

The Management of Social Services in the European Union from the Perspective of Global Challenges

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***Abstract.** The paper at hand aims at a brief analysis of the social services and the social phenomenon currently happening in many of the Member States (MS) of the European Union (EU) in the context of a more prominent economic crisis and, in the same time, as a result of the augmentation in the workers' migration. Presently, the labor force markets are continuously transforming and adapting to the search of adequate solutions in order to flex the specific activities through the conformation of the social services to the ever growing demand operating on this particular market.*

The conclusions of this study lead to a warning regarding the drastic drop of birth in the context of an increase of the life expectancy, aspects which must be supported through strategic measures and services, carefully delineated by domains and sectors of activity to better identify specific lines of actions through a new approach to the regulation of the labor force employment services on the labor force markets.

Keywords: social services; active life; full employment; social benefices; social inclusion; social flexicurity.

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JEL Codes: F02, F15, F53, F59, H55, O11, O52.

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Introduction

The management of quality social security services in the European Union (EU) is most proficient in the area of employment and unemployment and has a significant influence over the social policies in each Member State (MS) and it also materializes through a strong connection between basic systems of social security and the income assurance systems, with the specified purpose of influencing not only the employed segment of the population (namely, the growth of senior age group workers and the growth of those employed after a period of unemployment), but also the value of the income for the part of the system which is financed by contributions (the modification of transfer incomes where the employment methods are linked to certain benefices of social security – such as exemption from certain taxation because they are subjects to social security benefices). Moreover, it also targets the institutions of the labor market in the form of a rigorous surveillance of the actions dictated by the social protection for the unemployed.

The management in the area of pensions must entail a development of income security after one is no longer part of the labor market through retirement. Each MS must decide on the best and most advantageous pension system, while also taking into consideration the common objectives of the EU and of its own challenges, namely, the process of the

aging population and the demographic diminution, from where the necessity results for the MS to coordinate their efforts to reshape the social protection systems for the elderly individuals. In this context, the role of the EU is to progressively uphold the creation of their own policies.

The MS of the EU must create a national plan of action through which they can follow the interventions in different levels: national, regional and local, the measures of fighting poverty and the promotion of social inclusion, each MS having to rapport at an European level the measures they took, thus creating not only an instrument necessary for the exchange in experience, but also a unique model of reducing poverty.

In the health department, the management of services targets the future of elderly care through a greater accessibility, a development of quality services and the financial viability of the health protection systems, accentuating the creation of new national health insurance systems after the models established at the level of the EU.

1. Changes into the management of social services

The 21st century brought a series of changes in the European countries concerning the population social protection systems, through elaborating and adopting new programs of a structured adaptation of the mechanisms of social welfare.

Changes into the pension schemes occur in every MS and the reforms are based on the principle of capitalizing supplementary pensions and the elaboration of compensation mechanisms for the phenomenon which entails the increase in the number of beneficiaries from redistributive systems as a result of the decrease in the number of tax payers in the context of the demographic decrease. In situations such as these, some MS have had to introduce reserve funds to ensure the duration of the PAYG systems.

Concomitantly, with the reform in the redistributive pension systems, a process of finding new methods and programs unfolds, in order to promote active life for individuals in dilemma as for people who are partially work-incapacitated. The new MS legislation is directed to the limitation of access to social benefices (due to a stricter evaluation) and to the creation of active measures that combine the social benefices with the work revenues.

Lately, in MS, we can observe an aging tendency within the population (Table 1), concomitant with an increase in the proportion in the population within the over 60 age group from 15.5% in 1960 to 21.5% in 2000, 29.1% in 2010, respectively. The population group of 0-19 years of age will have recorded in the 1960-2010 timeline a drop of nearly 5 percentages.

Table 1

**The population of the EU on age groups
(% of the total population),
between 1960-2010**

	1960	1970	1980	1990	2000	2010
0 – 19	31.7	32.1	30.0	25.5	23.1	16.4
20 – 59	52.8	50.3	52.2	54.7	55.4	54.5
over 60 years	15.5	17.6	17.8	19.8	21.5	29.1

Source: computed by the authors based on the statistic data of Eurostat: Europe in Figures, 2006-2007.

