



Hochschule für
Wirtschaft und Recht Berlin
Berlin School of Economics and Law

Welfare State at the Risk? Comparison of Social Insurance Systems in Different European Countries

Editor: Heinrich Bücker-Gärtner

Report of an International Seminar

15th –27th March 2009

Adam Mickiewicz Universität (UAM) Poznań
Faculty for Political Sciences and Journalism

Within the framework of the
LIFELONG LEARNING PROGRAMME – ERASMUS
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Preface

DE-2008-ERA/MOBIP-ZuV-29794-1-14

Hochschule für Wirtschaft und Recht Berlin, HWR Berlin School of Economics and Law

Within the framework of the LIFELONG LEARNING PROGRAMME – ERASMUS the Fachhochschule für Verwaltung und Rechtspflege Berlin, FHVR (*April 1, 2009 merger to Berlin School of Economics and Law*) had been coordinating an „Intensive Programme“ (IP) under the topic „Existing and future challenges for democratic processes in European Countries“. In 2007 the international workshop took place at University College Ghent and was focussed on „Strategies against corruption“.

In 2008 participants from the Universitet Växjö/Sweden, the University College Ghent / Belgium and the Universitet im. Adama Mickiewicza Poznań/Poland have been working on “Democratic deficits – strategies against the lost of confidence in the democratic state and its institutions” at FHVR Berlin.

From March 15 to March 27, 2009 the third circle took place at Adam Mickiewicz University in Poznań under the topic “Welfare state at the risk? – Comparison of social insurance systems in different European Countries”.

The IP was financed by subsidies of the LLP - Programme, budgetary means of the four participating universities and by the participants own resources.

This report will be attached to the „FINAL REPORT“, which was sent to the German Academic Exchange Service (DAAD) in July 2009.

We would like to express our gratitude to Mrs. Bettina Krumm for the immediate and accurate translation.

Berlin, August 2009

Dr. Brigitte Thiem-Schräder
HWR Berlin
Head of International Office
- Campus Lichtenberg -

A Introduction

Heinrich Bücken-Gärtner

This report is presenting the results of an international workshop financially supported by the ERASMUS-programme for universities of the EU and identified as an intensive programme. These workshops are designed according to the principle “experts meet experts”. They comprise 10 workdays and feature a very intensive participation of students. The students acquire the essential aspects of the topic of the seminary within a preparation course at their home university and prepare a presentation (look part D – country reports). The technical input is completed by the experts’ presentations. On this basis the different viewpoints of the representatives of the participating universities meet and during the workshop the nationally mixed workgroups discuss solutions to the problems and create a report comprising the results thereof (look part E – reports of the workgroups).

The concept of the intensive programme offers very good conditions for the intensive exchange between lecturers and students of different countries. Besides the technical discussions, especially insights into the specific academic practices (e. g. the way students and lecturers are dealing with each other) and standards (competences of presentation and communication as well as breadth and depth of the students’ technical knowledge) are helpful to receive impulses for the own university and the personal design of one’s role as lecturer. Since 1997 nine international workshops on different topics have been carried out in Berlin, Ghent or Växjö under the direction of FHVR Berlin¹.

In this year the workshop took place from March 15 – 27, 2009, at the faculty for political sciences and journalism (WNPiD)² of the Adam Mickiewicz University (UAM) in Poznań, Poland. Eight students of each university and one or two lecturers of the hosting faculty, of the Hogeschool Ghent (Belgium), of the University Växjö (Sweden) and of the HWR Berlin analyzed the topic of the workshop from an interdisciplinary viewpoint. The participants were mainly political scientists as well as some jurists, scientists of public administration and economy.

The guests experienced impressive days in Poznań. The new building of the faculty, which has only been in use for one year, provided excellent conditions, even for internet-based teaching and learning. The special dedication of the Polish students contributed to the well-being of the guests. At almost every evening always two of them had prepared a small programme for the guests. In this way it became possible to concretely experience the proverbial Polish hospitality. At the same time the guests learned about the appreciation students in Poland show for history and culture.

¹ Since April 1, 2009, the Fachhochschule für Verwaltung und Rechtspflege Berlin (FHVR) and the former Fachhochschule für Wirtschaft Berlin are forming the Hochschule für Wirtschaft und Recht Berlin (HWR).

² Wydział Nauk Politycznych i Dziennikarstwa; <http://www.inpid.amu.edu.pl/>

The university in Poznań was founded in 1919 and was named after Adam Mickiewicz in 1955. Adam Mickiewicz lived from 1789 until 1855. He was a poet of the Polish Romantic period who spent many years as an emigrant and during this time published the magazine "The Polish Pilgrim". The University Poznań is traced back to a college founded by Jesuits in 1611. Today 54,000 students are enrolled at this university. It comprises 14 faculties of humane discipline, natural and social sciences. It offers several correspondence courses and weekend seminars for the mainly working students of these faculties in seven regional studying centres outside of Poznań.

B Participants

Berlin

Students: Christiane Dippong
Jana Georgiew
Alexandra Hildebrandt
Saskia Krüger
Hannes Rehfeldt
Ljubow Safronski
Antje Schönherr
Matthias Zehler

Lectures: Prof. Dr. Heinrich
Bücker-Gärtner
Prof. Dr. Dörte Busch



Hochschule für
Wirtschaft und Recht Berlin
Berlin School of Economics and Law

Before April 2009



Gent

Students: Lis van Cauter
Caroline Delaere
Liesbeth Jong
Kate De Maeyer
Elke Rutsaert
Willy Vandendriessche
Jeffrey Vincent

Lectures: Prof. Dr. Bertel de
Groote
Prof. Dr. Frank Naert



UNIVERSITY COLLEGE GENT
MEMBER OF GHENT UNIVERSITY ASSOCIATION

Poznań

Students: Mateusz Grzelczyk
Joanna Kałużna
Eliza Kania
Agnieszka Kobiela
Elżbieta Maslak
Kamil Szymański
Elżbieta M. Stachowiak
Margareta Wysocka

Lectures: Mikołaj J. Tomaszuk
Dr. Cezary Trościak



Växjö

Students: Karolina Boberg
Peggy Hall
Linnea Holm
Johan Ljungstroem
Daniel Noregran
Kristina Pandurovic
Teresa Thoern
Erik Weijmar

Lecturer: Thomas Marten





The participants of IP 2009 in front of the building of the faculty



A part of the participants of IP 2009 during a break



The participants from Ghent





The participants from Berlin and Dr. Cezary Trosiak (UAM Poznań)





The participants from Poznań





The participants from Växjö



Students and lectures at work I



Students and lectures at work II



C Programme

ERASMUS Intensive Programme
International Workshop 15. -27. March 2009
at the
Adam Mickiewicz University Poznań (UAM)
Chairman: Prof. Dr. Heinrich Bücken-Gärtner (HWR Berlin)
Responsible at the host university: Dr. Cezary Trościak

“Welfare state at the risk? Comparison of social insurance systems in different European countries“

In cooperation with the following partner universities:

- University College Ghent, Belgium
- Uniwersytet im. Adama Mickiewicza w Poznaniu, Poland
- Växjö Universitet, Sweden

Programme

Sunday, March 15th, 2009

6:00 p.m. NH Hotel Naramowicka 150 61-619 Poznań	Arrival of the lecturers and students from Ghent, Växjö and Berlin Welcome-Meeting Reception of the guests by the Polish students and Mag. Mikołaj J. Tomaszuk Afterwards dinner in the hotel
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Monday, March 16th, 2009

10:00 a.m. Faculty for Political Sciences and Journalism (WNPiD) Umultowska Ul. 89a, 61-614 Poznan 10.45 a.m.	Reception by the Dean Prof. Dr. hab. Tadeusz Wallas and Dr. Cezary Trościak und Mag. Mikołaj J. Tomaszuk Ice-Breaking – joint integration game of the Polish students and the guests
11.00 a.m. WNPiD	Poznan is introducing itself M. Borowczyk (Tourist-Information Poznan) and Polish students
12:00	The Adam Mickiewicz University – yesterday, today, tomorrow (Marcin Wirkowski, AMU)

1:00 p.m. canteen	lunch
2:00 p.m.	Information on the setup of social security systems concerning the areas of pensions, health care and unemployment after the turnaround in Poland Dr. hab. Wojciech Nowiak (AMU)
4:00 p.m.	Enlargement of the presentation by statistic data and comparisons to other EU-states Agnieszka Kobiela and other students of the WNPiD résumé (Dr. Cezary Trościak)
8:00 p.m. City Centre of Poznan	Poznan at night tour under the guidance of the Polish students

Tuesday, March 17th, 2009

10:00 a.m. WNPiD	Social capital – introducing the sociological concept, empirical results as compared to international standards Dr. hab. Tomasz Brańka (AMU)
11:30 a.m.	Institutional responsibilities for social care on a local and regional level in Poland Bogdan Frąszczak (Municipality of Poznań)
1:00 p.m.	lunch
2:00 p.m.	The paradigm shift concerning the handling of unemployment in the United States and selected European countries since 1980 Prof. Dr. hab. Jozef Orczyk (University of Economics Poznań) résumé: Prof. Dr. Heinrich Bucker-Gärtner, HWR Berlin
4:00 p.m.	Development of the Polish social policy under the impact of the accession to the EU Presentation of the Polish group , complemented by Dr. Cezary Trościak
7:30 p.m.	Movie „ The Wave “, afterwards discussion on the misuse of social capital

Wednesday, March 18th, 2009

10:00 a.m. WNPiD	The German social insurance and the controversy on the activating state Presentation of the German group, complemented by Prof. Dr. Bücken-Gärtner afterwards discussion
1:00 p.m.	lunch
2:00 p.m.	The Swedish model of the welfare state Presentation of the Swedish group, complemented by Thomas Marten

Thursday, March 19th, 2009

10:00 a.m. WNPiD	The Lisbon strategy and the intended adjustment of social standards and social security systems in the EU Dr. Tomasz Szymczyński (AMU)
12:00	Separation into three different mixed groups and first discussion in the groups
1:00 p.m.	lunch
2:00 p.m.	The Belgian welfare state under the casting shadows of state reform and an ageing population Presentation of the Belgian group, complemented by Prof. Dr. Frank Naert afterwards discussion
6:00 p.m. Poznań Plaza	cinema

Friday, March 20th, 2009

10:00 a.m. Meeting point: Barka Foundation Poznań	Presentation of the rehabilitation projects for addicts in the „Barka Foundation“ and information on the formation and financing of the foundation as well as on the working focuses of selected projects (among others support of Polish working migrants in England) Presentation and guided tour by Barbara Sadowska afterwards discussion
1:00 p.m.	lunch

<p>2:00 p.m. WNPiD</p>	<p>Accomplishments of the Polish regional administration, especially in the areas family, children and youth presentation: Dr. Mariola Krupecka (regional administration Greater Poland)</p>
<p>5:00 p.m.</p>	<p>sight-seeing tour together with the polish hosts</p>

Saturday, March 21st, 2009

<p>10:00 a.m. Meeting point: hotel</p>	<p>Field trip to the remote station of the AMU in Gnesen and presentation of the specific study programme for improving the European competence in Polish local and regional administrations Mikołaj J. Tomaszuk (AMU)</p>
<p>2:00 p.m.</p>	<p>lunch</p>
<p>3:00 p.m. Gnesen</p>	<p>visit to the cathedral in Gnesen, speech on the historical meaning of Gnesen</p>
<p>4:30 p.m.</p>	<p>guided tour in the open air museum of Biskupin (Stone Age settlement)</p>
<p>7:30 p.m. Opera Poznań</p>	<p>visit to the opera (Rossini: The Barber of Seville)</p>

Sunday, March 22nd, 2009

<p>12:30 p.m. WNPiD</p>	<p>lunch</p>
<p>1:30 to 7:00 p.m. workshops</p>	<p>start of working in three internationally mixed groups on the topics of: 1. The demographic development as a challenge for the pension system guidance: T. Marten, M. Tomaszuk 2. Challenges and strategies for the European labour market policy; guidance: Prof. Dr. F. Naert 3. Health care system in the EU – a Utopian model; guidance: Prof. Dr. H. Bückner-Gärtner</p>

Monday, March 23rd, 2009

10:00 a.m. WNPiD	Tasks and methods of the petition committee of the European Parliament by the examples of incoming petitions Marcin Libicki (research assistant at the EU-Parliament)
12:00	Conversation with a member of the European Parliament
1:00 p.m.	lunch
2:00 p.m.	Problems of working mothers in Poland and governmental aid for this group presentation: Dr. Johanna Ratajczak (University of Economics Poznań)
6:00 p.m.	guided tour in the LECH brewery

Tuesday, March 24th, 2009

10:00 a.m. WNPiD	Continuation of the three workshops
1:00 p.m. canteen	lunch
2:00 to 6:00 p.m.	continuation of the three workshops

Wednesday, March 25th, 2009

10:00 a.m. WNPiD	Continuation of the three workshops
1:00 p.m. canteen	lunch
2:00 to 6:00 p.m.	Continuation of the three workshops

Thursday, March 26th, 2009

10:00 a.m. WNPiD	Summary of the crucial contents of the seminary by Prof. Dr. Heinrich Bückergärtner und Prof. Dr. hab. Jozef Orczyk (University of Economics Poznań)
12:00	lunch
1:00 p.m.	presentation of the results of the three workshops , presented by one of the students of each group

3:30 p.m.	evaluation of the seminary with all participants evaluation by the project managers
8:00 p.m. , Old Market Place of Poznań	lunch and farewell party

Friday, March 27th, 2009

8:00 a.m.	departure of the participants of Ghent, Berlin and Växjö
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D Country Reports

1 The Belgian welfare state under the casting shadows of state reform and an ageing population

Lis van Cauter, Caroline Delaere, Liesbeth Jong, Kate De Maeyer, Elke Rutsaert, Willy Vandendriessche, Jeffrey Vincent
Prof. Dr. Bertel de Grootte, Prof. Dr. Frank Naert

1.1 Introduction

In this document we will describe the impact of an ageing population on Belgian society. In the first part we will try to explain the Belgian state structure. This is a very complicated matter because Belgian policy is divided among several governments in several parts of the country. In the second part we give some figures and facts about the Belgian population. Especially the older population in Belgium, because like in most countries, it is ageing fast. Both this complicated structure and the rapidly ageing population have their influences on the Belgian Welfare State. This Belgian Welfare State consists of three big pillars: employment, pensions and health care. We will discuss these three parts in this paper. More precisely, we will discuss the impact of our complicated state structure and our rapidly ageing population on these three parts of the Welfare state.

The first part is employment where we will talk about the impact of the ageing population on employment and unemployment in Belgium. We will try to outline the current problems and the possibilities to solve them. In the second part we will discuss the impact of an ageing population on pensions. Here we will find many important problems since we have a lot of pensioners in Belgium but few working people who pay for those pensions. In the third and last part we will discuss about the impact of an ageing population on our health care system. The Belgian health care system is based on the solidarity principle, but the question is if it can stay that way, when we know that there are many more older people and fewer people to pay for their acute and long-term health care. The Western countries should work together to tackle the problem of ageing. This was the basic idea for the Intensive Programme 2009 in Poznan. Swedish, Polish, German and Belgian students discussed social politics during this Intensive Programme. This paper deals with the Belgian welfare state under the casting shadows of state reform and an ageing population.

1.2 The Belgium welfare state

a) The social-economic evolution of Belgium

The welfare state is a universal concept, but the realizations are connected to the specific cultural and ethnic backgrounds of the individual states.³ The start of

³ Free translation from Deleeck, H., (2007), De architectuur van de welvaartsstaat opnieuw bekeken

Belgium as a country dates back from 1830 when it was set up as a hereditary monarchy.

We used to be part of the Netherlands, but the French speaking elite didn't agree with the language politics of King Willem I (he wanted to introduce Dutch as the official language). So after the king's refusal of a separation of the administration between the South and the North of the Netherlands, we declared ourselves independent. From the start the set-up was very asymmetric: a monstrous alliance was created between the Liberals and the Catholics.

The contrasts between a rather liberal Wallonia in the south of the country and an explicit catholic Flanders in the north, with respectively Walloon and Flemish as their dialects, made policy making from the start rather difficult.

Although more than fifty percent of the population spoke Flemish, French became the only official language. This linguistic division has always played, and still does play, a big role in Belgian politics. The various state reforms that Belgium has known during its history were meant to deal with the problems created by the linguistic divide.

b) State reforms

Belgium as a unitary state was doomed to fail. To prevent further conflicts, Belgium has gone through several state reforms. The result is that Belgium has become a federal state with a complex structure of organisation. Crucial are the language laws which were voted between 1872 and 1963. They acknowledged French, Dutch and German as the official languages of Belgium, whereas before that period only French was an official language. The Flemish people wanted more than that. Cultural autonomy was their first aim and thus the first state reform in 1970 established the French, Dutch and German cultural communities.



The second state reform took place in 1980 and transformed the cultural communities into plain communities: the Flemish community, the French-speaking community and the German-speaking community. It also constituted the Flemish Region and the Walloon Region.

In 1988-1989 a third state reform gave shape to the Brussels-Capital Region and in 1993 the regions and communities attained their full powers whereby Belgium became a federal state." The first clause of the first article in our Constitution which used to say: 'Belgium is divided into provinces' was amended to: 'Belgium is a Federal

State which consists of Communities and Regions'."⁴

⁴ Portaal Belgium.be, (2009)

The latest state reform took place in 2001. The Lambermont Agreement (*het Lambermontakkoord*) transferred certain competences to the regions and communities and the Lombard Agreement (*het Lombardakkoord*) altered the working of the Brussels institutions.

But the state reforms aren't over yet! The sixth state reform has been postponed till after our regional elections in June 2009, because Belgian politicians weren't able to gain any results. Flanders wants the competences on labour, housing and health service to be transferred to the regions. In return the Walloons demand the expansion of Brussels. This was the main cause for the latest government crises.

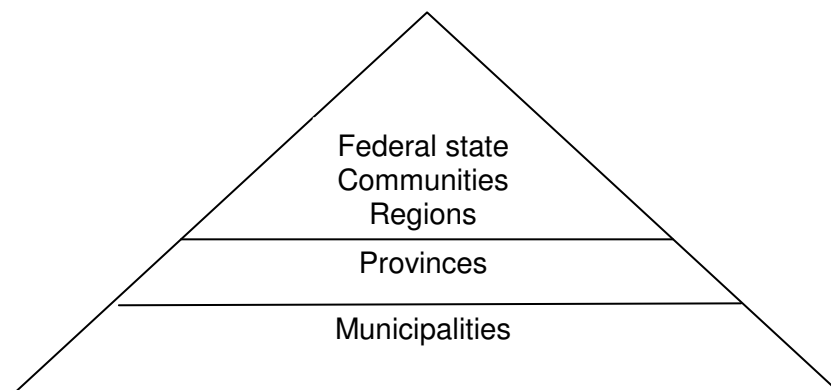
c) Brussels-Capital Region

Brussels is situated on the borderline between Flanders and Wallonia. It originally was a city of the province of Brabant where Flemish was the dialect spoken there. But when Brussels became the capital, the Frenchification was unstoppable, mainly due to immigration. Nowadays, there are still political issues about the constituency of *Brussel-Halle-Vilvoorde*. Most Flemish political parties want *Brussel-Halle-Vilvoorde* to be split, because Brussels is a bilingual electoral and legal district where the inhabitants can vote for Dutch-speaking and French-speaking political parties.

1.3 Belgium, a federal state

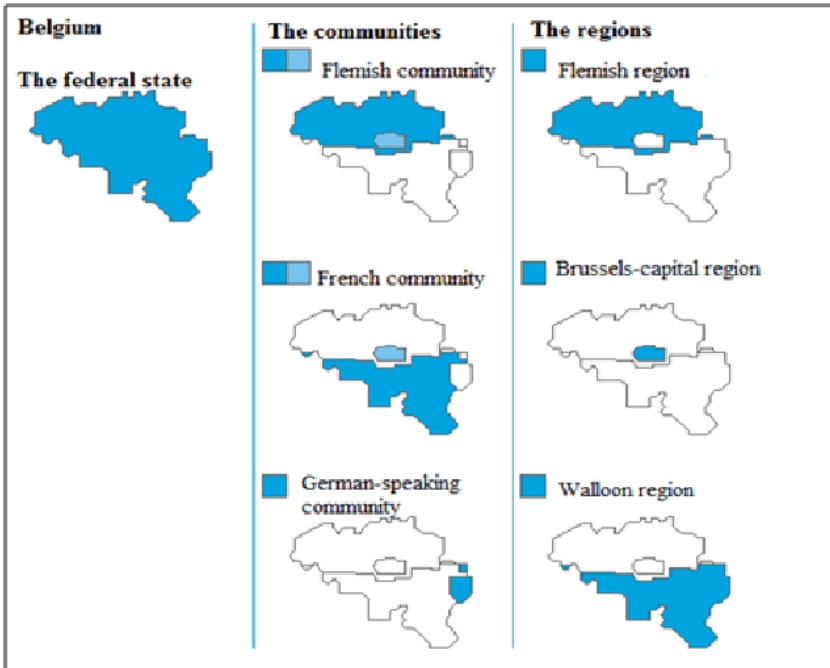
As mentioned earlier, Belgium went through several state reforms, transforming Belgium into a federal state. Nowadays the Belgian government has a complex structure on three levels: the upper level comprises the federal state, the communities and the regions, the middle level is occupied by the provinces, and the lower level is that of the municipalities.

Belgian governance is a combined action between those different governmental levels. They complement each other. To understand Belgian governance, it is important to understand the structure of the upper level: the federal state, the communities and the regions.



Art. 1 of the Belgian constitution states: Belgium is a federal state, composed of the communities and the regions.

The federal state, the communities and the regions are all three equal from a legal point of view. They are on an equal footing but have powers and responsibilities in different fields of governance. The autonomy of the communities and the regions can clearly be seen in their power to declare legal norms and in the absence of a hierarchy between those norms and those of the federal government. The municipalities and provinces operate under the supervision of the regions.



A big problem is the difference between communities and regions. The difference lies in their origin. Communities refer to the persons forming the community and to the alliance, which unites them. This last element refers mainly to the language and culture. Regions find their origin in the wish for more economic autonomy, which was originally a request from the Walloons. The difference between communities and regions is to be seen in the subdivision of the legislative powers between the federal government, the communities and the regions. This topic will be further explored under the subtitle, 'The subdivision of legislative powers'. Belgium is divided into 10 provinces, 5 Flemish provinces and 5 Walloon, which are under the supervision of the regions. The provinces exercise the guardianship over the 589 Belgian communes with regard to their administration.

As stated earlier, Belgian governance is a combined action between the different levels of governance. To understand the equality and division in the upper level it is important to understand the structure of the executive and legislative branches of the federal government, the communities and regions. Each government has its own executive and legislative branches. The federal government also consists of both an executive and legislative body.

The Flemish community and the Flemish region have merged into one competent body. This means that they have just one executive and one legislative body. The French community and the Walloon region did not merge into one government. The Walloon region hosts the German-speaking community and a part of the

French-speaking community. This means that the community competences in Brussels are not hosted by the Walloon region but stay with the French-speaking community only. Those competences are related to the competence involving the person-related matters for the French-speaking population in Brussels.

For Brussels, other arrangements had to be made. To secure the interests of both the French- and the Flemish-speaking population in the capital, both the French-speaking and the Flemish communities have to take care of the interests of their people.

a) The subdivision of legislative powers

The federal state still holds important powers such as foreign affairs, national defence, justice, finance, social security and important parts of health care and domestic affairs.

Communities exercise competences within linguistically determined geographical boundaries. Those competences are related to culture (including audiovisual media), education, the use of the mother tongue language and matters relating to the individual which concern on the one hand health policy (curative and preventive medicine) and on the other hand social assistance to individuals (protection of youth, social welfare, aid to families, immigrant assistance services, etc.) They also have responsibilities in the field of scientific research within the scope of their power and the international relations again associated with their powers.

The regions were funded because of the desire for more economic autonomy. Their competences lie therefore in fields that are connected with their territory in the broadest meaning of the term. They have legislative powers relating to the economy, employment, agriculture, water policy, housing, public works, energy, transport (except Belgian Railways, which is a federal competence), the environment, town planning, foreign trade, supervision of the provinces and communes and nature conservation. Just like the communities, they have powers relating to scientific research and international relations in those fields.

In many fields there is an overlap between the different levels. They each have their own specificities. For instance in the field of education, the autonomy of the Communities does neither include decisions about the compulsory aspect nor set minimum requirements for awarding qualifications, which remain federal matters. And as mentioned earlier, each level can get involved in scientific research and in international relations associated with their powers.

The assignments of the provinces are related to maintaining the public discipline, environmental planning, maintenance of the routes and controlling plagues.

The assignments of the communities are related to the maintenance of public discipline, organizing elections and they play socially an important role because of the fact that each community has its own public centre for social services (OCMW). This public centre is established by the Flemish government and is administered by local municipalities. The financing comes partly from the government and from the local municipalities.

Social security is regulated by public law but it is not owned by the state, because non-governmental institutions are responsible for the administration and a large part of the implementation is carried out by private non-profit organizations. In the following part, you will find which government is responsible for the regulations and with social organisations implement those rules and provide the social service in question.

b) The subdivision of competences related to pensions

The federal government is responsible for the regulation, the distribution and the foreseeing of a pension for every Belgian citizen. To that end in total three separate offices for pensions were created in our country, namely the national office for pensions (*rijkdienst voor pensioenen, RVP*), the office for pensions for government employees (*pensioendienst voor de overheidssector, PDOS*) and the national institute for the social security of the self-employed (*rijksdienst voor de sociale verzekering der zelfstandigen, RSVZ*). Other actions for taking care for the ageing population are under the legislative powers of the communities and the communes, for instance for providing homes for the elderly.

The pensions in Belgium are paid for by the contributions the person has made during their active work life. For people who, due to circumstances, worked only up to two thirds of a normal active work life the federal government foresees a minimum pension. This minimum pension is paid for by social security contributions of all Belgian citizens. A normal pension is calculated and based on the wages obtained during the active work life. It normally consists of 60 percent of the salary but has a maximum ceiling.

The federal government promotes working longer for older people by, for instance, providing a financial bonus which comes on top of the normal pension.

c) The subdivision of competences related to unemployment

The regulations related to unemployment are divided under the different Belgian governments. The federal government is responsible for the creation of the national employment office (NEO) (*rijksdienst voor arbeidsbemiddeling, RVA*). The NEO is a federal organization of social security, in charge of unemployment insurance. Through the years, the NEO has been given a whole series of new missions to accomplish. The most important ones regard the career break, time-credit, early retirement and the activation of the unemployed.

They also have important new missions concerning the Generation Pact⁵ (*generatiepact*), such as a premium for people who re-start to work and pseudo

⁵ Because of the current demographical movement, there was the urge to renew the governments view on employment. The Generation Pact is a mission statement of the Belgian government containing 66 arrangements about the employment of young adults, incentives for actively growing old, and a new social contract for a strong and united social security.

