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EU Enlargement and Social Security

Some Dimensions of a Complex Topic

There is no uniform model of social security in the EU-15 and the inclusion of new member states will make the social security landscape in the EU even more diversified. Social security systems in the present EU are currently facing a number of problems due, among other things, to unemployment and demographic changes. Will EU enlargement help to solve these problems? Will it create new ones?

Social security schemes are facing a remarkable number of challenges all over Europe, both internal ones (such as structural changes in demography and in employment, but also changing views regarding the role of the state in social security) and challenges arising from outside such as intensified economic competition or migration. Last but not least there are several channels at the European level which are influencing both the debate and the decisions on national social security. This is already a complex field which is becoming more so due to the process of expansion of the European Union.

This paper is an attempt to identify some major challenges, topics, risks and chances of EU enlargement regarding social security. The process of enlargement has already had many effects and will have further effects in the future – political, institutional, economic, budgetary and social. It affects the present (old) EU member states as well as the candidate or new member states. This process influences social security in many ways, and affects social security institutions as well as the social protection of people by changing rules and economic effects. There are direct and indirect effects for the different branches of social security such as health, unemployment and pensions, and regarding financing conditions, revenues and expenditure. And there are effects on labour markets and capital markets as well as on the markets for goods and services, effects on the level and distribution of income, on saving, investment, consumption and so on. These few catchwords illustrate the already high complexity of the (especially economic) effects.

However, it is not the first time that the European Community is being enlarged. In 1957, six countries (Belgium, Germany, France, Italy, Luxembourg and the Netherlands) established the European Economic Community. In 1973, the first enlargement was directed more towards the northern part of Europe: Denmark joined the EU as well as the United Kingdom and Ireland, while the majority of the Norwegian population decided against membership, as happened again in 1995. During the 1980s the next wave of enlargement included countries of the south (Greece joined in 1981, Spain and Portugal in 1986). At the beginning of 1995 three additional countries joined the union of the 12: Austria, Finland and Sweden. Now we are on the eve of an enlargement by ten more countries, mainly from Eastern Europe – a situation nobody was expecting about 15 years ago.

Although the European Union was established for economic reasons and continues to be based on these, important political implications are linked to this process. It is among other things an instrument of peace-keeping. The present EU Commissioner Günter Verheugen – responsible for the process of enlargement – declared, "For the EU, the political and strategic interest is to bring lasting stability to the region stretching from the Baltic to the Mediterranean and Black Sea."[1]

More than 150 years ago, in 1849, the famous French writer Victor Hugo declared, "A day will come when ... you all, nations of the continent, ... will be merged closely within a superior unit ... A day will come when the only field of battle will be markets opening up to trade and minds opening up to ideas. A day will come when the bullets and the bombs will be replaced by votes ..."[2]

This sounded very futuristic at the time and we all know that since then the continent has been shaken by several major wars. But at present we seem to be on the way to realising more and more of this vision.

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[1] Günter Verheugen : Introduction, in: CESifo Forum No. 2, 2002, pp. 25-37, here p. 35.

[2] Victor Hugo: Opening Address to the Peace Congress, Paris, 21 August 1849, http://www.ellopos.net/politics/eu_hugo.html, accessed 12.12.2003.

In view of that the following paragraphs of this paper deal with

- structural changes linked to the process of transition and integration
- agriculture and social security
- migration and social security
- some regional aspects
- several other indirect and direct effects on social security in the process of enlargement
- effects of the EU on national social security, in particular focusing on the open method of coordination as a new instrument within the EU.

Structural Changes

The process of extending the EU is not without anxiety, but there are also high expectations about the possible positive effects. To be realistic, at least in the short and medium term there is no pure win-win situation: there will be not only winners but also losers. This is particularly linked to structural changes in the economies. The restructuring has social consequences. Social security has an important task in making structural changes politically acceptable to the population and especially for those groups that are not on the sunny side during the process of change.

