

EUROPEAN SOCIAL SECURITY POLICY: CHALLENGES AND POSSIBILITIES

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Abstract

The impact of the European Union on Social Security is quite complex and enigmatic. At the starting point, there is a genuine paradox: whereas the construction of a large and unique market supposes, among many others prerequisites, the harmonization of social security systems, this harmonization is left to the good will of the member States since Social security is not truly within the competence of the Union. In these conditions, it is quite obvious that a thought and organized harmonization is absolutely unreachable.

Beyond the threat of systems of social protection in the European Union contracting, the issue arises of their restructuring and alignment. Given the common challenges they all face (ageing populations, family instability, unemployment, social exclusion and job insecurity), the priority for the reform debate is the redefinition of fundamental rights and the need to draw a distinction between conditional and universal rights.

Through a brief review of EU social policy development and role in European integration theory, this article will argue that, despite its expansion, EU social policy lacks vital financial and political muscle to significantly affect national welfare regimes and create a European welfare state. Moreover, its broad guidelines and flexible implementation may even encourage national social policy diversification rather than harmonization.

Keywords:

European Union, social security policy.

Introduction

D. Pieters (1998) defines social security as set of instruments, which create solidarity between people, who lost (or it is a danger to lost) income or who had a particular expenditures. In some countries social security definition is presented in the legislation and it is natural that social security is recognized differently in different countries. Because of this reason and because of very high social security level in some of European Union countries it will be very difficult to harmonize member states social security systems in most recent time. However certain coordination is necessary (A. Tatham, 1999). L. Dromantienė (2004) affirm that social security of European Union conversely to nacional level is one of the EU policy's directions, which's content is not only recourses redistribution to the social needs, but also social regulation of these areas, which are linked with common market, i. e. work law, demands of safe

work, social rights of migrant workers, equality of genders.

Problem. Social security of European Union has coordination characteristic and do not seek to harmonize social security schemes of member states. In order to guarantee social rights of migrant workers European Union regulate this area with regulation 1408/71, which was changed in 2004 to regulation 883/2004, which simplified and modernized regulation 1408/71. This change was a response to changed circumstances in EU. Following the process of social security development the demand appears to analyze the basic challenges, which all member states face in the area of social security.

Aim of this article is to analyze social security policy of European Union in the perspective of social dangers and social systems.

Object of this article – social security of European Union.

Tasks of this article:

- To study European social model development;
- To identify challenges of European social model and to define it's future;
- To analyze Lithuanian social security system and compare it's statistical indicators with EU's.

Research methods: analysis of scientific literature and analysis and interpretation of statistical data.

European social model: from social space to coordination

The European social model (ESM) has two notions. In a narrow sense, it defines the constitutive elements of the supranational role of the European Union in introducing uniform regulations and in setting standards for the harmonization of laws in the area of social protection. In a broader view, it describes the common core in providing welfare that underlies the diverse understandings of the welfare state and its role in the EU and its member states. The two notions are linked. The more member states share a common understanding of what kind of basic protection and social security should be provided by the national welfare state, the less regulation is needed at the supranational level. However, with this common understanding eroding, due to deregulation and privatization policies favored in many transition countries and in some older member states, the traditional European social model is challenged. A major consequence of this challenge is the need for the European Union to define at the supranational level which minimum protection has to be provided for its citizens, and thus has to make explicit the previously tacit common understanding of the basic elements of social protection. Furthermore, in doing so the European Union defines the limits for deregulation and privatization of social protection pursued by member states (R. Rogowski, 2004).

