's labour market policy legislation (Hasselpflug, 2005):

(I) Demands on job search activity,
(II) The extent to which the unemployed must accept job offers during participation in active labour market programmes,
(III) Occupational mobility,
(IV) Geographical mobility,
(V) Extent of valid reasons for refusing job offers,
(VI) Benefit sanctions in the case of self-induced resignation,
(VII) Benefit sanctions in the case of refusals without valid reasons,
(VIII) Benefit sanctions in the case of repeated refusals.

The indicator in the figure shows a weighted average of these job search requirements. Since it is difficult to provide a meaningful interpretation of the absolute numbers, each country's value is expressed as the deviation from the overall average.

Figure 11 . Unemployment Insurance Job Search Requirements in 19 EU Member States.



Source: Hasselpflug, 2005.

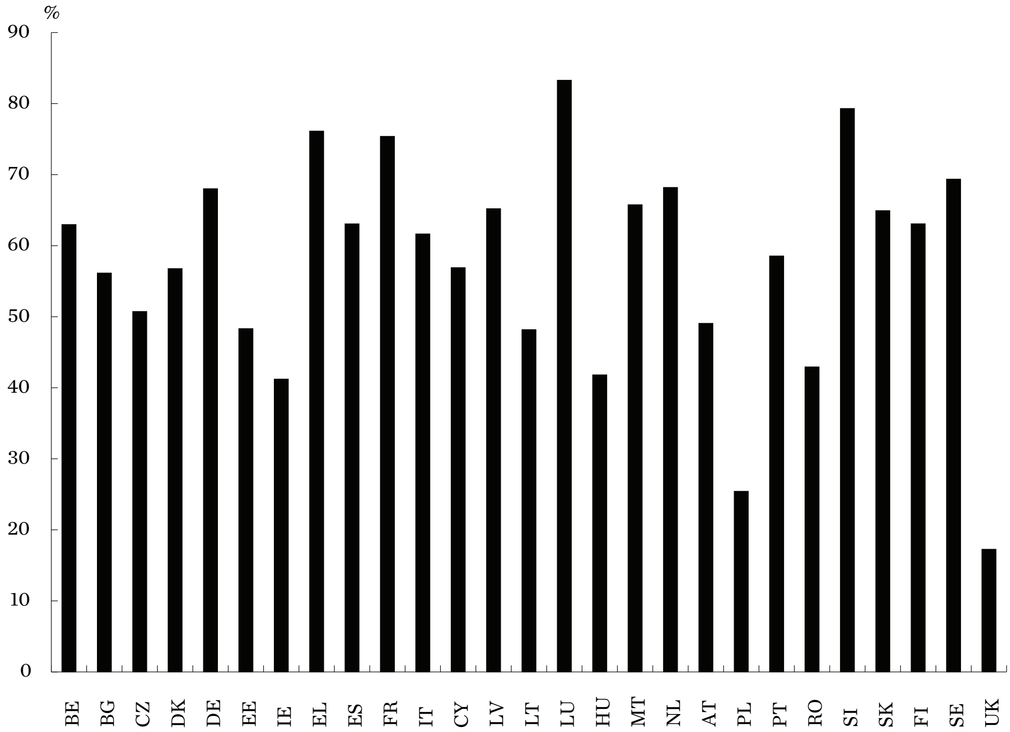
Job search requirements are apparently relatively strict in the Netherlands as well as in a number of the CEE countries (the Czech and Slovak Republics, Slovenia and Estonia). The Nordic countries appear to have average levels of job search requirements, whereas these requirements (according to the indicators employed here) seem to be relatively restricted in Ireland and the United Kingdom. However, it should also be noted that many of the associations between the individual indicators included in the composite indicator depicted in Figure 7 are rather weak and sometimes also negative, which may indicate that there is some degree of trade-off in the use and implementation of job search requirements of this kind.

3.2.1.2.Entitlements

One central characteristic of unemployment insurance schemes is of course the benefit levels and the degree to which past earnings are replaced in the event of unemployment. During the post-war period of economic expansion, unemployment insurance replacement rates increased rather dramatically among the OECD countries (Sjöberg et al., 2009). Economic recessions, such as the oil shocks of the 1970s, or the sharp economic downturn witnessed in Sweden and Finland during the 1990s, have generally been accompanied by a reduction in these rates. In some countries, increasing unemployment rates have however led to reforms in the direction of making unemployment benefits more generous. Typically, though, these reforms have involved increasing the duration of benefits or targeting certain groups, such as older unemployed.

Figure 12 shows the net replacement rates for unemployment insurance in the EU Member States in 2005. If the EU Member States are divided into three groups of countries with low (0–50 percent), medium (50–70 percent), and high replacement rates (above 70 percent), we find Austria, Estonia, Lithuania, Romania, Hungary, Ireland, Poland and the United Kingdom in the first category. The countries with medium replacement rates are Sweden, the Netherlands, Germany, Malta, Latvia, Slovakia, Spain, Portugal, Finland, Belgium, Italy, Cyprus, Denmark, Bulgaria and the Czech Republic. Only six countries are included in the most generous category, with replacement rates of over 70 percent: France, Greece, Luxembourg, Portugal, Slovenia and Spain.

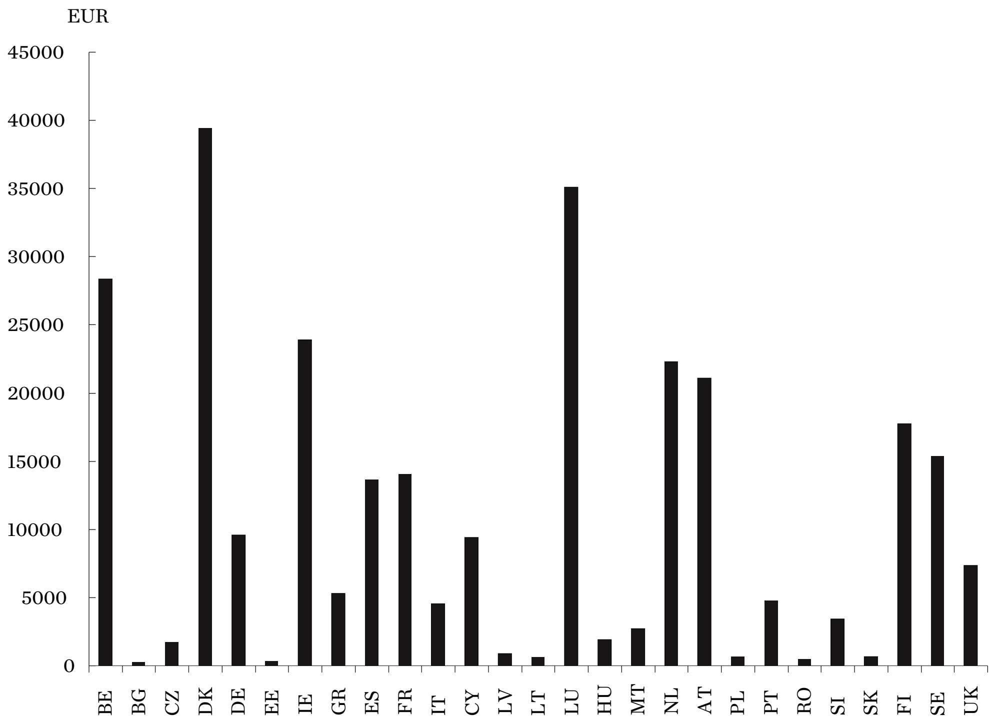
Figure 12. Unemployment Insurance Net Replacement Rates in the EU Member States, 2005.



Source: SCIP and MISSOC.

One important institutional feature of unemployment benefits programs is the proportion of the labour force or of employees that is covered by the scheme. Unfortunately, it has not been possible to collect measures of coverage rates for all of the EU countries. However, there is evidence to suggest that the proportion of the registered unemployed who actually receive unemployment benefits differs substantially across the EU countries, and that this proportion is particularly small in the East- and Central European countries and in the three Southern-European countries, Greece, Spain and Portugal. In the Czech Republic and Hungary, only around one-third of the registered unemployed actually receive unemployment benefits; in Slovenia this figure lies at around 25 percent, whereas the corresponding proportions for Poland and Slovakia are both below one-fifth. In countries where registered unemployment is lower than the unemployment rate based on labour force surveys (the prime example being Estonia), the proportion of benefit recipients in relation to total unemployment is even lower. *Figure 13* shows levels of expenditure on unemployment benefits per unemployed person in 2006. This figure suggests that even though formal replacement rates are high in the CEE countries, average replacement rates are nonetheless low as a result of low coverage rates. Thus the replacement rates reported here do not capture the distinction between insiders and outsiders on European labour markets.

Figure 13. Unemployment Benefit Expenditure Per Unemployed Persons in the EU Member States, 2006.



Source: EUROSTAT.

The extent to which unemployment insurance provides social protection is not only related to the size of benefits, but also to the length of time people can receive benefits. *Table 4* shows the maximum duration for unemployment insurance among the EU Member States. The period of duration for receiving benefits is either fixed or varies according to individual circumstances, such as age or employment record.

Table 4. Duration of Unemployment Insurance in the EU Member States.

		Extensions due to			
		Age	**Employment record**	**Age + Employment record**	
Low (less than one year)	SK, UK, LV, HU, MT, CY	IT	BU, EE, RO, PL	LT, SI, AT	LT, SL, AT
Medium (12–33 months)	CZ, SE, FI	IE, PT, LU	EL, NL	FR	
High (two years or more)	ES, BE	DK		DE	

Source: EUROSTAT.

3.2.1.3. The Role of Social Partners

Social insurance can be provided against risks that private insurance companies have difficulty in handling. The prime example here is unemployment insurance – private sector provision of unemployment insurance is very rare throughout the world as a result not only of moral hazard (i.e. that those who are insured can influence the probability that an event, in this case unemployment, will occur), but also of the fact that the risk of unemployment is related to the business cycle and therefore often occurs in waves, and because some groups are simply seen as uninsurable by private insurance companies (Sjöberg, 2010). However, it would be a mistake to equate non-private unemployment insurance with unilateral state intervention that completely eliminates the involvement of social partners (typically labour unions and employer organizations). The unemployment benefit systems of many countries have their origins in arrangements introduced by collectives of employees. In some countries, the role of employees (and employers) has remained of major importance, while in other countries the role of these groups has partly or fully been taken over by the state.

Today, the involvement of social partners in issues relating to unemployment insurance ranges from the consultation of interest groups by policymakers to concertation between the government and these partners on economic and social policy goals and on the appropriate means to achieve these goals. This section is based on the country reports on social partners and the social security system submitted to the European Foundation for the Improvement of Living and Working Conditions (European Foundation for the Improvement of Living and Working Conditions, 2009). In the majority of EU countries, the participation of social partners has been institutionalised through their participation in tripartite bodies at the national and often also at the regional or even local levels. As a rule, differences between countries in the extent to which social partners are involved in matters related to unemployment insurance are therefore linked to the historical background of social partners' involvement in social policy and in industrial relations settlements and legislation more generally.

In countries with a tradition of tripartite concertation, both the scope and the degree of involvement in issues relating to unemployment insurance tend to be greater than in countries that lack such a tradition. Examples of the former are the Nordic countries, Austria, the Netherlands and Spain. In Denmark, Finland and Sweden, the trade unions play an important role in managing and administering unemployment funds, and they are also – to a certain extent – responsible for the financing of the system in that they collect contributions and pay benefits. In Spain, agreements reached in what is referred to as the forum for social dialogue, which involves the government, the trade unions and the employers' representatives, are translated into laws via governmental legislative initiatives, which means that the existing legislation in Spain may be considered largely to be a direct or indirect consequence of the relations between the government and social partners. Social partners are also represented in the state bodies responsible for applying the measures specified in the legislation, such as the National Social Security Institute and the Provincial Executive Commissions. However, the social partners in Spain have no decision-making powers of their own and they are unable to change the orientation of policies. Nevertheless, the social partners can make suggestions and they receive information on the programs managed by their respective organisations.

In both Austria and the Netherlands, a well-established system of social partner involvement was put under serious strain in the late 1990s and early 2000s, although this tension did not emanate directly from the unemployment insurance system. In Austria, the government and the social partners were unable to reach agreement on the restructuring of the pension system; in the Netherlands, they could not agree on reforms to the early retirement scheme. However, one sign of the continued importance of social partner involvement in the area of unemployment insurance (and indeed overall) in the Netherlands is that the reform of the unemployment benefit system which was completed in 2006, was to a large extent based on the recommendations of the tripartite Social Economic Council (Sociaal Economische Raad).

Ireland has developed a tradition of tripartite cooperation more recently. There is no form of institutionalised policymaking together with social partners, nor any long-standing tradition of corporatist structures. However, social partners have had an important influence on social policy in the context of successive national pacts. The negotiations leading to these pacts have included not only the government, employers and trade unions, but also organizations representing the unemployed (such as the Irish National Organisation of the Unemployed (INOU) and the Congress Centres for the Unemployed), as well as other organizations. In France, the situation regarding the involvement of social partners seems somewhat different in relation to the unemployment benefit scheme than it is in relation to the rest of the social insurance system. Social insurance schemes are generally run by joint management boards, whose powers have diminished in recent years. The unemployment insurance scheme is managed by a bipartite body established by a collective agreement in 1958 (UNEDIC), and the social partners have retained their rule-making power. As part of the joint management board, they decide on the level of contributions and the rules governing the scheme's coverage, although decisions taken on the payment of unemployment benefit usually result from tripartite bargaining (between employees, employers, and the state).

In Belgium, the national multi-industry agreements may provide a general orientation for unemployment policy. Moreover, as in France, the federal level bipartite management committees of the different social security administrative bodies also play a role in rule-making. Unlike the management boards of the unemployment insurance scheme in France, they do not themselves set the regulations; their role is of an advisory nature. In Belgium, however, trade-unions manage what are termed welfare funds, which may grant additional benefits in the case of illness, unemployment and, as of recently, retirement. An additional feature of social partners' involvement in unemployment insurance in Belgium that is also worth mentioning is that, unlike most other EU countries, issues relating to the unemployment benefit system are also included on the bipartite collective bargaining agenda.

In many CEE countries, tripartite consultations played a crucial role in the enactment and subsequent reform of unemployment insurance schemes. However, it should be remembered that at least during the initial phase of the transition process, priority was very often given to macro-economic stabilization measures and not to social policy formation and implementation. Although these states in most cases did not seriously negotiate with the social partners, they did often consult with them. In this context, Slovenia may serve as an example of a transition country that has developed a practice of consulting social partners on important decisions concerning social policy, including the unemployment benefit system. Through the Economic and Social Council of Slovenia, social partners have an advisory role with respect to the preparation of social security legislation.

One CEE country where the social partners have increasingly lost influence is Slovakia. Here the tripartite Economic and Social Concertation Council was created in 1990, and it played an important advisory role in the transformation of social policy. Social partner involvement in tripartite negotiations was codified in the 1999 Act on economic and social partnership. Following the abolition of this act in 2004, however, social partner involvement in decision making on issues relating to the unemployment benefit scheme has decreased. In Poland, social partners have limited but apparently well-defined roles. Social partners participate in the formulation of labour-market policies, and acting at the request of the social partners, bodies known as social dialogue commissions may address all issues relating to the social and economic situation of a given region, including unemployment.

Germany, Greece and the United Kingdom all constitute examples of countries that lack a well-developed structure of tripartite rule-making as regards issues relating to unemployment insurance. In Germany, it seems that other institutional arrangements, such as co-determination at the board level, the works councils and the collective bargaining system, are more important than the involvement of social partners in the preparation of national regulations on both the unemployment insurance scheme and the social security system more generally. In Greece, the main insurer of employees against unemployment is the Labour Force Employment Organisation (OAED), and the composition of the Administrative Board is based on the principle of tripartite representation. In reality, however, this tripartite involvement appears primarily to be of a more formal nature. In later years, the issue of unemployment protection appears nonetheless to have become more of an issue in collective agreements, and this has resulted in the setting up of special accounts, financed by additional employer and employee contributions, aimed at supporting programmes to support the (particularly long-term) unemployed.