It is important how quickly structural changes take place and how many there are. Former socialist countries in Central and Eastern Europe had, and still have, to solve many structural problems in transition from a “planned” to a “market” economy. Meanwhile a remarkable process of linking these countries economically to EU member countries has taken place. Becoming a member state will therefore not be like a big bang. The same is also true regarding many aspects of social security because there are already a large number of bilateral agreements between candidate and member states. The process of preparing for membership stimulated adjustment processes in many areas. And further changes will become necessary and take place. Transition and integration into the EU are overlapping.[3] This is, and will be, the result of political decisions on new institutional rules, but also of the fact that market forces affect some sectors of the economy less than others, for example because these sectors have already been more integrated into European economic exchange. The percentage of exported goods from candidate countries into the EU is on average 50 % or even more of all their exports. This demonstrates the high level of economic integration. But there are also big differences in living conditions if measured for example in GDP per capita at purchasing power parity – even although this measure is not without problems. Compared to the average of the EU-15 in 1999, the Baltic states were at about 30 % of the average, Hungary at about 50 % and Slovenia around 70 %. Slovenia’s GDP per capita, however, was higher than that of Greece.[4] This underlines that remarkable differences among EU member states persist (even if we neglect existing regional differences within countries). But living conditions will become more diversified by the enlargement. It is often feared that differences in living conditions will stimulate large processes of migration. The present income differences between Poland and Germany, for example, are higher than those between Mexico and the United States. But migration depends on many factors, not only on income differences.

Agriculture and Social Security

One sector of the economy brings a specific challenge into the enlargement context, namely agriculture. Here we can see in a nutshell that the enlargement of the EU affects both old and new member states. A few facts may illustrate this.

First, looking at candidate countries we can see that in a number of countries the percentage of people employed in the agricultural sector is several times above the average ratio in EU member states, which was 4.4 % in the year 2000 (although in Greece it is about 19 % and in Portugal 11 %). In Romania more than 40 % of all employed people were working in this sector in the year 2000, in Lithuania almost 20 % and in Poland around 19 % – as many as in Greece. It is – by the way – remarkable that the percentage of gross value added in agriculture of total gross value added in these countries is far lower than the ratio of employment in this sector compared to total employment. For example, in Poland the agricultural sector accounts for 3.3 % of total gross value added but around 19 % of employment. This illustrates the low productivity in this sector. The two candidate countries with the highest population – Poland and Romania – have a high share of employment in agriculture. The absolute number of employed people in agriculture in only Romania and Poland is higher than in all the present 15 EU member states taken together. Additionally, we

[3] See, for example, Daniel Piazolo: EU Integration of Transition Countries. Overlaps of Requisites and Remaining Tasks, in: INTERECONOMICS, Vol. 35, 2000, pp. 264-273.

[4] Data from Bundesministerium der Finanzen, Erweiterungsbericht 2001, cited by Wolfgang Husemann: EU-Erweiterung: Die sozialpolitische Dimension – eine Zwischenbilanz, Bundesarbeitsblatt, pp. 15-20, here p. 18.

can assume high hidden unemployment, particularly in the agricultural sector.[5]

Today, the trade barriers in agriculture between the accession countries and the EU are the highest of all sectors of the economy. The integration of new member states into the EU will remove these barriers. But it will also extend the protection rules and subsidies that are available under the Common Agricultural Policy (CAP) to the new member states.[6]

It is well known that currently about 50 % of all budgetary resources at the EU level are for the CAP, and another 35 % for structural policy. Calculations have been made on the increase in costs if the existing highly problematical agricultural policy of the EU remains unchanged. Decisions have already been taken to freeze the costs for the CAP.[7] The need to restructure the CAP has been acknowledged for decades. In the process of EU enlargement the necessary restructuring of the CAP becomes a vital topic.[8]

Farmers in the present member states will be confronted with new competitors with low labour costs – but also low productivity. In addition, a change in the current CAP rules will also affect the present member states.[9] On the other hand, farmers in candidate countries with a big agricultural sector are concerned with the structural changes that may result from the new rules within the EU. Many of the problems that existed in economies with central planning are to be found in the agricultural sector.

