Observations on the Financing of Social Security in the Common Market Countries

by

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The author of the following survey presents statistics on some of the main aspects of social security in the countries of the European Economic Community in an effort to show how large a volume of funds is collected and distributed by this means and how the cost is shared among workers, employers and the State. He detects a clear trend towards the assumption of a larger share by the workers as well as a growing participation by the State in the financing of social security. On the basis of this survey Mr. Ribas reaches certain tentative conclusions regarding the future evolution of social security financing in the Common Market countries.

TALK about the financing of social security is apt to cause varying reactions. Some people immediately think of it as a heavy, but on the whole justified, burden on business or the national economy. Others, especially workers, often look upon it as a deduction from their direct earnings, most of which goes into the coffers of the social security schemes.

Leaving aside the important but complex issue of the financial equilibrium of these schemes, and the even more problematical question of their exact economic impact, it is quite difficult enough to discuss the resources devoted to social security because they vary so much in origin and amount. If this is the case in individual countries, owing to the multiplicity of schemes and the changes that have taken place, particularly since the end of the last war, it is even more true at the international level.

Financial Statistics

One must acknowledge—while deploring the fact—that social security statistics, and especially those on financing, are usually less thoroughly analysed and widely used than other economic and social statistics, except, of course, when they serve as a ground for curtailing benefits if there is a deficit or for urging higher benefits if there is a surplus.

There are a number of explanations for this—

(a) Social security statistics are often not the direct responsibility of national statistical institutes and are compiled either by the social security schemes themselves or by the government departments controlling them.

(b) They are compiled by social security schemes for their own purposes and are often merely by-products of the administrative or accounting systems.

(c) The statistics for different contingencies and schemes are hardly ever compiled on a uniform pattern; usually they do not fit into a coherent statistical plan and hardly lend themselves, therefore, to any type of central collation.

(d) They are often issued very late, when they are of no more than historical interest.

(e) Interpretation is difficult because of a number of factors, of which persons who are not familiar with the administrative and financial side are usually unaware.

The result is that proper social security accounts for each country are scarcely ever available and such statistics as exist for individual countries are quite difficult to interpret.

In making international comparisons, the difficulties are multiplied by the number of countries involved and by the number of schemes in each of them, because the organisation of social security varies from country to country.

The International Labour Office has done invaluable work by trying to find a fairly uniform basis for financial statistics of social security in its member countries. But in these attempts the I.L.O. has had to make allowance for different approaches to social security in the various countries and for the distinctive character of some of the data, so that any analytical commentary on the figures it has assembled is bound to come up against a number of major obstacles.

Broadly speaking, however, we can say that the European Economic Community has the advantage that its member countries have a similar structure and the sums devoted to social security account for a roughly equivalent percentage of national income.

Moreover, coverage is fairly broad and the benefits are high, while the principles followed in financing social security are more or less the same. Comparisons between the countries of the Community are, on the face of it, a good deal easier ; but when one actually gets down to comparing the figures, one nevertheless comes up against a number of the difficulties mentioned above, though admittedly in a less acute form. This can be confirmed by looking at the statistical appendices attached to the three social reports published since 1958 by the Commission of the European Economic Community, especially the fuller data published in the 1960 report.[1]

In future the Community will need more accurate, prompt and uniform statistics, on social security as much as on any other subject. It is becoming increasingly clear that the " a posteriori " accounts and balance sheets should be supplemented by medium or long-term forecasts to gauge the influence of demographic factors, and short-term forecasts related to economic forecasts (especially as regards employment and wages) ; these will have to be backed up by monthly or quarterly " spot-checks ". In this way those responsible for running or supervising social security schemes and anybody else with an interest in them would have almost continuously at their finger tips the key facts they needed about the financial situation of each scheme and its relation to broad economic and social trends.

A number of experts have recently expressed the hope that social security statistics will also be used for forecasting purposes, and efforts are already being made in a number of countries to work out estimates of income and expenditure in the years (or at least the year) ahead. For their part, the competent departments of the European Economic Community and the Statistical Office of the European Communities are trying to encourage the necessary standardisation of statistics. This will be a lengthy process, like the alignment of the laws themselves, but will be easier once the differences between the regulations of the schemes have been narrowed. Data of this kind would be a valuable supplement for social security purposes to the figures already provided in regular economic surveys. In any event a careful analysis of the problems involved in financing social security would be particularly helpful, and the recent decision by the Commission of the European Economic Community to undertake one in conjunction with the I.L.O. is to be welcomed.

[1] Communauté économique européenne, Commission : *Exposé sur la situation sociale dans la Communauté à l'entrée en vigueur du Traité instituant la Communauté économique européenne* (Brussels, 17 Sep. 1958) ; idem : *Exposé sur l'évolution de la situation sociale dans la Communauté (joint au "Deuxième rapport général sur l'activité de la Communauté" en application de l'article 122 du traité)* (Brussels, May 1959) ; and idem : *Exposé sur l'évolution de la situation sociale dans la Communauté en 1959 (joint au "Troisième rapport général sur l'activité de la Communauté" en application de l'article 122 du traité)* (Brussels, June 1960). Hereafter referred to as *Exposé*, op. cit., together with the appropriate date of publication.

For the time being we shall have to confine ourselves to making a few observations dealing mainly with statutory social security schemes, to the exclusion of contractual supplementary schemes, voluntary mutual benefit schemes, and, of course, private insurance schemes, although the latter are by no means negligible. These observations only refer in the first place to the volume of social security funds collected and distributed in the Common Market countries and in the second place to one aspect of the change that has been taking place in the financing of these statutory schemes, namely the diversification of their resources.

The Scale of Social Security Financial Operations in the Common Market

Before illustrating in figures how extensive the financial operations of social security in the Common Market countries actually are, it is worth recalling that their scale is a result of the large number of beneficiaries and the high level of protection afforded to them.

The Volume of Social Security Funds

The volume of social security income is evidence of the substantial growth already achieved by social security in the European Economic Community.

The Contingencies Covered.

In one way or another the main social risks are covered for the bulk of the population.