In most EU Member States, the administration of unemployment benefits is linked to that of employment services. One important reason for this is to ensure that benefits are only paid to workers who are seeking employment and to provide incentives to register and report on regular basis. Some countries have formal structures for social partner involvement in the coordination of benefits and services, whereas others have fewer or no such structures. There are also differences in terms of the degree and content of social partner involvement in the administration of these services. In relation to the former, social partner involvement can be either advisory in nature or may concern actual decision making. In relation to the latter, social partner involvement may include the establishment of benefit levels or may instead relate to aspects such as claims assessment and activation.

More subtle differences between countries can be identified in relation to rule-making at the administrative level. Even in countries with similar structures for social partner involvement, the actual influence of social partners on benefits and services may differ greatly. In some countries, trade unions have a more important role than the employer organisations. Examples of countries with high levels of formal participation by the social partners in the administration of unemployment benefits and services are Austria, Belgium, Denmark, Finland, Slovenia and Sweden.

Conversely, France, Germany, Greece and Spain have a more or less developed formal structure of social partner participation, but in practice their influence remains limited. Another example is the Netherlands, where there are hardly any formal structures for participation and consequently even less real influence by the social partners on administration. In Ireland, Italy, Poland, Slovakia and the UK, social partners have no role at all in the administration of unemployment benefits and employment services.

3.2.2. Active Labour Market Policy

It is rather difficult, if not impossible, to identify the first programmes that could be labelled "active labour market policies". As an historical effort by public authorities to provide work when jobs were lacking in the regular labour market, different forms of active labour market measures, particularly in the form of public work schemes, were implemented on a fairly large scale during the Great Depression of the 1930s. In the 1950s, the focus of active labour market policy gradually shifted from job creation to supply side measures, and measures were taken in order, for example, to increase occupational and geographic mobility among the unemployed.

In many countries, and perhaps most notably in Sweden, active labour market policies became an integral part of economic and social policies. Such policies became instruments for promoting structural change by ensuring the optimal reallocation of jobs and workers from low-productivity to high-productivity sectors of the economy. Germany acquired a fully fledged arsenal of active labour market policies in the early 1970s, and France followed suit in the aftermath of the first oil shock (Auer *et al.*, 2005). With the development of the European Community, and later the European Union, active labour market policies became important policies to accompany structural change. The persistently high unemployment rates experienced by many EU countries after the oil shocks also contributed to placing active labour market measures high on the European agenda. While both active and passive labour market measures were practically non-existent in the planned economies of East- and Central Europe, they were extensively used for the purposes of cushioning labour force adjustment in the 1990s, following the fall of the Berlin Wall. Today, active labour market policies constitute a central part of the European Employment Strategy.

Active labour market policies in the EU countries comprise a large array of different measures, ranging from special support for job search, and training and education for the unemployed, to subsidies for taking up jobs and job-creation activities such as community work programmes. Moreover, active measures are often targeted at specific groups facing particular labour market integration difficulties, such as youths and the disabled. As with passive labour market policies in the form of cash benefits, active labour market measures have multiple functions and objectives.

Active measures provide both long- and short-term financial support to program participants; they may act as an automatic stabilizer in times of economic downturns; they may create demand (through public works, for example) or change the structure of demand (e.g. employment subsidies). However, perhaps the most central aim of active labour market policies is to contribute to the matching of unemployed persons with existing job openings. This may be done directly, through employment services and various forms of job search assistance that provide better labour market information, for example, as well as through measures to alleviate geographical mismatches of skills. In addition, through training and other related measures, active labour market policies may also contribute to an improvement in individuals' employability and thus increase their re-employment prospects.

Using EUROSTAT's Labour Market Policy (LMP) database, it is possible to compute a range of indicators of the "spending effort" which different countries devote to active labour market policies. *Figure 14* shows three such spending measures for the EU Member States:

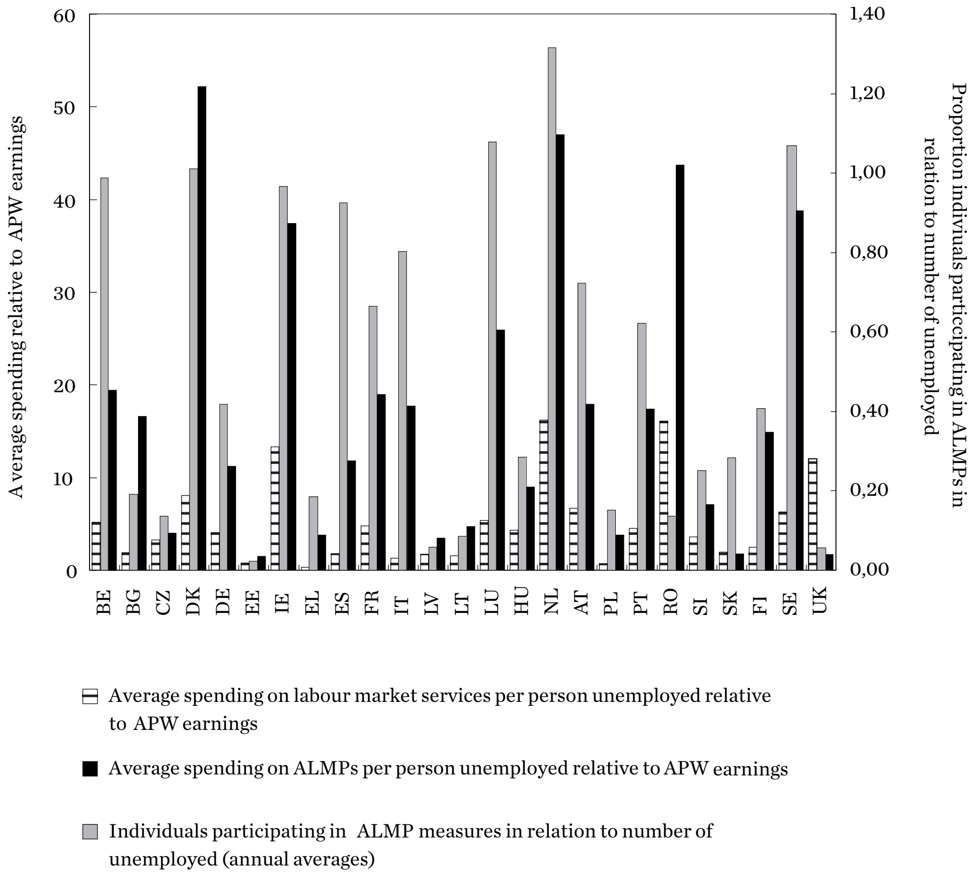
(I) the number of participants in active programmes relative to the number of unemployed,

(II) spending on active measures per person unemployed relative to average earnings, and

(III) spending on labour market services per person unemployed relative to average earnings.

The number of participants in active labour market programmes relative to the number of unemployed may be viewed as a measure of the extent, or coverage, of active labour market policies. According to this measure, as shown in Figure 14, the proportion of the unemployed participating in active labour market polices is highest in a number of Northern-European countries that are often associated with extensive active labour market policies, such as the Netherlands, Sweden and Denmark, as well as in some Continental-European countries, most notably Luxembourg, Belgium and Spain, and in Ireland. At the other end of the spectrum, we find the majority of the CEE countries, as well as the United Kingdom, where a comparatively small proportion of the unemployed take part in some form of active labour market measure.

Figure 14. Number of Participants in Active Labour Market Programs Relative to the Number of Unemployed in 25 EU Member States.



Source: EUROSTAT.

Looking instead at average levels of spending on those participating in active labour market policies, the pattern noted above is further reinforced. Above all, it is Northern-European countries – Denmark, Sweden and the Netherlands – that devote relatively large resources to active labour market measures. We may also note that, on average, Ireland also devotes comparatively large resources to active labour market measures. These countries (above all Ireland and the Netherlands), together with the United Kingdom, which is otherwise distinguished by devoting a comparatively low level of resources to active labour market policies, also allocate comparatively large resources to labour market services.

In the context of 'post-oil-crises capitalism', with its waves of mass-unemployment, the disincentive effects of unemployment insurance schemes came under close scrutiny. Both the scholarly and political debates on the role of unemployment insurance benefits in explaining the rise and apparent persistence of European unemployment rates have often, however, been based on a rather superficial conception of these benefits, whereby replacement rates have frequently been seen as constituting a sufficient summary of how these schemes work. This section has hopefully provided a more nuanced and complex picture of the institutional structure of unemployment benefit schemes, in which the potential disincentive effects of benefits with high replacement rates and of long duration may be offset by tight qualifying conditions and strict job search requirements. There are good reasons to devote time and effort to the development of good macroeconomic policies to deal with the unemployment problem as such. In this endeavour, the role of unemployment insurance should not be forgotten. Even if the macro outcomes in terms of countercyclical effects continue to be of relevance for policy makers, together with the often neglected inequality issue, there are also vital micro aspects relating to both norms and behaviours.

3.3. Pensions and Paths to Retirement

One salient feature of European labour markets is the early withdrawal of older workers. The average effective/actual retirement age is well below the statutory retirement age in most EU countries, while both life expectancy and the number of years that men and women can live their lives free of more severe disabilities or health problems have increased. This indicates that a decrease in the level of early withdrawal (i.e. before the 'normal' retirement age) of particularly older workers may have an important role to play in counteracting the financial strain being placed on the welfare state as a result of demographic change.

The existing literature has identified a number of pathways between leaving one's final job and entry into a retirement program (e.g. Kohli and Rein, 1991; Blöndal and Scarpetta, 1998; Ebbinghaus, 2006; OECD, 2006), where these pathways take the form of an institutional arrangement, or a sequential combination of a number of such arrangements, which bridge the gap between the exit from work and entry into the normal old age pension scheme. For instance, a worker who has been dismissed may first receive long-term unemployment insurance benefits followed by a pre-retirement pension, before finally becoming eligible for a public old-age pension, and each step may be conditional on the previous one. Moreover, many of these institutional arrangements were not initially tailored towards promoting early exit from work. This implies that the institutional complexities, as well as the institutional complementarities, are perhaps more important in the context of early withdrawal from the labour force than they are in any other area of the welfare state.

Thus if we really want to understand how our social models are related to the labour market attachment of the European populations, it is of crucial importance to also study the various kinds of pension programs that offer more or less permanent exit paths from paid employment. Since this is an area where the cross-national variation is substantial, we cannot do full justice to all of the intricate differences that exist among the Member States. In this chapter we will limit the discussion to four of the most important of these pathways:

(I) old age pensions,

(II) early retirement schemes,

(III) long-term unemployment benefits for older workers,

(IV) disability benefits where eligibility for benefits is (normally) contingent upon reduced work capacity.

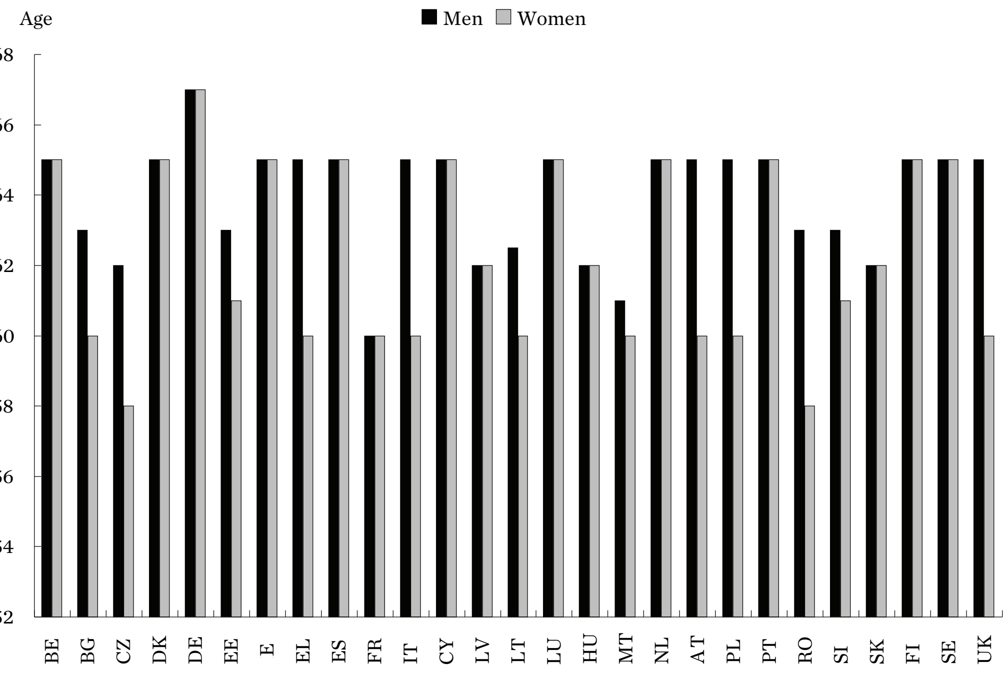
Other schemes, or pathways, which will not be discussed here, but which may be of importance for explaining early withdrawal form the labour force in many countries, include 'flexible pensions', for example, and 'partial pensions' which allow part-time work, as well as firm-sponsored policies and other occupational pensions.

3.3.1. Old-Age Pensions

The focus on the importance of social protection programs for the issue of social exclusion from the labour market may appear to make old-age pension systems less relevant. However, a closer examination reveals that such benefits are also important in this context. One reason is that social protection for the elderly is in various ways linked to labour market exits. Perhaps the most obvious linkage between old-age pensions and labour market exits is found in legislated retirement ages.

Figure 15 shows the legal retirement age for standard old-age pension benefits. These legal retirement ages may not necessarily correspond to actual retirement ages. In about half of the countries examined, the legal retirement age of men is presently slightly higher than that of women. These gender differences will however be phased out as a result of the fact that countries will follow the EU Court's ruling that social protection programs should also treat men and women equally with respect to retirement ages. The age span during which both men and women have the legal right to retire in the EU Member States ranges between 60 and 67 years. France defines the lower limit on this scale and Germany the higher. Somewhat more than half of the EU Member States use 65 years as the legal retirement age for men and 65 or 60 years for women. It is notable that several of the new Member States use retirement ages below these levels. It deserves to be mentioned, however, that the flexibilisation of retirement ages makes the notion of a legislated or statutory pension age less relevant.

Figure 15 . Legal Retirement Age for Standard Old-Age Pension Benefits in the EU Member States.



Note: In the Czech Republic the legal retirement age for women varies with the number of children. Two children are assumed here. In Malta the legal retirement age is for persons born before 1952.In Romania there is a progressive increase in the legal retirement by 2014, 65 years for men and 60 years for women.

Source: SCIP and MISSOC.

Over recent decades, a common experience among European countries has been that ageing populations and periods of high unemployment have created substantial pressures on social policy. In part as a result of such pressures, changes have been introduced both in the provision of benefits and services, and in terms of financing. Some of these changes have undoubtedly involved cutbacks, although countries express different priorities as a result of both institutional designs and political considerations. Policy responses to these pressures therefore vary across countries and new dilemmas have occurred. Even if it is possible to find examples of policy convergence among the EU Member States, cross-national differences in the organization of old-age pensions have in several respects increased.