Beside the restructuring of the common agricultural policy within the EU – which is to a large extent income policy and accompanied by specific social security measures for farmers on top of subsidies – social security measures are used in member countries as well as in candidate countries to improve the restructuring in this sector and to smooth the income effects for farmers. For example, Poland introduced a new pension benefit – financed by the state budget – if farmers give up their farm early. The same instrument was also used in Germany in the past. Options for early retirement were, and still are, an often used instrument in structural as well as labour market policy.

Migration and Social Security

There may be a relatively high potential of migrants in the agricultural sector because of the high number of people employed there, but also because of hidden unemployment. Migration is another crucial question, much debated particularly in Germany and Austria because it is expected that the inflow of migrants will concentrate in particular on these two countries. The same can be expected regarding commuters.

Cross-border mobility of labour will be influenced by many factors. It depends on when, and under which transition rules, the accession of countries takes place. There are several options regarding the full realisation of the free movement of labour, from immediately after accession to at the latest after a transition period of seven years, and which of these will be realised has still to be decided by the present member countries.

In some member countries like Germany migration is discussed primarily from the perspective of the national labour market and social security. But the perspectives of member states often differ and can even change rapidly. On the one hand there is a demand for qualified migrant workers because of a lack of qualified manpower in some branches (like information technology, software engineering). The other important argument in favour of migration is that pay-as-you-go financed social security schemes will collapse without migrant workers because of the ageing of the population. Additional contributors are needed from this point of view which, however, often neglects the fact that current additional contribution payments will also increase pension claims and future pension expenditure. On the other hand, migrants are also seen as competitors on labour markets who are often not very welcome – especially regarding jobs with only a low qualification level.

The ways migration and international mobility of labour affects social security depend on

- the sector of social security (for example health and pensions)
- the type of migration (long-term, short-term)

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[5] In 2000, the total number of employed persons in EU-15 was 164,702 thousand. Therefore, in agriculture 7,246.9 thousand were employed. The figures for Poland were 18.7 % of 14,517.6 (= 2,714.8) and for Romania 45.2 % of 10,897.6 (= 4,925.7), i.e. in total 7,640.5 thousand in agriculture in these two countries. Data are taken from European Commission: Employment in Europe 2001, Luxembourg 2001.

[6] The effects on agricultural production are discussed in: Javier Fernández: The Common Agricultural Policy and EU Enlargement, in: Eastern European Economics, Vol. 40, 2002, pp. 28-50.

[7] Calculations regarding the financial impact of the EU's Common Agricultural Policy and Structural Policy based on different scenarios are presented by Christian Weise: EU-Osterweiterung, Reformbedarf bei den EU-Politiken und Auswirkungen auf die Nettozahlerpositionen, in: Osterweiterung der EU, Berlin 2002, pp. 149-179.

[8] For some model calculations see Claudia A. Herok, Hermann Lotze: Implications of an EU Eastern Enlargement under a New Common Agricultural Policy, in: Journal of Policy Modeling, Vol. 22, 2000, pp. 661-690.

[9] The subsidies in agriculture are also a topic in negotiations of the World Trade Organisation.

• the structure of the mobile persons (age, qualification).

This cannot be elaborated here in detail.[10] It can only be stated that expectations regarding the potential for migration often seem in general to be much too high.[11] This concerns both migration that is welcome (expected positive results of migration) and unwelcome (fears concerning migration). There is already a lot of migration and economic activities by migrants, as well as internationally mobile workers, both legal and illegal. There are estimates that about one half of all Poles working abroad do so illegally, in which case there is no additional contribution revenue for social security, but also no claims for benefits. But whether illegal activities will become legal after the persons involved become EU citizens remains an open question and depends on many circumstances.