By analyzing the same source (Eurostat, 2006-2007), the conclusion can be easily drawn that for the year 2050 (Table 2): the percentage of the young, under 20 years of age, population will continue to drop; the active population as a percentage from the total population, that had registered up to the year 2000 a slight increase will register a fall, as the birth rate will continue on a decreasing path.

Table 2

**The population of the EU on age groups
(% of the total population), between 2000-2050**

	2000	2010	2020	2030	2040	2050
0 – 19	23.1	21.8	20.7	19.8	19.5	18.9
20 – 59	55.4	54.4	52.4	48.8	47.1	46.3
over 60 years	21.5	23.7	26.9	31.4	33.4	34.8

Source: computed by the authors based on the statistic data of Eurostat: Europe in Figures, 2006-2007.

Thus we can state that the active population is in inverse ratio with the retirement-eligible population which is continuously growing. This global

phenomenon, which is noticeable at a European level also, is experienced in each state, with minor or major variations to the European norm. For example, we can quote Germany, Italy and Sweden, where the percentage of the population over 65 years of age is comparatively bigger to the recorded average in the EU (Eurostat, 2006-2007). In our opinion, the evolution of the demographic indicators in the long run will have a string of negative effects on the income and the expenses of the public social insurance pension systems and also on other public social expenses, such as the labor market, with direct implications over the capital market.

2. The management of pension systems

Statistic data show us that the demographic evolution in Europe requires a reshaping of the social insurance system for pensions. The leading principle of the redistributive pensions system makes so that a active group on the labor market that is dropping steadily can equilibrate a group of the population that has retired from the labor market and which is steadily increasing, all of which leads to numerous problems regarding the systems for elder-aged insurances and also regarding the labor market and family policies.

The reforms already taking effect in the MS cover areas of particular interest: the change of the calculation formula with implications in the rise of the benefice; the

reimbursement of insurance schemes funds by increasing the percentage of contributions and/or the introduction of backup funds or consolidating them where they are present.

For some MS, as a general rule, the condition of full occupation is essential for the universal pension insurance systems (Barr et al., 2004) – either there is a common insurance system for employees and freelancers alike (Portugal, Luxembourg), either the two groups are “covered” separate insurance schemes (Belgium, Germany, Spain, France, Italy, Austria), or the entire population is included in an universal system (Denmark, Norway, Sweden), or work-occupied persons are covered by a pension system with correlated incomes, a complementary system to the universal one (Finland). In many countries, in the pension system only the employees in the public sector are included. As a general condition for the having access to the social insurance pensions, the following principles apply: residence, contribution and standard retirement age. The northern countries experience a combination of the first two. The principle of residence is subordinate to universal pensions, while the principle of contribution includes the benefices of the supplementary pension system and the mandatory benefices included in the life standard system. In Norway and Finland there is no direct relation between contribution and benefices (Eurostat, 2005). In Sweden, the principle of

contribution is the basis for correlated pensions (with the previous incomes and contributions), and the principle of residence groups around it the guaranteed pensions.

For all types of beneficiaries that are entitled to receive pension, their benefice is at the same universally established level. The increase of the benefices in the social insurance for pensions system depends on the size and the level of collecting contributions.

The funding mechanism requires a clear distinction between the financing sources and the types of funds and, generally, the benefices from the pension social insurance system are financed from funds exclusively made of contributions. The only case of bending this rule has been noticed in Ireland and the Netherlands, where the universal funds are financed from correlated contributions with the gains. The systems that serve to guarantee a minimal life standard are mostly financed from the employee's contribution and that of the employer and sometimes based on taxes. These pension funds are created and organized based on: (i) the pay as you go principle (PAYG); (ii) the accumulation funds principle; (iii) both principles. The PAYG funds are found in all EU states, with the exception of Finland and Sweden, where the contributions are collected by an accumulation fund. As far as the management for the quality of these funds, a reshaping of the pension schemes is necessary, serving as an answer for the

better services and the insurance of a decent life standard for the contributing beneficiaries.

3. Challenges for the public pension systems

The aging of the population and the viability of the pension systems are two great challenges for the MS, now and for the years to come. Consequently, the EU, through the policies it promotes, is encouraging MS to reform the pension systems, following three major objectives:

- *Guaranteeing the minimal level which is adequate for pension income* for all beneficiaries, mostly in overcoming the poverty of the elderly individuals. This process requires the introduction of an important instrument in the pension schemes in most MS to insure the safety of the elderly individuals against the risks of poverty. By using this instrument, which implies an investigation among the beneficiaries regarding the correlation between income and necessities, with a direct impact on the income necessary for a decent living on one's own, the work motivation can in some cases be discouraged, mostly among those who are eligible for early retirement.