Without exhausting the full range of reforms and reform proposals, there are basically four types of changes going on. The first type is typically restricted to countries with almost exclusively flat-rate basic benefits, for example Denmark. Here, measures are being taken to stimulate the development of second-tier earnings-related benefits organized in the form of private collective solutions. At the same time, attempts are being made to control social costs, which has introduced elements of means- or income-testing into existing old-age pension programs. The second type of reform initiative has been implemented in the state corporatist countries of continental Europe. In this part of Europe, attempts have been made to control costs by sharpening the contribution conditions for full benefits. In some of the state corporatist countries, minimum pension benefits have either been improved, or exempted from the cuts affecting regular benefits (Montanari, *et al.*, 2008).

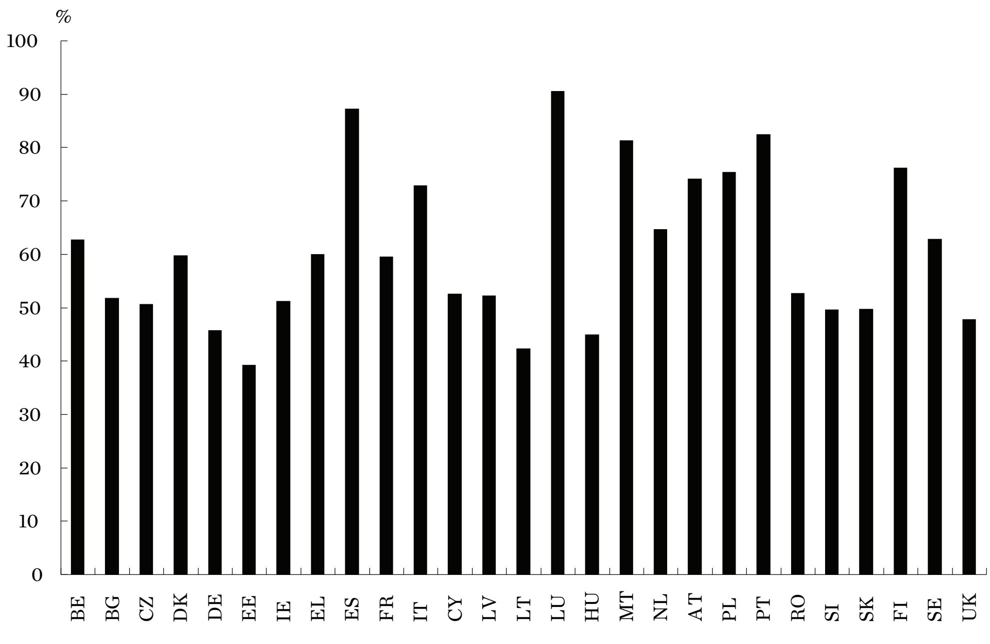
A third type of change has appeared in Finland and Sweden where there is a tradition of combining universal benefits with statutory earnings-related benefits. Here the reforms have been such that earnings-related benefits now form the first tier of the pension system, with the universally guaranteed benefits only being paid to those who have no, or only modest, earnings-related benefits. The important thing here is not means-testing; the size of the universal benefit is only related to/coordinated with the earnings-related benefits. This Finnish solution is worth considering since it attempts to deal with the incentive problem associated with basic old-age benefits in the sense that low-income people are also given the opportunity to improve their benefits by working longer (Kangas and Palme, 1996). However, the contribution conditions for full benefits have also been placed on the agenda here, and Sweden, for example, has shifted to a life-time income formula for determining the size of benefits.

In countries characterised by a strong reliance on earnings-related benefits, which are primarily those employing the state corporatist or encompassing-models, there has been a fourth type of reform discussion, also relating to the questions of qualifying conditions and indexation. Cost controls are once again the main reason underlying the initiating of these discussions. Whereas changes in the qualifying conditions for old-age pension benefits only have consequences in the longer term, indexation has immediate effects on social expenditure. The shift to defined contribution (DC) formulas constitutes one alternative approach, whereby qualifying conditions are made tougher by prolonging contribution periods. Among the countries that apply the state corporatist model, for example, Germany has introduced complementary means-tested basic benefits and has improved tax-credits for low income individuals who save for a private pension. As long as there are means-tests we will have problems of poverty traps, even if this is perhaps less of a problem when it comes to the elderly. Means-tested programs are also associated with problems of incomplete take-up.

The Swedish pension reform is an interesting case in point (Palme, 2003). The reform, as with all pension reforms in mature welfare states, can be seen as a reaction to the problems and achievements of existing systems of old-age security, as well as to the various interests generated by them. The design of the benefit formula follows the principle of making lifetime income the basis for determining the size of the future pension. A strong motive here is to provide a good incentive structure to increase the labour supply. One important feature of the reformed system is that it attempts to make all kinds of redistribution that occur within the system explicit and motivated by social policy considerations. Thus it is not only earnings that give access to future entitlements, but rather there are a number of other income sources, such as social insurance benefits and credits for having small children, that are also counted as pensionable income. The kind of defined contribution (DC) reforms that have been implemented in Sweden, Italy, Latvia and Poland come closer to what Laslett and Fishkin (1992) have labelled 'strong' generational contracts. In their terms, the defined benefit (DB) frameworks are 'weak' generational contracts open to recurrent re-negotiations.

Figure 16 shows old-age pension net replacement rates in the EU Member States. Note that the replacement rates refer to the average of two household categories, the one a single person and the other a married couple where only one spouse has been active on the labour market. Luxembourg is the most generous country and replaces earnings by slightly over 90 percent. Spain, Portugal, Malta, Finland, Poland, Austria and Italy have net replacement rates of between 80 and 90 percent, whereas programs in the Netherlands, Sweden, Belgium, Greece Denmark and France compensate earnings at levels of between 60 and 70 percent. It is notable that in many of these countries the old-age pensions system includes second-tier supplementary earnings-related benefits.

Figure 16. Net Replacement Rates of Standard Old-Age Pension Benefits in the EU Member States, 2005.



Source: SCIP and MISSOC.

A relatively large group of CEE countries replace earnings by approximately half. Included here are Romania, Latvia, Bulgaria, Slovakia, Slovenia and the Czech Republic. Cyprus and Ireland are also included in this group of countries. Five countries have old-age pensions corresponding to less than half of an average production worker's net wage. The United Kingdom, Germany, Hungary, Lithuania and Estonia belong to this group. In the case of Germany, however, it should be noted that a longer contribution period substantially improves the replacement rate.

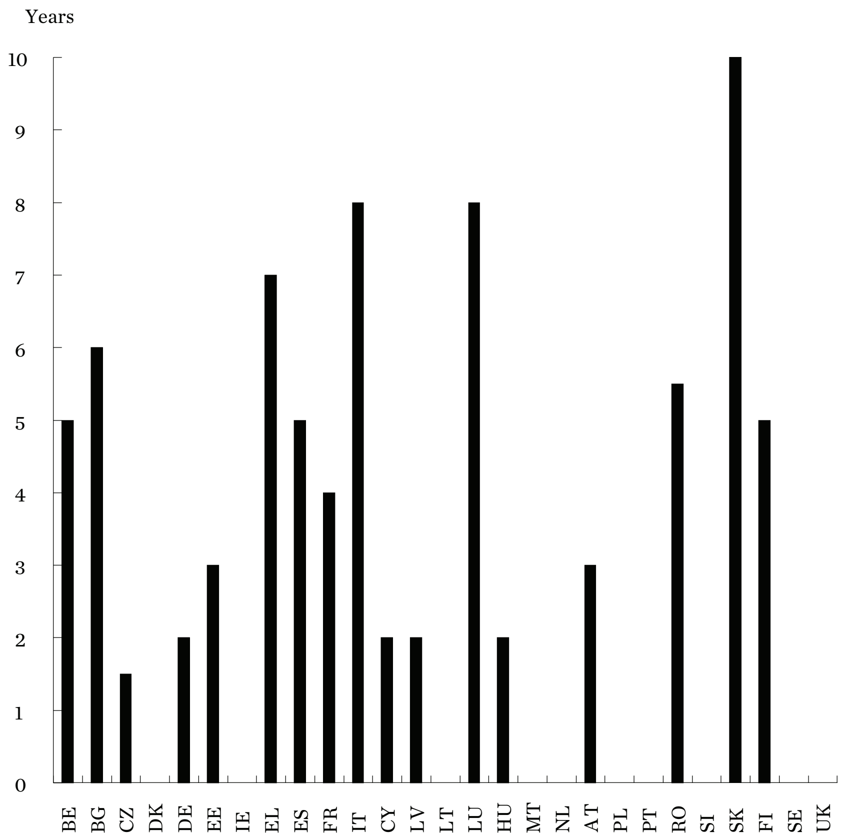
The rise in old-age dependency rates that is currently being generated by ageing populations and falling fertility rates is unprecedented in human history. One challenge is to identify strategies that will make pension systems sustainable, something that is part of EU-policy and the OMC-framework. Yet financial sustainability may not be sufficient to produce social sustainability; to achieve the latter, pensions need to be adequate. The fiscal problems require increased labour force participation rates and high employment rates. From this perspective, is it encouraging to find that attitudes to work and delayed retirement are less negative in countries with high old-age pension replacement rates (Esser, 2005). Moreover, EU Member States where working life and labour markets are more organized are characterised by higher desired retirement ages. Thus the costs of tax systems and redistribution can enhance the financial viability of pension systems and can be put to productive use in ensuring our common future by means of well designed and integrated social policy programs. By removing incentives for early retirement and creating conditions for a more gradual withdrawal from the labour market, it is possible to alleviate the fiscal burden associated with rising longevity and early retirement. What appears to be evident is that we need to extend our concept of social models to encompass the different ways production is organized.

3.3.2. Early Retirement

Occupational groups working in particularly hazardous occupations or with particular age-related health risks have traditionally been granted early retirement pensions in many EU-countries. Examples of such occupations are miners and steel workers, transport workers (seamen, pilots, and train drivers) as well as some public sector employees, such as members of the military and police officers. In the mid 1970s, these early retirement schemes were extended beyond these occupational groups in many EU countries. In the 1970s and 1980s, several countries also introduced early retirement schemes which made entitlement explicitly conditional upon the retiring person being replaced by an unemployed and/or young person. Most of these schemes have since been abolished however.

Figure 17 shows the difference (in years) between the normal retirement age for public, state-legislated old age pensions and the age at which individuals may receive early retirement benefits. Early retirement schemes are in this context only those schemes where eligibility is *not* dependent upon reduced work capacity (these benefits will be discusses in the section 'disability benefits') and/or labour market criteria.

Figure 17. Difference (in years) between Normal and Early Retirement Ages according to Program Regulations in the EU Member States.



Note: Absence of staples indicates no difference between normal and early retirement ages according to progam regulations

Source: SCIP and MISSOC.

Most EU countries offer the possibility of early retirement benefits, and the age at which these benefits may be utilized ranges from two years prior to normal retirement age in countries such as the Czech Republic, Cyprus, Germany, Hungary, Latvia and Switzerland, to eight years or more prior to normal retirement age in Italy, Luxembourg and Slovakia. Slovakia is a special case, since there is currently no age limit on early retirement, which is theoretically possible at any age provided the contribution conditions and an earnings requirement are met.

Equally interesting are those countries in which no early retirement scheme exists or where a scheme of this kind has been phased out. A discussion of these countries will also illuminate some of the institutional complexities involved in describing the institutional pathways to early retirement. For example the Netherlands has no early retirement scheme, which is something that warrants some discussion. The Netherlands introduced what was labelled the VUT-scheme in the 1980s, with the explicit aim of providing jobs for younger workers on the labour market. However, this scheme was not legislated at the national level but was instead arranged through collective labour agreements. Although there are substantial variations between these arrangements, replacement levels in most schemes were relatively high (75–80 percent), eligibility rules were relatively lenient and workers could usually retire at ages 58–60. This, together with the fact that the take-up of VUT pensions would not affect old age pension levels, meant that VUT became known as an offer one couldn't refuse (van Oorschot, 2006: 7). In 1997, the Dutch government and the social partners agreed to try to reverse the exit trend of older workers. The VUT scheme was replaced by less generous alternatives (also arranged by collective agreements), whereby the take-up of early retirement benefits would reduce an individual's old age pension considerably. Studies indicate that this has contributed to an increase in the average Dutch exit age since 1997, a trend that will perhaps be further accentuated by the fact that the exemption of premiums to the early retirement scheme from general taxation was abolished by the Dutch government in 2006.

A number of countries have also phased out their early retirement schemes altogether. In 1978, Denmark introduced a voluntary early retirement scheme, available from 60 years of age, in the wake of high unemployment levels. In the 1980s, 60 percent of insured individuals aged between 60 and 67 (the normal retirement age) were drawing this benefit. In the early 1990s, when unemployment once again started to increase, a transitional pre-retirement benefit was introduced for long-term unemployed persons aged 55–59 (introduced 1992) and in 1994 for those aged 50–59. In the face of a massive early exit wave during the 1990s, the government intervened and since 1996, the early retirement program has been gradually phased out. Sweden has never had an early retirement scheme of the form discussed here, i.e. where eligibility is not contingent upon a permanent reduction in working capacity. However, eligibility conditions for receiving disability pension have changed over time and between 1972 and 1991 it was possible to receive early retirement for labour market reasons (see below).

Ireland's social insurance pensions do not offer an early retirement option. However, during the recession in the 1980s, generous early retirement packages were offered to employees in state, semi-state and private companies. These packages usually involved additional payments by the employer into the pension fund in lieu of the wages and normal pension contributions which would have been due over the remaining period of employment. In the economic boom of the 1990s and early 2000s, many employers were attempting to bring back to work employees with special skills who had taken retirement (Wickham, 2005). Finally, the British state pension does not allow early retirement, and workers who wish to retire early must rely on occupational or private pensions. However, the Job Release Scheme, introduced in 1977, did enable some older workers to retire early. Eligibility for early retirement benefits through this scheme depended upon whether the employer would provide a new job for someone who was unemployed. Numerous changes to age limits, conditions and eligible groups meant that relatively few workers actually enjoyed this benefit prior to its abolition in 1989.

3.3.3. Unemployment Benefits for Older Workers

Unemployment insurance benefits constitute another important pathway to early withdrawal from the labour force, and in most of the EU countries there exist special arrangements for older members of the unemployed. In a number of countries, such as Austria, France, Germany, Portugal and the Czech Republic, unemployment may be one condition for being granted early retirement benefits. In France, unemployment benefits have long been a major pathway for the early exit of above all private sector workers (Ebbinghaus, 2006). In the 1970s, a guaranteed income scheme was set up for workers over a certain age who had been dismissed, and this arrangement was later extended to also include workers who resigned from their jobs voluntarily.

The pre-retirement pension in Belgium is intended for older workers who have been laid off, who in addition to their standard unemployment benefit can also receive additional compensation with relaxed demands being made on them to make themselves available on the labour market. The system will now be scaled down as a result of the so-called Generation Pact passed in 2005, which aims to reduce early retirement without changing the legal retirement age or any current benefits that have already been granted.

In several countries, such as France, the Netherlands and Belgium, older members of the unemployed (or at least certain categories within this group) may also be exempted from job-seeking requirements. In Finland, a scheme known as the unemployment pension for long-term unemployed has long been an important retirement pathway. Although this scheme was abolished in 2005 for persons born in 1950 or later, the number of persons receiving the unemployment pension will remain high until the final age cohort entitled to this form of benefit (i.e. those born in 1949) reach the age of 60 (the age at which they become entitled to the benefit). In other countries, such as Lithuania, Slovenia, Denmark and Estonia, the duration of the period during which unemployment insurance benefits are paid is prolonged for elderly unemployed persons over a certain age. In some countries, such as the Netherlands, these extended benefits are paid at a reduced rate. In some countries, such as Cyprus, the conditions for becoming eligible for renewed unemployment benefits, once the first period of payments has been exhausted, are more lenient for older unemployed persons.