Vlaams Parlement, Generatiepact,

<http://www.vlaamsparlement.be/vp/informatie/informatieek/portalen/welzijn/generatiepact.pdf>

early retirement taxes. The communities can also take some initiatives in this field, for instance in promoting the employment of people over the age of 50 by offering a financial support to the companies that employ them. They also play a role in the training and the follow up of unemployed people. This is done, for instance, by the Flemish service for job seeking support and occupational training (Vlaamse dienst voor arbeidsbemiddeling en beroepsopleiding, VDAB).

d) The subdivision of competences related to health insurance

Most of the Belgian population has nowadays access to affordable health care. To use the medical services, Belgian citizens have to undertake several steps to get a social security insurance. This is an obligatory arrangement by which employers and private sector workers have to contribute to the financing of the social security. All the health care workers are controlled by the federal government and have to live up to certain norms and standards, such as the deliverance of quality care. The non-medical expenses are regulated by the communities, especially homecare or residential care. For instance, the Flemish Care Fund controls the care insurance. It recognizes, subsidizes and controls the care services. And it organizes the financial reserves, set up with an eye on a future ageing population. Health services are also delivered by the communes through the public centre for social well being (OCMW). They provide medical services in hospitals, home care and residential care.

e) Social security

The principles of social security

As earlier stated the Belgian social security is not owned by the state nor implemented by the state. This indicates that Belgium has a Continental or Bismarckian type of social security system. This means that the system of social insurance is not set up as a 'nation's insurance', meaning that the contributions and the transfers do not pass through the government budget. It is however set up by the so-called social partners and determined by the kind of occupation and the person's employment contract. The system is characterized by proportional contributions and proportional payments, and supplemental private insurance is possible.

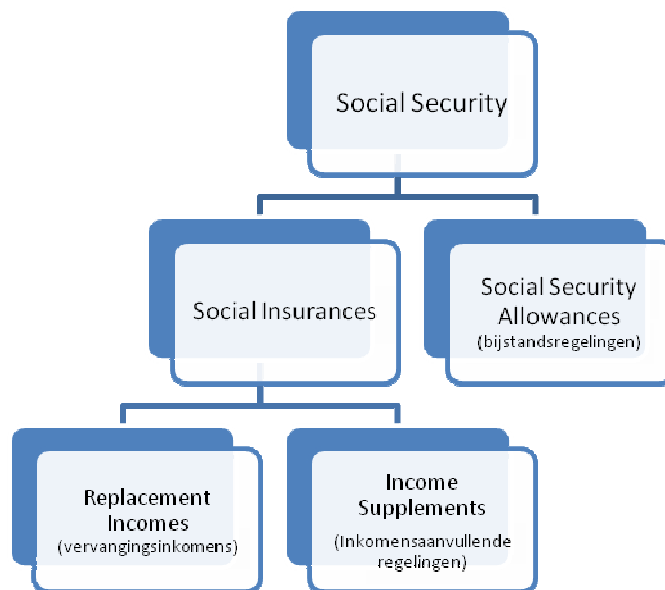
Also belonging to this category are the German, French, Polish, Italian and Spanish types of welfare states. The UK, Ireland and Denmark belong to the Anglo-Saxon or Beveridgian type: national insurance with fixed contributions and taxes, through the budget, and a supplemental insurance.

In reality, Belgium is slowly transforming into a more Anglo-Saxon or Beveridgian type of social security system where a part of the social security is paid by the government budget. The rest of the social security is financed by the contributions of employees and employers.

The Belgian social security system can be divided into two parts: Social Insurances and Social Security Allowances.

The social insurance system aims to overcome social risks like income loss resulting from illness, motherhood, age, work-related accident, unemployment etc. The system offers a replacement income or an income supplement.

A replacement income is offered in case of a total income loss due to earlier mentioned inconveniences like sickness, age and unemployment. The payment of a replacement income is linked to your former wage and is proportional. Your pension for example contains 60% of your former wage. But, this proportionality is weakened by minimum and maximum margins. In other cases income supplements are foreseen. These are fixed amounts of money. They alleviate large expenses that are difficult to bear, for instance expensive medical care.



To have a right to claim Social Insurance, you must comply with several conditions. For instance, it is only possible to obtain a full pension when you have had a career of at least 45 years.

People who fail to comply with the required conditions have another social safeguard, the Social Security Allowances. Those allowances are not paid out of the individual social security contributions but out of tax money. These payments are allocated after an investigation into the means of the person in question. This investigation is done by the public centre for social services (OCMW). Besides, the law foresees additional help, financial or otherwise, through an OCMW that has the official task to take care of social integration.

Belgium has 4 types of social security allowances: the right to a subsistence-level income, the guaranteed income for the elderly, contributions for the disabled and the guaranteed child benefit. Those apply when you cannot claim social insurance benefits. For example, the right to a subsistence-level income is realized by an OCMW in the shape of a 'life minimum wage' (*leefloon*). These Public Centres for Social Welfare are located in every local community.

Social security is based on the insurance principle. However, it is slightly softened by the solidarity principle: the recognition of the right to a subsistence-level income for everyone, paid by everyone and it thus contains a Beveridgean element in an otherwise Bismarckian system.

The solidarity principle in social insurances works in different directions: horizontal, vertical and intergenerational.

With private assurances you have to pay a higher contribution if you run a larger risk. But with social security, the contributions are levelled out: everyone pays the

same percentage. This is the horizontal solidarity. For instance, someone who is low-skilled will pay, in proportion to his wage, the same contribution as someone who is highly skilled, even though the risk to unemployment is larger for the unskilled person. Everybody is the same and has to contribute the same (proportion of his wage).

Vertical solidarity assumes solidarity between people with higher incomes and those with lower incomes. People with a higher income will contribute more to social security, but will not receive more in case of need.

Intergenerational solidarity means that social security obliges the active population to support the ones who aren't active any more. This is especially relevant for the pension system. The technique used in Belgium is the one of repartition. Until 1945 one had to save up for one's pension individually. This repartition (pay as you go principle) technique finances the pensions by contributions of the working people, deposited in a common fund. So pensions are not paid out of what was saved individually earlier, but out of what is contributed now. This pay-as-you-go principle will be further explained under the subtitle 'Pensions'.

The implementation of social security

The role of the social partners is extremely important. Social security has grown out of a compromise between two different interests, those of the employers and those of the employees. That is why our social security is controlled '*paritair*', both interests are equally represented. They have funded our social security system en finance it themselves by contributions.

They have various ways of influencing policy. First of all, they have the competence of recommendation in the NAR, which is the National Labour Council (*Nationale Arbeidsraad*), where social organisations of employees and employers are represented. The social partners also govern the institutions of our social security. They have the status of a functional decentralized committee: they work autonomous towards, but under supervision of the government.

The flow of money in our social security is realized by almost every Belgian in two ways. First of all through social security contributions paid straightforward to the fund of social security and through taxes of all sorts, which fill the public fund. This general public fund subsidizes the social security.

The social security contributions are regulated through three different systems: the system for employees, the one for public servants and regularization for self-employed persons.

1.4 The ageing of the Belgian population, facts and figures

a) Die belgische Bevölkerung in der Vergangenheit, Gegenwart und Zukunft

In this part, we take a look at the age of the Belgian population at the current moment and in the past.

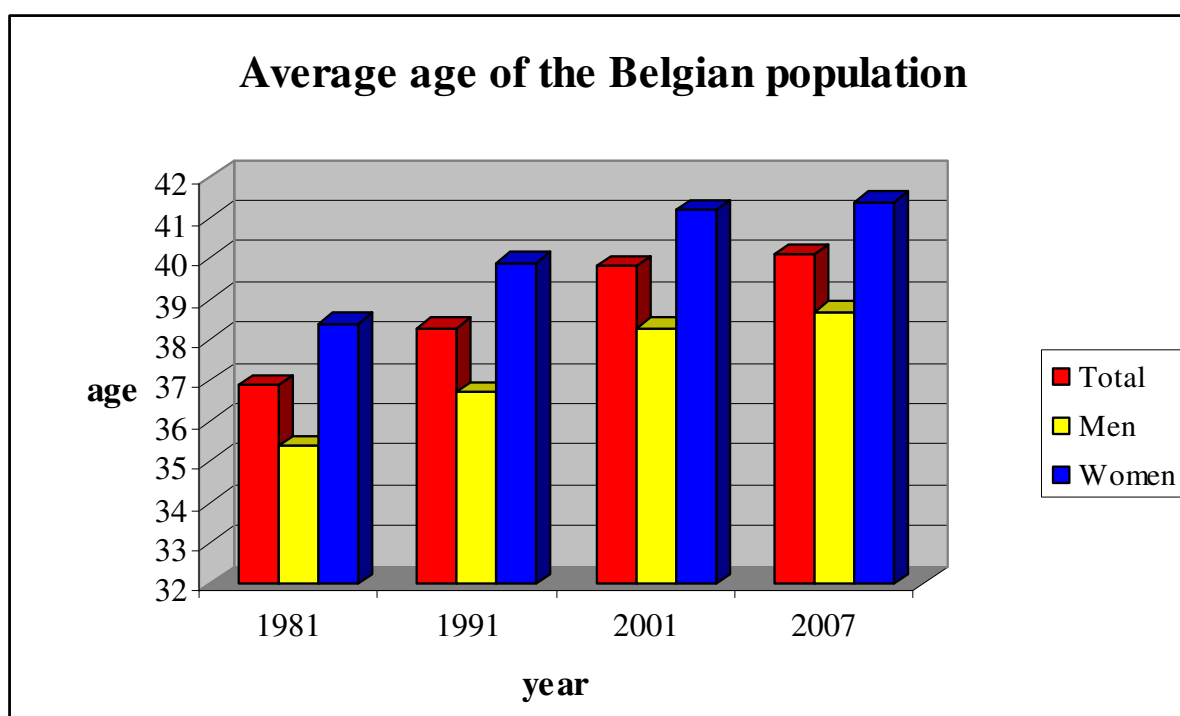
In the first table and graph below, we notice that over the past years, the age of both men and women has increased. We see that over a period of approximately 20 years, the average age of the Belgian men has increased by 3.3 years. Over

the same period, the average age of the Belgian women has grown by 3 years. In total, this means an increase of 3.2 years. In general, we notice that the average age of women is higher than the average age of men.

This is due to the fact that the life expectancy of women is higher than the life expectancy of men. This is not something typical of Belgium.

Average age of the Belgian population			
	Total	Men	Women
1981	36,9	35,4	38,4
1991	38,3	36,7	39,9
2001	39,8	38,3	41,2
2007	40,1	38,7	41,4

(Table 1: Average age of the Belgian population)



(Graph 1: Average age of the Belgian population; Source: www.statbel.fgov.be)

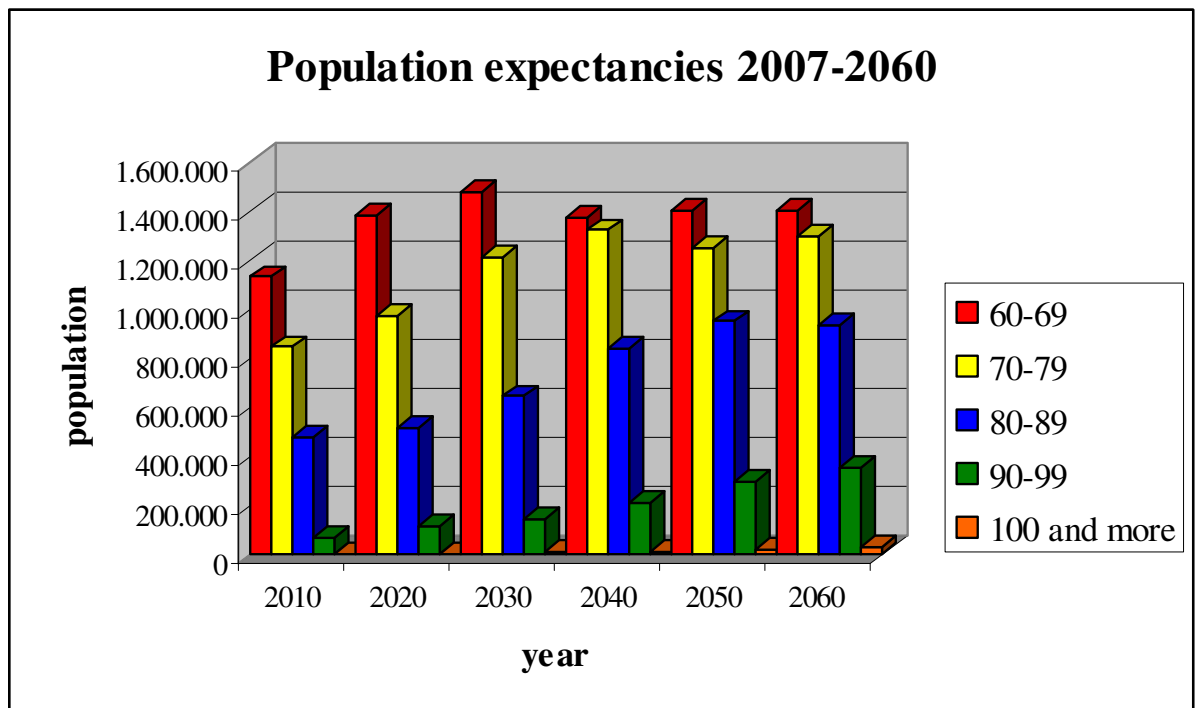
In 1881 approximately half of the population (420 per 1000) were children. In 2008 this is only 240 per 1000. There are more men and women who are between 40 and 60 years old. This is due to the huge increase in births after the Second World War. A further observation is that in 1881 the structure of the ages of men and women were approximately the same. This in contrast to 2008, where we notice more younger men than women and more older women than men.

The statistics of the Belgian government predict the population expectancies from 2007 till 2060. Between 2010 and 2060, the number of people in all these groups of ages increases. A quick calculation tells us that the number of people between

60 and 69 grows by 80%, which is the fastest of all. The number of people of 100 and more grows by 6% which is the slowest but still very remarkable.

Population expectancies 2007-2060: ageing of the population, per age group						
Age	2010	2020	2030	2040	2050	2060
60-69	1.134.328	1.391.650	1.485.583	1.377.429	1.408.751	1.410.168
70-79	847.022	974.432	1.219.328	1.325.621	1.253.231	1.304.417
80-89	480.344	516.646	647.559	845.326	954.198	941.511
90-99	66.594	118.818	142.305	207.820	293.783	354.288
100 and more	1.568	3.675	7.571	10.260	17.321	27.496

(Table 2: Population expectancies 2007-2060; Source; www.statbel.fgov.Be)

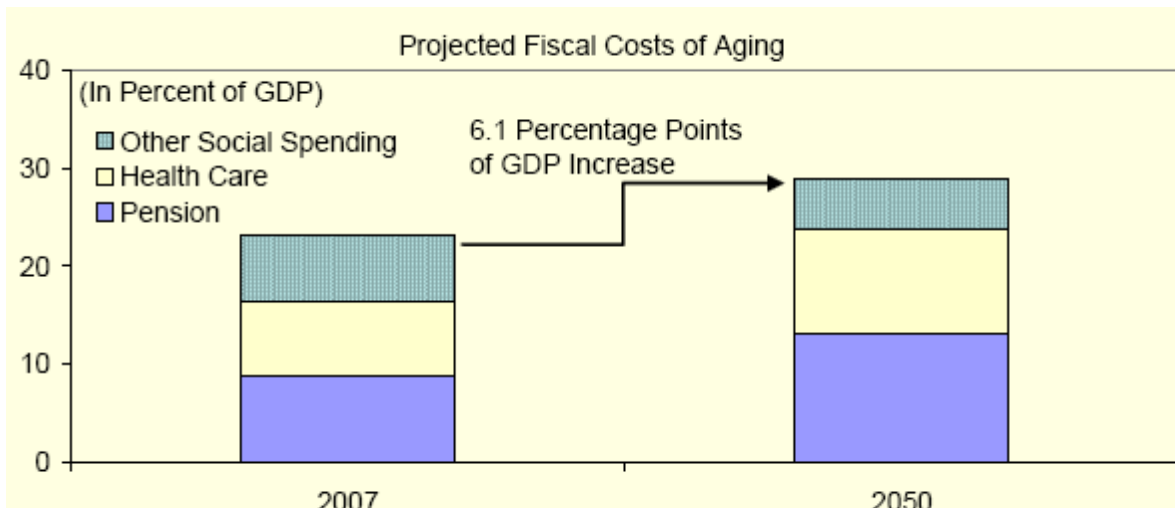


(Graph 2 : Population expectancies 2007-2060; Source: www.statbel.fgov.Be)

b) The budgetary costs of ageing

The problem of a rapidly ageing population and, especially, the high rate of the early retired workers is contributing to a significant increase in budgetary costs. In this part we want to show what effect these developments will have on the budgetary costs.

The next graph shows us the budgetary costs of ageing in 2007 and 2050. We can clearly see that the total costs of ageing will increase. This increase is due to the big increase in spending for health care and pensions.



Graph 3: Projected fiscal costs of Aging; Source: Study committee on Aging, High council of Finance)

The previous graphs gave us a very general look at the budgetary costs of ageing. But let us now take a closer look at the budgetary costs of ageing. Therefore, we use the figures of the SCoA (the Study Commission on Ageing) from the High Council finances. The table below shows us the latest figures on the costs of ageing (2007) and a prediction until 2050.

We notice that most money is spent on pensions, mostly workers pensions, and health care, mostly acute health care. Both pensions and health care will increase considerably. The share of pensions will grow from 8.8% in 2007 to 13.5 in 2050. The share of health care will increase from 7.0% in 2007 to 10.4% in 2050.

When we have a look at the bigger picture, we notice that ageing in general covers 22.6% of the GDP in 2007 (GDP is the value of all produced goods and services of a country per year). This amount will also see a big growth: from 22.6% in 2007 to 28.9% in 2050.

All the other components of the fiscal costs of ageing will decrease during the next years. The greatest decrease can be found in the costs for unemployment. This decrease in unemployment benefits is caused by the lower level of the unemployment rate in 2007. There are more young people and this slows down the decrease in family allowances, and to a lesser degree the introduction of the yearly age allowance for certain age categories. There's also a decrease in the costs of early retirements. Unfortunately this is not a big improvement because the number of early retired people is very large in Belgium.

According to new estimations of the study commission on ageing the budgetary costs seem to grow more substantially in the medium term. This will have important consequences for public finances. The higher budgetary costs of ageing in the medium term are explained by the following elements:

- A lower economic growth
- A greater difference between the evolution of the flattened health index (applied on the social expenses) (= the average value of the health index in the past 4 months) and the GDP-deflator (measures the current prices compared with the prices of the previous year).

- New measures (compared with the year before) take 0.1 % percentage point of the growth of the costs of ageing at their expense.
- The new population expectancies have not quite changed the consequences of ageing.

The long term fiscal costs of aging - in % of the GDP, according to the SCoA-scenario and in comparison with the scenario of June 2007							
Components of the fiscal costs of ageing	Scenario of the SCoA of June 2008						
	2007	2013	2030	2050	2013- 2030	2007- 2030	2007- 2050
Pensions	8,8	9,5	12,3	13,3	2,8	3,5	4,5
- workers pensions	4,9	5,2	6,8	7,4	1,6	1,9	2,5
- Pensions of the self-employed	0,7	0,8	0,8	0,8	0,1	0,1	0,1
- State pensions ^a	3,2	3,5	4,7	5,1	1,1	1,5	1,9
Health care ^b	7,0	7,8	8,9	10,4	1,1	1,9	3,4
- Acute care ^c	6,1	6,8	7,5	8,2	0,8	1,4	2,2
- Long-term care ^c	0,9	1,0	1,3	2,1	0,3	0,5	1,2
Disability	1,3	1,3	1,2	1,1	-0,1	0,0	-0,1
Unemployment	2,0	1,9	1,3	1,2	-0,6	-0,7	-0,8
Early retirement	0,4	0,4	0,4	0,3	0,0	-0,1	-0,1
Family allowances	1,6	1,5	1,3	1,1	-0,2	-0,2	-0,4
Others ^d	1,7	1,7	1,6	1,5	-0,1	-0,1	-0,2
Total	22,6	24,1	26,9	28,9	2,8	4,3	6,3

a including the pensions of the state-owned companies

b public expenditure for health care and long-term care

c the long-term health care includes home care, homes for the elderly, psychiatric care and initiatives for assistance in the daily living. The acute care includes all the rest

d especially the costs for industrial accidents, occupational diseases and funds for revenue base

(Table 3: The long term cost of Ageing; Source: report of the Study Commission on Ageing from the high council of finances (2008))

c) Poverty reduction for the elderly by means of pension and social assistance: a retrospective

Today we live in what seems to be an 'outdated society'. This gives certain problems. Besides the pay ability of the pensions we also have to concern ourselves with the protection of the social objectives of the pension system. To stand firm and, where necessary, improve the legal pensions is a first and fundamental requirement. The legal pension system is the most important instrument to limit the poverty of the elderly. If, hypothetically, there were no pensions, more than 9 on 10 of the elderly would run the risk of living a life in poverty.

In 2003, approximately 20% of people aged 65 and above were faced with a poverty risk compared with 13% of the rest of the population. This means that they have an income that lies under the poverty line⁶. Elderly women and singles run the largest risks of poverty. From an analysis of "Rijksdienst voor Pensioenen"

⁶ In 2003 this was 777 euros per month

concerning the average of the lowest pensions, it becomes clear that the lowest average pensions are the pensions of the self-employed, women and the oldest of the elderly.

The past decade it seems that the poverty risk has increased for the elderly, while this remains rather constant for the rest of the population. In the pension system there are some mechanisms which guarantee, under certain conditions, a minimum income. Only those retired people who have built up at least two thirds of a complete career, can apply for a minimum pension. Especially self-employed persons enjoy the minimum pension.

The elderly who do not reach a certain income level are entitled to social assistance ("IGO" or "inkomensgarantie voor ouderen" which is Dutch for "income guarantee for the elderly") after undergoing means testing. Mainly single elderly women apply for this. For more than 80% of the IGO-beneficiaries the benefits are a supplement on their pension. Especially self-employed persons who have retired complete their pension with the IGO.

The past decades this assistance has followed the evolution of the purchasing power but it lagged behind the prosperity development (1985-2000). In 2001 a thorough adaptation of the system⁷ was followed by later regular prosperity adaptations, which will be followed by more adaptations in the future. In spite of these adaptations the maximum IGO-benefits still lie under the poverty threshold of 2005.

1.5 The impact of an ageing population on employment

Belgium's unemployment rate was 7.8% (=373,000 people) in 2008. A total of 4.46 million out of 10.6 million Belgians make up the labour force. The majority of these people (73%) work in the service sector. Belgian industry claims 25% of the labour force and agriculture limps behind with 2%. As in other industrialized nations, the activity rate has become of major importance as the "baby boom" generation approaches retirement.

As already mentioned, Belgium is divided in three regions. The general labour market situation in these areas varies widely: Flanders scores best with 6.9% unemployed, while there are 13.3% jobless Walloons and 19.9% unemployed people in Brussels. Belgium stays with an activity rate (i.e. the percentage of people at working age (15-64) who are actually employed) of 62.0% far below the EU -27 average of 65.4%. When we compare the activity rate of people between 15 and 64 with other European countries, we could conclude that for example Sweden (74.2%) and Germany (69.5%) are much better students, while Poland (57.0%), like Belgium, still has a lot to change. But Belgium's problems go much further. This country is in the leading group of European countries with respect to early retirement. On average, workers drop out of the labour force at the age of 60.6 years. International standards tell us that this is a rather low level.

High labour productivity has afforded Belgians the luxury of working shorter hours and retiring earlier than do most other Europeans, while still enjoying a standard of living in line with the EU average. As a result, only 30% of Belgians aged 55 tot 64

⁷ Passage of guaranteed enters for elderly people ("GIB") to "IGO".

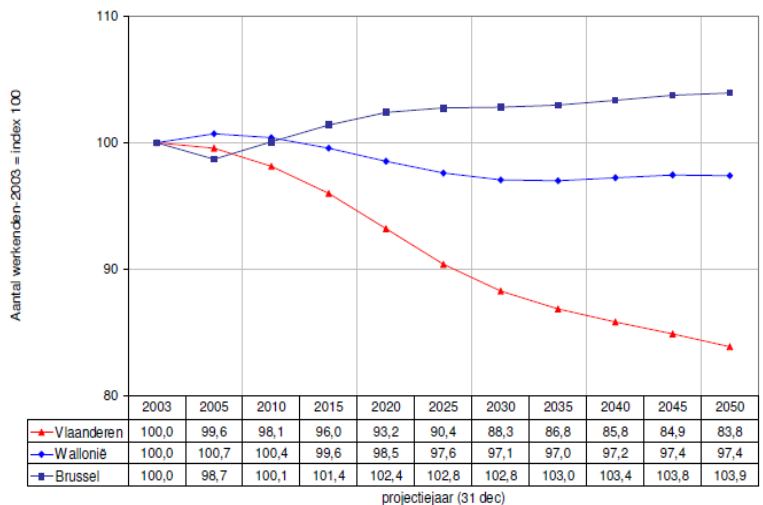
years still works. This is a far cry from the Lisbon strategy objectives. This strategy was designed with the aim to “make Europe, by 2010, the most competitive and the most dynamic knowledge economy in the world”. One of the goals to achieve this target is a 50 percent employment rate of the older population (people aged 55–64).

So, Belgium has to discourage early retirement, not only to reach the Lisbon standards but also to ensure the country’s social security system. “Like most Western countries, Belgium faces a demographic squeeze as fewer workers contribute to GDP and to the government’s coffers at a time when the burden of supplying older people with costly pensions and health care needs, is growing”. For Belgium the retirement of the baby boom generation is more like a baby bomb. Time is ticking; employment is a key factor in facing the ageing problems. In the next paragraphs we will sketch the Belgian labour market situation, then take a closer look at governmental actions and possible measures to get Belgians back to work and lastly a conclusion will be made.

a) The evolution of the Belgian working population; 2004-2050

Evolution working population by region, in comparison with 2003.

Source; NIS Population figures 2005-2050



In this chart people of working age are between 20 and 64 years old. In 2004 3.62 million Flemish citizens could be placed in this category. If we take a look at the estimates for 2050, one could conclude that the number of people in this category will shrink in the future.