The impact on the resources of the labor market depend on the number of those who retire from an active life early, and the more people benefit from a pension that has rights calculated based on the analysis of financial resources and that

can be combined without restriction with certain earned incomes, the lesser people will be discouraged to retire from the labor market.

Thus, it can be said that, for every MS, the method of investigating financial resources is more likely than not applied to housebound individuals, which leads to a negative implications, as all members that are occupied in this way are confronted with a labor force with weak stimulants on this particular segment and so one of the member of the family can find themselves in the position to not reach the retirement age through an active life.

Therefore, the pension system in the Netherlands can serve as an example for other MS (the European Commission, 2006), in which the universal services have a fixed sum and the minimal pension income is investigated only by comparing it with another pension income, such as the one in Sweden, that has managed to create a public pension system that fulfils both the criterion of adequacy and that of financial stability, as the workers compensate the programmed decrease of replacement rates by exiting the labor market at a much later date. The Dutch pension system has some remarkable results due to the fact that its bases are constituted by an universal public pension with a fixed quantum, associated with other earnings coming from supplementary pensions that cover a rather large percentage from the existing population.

Tackling alternative policies has direct results in insuring that the vast majority of people earn sufficient pension rights to not require collateral services. This requires gaining a high level of coverage for the pension schemes that offer adequate services to pensioners and surviving spouses. The obstacles of employment can also be reduced by not taking into consideration a certain level of income when the resources of an individual are investigated or by reducing the earned income for less than 100% of the calculated service based on an investigation of the financial resources;

- *The financial viability of pension systems.* In the context of demographic aging, long term financial support for the pension system, and its ability to insure adequate quantum will depend on the mobilization of the entire labor force potential and, consequently, on a favorable balance between the active market and the retired segment. The studies show that from the perspective of planning the expenses of the public systems pensions the increasing the retirement age by one year can cover on average approximately 20% of the estimated growth of pension expenses up until 2050.

For the year 2010, the main objective of the EU is to achieve a high rate of employment for people between 55 and 64 years of age and a gradual increase of the average age for retirement out of the labor market. Achieving these objectives requires a large array of measures destined

to maintain the employment possibilities of elderly individuals through a system of life-long continuous professional training, through the adaptation of jobs to the needs of elderly individuals as well as through a change in attitude towards prolonging active life.

Presently, the idea that replacing the older generation with a younger one, where one exists on the labor market, should be restrained to the micro level and on short terms has been accepted. The studies on this subject (Holzmann, 2004) show that at a macroeconomic level, restricting the labor force market by renouncing to the elderly individuals does not bode well for the employment perspectives of the young, but it reduces the general level of the work force employment, generating a severe burdening of the social protection system.

Between the years 2001 and 2005, the proportion of the un-occupied elderly population among families remains unchanged in the EU. The only countries where a drop of nearly 3 percentage points (MISSOC, 2007) has been recorded were the Baltic states and Bulgaria. The same source indicates that in 2006 the proportion of young people of work-age in the households nears a significant decrease in the total adult rapport to about 9.5% with slightly larger variations in the MS, from 2.7% in Luxembourg to 16.2% in Great Britain.

To ensure greater financial viability for all the schemes for public pension systems, another major issues among those

already enumerated is the inactivity of the group of people with ages between 55 and 64, a rate currently numbering about 17.9% (Eurostat, 2007) from the total population, while the unemployment rate among the same age group in the communities is 42.2%. According to statistic rapports almost half of the inactive individuals in the 55-64 age group or 26.4% of the total population of these ages are retired of activity. This alarming proportion could reach a minimum of 6.5% of Sweden's population in the same age group. The rate is also very high in Belgium, 41.5%, Germany, 4.4% and Italy, 38.7%. The rate of the inactive 55-64 years of age population due to family or personal reasons is particularly high in the MS in the south, in Greece, 20.9% of women; Spain, 20.8%; Italy, 33.6% and Portugal, 16.8% and Luxembourg 59.1% of women. The rate is lower in the northern countries, from 1.6% in Finland and 3.2% in Denmark. The accessibility of social services capable to give liberty to the labor force, especially to women of 50-60 years of age with commitments to their elderly relatives, who are mentally unfit, or to the care of their grandchildren can be an incentive to their participation in the active life on the work force market.