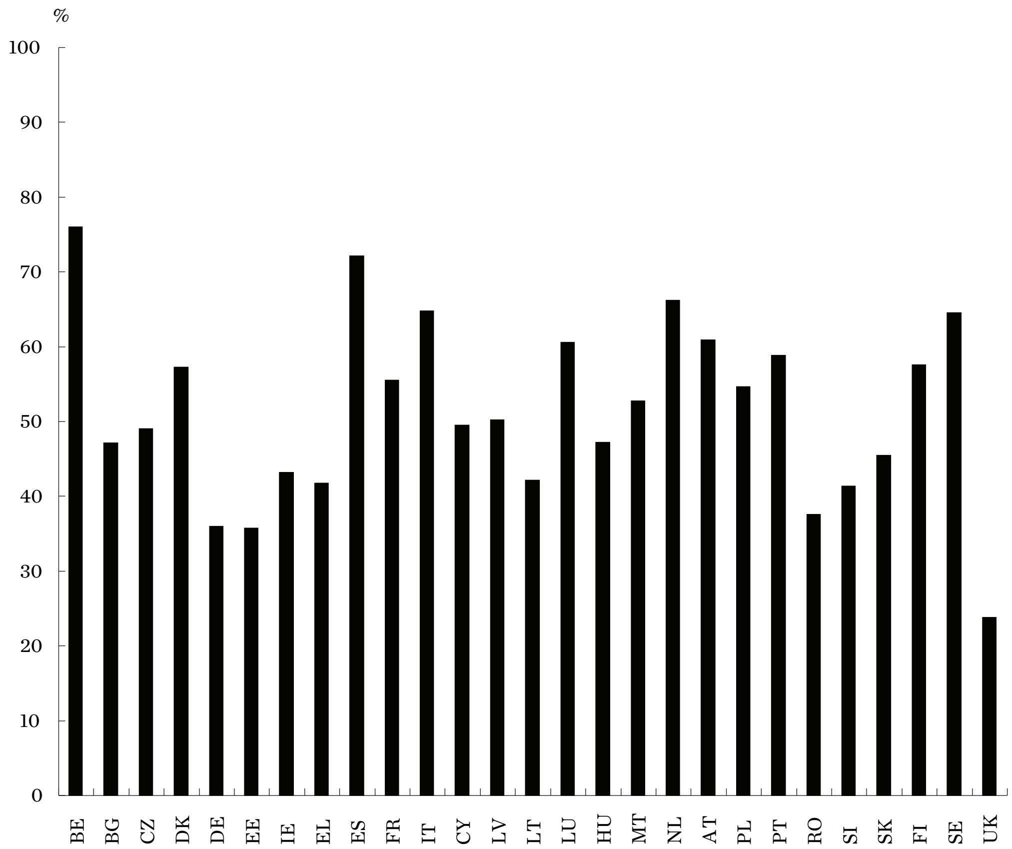
3.3.4. Disability Pensions

Another pathway to early withdrawal from the labour force found in some countries consists in disability pensions/benefits awarded to those who are diagnosed with a permanent disability (temporary disability benefits are discussed above). Originally, in most of the EU-countries these kinds of benefits were intended to cater for older people who had acquired age-related health problems or impairments and who were unable to find adequate employment. Eligibility for disability benefits is highly dependent on the individual's health status and work capacity and on other eligibility criteria established in the award procedures. However, evidence suggests that entitlement conditions have been made more lenient in many EU countries in recent decade, and that these benefits have been used for other purposes than those they were originally intended for. In the 1970s and 1980s, for example, many EU countries introduced an explicit labour-market criterion in relation to the granting of disability pensions, although this criterion was then subsequently removed in many countries during the 1990s and 2000s, in the wake of a substantial increase in the numbers receiving disability benefits. In countries such as Austria, Spain (prior to 1985), Sweden (from 1972), Finland (from 1986) and Denmark (from 1977), there is evidence that the labour market criterion was largely used in assessing the benefit eligibility of older workers.

The Netherlands is deserving of a somewhat more detailed presentation in this context, since the massive use of the disability pathway for older workers during the late 1970s and early 1980s gave rise to what became known as the 'Dutch disease'. In 1976, the Dutch government introduced, in addition to earnings-related disability benefits, a universal (flat-rate) disability insurance. This, together with relaxed eligibility criteria, led to a situation where by the mid-1980s, one third of Dutch men aged 55–64 were receiving a disability pension. In 1987, the Netherlands abolished the labour market criterion for receiving disability benefits, and the collectively negotiated VUT scheme increasingly came to replace the disability pathway, particularly for redundant male workers. During the late 1980s and the 1990s, more countries followed suit and abandoned the labour market criterion for receiving disability benefits.

Figure 18 shows the net replacement rate of long-term disability benefits in the EU in 2005; the calculation of benefits is based on the case of a 55-year old individual who receives invalidity benefit due to a 100 percent incapacity to work, and benefit figures are based on the average of a single earner household and a single-earner with a non-working spouse. No other benefits (such as benefits related to rehabilitation measures) are included. Replacement rates range from slightly below 25 percent to around 75 percent. Belgium, the Netherlands and Spain have replacement rates of over 70 percent. Italy, Sweden, Austria and Luxembourg have replacement rates of between 60 and 70 percent, whereas Portugal, Finland, Denmark, France, Poland, Malta and Latvia have replacement rates of between 50 and 60 percent. The other countries are located in the interval between 25 and 50 percent.

Figure 18. Net Replacement Rates of Long-Term Disability Benefits in the EU Member States, 2005.



Source: SCIP and MISSOC.

Summarising this chapter of the report represents a challenge given the complex cross-national variation in the ways social protection systems are organised in relation to permanent exits from the labour market. The various programs found among the Member States together constitute a veritable multitude of interrelated pathways. The most important lesson is perhaps that any comparison among nations based on just one type of program is almost doomed to be misleading. What is warranted is a more comprehensive approach, not only if we want to identify the cross-national differences in social models but also if we are serious about understanding the sources of cross-national variation in various related outcomes, e.g. labour market participation among those of pre-retirement age. It is evident that attitudes to retirement among European citizens are affected by both the labour markets and how welfare states are organised (Esser, 2005). A comprehensive approach is also fruitful for understanding the cross-national differences in poverty and inequality among those age-groups that are approaching the statutory retirement age. This is important if we are serious about simultaneously promoting both inclusion on the labour market and social cohesion. The fact that Europeans in general are expecting to retire later than they used to (Lindh and Palme, 2006), appears to open up opportunities for well-informed reform initiatives in relation to the different pathways to retirement. In relation to these pathways, the gender dimension of program design is of obvious relevance. Similarly to what was observed above in relation to sickness insurance, women suffer from a higher prevalence of ill-health than men despite the fact that mortality rates are higher among men. These patterns are also very clear when the analysis is focused on pre-retirement ages. This implies that both social protection and inclusion on the labour market are of special relevance for women.

3.4. Social Assistance and Activation

Social assistance is activated once other sources of income are insufficient to cater for individual and family needs. Social assistance is a non-contributory and means-tested benefit financed by general taxation. In contrast to social insurance, which is intended to protect lost wages, social assistance is rather intended to provide only for a basic level of social needs. There is an important interplay between social insurance and social assistance that is sometimes overlooked in public and academic discussions about the role and consequences of anti-poverty policy. Social insurance at least partly defines the role played by social assistance in the overall system of social protection. Insufficiencies in first-tier benefits, such as social insurance, may translate into larger case-loads for social assistance. In order to understand how different systems of social protection function and create distinct outcomes it is therefore not sufficient to focus exclusively on social insurance. Social assistance must also be taken into consideration.

Social insurance also influences the level of social assistance. In part this is because larger case-loads often translate into greater social expenditure for local authorities, but also because basic scale rates of social assistance hardly can be more generous than contributory social insurance. The pooling of risks and resources in social insurance may also spill over to social assistance and create greater support for generous anti-poverty policies. Recommendations for the setting up of effective social assistance arrangements must take this institutional interplay between insurance and assistance into account. In some circumstances it may not been possible to offer effective social assistance without giving proper consideration to the organization of social insurance (Nelson, 2003).

Social assistance comes in the form of both cash and care. Whereas government commitments in the form of cash benefits may be less extensive than for social insurance, the emphasis placed on social services may be more elaborate. In particular this may be the case today, when social welfare agencies across Europe have become increasingly involved in labour market activation. Decentralization and co-financing between different levels of government are essential elements characterizing divisions of responsibilities in this area, and these are described later in this report. In this section, the focus is directed exclusively at cash benefits. In the early 1990s, the European Council published two documents that included recommendations to the Member States for the development of social assistance benefits in accordance with various principles, such as generalized schemes, differentiated benefit amounts, and formal indexation procedures (European Council, 1992a; 1992b). Generalized social assistance schemes apply to all citizens in financial need (see Eardley et al., 1996). More recently, the open method of coordination was launched in order to stimulate improved coherence in social policy across the EU. Despite these efforts there are still EU countries that lack generalized social assistance frameworks. Nonetheless, the broad majority of EU countries now have some system of benefits in operation. The EU countries that still lack national social assistance frameworks are Greece, Italy and to some extent also Hungary.

3.4.1. Means-Tested Benefits

Social assistance has a somewhat peculiar relationship to social and labour market integration, at least according to mainstream discussion and debates. Many aspects of benefit rules may potentially influence workforce participation, and often in a downward direction it is assumed. Besides more general arguments concerning the assumed work disincentives generated by overly generous benefit levels, concerns are often raised that means-testing as such may create so-called poverty traps. In such situations, citizens refuse to enter employment due to fears of loosing entitlements. One response to this particular problem is found in so-called 'tapers' on work income, whereby entitlements are not reduced by one hundred percent for every additional monetary unit earned from gainful employment. As a result, financial incentives are introduced to move from dependency into employment. Such tapers on work income exist in six EU countries, namely the Czech Republic, Denmark, Cyprus, Portugal, Finland and Slovakia.

A more common approach to increasing the level of entry into paid employment among social assistance recipients, which sometimes involves more punitive elements than tapers, is the introduction of job-related activities in return for benefit, such as job search, education, training, or actual work (Lødemel and Trickey, 2001). Although active measures may increase the possibilities of employment, worries have also been raised that inappropriate designs create downward pressures on market wages and stimulate the development of low-wage employment (Grover and Stewart, 1999; Schragge, 1997). Such negative pressures may be created when active measures involve more sticks than carrots, e.g. when the focus on human capital formation and the competence of program participants is downplayed in exchange for movements into low-paid, unqualified labour. The relationship between labour market activation and social assistance is discussed further in subsequent sections below.

Many European governments have tried to calibrate social assistance to provide protection against economic hardship and low income, while simultaneously avoiding any unintended disincentives towards paid work caused by overly generous minimum benefits. In many cases the implication has been cuts in benefit levels. Social assistance is even more vulnerable to retrenchment than social insurance and has been the subject of more cutbacks in benefit levels than social insurance in most European countries over the last two decades (Nelson, 2007a). There are probably several reasons for this greater degree of vulnerability, one being that social assistance often enjoys less public support than universal and contributory benefits (Kangas, 1995). Furthermore, the developments in social assistance that have resulted from these cutbacks in benefits have not produced greater conformity in benefit levels across Europe. Instead social assistance benefits have tended to diverge, with the frontrunners and laggards of the EU moving further apart (Nelson, 2009).

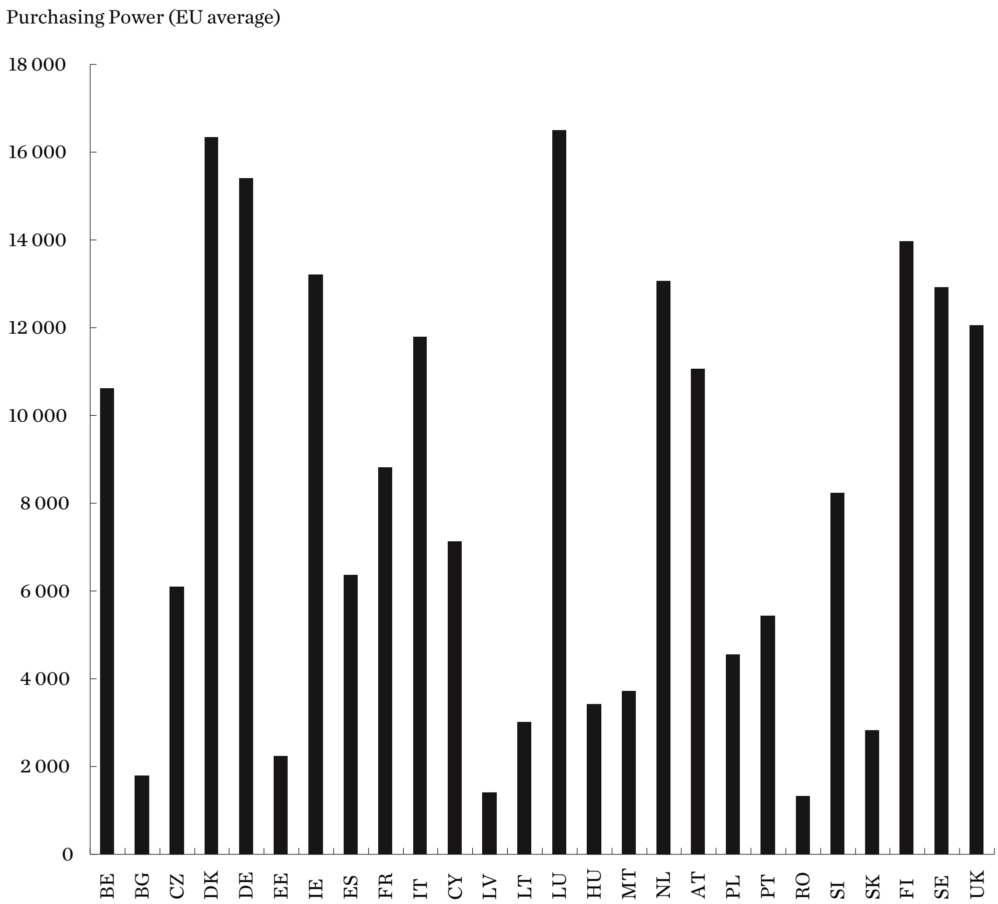
Over time, the ability of social assistance to combat economic hardship and low income is dependent on at least three factors: benefit levels, prices and wages. Although benefits in most European countries seem to have kept up with trends in prices, thus stabilizing recipients' purchasing power over the longer run, social assistance has often been substantially eroded relative to wage development (Nelson, 2007a). This trend indicates that the income position of recipient households has fallen behind the general level of income growth in society, thus placing beneficiaries in a more precarious position in the overall income distribution. Although it is difficult to establish any clear linkages between the various principles employed in the year-to-year adjustment of benefits and the long-term development of social assistance, the above results demonstrate that most governments use some form of price index to regularly adapt benefits in order to alleviate or reduce economic hardship. As long as wages continue to grow faster than prices, which is the most usual scenario in Europe, the strategy of indexing benefits to prices may not prove very successful in securing the future living standards of the lowest income groups.

The alternative adjustment mechanisms used in Europe may not always be preferable either. In most instances, benefits often fail to keep up with general income growth even in cases where alternative approaches to price indexation are in force. In countries where benefits are linked to the development of wages, such as Austria, Denmark, the Netherlands and Slovakia, or to consumption, as in Germany and Finland, benefit increases do no necessarily correspond to movements in average wages or to changes in consumption patterns in the population as a whole. In Finland, for example, benefits are regularly adapted to reflect changes in the consumption patterns of the lower income quintiles, while in the Netherlands they are adapted to changes in minimum wages. In addition, governments often bypass or make adjustments to the formal indexation procedures, e.g. in periods when social expenditure is growing rapidly (Cantillon *et al.*, 2004). Political deliberation is particularly pronounced in Bulgaria, the Czech Republic, Estonia, Spain, Ireland, Latvia, Lithuania and the United Kingdom. If the indexation of minimum benefits such as social assistance is to be a priority of the EU as a means of securing the relative income position of recipient households, efforts should perhaps be made to encourage countries to establish a formal linkage between social assistance benefits and the overall development of wages rather than linking them to prices or the circumstances of lower income groups.