Bron: NIS FAK & Bevolkingsvooruitzichten 2005-2050: herwerking APS

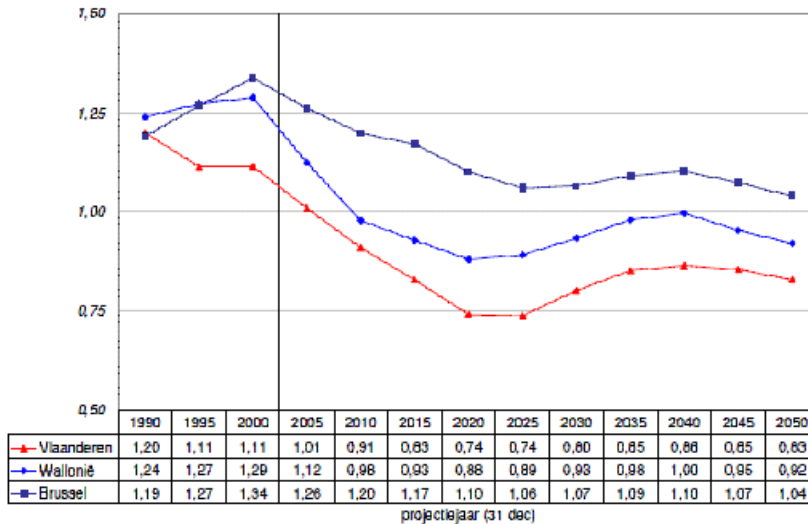
(Graph 4: Evolution working population by region; Source: Nis EAK, bevolkingsvooruitzichten 2005-2050, APS)

Initially, the Flemish activity rate will rise until 2010, with an extra 70,000 units as compared to the base-level in 2000, which is a rise of 2%. We see a subsequent slump after this period. By 2020 it’s necessary to take into account that the working population has shrunk since 2000. By 2040 this drop will represent 350,000 units or a plunge of 10%. Brussels and Wallonia on the other hand, go in the opposite direction. The percentile growth of labour-age in these regions will stay higher initially and the population at working age is, as one can see on the chart, always more numerous than the base-level 2000. These evolutions will

result in a lower Flemish share of the Belgian population at working age, from 58.3% in 2004 to 54.5% in 2050.

Stream potential working population $[P(15-24\text{years})/P(55-64)]$

Source: NIS Population Statistics 2005-2050



The next chart shows us that the active population is growing older in labour-age. This means that the employed between 40 and 64 will become more numerous in comparison to those in their twenties and thirties. The ratio of 40 to 64 – year olds and the 20 to 39 – year olds was 1.25 for Flanders at the end of 2003.

(Graph 5: Evolution working population by region; Source: Nis EAK, bevolkingsvooruitzichten 2005-2050, APS)

Scientists estimate that this ratio will grow till 1.43 in 2010, to edge down after 2020.

b) Employment; possible solution for the ageing problem

Belgian citizens, who do have a job, work five days less a year than the EU average. The productivity of Belgian workers is 10% higher than that of their US counterparts and 20 percent better than the EU average, but productivity growth is waning and won't be enough on its own to tackle the demographic challenge.

The policy initiatives to tackle this problem can take the form of a holistic strategy, which means a complete programme covering all aspects or that can be more dispersed through a set of different measures. They can be implemented at different levels (national, regional, local) and involve different actors (government, social partners, individual companies).

The Belgian government has developed a plan to ensure the social security system. Part of this project is the Belgian Intergenerational Solidarity Pact. This contains about 30 instruments intended at discouraging early retirement, without altering the legal retirement age or current benefits already granted. Measures embrace limiting the number of people taking early retirement, motivating employers to retain or hire older workers as well as making early retirement less attractive for both workers and employers.⁽⁴⁾ Convincing more Belgians to work longer and creating more jobs will be vital to support the ageing population. Creating more jobs, while improving productivity, isn't easy. Belgian politicians, employers, union leaders and the 10.6 million people will have to rally around a

programme for change that promotes a favourable climate for economic growth. The government needs to build awareness of the importance of this age group for the country's economy.

A major shift in attitudes to working at an older age will be required on the part of both employers and older workers themselves. Companies have in the past restructured their pension schemes both to encourage early retirement and to maintain peace with the unions. The result is that for many employees, the effective pension age is 58 years, well below the legal pension age of 65. Older workers must be given appropriate help and encouragement to improve their employability. All those older than 55 may well have to receive help in finding work, including part-time jobs, suited to their talents and needs.

Older workers face a number of difficulties keeping their jobs. On the side of employers negative perceptions about their capacities to adapt to technological and organisational change and a non-wage labour cost that rises more steeply with age than productivity. The rush of older workers to retire early is surprising. For one thing, the old seem healthier than ever before. Although several studies report that blue-collar workers and less-qualified workers are more likely to retire earlier than white-collar workers and more highly-qualified workers. Older workers themselves may experience a depreciation of their human capital but they may not be very motivated to take up available opportunities for training on the other hand.

The OECD points out that older workers who lose their job often face considerable difficulties finding a new job and they thereby often face potential large wage losses. On average according to the OECD, the hiring rate of workers age 50 and over was less than half the rate for workers aged 25-49.

The most recent reform to retirement incentives was introduced into the Belgian system in early 2007. As a result of the Intergenerational Solidarity Pact negotiated between the social partners and the government in late 2005, employees working beyond the age of 62 or beyond 44 years of career can benefit from a pension supplement. The pension bonus, of an amount of 2 EUR per day worked beyond these limits, augments the annual benefit payable, and this independently of the wage earned or the contributions accumulated. As such, it can be seen as a much stronger relative incentive for lower-wage earners than for higher-wage earners. Other measures to encourage employment and so tackle the ageing troubles, could be for example by reducing the high labour taxes, which discourage the creation of new jobs. Simplifying regulations, which speeds up bureaucratic procedures, targeting a sustained productivity growth, and no further reduction of working hours are also necessary reforms. A flexible infrastructure and international connection can help to create jobs and so prevent unemployment too.

What Belgians also need to do is to do away with an strong and long sustained myth. The IMF points out that "While reasons for incentives towards early retirement can be multiple, one prominent justification often encountered is that giving older workers an incentive to leave the labour market frees up space for younger workers. The idea that forcing elderly workers out of the labour market before the statutory age of retirement would provide jobs for the unemployed young has been for a long time widely accepted in several European countries,

particularly in Belgium where youth unemployment is high and has tended to increase in recent years from 15 percent in 2000 to 20 percent in 2005. (...) The youth unemployment rate is about three times higher than the adult unemployment. (...) In this rapport the IMF concludes that (...) first, theoretically one knows that there is no foundation for the idea that there would be such a thing as a fixed lump of labour implying that less elderly workers means more young workers. Second, the nature of youth unemployment in Belgium is such that it is pretty insensitive to variations in labour demand, but it is rather the result of structural weaknesses in the areas of education, unemployment compensation and wage formation.”

c) Belgian legislation

We've already mentioned The Belgian Intergenerational Solidarity Pact and the pension supplement incentive in 2005. The Belgian legislation contains many more stimuli for the employment of older people than those measures. Already in the eighties, a system of a partial interruption of the career has been introduced in Belgium which gave the employees the possibility to reduce the number of working hours for a maximum of five years without losing their social security rights e.g. pension benefits of a fulltime work regime. They were partially compensated for the income loss by the remitting of a government allowance. At the end of 1990s, this restriction was somewhat loosened, to be finally abolished in 2001. The Fund for the Promotion of Quality of Working Conditions was established in 2002. It grants subsidies to employers that take specific actions to improve the working conditions for their employees older than 55 years. The federal government created a special fund of EUR 5 million to subsidise these employers.⁸

Other, smaller measures have been taken; in this country it may be more expensive for firms to lay-off older workers because of longer notice periods or higher severance pay. Secondly, since the reform of 2001, people have received a higher pension for deferring their retirement after 60 in the public sector, up to 9% by the age of 65. Another reform is that women's pension ages have risen from 60 to 65 to conform to men's. This is one of the measures to tackle discrimination. Fourth, to encourage elderly employment the law also provides that an employer who hires job seekers aged 50 or over, and who had been unemployed at least six months, can claim a 50% reduction in their social security contributions, for the first year following recruitment, and thereafter employers can get a 25% reduction for an unlimited period. A fifth but less successful example is that of the Belgian federal government introducing a Time Credit scheme that gives workers over the age of 50 an indefinite subsidy to switch from full-time to part-time. However, while this may encourage some older workers to delay their retirement plans, it may encourage many other workers to also switch to part-time work who, in the absence of this scheme, would have continued to work full-time. Thus, there is a risk that this type of measure could reduce rather than increase older people's effective labour supply.

⁸ Devisscher, 2004; OECD, 2003: 11

d) Belgian debt burdens

Despite all the efforts to reduce our debt made during the past decade we still have one of the highest debt burdens in Europe, at 92 of our GDP at the end of 2006. The debt burdens the Belgian public finances, with 3.7 % (2008) of our GDP spent in interest charges. This heavy debt trouble can be seen as an opportunity to create money as most ageing costs could be covered by its decrease. "The zero deficit assumption presents a challenge, however, because of the high investments that are required today in order to reach our employment and productivity targets. The most obvious way to free up the financial means necessary is through a reduction in government expenses. Secondly, we could do something against the black market, which is huge in Belgium. Hundreds of thousands of people work in this shadow economy and they don't contribute to the social system."⁽⁷⁾ So the affordability of the social system is not the only thing affected by the ageing movement. It also has a dramatic impact on growth and living standards, as the world's most productive countries become the oldest. By 2040, as the OECD estimates in a working paper, the rise in the ratio of dependent old to working young may be reducing Europe's growth by half a point.

e) Conclusion

To conclude, one could say that Belgian policy makers have become susceptible to the problem, and since the eighties, initiatives have been taken to reform early retirement systems to create incentives for employers to recruit older persons and to stimulate age awareness Human-Resource-Management. This is necessary because being conscious of our complex situation is the first step to combat ageing problems. The Belgian nation's population will become greyer, especially in Flanders there'll be a decline of the active labour population. Belgium has high youth unemployment figures and early retirement numbers. We'll have to learn with trial and error how to activate more people for a longer period. Positive incentives for employees as well as employers are crucial, as honey catches more flies than vinegar. Employment is one of the keys to deal with the challenges of the 21st century. Belgium has already made useful legislation but there is still much room for improvement. Perhaps conferences as this Incentive Programme can contribute to one's power to cope with the problems of ageing. Different countries could learn a lot from each other's ideas and policies, from their experiences. It is important to translate them into research and evaluation studies. One of the trendsetters is the OECD; Belgium isn't standing alone, numerous countries are in the same situation.

1.6 The impact of the ageing population on pensions

Nowadays people live longer and longer. As a result, they also use the pension system for a longer period. The retirement age is set on 65 years. That age was determined in the assumption that a man reached the average age of 70 years. That way, a person benefited from his pension for almost five years. Meanwhile the life expectancy has grown to 78 years. Nowadays a person lives on their almost thirteen years.

Imagine a situation where a person earns a monthly gross salary of 3,000 EUR, until the age of 65. As from his 65th year, he will earn a monthly net salary of 2,100 EUR (about 70 percent). Per year after that age, he receives approximately 23,000 EUR of the pension fund.

23,000 EUR x 13 years = 299,000 EUR. That is a lot of money!

Belgium has two methods to provide in this financial cost. On one hand we have the so called 'repartition'. This method implies the situation where the current pensions are paid by the current working people. There is a kind of solidarity between two generations. But it will be very difficult to maintain this financial method in a future where the number of working people decreases and more and more people retire. In order to solve the problems of the repartition, one could suggest decreasing the current pensions. But that is impossible, because Belgium has already one of the lowest legal pensions of West-Europe.

So a solution was found in the form of the 'Silver Fund'. With the Silver Fund Belgium creates a kind of financial reserve to add to the legal pension. The money in the silver fund comes from budget surpluses, surpluses in social security, from one-off non-tax incomes (for example the privatisation of government companies) and also yields of the Silver Fund investments. The funding of the Silver Fund however has been delayed. In 2007 and 2008, budget surpluses were booked. Also for 2009, in the middle of an economic crisis, the budget will remain in deficit. We also do not have to count on extra one-off incomes. If the legislation does not change, the cumulated capital within the next decade will not be 3.5 percent of the GDP, but only 1 percent. And we will not have it until 2035, but only until 2025.

Beside the legal 'repartition' method, we also have the capitalization method. With this method the employee contributes to a fund by which he will be paid when he is old. This can be organized in group (the employer saves money for his employees) or by an individual insurance. This arrangement is fiscally very advantageous, but not obliged.

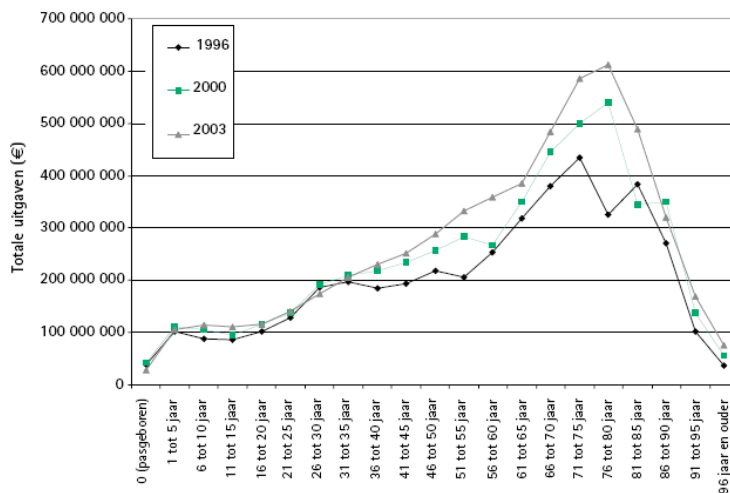
An assessment of the sustainability of pension systems should take into account the adequacy of pension benefits. However, the sustainability and adequacy of pensions are two sides of the same coin. It is becoming increasingly clear that the assessment of sustainability is not very meaningful without considering current or prospective developments in adequacy, and vice versa.

1.7 The impact of the ageing population on health insurance

The ageing of the Belgian population is one of the many challenges which we will have to face in the 21st century. One of the most fundamental questions that concerns each of us is how we can possibly continue financing the costs of health care taking into account the problem of ageing.

In the following paragraphs we try to outline which impact the ageing of our population has and will have on the health care system. The ageing process consists mainly of two components. On the one hand there is the strong growth in life expectancy. On the other hand, most industrialised countries experience a declining fertility, i.e. a declining annual number of births.

This growing life expectancy and diminishing fertility rate are definitely the causes of the population's greying.



The ageing of the population has consequences for the health care expenses.

A recent survey indicates that average health costs increase according to age and this rise is most explicit at the age of 65 to 80. The danger is that health care spending will start rising exponentially with the number of elderly people.

(Graph 6; Source: de vergrijzing, een collectieve uitdaging, Hervé Avalosse, Koen Cornelis, Christian Léonard, Rebekka Verniest)

a) The Belgian health care system

Most of the Belgian population has access to affordable health care nowadays. But in order to use the medical services, the Belgian citizens have to undertake several steps to get a social security insurance.

- The first condition is that all the citizens have to join or register with a health insurance fund or a regional service.
- Secondly the right to health care starts only when contributions have been paid and these contributions equal a minimum. If the contributions do not equal the minimum amount, payment of additional contributions will be required to preserve the medical care.
- Normally, you have to wait 6 months before your medical costs can be reimbursed, but this rule has become rather an exception.

We can say that the Belgian health care system is an obligatory arrangement in which employers, employees and the state have to contribute to the financing of the social security. Concerning the organization of Belgium's health care, it is spread over three levels. The first and biggest part is organized by the federal government

A second part, much smaller, is organized by the communities. They organize the non-medical care such as residential and trans mural care. A very small part of health services is also delivered by the municipalities through the public centre for social services (OCMW). They provide medical services in hospitals, home care and residential care.

Componenten van de budgettaire kosten van de vergrijzing	Entiteit I					
	2006	2012	2030	2050	2006-2030	2006-2050
Pensioenen	8.6	9.1	12.3	13.2	3.7	4.6
waarvan pensioenen van entiteit II	1.2	1.4	1.9	2.1	0.7	0.9
Gezondheidszorg	6.2	6.9	8.2	9.5	2.1	3.4
- acute zorg	5.4	5.9	7.0	7.6	1.6	2.3
- langdurige zorg	0.8	0.9	1.2	1.9	0.4	1.1
Arbeidsongebekwaamheid	1.2	1.3	1.1	1.0	-0.1	-0.2
Werkloosheid	2.1	1.8	1.2	1.1	-0.9	-1.0
Bruggpensioen	0.4	0.4	0.4	0.4	-0.0	-0.0
Kinderbijslag	1.5	1.3	1.2	1.0	-0.3	-0.5
Overige sociale uitgaven	1.1	1.1	1.1	1.1	-0.1	-0.1
Totaal	21.1	21.9	25.4	27.3	4.3	6.1
p.m. bezoldigingen van het onderwijzend personeel	0.0	0.0	0.0	0.0	-0.0	-0.0
Componenten van de budgettaire kosten van de vergrijzing	Entiteit II					
	2006	2012	2030	2050	2006-2030	2006-2050
Pensioenen van de overheidssector	1.4	1.6	2.2	2.3	0.7	0.9
waarvan ten laste van entiteit I	-1.2	-1.4	-1.9	-2.1	-0.7	-0.9
Gezondheidszorg en sociale bijstand	0.7	0.9	0.9	0.9	0.1	0.1
Vlaamse zorgverzekering	0.1	0.1	0.1	0.1	0.0	0.0
Kinderbijslag	0.1	0.1	0.1	0.1	-0.0	-0.0
Overige sociale uitgaven	0.5	0.5	0.5	0.5	0.0	0.0
Totaal	1.7	1.8	1.8	1.9	0.1	0.1
p.m. bezoldigingen onderwijzend personeel	4.0	3.8	3.6	3.7	-0.3	-0.3

(Table 4: Source: report of the Study Commission on Ageing from the high council of finances (2006))

Concerning the organization of Belgium's health care, we mentioned above that it is spread over three levels. The biggest part of health care is organized by the federal government. We can see that health care on federal level is about 6.2 % of the GDP. At the second level, the expenditure of the communities for health care is just 0.7% of the GDP. So concerning health care costs we can say that the federal level is the most important one.

b) Different types of health care in Belgium: an overview

Within the Belgium health care system there is also a division in acute and long time care. Acute care is for example a visit to a doctor or a dentist. How does the system work? If you go to a doctor or you receive any other medical treatment, you first have to pay the full amount in exchange for a medical certificate. After you have received the medical certificate, you take it to your insurance institution (health care fund) which partly refunds you. The insurance refund in the costs of medical treatment varies primarily with the nature of the treatment and the situation of the insured person.

In most cases the amount is not refunded entirely. You often have to pay a lump sum yourself, which is called the patient fee. Generally, this is about 20% to 25% of the total fee. In the acute care there is also a system of maximum billing because in some cases the patient fee can still be very high, for example in the case of a long-term illness or a serious illness. It is a system that guarantees the family that only a fixed amount of the medical costs has to be paid.

Concerning the pharmaceutical costs, Belgians do not have to pay the full amount at the chemist's, because the reimbursement rates are applied directly.

The other type of health care is long-term care. Within the long-term care, there is also a subdivision.

The Belgian system for pension care distinguishes two major types: homecare services, or extramural services on the one hand, and residential reception centres, or intramural services, on the other hand. A few services include homecare as well as residential care, known as trans mural care.

The homecare facilities for elderly people in Belgium offer a wide variety of services, including family care, local and regional service centres, daytime nursing, child-minding service, organised and spontaneous volunteer aid, home nursing, cleaning help, ergo therapy and physiotherapy at home, warm meals, help with household chores, alarm systems,...

The other type is trans mural care, offered in daytime nursing centres or in so called service flats.

These are centres which temporarily take care of elderly people. Both services are offered by homes for the elderly (ROB: Rustoord en bejaardentehuizen) or nursing homes (RVT: Rust en verzorgingstehuizen).

The service flat is a form of sheltered accommodation adjusted to the needs of elderly people, where independent living is most important but the inhabitant can always count on help. He or she is self-supporting and can do his or her daily activities. If not, the partner or volunteer caretaker takes responsibility for the care.

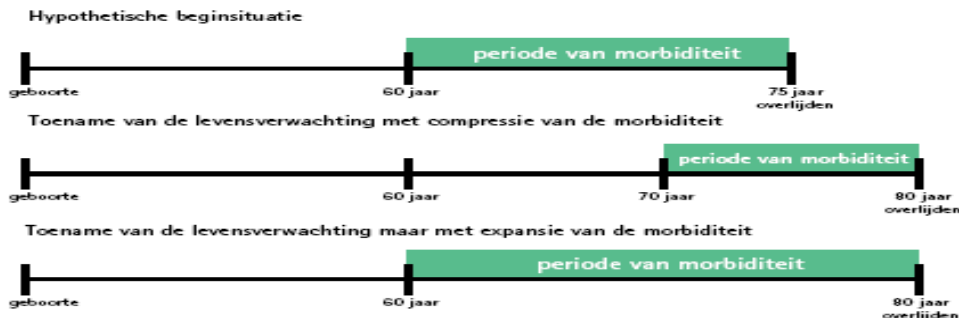
The residential care, the third type, is provided in the homes for the elderly and nursing homes. The ROB tries to offer accommodation to dependent elderly people for whom care at home is no longer sufficient. This type of accommodation can be recognized as an RVT too, whose most important task is "serious care." Elderly citizens suffering from a long lasting disease and strongly depending on the help of others to do their daily activities can count on help of the RVt, physically or psychologically.

c) How to measure the impact?

How can the impact of a higher life expectancy on health care costs be measured? Age is definitely the most important factor to calculate health costs but it's not the only factor.

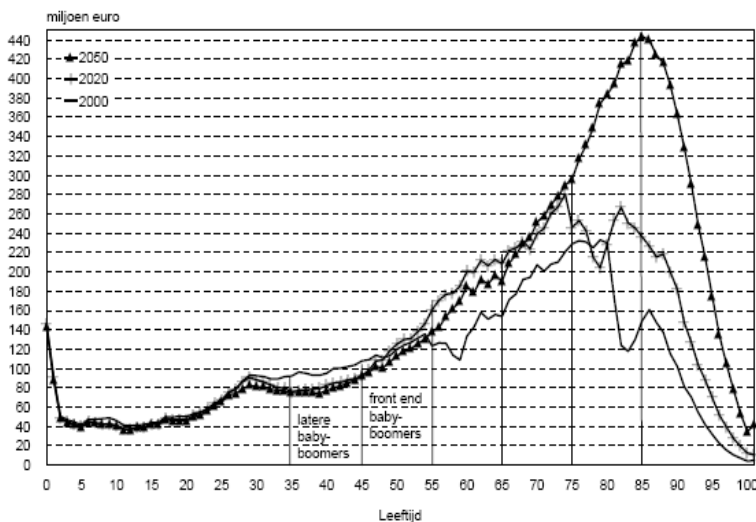
Graph 7 shows two hypotheses:

The first one hypothesis is that life expectancy is indeed growing but linked with less years of illness. Fewer years of illness means less expenditure, and so no increase in budgetary costs.



Graph 7 source: sheshamani M., The impact of aging on health care expenditures Office of Health Economics:

In the second hypothesis it is assumed that life expectancy is lengthened but with more years of illness. So more years of illness, i.e. more people who are ill because life expectancy is higher, means a substantial increase in health care costs. Therefore, age does play a role in health care spending as far as it has an impact on health condition.



Graph 8: Source: calculations Pacolet and Cattaert (HIVA-K.Uleuven)

This age limit is important because at that moment a significant part of the population in industrialised countries has reached the retiring age. Moreover, during the retiring age the risk of having health problems rises considerably.

A second important age limit is 75, because then a lot of elderly people have to face one or the other limitation and – as mentioned earlier- especially those limitations and illnesses due to ageing cause these higher expenses. The third and

Nevertheless, age in itself remains a dominating factor. In order to outline the impact of the greying process on health care and to prove that age is indeed important, we refer to three important references ages, namely 75, 85 and, particularly, the age of 65.

last age limit is that of 85, because at that age the mortality figure grows drastically: one in two persons will have died then.

Concerning health care spending, the share of health care for elderly people compared to the global health care increased from 35 per cent up to 47 per cent between the mid-80s and the end of the 90s. Consequently, the costs for health care have risen drastically. If this trend continues, it is predicted that this figure will rise up to 53 per cent in 2020 and even up to 65 per cent in 2050.

On graph 8 above, we can situate two consecutive generations, the 'early' baby-boomer born between '45 and '54 and the 'late' baby boomers, born between '55 and '64. It is exactly this generation which has reached the age between 35 and 55 at the moment. Within 11 years (in 2020) this group will have reached the age of 55 to 75. On the graph it is clear that the expenses for this group will rise exponentially with age.

The highest costs at that moment, however, are for the generations which precede the baby boomers, the so called "interbellum" generation, which will have reached the age of 80+ in 2020. In 2050, the baby boomers won't pay the highest costs as they have reached the age of 85+. As mentioned above, one in two people will have died at that age. In 2050, the larger part of spending will be spent on the following generation. In literature this generation is described as the echo-baby boomers.

The previous paragraph indicates that health care benefits the three consecutive generations. It contradicts the statement that a generation gap, due to ageing costs, will be caused. Each of these three generations can benefit from the social system's advantages, without clashing.

d) The budgetary costs of ageing

What are now the global costs of ageing in the future?

In order to answer this question, Belgium has established a commission (the Study Commission on Ageing) that has to study and to estimate the budgetary and social consequences of the ageing process. The establishment of the commission was required by the Act of 5 September 2001 concerning the foundation of the Silver Fund.

In the previous paragraphs it was already pointed out that the health care expenses have spectacularly risen within a period of 20 years. In the study commission's report of 2006, the evolution of long lasting care for elderly people is described. What follows, is more specific information concerning the ageing process.

The table at the next page shows us that the cost for acute health care is a lot higher than the cost for long term care. The difference between acute and long term care was explained above (b).

The figures from the federal planning bureau show that the expenses for home- and residential care have but doubled in the period between 1996 and 2003, for example the expenses for residential care rose from 663 million euro up to 1,216

million euro. Home care follows the same tendency: there spending increased from 385 million euro to 571 million euro.

The long term fiscal costs of aging - in % of the GDP, according to the SCoA-scenario and in difference with the scenario of June 2007							
Components of the fiscal costs of ageing	Scenario of the SCoA of June 2008						
	2007	2013	2030	2050	2013- 2030	2007- 2030	2007- 2050
Pensions	8.8	9.5	12.3	13.3	2.8	3.5	4.5
- Workers pensions	4.9	5.2	6.8	7.4	1.6	1.9	2.5
- Pensions of the self-employed	0.7	0.8	0.8	0.8	0.1	0.1	0.1
- State pensions ^a	3.2	3.5	4.7	5.1	1.1	1.5	1.9
Health care ^b	7.0	7.8	8.9	10.4	1.1	1.9	3.4
- Acute care ^c	6.1	6.8	7.5	8.2	0.8	1.4	2.2
- Long-term care ^c	0.9	1.0	1.3	2.1	0.3	0.5	1.2
Disability	1.3	1.3	1.2	1.1	-0.1	0.0	-0.1
Unemployment	2.0	1.9	1.3	1.2	-0.6	-0.7	-0.8
Early retirement	0.4	0.4	0.4	0.3	0.0	-0.1	-0.1
Family allowances	1.6	1.5	1.3	1.1	-0.2	-0.2	-0.4
Others ^d	1.7	1.7	1.6	1.5	-0.1	-0.1	-0.2
Total	22.6	24.1	26.9	28.9	2.8	4.3	6.3

a including the pensions of the state-owned companies

b public expenditure for health care and long-term care

c the long-term health care includes home care, homes for the elderly, psychiatric care and initiatives for assistance in the daily living. The acute care includes all the rest

d especially the costs for work-related accidents, occupational diseases and funds for revenue base

To give a better insight into the causes of the growth in residential care, we have to split up these expenses in a volume component and a price component. The volume component represents the number of days elderly people spent at a ROB or RVT. The price component indicates the costs divided by the number of days spent at a ROB or RVT.