This is the conclusion one comes to if one refers to the nine contingencies defined in the I.L.O. Social Security (Minimum Standards) Convention, 1952. All wage earners in the Common Market are protected in one way or another against sickness, maternity, death, invalidity, old age, employment injury and unemployment, and they also draw family allowances or survivor's benefit. The unemployment schemes in Luxembourg and France consist of aid by the State to unemployed workers ; in the latter country, however, a recent development has been the introduction of supplementary unemployment insurance based on collective agreements.

There are a number of yard-sticks which give an idea of the scope of insurance schemes and the protection they afford against various risks.

Wage earners, for whom compulsory insurance is almost universal, already numbered 48.5 million by 1958. To this figure should be added the other classes of active contributors, together with a certain number of inactive contributors. This brings the total number of contributors to sickness and maternity insurance schemes in 1958 to nearly 70 million, or more than 40 per cent. of the total population of 167 million.

Using these figures one can work out the number of persons covered by adding the other classes benefiting by insurance schemes. At the same time there were in the countries belonging to the Community nearly 40 million children aged 14 and under, and nearly 17 million persons aged 65 and over. According to recent estimates the number of persons protected against sickness and maternity in all the countries of the Economic Community totalled 125 million. These few over-all figures are sufficient to give a clear enough idea of the extent of insurance schemes.

While it can be assumed that the number of persons protected against sickness and maternity is about 75 per cent. of the total population of the Community, it cannot be asserted that all classes of society are protected to an equal extent in any given country or throughout the Community as a whole. This is plain from the distribution of wage earning employment (which, as was stated earlier, is almost invariably subject to compulsory insurance) within the countries concerned ; in the same year (1958) it accounted for 59 per cent. of the total volume of employment in Italy, 66 per cent. in Luxembourg, 67 per cent. in France, 76 per cent. in Belgium, 75 per cent. in the Federal Republic of Germany and over 77 per cent. in the Netherlands.

Interpretation of the statistics on family allowances is less easy, because these allowances do not start with the first child in some countries. However, in this case, as in that of old-age and survivors' pensions, coverage usually reaches or exceeds 90 per cent. A glance at the legislation on the subject shows that self-employed workers are also entitled to family allowances in all the countries of the Community except Italy.

The same applies to old-age pensions in Belgium and France, and in the Netherlands, where a national superannuation scheme has just been introduced. In the other three countries different degrees of partial protection are provided : in Germany it extends to handicraft workers, independent farmers and certain professional workers ; in Italy and Luxembourg it includes the same categories as well as business men and shop-keepers.

Generally speaking, the rights of survivors are linked with the retirement schemes for insured persons. By definition the risk of unemployment does not affect the self-employed, who, moreover, are only partially protected against physical risks, at least in some countries.

In Germany, Italy and Luxembourg some professional workers, farmers, shop-keepers and business men are compulsorily insured against sickness or maternity or invalidity or employment injury. But the tendency for medical care to be provided under social insurance schemes is also to be found in the other countries, e.g. the French Act of January 1961 introducing sickness, maternity and invalidity insurance for farmers.

The Level of Benefits.

The level of benefits is high in the countries of the Community. Let us take two sets of examples.

(a) *Family Allowances.*

Family allowances are now paid for the third and subsequent children in Germany and for all children in the other countries.

For three children the monthly benefit ranges from about 10 E.M.A. units (European Monetary Agreement units, i.e. the gold value of the dollar) in the Federal Republic of Germany to 34 in Belgium and 47 in France (including the non-working mothers' allowance), and for six children from 38 units in the Netherlands to 90 in Belgium and 104 in France (including the non-working mothers' allowance). The Italian and Luxembourg rates fall between these extremes, as can be seen from table I. Since the reference date of this table—1 January 1961—some increases have been introduced or planned.

(b) *Daily Benefit Rates.*

Comparison of the daily benefit payable to workers in the event of unemployment, sickness and employment injury is difficult because benefit is individual and calculated as a percentage of each insured person's direct earnings. The result is that benefit varies from country to country, even using the average wage in a particular occupation as a yardstick.

Subject to these qualifications table II shows some examples of cash benefit and compares them with the gross earnings which are supplemented or replaced when the contingency occurs.

Although for technical reasons it has been impossible to give completely uniform series of figures for 1959, the percentage ratio of family, unemployment, sickness and employment injury benefit to gross earnings has been calculated. General conclusions should not, however, be drawn from these figures because the percentages are only a guide in the case of a particular class of wage earners (iron and steel workers) with a clearly defined social and family status (not housed, married and with two dependent children).

The figures for gross earnings and family supplements (i.e. family allowances paid by a special scheme and those paid direct to workers by their employers) are taken from the annual survey by the High Authority of the European Coal and Steel Community.

TABLE I. MONTHLY STATUTORY FAMILY ALLOWANCES IN THE COUNTRIES OF THE EUROPEAN ECONOMIC COMMUNITY AND THE UNITED KINGDOM ON 1 JANUARY 1961: WAGE EARNERS IN INDUSTRY AND COMMERCE

(Value in E.M.A. units shown in italics) [1]

No. of children [2]	Belgium (Francs)	France [3] (New francs)		Germany (Fed. Rep.) (Marks)	Italy (Liras)	Luxembourg (Francs)	Netherlands (Florins)	United Kingdom (Shillings)
		(A)	(B)					
One	446.25	.	36.00	.	4,628	481	19.50	.
	8.93		*7.29*		*7.40*	*9.62*	*5.13*	
Two	1,023.75	59.75	131.75	.	9,256	962	40.82	32
	20.48	*12.10*	*26.67*		*14.81*	*19.24*	*10.74*	*4.48*
Three	1,680.00	149.75	239.75	40.00	13,844	1,443	62.14	72
	33.60	*30.31*	*48.53*	*9.52*	*22.21*	*28.86*	*16.35*	*10.08*
Four	2,493.75	251.00	341.10	80.00	18,512	1,924	91.00	112
	49.88	*50.81*	*69.05*	*19.05*	*29.62*	*38.48*	*23.95*	*15.68*
Five	3,486.00	353.25	442.45	120.00	23,140	2,457	119.86	152
	69.72	*71.51*	*89.56*	*28.57*	*37.02*	*49.14*	*31.54*	*21.28*
Six	4,478.25	453.80	543.80	160.00	27,768	3,042	152.36	192
	89.57	*91.86*	*110.08*	*38.10*	*44.43*	*60.84*	*40.09*	*26.88*