The ESM is not a reality in the sense in which we think of national welfare states, it is an overarching aspirational model incorporating the broad parameters to which European welfare states conform. It is based on a broad conception of social policy encompassing a wide range of 'interventions for social purposes' (Kleinman and Piachaud, 1993). In the EU context the social dimension relates not to direct provision of services but is designed to prevent, mitigate or alleviate the social consequences of economic development within the European Union. While Structural and Cohesion Funds contribute to its implementation, it is primarily implemented through regulation, in particular directives, which must be implemented in member states either by legislation or collective agreement, and recently an open method of policy coordination. The ESM is constantly a work in

progress; it reflects a tension between aspirations and statements of values expressed at the EU level and subsidiarity. Key statements on it are included in EU treaties and in documents of the European Council – for example, the Treaty of the European Union (1992), the Amsterdam Treaty (1997) and the Treaty of Nice (2000); the Lisbon (March 2000), Nice (December 2000) and Laken (December 2001) Councils – but its most consistent articulation emanates from the European Commission (European Commission, 2003).

While this section focuses on the development of the European social-policy framework it is acknowledged that this does not take place in a vacuum. Market integration impacts on social policy, not only in terms of the general context, but particularly in terms of social and health services that have a market dimension where issues of competition arise.

In the early days of the European Economic Community the dominant focus was on the creation of an economic union through the free movement of goods, capital, services and labour. While Article 119 in the Treaty of Rome referred to the right of women to equal pay with men this inclusion in the Treaty related to the prevention of market distortion rather than being an explicit social-policy commitment. Yet, this and other articles which made it possible for the Commission to prepare directives on equal treatment proved highly significant as the source of five gender-equality directives between 1975 and 1986.¹ A series of social-action programmes directed against poverty was initiated in 1975 and continued until 1994 with a break between 1980 and 1984.² While these programmes had little impact on the extent of poverty due to their very limited range they were important politically in reflecting recognition of poverty and social exclusion (P. Abrahamson, 1997). In the early 1980s the idea of 'a social space' was put forward by the French presidency but the major focus during the 1980s was on market building and the creation of the single market. This culminated in the Single European Act (1986). The preamble to the Act includes a statement of principle affirming a commitment to promote fundamental rights as expressed in the Convention for the Protection of Human Rights and Fundamental Freedoms and the European Social Charter. While this Act did not provide a framework for the development of social policy it marked some progress and reflected the view expressed by Jacques Delors, who was appointed President of the Commission in 1985, that 'any attempt to give new depth to the Common Market which neglected this social dimension would be doomed to failure' (J. Delors, 1985).

In 1989 all members of the European Community, with the exception of the United Kingdom, adopted the Community Charter of the Fundamental Social Rights of Workers. The preamble to the Charter affirmed that ‘the same importance must be attached to the social aspects as to the economic aspects, and [. . .] they must be developed in a balanced manner’. It reflected progress for citizens as workers but was not legally binding on national governments (B. Deacon, 2003).

The coordination of social security through secondary regulation started in 1958 with Council Regulations 3/58/EEC and 4/58/EEC. However, they were only forerunners of the famous Regulation 1408/71/EEC, the Bible of social security coordination, and Regulation 574/72/EEC. The most important aim of Regulation 1408/71 is protection against discrimination on grounds of nationality in relation to entitlements to contributory and non-contributory social security benefits. Regulation 1408/71/EEC introduced a number of principles in addition to nondiscrimination based on nationality on which coordination is based. The main principles are: (1) at any particular time only one social security system can apply to a worker; (2) social security systems can be exported within the Community – with exceptions;

(3) time periods can be accumulated; (4) the affected states have to share the cost proportionally. The Regulation serves four main purposes. (1) prevention of (positive or negative) conflicts of laws; (2) equal treatment of workers from different members states; (3) repairing breaks in the employment carrier that result from moving to another member state; (4) removing territorial criteria in relation to payment of benefits.

The open method of coordination (OMC) has increased the competence of the European Union to regulate areas where the traditional Community legislative processes are weak, or where new areas require coordination of Member State policy, either as part of the spillover of the integration project as a result of economic and monetary union, or as a result of the case law of the European Court of Justice. The OMC is viewed as an aspect of new, experimental governance, which is part of the response by the EU to regulatory shortcomings. This article explores the normative aspects of the OMC using case studies. The article examines the conditions in which the OMC emerges, the conditions upon which it thrives, and the claims that are made for its effectiveness as a new form of governance (E. Szyzszak, 2006).

