Social protection in the EU: State of play, challenges and options

SUMMARY

Globalisation, technological change, an aging population and changes to the world of work have made securing social protection for all, i.e. economic and social security, a major challenge. When social protection systems work well, they can have a stabilising effect on the economy and promote socio-economic equality and stability. By contrast, inadequate or ineffective systems can exacerbate inequality. Indeed, improving the existing social protection systems is the priority of half of the principles of the European Pillar of Social Rights – the European Commission’s overarching social field initiative designed to serve as a compass for policies updating current labour market and welfare systems.

While implementation of the ‘social pillar’ remains primarily the responsibility of the Member States, in close cooperation with the social partners, the European Commission has put forward several legislative and non-legislative initiatives to support this process in the area of social protection. These include the proposal for a recommendation on social protection for all, including non-standard workers, responding to calls from the European Parliament and the social partners and stakeholders. This proposal had the difficult task of addressing all the disagreements that had arisen during the two-phase consultation in the preparatory phase. While all parties seem to agree on the importance of adjusting social protection to the new realities of life and work, there are differences of opinion concerning the technicalities, such as the financing of schemes. This is in part a reflection of the current evidence that raises many questions as to the optimal response to the new challenges in very diverse systems of social protection across the Member States.

The main trends currently include a combination of social protection and social investment, individualisation of social protection schemes and a potential move towards universal social protection, whereby social protection would be removed from the employment relationship. However, financing these schemes poses a challenge.

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Social protection and the changing welfare state

What is social protection?

There are many existing definitions of social protection. Despite their diversity they contain common features that involve all private and public initiatives that are targeted at disadvantaged or vulnerable groups with the overall aim of reducing economic and social vulnerability. There are also some differences in the definition depending whether it relates to international development in developing countries or to high-income countries, for example the European Union (EU) Member States. Social protection is generally provided by the state and involves a state-citizen contract, in which both state and citizen have rights and responsibilities towards each other. There is also an (economic and social) security dimension, in terms either of social justice or of the International Labour Organisation’s concept of social protection floors. This dimension should consist of at least four basic social security guarantees: essential health care and basic income security during childhood, adulthood and old age for all residents and all children as defined in national laws and regulations.

Historically, national social protection systems have primarily been developed to protect people in standard employment. This is particularly the case for insurance-based schemes, i.e. those based on social contributions from the employee and the employer. By contrast, benefits and services financed by taxes (e.g. family allowances, some forms of healthcare and long-term care) and certain means-tested benefits (e.g. social assistance and minimum income provisions for older people) are granted in many European countries regardless of the employment status of an individual.

The ILO has identified four types of social protection: social protection linked to a contract with a specific employer; social protection linked to salaried employment; social protection linked to participation in gainful employment (including non-salaried employment); and social protection linked to residency status.

Finally, social protection systems are deeply engrained in the various national systems, each with their own specific historical circumstances, political choices and public finances.

What are the challenges?

Expenditure on social protection relative to gross domestic product (GDP) grew by 18.5 % (2.9 % per annum) in the period between 2008 and 2014. In 2014, average social expenditure in the EU stood at 28.7 %. Data for the various Member States varies significantly, owing in part to differing social protection systems, demographic trends, unemployment rates and other social, institutional and economic factors. When broken down to per capita level, wealth is an additional factor that plays an important role in differences in expenditure. This means that beneficiaries in countries such as Luxembourg or Denmark, the Netherlands, Austria, France, Germany, Belgium, Sweden and Finland fare very well compared with those in countries such as Latvia, Bulgaria and Romania. In 2015 in the EU close to half of social protection expenditure, 45.2 %, was spent on old age benefits, with 37.3 % spent on health, sickness and disability, 8.9 % on families and children, 4.8 % on unemployment, and 4.1 % on housing and social exclusion. Financing of social protection in the EU-28 in 2014 favoured social security contributions (54.1 % of total receipts) over general government funding from taxes (40.5 % of total receipts).
However, social expenditure in itself is not enough to define a social protection system. Additional data referring to the outputs of this expenditure are necessary. A wide range of data has already been collected on social protection performance, including data measuring the effectiveness of social protection systems according to the impact of social transfers (excluding pensions) on poverty reduction and on the at-risk-of-poverty rate for people living in a (quasi-)jobless household. The most recent dashboard emphasises the rise of the at-risk-of-poverty rate in jobless households and the depth of poverty risk in several Member States (2015 to 2016 data), pointing to continued reduction in the adequacy of social benefits in several countries.

