

2004 A YEAR OF WIDENING AND REORGANISING THE STATE'S ROLE

In 2004 Member States appear to have significantly increased efforts to reorganise their social security rules. We can thus see that while the capacity of the State to influence the economy has changed given globalisation, open economies, the advent of new technology and movement in the division of international labour, the powers of the State remain largely intact in respect of social regulation. In 2004 therefore, States took many decisions to shift the emphasis of cover mechanisms for social risks, and to adapt them to the challenges inherent in an ageing population, new family structures and the turnaround in immigration policies. They have also endeavoured to provide support for restructuring labour markets.

However, these efforts are of varying importance: it is clear that the new Member States who radically transformed their social protection systems during the last decade, are now introducing smaller and more technical modifications. The former socialist countries (with the exception of Slovenia) had to adopt the paternalistic social security model of the Soviet Union, a model that influenced the entire social services system over a long period of time. The watchword then was "centralisation". This system was entirely managed by the State, where the provision of social protection by private service providers was not authorised (with the exception of activities organised by the Church in some countries) and where institutional care represented the main type of social services. These countries experienced significant upheavals in economic, political, social and societal terms. Nearly the entire social security system then needed reform and new systems had to be put in place. In the early 1990s the immediate shock of the transition was the main impetus behind the change. This led political decision makers to adapt pre-existing social security systems. Later on in the decade, as costs began rising, financial constraints became the driving force behind social security reform.

Thanks to the significant reforms occurred in the 1990s, these countries do not need to completely rethink their social benefit systems today. The recent reforms are focused mainly on modifications rather than major changes.

Reforms in other EEA States involve reorganising certain branches of social protection. The main principles governing these schemes, are often the result of inherited social history, but are nonetheless sometimes reviewed.

As has often occurred in numerous countries in the past, the restructuring of social security rules has taken place with limitation or reduction of State spending and/or fiscal pressure as the main objective. This is still a common objective today. However this one-dimensional strategy appears to be undergoing change. At present, mechanisms for social protection are being transformed in order to achieve good results; the economy needs an effective and reliable social policy, in which social security measures are considered as a productive factor. There is certainly a change in paradigm, particularly concerning the income replacement. These no longer need only to be "passive", but must be combined with back to work measures. We can also think of the successful "*individual responsibility*" notion that underlies numerous reform measures.

Management of the labour market is more than ever having major effects on other sectors related to social risk care, not only in material terms but also in terms of social integration. Reformers have begun emphasising people and their preparedness for work. They are thus interested in the "labour force", and the "activation of the labour market", which means that measures that are implemented aim to ensure that persons can be active participants in the labour market. We can also see the first signs of a "spill-over" phenomenon: the overflow of this approach towards fields other than those for which it had initially been created. Therefore, the notion of emphasising employability is today going beyond the area of just managing job seekers. In some countries this is extending to virtually all beneficiaries of income replacement (the unemployed, the disabled persons, the victims of accidents and more generally, the sick persons) and even to those receiving retirement pensions who are allowed to stay on the labour market for low paid jobs. This results in strategies aimed at "valuing work" which are integrated into a range of policies, notably family policies.

The social protection model based on several pillars is quite clearly the model adopted by the large majority of Member States; there is a clear development of supplementary pensions through capitalisation known as "second-pillar" or "third-pillar". These reforms rest on both the premise of more efficient management of financial services by the private sector and on the wish to see market operators competing. Using this approach, competition should lead to a reduction in the price of the service offered as well as enabling each person to decide on their future level of supplementary protection. However, some States have announced "reforms of reforms" for supplementary capitalisation pension schemes.

Fraud and the development of ideas and measures for combating it lead to a new classification within the cover mechanisms for social risks. From the point of view of fraud law related to social benefits, there are now on the one hand systems that involve behavioural risks, such as health insurance, sickness cash benefits, unemployment insurance and disability insurance, where the potential risk of abuse is a possible problem. On the other hand, there are those that involve risks named "demographic", such as old-age and survivors' benefits, where the potential risk of abuse is minimal.

From among the kaleidoscope of reforms, one should point out improvements in the care offered to those most deprived especially in the area of pensions. Similarly, the question of paying higher market prices for essential products like medication, dental care, accommodation, transport and leisure activities, underlies some of the measures. Likewise, family allowances are again this year being increased in a large number of countries.

1. Simplifications to the systems

The idea to set up or review management tools designed to reduce waiting periods, to simplify formalities and to improve relations with the insured, is a recurrent theme in the both national and European talks.

