

The Evolution of Social Protection Expenditure in The European Union

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Abstract: *The economic crisis that has spread during the last few years, the rising unemployment rate and the increased share of elderly persons to the total population have led to the expansion of social protection expenditure in Europe. Although the role of states is vital when it comes to ensuring social justice and help citizens through troubled times, the social protection systems are facing tremendous pressure due to the overall increasing expenditure at a higher rate compared to that of the economic growth.*

Keywords: social protection, social assistance, social protection expenditure

JEL Classification: I, I3, I30, I38

1. Introduction

Generically defined as „a field that deals with the prevention, management and resolution of all factors that adversely affect human well-being” (Brunori P., O Rielly, M., 2010, p. 1), social policy is seen today as an essential development tool for all countries, an instrument which is used to promote and implement comprehensive programs which aim to reduce poverty, limit and even oust the social, professional and financial uncertainty of the population. Under these circumstances, social policy efforts are extensive and focus on combating unemployment, diminishing the effects of limited financial possibilities, social exclusion, precarious health and old age.

Given this basic understanding of the concept, over time, several other definitions have emerged, among which, the most important are the one of International Labor Organization, the World Bank and the definition promoted by UNICEF (United Nations Fund for Children), respectively. According to the International Labor Organization, social protection is seen as „a development of social rights, such as equality, social inclusion and non-discrimination” (Bonilla Garcia, A., Gruat J.V., 2003, p. 2).

One the other hand, while the World Bank states that social protection stands for „a moderating agent the deals with threats arising from insufficient financial means” (World Bank, 2003, p.3), UNICEF defines it as „an essential ingredient that ensures support, encouragement and motivation of people confronted with scares financial means” (UNICEF, http://www.unicef.org/socialpolicy/files/Concept_note_external-fv-dec2011.pdf, p. 3). This latter opinion is widely acknowledged around the world, so, an important number of experts believe that „in the absence of social protection, economic growth shall never be sustainable” (Brunori P., O Rielly, M., *op. cit.*, p. 6). Beyond the understanding of the definition of the concept, attention is also paid to the components of social policy, namely those elements that are otherwise very means through which its fundamental objectives are attained. Thus, in a simplistic manner, I could be considered that a social protection system „consists of two parts: social assistance and social insurance” (Brunori P., O Rielly, M., *op. cit.*, p. 6).

Generally, „social assistance” is considered to be a „set of measures through

which the state, with the use of its bodies intervenes so that temporary or permanent situations that lead to poverty and social exclusion of individuals, families, groups or communities are prevented, mitigated or even eliminated" (Norton, A., Conway, T., Foster M., 2001, p. 10), while „social insurance" refers to „*specialized programs aimed at protecting their beneficiaries in exchange for the previously paid amounts also known as premiums or contributions*" (Norton, A., Conway, T., Foster M., *op. cit.*, p. 11).

A more complex view of the components of social policy which emerged immediately after the onset of the global economic recession in 2008, is the one promoted by the European Union and it states that „*in addition to health and social security, a vital part of social policy is the promotion of social rights*" (Brunori P., O Rielly, M., *op. cit.*, p. 3). Given the effects of the economic downturn of the recent years, the shortage of public funds due to the increase of social protection expenditure and the extension of uncertainty with which individuals are faced, despite the level of economic development of countries, the industry is shifting attention towards both actual settlement measures and approaches needed to ensure prevention, promotion and recovery from situations that cause vulnerability.