The expected effects of migration as a means of solving the financial problems of social security institutions also often seem to be much exaggerated. There may be positive effects on the financial situation if new, qualified people come into the country and can be integrated into the labour market and for example pay social insurance contributions. If they are young and healthy this may even improve the financing of health (and nursing care) insurance because their age-specific morbidity is below the average for the total population. But if there are (at least on average) more family members who also become members of health insurance schemes without being obliged to pay a contribution of their own, the picture may be different. This depends on the family and employment structure of migrant families compared to those already living in the country. With regard to pension schemes, if there is a link between contribution payments and later benefits – and internationally there seems to be a tendency to strengthen this link – it depends on the age structure of the contributors how long additional migration can improve the financial situation of the social insurance pension scheme, because later on additional pension claims result in higher pension expenditure.

Regarding migration, the focus is mainly on net migration figures. But behind any particular figure for net migration there may be quite different numbers of emigrants and immigrants. The effect on social security depends among other factors on the structure of immigration and emigration. Furthermore, it depends on the design of social security schemes. For example, in pension schemes with cash benefits, those who return to their home country will receive pension payments (export of cash benefits), while transfers in kind (as in health insurance) are not exportable.

Migration can, however, worsen the financial situation of social insurance schemes in the home countries of the emigrants: the ratio of the number of older people – especially of pensioners – increases compared to the number of younger employed persons (i.e. contributors). This makes it more difficult to finance social security. And expenditure on health insurance may rise on average if the age-specific morbidity of the remaining (older) members of the health insurance schemes is higher than the age-specific morbidity of the emigrating (young) persons.

The Regional Aspect

In my opinion the regional aspect, as a challenge linked to migration and mobility in general – as well as in the context of EU enlargement – is often neglected. It is not only migration to foreign countries, but also mobility within a country from rural areas to urban areas, that may cause problems, especially in the provision of care in case of illness and long-term nursing care, in particular if the (extended) family is an important care-giver in a country. The migration of younger persons as well as regional mobility may reduce the capacity of families to care for persons who are ill or frail.

But there are more possible effects that may result in a downward spiral: bad labour market opportunities in a region with high unemployment and low wages stimulating the outflow of young people, while the elderly stay in this region with shrinking care provision e.g. in case of illness by family members but also by professional care-givers, medical personal in hospitals etc. This may especially occur if competition becomes a guiding principle in the health sector. For example, fewer people in a region means for existing hospitals ceteris paribus a lower utilisation of their capacity, higher costs with a tendency towards a reduction in service, the closing of hospitals etc.

Other Indirect Effects

History has shown that more economic integration is a strategy for improving the living conditions of the population in all of the countries involved, at least on

[10] This is discussed in Winfried Schmähl: Migration und soziale Sicherung – Über die Notwendigkeit einer differenzierten Betrachtung: das Beispiel der gesetzlichen Kranken- und Rentenversicherung, in: Hamburger Jahrbuch für Wirtschafts- und Gesellschaftspolitik, Vol. 40, 1995, pp. 247-271.

[11] See, for example, Thomas Straubhaar: Ost-West-Migrationspotential: Wie groß ist es?, HWWA Discussion Papers, No. 37, 2001, with references to several estimates; see also Heinz Fassmann, Rainer Münz: Auswirkungen der EU-Erweiterung auf die Ost-West-Wanderung, in: WSI-Mitteilungen, 2003, pp. 25-32.

average.[12] It is important that the comparative advantages of the countries can be exploited. This means among other things that existing differences in wages and productivity can represent a chance. But more economic integration will also have disproportional effects on different branches of industry and different regions. If we look at the experience of the former enlargement to the south, a process of catching up by these countries took place on average (for example in GDP per capita) but was, however, accompanied by an increase in the regional disparities within these countries.[13] It does not seem to be an unrealistic assumption that this will also be the case for new member countries in Central and Eastern Europe.