The table 5 (next page) shows us that the ROB expenses remained relatively stable, contrasting sharply with the RVT expenses which almost tripled in eight years' time. This evolution can be explained mainly by a more efficient policy but it is especially due to a rising number of elderly people living in residential care (= volume effect).

So the Study Commission tried to estimate the budgetary cost of ageing, by calculating the growth of social spending between two periods as a percentage of the Gross National Product. Thereby assumptions had to be made about the evolution of economic growth and unemployment. Within less than 30 years, health care expenses and social security will definitely represent a remarkably bigger share in the gross national product.

TABEL 18 - Evolutie van ROB- en RVT-uitgaven (in duizenden EUR) opgesplitst in een prijs- en volumecomponent (in duizenden)

	ROB			RVT		
	Uitgaven	Volume	Prijs	Uitgaven	Volume	Prijs
1996	370,766	28,645	12,9	292,311	6,747	43,3
1997	354,397	28,341	12,5	276,156	6,608	41,8
1998	364,949	28,794	12,7	357,068	8,261	43,2
1999	371,172	27,620	13,4	443,130	8,760	44,0
2000	356,722	25,237	13,3	520,389	10,532	44,4
2001	386,367	25,400	15,2	653,687	12,442	52,5
2002	393,895	24,839	15,9	731,115	14,352	50,9
2003	378,268	23,787	15,9	838,153	15,890	52,7

Table 5 : Evolution Rob and RVT-expenses ; Source: IMA, KCE,BFP, KUL(2005)

The Study Commission makes projections for two time horizons: the impact of ageing in the medium term (more specifically 2007-2013) and in the long term (being 2007-2030).

The budgetary costs of ageing in the medium term

The table above shows us that the costs for health care for the period 2007-2013 will rise by 8% of GDP. The other social expenses remain relatively stable.

The expenditure for health care is the expected expenditure, but not to the standard, which postulates an increase of 4% in real terms. The expenditure includes an extension of the obligatory cover of small risk for self-employed. In 2009 and 2010, the expenditure for health care will increase.

The budgetary costs of ageing in the long term

The expenditures on long term (report study commission 2008) stay relatively stable compared to the earlier reports. The costs for health care will increase by 1.9% of the GDP for the period 2007-2030 and it will even increase by 3.4% of the GDP for the period 2007-2050.

In the new long term projections of the study commission for Ageing, the health care is divided in two big parts: acute and long term care. In the report of 2008 we can see that the subdivision has changed. The expenditures for acute care are based on the GDP per capita, and GDP doesn't increase that much in comparison with other projections. Because of that the difference with the GDP growth increases. The increase in the expenditures, expressed in terms of the GDP, is less high in the new estimates. The increase in the long-term care on the other hand is higher because of the larger group of people with the age of 80 and older. It is this age category that has the biggest need for this care type. We can say that

the Belgian health care is undergoing an evolution from a system of acute care to a system of long term care.

1.8 Conclusion

Belgium is a federal state with a complex state structure and linguistic situation. The social economic 'Gordian knot' has grown throughout history. Six state reforms haven't made it easier to understand our political environment.

The Social Security system for Belgian employees is also complicated but not without logic. It's a system of the Continental or Bismarckian type. It can be divided into two parts: the Social Insurances and Social Security Allowances. The Social Insurances are used to overcome social risks, but when people do not comply with the required conditions for Social Insurances, they can apply for the Social Security Allowances.

In addition to this complex structure of our country and our social security system, the Belgian population is growing older very fast. Figures have shown us the huge problem of the mass retirement of the baby boom generation. In Flanders we will have a decline of the active labour population. The labour force participation of people between 55 and 65 is too low. Belgium has also high youth unemployment figures and early retirement numbers.

Those figures have taught us that we need to undertake actions to ensure the future of our social security system. We need to undertake action with regards to the unemployed as well as with regards to the pensioners. The Belgians will have to change their view on work and they will have to work longer. There'll need to be a change in attitude for both employers and employees. Both have to realise that you're never too old to learn and the market should be open for older workers. Pension age should become 65 not only in law but also in reality.

But also our health system is threatened by the ageing problem. The Belgian health care system is an obligatory arrangement in which employers, employees and the state have to contribute to the financing of the social security. Within the Belgian Health care there is also a division in acute and long-time care. But both types of care will be overburdened in a future with more older people, because age is the most important factor to calculate health costs.

In order to know the total budgetary costs of the ageing, Belgium set up a study commission (the Study Commission on Ageing) that has to study and estimate the budgetary and social consequences of the ageing process. We might hope that being aware of the problem and trying to solve it (by trial and error) will guarantee us a brighter future. But let's hope above all that the theorem of *Mignon McLaughlin* "The time to begin most things is ten years ago" doesn't apply to Belgium.

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2 The German social insurance and its recent reforms

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2.1 Introduction

The German system of social insurance was set up at the end of the 19th century and for a long period had been an international example. The former Chancellor of the German Empire, Fürst Otto von Bismarck, convinced the German Emperor to introduce a system of social insurance for the workers. By doing this he intended to weaken the social democracy and to strengthen the voters of the conservative parties for the elections of the German "Reichstag" (parliament).

First of all he introduced

- the health insurance of the workers (1884)
- the accident insurance of the workers (1885)
- the pension insurance of the workers (1891)

White-collar workers got access to these social insurances only in 1911; the unemployment insurance was introduced in 1927. In 1985 a nursing care insurance was added.

Social insurance is based upon a pay-as-you-go system, the contributions are related to the income of the employees. The costs for the accident insurance are paid by the employers only; the other insurances are financed by the employers and employees in equal shares. There is a specific body of laws on social insurance, called „Sozialgesetzbuch“; it consists of 12 parts. Social insurance is administered by certain organizations of "indirect" governmental administration. These are public bodies, only controlled by the state in case they violate the law. The managements of these organizations usually consist of representatives of the employers' associations, the trade unions and the government in equal shares. The organizations of social insurance are featuring strong corporatist elements. The managements have great autonomy and can determine their own regulations having almost the characteristics of a law. The scope of these regulations is determined by the *Sozialgesetzbuch*.

The pension system has only one organization, the "*Deutsche Rentenversicherung*" (German Pension Insurance); being equipped with about 20 subsidiaries. The unemployment insurance also has only one organization, the "*Bundesagentur für Arbeit*" (Federal Agency for Employment); it is divided into 14 regional organizations; in each administrative district and each big city there is at least one agency easy to be reached by every citizen – the local "*Agentur für Arbeit*". A so-called "job center" is responsible for long-term unemployed people or people who obtain unemployment benefit II. This organization is still provided commonly by the „*Agentur für Arbeit*“ and the local administration. In 2010 there will be a change for the „job centers“, as the Federal Constitutional Court decided, that the existing

cooperation between a municipality and a federal organization is not accordant to the constitution. But the current coalition is not able to come to an agreement regarding the required reorganizing of the job centers.

The legal accident insurance is only valid for accidents at the workplace and on the road between one's home and the workplace. It is also valid for students at schools and universities as well as for kindergartens and daycare centers for children below the age of 3 years. The individual branches of trade, commerce and industry as well as government agencies have their own accident insurances. The contributions are related to the risk of the activity and to the wage bill of the company.

The legal health insurance has about 200 different organizations, consolidated into 8 umbrella organizations, amongst them the general local sickness funds, the association of employees' health insurances and the companies' health insurances. These three umbrella organizations are responsible for about 85% of the insured persons. Today everybody is free to choose his health insurance, in former times the membership was related to the belonging of one's employer. The health insurance companies are also concerned with the nursing care insurance.

2.2 Health insurance

Legal health insurance was the first social insurance to be introduced. In the beginning it was only valid for blue-collar workers. Later on white-collar workers and self-employed got access, too. In the beginning white-collar workers and self-employed had the only possibility to conclude a private insurance for their risk of becoming sick. Therefore today there are still a legal health insurance (*Gesetzliche Krankenversicherung - GKV*) and a private health insurance (*Private Krankenversicherung - PKV*). About 85% of the Germans are insured by the GKV and only 14.8% by the PKV⁹. The most essential difference is that only 44% of the GKV-insured are paying contributions (i. e. 56% are non-contributory members), but the PKV consists of contributory members by 100%¹⁰.

The contributory rate of the GKV is dependent on the income and not on the risk¹¹; it is paid by the employers and employees¹². Unemployed persons and children are insured in a non-contributory family insurance, i. e. the GKV contains a redistribution component. Moreover, it is pay-as-you-go-financed and not backed for the future demographic development¹³. Therefore the decreasing number of employees, that have to finance more and more medical costs, is a big burden for the system of the GKV.

Since 1st January 2009 every citizen of Germany must have a health insurance. Self-employed, public servants and employees earning high wages (more than 4.050 € per month) can choose between the GKV and PKV. Those insured by the

⁹ http://www.bpb.de/themen/EM53VQ,0,Gesundheitspolitik_Lernstation.html

¹⁰ <http://www.abc-der-krankenkassen.de/PKV/pkv.ht1.gif&imgrefurl>

¹¹ Die aktuelle Beitragsbemessungsgrenze liegt bei 3.675€ monatlichem Bruttoeinkommen

¹² <http://www.krankenversicherung.org/>

¹³ <http://www.bonus-finanzen.de/html/2krankenversicherungen.html>

PKV must also insure their children there. Unemployed and adults without any income are insured by the PKV. The government pays their contributions.

In the PKV all the contributions are individually calculated and related to the risk¹⁴; it is raised a different amount for each person¹⁵ for making provisions and being forearmed for the demographic developments.

The insured person pays the costs for the medical treatment on his own and is reimbursed by the PKV according to the regulations of his individual contract. Contrary to the GKV the PKV bears in general more medical costs for medicine, cures, aids and appliances, alternative medicine¹⁶ as well as the accommodation in 1- or 2 bed-rooms in case of a hospital stay. Costs for dentures are reimbursed up to 80%. Basically, the PKV has to reimburse every service that is medically necessary and has to offer at least the same services as the GKV according to the base rate of January 1, 2009.

For all persons insured by the GKV the insurance services are rendered in form of allowance in kind. Doctors, hospitals and pharmacies obtain the money for their services by the GKV. There is no transparency of costs for the patients. The GKV provides all medically necessary services by doctors, dentists and hospitals. Basically aids and appliances, cures and medicine as well as nursing care at home and rehabilitation are part thereof. Furthermore, in case of long sickness the employees receive a replacement income.

However, there are certain limitations of the GKV, which do not exist with many contracts with the PKV. The GKV does not bear the costs for glasses and bears only 50 – 65% of the costs for denture. For treatment at a doctor's or dentist's you have to pay a fee of 10 € per quarter year. In addition, patients have to pay a certain amount for a hospital stay or for medicine, aid and appliances and cures on their own. The medical service providers collect this money directly from the patients and forward it to the GKV.

These financial contributions of the patients are meant to earn additional income for the governmental health care system and at the same time direct the conduct of the patients when making use of medical services. As the use of medical services may be reduced by a higher own share it is risky that people who have little money abandon necessary treatments. This may lead to such a deterioration of their health condition, so that they are no longer able to work. This leads to a reduction of their income to which the contributions to GKV are related and as a result to a reduction of the proceeds of GKV. The originally intended positive effects for the financial situation of the GKV are not reached then.

¹⁴ Auf Grund von Eintrittsalter, Geschlecht, Gesundheit und der Versicherungsleistung wird der Beitrag errechnet. Vgl. <http://www.pkv-gut-fuer-alle.de>

¹⁵ Dabei liegen die Erwerbseinkünfte i.d.R. über der Beitragsbemessungsgrenze

¹⁶ wenn Erfahrungswerte über vergleichbare Wirksamkeit belegt sind

2.3 Health Fund

The health fund is a system of financing the legal health insurance in Germany that was implemented on January 1, 2009.¹⁷ Taxes and contributions are taken centrally and forwarded to the health insurance companies. They collect the social contributions at first and transfer them to the health fund that is administered by the *Bundesversicherungsamt* (Federal Insurance Agency). The federal government replaced the formerly varying contribution rates of the health insurance companies by an equal contribution rate.

The amount of the contribution rate is measured by the expenses for health care – e. g. medicine, hospitals and doctors. At the beginning of the health fund the costs of the legal health insurance companies are covered by 100%. The federal government determined a contribution rate of 14.6% which is financed by employees and employers in equal shares. Since 2005 the employees have to pay an additional special contribution of 0.9%.

Every health insurance company gets a lump allotment as well as supplementary additions and deductions per insured person depending on his age, gender and illness. As serious and expensive chronic diseases are considered especially, the risk structure compensation accommodates the different demands of the persons insured by a certain health insurance company.¹⁸

In case an insurance company does not get along with the money forwarded by the fund it can raise an additional contribution. This additional contribution must not exceed one percent of the gross income of the insured person. The non-contributory co-insurance of spouses and children continues to exist. The health insurance company must not raise an additional contribution for the children and the co-insured spouse.¹⁹ Poor people do not have to pay this contribution either.

Criticizing the health fund

The problem of the health fund is: the sicker a patient is, the more money gets the doctor as the doctor's fee is relying on the patient's data recorded by the doctor. This does not only pay off for the doctor but also for the health insurance companies. For the more frequently the insured people are ill, the more money they get out of the health fund. This means for the insured people that they are possibly confronted with steadily rising financial requirements of the health insurance companies due to a lacking incentive for saving the money.

The rising contribution rates concern not only the employees, but also the employers. According to their share of the contributions the non-wage labour costs are rising, too, although the federal government has been trying to reduce them for years. In case the financial crisis hits the German economy, mainly small and mid-

¹⁷ Vgl. http://de.wikipedia.org/wiki/Gesetzliche_Krankenversicherung letzter Aufruf am 05.03.09

¹⁸ Vgl.

http://www.bmg.bund.de/cln_117/nn_1168248/SharedDocs/Standardartikel/DE/AZ/G/Glossarbereich-Gesundheitsfonds.html letzter Aufruf am 05.03.09

¹⁹ Vgl. http://www.bmg.bund.de/nn_1210508/SharedDocs/Standardartikel/DE/AZ/G/Glossar-Gesundheitsfonds/DiehaeufigstenFragenundAntworten.html?__nnn=true letzter Aufruf am 05.03.09

middle-class companies may get into troubles to keep their employees. The consequences for the pensioners are even worse: The anyhow meager increase of their pensions could be devoured by the health fund. They pay more to the health insurance instead of being relieved.²⁰

The main problem of the health reform is still the development of the not considered number of contributors whose age is steadily rising. Less and less people are paying contributions to the GKV, but more and more people require its services.

Is the economic crisis changing the situation?

Due to the worldwide economic crisis the federal government passed an economic stimulus package. Besides governmental aids for beleaguered banks, support is also provided for the legally insured. The general contribution rate of 15.5% introduced on January 1, 2009, will be reduced by 0.6% to 14.9% on July 1, 2009. In compensation the federal subventions to the GKV will be increased by 3.2 million Euros in 2009 and by 6.3 million Euros in each of the years 2010 and 2011.²¹

2.4 The nursing care insurance

On January 1, 1995, the nursing care insurance was introduced to Germany as a new and independent branch of the legal social insurance system (pillar V). This nursing care insurance was developed in order to hedge against the risk of care dependency within the scope of the social security system in the same way as against the life risks of illness, accident and unemployment. The reasons for introducing the legal nursing care insurance were on the one hand changing family structures – less children per family, many are having a job and are not able to care for the older family members as this was the case in former times – and on the other hand a rising number of nursing cases caused by the ageing of the German population.

There are 2.17 million people dependent on nursing care today, 0.71 million of them live in care homes, the other 1.45 million people obtain care at home by relatives, neighbours, volunteers or professional nurses. The expenses for all nursing care services of the legal nursing care insurance amounted to 17.4 million Euro in 2007. In relation to the rising age the risk of nursing care dependency is also rising. 0.6% of the German population is dependent on nursing care and below the age of 60, 4% are dependent on nursing care and between 60 and 80 and estimated 32% are dependent on nursing care and above the age of 80. This shows that in relation to the rising number of elderly people the number of people dependent on nursing care will also rise. It is predicted that the number of beneficiaries of the legal nursing care insurance will increase from the current 2.17 million to 3.4 million by 2040.

²⁰ Vgl. <http://www.stern.de/wirtschaft/finanzen-versicherung/versicherung/:Krankenversicherung-So-Gesundheitsfonds/641011.html> letzter Aufruf am 05.03.09

²¹ Vgl.

http://www.dstgb.de/homepage/artikel/schwerpunkte/konjunkturpaket_ii/aktuelles/umsetzung_des_konjunkturpakets_ii/umsetzung_des_konjunkturpakets_ii.pdf letzter Aufruf am 05.03.09

The nursing care insurance only accepts part of the costs for the nursing care. In case of the accommodation in a care home the affected people have to finance about 50% of the costs on their own out of their income or their savings. If the required means are not sufficient, the person can apply for the social allowance called "support for nursing care" in order to cover all incurring costs. Services of the nursing care insurance are only granted on application. This application has to be made at the nursing care fund which is affiliated to the health insurance. After application the nursing care fund is commissioning the so-called "Medizinischer Dienst" (medical service) of the health insurance to examine the nursing care dependency and to categorise it into one of the three levels of care:

1. Care level I – substantial care dependency: The person dependent on nursing care requires assistance with the basic care, food and activities at least once a day and weekly repeated assistance with housework (51.8% of the beneficiaries of the legal nursing care insurance in 2005).
2. Care level II – severe care dependency: The person dependent on nursing care requires assistance at least three times a day with basic care, food and motion and weekly repeated assistance with the housework (35.3% of the beneficiaries of the legal nursing care insurance in 2005).
3. Care level III – most serious care dependency: The person dependent on nursing care requires continual care and assistance every day and weekly repeated assistance with the housework (12.09% of the beneficiaries of the legal nursing care insurance in 2005).

The entitlement to benefits of the person dependent on nursing care is determined by his care level and by the requirement of either home care or inpatient care. In case of home care the legal nursing care insurance offers allowances in kind (professional nursing care by a social institution, which has signed a contract with the nursing care insurance) or financial allowances (money that can be given to the caring relatives as a financial acknowledgement). The monthly rates for nursing care are a maximum of 384 € at care level I, 921 € at care level II and 1.432 € at care level III. The financial allowances paid to caring relatives are lower (a maximum of 205 € at care level I, 410 € at care level II and 665 € at care level III). Additionally the expenses for nursing care products are reimbursed.

Inpatient care was introduced only on July 1, 1996. It is separated into a partly and a full inpatient nursing care. The partly inpatient care occurs in case a person cannot be cared for at home during the day or the night. For full inpatient care the nursing care insurance pays up to 1.032 € at care level I, 1.279 € at care level II and 1.432 € at care level III. For all three kinds of nursing care the beneficiary has to bear the costs for boarding on his own.

The legal nursing care insurance is financed by contributions measured by the income. The contribution rate is 1.95% of the gross income which is paid for by employees and employers in equal shares. As the legal nursing care insurance is financed by a pay-as-you-go system, the children as future contributors are guaranteeing its maintenance in the coming years. Therefore there were introduced different contribution rates for contributors with and without children and the contribution rate for childless contributors were raised by 0.25%

Pensioners have to pay the full contribution amount out of their pensions. Children and spouses whose monthly income does not exceed 345 €, are insured non-contributory. The contributions of unemployed are paid by the *Bundesagentur für Arbeit*. Comparable to the private health insurance system the premiums for the private nursing care insurance are not related to the income but to the age of entering into the insurance. But different to the private health insurance system there are no differences between the services of legal and private nursing care insurances.

2.5 Pension insurance

The pension insurance is the biggest social security system; it was introduced in 1891 in the course of Bismarck's social policy. This model was unique at that time and was still financed by the savings of the insured. In 1911 the model was extended by the involvement of the white-collar workers as well as by the introduction of the survivorship annuity. Both of them were run separately. Furthermore only the pension insurance for blue-collar workers was granted a governmental allowance.

The pay-as-you-go system still existing today was introduced in 1957 by Konrad Adenauer. He intended to increase the pensions in accordance with the gross incomes out of employment. This was based on the inter-generational contract. By their contributions the working people pay the pensions for the retired generation. At the same time they acquire an entitlement to their own pension. The contributions are paid by employees and employers in equal shares. For unemployed the contributions are paid by the *Bundesagentur für Arbeit*.

In 1972 the legal pension insurance was opened for self-employed and housewives. These voluntarily insured bear the full contribution on their own. The formerly existing equal age limit of regularly entering into retirement at an age of 65 was shaped more flexibly. Women and elderly unemployed people could retire at the age of 63, severely disabled even at the age of 60. Anyhow, this advantage for the affected people became a financial burden for the pension insurance. Due to technical progress millions of jobs disappeared. The people retired earlier: Only 29% of the employees worked until the age of 65.

Due to the German reunification in 1990 the financial problems of the pension insurance got worse. Therefore the pension system was reformed in 1992. Now the focus was reducing the expenses for pensions. The annual pension increases were not related to the gross wages anymore, but to the net wages. Retiring before the age of 65 was connected with financial losses.

Public sponsorship of the private pension

Besides the publicly organized pension insurance there has for decades also been a company pension in Germany, mainly in the great companies. This second pillar of the old-age provision of employees is regulated by labour agreements. But more than 50% of the employees cannot benefit of this form of old-age provision, as employees of small companies and employees in the east of Germany usually do not have this second pillar available.

Therefore in 2001 the private pension was introduced as the third pillar of old-age provision. The private pension is sponsored by the government. The sponsored amount is mainly related to the number of children. Furthermore, for this kind of pension there has to be put in a minimum contribution of 4% of the income. A one-child family can get up to 608 € per year, for each child this amount is increased by 300 €. These regulations are valid for employees, public servants and their not active spouses. Since 2005 self-employed can reduce their taxes by using up to 68% of their expenditures for a private pension.

Besides the financial sponsorship the legislator has forced the pension insurance to inform the insured regularly. This especially comprises the pension information beginning at the age of 27. So each employee gets an annual information on how much pension he will receive. In this way they want to explain to the insured that they will not be able to maintain their standard of living with their pension. It is intended to motivate the people to complete their old-age provision by a private pension (pillar 3).

Consequences of the demographic transition

The demographic transition belongs to the severest problems of the pension insurance. The rising life expectancy in connection with the declining birth rate lead to less and less employed persons will have to care for the financing of the pensions of a steadily rising number of elderly people. The proportion of the contributors to the pensioners amounts to 100 to 58 in Germany. According to an optimistic estimate 100 contributors will face 72 pensioners in the year 2050. But this relation will only incur in case the activity rates of women and persons above the age of 55 will rise considerably and will reach the level of the Scandinavian countries.

In reaction to this development the following activities were carried out:

- Retirement age will be raised beginning in 2005 for one month each year. In 2029 the regular pension will begin at the age of 67.
- Until 2030 the pension level will be gradually reduced from 70% to 67% of the former income earned by one's personal employment considering the medium raising of the net wages. If the working time was less than 40 years the pension level will be lower.
- For all citizens born after 1961 the pensions in case of occupational invalidity caused by sickness were notably reduced.
- The widow's pension was reduced from 60% to 55% of the pension income of the deceased husband.
- The state's subvention to the pension insurance will be continually raised in order to relieve the contributors.

These measures aim at not raising the contributions to the pension insurance above 22% until 2030; they currently amount to 19.9%. These measures are accompanied by the introduction of a governmentally sponsored private pension as a 3rd pillar (see above).

2.6 Unemployment insurance

The unemployment insurance was founded in 1927 as an obligatory insurance against the financial consequences of unemployment. All blue- and white-collar workers and trainees employed for money are insured, excluding self-employed, pensioners and public servants. It is especially financed by employees and employers in equal shares as well as by governmental subsidies. The contribution rate currently amounts to 2.8% of the gross wage, being at a similar low level as 30 years ago when unemployment was no serious problem.

As unemployment increased the contribution rate had to be raised. At the end of 2006 it amounted to 6.5%, afterwards it has been continually reduced. The reducing of the contribution rate was only possible on the basis of the reforms of labour market policy in 2005 (see below). The unemployment insurance does not only pay a replacement income to the affected employees in case of unemployment. It also finances measures to maintain and create jobs, professional development, measures to advance the work-related mobility or the foundation of a small business by unemployed. This insurance also pays a replacement income in case of a company's bankruptcy or in case of income losses in the building industry caused by the weather.

Unemployment benefit

The dominant payment of the unemployment insurance is the unemployment benefit. Unemployment benefit is paid on the following conditions:

- Registration as unemployed at the authority in charge (local *Agentur für Arbeit*)
- Unlimited availability on the labour market
- Before entering into unemployment the person must have worked and paid contributions for at least 12 months
- the person must be below the age of 65

Unemployment benefit is only paid for a determined period. The period is related to the working time before entering into unemployment and the age of the affected person. Unemployment benefit is paid for a period of

- 6 months in case of a previous employment period of 12 – 15 months.
- 8 months in case of a previous employment period of 16 – 19 months
- 10 months in case of a previous employment period of 20 – 23 months
- 12 months in case of a previous employment period of at least 24 months
- 15 months in case of a previous employment period of at least 30 months and the age of 50 – 54
- 18 months in case of a previous employment period of at least 36 months and an age of 55 -57
- 24 months in case of previous employment period of at least 48 months and an age of at least 58

The level of unemployment benefit is related to a generalized net payment. This payment is based upon the gross income of the previous 52 weeks. The generalized net payment considers a general tax deduction so that you do not have to pay taxes on the unemployment benefit. For unemployed people the *Agentur für Arbeit* pays the contribution to the pension, health and nursing care insurance. Therefore the unemployment benefit usually amounts to 60% of the net payment, unemployed persons bringing up at least one child receive 67%.

Unemployment assistance:

Up to the reform in 2006 unemployed were paid an unemployment assistance after the expiration of the maximum period for the grant of unemployment benefit. The entitlement to unemployment assistance was not temporally limited. Unemployment assistance was paid during the whole period of unemployment in which there was no entitlement to unemployment benefit. The unemployment assistance amounted to 57% of the net payment (see above) for unemployed persons with child(ren), otherwise 53%.