[1] Value of unit of account on 1 Jan. 1961 : 1 European Monetary Agreement unit (E.M.A.) = 0.88867088 grammes of gold (gold equivalent of the dollar). Approximate value of the unit of account in national currencies: 1 E.M.A. unit = 50 Belgian francs ; 4.94 new French francs ; 4.20 marks ; 626 liras ; 50 Luxembourg francs ; 3.80 florins. Also 20s. sterling = 2.8 E.M.A. units. [2] In Belgium and France children's allowances vary in accordance with age. Example chosen : four years between first and second child, remainder following at intervals of two years. [3] In France : (A) Family allowances proper (including allowance to compensate heads of families for abolition of a tax from which they were exempt, i.e. in order to maintain the differential between married and unmarried wage earners) ; (B) family allowances plus non-working mothers' allowance.

TABLE II. EXAMPLE OF CASH BENEFIT PAYABLE TO A MARRIED IRON AND STEEL WORKER WITH TWO DEPENDENT CHILDREN, COMPARED WITH THE GROSS AVERAGE WAGE

Country	Average gross monthly wage [1]		Family supplements [2]		Unemployment benefit [3]		Sickness benefit [4]		Employment injury benefit [5]		Benefits as percentage of gross wages			
	National currency	E.M.A. units	National currency	E.M.A. units	National currency	E.M.A. units	National currency	E.M.A. units	National currency	E.M.A. units	Family supple-ments	Unem-ploy-ment benefit	Sickness benefit	Em-ploy-ment injury benefit
Belgium *(francs)*	8,856	177.1	1,070	21.4	3,744[6]	74.9[6]	5,895[6,7]	117.9[6,7]	6,316[6,7]	126.3[6,7]	12.1	42.3	66.6	71.3
France *(old francs)*	63,367	128.3	12,313[8]	24.9[8]	25,500[9]	52[9]	24,720[9]	50.–[9]	29,577[9]	59.9[9]	19.4	40.2	39.0	46.7
Germany (Fed. Rep.) *(marks)*	662.4	157.7	16.1[10]	3.8[10]	343.2[11]	81.7[11]	466.8[7,11]	111.1[7,11]	466.8[7,11]	111.1[7,11]	2.4[12]	51.8	70.5	70.5
Italy *(liras)*	73,243	117.2	12,558	20.1	14,100[11]	22.6[11]	34,790[11]	55.7[11]	50,100[11]	80.2[11]	17.1	19.3	47.5	68.4
Luxembourg *(francs)*	10,102	202.0	1,062[8]	21.2[8]	5,642[11]	112.8[11]	5,460[11]	109.2[11]	7,920[11]	158.4[11]	10.5	55.8	54.0	78.4
Netherlands *(florins)*	494.1	130.0	32.3	8.5	394.6[11]	103.8[11]	374.4[11]	98.5[11]	374.4[11]	98.5[11]	6.5	79.8	75.8	75.8
United Kingdom *(shillings)*	1,200[13]	168.0[13]	32[14]	4.5[14]	440[15]	61.6[15]	408[15]	57.1[15]	548[16]	76.7[16]	2.7[17]	36.7	34.0	45.7

Note : (a) In order to assess the standard of social security benefits in accordance with Article 65 of the Social Security (Minimum Standards) Convention, 1952, and with the schedule to Part XI of the Convention, a comparison has been made between the average gross monthly wage (first column) plus family supplements (second column) on the one hand, and unemployment benefit (third column), sickness benefit (fourth column), and employment injury benefit (fifth column), including in each case the amount of any family supplements payable during the contingency. It should be noted that the wage of an iron and steel worker used for this comparison is generally higher than the reference wage stipulated by the Convention, which affects the percentages. *(b)* Unemployment, sickness and employment injury benefits are calculated on the basis of a month of 30 days. *(c)* A common denominator other than the E.M.A. unit might have been used, e.g. real purchasing power based on a standard market basket. *(d)* No account has been taken of the recent revaluation of the mark and the florin, which took place after the relevant dates.

[1] Average gross cash wage of an iron and steel worker for a full month's work ; 1959 figures calculated on a monthly basis. Source : *Statistiques sociales* (Office statistique des communautés européennes), No. 3. [2] Family supplements paid to an iron and steel worker direct by the employer, plus family allowances paid by a special scheme. 1959 figures. Source: see note 1. [3] Total unemployment, including dependants' supplements. [4] Excluding hospital treatment. [5] Temporary disability, excluding hospital treatment. [6] 1960. [7] Including dependants' supplements. [8] Including family supplement paid by the employer. [9] 31 Dec. 1958. [10] Family supplement paid by the employer. [11] 1 Jan. 1959. [12] Family allowances paid with effect from third child only. [13] Calculated over four weeks on the basis of the average hourly earnings of an iron and steel worker during the last pay period of Apr. 1959. Source : *Ministry of Labour Gazette* (London), Aug. 1959. [14] Calculated over four weeks. [15] Oct. 1960 ; calculated over four weeks. [16] July 1959 ; calculated over four weeks. [17] Family allowances paid with effect from second child only.

The rates of benefit in respect of unemployment, sickness and employment injury have been taken from material compiled by the European Economic Community.

This example, which is thus limited in scope and difficult to interpret, shows that the law in most countries grants sickness benefit at a higher rate than unemployment benefit and that employment injury or occupational disease benefit in turn is equal to or higher than sickness benefit. Plotted on a graph, the curves representing family supplements, unemployment benefit, sickness benefit and employment injury benefit respectively follow much the same course. The figures for family supplements are, however difficult to interpret because (as was mentioned earlier) in some countries family allowances are not payable with effect from the first child.

In these two tables the corresponding figures given for the United Kingdom serve as a basis of comparison for the countries of the Community. They show that, generally speaking, the rates paid in the Community countries are higher for the types of benefit in question.