The positive economic effects of the enlargement of the Union will make it easier to finance social security. How high this "integration dividend" will be and how it will be distributed is an open question. Not only does the free (or only temporarily restricted) mobility of labour between new and old member states, and the free movement of goods, services and capital affect social security in various ways but also the already existing political decisions on economic stability criteria. These have to be realised by all EU member states, not only by those belonging to the European Monetary Union. Every member state has to present a programme for convergence aimed at meeting the convergence criteria, such as balancing the public budget in the medium term.[14] This may affect the strategy regarding, and the selection of, social security measures at the national level.

Some Direct Effects of EU Enlargement

The integration of new member states into the EU has direct effects due to the rules that have to be implemented. It will also be accompanied by additional costs, for example regarding measures concerning safety at work.

Considerable effects on administration can also be expected. The administrative capacity required for all the work linked to coordination regulations (1408/71 and 574/72), for example – which requires specific skills and competence of administrative staff – the fulfilling of all the obligations regarding statistics, reports etc. should not be ignored. This is a problem in particular for very small countries.

Already today within the EU-15 there is the general problem of a lack of information regarding the application of coordination regulations 1408/71 etc. The enlargement will increase the complexity. Although legal specialists argue that the regulations should be simplified, at the same time they argue that certain characteristics and peculiarities of the social security systems of the candidate countries will require modifications of the regulations regarding the personal and material scope of coordination, which has gradually been extended from employees and work-related benefits to other persons and social benefits not related to work.[15]

The regulations mentioned regarding coordination are an example of the fact that an extension of the Union will make things more diversified and more complicated, despite the fact that bilateral agreements often already existed. Decisions are necessary, for example, regarding the question whether and how the new mandatory capital-funded "pillars" that are already implemented in pension policy in several candidate countries – or will be implemented in the near future in several more countries – should be integrated into the process of coordination. This affects social security on the one hand and free movement of capital on the other.[16] If there are, for example, restrictions on mandatory capital-funded schemes regarding investment of capital abroad, does this violate the free movement of capital and is it therefore not allowed? Or is it a part of social security and does it therefore fall under the competence of the national legislator, but has to be integrated into the coordination rule of regulation 1408/71? Or can it be interpreted as an occupational pension, which is up to now not included in the coordination rule?[17] We see that questions are difficult and different answers could be possible.

A direct effect on pension policy may for example result from the directive of equal treatment of men and women.[18] This could have considerable effects on

[12] A discussion of changes in living conditions in the process of former enlargements is given by Jan Delhey: The Prospects of Catching up for new EU Members – Lessons for the Accession Countries to the European Union from Previous Enlargements, in: Social Indicators Research, Vol. 56, 2001, pp. 205-231.

[13] See Konrad Lammers: Die Osterweiterung aus raumwirtschaftlicher Perspektive – Prognosen regionalökonomischer Theorien und Erfahrungen aus der bisherigen Integration in Europa, HWWA Discussion Paper No. 195, 2002.

[14] See Council Regulation (EC) No. 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

[15] See European Observatory on Social Security for Migrant Workers, European Report, Munich 2001.

[16] See, for example, Ralf Jacob: The European Union and National Pension Policies, in: Yves Jorens (ed.): The example of old-age pension. The influence of international organization on national social security law in the European Union, Baden-Baden 2002, Nomos, pp. 35-42.

[17] In agreements with Switzerland, however, mandatory occupational pensions are included in the process of coordination.

retirement ages. There is already a tendency in many countries to implement rules equalising retirement ages – usually by gradually increasing retirement ages for women rather than decreasing those for men.

The Open Method of Coordination

There are different channels through which the EU influences national social policy. Beside directives, regulations and other rules, as well as the stability criteria – as an element of a convergence strategy influencing in particular the development of public budgets – the decisions of the European Court of Justice have to be mentioned.[19] There are numerous decisions with references to the four basic freedoms as well as the competition and antitrust rules, which are all implemented in the EC treaty. The case law of the European Court of Justice increasingly affects all branches of social security. In the health care sector, the European competition law is of particular importance.