2. The evolution of social protection expenditure in the European Union under the economic recession

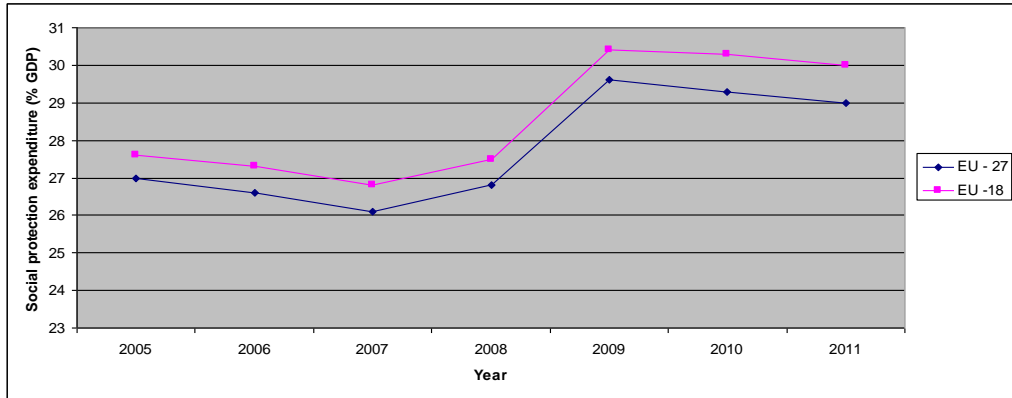
A more complex view of the components of social policy which emerged immediately after the onset of the global economic recession in 2008, is the one promoted by the European Union and it states that „*in addition to health and social security, a vital part of social policy is the promotion of social rights*". Given the effects of the economic downturn of the recent years, the shortage of public funds due to the increase of social protection expenditure and the extension of uncertainty with which individuals are faced, despite the level of economic development of countries, the industry is shifting attention towards both actual settlement measures and approaches needed to ensure prevention, promotion and recovery from situations that cause vulnerability.

The accelerated economic development of the European countries beginning with the second half of the eighteenth century has generated both benefits and challenges, mostly due to the polarization of the population in terms of individual financial means. Under these circumstances, social problems have increased and diversified, requiring ever more state intervention so that a climate of stability be obtained. In order to ensure equity in the redistribution of national income, the primary element of social justice, countries have developed certain organization models for their social protection systems through which clear support measures for those in need have been put into practice, as an essential source of stability and productive capacity preservation method.

Although these approaches to social protection have proved their effectiveness and usefulness along history, contemporary social protection systems have lately been facing an increasing level of pressure deriving from social and demographic factors. Given the recent manifestation of the economic downturn that punctuates most European countries with major implications, social protection systems are faced with new challenges, such as the short, medium and long term unsustainability threat.

Taking into consideration the impact of the continuous aging of population, the negative natural growth and the implication of the economic recession which has led to a significant increase of unemployment all over the European Union, the financial balance of the social protection systems within EU has been and still is significantly affected. Thus, according to the Chart no. 1, if, prior to the economic crisis, the overall

level of social protection expenditure in the European Union fluctuated around 27.2% of GDP, since the beginning of 2009, the increase was significant.

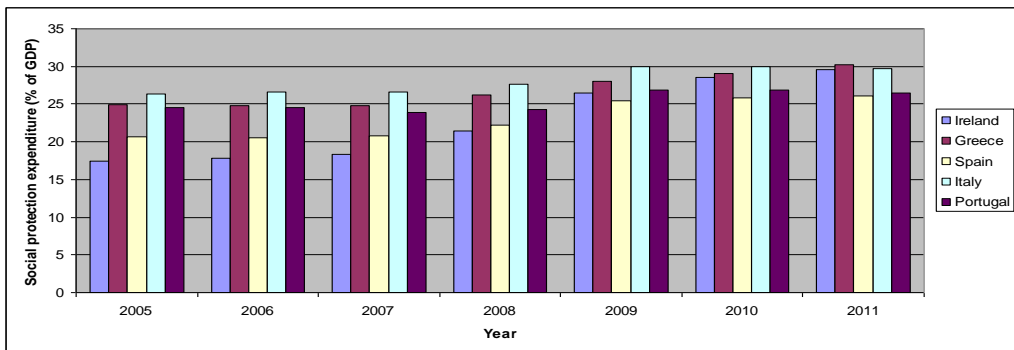


Graph no.1 The evolution of social protection expenditure in EU – 27 and EU – 18 between 2005 – 2011 (% of GDP)

Source: working of the author based on data provided by Eurostat (http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=spr_exp_sum&lang=en)

As can be seen from Chart no. 1, although between the years 2005 and 2007 expenses positioned themselves on a downward trend, with a minimum point of 26.1% of GDP for the EU-27 and 26.8% of GDP for the EU-18 in 2007, just 12 months after the global economic downturn, expenditure grew, reaching a level comparable to that in 2005, namely 27% of GDP for EU Member -27 and 27.6% of GDP for EU-18 countries.