Social benefits

Up to the reform in 2006 people who were basically capable of work but have never paid contributions to the unemployment insurance and who did not succeed in earning money in order to secure their living received social benefits. The social benefits are a public support which is intended to facilitate living in conditions fit for human beings and which will be granted to the individual according to the features of his need. Social benefits are paid according to the principle of subsidiarity, the money is rendered by tax revenues. According to the *Bundessozialhilfegesetz* (federal law on social benefits) social benefits are granted as:

- Support for subsistence (housing, food, household effects, clothing, etc.)
- Support in special circumstances (courses of treatment, disability, pregnancy, first baby's outfit, allowance for a student's participation in an excursion)
- Support for building up or securing a basis of life (building up of self-employment)

Since the reform in 2006 social benefits have no longer been paid to people who are basically capable of work. This group of people now gets the so-called unemployment benefit II (see below). Social benefits are now only paid to the needy who due to their age, sickness or handicap are not capable of work. The social benefits aim at facilitating a life that corresponds to human dignity. Furthermore the aim is to enable the affected persons as far as possible to live independent of social benefits.²²

²² Horst Marburger, Ansprüche bei Arbeitslosengeld II oder Sozialhilfe: Alle Leistungen bei Hilfebedürftigkeit kennen und ausschöpfen, Berlin, 2007, S. 13

2.7 Reform of the unemployment insurance

Similar to the areas of health and pension insurance, 10 years ago the German government had to bring about reforms for the unemployment insurance. Therefore an expert commission was appointed, the “commission for modern services at the labour market”. To this commission belonged representatives of companies, trade unions and scientists. The president of this commission was Peter Hartz, who in his main occupation belonged to the Volkswagen AG and was their human resources manager. The measures worked out by this commission have been implemented by the government in four steps. The first three steps comprised mainly organizational changes at the authorities in charge of the unemployed and changes of the instruments of vocational integration of unemployed. The fourth and last step referred to profound changes of the financial benefits for unemployed.

The principle of promoting and demanding

The fourth step introduced the principle of promoting and demanding. This means that the promoting of unemployed by the state (counseling and payment of unemployment benefits) is connected with demanding of them an active cooperation in the termination of their unemployment. Personal initiative is demanded and personal responsibility is emphasized. The former legal regulations required almost nothing of the unemployed for attending to a job. It was rather assumed that every unemployed person has a personal interest in changing his situation.

This principle of promoting and demanding is now applied to all people capable of work, even to persons who have never been employed. Basically every person between the age of 16 and 65 is considered as capable of work. Even handicapped and chronically ill people are registered as far as they are capable of work for at least 3 hours a day. Pupils and students as well as persons who care for little children (below the age of 6) or care-dependent people are not considered as capable of work.

Instruments of promoting

All people who are capable of work according to the above mentioned statements but have no income out of employment, are unemployed. For these persons there is the promoting instrument of unemployment benefits. Those who comply with the conditions stated above (s. chapter 6 – unemployment benefits) receive unemployment benefit I. Those who do not comply with these conditions receive unemployment benefit II (see below). The government pays contributions to the health and pension insurance for all unemployed people.

Beyond the unemployment benefits there are further benefits:

- Reimbursement of application and travel expenses for job interviews
- Grants for house moving in case the new job is far away from one's place of residence
- Promotion of the vocational training (education voucher)
- Promotion of the sharing in the working life of disabled
- Grants to employers if they employ disabled or long-term unemployed people

The third instrument of promoting refers to the comprehensive counseling by a personal person in charge (case manager). The case manager has to develop a concept related to the individual situation together with the unemployed, how to find a job as soon as possible with considering the wishes and wants of the unemployed in the same way as the current conditions on the labour market. The case manager is not in charge of the granting of the unemployment benefits, but he decides on the use of other promotion instruments.

The fourth instrument of promoting encompasses allowances in kind. Unemployed who need special help (e.g. counseling because of over-indebtedness, addiction or psycho-social problems) are sent to specialized service providers paid by the government. The so-called work opportunities, in which the unemployed have to be trained and have to prove their capability and readiness to work, count to this instrument.

For unemployed persons below the age of 25 the focus of promoting lies in the area of their professional qualification. They are intensely cared for by their case managers. Every unemployed person belonging to this group has to participate into measures oriented towards his situation for advancing his professional qualifications at the beginning of his unemployment.

Instruments of demanding

The instruments of demanding have to strengthen the personal initiative and responsibility of the unemployed. The personal responsibility is concretized in an agreement that every unemployed has to conclude with his case manager (see above). This agreement contains precise duties for the unemployed (e. g. a certain number of applications to job advertisements every week or a certain number of unsolicited applications at potential employers, participation in advanced education or work opportunities).

The unemployed actually must be available to the labour market. He must not take over activities hindering this. A longer absence from one's place of residence (also holiday travels) must be allowed by the authority in charge.

Basically, the unemployed has to accept every reasonable employment, even if this goes with a notably lower income than before. Thereby stricter standards are valid for persons receiving unemployment benefit II. Whosoever gets unemployment benefit I only has to accept jobs that, generally speaking, correspond to his professional qualification.

Finally a sanction system was introduced. If an unemployed person does not comply with the determined agreement and especially if he rejects a reasonable job offered to him, the unemployment benefit has to be reduced by 30%, in repeated cases the entitlement to unemployment benefits may be ceased completely. These sanctions are also valid if an unemployed person refuses to conclude an agreement. These sanctions are applied especially radically to unemployed people below the age of 25. This group is comparably often affected by the total cessation of the payment of unemployment benefit II

Unemployment benefit II

Basically every unemployed person who does not conform to the requirements of obtaining unemployment benefit I is entitled to unemployment benefit II. Only

those who are needy obtain unemployment benefit II. As unemployment benefit I is oriented towards the amount of the previously earned income, unemployment benefit II is oriented towards the demand to secure the socio-cultural subsistence level.²³ The income of the family members (children allowances) and existing assets are also taken into consideration. Even people who fall short of the income or assets limit in spite of their gainful employment can obtain unemployment benefit II.²⁴

The socio-cultural subsistence level is calculated statistically based upon the data of the income and consumption statistics of the employed population. The net income of the poorest 20% of this population group provides the basis for the calculation for the needs. According to this a single person currently has a monthly need of 351 €. For the partner are added 281 € and for one child 311 to 281 € depending on the age. The daily needs (food, clothing, body care, household energy, compensatory household effects) have to be financed with this money and at the same time relations to their environment and a participation in cultural life have to be made possible.²⁵

Furthermore, the unemployment benefit II encompasses the expenses for appropriate housing (including heating). There are limit values for the size of the apartment and the maximum level of rent and heating expenses according to the number of persons belonging to the household. A household of 3 persons is entitled to an apartment not exceeding 77 m². In case the currently utilized apartment is exceeding the limit values, the costs for this apartment are paid not longer than 6 months within the scope of unemployment benefit II. Afterwards the unemployed has to move or has to finance part of the costs in another way. The move to another apartment must be permitted by the authority in charge. The costs for house moving are paid by the government as a special payment in addition to unemployment benefit II.

Criticism

The displayed reforms of the unemployment insurance have led to notable protests among the population. On the other hand the reforms of the areas of health and pension insurance have generally been accepted. The so-called "Hartz IV" (the fourth step of the reform) has become a symbolic term for a reform of the German welfare state which has been refused by major parts of the population. Within the scope of the related protests a new party has developed (voters' initiative for employment and social equity). In the meantime this party has joined the post-communists and is now active as a party called "Die Linke" (the lefty), essentially criticizing the reforms of the labour market. It is supported by a small part of economic and social scientists.

The criticism comprises mainly four aspects. First, the requirements of being granted unemployment benefit II are rejected as the consequence of the considered principle of neediness is that certain groups do not get support any longer.

²³ Michael Baczko, Hartz IV und Arbeitslosengeld II: Ein Fall für Escher, Freiburg i. Br., 2006, S.12

²⁴ Michael Baczko, a.a.O., S.10

²⁵ Horst Marburger, a.a.O., S. 20

This particularly concerns persons who live together with a partner who makes an average income. Mainly many women who have been jobless for a long term do not obtain any support. Furthermore they oppose the demand of accepting every reasonable job. For mainly highly qualified people this means that in the case of long-term unemployment they have to put up with a notable professional decline.

On the other hand the level of unemployment benefit II is underrated with emphasizing that participation in cultural life is no longer possible. This is especially true for families with children. Furthermore they demand additional supports for particular circumstances similar to the social benefits.

The third point of criticism refers to the case management. A recent research revealed that it often does not conform to the standards demanded by the legislator. One of the reasons is that the case managers are caused by the IT-system they have to use to realize the first interview with the unemployed person according to a standardized scheme. Often they do not clarify the individual requirements, problems, needs and expectations of the unemployed. Based upon this first interview they shape the agreement with the unemployed. The unemployed often gets a standardized text that does not consider correctly the requirements and skills of the unemployed for his vocational development.²⁶

The fourth point of criticism concerns the quality of the decisions of the authorities in charge of the unemployment insurance. Lots of affected people address to the courts in charge and succeed. This mainly is the case with decisions on the granting of unemployment benefit II. More than half of the decisions examined by the courts turn out to be wrong.

2.8 Expenses of welfare

The German welfare system does not only encompass the above mentioned systems of social insurances but also above all the aspects of children allowance, social benefits and pensions for public servants. In 2007 the different areas of the welfare state caused the following expenses:

- 214.540 € pension insurance
- 57.081 € old-age provision
- 51.366 € old-age provision for public servants
- 152.223 € health insurance
- 18.261 € nursing care insurance
- 10.944 € accident insurance
- 38.301 € unemployment insurance
- 100.473 € children allowance/parents' money/child raising allowance
- 67.337 € social benefits
- 28.865 € miscellanea

²⁶ Volker Hielscher / Peter Ochs: Fallmanagement: Arbeitslose als Kunden? Beratungsgespräche in der Arbeitsvermittlung zwischen Druck und Dialog. Berlin 2009.

These expenses of the welfare state made up 29.2% of the gross domestic product in 2007 (rate of social benefits). This rate of social benefits reached a maximum of 34.1% in 1996 and has continually decreased ever since. In 1960 it amounted to only 21.5% and increased afterwards until 1975 up to 32.5%. This development corresponds to the extension of the welfare state. After 1975 until the German reunification in 1990 the rate declined to 28.0%.²⁷ The German reunification led to a temporary increase of the rate of social benefits.

The welfare services have led to a notable reduction of the risk of poverty. According to the current report of the federal government on poverty and wealth in Germany in 2005 only 13% of the immigrants were affected by poverty. According to the EU-standard these persons had less than 60% of the medium income at their disposal. Without the achievements of the welfare state 26% of the population would be affected by poverty. Therefore the social transfers have divided the risk of poverty into half. This risk particularly concerns unemployed mothers.²⁸

Especially employees sense the costs of the welfare state. The table displayed on the following page clearly shows by the example of a teacher that the employee is only paid out 53.5% of his monthly salary. The taxes amount to 23.2% and the employee's contributions to social insurances encompass 23.3% of his salary. The employer has to add 26.4% to the salary for social contributions.

The following calculation (next page) refers to a teacher in a Gymnasium (kind of secondary school) in Berlin who is a non-tenure employee at the age of 28; he has no children and belongs to the Roman-Catholic Church. As a young professional he is paid a monthly salary of about 3,000 €. He chooses the voluntary additional pension (pension funds) according to scale.

²⁷ Vgl. Hahlen, J.: Entwicklungen des deutschen Sozialstaates; in: Wirtschaft und Statistik. 2002, S. 1044

²⁸ Vgl. www.bundesregierung.de/Content/DE/Artikel/2008/05/2008-05-19-armuts-und-reichtumsbericht.html

Costs for employees and employers

	Teacher	School
Salary (gross)		3.000,00 €
Pension funds ²⁹	37,50	193,50 €
Accident insurance ³⁰		1,00 €
Pension insurance ³¹	317,75	298,50 €
Unemployment insurance ³²	44,70	42,00 €
Health insurance ³³	261,86	219,00 €
Nursing care insurance ³⁴	39,12	36,75 €
Tax on wages ³⁵	607,08	
Church tax ³⁶	33,38	
Solidarity tax ³⁷	54,63	
Costs		3.790,75 €
Social insurance	700,93 €	
Taxes	695,09 €	
Salary (net)	1.603,98 €	
Proportion gross/net	53,47%	
Tax rate	23,17%	
Rate of contributions to social insurances	23,36%	

²⁹ Der Beitrag zum Pensionsfonds beträgt für den Arbeitgeber 6,45 % und für den Arbeitnehmer 1,25% des Bruttolohns. Der vom Arbeitgeber geleistete Beitrag zu diesem Fonds erhöht die Abgaben des Arbeitnehmers. In diesem Fall muss der Lehrer nicht von dem Bruttolohn = 3.000 € sondern für den Betrag 3.193,50 € Steuern und Sozialbeiträge zahlen.

³⁰ Der nur vom Arbeitgeber zu zahlende Beitrag richtet sich nach dessen Lohnsumme und dem Unfallrisiko seiner Arbeitsplätze; der monatliche Beitrag kann nur geschätzt werden.

³¹ Arbeitgeber und Arbeitnehmer zahlen jeweils 9,95 % als Beitrag, dabei werden für den Arbeitgeber nur das Gehalt und für den Arbeitnehmer Gehalt + Arbeitgeberbeitrag zum Pensionsfonds zu Grunde gelegt.

³² Arbeitgeber und Arbeitnehmer zahlen jeweils 1,4 % als Beitrag

³³ Der Arbeitgeber zahlt 7,3 % und der Arbeitnehmer zahlt 8,2 %

³⁴ Arbeitgeber und Arbeitnehmer zahlen jeweils 1,1 % als Beitrag

³⁵ Die Lohnsteuer steigt stufenweise an; der Eingangssteuersatz beträgt 15% und der Spitzensteuersatz beträgt 42%, dabei sind 7.664 € im Jahr steuerfrei. Ferner können bestimmte Kosten zu einer Reduzierung der Steuern führen

³⁶ Für Angehörige einer Religionsgemeinschaft, die vom Staat als Körperschaft des öffentlichen Rechts anerkannt ist, beträgt die Kirchensteuer 9% der Lohnsteuer

³⁷ Für die mit der Wiedervereinigung verbundenen Kosten wird eine zusätzliche Abgabe erhoben, die 5,5% der Lohnsteuer beträgt

3.9 The social debate on the reform of the social insurance

Especially the reforms concerning the social allowances for unemployed presented in the 7th chapter incited an intensive debate in Germany, which has been continuing for almost 10 years. It contends for the self-conception and legitimization of politics. The continual extension of welfare achievements between 1957 (reform of the pension insurance) and 1974 (improvement of the companies' pensions) connected with the aim of a "welfare state" which is fixed in the constitution has created specific expectations. At the same time personal freedom and security towards assaults of other countries have been taken for granted and they were not given special attention and appreciation any longer. Thus social security became an important aspect of legitimization for politics and state.³⁸

These conditions led politics to undertake a reform of the welfare state at best in small and rather symbolical steps that in other countries has begun 20 to 30 years earlier³⁹. In this context it is notable that particularly the Christian-liberal government of Bundeskanzler Helmut Kohl did not undertake any profound changes of the welfare state and accepted an even higher national indebtedness after the reunification in 1990 in order to transfer the West German system of the welfare state to the East part without any major limitations. Only the government of social-democratic Bundeskanzler Gerhard Schröder has begun the above mentioned reforms after 1998.

The critics of the current reforms ignore that the temporarily limited success of the West German welfare state was only possible on certain conditions. These were mainly: (1) the continual economic growth guaranteeing regular increases of taxes and contributions to the social insurances. (2) Almost all jobs in the industrial, trade, business and service sector caused an income securing one's livelihood even for people with low qualifications. (3) The trade unions contended successfully for the concept of "normal job situations", especially in big companies, which guaranteed to a large extent a job security and a predictable vocational development. This was supported by the immigrants accepting the unattractive and badly paid jobs. (4) The social work of the housewives caring for children and dependent people allowed the government to pay relatively little money on it.⁴⁰ As a consequence the employment secured a sharing in the social development. In case of unemployment one received financial support oriented towards the former income until the end of one's unemployment. People who could not or did not want to work for an income to secure their livelihood were caught by the social benefits. There was no direct or indirect coercion to care by working for your own income.

The economic transition in connection with the globalization has led to such an erosion of the „normal job situations“, that gainful employment as a guarantee for social participation and predictable vocational biographies has become less impor-

³⁸ Vgl. Dahrendorf, R.: Der moderne soziale Konflikt. Stuttgart 1992

³⁹ Vgl. Gilbert, N. / Gilbert, B.: The Enabling State. New York 1989

⁴⁰ Vgl. Kraemer, K.: Eigenverantwortung und Teilhabe. Bochum 2005 (www.ruhr-uni-bochum.de/fiab/pdf/veranstaltungen/fruehjahrstagung_05_vortrag_kk.pdf)

tant.⁴¹ The declining revenues out of contributions to the social insurance in connection with the level of national indebtedness which is no longer accepted by major parts of society have led to a coercion to be active so that even a lefty oriented government had to introduce far-reaching reforms of the German welfare system.

These reforms led to a notable reduction of the number of jobless people and of the costs of unemployment. At first sight the reforms in the area of unemployment insurance were successful as expected. But this development was favoured by the economic development; furthermore the group of persons entitled to benefits was reduced by changing the legal requirements. Additionally a system was developed which forces the concerned people to actually accept every job, even if it does not correspond to their qualifications. Mainly this indirect enforcement to work and the cancellation of support for long-term unemployed people who have financial security by their partners were the essential reasons for protests against the above explained reforms.

In the area of pension insurance we can also record a reduction of the costs after the reforms. This development is connected with a slight decrease of the pensions and a gradual increase of the retirement age at the same time. In the area of health, however, the costs have increased continually. Nevertheless, it would be wrong to take this as an evidence for the missing success of the reforms. It is rather notable, that the demographic development essentially influences the development of the costs both of the health care and the pension system.

⁴¹ In diesem Zusammenhang ist das Schlagwort „Prekarisierung“ entstanden; es soll ausdrücken, dass die Reformen bestimmte Teile der Bevölkerung sozial ausgrenzen; vgl. Kraemer, K. / Speidel, F.: Prekarisierung von Erwerbsarbeit; in: Heitmeyer, W. / Imbusch, P. (Hrsg.): Integrationspotential einer modernen Gesellschaft. Wiesbaden 2005

3 Development of social policy in Poland under the omen of the entry into the European Union

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3.1 European social policy – theory and practice

Social policy is one of the key policies contained in the political system of each country because of its closeness to the citizen, issues of redistribution of resources and activities to support the social dimension. Increasingly, it becomes the subject in the pan-European debate on its relevance in the management and operation of the European Union. The problem of aging societies as well as negative natural increase, has forced the members states to focus on a problem of social policy in community dimension, definition or redefinition in order to reflection about changes, which seem to be inevitable.

This report is the prelude to a comprehensive presentation on the situation in Poland, the publication of change, existing problems and challenges faced by our country in light of the creation of an optimal model of social policy and its application to discuss in the European-wide discussion on the subject. This part of report which I focused on, have to explain the capital catalogue notions connected with social policy. What is appropriate social policy? What are its main objectives and challenges? With which areas of life social policy is related? It's only some of many questions which I would like to answer on this report. In the second part I will concentrate on model approach to social policy, taking as a criteria a geographic key according to the division of Gosta Esping-Andersen. In addition to the presenting models I would like also to show a brief historical background European of social policy development by presenting briefly the most important events, documents, and ideological assumptions. In conclusion, my aim is to demonstrate the practice related to social policy in European Union, especially functioning of institutions and programs at Community level which are responsible for the scope of this topic. The goal of this study is to provide elementary knowledge about the European dimension of social policy to strengthen the awareness of Europeans on the functioning mechanism at Community level in the light of the problems that arise in the course of its operation.

What is exactly social policy?

The basis for the remainder of the report is to define what is social policy and what is its function? Social policy is the activity of the state and other organizations in shaping:

- living conditions
- working conditions
- social relations

We see, therefore, that social policy is concerned with three main dimensions of human functioning in society. It refers to the sphere of living conditions, working and human relations. With these three areas we are dealing every day in various configurations, what shows how important issues affecting social policy. Touching the sphere of human life, social policy has objectives to be achieved within the existing society. The main of them can be considered:

- providing social security
- meeting the needs of society
- guaranteeing social order

In addition to the above-mentioned main objectives of social policy has many purposes fringe, which indicates how large an area of life social policy is. As I indicated in the previous considerations, issues of social protection in the political dimension affect many other policies often a necessary supplement of their operating or a valuable addition. Policies which are connected with social policy are mainly:

- family policy
- employment policy
- housing policy
- policy of social security and health
- policy of education

Each of these policies has specific instruments of cooperation and coordination with social policy, which is the basis for the effective functioning of the normal distribution of activities within the framework of cooperating

The European models of social policy

Following an introduction and after presenting a brief definition of social policy, it is worthwhile to focus on the theoretical background assumptions embedded in the concrete model. Social policy operates with a very large number of different types of models of social classification on the basis of criteria that the researcher chose as the subject of research. For the purpose of the report I used the classification of models of social policy proposed by the well-known in the world of sociology and social sciences Gosta Esping-Andersen. I will focus on five models proposed by Esping-Andersen, listing the main items in their assumptions, giving as an example of the countries in which they operate.

1) liberal/ Anglo-Saxon model(mainly United Kingdom, Ireland)

- ❖ minimum social assistance granted by income criteria
- ❖ low social benefits and social security
- ❖ state mainly passive in the social sphere
- ❖ social rights are limited,

- 2) **conservative-corporate/continental France, Germany, Belgium, Austria)**
 - ❖ guaranteed social rights
 - ❖ state provides the social protection depended on the position of the citizen in the labor market
 - ❖ level of benefits depends on the level of remuneration
 - ❖ the principle of subsidiary, the state enters, when the possibility of the family have been exhausted
- 3) **Scandinavian model (Sweden, Norway, Denmark, Finland)**
 - ❖ equal access to services with the highest standard for all
 - ❖ social security system covers all the layers everyone benefits from social policy and everyone bears the costs
 - ❖ problems with the functioning of the family are moved on to the whole society
 - ❖ combination of issues and matters of social policy
- 4) **Mediterranean model (Spain, Italy, Greece, Portugal)**
 - ❖ demands to create the model of the modern welfare state
 - ❖ care for the elderly people, high level of retirement benefits
 - ❖ poorly developed family policy and benefits of being unemployment
 - ❖ social benefits are varied, it depends on incomes of people
- 5) **Model typical for countries after system transition like Poland, Lithuania and Hungary**
 - ❖ presented model is a mix of liberal, conservative and the Scandinavian model
 - ❖ in some sectors there is still a central management and homogeneous organizational structure
 - ❖ An example can be even Health Care System and the functioning of the National Health Fund

The models in their assumptions are essentially different. This stems primarily from the wealth of cultural differences and different societies, which have developed specific recommendations for social policy, depending on the mentioned factors.

The development of European social policy

On the next part of the report, I would like to focus on the presentation of the development of social policy at European Union level. To begin to speak about the European social policy it is vital to present its functional background.

Conditions and the evolution of policy:

- ✓ striving for establish a mechanism for protection against unfair competition in the European market
- ✓ the need to compensate for economic and social opportunities
- ✓ initiative to resolve the problems of unemployment, inequality and discrimination
- ✓ social exclusion associated with non-compliance with human rights

We see that uniting Europe had to face with many problems, which are the result from the post-war reality.

Historical background

Speaking about European social policy, it is impossible to miss the events that contributed to its development. In this report I would like to focus on the presentation of several key dividing the entire history of European social policy into four periods:

1) 1957-1973

- 1959 the creation of the first social security system for workers
- 1960 establishment of the European Social Fund
- 1972 Aa outline of the joint social policy at the European Council in Paris

2) 1974-1984

- 1974 - EEC Council of Ministers passed the first Social Action Program
- 1975 - European Regional Development Fund

3) Conceptual breakthrough: 1985- 1997

- 1989 the Community Charter of Fundamental Social Rights of Workers (the so-called European Social Charter)
- 1992 Agreement on a Common Social Policy under the Treaty of Maastricht
- 1993 / 1994 White and Green Paper about European Social Policy

4) A new approach: after 1997

- 1997 European Employment Strategy, known as the Luxembourg Compromise
- 2000 Lisbon Strategy
- 2000 Nice ,European Social Agenda
- 2006 New European Social Agenda 2006-2010

We can, therefore, noted that over the decades, there has been a considerable development of social policy at European level. Many organizations, number of agreements and declarations were established and signed. There was also spent a lot of documents that underpin the functioning of social policy such as the **Euro-**

pean Employment Strategy and the **Charter of Fundamental Rights** related to this area of life. This document was proclaimed at the Nice summit in December 2001 as a political declaration.

Main recommendations concerning social policy:

- Social security and social support (art.34)
- Fair and equitable working conditions (art. 31)
- Providing health care (art.35)
- Prohibition of discrimination (art. 21)
- Special protection for families, children and elderly and disabled people
- Prohibition of work for children and protection for young people at work (art.32)

Institutions and programs

In the last part of the report I focused on the presentation of the EU institutions dealing with social policy and problems associated with its functioning. In my study I concentrated on listing of these programs which support social policy.

Main institutions:

- ❖ European Commission Employment, Social Affairs and Equal Opportunities
- ❖ European Parliament, Employment and Social Affairs
- ❖ Council of European Union Employment, Social Policy, Health and Consumer Affairs

In addition, there are many committees and institutions that support the activities of the European Parliament, the European Commission and the Council of the European Union in matters of social policy. The most important include:

- ❖ Economic and Social Committee
- ❖ European Foundation for the Improvement of Living and Working Conditions (Euro-Funds)
- ❖ European Agency for Safety and Health at Work
- ❖ European Center for the Development of Vocational Training
- ❖ Employment Committee
- ❖ Committee of Social Protection

Summary

In summary, prepared report on the project of "Social Europe" affects the fundamental problems of defining the European social policy. This is the introduction for further reflection on the place of Poland as a new member of the European Union's legal system. It begins discussion on the possibility of creating a European model of social policy because Europe has not created it yet.

3.2 Poland AD 2009: Perspectives on social policy in future 20 years after economical and political transformation

To provide a multidimensional and satisfactory outlook on social policy in Poland it is indispensable to try to answer the question what are main challenges for this field. Knowledge considering quite complex situation of Poland and its intricate history can simplify understanding of changes and plausible directions of Polish social Policy In the future.

We describe Poland as an example of a state which is determined by its geographical position and historical circumstances. It is beyond doubt that the Soviet Union domination and staying behind the Iron Curtain were the most important of those circumstances. These features, the most noticeable during '90s, are still the reasons of specific economical, social and political situation. Due to that, the social policy is a matter of great importance and have to be modified in a modern way to eliminate the effects of over 50 years long existence of real socialism state.

But before we will take into consideration the challenges facing to the Polish social policy, we have to maintain in a brief summary of the features characterizing the social policy model of real socialism state and its specific according to an example of Peoples' Republic of Poland In reference to Krzysztof M. Księżopolski's researches⁴² .

Model of real socialism state according to Polish scientist's Krzysztof M. Księżopolski's writings was characterized as a command and control economy. According to an example of Peoples Republic of Poland Księżopolski indicated a few features which were common for all satellite states of the Soviet Union.

First of all, distribution of national income was implemented already on a production level. This practice covered for example full employment or salary equalization. In case of directed economy model expanded system of state subsidization was another important factor. This solution made it possible to hold down prices of basic goods and services. Moreover access to majority of social services was free of charge. Well developed welfare system, related to labor institutions, was another distinctive feature. Common practices covering that included financing workers' stay at state's holiday houses and distribution of flats and goods or services in short supply.