The Volume of Funds Redistributed

Some figures may serve to give an approximate idea of the volume of funds redistributed.

Social Security Funds as a Percentage of National Income.[1]

(a) Total social security income in 1958 accounted for the following percentages of national income : 14.8 in Italy, 16.5 in Belgium, 17.1 in France, 17.3 in the Netherlands, 19.0 in the Federal Republic of Germany, and 21.0 in Luxembourg. These figures show a marked increase over 1955 when the corresponding percentages were as follows : 12.8 in Italy, 14.4 in Belgium, 15.4 in France, 14.2 in the Netherlands, 16.2 in the Federal Republic of Germany, and 19.1 in Luxembourg.

(b) Expenditure accounted for a similar, but usually slightly smaller percentage.

The breakdown of expenditure by contingencies covered [2] calls for the following comments. Expenditure on health in the countries of the Community was roughly similar—ranging from 13.5 per

[1] The percentages quoted are generally a little lower than those given in the I.L.O. publication *The Cost of Social Security, 1949-1957* (Geneva, 1961), Part II, table 3, which include certain items (public assistance, public health services, benefits for war victims) that are excluded from the E.E.C. figures.

[2] These figures relate to 1958. Expenditure on transfers and officials' salaries is not included.

cent. to 21.6 per cent. of total social security expenditure. However, the spread is greater in the case of cash benefit, especially invalidity, old-age and survivors' pensions, which account for nearly half the expenditure in the Federal Republic of Germany, the Netherlands and Luxembourg, whereas the proportion is far lower in the three other countries. Variations are also substantial in the case of family allowances, and (to a smaller extent) unemployment, employment injuries and occupational diseases.

Thus a breakdown of expenditure by type of insurance brings out the distinctive features of the social security schemes in force in the different countries of the Community and clearly shows the importance of family allowances in France (36.5 per cent. of total outlay), Belgium and Italy, as well as the size of the sums devoted to unemployment and retraining benefit, which in some countries are greater than expenditure on employment injuries and occupational diseases combined. As a percentage of national income, expenditure on the main branches of insurance in 1958 was as follows : sickness and maternity, from 2.2 per cent. in Italy to 4.1 per cent. in the Federal Republic of Germany ; old age, survivors and invalidity, from 3.8 per cent. in Belgium to 8.4 per cent. in the Federal Republic of Germany ; employment injuries and occupational diseases, from 0.4 per cent. in the Netherlands to 1.9 per cent. in Luxembourg ; unemployment, from 0.6 per cent. in Italy to 1.6 per cent. in Belgium ; and family allowances, from 0.4 per cent. in the Federal Republic of Germany to 4.7 per cent. in France.[1]

The broad trend from 1949 to 1957 [2] showed a tendency for the proportion of expenditure on family allowances to fall in France, Luxembourg and the Netherlands, while the opposite happened in the other countries (e.g. Belgium). The extension of the scope of insurance in Italy, Luxembourg and the Netherlands is shown by the rise in expenditure on the branches described as " social insurance " ; this is in part a direct consequence of the drop in benefits to war victims and in public assistance.

Another point is that while expenditure on health care steadily increased in absolute terms from 1955 to 1958, the proportion of total social security expenditure it represented levelled off or actually fell. On the other hand expenditure on health usually rose faster during these years than the national income itself.

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[1] All these figures are taken from the tables in *Exposé*, op. cit., 1959, and have the same degree of reliability and are subject to the same qualifications. Although the same definitions of schemes and the same sources are used, certain discrepancies exist between these figures and those published by the I.L.O., mainly as a result of the inclusion of subcategories or because of the information that has become available between the dates of publication of the two series.

[2] According to *The Cost of Social Security, 1947-1959*, op. cit.

Social Security Funds in Relation to Direct Earnings.

In the present state of published statistics it is hard to work out a significant relationship between social security income and direct earnings, especially if, at the same time, one tries to obtain a breakdown of social security income (i.e. employers' contributions, workers' contributions and other sources).

At the present stage we must confine ourselves to comparing individual averages. For this purpose we can use the survey of labour costs (hourly wages) in European industry, published by the International Labour Office in 1959.[1] This gives the results of an investigation into wages and related elements of labour costs in eight industries in European countries in 1955. One thing that is certain from these figures is that, of the items in the over-all cost of labour other than direct earnings, social security contributions account for by far the largest share. This is particularly true if to the employers' compulsory contributions we add voluntary contributions and benefits paid direct to the workers without passing through the social security schemes.

As a percentage of over-all labour costs, social security costs average 18 to 19 per cent. in Belgium and the Federal Republic of Germany, nearly 25 per cent. in France and 29 per cent. in Italy, in the industries concerned.

The annual survey of the European Coal and Steel Community (E.C.S.C.) covering wages and other costs met by employers tallies with these figures.[2] Taking total wages as 100, indirect costs in the coal-mining and iron and steel industries of the six countries belonging to the Community in 1958 were as shown in table III.

TABLE III. INDIRECT LABOUR COSTS AS A PERCENTAGE OF TOTAL LABOUR COSTS IN THE COAL-MINING AND IRON AND STEEL INDUSTRIES OF THE COMMUNITY, 1958

Country	Coal mining [1]	Iron and steel
Belgium	18.7	16.6
France	31.2	26.5
Germany (Fed. Rep.)[2]	27.5	18.7
Italy	30.3	30.2
Luxembourg	.	17.2
Netherlands	27.1	24.5

[1] Underground and surface workers together. [2] Excluding the Saar.

[1] I.L.O.: *Labour Costs in European Industry,* Studies and Reports, New Series, No. 52 (Geneva, 1959).

[2] *Informations statistiques* (High Authority of the E.C.S.C.), Sep.-Oct. 1959.

Further information will be collected by the government experts who have collaborated with the High Authority of the E.C.S.C. in its current investigation into mining costs. More up-to-date and uniform figures for the six countries of the Common Market will be available when we know the results of the sample survey of wages in 14 branches of industry decided on by the Council of Ministers of the E.E.C., which actually covers over-all labour costs including social security contributions.