But there are also other developments that require our attention. In the past plans existed for harmonising social security, in the beginning mainly to avoid negative effects on the economic competitiveness of national economies. The label "harmonisation" could cover quite different views regarding the question as to what should be harmonised and how. Meanwhile harmonisation has disappeared from the political agenda. Instead, convergence is now an important topic. For a number of years a new instrument has been being developed which aims at convergence in social policy – the so-called "open method of coordination" (OMC).[20] This approach may become highly influential in social policy in Europe. It will affect all member states in their national social policy, including new member states. Finally, references to this approach are also made in the Draft of the Constitution of July 18, 2003.[21]

In the early 1990s the European Commission took up a new initiative in social security, an area in which it has limited competence in general compared to other areas. This was based on the idea of promoting convergence primarily regarding objectives, and thus affecting the political decisions of member states. Two Council recommendations on convergence in social policy were published in 1992. At the Lisbon Summit in 2000 a new instrument to realise this was inaugurated: the OMC, which was to be one of the tools for realising the highly ambitious strategic objective declared in Lisbon, that the EU was to become "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion".[22] The OMC was to contribute to a greater convergence by the member states towards the Union goals by means of spreading best practice.

The main elements of this method are

- decisions on common political objectives
- decisions on indicators as the base for a (formal or informal) process of bench-marking to identify best practice
- implementing the European objectives into national policies
- a regular process of reporting, monitoring, evaluation and peer review.

It has been officially declared that these processes should always respect the principle of subsidiarity, whatever this may mean in reality.

The process meanwhile covers several areas. It started – under a different label – with employment.[23] Now it is extended to three other sensitive areas in social policy: social inclusion and fighting poverty, pensions, and health care and nursing services for the

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[18] For example, the Council Directive (EEC) No. 7/79 on the Progressive implementation of the principle of equal treatment for men and women in matters of social security, as well as the Council Directive (EEC) No. 378/86 on the Implementation of the principle of equal treatment for men and women in occupational social security schemes, which is now amended by the Council Directive (EC) No. 97/96.

[19] An overview is given by Bernd Schulte: EG-rechtliche Rahmenbedingungen für nationale Sozialpolitik, in: Winfried Schmähl (ed.): Möglichkeiten und Grenzen einer nationalen Sozialpolitik in der Europäischen Union, Berlin 2001, pp. 9-92. See also the papers in: Winfried Schmähl, Herbert Rische (eds.): Internationalisierung von Wirtschaft und Politik – Handlungsspielräume der nationalen Sozialpolitik, Baden-Baden 1995, Nomos; Winfried Schmähl, Herbert Rische (eds.): Europäische Sozialpolitik – Stand und Perspektiven, Baden-Baden 1997, Nomos.

[20] For the application of the OMC in the field of pensions see the extensive comments in VDR (Verband Deutscher Rentenversicherungsträger): Open Coordination of Old-Age Security in the European Union, Frankfurt 2002, WDV Wirtschaftsdienst; Caroline de la Porte, Philippe Pochet (eds.): Building Social Europe through the Open Method of Co-ordination, Brüssel 2002, Peter Lang; Stamatia Devetzi, Volker Schmitt: Die offene Methode der Koordinierung im Bereich Alterssicherung in der EU - eine kritische Bestandsaufnahme, Deutsche Rentenversicherung 57 (4-5), 2002, pp. 234-249; Eberhard Eichenhofer: Der aktuelle Stand europäischer Sozialpolitik, Deutsche Rentenversicherung 57 (6), 2002, pp. 322-331; Winfried Schmähl: Open Coordination in the Area of Old-Age Security – from the Point of View of Economics, in: VDR, BMA, MPI (eds.): Open Coordination of Old-Age Security in the European Union, WDV Wirtschaftsdienst, Frankfurt 2002, pp. 101-112; Jörg Sommer: The Open Method of Co-ordination: some remarks regarding old-age security within an enlarged European Union, ZeS working paper No. 2/2003, Bremen 2003, University of Bremen, Centre for Social Policy.

[21] Draft Constitutional Treaty, Vol. II, CINV 848/03, 18 July 2003, Chapter III, Section 2, Social Policy, Art. III.107.