The exact minimum level of living guaranteed by social assistance varies of course across countries, reflecting both structural and political factors. In this respect social assistance exhibits similarities to social insurance. Nevertheless, it has proven difficult to identify different social assistance models in Europe, as well as in the broader group of OECD countries. The literature suggests various characterizations ranging from four clusters (Lødemel and Schulte, 1992) up to eight groups of countries with distinct organizational forms for social assistance provision (Gough *et al.*, 1997). Although the organization of social assistance varies substantially across countries, objectives may exhibit a greater degree of similarity. One common objective of social assistance in Europe is to combat economic hardship and reduce poverty. Given this fact, it is relevant to relate social assistance to a number of common poverty-related yardsticks. Poverty is of course multidimensional in character and involves both absolute and relative components. In comparative income distribution studies, poverty is nevertheless for the most part defined in relative terms and as a fraction of the median income in relevant population categories, often the total population (Jäntti and Danziger, 2000). The 'near' or 'at risk of' poverty threshold employed in the commonly agreed EU indicators for social inclusion is defined in similar terms (Commission of the European Communities, 2006). The extent of poverty in certain groups of the population is thereby not only determined by the income of households in specific low-income categories, but also by the income of households in other population groups.

The net income of social assistance as a percentage of the at-risk-of-poverty threshold is one of the indicators on the revised list of the streamlined social inclusion ("Laeken") portfolio (Marlier, 2007). In a group of 18 EU countries at the turn of the new millennium, social assistance reached the EU 'at-risk-of' poverty thresholds in Poland and Slovakia alone (Nelson, 2009). This threshold corresponds to 60 percent of the national disposable median income in the total population, after adjustments for differences in household needs. In this report we present 2005 levels of social assistance standardized for purchasing power parities. Social assistance includes all benefits available to low income households that lack work income and where eligibility for social insurance cannot be established. *Figure 19* shows social assistance standardized for purchasing power in 2005 for the EU Member States. The averages of three household types are employed: single person, lone parent, and two-parent family. Yearly benefit amounts are shown. Although not shown here, social assistance does not discriminate against women in terms of the benefit levels provided. In most European countries, the lone parent type-case receives approximately the equivalent amount of benefits as the two-parent family (Nelson, 2008). In some countries, the basic social assistance rates for lone parents are even higher than those for two-parent families, once household size and economies of scale are taken into consideration. Nevertheless, lone parents are often overrepresented in total social assistance case-loads, something that reflects the wider gendering structures of the welfare state.

Figure 19. Social Assistance Standardized for Purchasing Power in the EU Member States, 2005. Average of Net Benefits for Three Household Types: Single Person, Lone Parent, and Two Parent Family (Yearly Amounts).



Note: The level of social assistance for Italy varies substantially across regions. The figures reported here are estimates for Milan, excluding housing supplements. Housing supplements are also exlcuded for Bulgaria and Estonia. Additional local benefits are not included in social assistance for Latvia.

Source: SaMip and MISSOC.

At least four groups of countries can be discerned. Luxembourg, Denmark and Germany are quite generous, with benefit levels above 15,000 purchasing power units. A larger group of countries provide benefit levels varying between 10,000 and 14,000 purchasing power units. Included here are Finland, Ireland, the Netherlands, Sweden, the United Kingdom, Italy, Austria and Belgium. Characteristic for most countries included in these two groups is the fact that housing expenditure is covered either in full or to a large extent. Benefit levels vary between 5,000 and 9,000 purchasing power units in France, Slovenia, Cyprus, Spain, the Czech Republic and Portugal. In Poland, Malta, Hungary, Lithuania, Slovakia, Estonia, Bulgaria, Latvia and Romania, social assistance is provided at levels below 5,000 purchasing power units.

In sum, social assistance remains characterised by extensive differences across EU Member States. Social assistance has experienced cut backs over recent decades, something that has negatively influenced the extent to which benefits provide incomes above the EU “at-risk-of” poverty threshold. At the moment, hardly any countries guarantee social assistance above this level. The organization and outcomes of social assistance are closely linked to the structure of social insurance, and the stakeholders involved in the provision of social assistance are rather different to those involved in social insurance provision. Since social assistance is fully financed from general tax revenue, employers and individuals do not have any direct interests in the funding and operation of benefits. However, unlike social insurance, the financing of social assistance may be both local and national in character. National frameworks often oblige local authorities to organize and finance social assistance. Sometimes co-funding by different levels of government applies. Such divisions of responsibilities between different levels of government may cause a number of tensions in relation to both financing and administration. Some of these tensions and the responses to them are discussed below.

3.4.2. Welfare Reforms

Activation has not only inspired changes in the content of social insurance rights, but has also introduced modifications of social assistance provisions. The following section describes the territorial (re)organization of European social assistance in a selected group of EU Member States. Different strategies have been used to reform social assistance. Among others, the institutional settings of the programs have been altered by shifting the focus of the territorial dispersion of power and responsibility. Processes of both decentralization and recentralization have taken place in the search for an optimal organization of welfare policies, and sub-national institutions are increasingly regarded as the optimal welfare policy providers. Proponents of increased local autonomy regard it as democratic, participatory and innovative. The democracy argument revolves around the assumption that decentralization will locate decision making closer to the people, and is based on the premise that locally controlled politics will better reflect the political will of the local population. From this perspective, geographical variations in welfare services are not a problem, but rather a reflection of variations in need or popular opinion. A further argument promoting decentralization is that it encourages pluralism and renewal, in contrast to the standardization and rigid structures imposed by central government. However, critiques of far-reaching decentralization highlight the risks of extensive variations in welfare and welfare service availability. From an egalitarian perspective, national governments may be viewed as the ultimate guarantor of equality in welfare delivery. The central argument against political decentralization on democratic grounds emphasizes the degree of inequity that may accompany variations in e.g. service provision and benefit levels. Different local standards of service may result in some citizens receiving lower quality services relative to others (Bergmark and Minas, 2007).

However, when performing cross country comparisons, the significance of decentralization depends on the starting point. Historical and institutional preconditions differ between countries, giving decentralization processes a different resonance in already highly decentralized countries than in initially centralized countries (Pollitt, 2005). It may for example be easier for highly centralized countries to implement radical decentralization reforms than for countries where power is already allocated between various levels of governance.

3.4.2.1. Decentralization

The decentralization of power and responsibility to lower levels of government has been an ongoing process in many countries. However, rather than representing a single strategy, decentralization is a broad umbrella under which different and often conflicting approaches have found shelter, and it has proved useful to distinguish between political, administrative and fiscal decentralization (Pollitt, 2005). *Political* decentralization implies a transfer of authority from central government to elected political representatives at lower government levels. The basic idea behind *administrative* decentralization is that government should be made more efficient and effective, and that the best way to achieve this is to enhance the autonomy of local managers and their organizations. Instead of regulating the activities of managers from the top down, administrative authority was transferred to front-line personnel, thus opening up for an extension of the decision-making autonomy of lower-level workers. The core idea behind *fiscal* decentralization is that tax- and expenditure decisions can be better taken by regional or municipal levels than by the central/national level of government. The distinction between these forms of decentralization is useful, since processes of transferring power to lower levels of government do not always take place on all three dimensions simultaneously. Instead, decentralization often occurs on only one or two of these dimensions.

From the 1990s until the beginning of the new century, a common downward shift of political power to sub-national tiers of governance can be observed with respect to the regulation of social assistance policies. The increasing importance of sub-national levels of governance might be seen as a trend towards convergence in European countries, yet the processes involved and the outcomes of these processes can look quite different.

A first distinction that can be made is that decentralization can take place by shifting power from the national to either the regional or the local level. France represents one example of a country that has undergone the first of these two types of decentralization process, which has in France taken the form of a gradual process of institutional change over the course of 25 years. An increased shift of responsibility to sub-national authorities resulted in increased administrative diversity and a more pronounced sub-national responsibility for activation measures in cooperation with new actors. Following the 2003 constitutional reform, a new act transferred responsibilities for the implementation of the RMI (Revenue Minimum d'Insertion), the most important minimum income scheme, from the national level to the level of the Département (the provincial tier of government). However, the regulation of eligibility criteria remains in the hand of the state.

In other countries, decentralization involved a shift of power to the municipalities (e.g. Sweden, Finland and Poland). Following the collapse of the communist regime in Poland, the new government established the gminas (municipalities) as a local entity in 1990, thereby introducing an entirely new tier in the formerly centralist country. Decentralization was further increased in 1999 when the voivodships (regions) and poviats (counties) were introduced and received formal authorities. At both the regional and local levels, new political and administrative organizations evolved which are extensively involved in social assistance management and delivery. However, the most powerful level is the gminas, which were given autonomy to regulate the level of social assistance benefits (periodic allowances) above the statutory minimum. Swedish municipalities received greater autonomy in relation to the organization of their activities (Local Government Act, 1990), and new legislation also gave municipalities the right to make social assistance benefits conditional on work or retraining efforts. Thus local councils were allowed to develop and organize social assistance as workfare. A downward shift of responsibility with regard to labour market programs for unemployed people located "far from the labour market" can also be observed in Finland (Act on rehabilitating work experience (Kutu), 189/2001). Lower level social services offices were authorized to organize active labour market programs, either by themselves or by buying programs from non-state actors, and there was thus a shift from the national to local level.

A third and weaker type of decentralisation can be exemplified on the basis of the UK experience, and the introduction there of the New Deal, which provided for the possibility of local variation and discretion. The involvement of private companies was also emphasized in relation to delivery options and the management of various areas of the overall New Deal program. However, this took place within the framework of a largely centralised, top-down system (Trickey and Walker, 2001, Nativel *et al.*, 2002).

A second distinction differentiates between states where decentralization in the regulation of social assistance consists of changes in constitutional regulation (e.g. Spain, Italy) and those where it instead relates to direct regulation of social assistance activities without touching constitutional regulation (e.g. Sweden and France). This corresponds to the distinction between national social assistance legislations and regional ones. The Scandinavian countries, as well as Poland and France, represent countries with national framework legislation. By contrast, regional social assistance legislation can be found in the Southern European countries.

However, some movements in the opposite direction (re-centralization) are also visible, for example in Sweden in the late 1990s. More recent trends also indicate an increased institutionalized cooperation between actors at different levels of government, which is sometimes referred to as centralized decentralization. This suggests that the decentralization of decision making power constitutes a contested field, and one where authorities at different levels may have different agendas, leading to ambivalent movements (with both decentralization and recentralization taking place simultaneously), at least in some countries. The developments witnessed in the United Kingdom have been characterised as a movement towards "central government localism" (Nativel *et al.*, 2002).

In contrast to the regulative responsibility for social assistance, the administration of this policy area is a task for lower levels of government. In some countries, administrative responsibility is concentrated to one or a few government levels (e.g Nordic countries), whereas in other countries, a much more fragmented picture of administrative competencies can be observed (Poland and France). This fragmented pattern mirrors a diversity in the structure of social assistance schemes. Countries with a single main (universal) social assistance scheme administer social assistance at few levels of government. Countries with several categorical benefits (different schemes for different types of claimants) administer these schemes using a variety of government levels (and agencies).

Financial sustainability is also a disputed issue with respect to the financing of social assistance schemes. One controversy relates to the question of whether political authority should be combined with financial responsibility. Supporters of this idea argue that linking decision making authority to financial responsibility may serve to discipline those who make decisions. However, opponents fear that financial responsibility may result in a "race to the bottom", with local governments attempting to shovel social assistance claimants elsewhere in order to save money.

Nevertheless, financial responsibility can be effected in different ways, such as through funds allocated to local governments (or agencies) in the form of block or earmarked grants, as well as by granting local governments the power to levy their own taxes.

In the Nordic countries, local governments have the main financial responsibility for social assistance and related social services. The Continental European countries display a more complex financial structure, reflecting their more complex benefit systems. Here local governments are to a lesser extent the centre of financial responsibility for social assistance benefits and related services. Financial responsibility often varies depending on the benefit and service in question, and financial responsibility may be shared between different levels of government (in many subtle ways). To take one example, the regional social service systems of Italy and Spain provide different benefits and services to different social categories, and this leads to complex financial arrangements.

During the last 15 to 20 years, locally financed social assistance and state financed unemployment benefits and activation services have become increasingly financially coordinated (e.g. in Finland, where activation services are to an increasing extent co-funded by state and local authorities, rather than being financed exclusively by the state). There are also attempts to delegate financial responsibilities to lower levels of government. In Italy, for example, the new constitution of 2001 grants local governments some power to levy taxes in combination with equalization funds and targeted transfers from the state. In Poland, there was a decentralization of public finances in 2004. The municipalities had already been given some powers to levy taxes at the end of the 1990s, but these powers were significantly expanded in 2004.

When summarizing the main findings with respect to general trends and patterns, we can distinguish a trend towards a greater level of sub-national autonomy, implying that local governments are to an increasing extent enjoying constitutional protection, have their own planning competences, can decide how to organize themselves, have increased scope for local taxation, receive block rather than earmarked grants, and have autonomy to determine both sanctions and how they organize their case management activities *vis-á-vis* social assistance claimants. It must be emphasized, however, that there are differences when it comes to the question of the specific sub-national level that has benefited from "increased local autonomy". In the Nordic countries, local governments have been strengthened. In Italy and Spain it is the regional governments that have been strengthened; in France it is the Départment (lower regional level); in Poland it is all sub-national levels. Simultaneously, in some countries (e.g. Finland) a tendency can be observed towards increased higher-level controls over the specific social assistance decisions that are taken by lower levels ("supra-local supervision"). This means that higher levels of government are to an increasing extent monitoring local level outcomes, and introducing binding monetary standards and mandatory activation requirements. This suggests a shift away from direct control over lower level governments to a use of more indirect means of influencing local level decision-making. This shift is in line with new public management (NPM) ideas, in which higher level management (the state) retreats from direct control and grants lower level management (local governments) autonomy to decide exactly how overarching goals are to be met ("steering, not rowing"). Finally, the changes witnessed can to some extent be interpreted as reflecting a catching-up process, in which countries that were low on local autonomy and indirect central steering in 1990 are catching up with countries that were already high on these measures at that time.

3.4.2.2. Improving the Delivery of Services

Here the focus is directed at the ambition of the Member States to enhance employment policies and modernize social protection schemes by improving the inclusiveness and the level integration of service delivery to excluded groups. In several EU Member States it has been acknowledged that universal employment policies are not sufficient to reintegrate people who are far outside the labour market. The people concerned often suffer from multiple forms of disadvantage and a targeted approach needs to be put in place; labour market integration often needs to be combined with a range of other services. For example, for lone parents on social assistance, of which the majority are mothers, this might imply the public provision of child care facilities. In some countries where care responsibilities are not covered by public arrangements, lone parents are sometimes exempted from activation obligations. Thus the development of more effective programs of reintegration may require further improvements to services and delivery mechanisms. Greater decentralization and the more integrated localized delivery of employment, social services and support have been identified as central targets for reform (European Communities, 2002).

The emphasis on delivery structures is not a new phenomenon, however. As early as 1966, the OECD noted that the concept of public employment services (PES) as passive institutions simply registering the unemployed was out of date. Since the 1990s, the term “the new PES model” is used in discussions of the modernization of the PES governance structure, meaning that the core PES functions (job placement, unemployed benefit administration, and referral to active labour market measures) should be integrated into one-stop-shop offices (OECD, 1997). Furthermore, the importance of partnerships with other relevant actors was also emphasized. The PES should be transformed into efficient and effective modern service agencies delivering individualized service packages (Weishaupt, 2008). Thus integration was still limited to tasks within the competence of the public employment service.