The third major cause of inactivity is illness and invalidity. Around 6.5% of the individuals between 55-64 years of age are inactive because of this – approximately 2.8 million people. This rate is smaller in Ireland –1.4% and Sweden –1.5% and

higher in Finland –19.6%, Great Britain – 15.7%, Denmark –14.4% and the Netherlands –11.4%. It would seem these differences do not reflect a different level

of health of people living in the same countries, but different institutional agreements (Table 3).

Table 3

Reasons of inactivity			
Reasons of inactivity (% of the total population of the same sex and age group)	Total	Women	Men
Illness/Invalidity	6.5	5.8	7.2
Family or personal responsibilities	6.6	12.6	0.6
Pensioners	26.4	25.7	27.2
The impression there is no work available	1.5	2.1	0.9
Other reasons	6.1	10.0	2.1
No reasons	9.5	10.8	8.2
Totally inactive	56.8	67.1	46.1
Unemployed (this does not reflect the rate of unemployment, rather the proportion of unemployed individuals in the total population of the same sex and age group)	2.6	2.0	3.3

Source: computed by the authors based on the statistic data of Eurostat.

■ *Adapting to demographic change.* Today, there are 4 people under 65 years to one over 65 in the EU–27, but by 2070 this rapport will drop to two workers paying for one pensioner. Although the percentage of the working population in the EU will drop, estimates show that the level of labor force employment will continue to rise until 2017, due to the large number of women and people over the age of employed pension. Even if Europeans live longer, are healthier and women have equal access to the work force market, the EU must adapt its economic policies based on the new indicators.

The aging population of Europe is an unprecedented challenge. The European Commission (CE) has revealed to the public, in October 2007, an official statement that deals with the necessity of demographic rejuvenation and the

integration of immigrants, in order to compensate the demographic losses in the work force market, reminding us that Europe’s demographic problems are a “ticking time bomb”. Estimates show that until 2050 the rate of Europeans over 80 will triple, and those of ages between 65 and 79 years will constitute a quarter of the population in the EU. The aging tendency of the population has a profound impact on all generations and on most domains of economic and social activity: the labor market, social protection, education, culture, politics. The demographic changes involve the institutions and political strategies enforced in a time when the demographic perspectives were quite different.

As far as the EU is concerned, it is estimated that, starting from the first decade of this millennium, many MS will

face a rapid demographic transition. The aging of societies is mainly the result of a drop in the fertility rate and the growth of the life expectancy, which means fewer children and more elderly individuals. While, in order to replenish the population, every fertile woman should bring forth into the world an average of 2.1 babies, in reality, in the EU the average was, in 1999, 1.59 and it reached only 1.52 in 2007. Demographic predictions show that the rate of fertility will remain at a decreased level, while in some countries it may even drop.

Aside from the demographic downfall, changes involve the age group structure of the population. We are dealing, more significantly, with the increase of the population over 65 years of age. This phenomenon is present in all main European regions, in absolute number and also as a percentage in the total population. In the last 50 years, the elderly population (65+) has doubled, from 46 to 112 million, and the proportion in the total population has reached 8% in 1950 and 15.7% in 2007 and it will reach an estimated 17.6% in 2010 (MISSOC, 2008). Presently, Europe has the oldest population in the world.

4. A new concept regarding communitarian social services – flexicurity

The proportions globalization has reached have lead to many of the actors involved redirecting their views on

adapting to a more adaptable service and value system, on adopting new methods of organization, improved technologies, all in order to achieve a greater competitiveness. Flexibility in the area of social services has manifested itself as a necessity in the context of a system of connected values, in order to ensure a reconciliation between flexible and the social security on the work force market, on one hand, and achieving a real reform of the European welfare, on the other hand.

Finding a generally accepted solution by all of the EU member states has materialized due to certain social-economic aspects.

- The fast propagation of the economic integration and the increase in international competitiveness.
- Sustainable development of advanced technologies mainly in the communication department.
- The aging of the population combined with an ever decreasing rate of work force occupation with long term implications in maintaining an elevated unemployment rate.