[22] European Council: Presidency Conclusions, Conclusions 100/1/00, Lisbon, 23 and 24 March 2000, p. 2.

[23] A coordinated employment strategy was introduced by the Treaty of Amsterdam in Art. 126 - 130, esp. 128.

elderly. Other areas under discussion are "better workplaces" (safety at work) and "making work pay".

In the beginning there was hardly any attention given to this approach, at least in some member states. But meanwhile the feeling seems to be growing that something influential is taking place. This is at least the case for Germany with regard to pensions.

The definition of objectives – at least if stated in general terms – does not seem to be the decisive element. The starting-point was three broad general goals regarding pensions:

- the adequacy of pensions
- the financial sustainability of pension systems
- the modernisation of pension systems in response to the changing needs of the economy, society and individuals.

There will be no disagreement about this in general. But quite different opinions can be expected already when dividing this into sub-dimensions and particularly when trying to define concrete indicators, as well as regarding the decision on the benchmarks. Decisions on indicators and benchmarks are of utmost importance.

At the European level there seem to be four groups of central players. In the Council of Ministers there are the Ministers of Economics and Finance and the Ministers of Labour and Social Affairs. This is reflected at the level of the European Commission (the Directorates General for Economic and Financial Affairs and for Employment and Social Affairs) and in corresponding working groups.

It is not possible here to go into the details of this process and the actors involved at both the Community level and the member state level. It seems obvious, however, that the Commission as well as the Ministers of Economics and Finance (Ecofin Council) are central players in this process.

Of course the Ministers of Finance are, above all, interested in the effects of pensions and pension policy on public budgets. Already in October 2001, a report regarding the OMC was published on "Budgetary challenges posed by ageing populations", where indicators of the long-term sustainability of public finances were proposed.[24] Sustainability is defined there in terms of compliance with the budgetary requirements of the European Monetary Union, especially public budgets respecting the "close to balance or in surplus" target.

It is well-known that the design of pension schemes in Europe as well as the public-private mix varies considerably. Public pension expenditure as a percentage of GDP therefore differs remarkably. In the year 2000 this ratio was 4.6 per cent in Ireland and 5.5 per cent in the UK, while the EU average was 10.4 per cent – Austria and Italy being much above the average at 14.5 and 13.8 per cent respectively. Scenarios have been developed showing that the UK and Ireland will continue to remain below the European average in the future.[25] Evaluating such figures with regard to their proper meaning requires careful analysis. For example, the different age structures of the population have to be considered (see, for example, Ireland compared to other EU member countries).

The information provided by such an indicator (public pensions as a ratio of GDP) with regard to public budgets is biased, because in the report mentioned figures on gross expenditure are used, i.e. expenditure before tax. What is needed regarding the effect on public budgets, however, is net public expenditure that takes into account taxes deducted from public benefits, and also information on so-called tax expenditure like tax reductions for certain types of occupational or private pensions or saving for old age.[26]

But at the centre of pension policy should be the economic situation of the elderly and not only how public budgets are burdened. Therefore, not only public pensions, but also private pensions, their level and distribution are important. There is a danger that in this process of defining indicators and benchmarks fiscal indicators will be given priority.

In general, not only input indicators are needed but, especially, output indicators.[27] But here a bias which exists in the public and the academic discussion is also present in the arguments of different political actors: the input to social security – especially the direct

[24] The central indicators proposed were on "budgetary projections of future expenditures on pensions"; see EPC (Economic Policy Committee): Budgetary challenges posed by ageing population: the impact on public spending on pensions, health and long-term care for the elderly and possible indicators for the long-term sustainability of public finances, Report EPC/ECFIN/655-01-EN final, Brussels, 24 October 2001.

[25] Ibid., p. 22.

[26] See, for this issue, Willem Adema: Net Social Expenditure, 2nd Edition, OECD Occasional Paper No. 52, Paris, 29 August 2001.