In recent EU documents the importance of service integration has been broadened however (COM, 2007). For labour market integration to be sustainable, disadvantaged people need to be provided with support in the form of sufficient resources, personalized employment, social services and other services focused on enhancing their social participation and employability. Thus social assistance and social services are important services for promoting the labour market integration of the unemployed. In this context, the term active inclusion was coined by the European Commission (COM(2006)44 final). The term highlights the role of social assistance systems in the triangle formed by active labour market policies, income support and other social support in promoting the (re)integration of excluded persons into employment. The integration of all three elements is assessed as being important for the purposes of working with the most excluded members of society and trying to break the chain by which multiple forms of disadvantage generate multifaceted exclusion. In practice, changes in the institutional structure of the benefits were implemented in most European countries, altering the division of power between national and sub-national levels of government.

In the following, we will first provide an overview of changes in the institutional structure of activation solutions and then proceed to highlight the comprehensiveness of these arrangements. When thinking about integration systems as ideal types, the most far-reaching approach would involve the creation of a totally new institution with the aim of fully uniting agencies that have until now been quite distinct from one another. Another possible institutional structure would involve co-operation between neighbouring policy areas (cross–sectional); the forms for this co-operation could be more or less institutionalized, however. Such arrangements can include different actors, in our case primarily the social service offices and the PES, but others too, such as the social insurance agencies or various NGOs. The least integrative arrangement would involve a complete separation of the responsibilities for activation, with activation responsibilities for the insured unemployed and social assistance recipients respectively being assigned to different institutions. Depending on the institutional structure, the modes of government may be assumed to vary. Another important dimension relates to the comprehensiveness of the arrangements, i.e. whether they are so-called one-stop-shops that are open to all members of the unemployed or are instead targeted at certain groups.

3.4.2.3. New Forms of Activation

In many cases, the new forms of activation arrangements imply rather modest reforms that involve more or less institutionalized forms of cross-sectional cooperation, without changing organizational and professional boundaries. Efforts in the area of integrational strategies are less well-developed and less uniform, for example, in countries with regional social assistance regulation. Here, coordination efforts give a rather patchy impression.

The planning and delivery of social policies in Italy is based on a multilevel governance system, where regions and municipalities interact in a vertical relationship (both bottom-up and top-down), but also in a horizontal relationship with a large number of stakeholders at every level. Regional social plans are adopted by the regions, and local priorities are set following negotiations with local authorities and principal stakeholders. The planning of local measures (e.g. social assistance policies) is up to the municipalities, and involves local area plans that should of course be adapted to regional planning. Inter-institutional coordination committees in Italian regions, which include representatives from the region and from provinces and municipalities, have the task of promoting the integration of employment agencies, active labour policies, and market and training policies. However, even though the provincial employment offices must in theory provide services to all citizens, in practice the extent to which they do so depends on implementation practices, regional and/or provincial guidelines and not least on the resources available.

In Spain, the provinces have a central role, not only for the overall establishment of social assistance policies, but also since they have a formal responsibility for the coordination of social assistance delivery at the (subordinate) municipal level. In addition to this vertical coordination, networks have been established at the horizontal level by means of agreements between various public, private and corporate institutions. In 2005, a new law introduced the Social Integration Project, a project which was obligatory for all municipalities and which has the aim of providing activation and inclusion measures for people at risk of being excluded. It is the municipalities' responsibility to provide and organize activities, and these can thus look quite different within each region. In Poland, we can instead observe attempts at coordination that vary according to local and regional circumstances and depending on which actors are involved. Coordination between local social assistance providers and local or regional employment services is often complicated and fragmented, and the process of social integration is in practice separated from the process of re-entering the labour market (Bergmark and Minas, 2009; Minas, 2008).

With respect to cooperation, institutional fragmentation is a major characteristic of the French social and employment system. Services for the same territory and/or client type are often funded and provided by several different authorities (belonging to different territorial levels). However, the basically single-purpose administrative and intergovernmental setting of the French state is increasingly becoming complemented by multi-purpose forms of territorial government (Thoenig, 2005). The Social Cohesion Plan from 2004 can be interpreted as a step in the direction of integrated activation services. The aim of this plan is to apply an integrated approach to the fight against social exclusion, e.g. tackling the hard core of the unemployed. Around 300 employment houses, or "Maisons de l'emploi", were established under the umbrella of the Ministry of Employment, bringing together various agencies such as the local services of the Ministry of labour, national employment service agencies (ANPE), the national unemployment insurance fund (UNEDIC), municipalities, etc. These houses are open to everybody. Thus France is also engaged in a process of integrating services with the aim of simplifying administrative structures and providing better assistance to unemployed, even if the attempts are not as comprehensive as they are in the Finnish case, for example. Coordination between actors remains difficult.

The most institutionally highly developed efforts at integrating activation services can be found in Germany, the Netherlands, the UK, Finland and Denmark. The solutions look quite different but they have in common that they are the result of vertical changes which simultaneously involve upward and downward shifts of power between higher and lower levels of government. They also have in common that integrated activation services involve agencies located at different territorial tiers (national and local) and that they employ new modes of cooperation. Seen from a vertical perspective, the development of these integrated activation strategies can be characterized as a centralized decentralization, increasing the national control over local governments and delegating the operational responsibility for activation policies to the new agencies. They can thus be described as a compromise between retaining the division of power between the local and central levels and simultaneously creating new coordinated solutions with respect to the delivery of welfare services. Solutions involving integrated activation services are to a large extent based on what have been labelled 'new modes of governance'. They are built on quasi non-hierarchical partnerships between actors at both the national and local levels of government.

As in several other countries, reforms of the public employment services (PES) and social services have been on the agenda in Finland for quiet some time, and ambitions to integrate these services have grown steadily. The new catchword referred to the application of a 'holistic assessment'. One essential step in the institutional integration of activation services was to collect the relevant authorities' service packages together in so-called Joint Service Centres (JOIS) (employment offices, the municipalities and the social insurance institution) at the local level, which was implemented on an experimental basis in 2002 and 2003. One year later, the joint service centres were divided into two parts: for clients with complex and multiple problems a joint municipal-state agency called the Labour Force Service Centres (LAFOS) was set up, while more job-ready members of the unemployed are referred to the Job Search Centres. The LAFOS bring together the public employment services, social and health care services, services of the national social insurance agency and additional subcontracted professional expert services. The different partners coordinate these multi-professional centres. Thus the Finnish government has chosen to retain a dual activation system with the easy-to-place unemployed in one organization and the hard-to-place in another (The Peer Review Program, 2004).

Another example of coordination strategy can be found in Denmark. Here too there existed until recently a two-tier system of activation, with the uninsured being the responsibility of the municipalities and the insured unemployed the responsibility of the public employment services. The plan associated with the "More people into employment" reform (2002) was to integrate national PES and municipal employment services and to abolish the distinction between the 'activation' activities undertaken by the municipal authorities in relation to people receiving social assistance, and the public employment service's activities in relation to people receiving unemployment benefits. The different competencies were to be united in one unit and all members of the unemployed were to be covered by an individualized, tailor-made contact program. Since 2004, so-called 'job-centres' are responsible for job-reintegration. In practice, however, there are two different types of job-centres. In the majority of the municipalities, the PES and the municipal social and employment departments work side by side in the same building, the PES being responsible for services for the insured unemployed and the municipalities for social assistance recipients. The cooperation here has the form of an organizational partnership between the state and the municipalities, and the costs are also shared between state and municipalities. The remaining job-centres are organized exclusively by local authorities.

Integrated activation arrangements do not always abolish divided activation strategies. The reforms in Denmark and Finland did not really end the two-tiered system of activation. In fact, reforms can serve to cement these. In Finland, the LAFOS only serves those unemployed who are located far outside the labour market whereas all other members of the unemployed are served by the PES. The Danish job-centres give the illusion of a one-stop-shop by having created a joint entrance, but behind this door the social services and employment offices work separately with their traditional clientele. Thus we find integrated arrangements existing within dual activation systems, and in fact, a divided responsibility for the insured and uninsured unemployed is still the most common activation arrangement. With respect to the number and type of actors involved, cross-sectional cooperation is most far-reaching in the Finnish case, however. The labour force service centres offer an encompassing variety of services that include PES, social services, the social insurance agency, health care and educational services.

Thus, putting the various pieces together, we can identify a trend towards integrated activation policies, but in very different forms. It is only in some cases that we can talk about a loosening of boundaries between various welfare agencies; in most cases the reforms are rather modest. Reforms often focus on specific groups of social assistance recipients and do not lead to a streamlining of the system for all those who are unemployed. The separation of responsibilities for activation measures directed towards insured and uninsured unemployed persons respectively is still the most common situation. However, the observed changes might nonetheless mark a turning point in the mode of governance employed in relation to more far reaching reforms of activation policies.

We may conclude that new approaches to the administration and financing of social protection constitute a frequent theme in the social protection reforms of the EU member states, particularly in the area of social assistance and minimum income protection. Decentralization is one common trend, although shifts towards centralization and recentralization can be observed in some countries. Efficiency and effectiveness in promoting social integration are the main reasons responsible for such changes in social assistance. Here, the financing of social assistance is one crucial component in the promotion of successful social assistance strategies. Social assistance financing differs in most cases from the financing of social insurance, which is discussed below, and which often involves tripartite cooperation between the state, employers, and insured persons. By contrast, social assistance is financed out of general tax revenues. Fiscal decentralization is here often assumed to be better equipped to handle tax and expenditure decisions, something that is intuitively reasonable given the processes of decentralization witnessed in the administration and delivery of social assistance. Nevertheless, social assistance is sometimes also co-financed by the state, which can create tensions between different government levels. It is possible that these tensions may be particularly evident in countries where the political powers relating to key characteristics of social assistance are not decentralized to the same extent as the administration and financing of the programs.

4. The Financing of Social Protection

Social protection schemes in the EU countries are financed by contributions from employers and protected persons (through social contributions), general government contributions (through general tax revenue) and other sources, such as returns from funds and between-scheme transfers. In this section, we will describe how the financing of social protection in the EU countries is divided among these sources.

The way in which funding of social protection is structured is important for a number of reasons. One reason is the future sustainability of European social models. Here funding is important because it has consequences for how the financial responsibilities are shared, at least symbolically. However, it is also clear that economic sustainability is critically dependent on the number of future tax payers, which makes inclusion on the labour market a very important issue.

The division of financing responsibilities between employers, employees and the state is also important in several respects. First of all, it has vital implications for the legitimacy of social policy institutions. Throughout history, for example, one important motive behind the introduction of social contributions for protected persons has been that by making entitlement to benefits conditional upon past performance in employment and/or financial contributions, benefits can be justified as having been earned, which would in turn have a powerful influence upon the legitimacy of social policy institutions. The essence of this argument is captured by the answer of U.S. President F.D. Roosevelt when he was told that financing the 1935 Social Security Act in part through employee contributions was a mistake due to the regressive nature of these contributions: "I guess you're right on the economics, but those taxes were never a problem of economics. They are politics all the way through. We put those payroll contributions there so as to give the contributors a legal, moral, and political right to collect their pensions and their unemployment benefits" (quoted in Leuchtenberg, 1963: 33). The extent to which social protection schemes are perceived as being legitimate will depend to an important degree on whether people believe that there is a just and fair connection between what they (and others) are paying and what they are receiving in the form of various benefits.

Besides being an important determinant behind the legitimacy of social protection schemes, the question of how the costs are divided between employers, protected persons and the state will also have important ramifications for future financing possibilities. Changes in financing structures are often technically rather difficult to implement. Moreover, employers' social contributions are in many countries levied on the full wage, whereas employees' social contributions are levied only on part of the wage (up to a ceiling). This means that employers' social contributions (in this respect) are more redistributive than contributions from employees, and that any shift between these two forms of contributions might not be distributively neutral in relation to wage earners in different income classes.

The fact that it might be difficult, at least in the short run, to make changes between different revenue sources distributively neutral means that different financing models will be perceived as being more or less fair by different groups in society, which will in turn affect the perceived legitimacy of these models. This is probably one important reason behind the relatively high degree of institutional inertia or path dependency that has been observed in financing structures. Nevertheless, it is possible to introduce substantial changes in the financing of social protection, even in the short term. The prolonged wage continuation of sickness insurance recently introduced in the Netherlands, and described above, is one example.

Although the question of how the formal financing burden is divided between employers, employees and the state might have important distributional consequences as well as implications for the legitimacy of social policy institutions, it should also be pointed out that there might be important discrepancies between this formal division of the financial burden and the question of who, in the end, actually pays various taxes and contributions, or the question of the incidence of taxes and social contributions. According to standard economic theory, corporations and firms will only bear the burden of employers' social contributions to a very limited extent. These contributions will instead be passed on to customers (through higher prices) and/or employees (through lower wages). Earlier work on the incidence of payroll taxes has been fairly inconclusive, and generally it suggests that something less than the entire burden of employers' social contribution will be passed on, at least in the short to medium term (see e.g. Gruber and Krueger, 1991; Kesselman, 1996).

Generally, only a part of employers' social contributions may be passed on to employees, and customers have often made the business community reluctant to accept responsibility for such contributions – social insurance contributions from employers have been said to increase production costs, thereby reducing the companies' competitiveness. However, this fear on the part of the employers has sometimes been counter-balanced by the need of companies to ensure a flow of effective and well-motivated personnel for the operation of the firm. The need to maintain the quality of labour and to reduce labour turnover has in many cases motivated companies to set up company-specific schemes, or to accept employers' contributions to nation-wide compulsory schemes (Sjöberg, 1999). Historically, it has often also been argued that labour costs should include the combined costs of maintaining labour in both employment and economic inactivity, and that labour costs should therefore include wages during periods of actual work and income maintenance during periods when they are unable to work (International Labour Organization, 1955). This belief in the responsibility of employers has perhaps found its clearest expression in the case of work accident insurance. Since the first reforms in this area, work accident insurance schemes have in most countries been financed wholly through employers' contributions. Exceptions to this pattern among the EU member states include Greece, for example, the Netherlands and the United Kingdom. In these three countries, the financing of work accident insurance is included in the contributions paid to other schemes, which are financed jointly by employers, the insured and state authorities.

The model of social protection which makes coverage in the case of a contingency dependent upon contributions made is closely related to the history of modern labour markets (Alcock, 1996). During the post-war economic boom, the image of a full-employment society, in which a male breadwinner was committed full-time to employment and to providing for his family, was widespread in many countries in Europe. Since the 1970s, however, labour markets in the European Union have undergone major structural changes, such as the re-emergence of mass unemployment and the replacement of many full-time, largely male, jobs in large-scale manufacturing with jobs in the service sector, which are often part-time, low paid and occupied by women. There have also been important changes in family structure, with an increase in the divorce rate and a growth in the number of lone parent families.

These changes in the labour market and the structure of the family have created gaps in the coverage of traditional social insurance schemes in which full eligibility for benefits is based on contributions made and thus ultimately on continuous participation in full-time employment. Groups that are particularly vulnerable in this context include the long-term and youth unemployed, lone parents (who may not have been able to make sufficient contributions), part-time workers, and divorcees (who may loose the full protection of their spouses' contribution records and may have inadequate contribution records of their own). The fact that certain categories will not be contributors to the social insurance system has forced governments to introduce second-tier programs completely financed from general revenues as a complement to programs based on contributory financing. These programs, which are as a rule means-tested in character, provide protection to those who do not qualify for contributory (social insurance) benefits.