But it is also possible to indicate some unique features of social policy which occurred only in Peoples' Republic of Poland. Firstly, a scope of state participation in a social services area was in general smaller than in other satellite states of the Soviet Union. Besides, activity of religious and social organizations, or even private or cooperative sectors in social services domain was accepted, although it was strongly controlled by the state and its institutions. Moreover, what was also typical of Peoples' Republic of Poland, flat grants or workers' holiday financing were the mostly developed domains of social services- to contrast with Czechoslovakia or Hungarian Soviet Republic where a predominance of social services for families and children occurred.

⁴² M. Księżopolski, *Modele polityki społecznej* (Theoretical models of social policy), wyd. Instytut Polityki Społecznej UW, Warszawa 1999.

After presenting the essential features of Peoples' Republic of Poland it is significant to refer to the transformation of political and economical system. The transformation was mainly aimed to introduce a market economy. It has brought²;

- elimination of state intervention in the area of creating prices and payments and controlling them
- state participation in social services became limited
- the scope of social money transfers was widened (according to high rate of unemployment and the life conditions of many citizens, which became worse, especially on the countryside – according to decline of states arable farms - PGRs)
- creation of a modern social care institutions, based on civil rights not just on an employment.

Partially these institutions created current social policy model.

Moreover it is necessary to say, that in Poland a modern and flexible social policy is to be implemented and it is considered to be similar to Western Europe social policy regulations. This situation occurred due to domination of social insurance institutes through all social institutions and basic access to social welfare benefits which depend on professional activity and presence on labor market. Thus, insurance premiums, obligatory for employees and employers are a guarantee of social insurance. However, in spite of some similarities the level of welfare benefits is significantly lower in Poland and in other post socialist countries than in Western Europe. In this context it is indispensable to answer the: is a domination of social insurance a proper solution for Polish social policy, by measuring and investigating advantages and disadvantages of this system⁴³.

Social insurance as a dominant institution of social policy in Poland intensifies employee's motivation for legal and constant work, but in the same time it generates high costs of employment, which make employers to stay at the black market. What is more, those high costs of employment encourage employers to introduce technical innovations, which cause growth of a work efficiency, and finally brings about decrease of engagement of a part of people in a productive age.

According to these considerations this model is as appropriate as another similar to it in Western Europe. But if West European countries need an evolution of it, the post - socialist countries will need a revolution in case of improvement of social services.

After this short introduction it is possible to point out - family and employment policy, education and retirement - the most meaningful fields for polish social policy in the future. It will help to follow the main challenges for Polish social policy in next decades.

First of these three fields is the family policy. In Poland families are still being supported, referred to traditional model of family, which means the bread-winner

⁴³ One of the most considerable features of Polish social policy regulations is also state's aspiration for providing a construction of effective coordination of public and private social services.

model. The bread-winner can be described as a model in which the man is the main and often the only supporter of domestic budget.

According to this model the state keeps up to lose incomes by particular families in the period of child or children birth and grow up. This kind of activity is a sign of acceptance of mainly the families bringing up many children. At the moment, according to mass women activity at labor market caused not by economical obligation or compulsion but due to the women necessity of self realization, the bread-winner model have to change. Politicians have to take note of impossibility of restoring the traditional order; the rule – if men start to earn more money, women will come back homes.

Another problem of Poland as far as the other European countries is decreasing number of births. There are no Polish parties which have conception to deal with this problem. Due to that they missed the needs of middle class citizens. Moreover they concentrate on such activities like short – term money help straight after the birth. It obviously doesn't change social attitude to women as a workers, or above all mothers as workers.

Another aspect which should be taken into consideration are consequences of declining scope of women unpaid work – cooking, cleaning, taking care of children and others. All these kinds of production are staying behind the economy. According to this trend; welfare social services become insufficient and the commercial ones are too much expansive. The state has to find some solutions of these problems.

It can consider:

- increasing the number of welfare social services
- matching funding the commercial ones
- passing law regulations enable paying women for their working hours at home
- carrying out an education campaign to the equality men participation in houses duties point

In this context another question occurs: has gender been an issue neglected in Polish economy and social policy after system transition? Although nowadays we can notice slight increase of women's employment rate in Poland there are still numerous problems to cope with.

Firstly we have to realize that women as a part of Polish society create 51,7% of the population , what gives about 19,72 mill. people, large part of whom are or will be present on labor market. The European Commission's Report (2007)⁴⁴ shows that in Poland men earn about 12 % more than women⁴⁵.

⁴⁴ Commission's December 2007 Annual Progress Report:
http://ec.europa.eu/growthandjobs/pdf/european-dimension-200712-annual-progress-report/200712-annual-progress-report-PL_en.pdf

⁴⁵ Despite the fact in Poland there is a contrast between men and women salaries is less significant than in countries like for example Estonia, Slovakia or Germany: where it is about 20 % this prob-

Female employment rate increased in Poland from 47,7 % in 2001 to 48,2 % in 2006. Due to some indications of the equalization of professional roles of both parents, families need a special forms of state help to prevent the destruction of „family institution”. These forms of state's regulations should encapsulate effective childcare institutions and promote parental leaves in spite of traditional maternity leaves.

Examples mentioned above should illustrate you that there are still numerous challenges for Polish social in a field of women's employment. Education policy is the other fundamental part of social policy. Necessary activities which should be implemented in education policy consider:

- keeping up awareness of benefits from learning and studying (now the awareness is high) and dealing with such a problems like:
 - underestimate MA/MSc on the labor market, which caused a necessity of studying two or more faculties at the same time – as a result any of the activities is as effective as it could be
 - maladjustment of educational offer to labor market
 - a high number of private universities which lower the standard of being MA/MSc
 - a popularity of studying humanistic faculties, instead of technical / engineering ones
- being concentrated on possibilities of changing work qualifications (according to life long learning)

But the main priority for the education policy should consider combining two kinds of activities: first which will stimulate people on the labor market to life long learning and second, dealing with impossibility of elimination less gifted or elderly people from the labor market. Poland needs diversified educational system, suitable to differential labor market. Progress can't be at somebody's expense.

Education is also an instrument which can be used to overcome two threats: poverty and social exclusion. Effective system of education would stimulate people's creativity and activity. It would fructify with increase of social order and stability. It would admit people to avoid an Experience of poverty and social exclusion which impacts strongly perception of their lives. Thus European social model aims to consolidation of stable education and motivation system. The same concerns Poland.

In situation of society which is getting older the foreground challenge is to decide how to construct an effective retirement system. Lengthening of peoples' professional activity is widely discussed. Basically, it is a matter of social dialogue. But there is also a dilemma how to provide employment for young and elderly workers at the same time. To resolve this problem it is necessary to form such quantity relations between people in productive and unproductive age not to admit to blatant disproportions.

lem is still a matter of a great importance. We should aim to such results like in Malta, Slovenia or Belgium where this indicator oscillates about 3 percent.

Struggling with problems mentioned upon, Poland is trying to implement all of the four features which European Employment Strategy is consisted of. It means employability, entrepreneurship, adaptability and equal opportunity. For example; one of the aims is increasing the rate of employment to 70%, the rate of women employment to 60% and the rate of elderly employees employment to 50%. Furthermore, there are many more tasks enclosed in National Action Plan for Employment. The most important of them are: support and promotion of entrepreneurship and self-employment, promotion of non-agricultural activities, setting-up and developing micro-enterprises, increase of the number of enterprises operating on the basis of innovative solutions, support for high risk capital funds, new investments of highly innovative potential, support for investment of vital importance for the economy, easier access to external financing sources for entrepreneurs investing in innovative, undertakings via Technology Loan Fund, support for county and voivodeship (Polish regional administration unit) labor offices in implementation of the tasks for occupational stimulation of the unemployed in the region, improvement of employment agency services, occupational advisory services and assistance in active job seeking provided by public employment services, improvement of labor market services and instruments for upgrading the skills of the unemployed, implementation of the training services standards at the labor offices, improvement of the qualifications of public employment services' employees, co-financing the tasks regarding active labor market policy from the Labor Fund and many others.

The most important task for social policy according to employer – employees relations is to realize the main and useful management interventions which are classified according to the following categories: changing attitudes; recruitment; training, development and promotion; health and well being; wage policy; ergonomics and job design; exit policy; redeployment.

According to job recruitment there is increasing maximum age limit, elimination / absence of particular age barrier, support of self-help group to promote their own employment, training programs to promote recruitment policies, employment exchange/job center for older workers. According to flexible working practice it could be job rotation, promotion of age-specific policy in work organizations, flexible working hours/age related working time, age related leave, demotion (without change in wage level), part-time jobs, flexible retirement / early exit. Finally, according to changing attitudes within organizations the most important are; research related to ageing and performance and programs to change attitudes and opinions towards older workers.

Age management in an interesting issue connected with elderly workers. This concept encompasses attitudes towards the older workers or the older worker's attitudes to work and career. It is connected with a life long learning process: I mean constant improvement of qualifications and education of employees. The main challenge is to search for change of aging worker's situation at the labor market. Important points considering age management consider:

- **Job Recruitment:** for example creating job centers for older workers;
- **Training, Development and Promotion:** development of training and educational programs for older/ageing workers; creation of learning

environment and workplace mentorship for older workers; promotion of age-specific policy in work organizations;

- **Flexible Working Practice:** flexible retirement/early exit scheme; gradual retirement scheme / part-time;
- **Ergonomics, Job Design and Prevention:** ergonomic measures / improvement; work conditions / workload; mix of young and older workers
- **Changing Attitudes within Organizations:** research related to ageing and performance; programs to change attitudes and opinions towards older workers.

A comparison of Polish leading political parties: Prawo i Sprawiedliwość (Law and Justice) and Platforma Obywatelska (Civic Platform) views on social policy can simplify the understanding of possible changes and concepts of Polish social policy's reforms.

The main assumptions in two programs are:

<p>SOLIDARNE PAŃSTWO (The State of Solidarity)⁴⁶ Law and Justice</p>	<p>POLSKA ZASŁUGUJE NA CUD GOSPODARCZY⁴⁷ (Poland Deserves Economic Miracle) Civic Platform</p>
<p>1. SOCIAL SECURITY</p> <ul style="list-style-type: none"> - preparing social programs considering family – as the most important part of society; - new law regulations: longer maternity leaves; tax refunds for families receiving state benefits; - strong support for „family” forms of child care; - analysis of family welfare bill and project of enlarging childbed benefits 	<p>PILLAR I: POLISH FAMILY'S SATISFACTION</p> <ul style="list-style-type: none"> - preparing families to independent existence; - family policy should lead to enlargement of birth rate; - family support: enlarging people's creativity, independence and activity; - supporting common parental leaves for both of parents; - some child care services provided by state (kindergartens); - equal chances for all children

⁴⁶ <http://kprm.gov.pl/solidp.pdf>

⁴⁷ [http://www.platforma.org/download/\(gqWYZ57YrXailKWWZ0Xf32iiiqWValypo4HQW52fll2frq-hVKbXZ1afrWjXk9rLn4Tc0r3gg9rWkJ3o0rbWWJjJ5Le3nTXhdGGaKA\)/pl/defaulttopisy/3/1/1/program_wyborczy_po7-ebook.pdf](http://www.platforma.org/download/(gqWYZ57YrXailKWWZ0Xf32iiiqWValypo4HQW52fll2frq-hVKbXZ1afrWjXk9rLn4Tc0r3gg9rWkJ3o0rbWWJjJ5Le3nTXhdGGaKA)/pl/defaulttopisy/3/1/1/program_wyborczy_po7-ebook.pdf)

<p>2. Work issues</p> <ul style="list-style-type: none"> - emphasizing importance of social dialogue ; - preparing special projects aiming to reduce inequality in society; - limitation of costs connected with holding own business; - state help in finding employment for people threaten with social exclusion 	<p>Pillar II: Efficient Labor Market</p> <ul style="list-style-type: none"> - Labor market policy addressed to all people – not only those threaten with exclusion; - Removing those who does not search for employment from list of unemployed; - job consulting , job agencies; - social policy development (cooperative societies); - special programs: to prevent social exclusion of handicapped; - improving abilities needed on labour market; <p>Pillar III: Solidarity Between Generations</p> <p>Pillar IV: Social Confidence</p>
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Last, and maybe the most topical issue is analysis of a social policy in times of financial crisis. This area - according to governmental program- is still expanded. Till now there are few essential features of it:

1. Ban to enlarge financial deficit
2. Spending Polish zlotys where you can gain EUROS to use all opportunities in case of exploiting UE funds to develop our economy, industry, infrastructure, educational system or protect natural environment;
3. Instead of mass dismissals-employers should give to their employees chargeable leaves refunded from state's funds.

What will be the direction of Polish social policy in the future? Will Poland manage to cope with all threats and problems connected with this area? Answers to these and other questions will be given in the future. Examples and analysis above are to point out main challenges for Polish social policy and maybe they will help to resolve some meaningful issues connected with this area.

3.3 Economical influences in social policy: Case study of the transition in Poland

a) Overview of the history of Polish political and economic system after the II. World War.

The history of Poland from 1945 to 1989 spans the period of Soviet Union dominance over the People's Republic of Poland (PRL⁴⁸) following World War II. These years, while featuring many improvements in the standards of living in Poland, were marred by social unrest and economic depression. In early August 1980, the wave of strikes in Poland led to the founding of the independent trade union "Solidarity". The growing strength of the opposition led the government of Wojciech Jaruzelski to declare martial law in December 1981. However, with the reforms of Mikhail Gorbachev in the Soviet Union, increasing pressure from the West, and continuing unrest, the Communists were forced to negotiate with their opponents. The unofficial talks at Magdalenka and then the Polish Round Table Talks of 1989 allowed for a peaceful transition of power to the democratically-elected government and led to Solidarity's participation in the elections of 1989. Three years later came the implementation of the first democratic rules in the Small Constitution of 1992. It took five more years to pass the complete Constitution of 1997. According to its the second article, Poland became a democratic state ruled by law and implementing the principles of social justice⁴⁹.

b) The changes of the year 1989

In September 1989 a commission of experts was formed under the presidency of Leszek Balcerowicz, Poland's leading economist, Minister of Finance and deputy Premier. Among the members of the commission were George Soros – backed by Jeffrey Sachs, Stanisław Gomulka, Stefan Kawalec and Wojciech Misiąg.⁵⁰ They prepared a plan of extensive reforms that were to enable fast transformation of Poland's economy from obsolete and ineffective central planning to competitive capitalism. The plan, often referred to as Shock Therapy, drastically limited the state's influence over the economy and implemented free market mechanisms. It struggled to achieve two contradictory goals: a stabilization of the economy (decreasing galloping inflation and liquidating shortages) and transformation of the economy to a free market one.

⁴⁸ PRL – abbr. of Polish: Polska Rebulika Ludowa.

⁴⁹ Constitution for the Republic of Poland of 2nd April 1997, Dziennik Ustaw No. 78, item 483, Article 2.

⁵⁰ George Soros - an American currency speculator, stock investor, businessman, philanthropist and political activist. Jeffrey Sachs – an American economist who became renowned for implementing economic shock therapy throughout the developing world, and subsequently for his work on the challenges of economic development, environmental sustainability, poverty alleviation, debt cancellation, and globalization. Stanisław Gomulka – Polish economist, repeated adviser in Ministry of Finance of Poland, inter alia a reader in London School of Economics. Stefan Kawalec, Wojciech Misiąg - Polish economists and former Deputy Ministers of Finance Among Balcerowicz's cooperators were also: Jacek Rostowski, Marek Dąbrowski, Jerzy Koźmiński, Andrzej Posiadło, Jerzy Napiórkowski, Ryszard Pazura and Janusz Sawicki. For more: Gadomski W. Leszek Balcerowicz. Warszawa 2006.

The most important implemented changes were property changes, including privatization. By the term we mean the case of transferring ownership of business from the public sector (government) to the private sector (business). In a broader sense, privatization refers to the transfer of any government functions or activities to the private sector.⁵¹ There are three main methods of privatization. Share issue privatization (SIP), the most common type, means selling shares on the stock market. Asset sale privatization provides for selling the entire firms or part of it to a strategic investor, usually by auction or using the Treuhand model.⁵² Voucher privatization occurs when shares of ownership are distributed to all citizens, usually for free or at a very low price.⁵³ This kind of privatization has mainly been used in Poland.⁵⁴

Other important reforms reached: fiscal policy reform⁵⁵, currency liberation and internal convertibility of Polish zloty and its devaluation and banking system transformation to similar to a west-European model - the central bank became independent and really responsible for Polish monetary policy and from the another hand private banks came into existence.

c) Social costs of the transition

Although Balcerowicz's reforms did work and in comparison to other post socialist, European countries Polish transition came across favorably, there are politicians and economists who claim that the social costs of it were too high. In fact, initially they were seen as extremely high: the standard of living suffered seriously, and roughly 1 million workers at state-owned firms lost their jobs. The years 1989-1993 were times of a transition crisis which in social policy effected by social transfers for the groups which suffered the most.

Real incomes decreased, in general, by about 40%. Real state-sector wages in 1990 were 31% lower than the year before (while the initial forecast was only 10 %). Real income of agricultural households was cut in half in 1990 and by an additional 36% in 1991. Pensions declined by 17 % in real terms (however, they rose by 15% in 1991.)⁵⁶ And, finally, real wage decreased in general by 30%.⁵⁷ It has to

⁵¹ Kosar K. R., Privatization – A definition. [in:] Privatization and the Federal Government: An Introduction. CRS Report for Congress. December 2006.

⁵² The term came from Treuhandanstalt – name of east German government agency which was in charge of privatization in GDR – German Democratic Republic between 1990 and 1995.

⁵³ Cambridge Encyclopedia, www.stateuniversity.com

⁵⁴ Although there were at least 6 methods of privatization used in Poland, privatization in the times of transition in Poland is generally called Lipton – Sachs privatization model. See also: Michna. W. Transformacja systemowa w Polsce w latach 1989 – 2001.

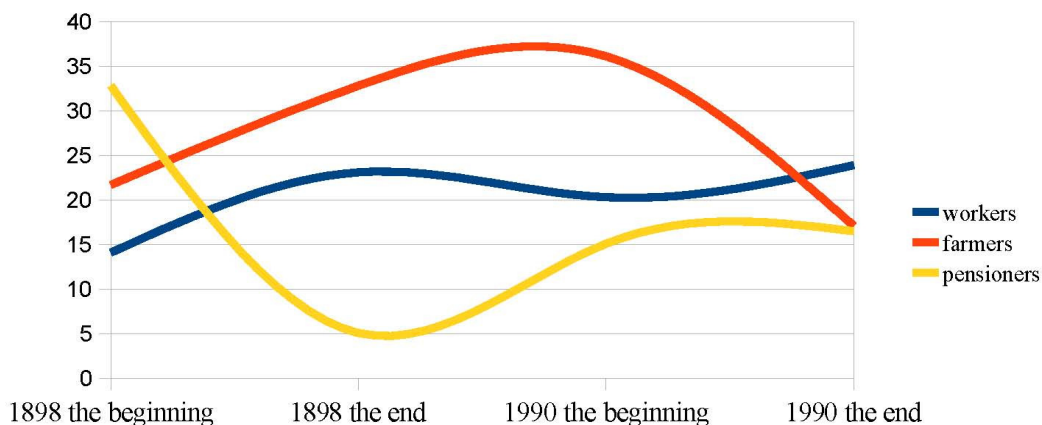
⁵⁵ See also the paragraph: Transition and the employee's situation.

⁵⁶ Milanovic B., Social Costs of the Transition to Capitalism, Poland 1990, 1991, The World Bank Working Papers, 1993.

⁵⁷ 10 Program stabilizacyjny i jego skutki. [in:] Bałtowski M., Miszewski M., Transformacja gospodarcza w Polsce. Warszawa 2006.

be pointed out that the main reason for these low and stable incomes⁵⁸ was the government's attempts to hold down the inflation and that happened to be achieved (from a monthly hyperinflation of 54,8 percent in December 1989 to 1,8 percent in August 1990.)⁵⁹

Income changes between 1989 – 1990 (%):



Elaboration of data presented in *Program stabilizacyjny i jego skutki*. [in:] Bałtowski M., Miszewski M., *Transformacja gospodarcza w Polsce*. Warszawa 2006.

People's Republic of Poland was not a country of rich people, however and, after the transition, poverty increased suddenly. An estimated 17 % of the population lived in poverty in the year 1989 – by the year 1991 it reached 34 %. For all social groups, except pensioners, the poverty rate doubled.⁶⁰

Since the transition, and because of it, two new socio-economic groups have emerged: households who obtain their main earnings from self-employment activities in the non -agricultural private sector, the so cold "self-employed", and households whose main income source are social transfers other than pensions -social income recipients. These are two groups within which occurred the highest and the lowest poverty.⁶¹

The second lowest poverty incidence was observed among pensioners and workers. For pensioners, this was a reversal of the situation prior to transition, when they consistently had the highest poverty figures. For groups with an active connection to the labor market, the highest case of poverty was recorded among

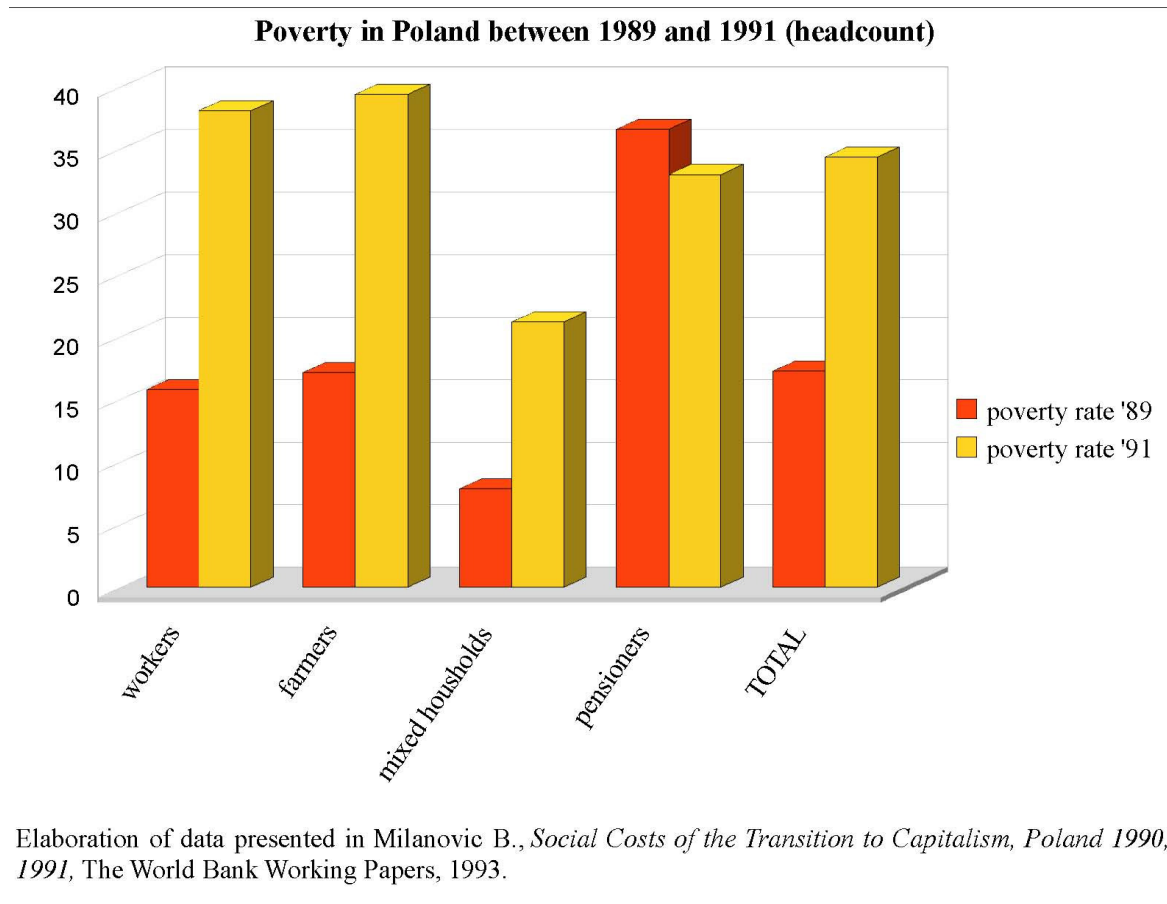
⁵⁸ One way of achieving stable incomes to hold inflation was implementing super-normative wages tax („Popiwiek”) for the time of transition.

⁵⁹ *Program stabilizacyjny i jego skutki*. [in:] Bałtowski M., Miszewski M., *Transformacja gospodarcza w Polsce*. Warszawa 2006.

⁶⁰ Milanovic B., *Social Costs of the Transition to Capitalism, Poland 1990, 1991*, The World Bank Working Papers, 1993.

⁶¹ Grootaert Ch., *Poverty and social transfers ind Poland*. The World Bank Policy Research Working Paper. 1995.

farmers.⁶²



The major cause of poverty in Poland is unemployment. Its skyrocketing was, probably, the most visible social ill resulting from the transition and it happened to be a permanent component of the social – economic situation of Poland. At the end of the year 1990, unemployment amounted to 1 Mill. people and was still growing. In the subsequent year there were already 3 Mill. unemployed people in Poland and the unemployment rate reached 20%.⁶³

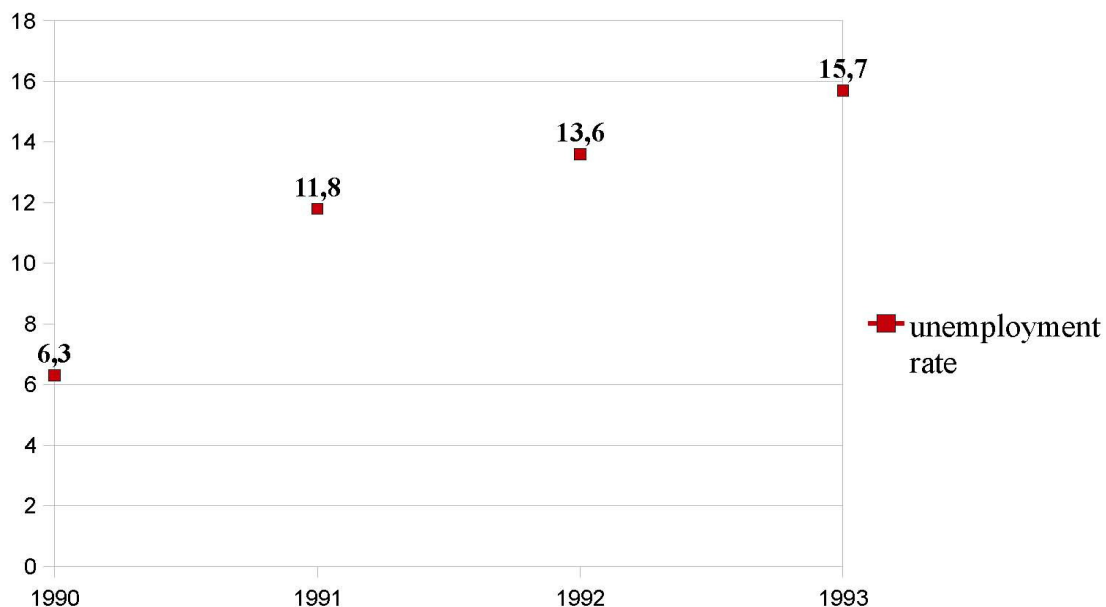
Nevertheless, it has to be pointed out, that the reforms, to large extent only showed the unemployment that had existed in a hidden form during socialist times. *Unemployment at your workplace* – as Jacek Kuroń⁶⁴ called it. By the term *hidden unemployment* we mean providing occupation for everyone, substantial overstaffing if necessary, employment of workers who are not fully occupied and under use of employed workers. It is hard to say how big unemployment was during the '80s,

⁶² Ibidem.