Table 1. Key differences between the OMC and the traditional “Community method” (A. Jassem, 2004)

	OMC	Community method
Aim	Greater convergence of national policies towards common European objectives	Harmonisation of national policies
Instruments	“soft law” mechanisms: guidelines and indicators, benchmarking and sharing of best practices, multilateral surveillance	Legally binding legislation: directives, regulations, decisions
Enforcement	Compliance is voluntary. There are no sanctions Effectiveness results from multilateral surveillance, peer pressure, “naming and shaming”	Implementation of Community rules is monitored by the European Commission Infringement proceeding before the European Court of Justice in case of breach of Community law
Key players	Key role of Member States (Council + European Council) Reduced role of the Commission No formal role for the Parliament, ECJ, Committee of the Regions and Economic and Social Committee	Institutional triangle composed by the Commission, the Council and the Parliament Central role of the Commission in the initiation, formulation and implementation of EU policies
Intergovernmentalism versus supranationalism	More inter-governmental Decisions taken by consensus	More supranational Central role of the Commission (a supranational body) Qualified majority voting as a rule

The Open Method of Coordination is a radically innovative approach to EU governance based on “soft law” mechanisms and mutual learning. It has been devised as an instrument to share best practices and increase policy convergence in areas which remain a

primary responsibility of national governments but are of concern to the EU as a whole, such as the long term unemployment, ageing population or the necessary reform of social protection systems. In contrast to the traditional “Community method”, it aims at

coordination rather than harmonisation of national policies. It commits Member States to work together towards shared goals while respecting legitimate national diversity. It is also more intergovernmentalist and voluntaristic than the traditional EC methods (A. Jassem, 2004).

Challenges and future of European social security system

The existence of common challenges in European countries requires a certain convergence of social models, even though responses are often isolated. To overcome the financial problems raised by the economic slow-down, the rise in unemployment and the ageing of the population, member States have sought to contain their social budgets. In general, those most affected by unemployment have adopted stricter conditions for access to benefits and/or reduced the period for which these are provided (Denmark, France, Germany, Spain, the United Kingdom). Countries which had shifted certain types of unemployed persons over to more generous disability schemes have had to review their approach and tighten their legislation in this respect (Italy, the Netherlands). A number of countries have raised the retirement age (particularly Germany and Italy) or increased the qualifying period for full retirement pension (as France did in 1993) (S. G. Ross, 2000). Further economy measures have led to some countries making family benefits degressive as a function of family income (Germany, Italy). In the field of healthcare, in addition to measures designed to increase cost-sharing by insured persons, two tendencies are emerging. The first of these is the trend towards universal health coverage, with some European countries gradually transforming their insurance schemes into universal national schemes (for example France, which in January 2000 introduced universal health coverage, known as CMU). Second, market mechanisms have been introduced into the provision of healthcare, and sometimes into the conditions for financial coverage (particularly in the Netherlands, Portugal and the United Kingdom).

Another common challenge is to combat poverty. Considered a priority in the European Commission's social agenda, action to assist unemployed or otherwise disadvantaged people is increasingly being addressed at national level through social "activation" measures. Most European countries, as described in greater detail below, have strengthened the job seeking requirement of their unemployment benefit and social assistance schemes. They are tending to emphasize measures to improve the employ-ability of unemployed workers and those encountering difficulties in finding work, and are establishing closer links between employment policy and social protection. The primary

redistribution function of their social protection systems is thereby being gradually combined with the function of reintegration into the labour market. The logic of passive assistance and benefits is giving way to logic of active measures based on conditions of reciprocity between the categories concerned and the community. They are therefore endorsing the idea that while beneficiaries have rights, they also have duties towards society, which itself bears part of the responsibility for the process of social exclusion.