The Diversification of Social Security Resources

While employers or insured persons, or both, continue to contribute to the various branches of social security, there is a growing tendency for the State, too, to play a part in financing.

Contributions by Employers and Insured Persons

Contributions Payable by the Employer Alone.

Payment of contributions by the employer alone is commonest in the financing of employment injury insurance schemes, which historically were the first branches of social security in the countries concerned. This is based on the idea of liability for occupational hazards arising out of and in the course of the undertaking's activities.

The rate of contribution usually varies in accordance with the size of the firm, the hazards involved or the number of cases which have actually occurred over a prescribed period. In 1958 the employer's contribution (excluding the civil servants' scheme) ranged from 3.4 per cent. of total social security income in the Netherlands to 14.3 per cent. in Luxembourg, the figure for the other countries being between 6 and 7.5 per cent.

Contributions for family allowances, which have mainly been introduced since 1932, are entirely borne by the employer in industry and commerce and are reckoned as a percentage of wages with, in most cases, a ceiling. Originally these allowances were in fact simply regarded as a wage supplement. The rates and ceilings in force at 1 January 1961 are as follows : 1.1 per cent. in the Federal Republic of Germany (no ceiling) ; 3.52 per cent. in commerce and 4.37 per cent. in industry in Luxembourg (no ceiling) ; 4.9 per cent. in the Netherlands (ceiling equal to 1,806 E.M.A. units) ; 9.0 per cent. in Belgium (ceiling 1,440 E.M.A. units) ; 14.25 per cent. in France (ceiling 1,336 E.M.A. units) ; and 25.5 per cent. in commerce and 33 per cent. in industry in Italy (ceiling 432 E.M.A. units in the former case and 480 in the latter).

As with all contributions reckoned as a percentage of wages, allowance must be made in any assessment for the very variable ceiling (if any) and the level of real wages involved.[1]

In Belgium contributions for the annual holidays of manual workers are levied by the social security funds at the rate of 6.5 per cent. (no ceiling) and are payable exclusively by the employer.

Contributions Payable by Both Employers and Workers.

For joint workers' and employers' contributions—the standard formula for social insurance proper, especially for sickness, maternity and old age—the details vary from one country and from one type of contingency to another.

Under one system the wage earner and the employer pay equal contributions, e.g. in the Federal Republic of Germany in the case of sickness and maternity (3 per cent. by each side under the compulsory scheme) and also in the case of invalidity, old age and death of breadwinner (7 per cent. by each side). This is also true in Belgium (manual workers' scheme) where the rates are 3.5 per cent. each for the first group of contingencies and 4.5 per cent. each for the second. The system is used in the Netherlands for benefits in kind under the sickness and maternity scheme (2.45 per cent. each) and in Luxembourg for the invalidity, old-age and survivors' scheme (5 per cent. each). It is also used in some unemployment insurance schemes, e.g. 1 per cent. each in the Federal Republic of Germany and Belgium, and 0.3 per cent. each in the Netherlands.

The second way is for the cost to be shared unequally, the larger share being paid by the employer. This occurs in France, where about one-third of the comprehensive social insurance contribution in respect of non-occupational physical hazards is paid by the worker (6 per cent.) and two-thirds by the employer (13.5 per cent. with a ceiling of 7,200 NF on 1 January 1961). It is also true in Italy of contributions to the invalidity, old-age and survivors' schemes, which are at the rate of 5.25 per cent. for workers and 10.5 per cent. for employers. In some instances the wage earner's contribution is only a token amount, e.g. under the Italian sickness and maternity scheme, where the worker only pays 0.15 per cent. and the employer 7.86 per cent. in commerce, the employer's contribution in industry being at the rate of 9.86 per cent.

Finally, although this is the exception, the position may be reversed and most of the contribution paid by the wage earner. This is the case in Luxembourg under the sickness and maternity scheme (4 per cent. by the wage earner as against 2 per cent. by the

[1] See in *Exposé*, op. cit., 1960, the comparative table of contribution rates and ceilings for industry and commerce in the six countries of the Community.

employer). In the Netherlands the national old-age insurance scheme (1958) and the widows' and orphans' scheme (1959) are both financed by residents of the country, who pay contributions at the rate of 5.5 per cent. of their incomes to the first scheme and 1.25 per cent. to the second (the assessable ceiling being 8,200 florins per year).

This brings us to the single contributions payable by the self-employed workers mentioned in the section below. But first it should be pointed out that these variable percentages have in themselves very limited significance. Here, too, one must also take account of the size and spread of the direct earnings to which they refer, the ceilings on the calculation of contributions, the structure of the insured population, etc.

The ceilings, for example on 1 January 1961, varied from about 400 or 500 E.M.A. units per year in Italy to 1,300 or 1,400 in France or Belgium and 1,600 or 1,800 to 2,000 or 2,200 per year in Luxembourg, the Netherlands and the Federal Republic of Germany. The highest ceiling in any statutory scheme is to be found in the German invalidity, old-age and survivors' insurance scheme, although the ceiling of the *supplementary* unemployment insurance scheme in France established by the collective agreement of 31 December 1958 amounts to 6,408 E.M.A. units per year with a contribution of 0.2 per cent. by the worker and 0.8 per cent. by the employer. Thus, even if we keep to the statutory schemes alone, the ceiling varies by a ratio of 1 : 4 depending on the country.

Contributions Payable by the Insured Person Alone in Certain Independent Occupations.

By definition a self-employed worker is not subordinate to anybody else and must therefore pay all his own contributions. This applies to handicraft and professional workers, business men and farmers. The latter are a special problem because of their varying economic and legal circumstances. They include, for example, big land-owners employing labourers, tenant farmers, share farmers or—the commonest case—smallholders working on their own and using unpaid family labour.

The first difficulty is to choose an assessable income on which to calculate the contribution required to produce a certain yield without being too inaccurate or arbitrary. The choice may fall on a percentage of the earnings from the occupation as in the Belgian old-age insurance scheme (1.05 per cent. per quarter, with a flat-rate contribution depending on the income group for incomes below 25,000 francs and subject to a maximum contribution of 1,500 francs per quarter) [1] as well as in the French and Luxembourg family allowances schemes.