Since 2008, the economic crisis has put social protection systems under greater financial pressure, adding cyclical shorter-term challenges to long-term challenges such as demographic ageing, digitalisation and socio-economic trends, in particular increasing polarisation on the labour market and changes in household structures. The latter involves an increase of the number of non-standard workers on the labour market, which in turn contributes to wider inequalities and puts pressure on current social protection systems. The number of non-standard workers is difficult to determine as the composition of the group is fluid. Some estimate this group to represent close to 40 % of the workforce. In 2016 in the EU 14 % of workers were self-employed, 8 % were full-time temporary employees, 4 % were part-time temporary employees, 13 % were part-time permanent employees and 60 % were employees with full-time permanent contracts.

With some exceptions, non-standard workers usually have the same statutory access to social protection as standard workers. However, only very few Member States give equal social protection to standard employees and the self-employed. People in non-standard employment or self-employment also experience gaps in statutory access to social protection and in effective access (i.e. through the building up of entitlements). These groups, in turn, run high risks of poverty. The gaps can also undermine intergenerational fairness, and lead to a bigger risk of social polarisation between different categories of employee. These phenomena can diminish the adequacy and sustainability of social protection systems as the contribution base is eroded, and there is more labour market segmentation and increasing skills mismatches. Finally, discrepancies between the various Member States can be played off against each other.

Social spending can function as an economic stabiliser. Government spending in social areas has on average a more stabilising effect than total government spending as a whole, and total social spending is able to absorb about 16 % of shocks to GDP in countries of the Organisation of Economic Cooperation and Development (OECD). A report prepared for the European Parliament concluded that policy makers should prepare the social protection schemes for the future now and overcome unequal access to social security. It argued that it is particularly important to ensure that non-standard workers, those with fixed-term contracts or with only a short employment record, in particular young people and other labour market entrants, have access to these schemes. The report emphasised that automatic stabilisation is a positive feature of the welfare state, but that there is a risk of prolonged passive support, if not combined with activation and effective active labour market policies.

**Social protection in the European Union**

The social dimension of the EU and, more concretely, social policy have been evolving since the Rome Treaty. There is no comprehensive, regulated, EU-level governance framework for social and employment policy that there is for economic policies. Social policy in the EU is implemented through several tools, such as legislation, funding and policy guidance.

The organisation and financing of social protection systems is the responsibility of each Member State. The models used in each Member State therefore differ somewhat, while the EU plays a coordinating role to ensure that people who move across borders continue to receive adequate protection. With some exceptions, such as legislation on the coordination of social security, legislation on working time, part-time, fixed-time and temporary agency work, and legislation
promoting a work-life balance, (the maternity directive, the parental leave directive and the work-life balance directive currently under negotiation), the governance tools are predominantly of a 'soft' nature.

The main policy framework at EU level in the area of social protection is the open method of coordination (OMC), which aims to promote social cohesion and equality through adequate, accessible and financially sustainable social protection systems and social inclusion policies. The 2005 communication from the European Commission outlined the objectives of the OMC, which include: making a decisive impact on the eradication of poverty and social exclusion; providing adequate and sustainable pensions; and ensuring accessible, high-quality and sustainable healthcare and long-term care. The 2008 communication on the renewed social agenda aimed to reinforce the social OMC, introduce social impact assessments for European policies and also bring social, employment and economic policies closer together.