The third major challenge is the reevaluation of pay-as-you-go retirement schemes. The United Kingdom is currently the only country to have opted to replace a public pension scheme with a private system. SERPS (the State Earnings Related Pension Scheme) has been made optional and less advantageous. Since 1987, to supplement their basic pension, British employees have had the choice of SERPS, a fully funded enterprise scheme or individual retirement plans. In other countries (such as Belgium, Germany, Portugal, Italy and France), the measures adopted consist mainly of financial readjustments and/or additional measures to introduce a small dose of individual funding to compensate the envisaged reduction in the pensions provided by public schemes. These measures take various forms, such as retirement savings plans, pension funds or wage funds. For example, in Germany the reform undertaken by the Schröder Government, entering into force in January 2002, adopts this approach. Based on the development of company pension funds, it envisages the maintenance of old-age pensions at the level of 70 per cent of the average net income, of which 67 per cent is to be provided through the public pay-as-you-go system. However, the threat of partial privatization of public pension schemes will be more acute as from 2005-2006 when the baby boom generations retire.

In practice, the convergence seen so far has concerned employment and the containment of budgets, to the detriment of equality of income and social protection. With the transition to the euro, this third variable in the incompatibility triangle already referred to by several authors may well be further sacrificed (T. Iversen and A. Wren, 1998).

Although it is difficult to envisage a European social model in view of the diversity of the national components, it is nevertheless possible to speak of a "European social identity", or indeed of a "common European project". These concepts relate to common fundamental values based on the principles of justice, equality, social solidarity and income security, as well as the will, which is also shared, to reconcile economic efficiency with social justice. They are based on a specific conception of solidarity which is more collective than individual, and involves a certain

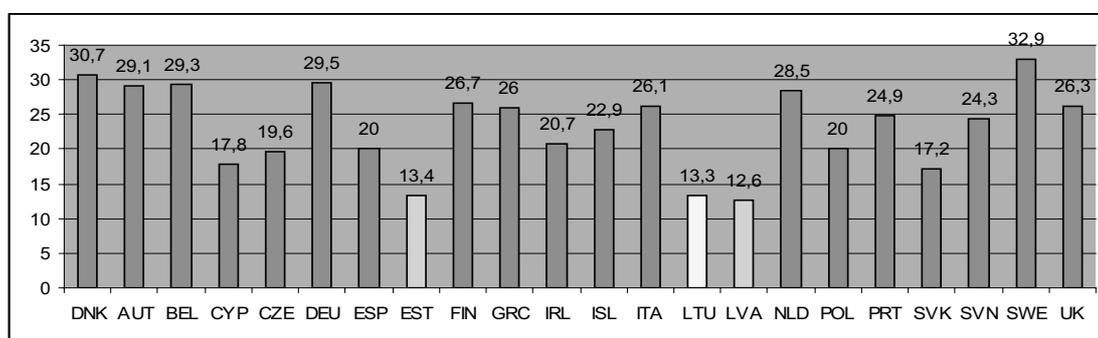
redistribution of income. This consists in some cases of worker solidarity based on Bismarckian systems closely related to work, and at times of national solidarity through Beveridgean models guided by the criteria of needs and universality. The redistribution function, which was recognized and legitimized during the Fordist period, still has the support of moderate liberals, authors of various persuasions and the population of the member States insofar as it sustains demand and economic activity (the Keynesian effect) and ensures a certain level of social cohesion. But it is now combined, as seen above, with the function of reintegrating unemployed workers and the beneficiaries of social assistance, based on a logic of financial rationalization and collective solidarity.

The European social dimension can only find real legitimacy through the establishment of greater solidarity at EU level. Several mechanisms could be envisaged to resolve certain common challenges and construct a partially integrated social Europe. An increase in the budget would appear to be an essential first stage (European Commission, 1998). The latter have been calling for some years for a compensatory mechanism to reduce their negative balance in the EU budget (Austria, Germany, the Netherlands and Sweden). However, it is becoming increasingly evident that a budget maintained at 1.27 per cent of EU GDP is not compatible either with the requirements of expansion towards the east or with the rise, as recalled above, of regional and social imbalances. Raising it to 2.5 per cent, or a little more, is a prerequisite according to the recommendations of the MacDougall Report (1977) as part of a pre-federal logic. The margin for intervention by EU authorities would be reinforced. However, this first step towards federalism would need to be rapidly supplemented by

a certain level of political progress with a view to the centralization of budgetary policy at EU level. The European budget will have to become an instrument of macro-economic regulation in Euroland to supplement centralized monetary policy, with the capacity to take on debts for the implementation of common action. This would also presuppose its progressive financing from specific resources (a certain proportion of VAT, taxes on the monetary income of the European Central Bank, taxes on CO₂).