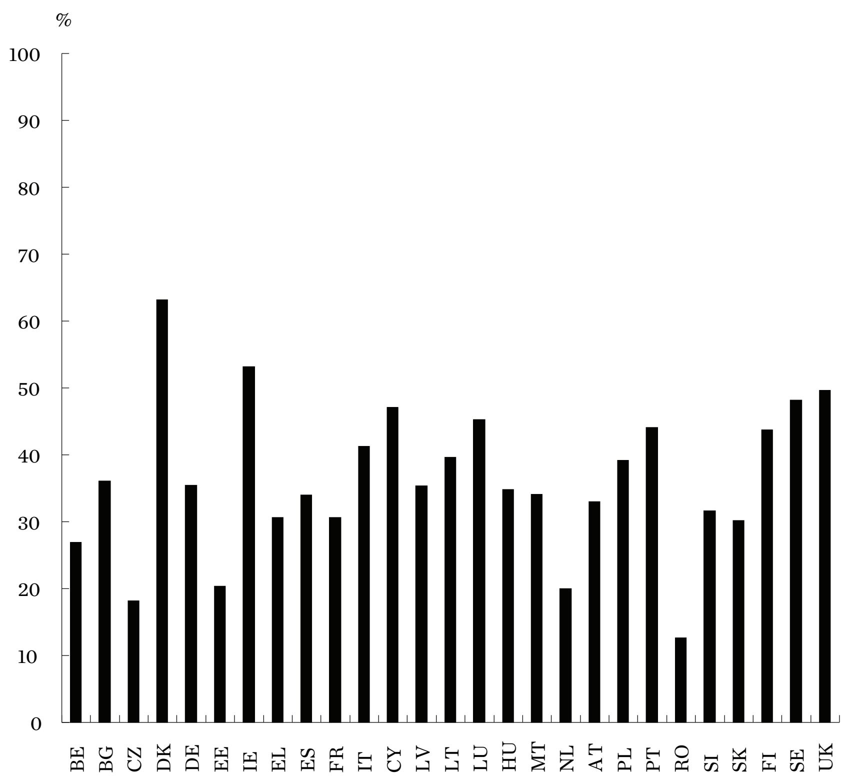
Even in the context of social insurance schemes, state authorities have usually contributed with subsidies of varying magnitudes. State subsidies to social insurance were a crucial element in the Bismarckian approach to the use of social insurance reforms as a means of reinforcing the patriarchal structure of society (Rimlinger, 1971). Thus not only social policy legislation, but also financial aid from the state, has sometimes been considered as promoting social and political stability. Furthermore, particularly in the early decades of the 20th century, it was often argued that since the state in any case has to pay for the protection of the poorest in society, the introduction of social insurance schemes would simply mean that the existing costs of public relief and old-age assistance would be reduced. The contributions paid by the public authorities to social insurance would thus be offset by a decrease in the budget allocated to public assistance. Moreover, the financial resources obtained through contributions from the insured and the employers have sometimes been insufficient to cover the costs of the schemes, particularly during periods of economic recession. The legislation of a large number of countries therefore provides a possibility for the state to cover possible deficits in the budgets of social insurance schemes. In addition, it often takes time for social insurance schemes to obtain sufficient funds through contributions from employers and the insured to make possible the payment of legislated benefits. Thus, the maturation of social insurance programs has often necessitated high levels of state contributions over a transitional period.

Figures 20–22 show the distribution of financing burdens between the state, employers and protected persons in 2005. These figures are based on European Social Statistics Data (2007), where social protection is defined as comprising a relatively large set of different programs and measures:

(I) Sickness/Health care,
(II) Disability,
(III) Old age,
(IV) Survivors,
(V) Family/children,
(VI) Unemployment,
(VII) Housing,
(VIII) Social exclusion not classified elsewhere.

The state pays a significant share of the costs of social protection in the EU Member States, on average around 36 percent (Figure 20). In all of the countries here characterized as having an encompassing model, the state takes on a very substantial responsibility for the financing of social protection (on average close to 50 percent). This is also true for the countries defined as having a state corporatist model and for the countries of southern Europe, although the state's share of financing in these countries is on average somewhat smaller. However, the countries defined as having a basic security model are very heterogeneous when it comes to the state's role in the financing of social protection. Here the state's share ranges from a low of around 20 percent in the Netherlands, lies at around 50 percent in Ireland and the United Kingdom and peaks at over 60 percent in Denmark.

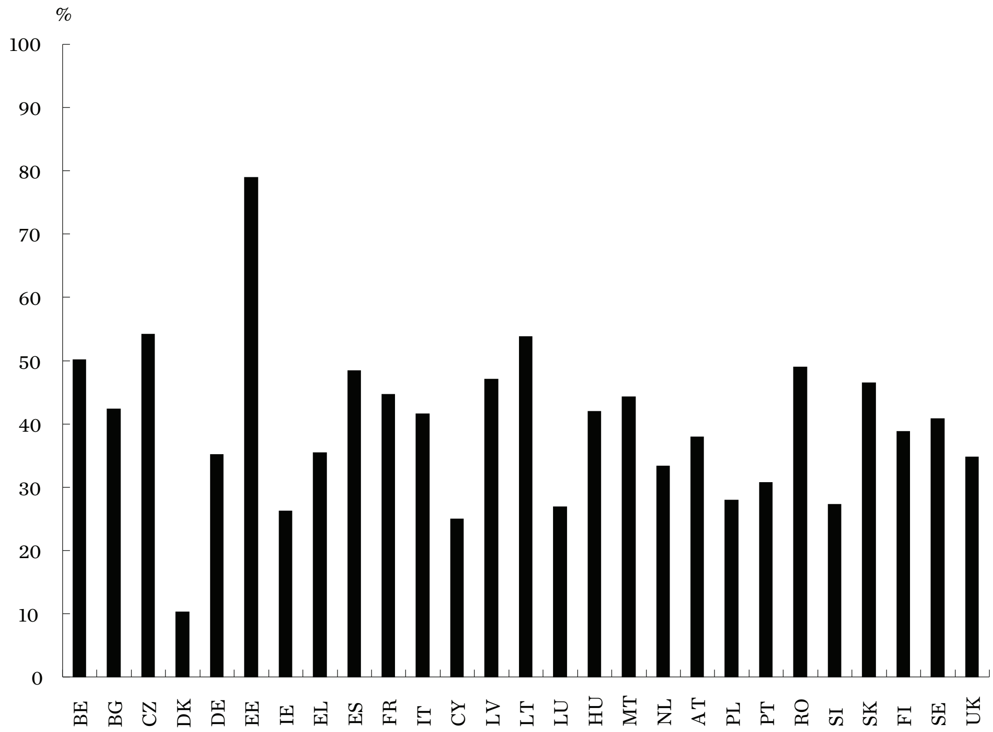
Figure 20. State Financing of Social Protection in the EU Member States.



Source: EUROSTAT.

Between-country variance appears to be significantly lower when it comes to the employers' role in the financing of social protection (Figure 21). Social contributions by employers include both actual and imputed contributions, where the latter are the costs incurred by employers in granting social benefits, or in promising social benefits payable in the future, to their employees, former employees and their dependants, without involving an autonomous insurer and without maintaining separate reserves for this purpose in their balance sheets. With the exception of two outliers – Denmark, with a very low employers' financing share of 10 percent, and Estonia with an exceptionally high share of around 80 percent – the share of financing coming from employers' social contributions lies at between 25 and 50 percent in all the countries of the European Union.

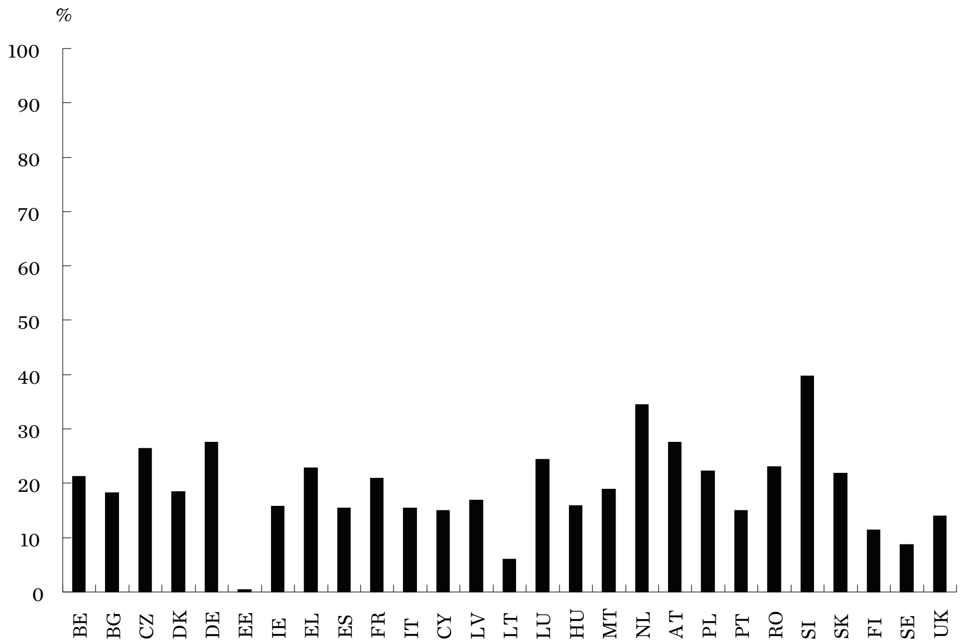
Figure 21. Employer Financing of Social Protection in the EU Member States.



Source: EUROSTAT.

Finally, there is a relatively large between-country variation in the financing share coming from social contributions from protected persons (Figure 22). Protected persons also include the self-employed (if applicable) and protected persons besides employees, such as pensioners. This share is relatively small in all three encompassing countries (on average slightly over 10 percent) and somewhat higher in the Southern European countries and in the state corporatist countries (on average 16 and 23 percent respectively). Although the average financing share coming from protected persons is also comparable to these levels in the CEE countries (19 percent) and the countries defined as having a basic security model (23 percent), the dispersion around these mean values appears to be much higher in these two groups of countries. In the basic security countries, the financing share coming from the employees varies from a low of 14 percent (United Kingdom) to a high of 35 percent (the Netherlands). In the CEE countries, the dispersion is even greater, ranging from practically no employee contributions in Estonia to around 40 percent in Slovenia.

Figure 22. Insureds Financing of Social Protection in the EU Member States.



Source: EUROSTAT.

In summary, there are significant differences in the way in which social protection systems are financed between the countries of the European Union. These differences are the result of both historical factors and variations in the institutional setup of social protection systems. In the encompassing countries and in most of the basic security countries, where the emphasis is on universal coverage, the share coming from government funding is relatively high. In the state corporatist, but also in the CEE countries and in the Southern European countries, the historical attachment to the "Bismarckian" tradition is visible in the form of comparatively high contributions coming from both protected persons and employers. The relatively high degree of employer and employee financing in these countries is also a consequence of the state corporatist structure of tripartite participation in the administration and governance of social insurance schemes.

There is also a relatively high degree of path dependency in financing structures. The cross-country correlation between the financing shares coming from the central government in 1995 and 2005 is 0.93, while the corresponding correlations between the financing shares coming from employers and protected persons are somewhat lower, at 0.77 and 0.65 respectively. However, a certain degree of convergence in financing structures is visible in recent decades. This is probably due to the fact that many of those countries with a basic security system, employing a relatively high degree of central government financing, have increasingly also tended to incorporate programs aimed at providing income security, which implies a higher reliance on social contributions from protected persons and/or employers. Conversely, countries with a strong Bismarckian tradition have increasingly tended to supplement their existing social insurance schemes with universal and above all targeted schemes, thus implying a higher degree of state financing over time.

5. Conclusions

This report has provided an outline of social policy models and a comparative analysis of core social protection programs in all 27 EU Member States. We have identified five underlying *ideal typical models* of social policy in Europe: the targeted model, the basic security model, the voluntary state subsidized model, the state corporatist model, and the encompassing model. We have observed a strong path dependency in the development of these social policy models and although reform initiatives have been launched in most of the Member States, the basic structures of social protection appear to have remained surprisingly intact.

The state corporatist social model prominent in many continental European countries exhibits strong resistance to major reforms. In these countries, benefits continue to provide a high degree of income security in major social insurance programs. Full coverage is not achieved as a result of the close connection between eligibility and employment. The encompassing schemes of Northern Europe are still based on the combination of citizenship-based basic benefits and earnings-related supplements for active citizens. One tendency in many programs over the last decades has been a slow but steady erosion of income security due to an insufficient updating of the earnings-ceilings specified for benefit purposes in major social insurance programs. This downgrading of benefit levels is also evident in the basic security systems, which characterize social protection in the United Kingdom, Ireland and some continental European countries. The new EU Member States are still in the process of catching up with the rest of Europe, and for some schemes this applies also to the Southern European countries. In these countries, however, formal replacement rates are not the main problem. Replacement rates are often on a par with and sometimes even higher than those of the old EU Member States. One of the challenges that lies ahead is that of how the coverage of relevant population groups can be extended in the new EU Member States, as well as in the Southern European welfare states.

Despite an increased emphasis on “Social Europe” in policy discussions at the EU level, this report concludes that social protection systems continue to exhibit substantial differences across countries. We have examined the actual social protection programs for those of working age and most schemes share both similarities and differences with the underlying social model of the respective country. Wide variations in the organization of social protection are also clearly evident in the program-specific sections of the report, where a more detailed focus has been directed at sickness and work-accident insurance, unemployment compensation, early-retirement/disability benefits, and social assistance. As regards the issue of social inclusion on the labour market, we have argued throughout this report for the necessity of analysing program generosity in close correspondence with other, notably 'active', policy measures aimed at promoting social inclusion:

- Sickness and work-accident insurance reform has often been linked to ambitions to reduce the sometimes large stock of benefit recipients. The involvement of health services in the assessment of legitimate benefit claims and in rehabilitation is one area to which policy makers and policy experts have turned their attention. At the individual level, governments have explored the use of different eligibility criteria and benefit levels, often making it tougher and less attractive to receive benefits. The role of employers has also become a focus, with the extension of employer-provided sick pay periods, for example, and by requiring employers to assume more responsibility for rehabilitation and the provision of healthy work-places. The latter are usually regulated by labour law, and not necessarily by social insurance legislation and regulation.

- Unemployment insurance can be complemented by active labour market policy. One shift in the discussion and debate about unemployment seems to be the recognition that active labour market policy may balance the positive redistributive effects of generous unemployment compensation and the unintended negative effects of benefits on labour supply. Despite this positive testimonial for continued reliance on highly developed unemployment insurance schemes, both active and passive labour market policy differ quite extensively across Europe. Even though the organization of unemployment insurance differs in some countries from the broad models of social protection identified in the first part of this report, benefit generosity is largely mirrored in unemployment insurance program characteristics. Levels of spending on active labour market policy and the numbers of persons enrolled in such measures differ across Europe. The coverage of active labour market policy is particularly high in Northern Europe and in some parts of Continental Europe. This picture is reinforced when we consider expenditure patterns, with the United Kingdom and Ireland being included among the group of big spenders on active labour market policy.

- Activation measures are also increasingly being linked to social assistance, albeit often at the local level. In Europe, social assistance caters for low-income households in which the providers for various reasons fail to qualify for social insurance benefits. In most countries, social assistance provides lower benefit levels than social insurance, at least when household size is taken into consideration in the determination of benefit generosity. Since social assistance is generally intended only to provide for minimum subsistence levels of living, absolute social assistance benefit levels differ quite remarkably between the old and new EU Member States. Based on the purchasing power of social assistance, the old EU Member States generally provide more generous benefits. Nevertheless, there are hardly any countries which provide benefits above the EU "at-risk-of" poverty threshold.

- For some of the Member States, this report has also analyzed activation measures directed at social assistance recipients. Reforms in this area often involve processes of decentralization in relation to both political and administrative powers and also in relation to the financing of activation measures. However, in countries where social assistance has historically been highly decentralized, processes of centralisation can be identified.