The Europe 2020 strategy for smart, sustainable and inclusive growth set targets to lift at least 20 million people out of the risk of poverty and/or social exclusion and to increase the employment rate of the population aged 20 to 64 to 75%. The European Commission provides the Member States with financial and policy support to help them reach these targets and modernise their welfare systems. The social and employment situation of Member States is meanwhile monitored closely as part of the European Semester.

For more than two decades there have been EU efforts to promote action among Member States to make social protection systems more responsive to the socio-economic challenges as well as to combat poverty and social exclusion. The 1992 communication promoted convergence of the Member States' social protection objectives and policies. A 1997 proposal called for further modernisation of social protection systems as a response to challenges such as the changing nature of work, the ageing of the European population, the new gender balance and the need to reform the coordination of national social security schemes for people moving within the EU. In the years following a lot of effort was put into aligning social and employment policies more closely. Social inclusion and issues relating to pensions, health and long-term care were streamlined within an integrated process in the European employment strategy and later in the broad economic policy guidelines. The 2008 Council recommendation on active inclusion pointed out that very basic points from the 1992 Council recommendation on common criteria concerning sufficient resources and social assistance in social protection systems have not been implemented. It therefore called on the Member States to review their protection systems according to these common principles. Finally, it called for adequate income support, inclusive labour markets, and access to quality services. The 2013 social investment package built on the lessons learnt from the difficulties implementing the 2008 recommendation. It reiterated the importance of a comprehensive approach to social policies, including targeted policies adjusted to people's needs, and social investment alongside social assistance and insurance. It thus promoted effective and efficient welfare systems in which strong social investment is coupled with protection and stabilisation.

Following a rather active period between 1991 and 2004 there has been a period of stagnation (up until the 2008 crisis and beyond), during which no major social directives have been ratified. The 2017 European Pillar of Social Rights (social pillar) set out a number of key principles and rights to support fair and well-functioning labour markets and welfare systems; it is one of the policy developments relating to a deeper and fairer economic and monetary union, one of the ten European Commission policy priorities for the 2015 to 2019 period. Having been solemnly proclaimed and signed by Commission, Parliament and Council it has the potential to open a new chapter and introduce a new dynamic to the EU's social and employment policy. The pillar contains three main categories for action, one of which concerns social protection and inclusion.
The social protection chapter of the European Pillar for Social Rights

An entire chapter of the social pillar is devoted to promoting social protection and inclusion, including childcare, unemployment benefits, minimum income, old age income and pensions, healthcare, inclusion of people with disabilities, long-term care, housing assistance for the homeless and access to essential services. Principle 12 focuses explicitly on social protection: regardless of the type and duration of their employment relationship, workers, and, under comparable conditions, the self-employed, have the right to adequate social protection.

The proposal on the social pillar explained the social acquis on which its different principles are built. In some cases, in the various elements of social protection, it goes beyond the acquis. In addition, while the implementation of the social pillar remains mainly with the Member States in strong collaboration with the social partners, the Commission has recently proposed several measures to support the process.

The social pillar proposes to:

- promote the right for all children to have access to affordable early childhood education and care services of good quality. As part of the Leaders’ Agenda the Commission has come forward with a new package on education including a proposal for a recommendation on high quality early childhood education and care;
- apply the right to social protection in the event of unemployment to the short-term unemployed and the self-employed and link them to public employment services. It also suggests making a continuous review of tax and benefit systems for incentives and disincentives to work. The proposal currently under negotiation for the revision of social security coordination systems provides for unemployment benefits for job searchers to last six months instead of the current three;
- link everyone who lacks sufficient resources to access a minimum income to employment and other services that lead to labour market (re)integration;
- focus on the adequacy of pensions as a principle in addition to the 1992 recommendation on the convergence of social protection objectives and policies on old-age pension. The Commission has come forward with a pan-European personal pensions product alongside domestic personal pension schemes. It has also set up a high level group to deliver advice on pension policies by 2019;
- secure access for all to timely, affordable and good quality healthcare;
- address the need for comprehensive measures to make the human rights-based approach to disability enshrined in the United Nations Convention on the Rights of People with Disabilities (CRPD) a reality, upholding principles such as respect for dignity, participation, income support and an adapted work environment so that people with disabilities can enjoy full equality and inclusion at work and in society;
- highlight the importance of affordability, adequacy and quality of long-term care, and beyond previous regulations and guidance, the promotion of community-based care. The Commission’s proposal for a new directive on a work-life balance for parents and carers with legislative and non-legislative parts, supports the creation of better long-term care facilities;
- promote social housing (i.e. housing support, in kind) and housing assistance for everyone in need and not only those who lack financial resources. The social pillar also establishes the right to adequate shelter for everyone in a homeless situation and promotes their (re)integration into society. Several strands of the Urban
Agenda support the implementation of this principle by promoting cooperation between Member States, cities and the European Commission; ensure access to available and affordable essential services (e.g. water, sanitation, financial, etc.) for all, including old people and people with disabilities. Several ongoing initiatives support the implementation of this principle at EU level, in relation to energy, broadband, water, sanity and accessibility.