However numerous reforms seem to be heading in the opposite direction. Indeed, with historic structures and compromise structures, social security systems are difficult to transform by simplifications or cutting back.

Similarly, there is an increase in exceptional rules in respect of common law as well as a growing complexity in respect of funding mechanisms. Likewise the parameters of numerous mathematical equations for pensions are multiplied and thereby becoming increasingly complex. The transitory measures that accompany the reforms also contribute to less clarity in terms of reading the applicable rules.

However, some national reports mention simplifications to parts of their systems. It is not a matter of general reform, but of specific measures that mainly affect social welfare countries and which are often part of general programmes for simplifying administrative measures and notably facilitating individual and entrepreneurship initiative. Organisation reforms are not always put forward, giving the impression that certain institutions are kept even if the specific purpose of their autonomous existence has disappeared. Job considerations – for the staff of these organisations – probably have a part to play. However, Austria declares a merger of the social welfare institutions for railroad workers with those of miners while Slovakia talks of a rationalisation-reorganisation of the areas of concern to social affairs ministries.

One of the main features of the Austrian reform of pensions is the integration of most of the working population into a single, common system, even though specific legislation has officially been kept. The same reform also results in standardisation of the legal system for so-called "equivalence" periods, which are taken into account in calculating the pension.

Moreover, within the social welfare systems attempts are made to simplify rules for administrative procedures in respect of declaring the beginning of an activity for self-employed workers, formalities that need to be followed when taking on a salaried worker, or even checks on the regularity of contributions paid. "One stop" services for formalities are developing, sometimes including administrations other than those of social security, such as tax administrations; for instance, formalities for hiring workers or certain target worker categories are facilitated. This trend is illustrated by new Belgian rules which introduce a system for reducing social security payments, coupled with a simplification of the job declaration for casual workers referred to as "extras" in the hotel industry. Belgium is therefore pursuing administrative simplification, a process that began in 2003 with the simplification of the calculation of social security contributions for the "self-employed". France has similarly reformed its procedures for registration and allocating benefits.

Health insurance reform in France is notable for its creation of a "caisse chapeau", the Union of Sickness Insurance Funds, which has been given the key tasks of negotiating health professional costs and determining the list of what can be reimbursed. French law likewise realised the importance of private insurers for dealing with health care by creating a structure for specific national representation to be involved in governing health insurance.

The set up of centralised information systems especially in terms of medical information, is also a regular feature in the reforms of recent years: Luxembourg and France highlight such a reform with the progressive set up of a computerised medical file. These efforts demonstrate the concern for rationalising management by using a quality process. Estonia is setting up an electronic management mechanism for family allowances.

The simplification of measures through a "one stop service" or single point of contact with beneficiaries is also popular today in the area of returning to the labour market. Denmark has planned for the creation of local employment centres, instead of local council administrations and the employment agency; France announced the creation of departmental employment houses, which follow a similar logic of setting up a single contact person for the unemployed. At the same time the relationships between local administrations and the State are clarified by passing operational aspects to the decentralised level and limiting State intervention in coordination and/or supervision functions.

2. Extending the return to work

The core analysis at the origin of measures for returning to employment rests on the premise that motivation and incentive are of great importance. The key axiom of this is that benefit systems change the behaviour of persons in the age of work, notably by reducing the will to work and look for work among those who receive income benefit support over long periods.

Back to work programmes have been promoted in order to break this (supposed) situation. The aim of the original reforms was to integrate social support beneficiaries into the entire work force using active measures and by raising community awareness. These reforms relied on local development and put forward an individual plan towards employment in three more or less developed and formalised stages: 'integration, training and employment'. These reforms sometimes went hand in hand with reductions or specific conditions to receive social assistance benefits: target groups (among which single parent families) are now obliged to follow an individual plan otherwise face possible further cuts. By setting up a differential allowance up to a minimum income, the Dutch reform is based on the principle that the beneficiary has to look for any acceptable job. Similarly, single parents in the United Kingdom will have to speak with a "job seeking adviser". At the same time, childcare services are made available at a reasonable cost. A tax credit goes with this programme of getting single parents back to work.

A similar process was then applied to job seekers. Evidence of this is the German social assistance reform, which abandons the specificity of unemployment assistance rules using instead social welfare common law for reintegration into the labour market. Recent Czech and Lithuanian reforms link the allocation of (improved) benefits to the participation in reintegration measures. In Belgium, unemployed people under 50 years of age are now legally obliged to actively seek a work and expected to reintegrate themselves. Moreover, conditions for legitimate refusal of a job are becoming tougher, as is the case in Austria.