[1] The law also allows three other forms of coverage.

Insured persons may also be divided into a number of different classes corresponding to their income groups, with a flat-rate contribution for each, as in the old-age insurance scheme in Luxembourg. In some instances there may be a choice between a number of contribution rates, with the benefits varying accordingly, e.g. under the old-age insurance scheme for handicraft workers, business men and shop-keepers in France.

Under other systems the contribution is based on external yardsticks, e.g. the rateable value of the property occupied by the insured person or the land he owns, for example the family allowances scheme in Belgium and the agricultural family allowances scheme in France. In this way the contribution is " real " rather than " personal ".

Sometimes a flat-rate contribution has been adopted as the easiest method, e.g. in the old-age insurance scheme for professional workers in France, although notaries, barristers and lawyers do not contribute at the same annual rate.

When insured persons are not gainfully employed, their taxable income is sometimes taken as the basis, e.g. under the Luxembourg family allowances scheme. This method is also used in the Netherlands old-age, widows' and orphans' insurance scheme referred to earlier.

The second difficulty in financing social security schemes for the self-employed is the inadequate level of contributions by the members under occupational, multi-occupational or other schemes. If these contributions are the only source of income a compulsory scheme is hardly more attractive than the kind of optional insurance they can take out on their own account. The result is that in all countries help is given by the community as a whole either in the form of transfers from one scheme to another (e.g. the equalisation of family allowances in France whereby the general industrial and commercial wage earners' scheme assists the agricultural scheme) or in the form of state aid, a method which is becoming increasingly common.

The Growth of State Financial Contributions

The Reasons for State Contribution.

In contrast to the situation in certain systems outside the Community, notably that in the United Kingdom, state contributions have not been made as a result of structural reforms of social security based on the whole national community rather than the working population ; they have rather been made fragmentarily and as an expedient. Once an insurance scheme has been fairly launched, the government has often had to step in to make up a deficit (e.g. the advances by the French treasury to the general social security scheme) or to prevent a deficit occurring. Sometimes the government has had to intervene in order to set a new scheme on its feet (invalidity insurance in the Netherlands), to make it possible to raise benefits or peg them to the cost-of-living index (invalidity insurance in Germany) or yet again to extend benefits to the worst-off sections of the community who are hardly in a position to pay contributions (e.g. the Solidarity Fund which pays supplementary old-age pensions in France). In other cases intervention by the authorities may be for more general reasons, especially economic or demographic.

Methods.

Only the main methods can be mentioned here [1], such as— advances by the treasury ; grants or subsidies which are not a regular part of the scheme ; permanent contributions to cover certain items of expenditure (e.g. birth grants in Luxembourg) or administrative costs (50 per cent. of the sickness insurance scheme's costs in Luxembourg) ; the earmarking of certain forms of tax revenue (e.g. the supplementary agricultural family allowances budget in France) ; annual budgetary allocations (e.g. the subsidy by the Federal Republic to the German handicraft workers' old-age insurance scheme) ; grants in proportion to wages, to contributions received or to benefits paid ; or else a government guarantee of financial equilibrium.

In addition, apart from general public assistance schemes, there are also schemes for aiding unemployed workers which take the place of unemployment insurance in Luxembourg and France and are financed direct by the State with the communes sharing 20 or 25 per cent. of the cost. Lastly, mention might also be made of contributions by the State as an employer to schemes catering for civil servants, members of the armed forces and some public service employees.

The Varying Level of State Intervention in Accordance with the Contingency and the Scheme.

The State hardly intervenes at all in the case of employment injuries and occupational diseases, although in Luxembourg it does make a contribution when disability pensions are revised.

It hardly ever intervenes, and even then only to a limited extent, in sickness and maternity insurance. Nevertheless, there

[1] For other examples see *Exposé*, op. cit., 1958, pp. 76-80.

are one or two exceptions, e.g. in Belgium, where the total grant to the national sickness and invalidity insurance fund amounts to about 30 per cent. of expenditure.

The same applies to family allowances, in which the authorities participate mainly as regards the special and agricultural schemes. Some contribution is, however, made in Luxembourg (for the third child or a disabled child), Belgium and the Federal Republic of Germany.

On the other hand, aid is more substantial in the case of long-term and unemployment benefits. As regards the latter, in addition to the examples of France and Luxembourg mentioned earlier, there are 50 per cent. government contributions in the Netherlands and Belgium. For pensions, annual subsidies have been paid since 1955 in Belgium and 1957 in Italy (one-quarter of the income of the accident, invalidity, old-age and survivors' insurance schemes).

This help towards industrial and commercial wage earners' schemes, of which a few examples have just been quoted, is relatively limited. On the other hand, state contributions to the special wage earners' schemes (in France) and those catering for the self-employed, especially in agriculture, are larger and more frequent. This is true of a variety of branches of insurance (especially old age) in most countries of the Community.[1]

It is worth emphasising that in the schemes for government officials (both central and local) part of the cost is usually met out of budgetary funds and in four of the countries in the Community this accounts for 20 per cent. of total social security " expenditure ".

Relative Importance of the Different Forms of Income

Distribution of the Burden.

Table IV, which shows the breakdown of social security income[2] by origin in 1958, is worth examining.

The following comments should be made. The employer's contribution remains the basis for the financing of social security schemes in the Common Market countries, accounting on the average for more than half the income and ranging from 40 per cent. in the Federal Republic of Germany to over 70 per cent. in Italy. Insured persons' contributions come next, accounting on the average for a quarter of the income, with a minimum of 13.7 per cent.

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[1] On this point see the details about social security in agriculture given in *Exposé*, op. cit., 1959, pp. 223 ff.

[2] All schemes except those for officials or in which the State is the employer.