The establishment of a European reserve fund designed to ensure a certain fiscal and social balance between member States could also be envisaged. This fund could provide additional resources to national schemes in deficit or finance minimum benefits determined according to an EU standard. In the field of retirement benefits, all the member States of the European Union will be confronted between now and 2005-2010 with financial imbalance in their public pension schemes as a result of the retirement of the baby boom generations. Since the massive privatization of these schemes would give rise to major disadvantages which are now recognized (aggravation of social inequalities, reemergence of poverty among the elderly population, increased monetary instability on financial markets, deterioration of the social status of the lowest skilled workers), it would appear to be logical and legitimate to organize a system of solidarity at EU level (S. Chapon, Ch. Euzeby, 2002).

For the present, EU social policy development will continue to be uneven, but will maintain a low/medium-level development trajectory. This will obviously depend on a number of key developments including: the overall development of the EU, the success or failure of EMU, and the integration of the new member states of Eastern Europe.



Picture 1. Social expenditure as percentages of the GDP in the EU, 2004 (Social expenditure, 2006)

How the EU deals with these major challenges will certainly be essential for setting the stage for future EU social policy expansion or stagnation.

Other, more special factors include: the political composition of key member state governments, the

growth of social policy linkages to the EU legal system and implications of 'soft law' (Cram, 1997), the success of 'mainstreaming' social policy into the general EU policy process (Geyer, 1999; Room, 1995), the growing influence of the Parliament, and

increasing impact of social policy pressure groups. Clearly, its fate remains uncertain and contingent (R. Geyer, 2000).

Lithuania in the context of European social security policy

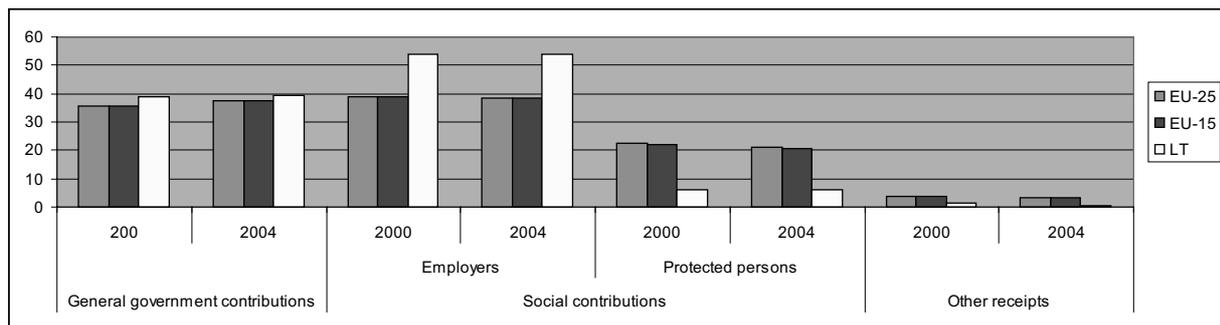
Different social policy concepts vary in terms of the role of the individual (liberal approach), family (Catholic approach), employer (conservative approach) and the State (Social Democratic approach) in the process of protection of various needs. Modern social systems are based on the liberal, conservative and social democratic socio-political concepts (D. Bernotas, A. Guogis, 2005).

The social security system of Lithuania is made up of a social insurance component and a social assistance component. At a discursive level, the explicit principles guiding the Social Security System are universality and solidarity, which are an integral part of the European Union jargon on social policy. The social insurance component comprises pension, sickness, maternity (paternity), health, and unemployment and work accident insurances. The

system, based on the pay-as-you-go principles, sets out to guarantee an income for insured persons for the aforementioned contingencies. The rights and benefits are based on the contribution rate and on the length of contribution and the system is financed by contributions by the insured persons and by the insurer (J. S. O'Connor, 2006).