Today new categories of social welfare beneficiaries are finding themselves subject to a test of their "employability". The Dutch and Slovak reforms, while still in progress, see rules for work incapacity and disability focus on better assessment of the possibilities of returning to the labour market and look to keep long-term guaranteed income benefits for those who are incapable of working.

The Norwegian and Swedish health insurance reforms apply these principles for all absence caused by illness. In Norway, the advantages of benefits are linked after eight weeks of ab-

sence from work to restarting an activity related to the work. If this is not the case, the employer is obliged to set up a follow-up programme in cooperation with the salaried worker where the possibilities of returning are listed. In Sweden, part of the daily sickness allowance is at the charge of the employer unless the employer finds a way of getting the salaried worker to work part-time in the form of rehabilitation.

Another instrument of the policy of activating passive expenses relates to the possibilities of concurrently – partial or total but always with time restrictions – receiving benefits with a salary or remuneration from a self-employed activity and answers the same concern of facilitating the return to the labour market. Poland has taken on such a formula for unemployment insurance. Alternatively to or concurrently with this possibility, reductions in social contributions for certain categories of job seekers should reduce the cost of their work by as much.

3. Improving family allowances and child birth assistance

Already evident in 2003, a virtually overall improvement in family allowances and childbirth assistance is noticed in 2004. This demonstrates a notable convergence, especially because the issue is not part of the hard core of subjects covered by the open method of coordination. Measures promoting birth and help for families most in need, somewhat left behind in recent years are becoming once again a central issue in national legislation policies.

The reforms are no less diverse. Some aim to extend the personal application field of the assistance, as with the reforms in Belgium and Luxembourg that accompany the change in the types of cohabitation and also the difficulties of integrating young people. Numerous countries are improving the most important family allowances, like Greece, Poland, the Czech Republic and Slovakia; others, like Spain, are fundamentally restructuring and systematising all family allowances.

Birth assistance and maternity or post-natal benefits such as parental allowances have also been improved notably in Estonia, Latvia, Poland and Slovakia. In Portugal, this improvement is backed by lengthening maternity leave, and in Belgium by a change of the rules and an extension of the adoption leave. We can also see a constant concern for "*stimulating*" the request for childcare benefits. Through direct assistance or tax credits there is an attempt to reduce the cost that childcare represents for certain categories of parents. Special assistance mechanisms for completely or partially stopping work in order to take care of a handicapped child exist in all European countries today: individual or private care is thus subsidised. However, even in the recent reforms, the amounts of the benefits paid are modest compared to the minimum salary or average income of workers.

Certain countries like Poland have also improved assistance for children's education at school.

4. Pension adjustments

Several types of adjustments can be identified in the area of pensions.

The first measures are structural, looking to curb a rise – considered as inexorable – in costs resulting from the aging of the population covered.

The classic instrument is still to raise the age of retirement as is the case in Slovakia and Slovenia. In Norway people stop working at an age far below the legal age of retirement which is 67 years, despite the government incitation to work until the legal retirement age. These reforms are always progressive but they can be either generalised or targeted towards certain categories with a more favourable status than common law. Germany has once again set up such a reform. Austria has just taken over into the new pension accounts system, a system of bonus/surcharge depending on whether retirement is begun between 65 and 68 years of age (increase in pension) or between 62 and 65 years of age (reduction in pension). Norway has introduced a system of “flexible retirement” (from 62 to 67 years of age) in line with the rest of the Pension Reform, but will not enter into force until year 2010. The more original mechanism stems from the German reform, which links the pension’s evolution parameter in the calculation. The annual adjustment of pensions will in future be done using a parameter that takes account of the active population and therefore the number of contributors: the more contributors in a given year the higher the parameter will be and the higher the pensions will be raised and vice-versa. Italy also made changes to the system for social security contributions for the highest pensions. The legislator in this country has also set up a tax-exempt pension increase when salaried workers agree to carry on working beyond the legal retirement age.

Other reforms focus on minimum pensions: simplifications and adjustments are on the agenda. The new Portuguese law also recommends single and simplified calculation of minimum disability pensions and old-age pensions; the reform also includes significant adjustments in these pensions. Similarly, Spanish, Latvian, Lithuanian, Polish and Portuguese laws on pension adjustments have been improved to the benefit of the poorest retired persons.

The tendency to create specific rules for persons who started working at a young age is again clear this year, which goes in the opposite direction of efforts made or carried out for keeping older people at work as long as possible. However, accessing to pre-retirement programmes has become tougher, as is the case in the Czech Republic.