The first monitoring exercise conducted by the European Commission on the implementation of the social pillar took place in March 2018. This not only explained all the recent initiatives of the Commission supporting the implementation of the social pillar principles but also introduced ways in which social and employment policies have been mainstreamed across other policy areas, such as education, youth, and energy policy. In addition, the country reports within the 2018 European Semester used the social scoreboard that accompanies the social pillar, with particular emphasis on skills challenges and on national social safety nets.

The social pillar continues the path started by the social investment package and is based on both the principles of social investment, as well as protection and stabilisation. It also reflects all three strands of the active inclusion approach, in particular in its emphasis on access to quality services, such as childcare, housing and healthcare, and adequate minimum income. Finally, it also stresses the strong link between activation and services.

The social fairness package

In March 2018, simultaneously with the first monitoring report on the implementation of the social pillar, the Commission came forward with a social fairness package containing proposals for the establishment of a European Labour Authority (ELA) and for a Council recommendation on social protection for workers and the self-employed, and the promise of a future proposal on a European social security number.

The word ‘fairness’ in the title should imply moving towards more equality in terms of opportunity and treatment. In addition to the revised posting of workers directive and the directive on social security coordination currently under revision, the proposed ELA should support fair mobility on the labour market in practice by facilitating access for individuals and employers to rights and services, support Member States in the cross-border enforcement of relevant EU law and facilitate joint inspection, and mediate and facilitate disputes between national authorities and labour market disruptions in cross-border situations. The European social security number card should help in the portability of rights across borders. A digital identifier on this card would make the various systems interoperable.

Proposal for a Council recommendation on social protection for all

Despite ongoing efforts since 1992 to close the gaps in social protection systems between and within Member States there are still a lot of challenges remaining. The proposed Council recommendation aims to support all self-employed and non-standard workers ‘who due to their contract type or labour market status are not sufficiently protected by social protection schemes, to ensure the transferability between schemes and to increase transparency regarding social protection systems and rights’. It therefore mainly concerns social protection relating to labour market status or type of employment relationship and is designed to protect people from loss of work-related income arising from certain risks.

After two rounds of consultation with social partners, a parallel open public consultation and several studies, the Commission came forward with the option of a proposal for a Council recommendation. It considered that a recommendation could serve as a springboard from which to further reform social protection systems in the Member States and could create a ‘momentum supporting and complementing national debates and reforms’. It also, however, leaves important decisions to the Member States, such as the level of protection to be provided, whether to extend coverage under existing schemes or through the creation of new schemes, the way protection is financed, and the
combination of schemes (public, occupational or private) to be used. For greater efficiency, the proposal distinguishes between different branches of social protection owing to the nature of self-employed work. In relation to formal coverage of the unemployment risk, more flexibility is given to Member States in the design of the scheme through the possibility to extend coverage to the self-employed on a voluntary basis. In contrast, for other risks, such as old-age, sickness and maternity it recommends mandatory coverage. The proposal envisages shorter- and longer-term benefits on several levels, such as helping to reduce poverty, promoting labour market dynamism, stabilising economic cycles, and encouraging fiscal sustainability. It also explains that while businesses might benefit from a reduction in unfair competition, they might also see an increase in costs relating to non-standard employment and working with the self-employed.