⁶³ Winiarski B., Rozdział 9. Procesy transformacji - od realnego socjalizmu do gospodarki wolnorynkowej. [in] Polityka gospodarcza, Warszawa 2006.

⁶⁴ Jacek Kuroń (1934-2004): one of the democratic leaders of opposition in the People's Republic of Poland; prominent Polish social and political figure; educator and historian; an activist of the Polish Scouting Association; co-founder of the Workers' Defense Committee; twice a Minister of Labor and Social Policy.

however, there are reliable assessments for more than 20%.⁶⁵ Another important reason for such a quick rise of registered unemployment was new laws of liberally allowing for receive the unemployment benefits.⁶⁶



Elaboration of data presented in Milanovic B., *Social Costs of the Transition to Capitalism, Poland 1990, 1991*, The World Bank Working Papers, 1993.

Real per capita consumption dropped in general in 1990 by 13.5 percent. Food consumption amid workers' households right after the transition mainly declined.⁶⁷ Income financed consumption dropped by 20 – 30 percent. The change between years 1990 and 1991 amounted in income financed consumption by minus 10 percent and by plus 9,6 percent in public consumption.⁶⁸ The ownership of durables increased, as a result of an opening market and more efficient goods delivery.

There is, however, a need of being aware of the fact that already in the year 1992 Polish economy started to rebound and an economic growth in Poland resumed. During the post-reform period, rates of unemployment decreased and average real

⁶⁵ Program stabilizacyjny i jego skutki. [in:] Bałtowski M., Miszewski M., *Transformacja gospodarcza w Polsce*. Warszawa 2006.

⁶⁶ Note: a vicious circle: social benefits causes a decrease of employment rate, increase of unemployment rate causes decline of financial base for social benefits but also bigger needs to satisfy.

⁶⁷ Grootaert Ch., *Poverty and social transfers in Poland*. The World Bank Policy Research Working Paper. 1995.

⁶⁸ Statistics show that the consumption after transition was in Poland considerably well comparing to similar economies at that time, such as Czech Republic and Hungary. For more see: Program stabilizacyjny i jego skutki. [in:] Bałtowski M., Miszewski M., *Transformacja gospodarcza w Polsce*. Warszawa 2006.

wages increased.⁶⁹

d) Ordinary people's responses to the changes

Shortage of consumer goods and constant growth of demand over supply, as seen in empty shelves in the stores and enormous queues in front of shops for such a simple thing as toilet paper, was a permanent image of PRL times. Available goods with artificially low prices were frequently allocated through long queues and waiting lists. Even when people had money, they were not able to buy their every day butter or meat. Even if people had savings, they could not simply walk into a shop and buy a washing machine or a car. That was because most often there were none by reason of consumption limitations, rationing and short supply. And if there happened to be desired goods, they were not only at the government controlled prices but also the quality was as poor - just as a weak coffee, substitute packaging or a chocolate-like product could be. Due to free market competition, private market actors more efficiently deliver of many goods and services. On the other hand, prices were no longer determined by the state but trade liberalization led to an improvement in the range and quality of delivered goods and services - quality comes with a price. At the same time when wages were still hold by government due to stabilization of the economy. Citizens could ultimately choose but they couldn't afford all of their choices. However, queues for the basic foodstuffs disappeared.

Right after the transition people were shocked by plentitude, confused by variety, blinded by colors. Even though people were being deluded before, they were shocked by and unable to believe advertisements – in fact the first commercials happened to have a contrary effect to the previous intended: no-one desired purchasing the advertised goods. And most importantly, again, people could not afford them.

45 years of socialist times brought to citizens habits that do not really suit free market competition. First of all, there was full employment during those years. It was not possible not to have a job. Whether someone was effective or not (and mainly not), everyone held a job, which was provided along with salary for it. Taking both job and salary for granted and not needing to seek for it, can not be accepted by the private employer. The phenomenon of unemployment was not, in fact, known since the times before the second world war. As was already mentioned, the transition both caused the rise of unemployment as well as uncovered hidden unemployment. Ultimately, everything around and especially in the workplace, officially belonged not to the state, but to the whole society. The general comprehension was that everything belongs to people. Treating public property as ours, was a good exclusion for taking much needed goods – even from factories and institutions. For some it was hard to understand that working for a private employer means that the whole workplace, and everything in it, is someone else's private property and prior behavior cannot be called anything but stealing.

On the other hand, free market economy rules incited strikes in public sector com-

⁶⁹ Kostova Huffman S., Johnson S. R., Empirical Tests of Impacts of Rationing: The case of Poland in Transition. Paper for 2000 American Agricultural Economics Association Annual Meeting, Tampa 2000.

panies and demands for extortionate social packets and wage's rises which very often were complied with.

However, it has to be recorded that transition the early years did not have bad effects only. E.g. voucher privatization was a genuine return of the assets into the hands of the general population, and created a real sense of participation and inclusion. All the changes accompanying transition also motivated citizens to take more responsibility of their own lives. And considering not only effective work but also a leisure time, a huge waste of time was eliminated.

e) Transition and the employee's situation

Apart from deep social divisions, the employee's situation changed along with economic transition. The phenomenon of non-existing, or rather hidden, unemployment and a guarantee of job security have already been described. However, as the law on people who evaded working obligations was invalidated, the situation of being legally unemployed was discovered by citizens and employment agencies has had to start to function differently. What is more, the habit of avoiding economic-risk taking had to change as well.

Paying taxes was also a new significant experience for people – before the transition they saw no difference between gross and net pay, they did not have to fill a tax return and there was a common impression that taxes did not exist. Transition changed that situation completely, making the citizen a part of the whole fiscal system, making him aware of the regulations and responsibility for itself.

Central trade unions (in fact only in name) were replaced by free trade unions, as a organizations which really take care of employees situation. Moreover, the concept of the state as the only employer changed: state and government affects the labor market by affecting the whole economy and protects employees through law. Employees and private employers have mutual responsibilities.

An important issue, however, remained the lack of efficiency caused by the prior mismanagement at the work places. Since the transition and due to the free market, an employee needs to be competitive, ensuring employment through education, qualification, motivation and commitment to work. But also employers had to become competitive with an offer of social benefits if they wanted well-qualified and well-educated staff.

f) Co-operatives

Co-operative social and economic movement appeared in the XIXth century in highly developed European countries as self – help activity of weakened groups of society in the areas of saving and credits, supply and marketing, the dairy industry, organization of labor and housing. A cooperative is defined by the International Co-operative Alliance's *Statement on the Co-operative Identity* as *an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.*⁷⁰ It may also be defined as a business owned and supervised equally by the people who use its services or work at it. From a social point

⁷⁰ Statement on the Cooperative Identity [in] International Cooperative Alliance's website: www.ica.coop

of view, there are three important types of coops: worker co-ops, business and employment co-operatives (BECs) and social co-ops.

In contemporary time we can observe the vivacity of the co-operative movement in highly developed countries of West Europe such as Great Britain, Sweden, Italy, Ireland, Finland. It is part of the social economy sector and the patterns of its activity are used in special programs for supporting different groups such as immigrants, women, youth, the unemployed or disabled.

This a such important and effective form of social services has not really worked so far in Central Europe and the success of co-operatives' initiatives and the creation of new forms of activity haven't been appeared in post – socialist countries so far. The term has bad connotations as an effect of centrally planned economy times, when coops used to be a huge part of the whole system. The transition re-organized its functioning and the movement happened to be a target of both privatization and ideology attacks. Now it is struggling with problems of adaptation to the free market economy.

Poland was the place where co-operatives were under the strongest free market economy attack. During the times of People's Republic of Poland co-ops were incapacitated and their structure was very similar to the public sector: staffed with party nomenclature, gathered into unions controlled by the state, covered by planned supply and under the duty of fulfilling social-economic plans. Transition transferred co-operatives from the state-owned sector to the private one – now they are recognized by the law as private property and the *Act of 20th January 1990* liquidated central co-operative unions. But while in other countries, the phenomenon was being reorganized, in Poland it was disorganized and broken. As a result, while in 1990 there were 8,4 thousand co-operatives, seven years later the amount declined by almost 2 thousand.⁷¹ Nowadays there are cooperatives engaged in such sectors as housing, small-scale production (disability cooperatives) and those servicing agriculture (dairies, agricultural trade, agricultural equipment.) The social co-operatives are designed for the intention of social and vocational reintegration of their members and can be created by the unemployed, physically or mentally disabled or homeless people, drug and alcohol addicts, refugees and former prisoners – citizens socially excluded and in a state of poverty.⁷² Nevertheless, the cooperative idea is going through a rough time of crisis. The main matter is not even cooperative law needing to adapt to the new, free market situation, but the deficiency of interest in the movement among both government and

⁷¹ Winiarski B., Rozdział 9. Procesy transformacji - od realnego socjalizmu do gospodarki wolnorynkowej. [in] Polityka gospodarcza, Warszawa 2006.

⁷² 25 For special regulations of social cooperations in Poland look in: Ustawa z dnia 27 kwietnia 2006 o spółdzielniach socjalnych, Dz. U. 2006 Nr 94, poz. 651. About social employment regulations: Ustawa z dnia 13 czerwca 2003 o zatrudnieniu socjalnym. Dz.U. z 2003 r. Nr 122, poz. 1143, z 2004 r. Nr 69, poz. 624, Nr 99, poz. 1001, z 2005 r. Nr 164, poz. 1366, Nr 175, poz. 1462, z 2006 r. Nr 94, poz. 651. New regulations are currently under debate of the Parliament: Ustawa z dnia 2 kwietnia 2009 roku o zmianie ustawy o spółdzielniach socjalnych oraz o zmianie niektórych innych ustaw, Druk nr 522 z 3 kwietnia 2009, Senat Rzeczypospolitej Polskiej, VII kadencja: according to the draft within the new regulations would be a possibility to create social cooperations also by local governments and NGOs.

ordinary people,⁷³ especially youth.

3.4 Social Policy realizing in Poland since the time of transformation till present day

The necessity of assurance of social safety is political domain of probably every industrial country: changeable is only the scale of poverty and social exclusion and correlated with it: range, priorities and methods of public intervention. Following article aimed to present the problem of social policy realizing in Poland since the time of transformation till present day.

a) Constitutional transformation in the face of economic and social changes

Fundamental question for describing the evolution of social policy in Poland is the indication of two historical periods: Polish People's Republic (1952-1989) – the state of real socialism with centrally planned economy and Third Republic of Poland (since 1990) – the parliamentary democracy with free-market economy. In Poland the transition from the first one to the second one - from centrally planned to free-market economy - took place in late 80 and early 90. That was a constitutional transformation.

The bankruptcy of socialistic ideology, rejecting capitalistic free market principles, exposing social justice idea, limiting private and preferring public ownership, restricting citizens' freedom, realizing omnipotence of state and precluding social control over central institutions was not only the chance of prosperous development for new Republic of Poland. For example, adoption of free-market principles to economy, realization of the state of law idea or exposing freedom and private citizens' responsibility – that all was – and still is – the great challenge.

The table below illustrates differences between centrally planned and free-market economy.

Polish People's Republic	Third Republic of Poland
monocentric social order	decentralization and political pluralism
domination of public ownership	domination of private ownership and its constitutional protection
central planning and central management	social market economy, limited public intervention in economy
unreasonable allocation of economic resources	freedom of choice in making economic decisions
existence of shortages	wide assortment of goods and services

⁷³ Chyra Rolicz Z., Spółdzielczość w Starej i Nowej Europie. [in:] Stara i Nowa Europa. Własność – Rynek – Osobowość. red. Galor Z., Goryńska – Bittner B., Poznań 2000.

The consequence resulting from economic conditions in Polish People's Republic was specific model of social policy named "national-collective".⁷⁴

The main characteristics of that were:

- an assurance of employment (correlated with citizens' duty of work),
- high subsidies to basic food prices,
- expanded social activity of works,
- elaborate system of social benefits.

That model corresponded with fourth article of the Constitution of Polish People's Republic mentioning the main goal of the state: *broad development of socialist society, the development of creative skills of the nation and of every human and heading to satisfy the needs of its citizens in the best way possible.*⁷⁵

Presently, Poland is realizing principles of "conservative-corporal" model where public intervention should aid people excluded from labour market and people in difficult material situation, the amount of financial aid is correlated with work and/or the amount of income and insurance contribution. Moreover public expenses allotted for social welfare are relating to macro-economical situation in country (mostly with the level of GDP per capita).

Social welfare in Poland is connected with implementing the principle of social justice, ensuring the freedom and rights of citizens and their security⁷⁶ but - simultaneously – also with maintenance of differences in social status, placing emphasis on private responsibility and supporting an individual in caring of social problems.

Symptomatic consequence of transformation – among many different political, social and economic effects – was the change of mentality, expectances towards rising democracy, problem of acceptance of new reality, its assessment.

In the state of real socialism authorities organized but also took responsibility for every sphere of social life, guarantying some kind of social safety. Certainty of being employed, organizing of employees' vacations, group transportation to places of work, wide range of social benefits, free medical care and equalizing financial standards in households made reality predictable, what became also a component of order, stability and some kind of comfort.

The change of social-economic system implicated a diversification of income, differences in access to goods and services, problem of unemployment, increase of poverty rate and social exclusion. The result of restored freedom became also the

⁷⁴ E. Karpowicz „Models of social policy. Directions of changes of social policy in Poland”, Information BSiE no. 1249

⁷⁵ The Constitution of People's Republic of Poland from 22 July 1952, art. 4

⁷⁶ „The Republic of Poland shall be a democratic state ruled by law and implementing the principles of social justice.” - The Constitution of the Republic of Poland from 2 April 1997, art. 2

„The Republic of Poland shall safeguard the independence and integrity of its territory and ensure the freedoms and rights of persons and citizens, the security of the citizens, safeguard the national heritage and shall ensure the protection of the natural environment pursuant to the principles of sustainable development.” - The Constitution of the Republic of Poland from 2 April 1997, art. 5

necessity of private responsibility, creativity and individual effort. Social order had to be modernized: democracy and pluralism became also an origin of political conflict, antinomy of interests, instability of political scene and frequent changes of political decisions.⁷⁷

The period of transformation was the beginning of still existing social polarization to people facing the costs of transformation (the unemployed, the poor, worse educated people and people with lower qualifications) and beneficiaries of transformation (private entrepreneurs, management staff, intelligentsia).⁷⁸

b) The evolution of social policy in the Republic of Poland

Constitutional changes in Poland after 1989 evoked the necessity of redefining and reorganization of social policy, its adoption to capitalistic reality and creating mechanism of solving new social problems.

There were four conceptions of social policy discussed during the transformation process:

- maintenance of principles created in years 1945 – 1989,
- maintenance of privileges granted in previous period and concentrating on increase of social benefits and service standards,
- introducing free-market mechanisms to all of the social sphere with simultaneously enlarging public and self-governmental forms of social welfare and private philanthropy,
- „selfgovernmentalization” of social welfare.⁷⁹

Victorious model of social policy was correlated with social market economy defined as the economy based on economic liberty, private ownership, solidarity, dialogue and cooperation of social partners. Regulating of the free-market economy weaknesses became the main goal of the state.

First step on the way to new social policy was the resolution of two acts – components of Balcerowicz Plan: The act on employment and the act on special requirements of dismissing employees. Innovations concerned lifting the citizens' duty to work correlated with new regulations concerning job agency, the assurance of receiving gratuity and liberal laws pertaining to grant benefits.

It is possible to indicate four general periods of changes in Polish social policy treating as criterions: the amount and structure of public expenses, economic development, changes in situation of employment and contents of basic political programs and acts concerning social policy and its institutions:

- 1989 – 1993: Period of transformation crisis

⁷⁷ more: L. Habuda “From Polish People’s Republic to the Third Republic of Poland”, Toruń 2007

⁷⁸ 56% of Polish society prefers living in democratic Poland: almost three-fourth of young people but – what is meaningful – the minority of elderly people. Negative attitude to Third Republic of Poland have 17%. Almost 1/3 has no opinion. – www.dziennik.pl, article: “Coraz mniej tęsknimy za PRL” from 05.01.2009

⁷⁹ E. Karpowicz „Models of social policy. Directions of changes of social policy in Poland”, Information BSiE no. 1249

- 1994 – 1997: Period of adaptation of social policy to realities of free-market economy
- 1998 – 2002: Period of changes resulting from limiting public finances
- since 2003: Period of preparation and accession to European Union⁸⁰.

The first period was the time of transformation crisis: massive unemployment, enlarging of the scale of poverty. The main aim of social policy was supporting people stricken with negative results of transformation. Characteristic features of its regulations were:

- liberal rules of granting benefits, allowances,
- commercialization of social services,
- creating work department system and social care centers.

The second period – lasting between 1994 and 1997 – was the period of dynamic economical development and the time of adaptation of social policy to realities of free-market economy. The time was characterized by reduction of social benefits receivers, continued protection of employees leaving works and placing emphasis on supporting an individual in caring of social problems.

In the next period took place some necessary changes resulting from slowing down of the economic growth and limiting public finances. Four expensive reforms: of decentralization, social security, health protection and education implicated the decrease of expenses on social security - from 30% in 1996 to 22% in 1999.

Fourth period – the time of preparation and accession to European Union - was also the time of economic boom and the inflow of financial support from European Union funds. The influence on changes in Polish social policy had - first of all - the commonly adopted European solutions.

c) The place of governmental and self-governmental social activity in current Polish social policy

Social policy in Poland is defining and implementing by governmental institutions (Council of Ministers, voievods) and institutions of self-government (marshals of voievodships, foremen at county level, mayors in communes). As a result of decentralization social policy is realizing at three levels:

- VOIEVODESHIP (regional level): The level where priorities, the main directions and long – term strategies of regional development are defining
- COUNTY: Which social domain is work market policy, family policy, medium level education and an activation of disabled people
- MUNICIPAL LEVEL: Where the main aim is cope with poverty, basic medicine care and public education.

The most important acts being the part of social policy in Poland are:

- THE ACT OF 12 MARCH 2004 ON SOCIAL SUPPORT:

⁸⁰ S. Golinowska „Social changes and social policy in the time of transformation”, Social Report „Poland 2005”, F. E. Stiftung – representation in Poland, 2005

defines tasks concerning social assistance, kinds of social benefits, criteria and procedures connected with granting them, methods of inspecting these realizations.

- THE ACT OF 20 APRIL 2004 ON PROMOTION OF EMPLOYMENT AND LABOUR MARKET INSTITUTIONS:

helps the unemployed and job seekers to be professionally active, broadens an access to labour market and its services, plans considerable preferences for the realization of permanent education processes and investing in human capital.

- THE ACT OF 27 AUGUST 1997 ON SOCIAL REHABILITATION AND EMPLOYMENT OF DISABLED PEOPLE

- THE ACT OF 24 APRIL 2003 ON PUBLIC BENEFIT AND VOLUNTEER WORK:

creating sphere for social activity, its influence on state, strengthening constitutional principles of subsidiary.

- THE ACT OF 13 JUNE 2003 ON SOCIAL EMPLOYMENT:

is mainly addressed to people who don't have their own incomes, especially to the homeless, the drug and alcohol addicts, mentally ill, the long-term unemployed, people leaving penal establishments and refugees; it offers social employment which means participation in "social incubators" – Social Integration Centers or supported social employment in enterprises, Social Integration Centers or in self-employment conditions (as cooperatives).⁸¹

These indicated acts are also an evidence of the thesis that - in Poland - the legalized possibility of operation is still not connected with nation's awareness and their activity in society.⁸²

The attitude to social problems of four presently sitting in Polish parliament parties: liberal Civic Platform, national-conservative Law and Justice, social democratic Alliance of Democratic Left and agrarian Polish People's Party is similar: problem of employment must be resolved. The question is not: "Should we aid?" but "How can we aid?"

Civic Platform treats stable economical growth as remedy to combat problem of employment, Law and Justice place emphasis on social solidarity and guarantees of social security. Alliance of Democratic Left is traditional proponent of welfare state. To Polish People's Party the most important is regional development and active proexportation policy.

Public opinion on social policy of present government is distressing: social policy is taking for the worst sphere of government's activity. Only 18% of Polish people

⁸¹ Ministry of Labour and Social Policy website, www.mps.gov.pl, from 26 February 2009

⁸² The awareness of having influence on public affairs have 30% of society, a little more – 39% - think that have an influence on local affairs. 13% are members of non-governmental organizations and social or religious movements, 1,4% participate in manifestations, 1% admit to volunteer work and philanthropy, average turnout is 53%. - from www.wykluczenie.pl: CBOS, Europejski Sondaż Społeczny 2006

think that the Donald Tusk's government is succeeded. 40% described social policy as satisfactorily but one fourth has a negative opinion.⁸³ It can be expected that in the face of economic recession Polish policy (not only in social dimension) will require new – more strict, determined and market-oriented – approach, which probably will cause the next decrease of popularity of former government's social policy.

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⁸³ The report of Centrum Badania Opinii Społecznej (CBOS), Warszawa, czerwiec 2008; http://www.cbos.pl/SPISKOM.POL/2008/K_086_08.PDF

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4 The Swedish Model of the Welfare State

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4.1 Theories about Welfare States

What is a Welfare State?

Finding a definition for “welfare state” is quite difficult. Some think that the welfare state is a state which pays for nearly all social contributions, others think that the state should interfere as little as possible in the affairs of the people. In his article “Toward the good society, once again?” Esping-Andersen introduces a theory based on the relation between state, market and family. He is of the opinion that the welfare state is characterized by three depending elements. They are controlling each other and if one of them falls away the other two are able to compensate for it. Esping-Andersen classifies the states into the following types: the liberal, the conservative and the social democratic type. There are other theories that use other concepts.⁸⁴

The Nordic Model

The Nordic Model is often called the universal or social democratic model. It is typical for the Scandinavian countries of Denmark, Finland, Iceland, Norway and Sweden.

This model includes the majority of the population into a mandatory social insurance. The state is playing the main role in the Nordic model. Welfare is mainly financed by taxes, but often it is also partially financed by fees. The model is known for taking over redistributions, but not only the poorer people obtain part of the benefits, but also the middle and upper class. It takes the pressure off the families, e. g. by providing a place in a kindergarten, in order to give parents the chance to apply themselves to the job and the family at the same time.

Trade unions have a strong position in this model. The cooperation between trade unions, the employers’ federation and the government is intense. *Equal rights* is a key term of the Nordic Model, considering both, equal chances for both sexes and for different classes of society.⁸⁵

Typical for the model are chances for individual development, an advanced service for children and income guarantees for handicapped and elderly people.⁸⁶

⁸⁴ Esping-Andersen, Gosta, Toward the good society, once again? Antwerp, May 2003, p. 8

⁸⁵ Persson, Christer m.fl. Åtta år med Reinfeldt – vad varje väljare bör veta, Ordfront, Stockholm, 2006, p. 18

⁸⁶ Esping-Andersen, Gøsta, a.a.O., p.10

4.2 Organization and alteration of the Swedish Model

From the 1930s to the 1950s

In 1931 the workers and the state power had a bloody conflict. In the mining city Adalen workers who had assaulted strike breakers were shot by the army. Five workers were killed. This led to open conflicts between the two parties of the labour market. The congress of the federation of trade unions LO declared that it is no longer ready for negotiations with the employers' federation SAF.

At the same time Sweden suffered from an economic crisis. Between 1931 and 1933 the number of unemployed increased from 10.9% to 20.8%. The employers' federation claimed that unemployment would be a consequence of the wage policy of the trade unions. On the other side, the trade unions criticized what they called "economic mismanagement" and required regulations by the state. Strikes and lockouts increased; in 1930 about one million working days were cancelled. In 1933 the number reached 3 millions.⁸⁷

In order to fight unemployment, the government financed jobs that else would not have existed, the so-called AK-jobs. For getting cheaper labour, employers tried to employ AK-workers instead of ordinary ones.

In 1933/34 the Parliament resolved on an unemployment insurance demanded by the LO. It was supposed to be financed by the state and managed by the trade unions. In order to obtain a majority in the Parliament, the Social Democrats addressed to the farmer party. The farmers suffered from decreasing prices for their produces and an increasing competition. Both parties agreed on an arrangement concerning the prices for agricultural produces to improve the situation of the farmers; in turn the farmer party supported the introduction of the unemployment insurance.

In spite of different attitudes, all of the three parties on the labour market (the federation of trade unions LO, the employers' federation SAF and the social democratic government) understood that peace on the labour market was necessary to improve the economic situation. In order to achieve this, the government threatened legislation if LO and SAF could not find solutions.

In 1938 both parties agreed on the "Saltsjöbaden-Agreement". Employers and employees committed themselves to go without fights as strikes and lockouts during the validity period of the agreement. They agreed on how to solve problems. This had been the "decisive breakthrough on the way to a labour market on which central negotiations replace open struggles and the main promoters of the labour market take over responsibility for decisions that had been shaped by moderation and by everything that is compatible with macro-economic conditions and economic growth". At the same time the state has the chance to conduct a long-term reformist policy.⁸⁸

⁸⁷ Findeisen, J.P.2003, Sweden, published by Friedrich Pustet Verlag Regensburg, p. 230f.

⁸⁸ Saltsjöbadenaftalet, p. 71

This laid the foundation for peace on the labour market and for the renowned Swedish Model. Labour disputes diminished after 1938. Until now Sweden will be reminded of the “Spirit of Saltsjöbaden”, if social peace gets in danger.

In 1945 the “unity government” ruling during war was replaced by a social democratic government that demanded new reforms. For example, it wanted to improve the housing market, for all families to have a good home. During war a progressive tax system had been introduced. People earning high wages had to pay more taxes. The post-war years were good for Sweden. In 1946 the pensions were raised. Now they were high enough for the old people to live of them. Two other important reforms of the forties were the free school meals and child allowances for all families, independent of their income. One goal of these reforms was to increase the birth rates that had been declining since the 1930s.

In 1950 the school system was changed by introducing a general nine-year comprehensive school. In 1951 the Parliament decided to extend the right to legal holidays from 2 to 3 weeks. The social democratic reforms continued in the 1950s. Child allowance was raised, monthly scholarships for young people between 16 and 18 were introduced and the weekly working time was reduced from 48 to 45 hours.