The idea of involving pensioners in decisions concerning themselves has seen no new development in the legislation of the Member States: no report mentions any urban development aimed at facilitating, in support of the elderly, the circulation of wheel chairs or electric tricycles in the city centres.

Cyprus has incorporated Community recommendations in the area of complementary pensions into its laws. Lithuania and Norway have also implemented a compulsory complementary capitalisation pension scheme in order to complete the base system or in support of salaried workers who were still not benefiting from it. Furthermore it is clear that all Central and Eastern European countries are trying to improve the level of pensions for the future.

5. The temptation of public systems to withdraw from healthcare

The European Union has affirmed the principle of social solidarity by deciding to promote “a high level of human health protection” in article 129 of the Treaty. Numerous other texts

based on the Council Recommendation of 27 July 1992, confirm wanting "to maintain high-quality health care systems geared to the evolving needs of the population and to the development of (new) therapies".¹

Even though in literature on health economy, there is a permanent debate on the determinants of the increase of health care spending, we can see that several factors have led to financial problems related to reimbursements of public health care costs. If on the one hand progress in science and techniques increase costs for equipment and therapies, on the other hand successful treatments against illness have raised too. Moreover, the care offered is larger, thanks to the increased number of professionals, notably specialist doctors, and to the maintenance of hospital equipment which is higher than the real needs. These different factors have an ascertained inflation effect. The increased spending can also be explained by the fact of the increased demand for care from a more informed population as well as the increased life expectancy. There is therefore a correlation between the real GDP level per inhabitant and the increase in health spending; in other words, actual spending by public health systems per inhabitant is a function of the actual income per inhabitant of the State concerned. There are other factors weighing down on spending, often described in the media and which represent a fairly substantial overall burden: excess and abuse in respect of prescriptions, examinations, sick days, ambulance transport etc.

The end result is that health care will consume an increasingly large part of national revenues. Yet severe budget constraints in Member States have further accentuated the problem of publicly financed health care. Numerous are the reforms in this field: handling health spending is a key word for a good number of reforms in 2004.

The instrument favoured is to act on demand for care. The central element is the increasing use of "*co-payment*" (user charge). The effect is double, not only does the public share of spending stagnate while that left to the sick person increases, but private parties involved guaranteeing the user charge have an increasingly large presence in the management of the system. With this, real privatisations included in certain reforms account for the State's supposed failure to manage the control of health spending. The French and Slovak reforms attest to this approach.

These reforms, as well as the Spanish reform, also include the set up of computerised management of the patient's private medical files.

In the same way, Denmark proceeds to a transfer of certain income replacement benefits of State health insurance to employers. The idea is to strengthen employers' handling of absenteeism. Portugal allows the employer in case of shortfalls from the health insurance office to appoint a doctor to verify the reality of the illness.

However, this move is not absolute: in some countries, the poorest and severely ill persons are expressly exempted from co-payment. Slovenia and Switzerland have taken on extensive reforms in managing the public health system in order to perpetuate it.

¹ Council Recommendation 92/442/EEC of 27 July 1992 on the convergence of social protection objectives and policies, OJ L245, 26/08/1992, p.49-52.

6. Assistance for those most in need

The gap between social groups has also widened over recent years and nothing appears to indicate that this trend will reverse. Destitute people are and will increasingly be numerous and poor. To deal with this situation, several States have improved social benefits for those most in need. Apart from the phenomenon of returning to work, attempts to improve management as well as increase the amount of benefits paid are evident. As an example, these three elements represent the framework of the Dutch social assistance reform.

7. A few original initiatives

Certain reforms highlight the creativity as well as pragmatism of national legislators. While some measures may seem trivial, they do show the constant efforts to adapt, financially and technically, legal rules to the work on this issue. We can point out the implementation of an increased contribution for German long-term care insurance for salaried workers over 23 years of age without children. In doing so the German legislator followed an order from its Constitutional Court demanding differentiated contributions according to the presence or otherwise of children.

Another original initiative: Belgium links environmental concerns with social security funding in the sense that the solidarity contribution paid by the employer for a certain use of a company vehicle is now calculated based on the CO₂ emission level. Vehicles that pollute the least are subject to the lowest contribution rates.

The English legislator has set up the "childcare tasters" programme whose function is to assist a single parent in entrusting their child for a period of time to a professional carer: the parent would therefore have a concrete insight into how this assistance works.

Slovenia has implemented a right to a parent assistant, whose costs would be partially covered in the event of caring a disabled child.

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