European institutions and stakeholder views

European Parliament

Long before the Commission came forward with its proposals first on the social pillar and then later on social protection for all, Parliament had, in a number of resolutions, highlighted the dangers of the changing world of work, and the resulting unequal access to social protection and increase in unfair competition.

The 2014 resolution on social protection for all called on the Member States to ensure responsible and sustainable long-term financing of social security systems, particularly in periods of economic crisis, as well as to develop the preventive arm of social security systems and place greater emphasis on activating measures. It stressed that self-employment needs to be recognised as a form of work that helps to create jobs and reduce unemployment, and that the expansion of self-employment should go hand-in-hand with appropriate social protection for the self-employed, as defined in Member States' national legislation. It called on the Commission and Member States to link social security and social protection rights to the individual rather than to the working contract, thereby enabling decent social protection for all, including self-employed and employed workers, regardless of their contract type or employment status.

There is no consensus on the definition of social dumping but it can be considered to be a set of practices at international, national or inter-corporate level, aimed at gaining an advantage over competitors, which could have important negative consequences on economic processes, on workers' social security, and it can lead to unfair treatment of workers. In a resolution on social dumping, Parliament stressed the need to adapt existing social protection schemes to the needs of workers in the digital and sharing economy in order to ensure adequate social protection for those workers.

A resolution on the collaborative economy recognised its importance in creating stronger links between economic and social goals, as well as creating new community and business models, and giving opportunities to some vulnerable groups on the labour market, such as young people and women. It also called for the need to secure social protection for all irrespective of their labour market status. It called on the Commission and Member States to coordinate social security systems with a view to ensuring the exportability of benefits and aggregation periods in accordance with EU and national legislation.

The resolution on the social pillar also called for work intermediated by digital platforms and other instances of dependent self-employment to be defined, and for a clear distinction to be made between those genuinely self-employed and those in another employment relationship, emphasising the need to secure all of them adequate social protection.

Since the Commission adopted its proposal on social protection in March 2018, Parliament has put a set of questions to Council and the Commission, highlighting difficulties relating to the successful implementation of the proposal. Two sub-questions focus on the relationship between this initiative and others within the social fairness package and the directive on transparent and predictable
working conditions, and on how this recommendation will contribute to the implementation of other principles of social protection mainly mentioned in the third chapter of the social pillar, such as unemployment benefits, old-age pensions, etc. Finally, a third sub-question to the Council addressed how the proposal will secure the implementation of the minimum standards in different national security systems, and a sub-question to the Commission asking how it would encourage uptake of the proposal, and support its implementation and monitoring.

Council

In December 2017, the Council adopted conclusions on the future of work, calling inter alia for social protection for all workers regardless of the form of employment. The conclusions emphasise that changes must be made in accordance with national competences, taking into account national circumstances and respecting the role and autonomy of the social partners, and that adequate financing and e-solutions are necessary. The 2018 Council recommendation on the economic policy of the euro area recommended labour market reform to support social protection and inclusion.

Stakeholders

Several social partners and other stakeholders have expressed their views on the new proposal on social protection for all. The views of ETUC and BusinessEurope summarise the two extremes of these views. While both welcomed the proposal, ETUC found it to be under ambitious while BusinessEurope thought it went beyond its remit.

In its position paper, ETUC argued that the proposal in its current form would not serve upward convergence and named missing elements. It disagreed with the ideas presented for financing social protection and called for universality, stating that private contributions should be complementary only and that the regulatory environment should be supplemented with a renewed employment strategy. It also called for an enabling environment to make the right enforceable by indicating the need for minimum adequate remuneration as well as organising bargaining rights. It also referred to the need to share contributory obligations fairly between working people and employers.