The peak was recorded in 2009 when, for the first 18 EU Member States, social protection expenditure exceeded 30% of GDP. Although this turn of events may seem paradoxical, given that the EU -18 are the most stable and powerful European economies, the justification lies in the fact that the most profound effects of the recession, particularly in the area of employment were felt in five of the countries with the most significant number of population, the so-called PIIGS countries.



Graph no. 2 The evolution of social protection expenditure in PIIGS between 2005 – 2011 (% of GDP)

Source: working of the author based on data provided by Eurostat (http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=spr_exp_sum&lang=en)

According to the Graph no. 2 during the period under review, social protection expenditure seen as a percentage of GDP, stood for PIIGS over 22%, with a maximum in the case of Italy (28%) and a minimum in the case Ireland (22.85 %). However, the most significant growth was recorded in Ireland, over 12.1 percentage points between the years 2005 and 2011, from 17.5% in 2005 to 29.6% in 2011. A relatively stable evolution has been recorded in Portugal, where the overall expenditure growth was of only 2 percentage points.

It should however be noted that that not only the economic downturn of countries PIIGS has been the cause of the increase of social protection expenditure. Even though the trend has been upward for the entire European Union, countries such as Denmark, France and the Netherlands have also faced an increase of expenditure with over two percentage points between the years 2005 and 2011. Among these, the most significant increase was found for Denmark, where expenditure reached 34.2% of GDP in 2011, the highest level in the European Union mainly as a result of „the deep shock recorded by labour market” (European Commission, 2013, p. 39). However, the highest value was reached during the in Denmark, 34.7% of GDP.

In terms of per capita social protection expenditure, the growth was similar to that of expenditure as a percentage of GDP. Since 2010, if assessed as a percentage of GDP, social protection expenditure in Europe has experienced a downward trend, should it be analysed as lump sums, we will notice that expenditure continued to increase, though at a slower pace, falling below 1.5 percentage points. As seen in Table no. 1, between the years 2005-2011, EU – 27 social protection expenditure per capita increased from a bit under 6.000 euro to over 7.300 euro, with a maximum of 8.600 euro per capita in 2011 in EU-15.

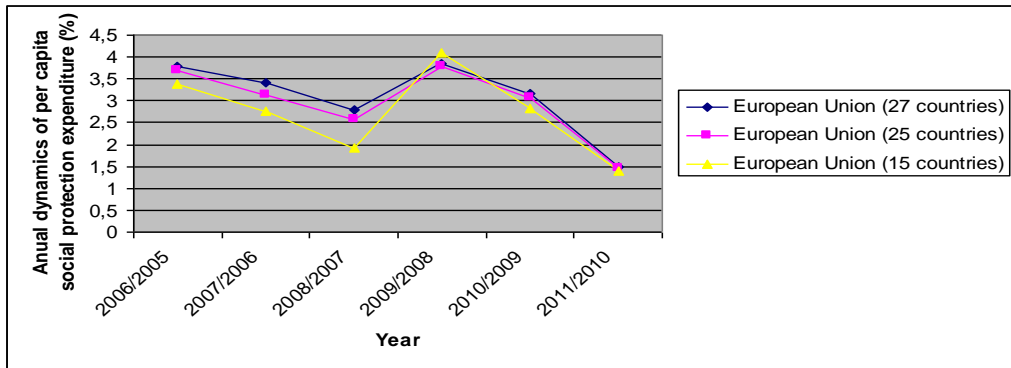
Table no. 1 Per capita social protection expenditure in EU – 27, EU – 25 and EU – 15 between 2005-2011

(euro)

Region	Year						
	2005	2006	2007	2008	2009	2010	2011
EU - 27	6.088,29	6.319,35	6.534,86	6.716,56	6.975,24	7.195,84	7.303,45
EU - 25	6.439,70	6.676,83	6.886,68	7.063,11	7.330,84	7.556,17	7.666,71
EU - 15	7.382,55	7.632,35	7.844,14	7.994,86	8.322,63	8.557,90	8.676,32

Source: working of the author based on data provided by Eurostat (http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=spr_exp_sum&lang=en)

In terms of dynamic growth, per capita expenditure has had a continuous upward trend, with a maximum region wide point in 2009/2008. The most significant change was recorded in EU-15, where the costs social protection per capita widened by more than 4%, as shown in the Graph no. 3. It should however be noted that despite the continuous increase throughout the period under review, the growth rate of expenditure decreased following the first signs of economic recovery due to the rein in of the adverse effects of the economic and financial downturn, which led expenditure to contract by 50% on average if compared to the level of 2009/2008.