[27] For this issue see, in general, Wolfgang Zapf: Sozialberichterstattung: Möglichkeiten und Probleme, Göttingen 1976, Otto Schwartz; Winfried Schmähl: Sozialausgaben, in: Willi Albers (ed.): Handwörterbuch der Wirtschaftswissenschaft (HdWW), Stuttgart, New York 1988, Fischer, pp. 562-603; Tony Atkinson, Bea Cantillon, Eric Marlier, Brian Nohlan: Social Indicators. The EU and Social Inclusion, Oxford, New York 2002, Oxford University Press.

monetary costs – can be calculated relatively easily and are obvious immediately. The output – the benefits – are often not as easy to calculate and the effects will often become obvious only in the future. One example is the introduction of new capital-funded private pensions, where benefits can be expected only in the distant future. The future effect of private pensions on the distribution of income in old age – in particular of voluntary and tax-privileged pensions – is difficult to calculate. The same is true regarding the risk-shifting that is taking place in pension policy between the state and private households as well as between employers and employees.

These few examples already show how important it is what type of indicators are used, as well as their concrete definition, and which indicators become the base for benchmarking and evaluating national social policy.

The possibility that, for example, in the area of pension policy the result of the ongoing process at the European level may be a biased and not a comprehensive approach, is increased by the most recent proposals by the EU Commission on "streamlining" the open method of coordination in a Communication of May 27, 2003.[28] The streamlining approach has several dimensions:

- streamlining regarding the coordination of economic policies of member states with the European Employment Strategy
- streamlining with the area of coordinating social protection policies, i.e. social inclusion, pension, health care etc.
- streamlining the area of coordinating social protection policy with economic and employment policy.

This sounds like a useful and necessary attempt to develop coherent and comprehensive approaches. But nevertheless it is not without risk, in particular regarding the weight which social policy objectives and the impact of measures on the living conditions of different groups of the population will be given in this process.

Looking at the political power in particular of ministers of finance and economics at the national as well as at the EU level and the dominance of budgetary aspects in the decision-making processes, a synchronisation of these processes in the fields of social protection and the Broad Economic Policy Guidelines and the European Employment Strategy may turn out to be an additional approach resulting in an imbalance between the realising of budgetary and wider social policy goals. Therefore, all these processes need careful analysis to realise a balanced approach in the field of social security.

Concluding Remarks

As has been pointed out above, there is no uniform model of social security even today in the EU and it will not exist in an enlarged Union. On the contrary: the inclusion of new member states will make the pension landscape, for example, more diversified than it already is today in the EU-15. Especially the new notionally defined contribution schemes in Latvia and Poland (like in Sweden) as the first tier of the pension scheme, as well as mandatory capital-funded defined contribution schemes in further candidate countries, will change the weights of the different approaches to pension policy in the European Union.[29] This will also be an effect of enlargement.

The few examples mentioned above illustrate that EU enlargement and social security really is a complex topic. Future developments will depend very much on economic developments and on political decisions. And politics and economics are highly linked to one another.

The European Union is confronted with the double challenge of better and deeper integration and of enlargement. This also requires political solutions regarding the political decision-making processes at the European level.

It will be an important task to make the political decision-making process regarding social security transparent as well as the possible impact of such decisions at the European level so that the people affected by decisions do not lose the feeling of social security in the ongoing development of structural changes.

The great chance but also the great challenge is to make the enlargement of the European Union also an enrichment for the people living in Europe. Social security has an important role to play in this complex process.

[28] Strengthening the social dimension of the Lisbon strategy: Strengthening open coordination in the field of social protection, COM (2003) 261 final. For comments on this see GVG (Gesellschaft für Versicherungswissenschaft und -gestaltung): The GVG on streamlining the open method of coordination in the field of social protection (Informationsdienst 293), Cologne 2003.

[29] See Winfried Schmähl, Sabine Horstmann (eds.): Transformation of Pension Systems in Central and Eastern Europe, Cheltenham, UK, Northampton, MA, USA 2002, Edward Elgar.