- While there are evident reasons for applying a program-specific approach to the analysis of social protection, the linkages to policies aimed at promoting the re-employment of benefit recipients also have to be highlighted if we are to develop a more complete understanding of factors with the potential to foster social inclusion. The reassessment of long-term disability benefits constitutes one example, even though the potential gains and problems associated with this approach remain for the moment obscure. The pathways regulating early labour market exit are complex and involve many different benefit programs, both within individual countries and particularly in a cross-country perspective. In this report we have attempted to provide some systematic comparisons in this regard, and have directed our focus at old-age pensions, early retirement schemes, long-term unemployment benefits for older workers, and long-term disability benefits. Both old-age pension schemes and early retirement programs exhibit large institutional differences across Europe, which by and large mirror the overall patterns discussed above in relation to the five ideal typical models of social protection. As a result of financial pressures created by the ageing of populations and periods of high unemployment, countries have also introduced changes both in cash provisions and the services offered to citizens who have withdrawn from the labour market. Some of these changes have involved cutbacks in benefits and services, such as the abolition or gradual phasing out of early retirement schemes in some countries and the tightening of eligibility criteria for long-term disability benefits in others. The reassessment of benefit claims represents another notable change that has been introduced in a few countries, something that can be both beneficial and problematic from the perspective of social inclusion.

- The financing of social protection is essential for the sustainability of European social models. One reason is that the division of financing responsibilities between the state, the employer, and the individual feeds back into the system of social protection and influences the legitimacy of welfare state institutions. Programs with less public support may be difficult to expand and operate on a long-term basis. Another reason is found in the potential redistributive effects of different forms of financing structures. For example, we might assume that employer contributions typically levied on the full wage are more redistributive than individual contributions that are often based only on a proportion of wages up to specified ceilings. Thus, financing mechanisms can also be used to influence incentives to invest in social policy as a means of facilitating social integration. Among the EU member states, the state contributes substantially to the financing of social protection, particularly in countries where programs resembles the state corporatist and encompassing models. The relative share of individual contributions is particularly high in the basic security group and to some extent also in the state corporatist countries. Employer financing exhibits less cross-national variation, except in a few countries where employers' contributions account for an exceptionally high or an exceptionally low share of the financing of social protection.

- This report shows the fruitfulness of applying an institutional and cross-national approach to the study of social protection and inclusion in Europe. The myriad of program differences across Europe suggest that comprehensiveness represents another important element of an exercise of this kind. The empirical analysis must not only account for broad institutional configurations, but must also facilitate a better understanding of the separate social provisions that are implemented across

Europe. This combined strategy of analyzing social models and program particularities is less sensitive to differences in the relative importance of various programs in the overall system of social protection, which are quite substantial in some program areas, even in Europe. This report also shows that an exclusive focus on the organization of social protection has merits of its own. Since the institutional approach applied in this report is not confused by explorations into the causes and effects of social policy formation, the empirical findings can be used to develop substantiated hypotheses in relation to the evolution and consequences of European social models.

6. Discussion

The findings presented in this report deserve to be contextualised in relation to the future of the European Social Model. There are strong reasons to emphasize common concerns generated by ageing populations and dampening effects on macro-economic development (Lindh and Palme, 2006). Weak growth within the European Single Market has repercussions for all EU member states. Since it is difficult to combine declines in the size of the labour force with a growth perspective, improved employment rates and higher levels of social inclusion are crucial for all Member States. According to the Open Method of Coordination framework, the EU Member States have agreed on common objectives relating to employment, pensions, health care and social inclusion. Since population ageing creates increased pressures on redistribution, irrespective of whether this is performed by the state, the market or the family, new strategies for social and economic policy are warranted. In particular we have to devote more attention to the linkages between social protection and the future tax base. How can social protection be organized to increase tax revenues?

We need to focus more on the productive aspects of social protection and on how transfers and benefits contribute to the reproduction of a highly skilled workforce. Without a stronger focus on the future tax base, for example in terms of the number of tax payers, there will be little left worth labelling sustainable pensions and health care systems, never mind social inclusion. There are therefore good reasons to address the social deficits of the Member States promptly. This cannot be achieved overnight, but the EU member states must try harder and act more wisely to achieve the goals they have agreed on.

The current discussion on the future of the European Social Model has created momentum for the politics of European integration. If we believe that changes have the potential to produce improvements we may be somewhat hopeful that the social dimension of European integration will become even stronger. Improvement is definitely needed in relation to 'Social Europe' as we know it today. In this regard, the role of 'learning' as one element in European integration carries a great, but largely under-utilized potential.

Good intentions and political commitments are not, however, sufficient to bring about successful reform in the area of social protection. The design of existing programs also needs to be critically evaluated. Can social science make a contribution to the discussion and debate surrounding the reformation of European social models? It can, if it sorts out the normative and positive (empirical) arguments for and against various approaches. Moreover it is warranted to examine both the intended and unintended consequences of welfare state institutions. Comparative institutional research can contribute by contrasting different policy interventions in order to assess the impact of different kinds of policy regimes. The good news is thus that it should be possible to improve the situation, for example by learning from others. One viable strategy would be to combine broadly defined social models and program specific peculiarities, thus producing a comprehensive set of institutional illustrations that can be used to describe and assess various claims about the effects of social protection on inclusion. As such, this project has improved the analytical tools required for systematic empirical evaluations of particularly critical areas of European social models. The need for progress in this area of European social research was recently recognized by the European Commission (European Commission, 2008).

In this report we have not analysed the outcomes and consequences of institutional variation. Nevertheless, the linkages between social protection, on the one hand, and attitudes, behaviour, and living standards, on the other, are important for our understanding of the functioning of current policies. While such analyses in many ways constitute a rather daunting task, it is clear that a systematic institutional analysis would open up one avenue of possibilities to establish linkages between policies and outcomes.

This report offers a first step towards developing a comprehensive institutional framework for the analysis of social protection and social exclusion in the EU27. It has involved substantial efforts on behalf of a number of researchers, and can complement the efforts being made by the European Commission and the Member States to systematically collect micro-level indicators relating to employment and social inclusion. In the future, it appears warranted to place such systematic analyses of the relationship between social institutions and social outcomes high on the agenda.

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Data Appendix

One of the basic challenges of this report concerns the collection of data relating to the institutional structure of social protection. To our knowledge this is the first report that provides a comprehensive institutional analysis covering all 27 EU Member States. Here we have relied on national legislation and regulation, transforming these frameworks into quantifiable indicators. In this process various sources have been employed and among these, the MISSOC is worth mentioning in particular. The MISSOC was established by the European Commission and provides up to date information on social protection systems in the EU Member States.

The data collection initiated in connection with the writing of this report is based on a general framework for comparative social policy analysis established at the Swedish Institute for Social Research, Stockholm University. The institute houses the *Social Citizenship Indicators Program (SCIP)*, which provides an elaborate dataset on social insurance programs for 18 OECD countries for the period 1930–2000. One of the key variables included in SCIP is net social insurance replacement rates (see Korpi, 1989). For this report we have updated the SCIP dataset with similar institutional indicators for 2005 and added information for 16 additional EU member states.

In order to calculate the level of social insurance we have followed a type-case approach, where the social rights for a single person and a single-earner two-parent family with two dependent children are based on the rules governing social insurance in each respective country. For old-age pensions we use a single person and a couple that are assumed to receive benefits for a whole year. Only standard benefits are included here. In countries where pension entitlements are related to the contribution record, 35 years of contributions are assumed. Replacement rates are established by relating these social insurance amounts to the wage level of an average production worker. The sum of 26 weeks in receipt of social insurance benefits and 26 weeks earning an average production worker's wage is assumed for the numerator. For the denominator, 52 weeks of an average production worker's wage is used. Since fiscal systems differ across countries, both social insurance benefits and wages are calculated net of taxes. In order to emphasize institutional differences in specific social insurance programs, no means- or income-tested benefits that could distort the analysis are taken into consideration. The net social insurance replacement rates used in this report are shown as an average of the two model families described above.

More formally, the net replacement rates of sickness insurance, work-accident insurance, unemployment insurance, old-age pensions, and disability benefits are calculated as follows:

${}^{nr}sic_{si}$	$(sicnet_{si} - {}^{26w}netapw_{si}) / (netapw_{si} - {}^{26w}netapw_{si})$
${}^{nr}acc_{si}$	$(accnet_{si} - {}^{26w}netapw_{si}) / (netapw_{si} - {}^{26w}netapw_{si})$
${}^{nr}unm_{si}$	$(unmnet_{si} - {}^{26w}netapw_{si}) / (netapw_{si} - {}^{26w}netapw_{si})$
${}^{nr}sic_{fa}$	$(sicnet_{fa} - {}^{26w}netapw_{fa}) / (netapw_{fa} - {}^{26w}netapw_{fa})$
${}^{nr}acc_{fa}$	$(accnet_{fa} - {}^{26w}netapw_{fa}) / (netapw_{fa} - {}^{26w}netapw_{fa})$
${}^{nr}unm_{fa}$	$(unmnet_{fa} - {}^{26w}netapw_{fa}) / (netapw_{fa} - {}^{26w}netapw_{fa})$
${}^{nr}pen_{si}$	$pennet_{si} / netapw_{si}$
${}^{nr}pen_{fa}$	$pennet_{fa} / netapw_{fa}$
${}^{nr}dis_{si}$	$disnet_{si} / netapw_{si}$
${}^{nr}dis_{fa}$	$disnet_{fa} / netapw_{fa}$

${}^{nr}sic$	$({}^{nr}sic_{si} + {}^{nr}sic_{fa})$
${}^{nr}acc$	$({}^{nr}acc_{si} + {}^{nr}acc_{fa})$
${}^{nr}unm$	$({}^{nr}acc_{si} + {}^{nr}acc_{fa})$
${}^{nr}pen$	$({}^{nr}pen_{si} + {}^{nr}pen_{fa})$
${}^{nr}dis$	$({}^{nr}dis_{si} + {}^{nr}dis_{fa})$

where	si	single person
	fa	two-parent family with two children
	nr	net replacement rate
	net	net of taxes
	sic	sickness insurance (26w sick + 26w apw)
	acc	accident insurance (26w acc + 26w apw)
	unm	unemployment insurance (26w unm + 26w apw)
	pen	old-age pension (52w)
	dis	disability benefit (52w)
	apw	wage of an average production worker (52w)
	26w	26 weeks

The level of means- and income-tested benefits are captured by the minimum income benefit packages also calculated for this report and in the text referred to as social assistance and minimum income protection. These benefits are also calculated on the basis of a type-case approach comprising slightly different model families than was the case for social insurance. Here we use similar type-cases as in the *Social Assistance and Minimum Income Protection Interim Dataset (SaMip)*, which is also housed at the Swedish Institute for Social Research, Stockholm University (see Nelson, 2007b). Three type-cases are used; a single person, a two-parent family with two dependent children, and a lone parent with two children. The figures on social assistance presented in this report are averages of these three household types. Yearly benefit packages are used and it is assumed that the households do not have work income and are ineligible for contributory social insurance benefits. In addition to basic social assistance scale rates, minimum income benefit packages also include (where appropriate) income-tested housing benefits, child allowances, and refundable tax credits. Since such social assistance benefits are not intended to compensate for lost earnings, we have here chosen to use purchasing power to standardize benefit levels across countries. The purchasing power standards published by EUROSTAT are used for this conversion of national currencies.

Social assistance refers to general means-tested benefits which are open to all or nearly all citizens in need (see Eardley *et al.*, 1996). Social assistance often consists of a standard benefit adjusted for household size, supplements to cover special needs, and one-off payments for occasional needs. Only standard benefits are considered here. Thus, the type-cases are not assumed to have any special or occasional needs, such as disability or funeral expenses.

The following programs are included as social assistance in the various countries:

Sozialhilfe (Austria)
Minimex (Belgium)
Месечна Социална Nомощ (Bulgaria)
Dávky Sociálnípéče (Czech Republic)
Δημόσιο Βοήθημα (Cyprus)
Social Bistand (Denmark)
Toimetulekutoetus (Estonia)
Living Allowance (Finland)
Revenue Minimum d'Insertion (France)
Sozialhilfe (Germany)
Regular Social Benefit (Hungary)
Supplementary Welfare Allowance (Ireland)
Minimo Vitale (Italy)
Pabalsts Garantētā Minimālā Ienākuma Līmeņa Nodrošināšanai (Latvia)
Socialinė pašalpa (Lithuania)
Revenu Minimum Garanti (Luxembourg)
Ghajnuna Socjali (Malta)
Algemene Bijstand (Netherlands)
Zasilek Okresowy (Poland)
Rendimento Minimo Garantido (Portugal)
Ajutor Social (Romania)
Dávka v hmotnej (Slovakia)
Denarna Socialna Pomoc (Slovenia)
Ingreso Minimo/Renta Mínima de Inserción, (Spain)
Försörjningsstöd (Sweden)
Income Support (United Kingdom)

In most countries, social assistance has nationally uniform scale rates, but in some countries, the amount of social assistance exhibits slight regional variations, see Nelson, (2007b). Particularly the Italian data on social assistance should be treated with special caution since there are quite extensive regional differences. The data used in this study concern benefit rates effective in Milan only.

Social assistance is generally not subject to income taxation. In a few countries, however, recipients have to pay tax on the amount received. All benefits are measured after taxes and social security contributions. Only the net amounts are used in the report.

Where appropriate, social assistance supplements to cover housing expenditure and housing benefits are estimated on the basis of actual rents in the various countries. Rent levels are based on Eardley *et al.* (1996: 114), who asked national informants and experts in a large number of countries to report the rent level for different sized apartments in 1992 for their respective country. The assumption was that families rented an apartment from a public authority, housing co-operative or housing association, if this was the common procedure in the country. Otherwise, it was assumed that the household rented from a private landlord. The rent levels in the Social Assistance and Minimum Income Protection Interim Data-Set have been established by adjusting these figures in line with movements in the rent indices published by ILO Bureau of Statistics. For the one-person household, a one bedroom apartment is used. For the lone parent type-case, a two bedroom apartment is used. For the two-parent family, a three bedroom apartment is used.

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The Member States of the European Union have agreed to promote the common goals of economic growth, quality of jobs and comprehensive social protection. In this context, income security and participation on the labour market are key factors. To achieve these goals, the Member States apply strategies that share both similarities and differences. This report compares the various social models of the 27 Member States by systematically examining existing systems of social protection, as well as ongoing social reforms. The areas covered are sickness, work-accidents, unemployment, early retirement /disability, and social assistance. Both benefit levels and dependency are at issue, which has led us to relate income security to other institutional aspects of relevance to the promotion of social inclusion, such as rehabilitation and activation. The institutional design and generosity of social insurance and social assistance vary substantially among the EU Member States, as do the scope and nature of active labour market measures. This report offers a first step towards developing a comprehensive institutional framework for the analysis of social protection and social inclusion in the EU. It complements the efforts being made by the European Commission and the Member States to promote the systematic collection of information on indicators relating to, among other things, employment and social inclusion.

Joakim Palme is Director of the Institute for Futures Studies and Professor at the Department of Government, Uppsala University.

Kenneth Nelson is Researcher at the Institute for Futures Studies and Associate Professor at SOFI, Stockholm University.

Ola Sjöberg is Researcher at the Institute for Futures Studies and Associate Professor at SOFI, Stockholm University.

Renate Minas is Researcher at the Institute for Futures Studies and Assistant Professor at the Department of Social Work, Stockholm University.

INSTITUTE FOR FUTURES STUDIES
BOX 591, SE-101 31 STOCKHOLM, SWEDEN
PHONE: +46 (0)8-402 12 00
E-MAIL: INFO@IFFS.SE
WWW.IFFS.SE
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