Graph no. 3 Yearly dynamics of social protection expenditure in EU – 27, EU – 25 and EU – 15 between 2005-2011 (%)

Source: working of the author based on data provided by Eurostat (http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=spr_exp_sum&lang=en)

Taking into consideration the above analysis and available data, we believe that although the economic crisis that began in late 2008, could be considered a very important factor which lead to European Union's accelerated growth rate of social protection expenditure, the fact that the countries now seem to fail to reach their pre-recession level of expenditure should be considered a sign of substantive issues that go beyond the constraints brought by the change of the global economy.

As far as Romania is concerned, social protection expenditure as a percentage of GDP stood below the European average of 27.2% of GDP, a level similar to that recorded in Bulgaria. In 2005, prior to joining the EU, social protection expenditure as a percentage of GDP only reached 13.4% of GDP, while per capita expenditure ranged around 500 euro (Table no. 2) the second lowest allocation, after the one in Bulgaria. The level know virtually no increase until 2008, when the economic constraints caused an increase in unemployment and tightening labor market absorption capacity, so that between 2008 and 2009, social protection expenditure increased from 14.3 % of GDP to 17.1%.

Table no. 2 Social protection expenditure in Romania between 2005-2011
(% of GDP and euro per capita)

Indicator	Year						
	2005	2006	2007	2008	2009	2010	2011
Social protection expenditure (% of GDP)	13,4	12,8	13,6	14,3	17,1	17,6	16,3
Per capita social protection expenditure (euro)	503,01	591,29	809,40	969,87	993,21	1.079,41	1.061,87

Source: working of the author based on data provided by Eurostat (http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=spr_exp_sum&lang=en)

The dynamics of the indicator indicated a 3.7 percentage points between 2005 and 2009, while as in terms of per capita expenditure, the amounts increased by over 97%, from 503.01 euro in 2005 from 993.31 euro in 2009.

Although apparently the growth of per capita expenditure on social protection to 1.079,41 euro in 2010 may be regarded as the effect of the increase of unemployment rate, it is necessary to take into consideration the fact that in Romania, the benefits of unemployment aid reach „around 6% of total expenditure on social protection”

(European Commission, 2013, p. 12) even in times of economic constraints and „*health expenditure does not exceed 4.7% of GDP*” (Mihart, B., 2011, p. 222). Under these circumstances it is clear that the increase in social protection expenditure even after exiting the recession is based on other sources, among which the most significant is public pension expenditure. Linking this fact to the unfavorable development of natural birthrates, we believe that the national social security system faces a number of potential threats that may arise from the inversely proportional relation between „ no. of employed / inactive population”.

3. Conclusions

The slow economic recovery of the European countries of recent years, coupled with a high level of public debt as a result of the global economic recession and the need to maintain but also boost the productive capacity of the population through specific measures have put a lot of pressure on national social protection systems. While relative to GDP, expenditure on social protection has shown some decrease in the aftermath of the financial crisis, the absolute level of spending has not only not diminished, but also continued to grow, bringing about an ever-increasing dependence of citizens to the benefits offered by state. Although the concept of „social protection” is, as previously mentioned, concerned with the prevention, management and resolution of *all factors that adversely affect human well-being*, while seeking to ensure the short, medium and long-term productive capacity of individuals, one must not overlook the positive correlation that should exist between social protection expenditure and economic growth indicators. Although investment in the human factor only comes into effect with a time lag, it is imperative that the effects of social protection expenditure be observed and measured over time, in order to soften or even combat the tendency of certain social groups who may consider the state as the sole responsibility bearer of individual well-being.

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