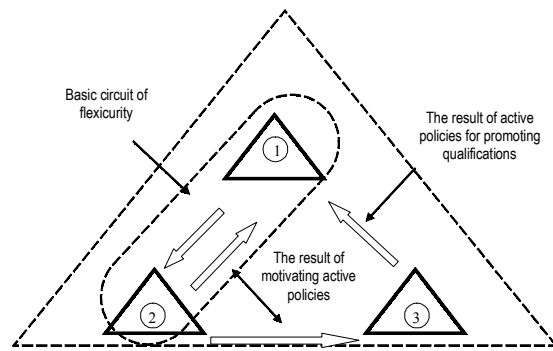
As a consequence of these causes, this concept has arisen from the growing need of flexibility in the work force, of increasing security regarding the employees' requirements, thus allowing a growth of their abilities in order to prevent the fractioning of the work force markets.

Basically, the concept of flexicurity is founded on the principle of non-exclusion of social security services that will instead become complementary and easy to combine. Theoretically, flexicurity can be defined as a way of synchronizing the services and social-economic policies, which can act as a post-deregulation alternative (Keller, Seifert, 2004; Klammer, 2004,2005) or as a liberal point of view of the market economy and the social protection of the welfare state of Scandinavian model (Wilthagen, Tros, 2004) or as a political strategy regarding business on the labor market, viewed as an analytical concept (Tangian, 2004).

The definition given on the basis of the golden Dutch triangle (Madsen, 2006) is concentrated on three directions:

- An increased level of mobility on the liberal labor market by replacing work place security with occupation security;
- A generous social protection system, both for unemployment insurance and for uninsured individuals;
- Allocation of plentiful sums in order to uphold active policies on the labor market.

The results based on this model (Figure 1) have not failed to show, Denmark being one of the only European states where unemployment has dropped with about 7 percentages, while the nominal wage had increased to approximately 5% per year.



Legend: 1 – Flexible labor market; 2 – Generous welfare system; 3 – Permanent active policies of the labor market

Figure 1. *The golden triangle – the Dutch model of flexicurity*

Source: developed by authors after P. K. Madsen, 2006.

4.1. The components of flexibility

a. *Flexible and viable contract stipulated agreements* that contribute to the regulation of the labor market in the context of the social security component that can be a basic component of welfare from the perspective of decomodification (Espring-Andersen, 1999)

b. *Global life long education strategies* that are meant to contribute to an elevated degree of occupation of the labor force through the decrease of long term unemployment. This contributes to a high level of efficiency only if workers adapt to change by continuous education, which can be viewed as the key to economic productivity.

c. *Efficient active policies on the labor market*, which can attain a balance between the flexibility and the security of

the labor force occupation that offsets the reducing risks of a segmentary labor market by supporting the keeping of work places (the European Commission, 2006), to which the respective market services costs are associated with low unemployment.

d. Modern social security systems that can be essential to compensate the negative consequences during the loss of employment, but that can, in time, have negative effects regarding the intensification of activities relating to finding a job, an effect that can be compensated through a set of strategies that can coordinate the social services-active measures on the labor market mechanism.

Conclusions

Taking all this into consideration, we are of the opinion that the EU has to harmonize the social security services for employed workers, functionaries, independent workers, agriculture workers and especially public workers. Presently, a minute, objective reformulation of the services calculation formula is necessary, which would lead to the consolidation of the connections between services and contributions, including a system of financial beneficitation for both anticipated and late retirements, as well as a change in the pension indexation system.

For this purpose important steps must be taken urgently in order to increase the

adequacy level of the social services through reforms that target anticipated retirements, with the objective of encouraging individuals between 50 and 60 years of age to participate in an active life, which will thus achieve the so called “generation pact”.

This reform should bring a significant contribution to the financial accessibility and sustainability. Moreover, promoting occupational pension schemes would increase in the long term the replacement rates and would raise the life standard for pensioners. Besides these measures that confirm the participation of people between 50 and 60 years of age to the work force, the strategy for financial sustainability must be based on the global management of social security and on the reallocation the collected contributions, as well as on reducing public debt. The savings that result from reducing the public debt could be transferred in a reserve fund and then redirected for future expenses in the area of social services.

The objectives in the context of social services must be supported by strategic measures, defined by domains and sectors of activity in order to identify specific directions of actions that will solidify the contribution of various sectors (education, professional formation, health, demography, social protection, scientific and technological research) to the development of the work resources in the years to come.

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