ETUC regretted the lack of a clear reference to social provisions ensuring minimum and adequate safety nets for those people who, because of the type and duration of their employment, did not reach a minimum threshold that allowed them to have access to protection against risks. It also stressed that the voluntary option should not be allowed or strongly restricted in systems aimed at universal coverage, based on solidarity, risk-sharing and fairness. It highlighted that this should be the case for unemployment benefit schemes for the self-employed, to which mandatory coverage should also apply.

BusinessEurope agreed with the principles of the recommendation but found it far too prescriptive, for example, by giving a general definition of workers. It stressed that any action at national level should insure a balance between offering access to social protection schemes and not deterring employers, workers and individuals from using different contract forms. It should be left to the Member States to decide which type of worker should have access to which branch of protection. Member States should be encouraged to find market-based solutions to protect the self-employed.

Financing the social protection system is one the most complex and challenging issues around social protection, and thus the main reason underlying the disagreements. In its opinion on the proposal, the European Economic and Social Committee (EESC) therefore encourages Member States to find sustainable ways to finance the social security of people in new types of employment.

Outlook

Given the limited policy space for social policy making at European level owing to its regulatory and institutional framework, the European Commission’s new initiative proposed the maximum it could. Implementation of the social pillar principles as well as of the recommendation on social protection
is largely the responsibility of the Member States in strong collaboration with the social partners and with EU support. An additional tool should be the new **multiannual financial framework** (MFF) that intends to regroup the various programmes and funds for the new 2021-2027 programming period around key political priorities and citizens’ concerns. Several funding programmes, such as the European Social Fund+, InvestEU, Erasmus+, and the Globalisation Adjustment Fund will be particularly important in the field of social policy, including social protection. Thus the outcomes of the current MFF negotiations will have a big impact on the process of implementing social pillar principles in general and social protection policies in particular.

In addition to the new social scoreboard accompanying the social pillar, the recommendation on social protection expresses the intention to collect and publish statistics on access to social protection at Member State level, as well as have the Social Protection Committee produce a benchmarking framework when implementation of the recommendation begins. These are important steps when it comes to supporting Member States further in the implementation process.

There is lack of data in the social protection field –comparable quantitative data in particular – that makes policy design, implementation and monitoring particularly difficult.

In a wider context and in the longer term it remains to be seen how social protection across the EU can evolve in such a way as to fully respond to the new challenges. These challenges cut across the old typology of welfare regimes defined by Esping Andersen: liberal, conservative corporatist, social democratic, and the later defined southern European and central and eastern European/post-socialist regime. Since the 2008 crisis and its aftermath there has been convergence in the responses to these challenges, in certain policy areas: reduced generosity towards the unemployed and people with disabilities, greater protection for older people, more social investment in family policies and childcare, and a trend towards the privatisation and individualisation of policies as well as predistributive policies such as the introduction or strengthening of the minimum wage. Looking into the future many put an emphasis on combining social protection and social investment policies so as to achieve flexibility, stability and protection, including collective risk sharing. The Commission’s 2018 **Employment and Social Developments in Europe** report proposes a life-cycle approach to social protection in the face of global challenges, where social welfare can be a productive investment. Many of the measures proposed by the Commission or under discussion are in line with some of the main principles the OECD proposed in its **policy framework for inclusive growth** in relation to strengthening social protection systems, such as bringing non-standard workers into existing social protection schemes, making further efforts to individualise social protection, and ultimately moving towards universal social protection where social protection would be removed from the employment relationship. Nevertheless, these proposals raise many **practical questions** that will need to be addressed before social protection for all can become a reality.
MAIN REFERENCES


*Opportunities for all*, OECD, 2018.


ENDNOTES

1 According to the theory of social justice in *A theory of justice*, by John Rawls, which claims that an institution is fair if its rules are made to function to the advantage of all citizens and not just some of them.


3 There are a variety of definitions for ‘non-standard’ workers; these generally include workers outside the realm of standard fixed-time, part-time or temporary work. In some categorisations the self-employed are part of the non-standard group, in others they are not. These categorisations were most recently summarised in a report prepared by the European Social Policy Network in 2017: *Access to social protection for people working on non-standard contracts and as self-employed in Europe*.


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