TABLE IV. BREAKDOWN OF SOCIAL SECURITY INCOME BY ORIGIN

(Percentages)

Country	Insured persons	Employers	Authorities	Miscellaneous [1]
Belgium	23.2	42.8	27.1	6.9
France	18.2	65.2	15.6	1.0
Germany (Fed. Rep.)	36.6	40.1	19.2	4.1
Italy	13.7	71.8	6.2	8.3
Luxembourg	24.8	43.2	18.5	13.5
Netherlands	38.2	42.0	8.9	10.9
Simple arithmetical average [2]	25.8	50.9	15.9	7.4

[1] Income from funds and other receipts. [2] This unweighted average is included only as a rough indication.

in Italy and a maximum of 38.2 per cent. in the Netherlands (36.6 per cent. in the Federal Republic of Germany). This shows that there is a tendency for a certain inverse symmetry in the relationship between employers' and workers' contributions, depending on the country. The gap between the two is very wide in France whereas in the Netherlands they are more or less equal. However, there is also a third source of income—the State, whose contribution averages nearly 16 per cent. of the total with a minimum of 6.2 per cent. in Italy and a maximum of 27.1 per cent. in Belgium.

When these three sources are calculated as a percentage of national income the proportions (for the same year) are fairly similar (table V).

TABLE V. BREAKDOWN OF SOCIAL SECURITY INCOME BY ORIGIN, AS A PERCENTAGE OF NATIONAL INCOME, 1958 [1]

Country	Insured persons	Employers	State	Miscellaneous [2]
Belgium	3.1	5.7	3.6	0.9
France	2.5	8.9	2.1	0.1
Germany (Fed. Rep.) . . .	5.8	6.3	3.0	0.7
Italy	1.9	9.7	0.8	1.1
Luxembourg	4.1	7.1	3.0	2.2
Netherlands	6.6	7.3	1.5	1.9
Simple arithmetical average [3]	4.0	7.5	2.3	1.2

[1] Calculations based on statistics published in *Exposé*, op. cit., 1960, excluding officials. [2] Income from investments and other receipts. [3] This unweighted average is included only as a rough indication.

The Increasing Share Paid by the State.

Figures for 1955 to 1958 inclusive appear to show that the State's share in the cost of social security is increasing, although the trend is not constant. In some cases the general tendency is reversed and its extent varies from one country to another.

Taking as base 1955=100, the evolution for all schemes, including those catering for civil servants and members of the armed forces, was as shown in table VI.

TABLE VI. EVOLUTION OF PUBLIC CONTRIBUTIONS TO SOCIAL SECURITY, 1955-58

(1955=100)

Country	1956	1957	1958
Italy [1]	68.91	70.03	102.73
Belgium	99.09	96.07	131.29
Netherlands	99.54	116.75	116.72
Luxembourg	100.85	133.40	133.09
Germany (Fed. Rep.)	108.13	141.34	151.37
France	219.37	314.28	393.37

[1] The 1955 figures were high because they included balances from previous years.

These figures show that in the first three countries listed in the table there was, after a slight fall in 1956 or 1957, a small increase in the state contribution to the cost of social security in 1958. On the other hand, in the last three countries, especially in France, the figures showed a steady rise and the increase is greater. Nevertheless, the proportions may vary with the introduction of major changes in the laws or regulations. For example the National Old-Age Insurance Act in the Netherlands, which places the whole financial burden on the insured persons, has reduced the state share. The opposite took place in France when the National Solidarity Fund (financed out of taxation) was set up in 1956 ; subsequently, however, an ordinance was issued on 30 December 1958 which made the general social security scheme responsible for the allowances paid to over half the beneficiaries and this has changed the former distribution by about 500 million to 600 million new francs per year. The provisional conclusion to be drawn therefore is that while this trend is significant it is not yet complete.

The Trend in Financing

Some of the salient features of the financing of social security in the European Economic Community, which we have tried to bring out in the foregoing pages by using the most interesting statistics now available, call for a number of comments and suggest various hypotheses.

Existing Trends

Leaving out of account the private mutual benefit schemes which are not centralised or those which involve assistance rather than insurance, and looking only at the way in which the statutory social security schemes have been built up, one is struck by the progressive shift from contributions payable entirely by the employer to joint contributions by both employer and worker. The share of certain classes of the community, especially wage earners, in the financing of social security schemes has shown a marked increase in recent years either through higher contribution rates or through increases in the maximum assessable income. The basis on which contributions are levied has not changed, however. The authors of legislation still prefer to use earnings or total income as the basis, despite the steady campaign in some quarters for an overhaul of this traditional approach, which amounts to a penalisation of employment.

For various classes of the self-employed, however, the contributions are reckoned in a different way because of the special nature of their activities, but here too the original principles of finance have hardly ever been changed.

Thus, in this respect, social security schemes still appear to be running to some extent along the lines laid down when they were started.

We have also pointed out the growing participation by the State at the present day and have suggested that this tendency does not yet seem to have come to an end. It may be wondered whether these are not merely two different aspects of the same phenomenon, namely the " saturation point " which most social security schemes appear to have reached. This may be expected to lead to the assumption of a larger share of the cost by the State and also to the establishment of more supplementary schemes tailored to the needs and resources of the classes they cater for and the industries or firms in which they are introduced.

Prospects of New Developments

Without making any claim to be comprehensive or to assess their relative influence one might quote a number of factors which can affect the income or expenditure of social security schemes in the years ahead.

Some of them are internal factors, which in a sense are merely a prolongation of developments up to the present day, e.g. the extension of protection against certain hazards to the entire population resulting in a nation-wide insurance scheme for all residents irrespective of their social or occupational category. This system, which has hitherto mainly been found in the English-speaking countries, has, as we have mentioned, now appeared in the Netherlands.

Increases may also be made in the coverage granted to insured persons or in the rate of existing benefits. There is already a tendency for certain temporary cash benefits replacing wages and for retirement pensions to move appreciably closer to the normal level of earnings.

In some instances there may be an increase in expenditure which will not necessarily entail a change in the method of finance because it will be due to factors which have much the same effect on both income and expenditure. This is true of certain schemes which endeavour to maintain the real value of benefits in relation to wages or the index of national production. A similar result may be achieved if benefits are tied to prices, provided that wages do not lag too far behind.

Income from state sources may also vary in step with prices, depending on the nature of the tax or taxes.