The EU's expenditure on social affairs measured in relation to the Gross Domestic Product (GDP) and per capita in PPP-Euro, broken down by functions, is shown in the picture 1.

The picture shows that the biggest part of GDP is assigned for social security in Sweden, Denmark, Germany, and Belgium (from 29.3 to 32.9 percentages of GDP). Lithuania (13.3 percentage) is the second from the bottom by this indicator and overtake only Latvia (12.6 percentage). This means that our country is one of the lowest expenditure assigned ones for disadvantaged people. Although expenditure in absolute numbers for social security is growing each year, but because of developing economy and rising inflation, assigned resources are not enough for all demands.



Picture 2. Social production receipts by type (as % total receipts), 2004
(Social protection in the European Union, 2007)

The disparities between countries are partly related to differing levels of wealth and also reflect differences in social protection systems, demographic trends, unemployment rates and other social, institutional and economic factors.

In 2004 the main sources of funding of social protection at EU-25 level were social contributions, which made up 59.5% of all receipts, plus general government contributions from taxes (37.3%). Social contributions can be broken down into contributions paid by the persons protected (employees, self-employed persons, retired persons and others) and those paid by employers (see picture 2). The European average masks major national differences in the structure of social protection funding. More than 50% of all receipts are funded by social contributions in the Lithuania.

The differences are historical and due to the institutional reasoning behind social protection

systems. Northern European countries, where government funding dominates, are steeped in the "Beveridgian" tradition (in this type of system, it is enough to be a resident in need in order to be eligible to claim social benefits). Other countries are strongly attached to the "Bismarckian" tradition, in which the system is based on the insurance concept (in the form of contributions). However, the divergence between European countries is gradually declining, with more funding from tax revenue in the countries where it used to be low (France, Germany, Italy and Portugal, for example) and with more from contributions in the countries with high levels of government funding on the other.

The share of other receipts (property income and other receipts) was low: 3.2% in 2004 for EU-25. However, it was well about 5% in Lithuania (Social protection in the European Union, 2007).

The main problem of Lithuanian social security system – the level of financing. Expenditure on social security in Lithuania is less than 14 percentage of general domestic product (GDP) and average of EU is about 23.2 percentage of GDP (picture 1). These influence both lower level of social security benefits and weaker developed social service system than in other EU countries. Although social problems are more severe in Lithuania because of low living level, but in all areas lower part of GDP is assigned than EU average (table 2). Unemployment and social exclusion is particularly poorly financed in Lithuania: only about 12 percentage of EU level.

It is natural that Lithuania still fail to keep pace with old EU member states and EU average, because Lithuanian social security system is still developing (benefits increasing, changing size of social insurance, etc.). Besides there is lower living level in Lithuania.

Table 2. Structure of expenditure of social protection in 2004 (Social protection in the European Union, 2007)

	ES-25	ES-15	Lithuania
Old age and survivors	12	12,2	6,1
Sickness/health care	7,4	7,5	3,8
Disability	2,1	2,1	1,3
Family/children	2,1	2,1	1,1
Unemployment	1,7	1,8	0,2
Social exclusion	0,9	0,9	0,3

Conclusions

1. European social security policy segregates from other policy areas in its regulation form – coordination, which left independent decision to each member state. European social model left a mark in each treaty of EU and developed from idea of social space to regulation 1408/71, which purpose is to avoid a situation in which the employee is not or doubly insured.
2. The main challenges of European social model are financial problems, rise in unemployment, ageing of the population, poverty and reevaluation of pay-as-you-go retirement schemes. The European social dimension can only find real legitimacy through the establishment of greater solidarity at EU level.
3. Lithuania managed to create social security system, which suit traditions and attitudes of European Union. However Lithuania still gives signally lower part of GDP to social security than in other EU member states because of lower life level and straggled economy from West Europe. Overall financing problem effects concrete branch

of social security development and welfare of citizens in Lithuania.

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