This brings us to the second series of factors, which are due to wider economic or social changes and go beyond social security in the strict sense of the term. Among those which make for increases in the cost of certain benefits there is recent scientific progress in medical care and drugs. But the increased cost of medical care is also due to psychological factors which make for greater consumption of medical goods and services. Some investigations have shown that expenditure by an insured person and his family under this heading increases in step with his income and in some cases even faster. One of the reasons for this is better health education and, of course, the greater room for manœuvre that goes with a higher standard of living. But, while there are abuses, this is not always the case, for it can be argued that whenever insured persons have to advance the money and meet a large part of the cost out of their own pockets (or the whole cost if they are not insured) there is underconsumption of medical goods and services.

Of course, an important factor is the population trend, one of the main features of which is the change (adverse in the short run) in the ratio of contributors to beneficiaries, largely as a result of the aging of the population in the countries of the Community.

In the short run the rise in the birth rate in some countries, such as France, has the same effect because young people entail the payment of family allowances and, like older people, also require a good deal of medical care. There is also the possibility that the average age of starting work will go up because of longer schooling or extended technical training.

Another factor which should, of course, not be overlooked is the economic and social impact of the Common Market itself and any measures that may be taken under the Treaty to eliminate distortions and to align social policies. On this point it need merely be said that in order to gauge the economic effects of social security it is necessary to take into account not only the volume of funds but also the extent to which income is derived from taxes or on the contrary from wages. But research on this subject is not yet adequate for it to be possible to come to any clear and reliable economic conclusion.

Possible Types of Financing

These considerations lead us to the alternative methods of financing which might be contemplated, particularly to meet the growing deficit which many social security schemes will be facing or are liable to face in the near future or to provide the money needed to raise benefits or extend the scope of certain schemes.

The simplest method for schemes covering wage earners—which can be called the empirical method in that it does not fit in with any predetermined plan—is to maintain the contributions based on wages and the allocation from public funds, increasing as necessary either the contribution rate or income ceiling or the contribution from public funds, or increasing the income from both sources simultaneously or in turn.[1]

An alternative would be to change the basis on which employers' contributions are now calculated so as to bring the financing of social security into step with the tendency for the complete mechanisation or automation of production—which might in extreme cases reduce employment and with it the income of the social security schemes. A reform along these lines would ensure some sort of equality of treatment for the labour-intensive industries and would strengthen their competitive position in relation to the more highly mechanised industries on both the domestic and foreign markets. Under this system contributions could be calculated on

[1] In this connection it is worth recalling that the Social Security (Minimum Standards) Convention, 1952, states (Article 71) : " The cost of the benefits provided in compliance with this Convention and the cost of the administration of such benefits shall be borne collectively by way of insurance contributions or taxation or both in a manner which avoids hardship to persons of small means and takes into account the economic situation of the Member and of the classes of persons protected."

the basis of the value of production, the total turnover or a number of other criteria. So far, however, the results of the research being carried on into this subject are not known.

Another method would be to replace contributions based on wages by a system of state financing from either special or general taxation.[1] On the other hand, although the higher taxes that would be needed would ultimately be offset, taking the national economy as a whole, by lower direct wage costs in industry, some countries would probably have to reform their tax systems to produce an adequate yield and create greater justice between different classes of tax payers.

Even under this system, individual contributions by insured persons would be over and above the income from public sources whenever the latter only gave partial coverage and left the way open for supplementary schemes (whether compulsory or optional, or occupational or inter-occupational).[2]

Some of these methods could be used either in succession or simultaneously and a similar system could be devised to finance insurance schemes for various classes of the self-employed.

It may well be asked whether the time has not come to review the problem of financing certain schemes in its entirety, and not simply piecemeal in the hope of finding temporary solutions. A more objective basis for such a review would be provided by a study of probable financing trends over a fairly long period, taking account of demographic projections and forecasts of employment and wages.

Concluding Remarks

In any event, certain considerations must be borne in mind. The financial equilibrium of a social security system is not an end in itself. When the cost of health care increases because of medical or pharmaceutical progress, the rise in the expectation of life or changes in the structure of the population, equilibrium will inevitably become hard to achieve or maintain. Whatever the system, it will be important to avoid wasteful expenditure, to curtail abuses and overheads and to watch carefully for any economic setbacks that might create distortions as between one industry or country and another, or lead to the overloading of the whole economic system. This is one of the reasons why, without ignoring

[1] This is the basis of the social security system in the United Kingdom; but it is interesting that even here a far from negligible part of total resources (33 per cent. in 1957-58) come from the contributions of insured persons and employers.

[2] As matters stand at present, however, such schemes can be financed by raising the level of assessable wages, especially for supervisory staffs.

special national circumstances, the measures taken to align legislation in the Community countries and their probable consequences on the operation of the Common Market itself must also be looked at from a European standpoint.

On the other hand, it should not be forgotten that social security resources, when converted into benefits and in some cases capital assets (health and hospital equipment, welfare facilities and sometimes housing, etc.), may have a beneficial influence on the economy by sharing out the national income more fairly in relation to the responsibilities and contributions of each citizen (e.g. by means of family allowances).

Finally, it would be wrong to assume that any increase in state financial assistance or any takeover by the state of the whole cost of financing a scheme would inevitably mean state management, even though circumstances may make for the technical centralisation of operations, for example by greater use of electronic equipment. Whatever happens it will be necessary, even if the old individual schemes are not always retained, to keep open local agencies or offices to maintain contact with insured people, provide them with information and give any health or welfare assistance that may be required in the light of individual circumstances.

In such bodies, as also at the national level, it will be important to preserve appropriate opportunities of appeal and to give representatives of the insured persons themselves a share in management. This applies particularly to wage earners, who, although they will no longer pay in the form of deductions from their wages, will pay instead in the form of taxes. Moreover, the organisations concerned, especially the trade unions and mutual benefit societies, are understandably interested in retaining the powers that they have been granted in this field either directly or indirectly. Social progress should not rob institutions of their human element and any reform of social security finance will only be beneficial if, while improving the degree of social protection, it enables every citizen to continue to act like a free man.