The Swedish Model during the 1960s and 70s

After WW II the Swedish economy had the advantage of exporting factory goods, wood and ore into the European countries being occupied with the reconstruction work. During this time the gross domestic product per inhabitant increased immensely. Between 1960 and 1965 the GDP grew by an average rate of 5.3% per year and labour productivity increased by 5.6% per year. After the end of war unemployment dropped rapidly and stayed below 2% during nearly the whole period up to the 1970s. In the beginning this took place without inflation rising.⁸⁹

Until 1950 Sweden had been an ethnically homogenous nation, but now immigration became stronger, as Sweden needed workers and the immigrants were promised a higher income and a better standard of living. Between 1960 and 1965 170.000 people came from the Nordic neighbor countries (mainly from Finland), but also from Yugoslavia, Greece and other countries. Without immigration the economic record years would not have been possible.⁹⁰

In the 1950s and 60s business cycle policy was orientated towards Keynes. The targets of economic policy were extended. Due to the extension of the labour market policy, an increasing public sector and many possibilities for investment and residential construction they tried to balance the business cycle, to create full employment and to enforce social reforms, e. g. a general health insurance. The rapid economic growth facilitated the extension of the public sector and an increasing private consumption at the same time. Sweden had an economically mixed system, merging market economy and planned economy and this model became fa-

⁸⁹ Eklund, H., 2007, *Vår ekonomi*, Nordsteds akademiska förlag, p.389

⁹⁰ Hadeniu., S, 2008 *Sveriges politiska historia*, Stockholm: Hjalmarson & Högberg Bokförlag, p.145

mous as the “third way”. During the 1960s Sweden was one of the wealthiest countries of the world (respecting the GDP per inhabitant).⁹¹

At the beginning of the 1960s the social democrats and the communists had a stable majority in the Swedish Parliament. A strong state was expected to offer its citizens good education, medical care, security for the old-aged, and a high standard of living. Both parties were convinced that this would not be possible without a great public sector. One of the priorities of the social democrats was the housing policy. Millions were spent on building 100.000 new homes each year during a period of ten years. Schools were reformed dividing elementary schools into three parts (1st-3rd, 4th-6th and 7th to 9th grade); “Realschule” (type of secondary school for ages 10 to 16) and girls’ schools were abolished.

The 1970s proceeded in contradistinction to the 1960s. The increment of the GDP was divided in half, productivity was damped. Industry stopped increasing. In 1982 production was not higher than ten years earlier, before the first oil crisis. Most countries faced an economic crisis at this time, but especially Sweden.

Evidence suggests that the first post-war decades had been a period of special circumstances, e.g. an atypically long-lasting advance of productivity and a high growth of the industrial production in the west. The Swedish Model is not to be considered as a reason for this fortunate development in Sweden. It is rather a coincidence that its first development proceeded during just this period, as the exterior requirements for growth were excellent.

After WW II many countries required support for reconstruction and apart from Switzerland Sweden was the only country without a damaged economy and with full work force. The Swedish export took great advantage thereof. But the more Europe was being reconstructed, the less imports from Sweden were required. Therefore the Swedish growth shrunk. The European countries now imported more and more products from the United States. As the countries of Europe became stronger after the destructions of WW II they were often more flexible to invest into new technologies and so the Swedish competitive advantage was turned into a disadvantage.

The stagnant period began after the oil crisis in 1973/74 as the oil producing countries increased the oil prices drastically. Only small economic growth and increasing economic and social dissatisfaction shaped the economic and social policy. Sweden believed it would be possible to “by-pass” the bad years and the governmental economic policy stimulated private consumption in order to prevent unemployment and declining production.⁹² On the labour market several changes took place. In 1974 the law about job security became effective granting protection against dismissal. In 1976 Sweden got a middle-class government, the first time after 44 years, but no considerable changes took place.⁹³

⁹¹ Eklund, H., a.a.O., p.388

⁹² Eklund, H., a.a.O., S.398ff

⁹³ Hadenius, S, a.a.O., S. 156f

Changes since the 1980s

The crisis of the 1970s also had consequences on the 1980s. In 1981 and 1982 the Swedish Krona was devaluated by 10% and afterwards once more by 16%. After six years of a middle-class majority a new social democratic government came to power in 1982. The new government introduced a price freeze. It declared to the trade unions that a compensation of incomes could not be taken into consideration. One of the main problems of the Swedish economy was a wage-price spiral and therefore the Swedish products were not competitive on the international market. In spite of many protests a resolution came into existence to generate employees' funds. This meant that companies had to pay part of their profits into these funds which were being controlled by the trade unions.

In the mid-1980s the situation in Sweden improved. Unemployment rates were not as high any longer; the same was true for inflation, and Swedish companies had improved their positions on the markets. In 1990/91 Sweden had the world's highest interest rates. This led to tax reforms that lowered income taxes and increased the value added tax. At the end of the 1980s the Swedish banks and economy were seemingly well-off, but this was only an illusion. In reality great problems had to be conquered. Demand for Swedish products abroad decreased. Consumption and inflation as well as non-tariff pay rises were too high at the end of the 1980s. The government tried to fight the crisis by different reforms. They revoked the promises for 6 weeks of holiday and an improved parents' insurance.⁹⁴

In 1991 middle-class parties came to power again. Key words were privatization and lowering of taxes. They liquidated the employees' funds and used the money for research and development. In spite of privatization the government was forced to support the banks, which got in a crisis. The economic crisis was great and in 1992/93 the unemployment rate climbed to 10%, the highest rate since the 1930s. In 1992 the financial situation had to cope with another blow; the Swedish Krona got into the crisis; the central bank tried to save it and increased the bank rate to 500%, but it did not help. Confidence into the Swedish Krona was shaken considerably. There was free currency conversion and the Krona was devaluated directly by 10% and dropped again later.⁹⁵ Sweden's national debts increased enormously until the beginning 1990s (up to 80% of the GNP). The country constantly lived beyond its means for nearly two decades.

Facing a smaller scope for the state, the government and the opposition came to a compromise. They started to reform the social system and introduced a day of unpaid sick leave and a fee for medical or nursing care. They also agreed on a package against the bank crisis. Furthermore, they changed the budgeting process. Until the mid-1990s the situation stabilized. The social democrats that took over power again in 1994 conducted a restrictive policy. They started to pay off the accumulated national debts and to prioritize the fight against inflation. In 1998 the old pension system was abolished and a new one introduced (see below).⁹⁶ Until the end of the social democratic term of office in 2006 the economy had recovered,

⁹⁴ Hadenius, S., a.a.O., S.176 ff.

⁹⁵ Ebd., S. 201 ff

⁹⁶ Ebd., S. 201 ff

unemployment had been reduced and the national finances were under control again. The improved situation was a consequence of different steps that had been taken to alter the welfare state. This occurred with the background of a good economy and an improved export. In 2006 the middle-class parties came back to power. They promised changes, especially in the taxation system. The new government conducted several measures. The most important reforms were the abolishment of the mandatory unemployment insurance, reforms for dental care and the privatization of pharmacies (there had formerly been a state-run monopoly).

4.3 Services of the Swedish Welfare State

The national government, the districts and the communities are responsible for the services of the Swedish welfare state. The different responsibilities are settled in a law. The expenses spent on welfare make up the main part of the budget on all three levels. The planned national social expenses of 2009 constitute 55% of the entire budget.⁹⁷ Communities spend about 78% of their budgets on welfare (2006), districts even 91% (2006).⁹⁸ The expenses are mainly financed by taxes.

Where does the money go?

Sweden has a well developed welfare state. The money goes to the following main areas:

- Parents money: From 60 days before the birth on the mother is allowed to obtain parents money, if she does not work in a job that is dangerous for the child. If the former is the case, she obtains 2 months of pregnancy money additionally. The parents/pregnancy money corresponds to approximately 80% of the income.⁹⁹ As soon as the child is born, the father is allowed to get 10 days of holiday.¹⁰⁰ Both parents together can obtain parents money for 480 days. Of these 480 days each has to take 60 days of holiday, the rest of the time they can arrange as they like.¹⁰¹ If a child is ill, one of the parents can stay at home with the child. The parents are allowed 120 days per year and get 80% of their income. After 7 days a medical doctor has to attest the illness of the child.¹⁰²
- Child allowance: Every child born in Sweden or living in Sweden gets a child allowance. It is paid to the parents until the child becomes 16; depending on the circumstances the children can get a further child allowance or a study grand afterwards.¹⁰³

⁹⁷ Regeringen, 2009, Så fördelas budgeten

⁹⁸ Carlstedt, Irene och Löfgren, Ingeborg, 2007, Landstingens kostnader och intäkter, Sveriges kommuner och landsting

⁹⁹ Försäkringskassan, 2009, Föräldrapenning under graviditet

¹⁰⁰ Försäkringskassan, 2009, Ledighet och ersättning i samband med barns födelse

¹⁰¹ Försäkringskassan, 2009, Föräldrapenning

¹⁰² Försäkringskassan, 2009, Om barnet blir sjukt

¹⁰³ Försäkringskassan, 2008, Barnbidrag och flerbarnstillägg

- Childcare: In Sweden every child is supposed to have the chance to attend a pre-school. Children whose parents are working or studying have the right to a place in the kindergarten or in the after-school care centre. The communities are responsible for it and can also charge private institutions. The costs for a place in the kindergarten or the after-school care centre costs are depending on the income and the number of children in the family and amount to a maximum of 1.260 SEK (~120 €) per child per month.
- School: In Sweden a 9 year-elementary school is mandatory for all children above the age of 7. School and lunch is free of charge for all students. After elementary school the students can choose 3 years of secondary school , also free of charge, but with the difference that lunch does not have to be free; the schools are allowed to take a fee for it. The providers of the schools are the communities or private companies/organizations, which hold a license by the state.
- Communal adult education: Every person above the age of 20 living in Sweden has the right to free adult education. Fees for teaching material may be raised. The communities are also responsible for these institutions.
- University education and study grants: Studying at universities is free of charge. Today you have to pay a fee of maximum 500 SEK (~50 €) per term for the students council. Swedish students also obtain study grants. For a period of 240 studying weeks a student can get 671 SEK (~60 €) per week. In addition you can get a study credit of 1.284 SEK (~120 €) per week which has to be paid back after having finished the studies.¹⁰⁴ If a student earns more than 54.000 SEK (~5.000 €) per year, the study grant will be reduced accordingly.¹⁰⁵
- Accommodation allowance: Parents with children, persons between 18 and 29 years of age and pensioners are allowed to get an accommodation allowance. Decisive for the grant and the level of allowance are the rent and the income of all members of a household.
- Unemployment allowance: (see chapter below).
- Welfare: People who are not able to provide for their own living, are allowed to applying for money from the state. The money the person gets is supposed to cover the costs for a normal standard of living.¹⁰⁶
- Handicapped: Handicapped people have the right to different supports according to their situation. This support is free of charge. However, poverty in one's old age, special housing forms for young people and special types of care require additional charges. The communities are responsible for this kind of support.¹⁰⁷

¹⁰⁴ CSN, 2008, Hur mycket kan du få?

¹⁰⁵ CSN, 2008, Hur stor inkomst får jag ha under året?

¹⁰⁶ Svenska författningssamlingen, 2009, Socialtjänstlagen (2001:453)

¹⁰⁷ Svenska författningssamlingen, 2009, Lag (1993:387) om stöd och service till vissa funktionshindrade

- Health insurance: The general health insurance covers the majority of the health care costs and the compensation of the income in case of sickness. It is valid for most of the people living in Sweden. For further details see below.
- Pension insurance: This insurance includes everybody who has lived at least three years in Sweden. It grants a special income to people who have retired. For further details see below.
- Care of the elderly: The communities are responsible for the care of the elderly. They are supposed to support the elderly and make sure that they are able to lead a life in dignity. This is achieved by different measures, e. g. domestic help. These measures are usually not free. The fees are different in the individual communities, but the maximum rate amounts to 1.700 SEK (~160 €) per month. This amount is dependent on the general basis of assessment.¹⁰⁸

4.4 The labour market policy

The main goal of the Swedish post-war labour market policy was to reach full employment. Before the oil crisis in the 1970s this had been no great problem, as Sweden had a high economic growth. To prevent increasing unemployment after the crisis, the government conducted an expansive finance and monetary policy leading to many devaluations of the Swedish Krona. But concerning the unemployment which stayed below 2% in the 1980s this policy really worked. Compared to other countries this was a very low rate.

At the beginning of the 1990s Sweden got into a severe economic crisis and employment was reduced by nearly 500.000 people. In 1992/93 unemployment increased to 10% and since then it has been higher than before the crisis. This recent unemployment rate challenges the welfare state in a new way. The crisis affects especially young people and immigrants. Many of them stand outside the labour market.

The structural changes of economy contributed decisively to the higher unemployment. Since the 1970s the industrial sector has shrunk continually, while the service sector and the public sector grew more and more. Several sectors dispose of many unemployed, while other sectors are not able to find workforce at all. The requirements for education are steadily increasing.

In the year 2000 unemployment dropped to a relatively low level (approx. 4%). Nevertheless this was two times the average rate of the years 1940 to 1990, when unemployment at most times did not exceed 2%.

Labour market policy today

An efficient labour market with only few unemployed is one of the essential elements of our welfare state. When facing high unemployment it is difficult to secure welfare. For long the "working line" has been an important term of the Swedish labour market policy. This means that job seekers who are not able to find a job are offered different labour market political measurements. Only afterwards they

¹⁰⁸ Socialstyrelsen, 2009, Meddelandeblad

can obtain financial support by the government. The middle-class government that has been in power since 2006 especially emphasizes the “working line”. The government pursues the goal that everybody who really wants to work has to get the chance to get a job according to his working ability.

The main targets of the governmental labour market policy are:

- To contribute to an effective labour market
- To increase employment
- To fight unemployment

Of special importance are people who are far from the labour market and have to get access to it. This is true for young people, immigrants and handicapped people. The government mainly tries to increase employment for these groups by improving the conditions for companies (e. g. tax relieves).¹⁰⁹

The Swedish labour market and the financial crisis

The recent financial crisis is affecting the Swedish economy considerably. Many of the big companies (e. g. Volvo, SAAB) had to dismiss people. The OECD predicts that unemployment in Sweden will rise to 8% by 2010.¹¹⁰ The government will mainly fight this unemployment by an active labour market policy. This is heavily criticized by the opposition being of the opinion that more has to be done to prevent a rising unemployment rate.¹¹¹

Unemployment support

Certain requirements have to be fulfilled to obtain unemployment benefits:

- During the last 12 months before the beginning of unemployment the person must have worked at least 80 hours per month within a period of at least six months, or at least 480 hours for six coherent months. These requirements are only valid for normal jobs in a private company or the public sector. Not more than two months of military service or of parents money/child allowance are also allowed for fulfilling the above mentioned conditions.
- The person has to be physically and mentally able to work at least three hours a day and an average of at least 17 hours per week.
- The person has to be prepared to take up every offered job; unless reasons are at hand that have been recognized by the agency of the labour market AMS, e. g. handicaps.
- The person has to be registered as unemployed at the responsible authority AMS.
- The person has to sign an agreement with the responsible authority AMS.
- The person has to be active in seeking a job.

The amount of unemployment support paid has to be settled the Swedish government, but many powers have been delegated to the community authorities. It is left

¹⁰⁹ www.regeringen.se

¹¹⁰ <http://www.dn.se/ekonomi/borg-finanskrisen-inte-over-1.471233>

¹¹¹ http://www.e24.se/samhallsekonomi/sverige/artikel_921487.e24

to them to calculate the amount of unemployment benefit. The first seven days the unemployed does not obtain unemployment benefits, these are called unpaid days. For not more than five days a week, Monday to Friday, the unemployment benefits are paid as day-wage. The unemployment benefits are reduced in case of another job, sickness or other preventions to take up an offered job. The unemployment funds calculate the amount of unemployment benefit on the basis of the former income. The amount of the benefit is dependent on how much the person has worked before and how much he has earned. For the first 200 days the unemployment benefit amounts to 80% of the former income. From day 201 to 300 the unemployment benefit corresponds to 70% of the former income. In case of a granted prolongation of the unemployment benefits, 65% of the former income are paid from day no. 301 on. Parents of children below the age of 18 obtain 70% of their former income until the 450st day.

As already mentioned, the unemployment benefit is determined by the Swedish government and at the moment the maximum daily rate amounts to 680 Swedish Krona, as the lowest and general rate that is not dependent on the former income adds up to 320 Swedish Krona per day.

On participating in labour market political programs the unemployed can also get support for their activities. The daily rate is subject to taxation and also leads to a right to a pension.

In case of rejecting an offered job or to participate in a labour market political program, the AMS has the obligation to inform the unemployment funds which have to decide on the allowance of unemployment benefits again. If the rejection is not based on important reasons, the unemployed takes the risk of obtaining lower payments.

- In the case of the first rejection the benefits may be reduced by 25% for a period of 40 days or 8 weeks.
- In the case of a second rejection the benefits may be reduced by 50% for a period of further 40 days or 8 weeks.
- In the case of a third rejection the right to benefits may be withdrawn. Then the unemployed has to fulfill new conditions before he can be allowed benefits once again.
- In case of cutting a program or a job short without having important reasons, the unemployed will be suspended of the unemployment benefits for 45 days. If this occurs too frequently, he will not obtain benefits anymore.

Implementing the “Lisbon strategy” in Sweden

During the EU summit in Lisbon in the year 2000 the governments of the EU determined the so-called “Lisbon strategy”. In order to address the effects of globalization and the demographic problem, they shaped the vision of making the EU to one of the most competitive economies worldwide by 2010. The main targets of the vision were “increased growth rates and new jobs”.¹¹² 70% of the employable population of the EU were supposed to be employed by 2010.

¹¹² www.brysselkontoret.se

From the beginning of the project until 2006 about 6 million new jobs have been created. Between 2003 and 2004 the development declined due to the economic situation. On the first evaluation this was traced back to the failure of the member states to accomplish reforms. The “Lisbon strategy” was revised in 2005 and many new steps were determined to achieve higher employment.

Beyond this goal other comprehensive goals were suggested within the scope of a future social policy.¹¹³ Some priorities were determined, of which increased investment into human capital by education was emphasized the most. Another strong emphasis was put on an improved flexibility of work forces and companies and better chances to place people on the labour market.¹¹⁴

During the meeting in 2005 they also determined that each member state had to work out a “national program of reforms” for accomplishing the “Lisbon strategy”.¹¹⁵ The national programs on reforms had to be evaluated by the commission by describing both the strengths and weaknesses of each nation.

The common labour market policy of the EU is involving a coordination of questions concerning employment. The EU does not pass laws in the area of employment, the member states rather accept common guidelines and work out according national programs of reforms. By coordinating the employment policy an exchange of experiences between the countries is made possible, but the countries are left the liberty to adapt their policy on their own.

In January 2006 the first evaluation of the “national programs” was made by the commission. According to this evaluation the Swedish program has taken good measures against unemployment, but could put more emphasis on an increase of the offered work force. The different partners on the labour market are supposed to take part in implementing the determined measures in a better way to find common solutions with view to the globalization and the demographic problems.¹¹⁶

On the summit 2008 an extension of the strategy was discussed. Much emphasis was put on the questions how to advance education and research as well as how to realize less bureaucratic effort for companies.¹¹⁷

4.5 Health system and medical care

Divided responsibility

In Sweden the responsibility for the health system is divided between the state, the provincial parliaments and the communities. The state determines guidelines and goals and is responsible for the supervision of the health and medical care. The districts and communities provide for the medical care. The provincial parliaments are responsible for hospitals and the outpatient departments. There are also private doctors and treatment centers in Sweden that are in part assigned by the

¹¹³ www.europaportalen.se

¹¹⁴ www.regeringen.se

¹¹⁵ www.brysselkontoret.se

¹¹⁶ www.europaportalen.se

¹¹⁷ www.brysselkontoret.se

provincial parliaments. But they only include a small part of the health system and the medical care. The communities are responsible for the senior care at home as well as in old people's homes and also for the care of the disabled.¹¹⁸

The Swedish health system and medical care can be divided into three categories: primary care, provincial hospitals and regional hospitals.¹¹⁹ The primary care usually makes the first diagnosis. It is almost synonymous with outpatient departments that usually make the first contact with doctors and nurses within the care. This is the place to go if you have nothing acute. The doctors working in outpatient departments normally are general practitioners. If they are unable to make a diagnosis, you will be referred to a specialist. In the primary care there are also many different therapeutically professions. The primary care can provide for the majority of the persons needing care, as long as they do not need the technical and medical knowledge of the hospitals.¹²⁰

Hospitals belong to the provincial parliaments and are the next authority after the primary care. They have specialized equipment and a higher medical competence. They are responsible for acute and planned treatments, which the primary care cannot cope with.¹²¹

Regional hospitals are the last authority. The provinces are divided into 6 regions. The purpose of the regions is to strengthen the cooperation between the provincial parliaments. In each region there is at least one regional hospital. There are 8 regional hospitals in total and they treat complicated and unusual diseases. All of these hospitals are also university hospitals.¹²²

Expenses

75% of the Swedish health and medical care is financed by taxes and only 3% by patients' fees. The main part of the expenses is accounted for specialist treatment (50%) and about 20% for primary care.¹²³

The fees are different in the various provinces and the expenses for different treatments also vary. Sweden differentiates between open and closed treatment. A closed treatment means to be registered in a hospital; an open treatment means to get outpatient treatment without staying in hospital.¹²⁴ Law defines regulations for the upper expense limits. In case of closed treatment the hospitals are not allowed

¹¹⁸ Socialdepartementet, 2007, Hälsa- och sjukvården i Sverige, Stockholm, Regeringskansliet

¹¹⁹ Ebd..

¹²⁰ Löfgren, Ingeborg, 2004, Primärvård – vårdcentraler, Sveriges kommuner och landsting

¹²¹ Löfgren, Ingeborg, 2004, Sjukhus, Sveriges kommuner och landsting

¹²² Löfgren, Ingeborg, 2004, Regionsjukvård – specialistsjukhus, Sveriges kommuner och landsting

¹²³ Carlstedt, Irene och Löfgren, Ingeborg, 2007, Landstingens kostnader och intäkter, Sveriges kommuner och landsting

¹²⁴ Vårdguiden, Stockholms läns landsting, 2008, Hälsa- och sjukvård

to take more than 80 SEK (~8 €) per day. In all provinces the treatment for young people below 18 years of age is free, in some provinces even below 20.¹²⁵

In open treatment there is also a maximum rate of 900 SEK (~90 €) per year. If a family has more than one child, the costs for all children are combined. The fees for open care are dependent on the age and also on which doctor you consult. At the moment the fees range from 100 SEK (~10 €) to 200 SEK (~20 €) for consulting a doctor of the primary care. Fees for consulting a specialist range from 230 SEK (~23 €) to 300 SEK (~30 €).¹²⁶ There is also a maximum rate for additional charges for medication amounting to 1.800 SEK (~180 €) per year.¹²⁷

Problems

One of the greatest problems of the Swedish health system and medical care is the long waiting periods, both for visits to the doctor and operations. If you attend the primary care or regional hospitals you can count with spending hours there, not because of a long treatment but because of the long waiting periods for a doctor or a nurse. Due to the long waiting periods the Swedish government introduced a care guarantee. This means that the day you contact an outpatient department of the primary care you are supposed to get an answer. If necessary you have the right to meet a doctor within 7 days. After having been referred to a specialist you have the right to meet the specialist within 90 days. In case a further treatment is required e. g. an operation you are supposed to get it within further 90 days.¹²⁸ In spite of these guarantees waiting times are still longer than 30% as prescribed.¹²⁹ Treatment is another problem. Many are making the experience that the treatment, especially in the primary care, is insufficient. The diagnoses and the examinations are inadequate. A lack of doctors is a problem, too. Compared to Norway, Denmark and Switzerland the income of doctors in Sweden is insufficient, therefore many doctors move to these countries.

Health insurance and sick-pay

The Swedish general health insurance is an insurance against the loss of earnings in case of illness or injury. Nearly all services of the health insurance are administered on a regional level by the general insurance funds. Each provincial parliament has insurance funds together with a number of local subsidiaries. Social insurance contributions are raised besides taxes. Everybody who has been employed for at least one month or who has worked for 14 days usually has the right to obtain sick pay during the first 14 days of the sickness period. The persons that are not having an employer, e. g. unemployed and self-employed people get the sick-pay by the sickness funds from the beginning of their sickness. The same is

¹²⁵ Knutsson, Hasse, 2009, Patientavgifter i slutenvård 2009 (.pdf), Sveriges kommuner och landsting

¹²⁶ Knutsson, Hasse, 2009, Patientavgifter i hälso- och sjukvården 2009, Sveriges kommuner och landsting

¹²⁷ Vårdguiden, Stockholmsläns landsting, 2008, Högkostnadsskydd för läkemedel

¹²⁸ Gripkow, Ulf, 2009, Vårdgaranti/ Vård i rimlig tid, Sveriges kommuner och landsting

¹²⁹ Väntetider i vården, 2009

true for people who are released from work and receive parents' or pregnancy money.

Since the mid-1990s the first day of a sickness is a day of unpaid sick leave. This day is valid if you get either sick-pay by the employer or by the sickness funds. You are not allowed to have more than 10 days of unpaid sick leave per year. In case this number is reached you will receive sick pay starting from the first day of the sickness. But that is not true for self-employed people.

If you are sick for more than 7 days a medical certificate is required. This will be used by the employer and the health insurance to assess if the working ability is reduced in such a way that you have a right to sick-pay.

The employer's sick-pay comes to 80% of the income. The sick-pay paid by the insurance funds is calculated on a different basis. It is dependent on the annual income and is usually lower than the sick-pay by the employer.

Problems of health insurance

The number of long-term sick notes has increased since the 1990s. Sweden was one of the countries with the highest number of sick notes. Reasons have been among others generous regulations for sick notes and the lack of regulations for premature pensions existing in other countries. This caused a great increase of the costs.¹³⁰ This had been a great problem for Sweden for a long time, but today (2009) the latest numbers show a strong decrease of sick notes. In 2008 the number of paid days for sick leave has been reduced by 16.3%. In 2008 new regulations for the health insurance were introduced which led to assessing the working ability again after three months, six months and one year.¹³¹

The aim of the government is to reach an average figure of 37 days of sick leave per year and employee, which means to pay a compensation for an average of only 37 days per year for an insured person.¹³² Recent data of 2008 show that in July of 2008 a figure of 36.9 days of sick leave were reached, however varying strongly in the different regions. In Stockholm the figure came to 31.3 and for example in Norrbotten, a province in the north of Sweden, it added up to 43.8 days per employee per year.¹³³

Experts indicate that we have to expect much greater problems resulting from the demographic development. The Swedish institute for health and medical care (IHE) has made up the following calculation in view of the future financing of the health system: Considering the looming demographic development, in 2040 the number of days in hospital for people above the age of 65 will rise by 70%. This would mean an increase of costs by 270% compared to the situation today. To be added is the rising demand for senior care.¹³⁴ For solving these problems a new

¹³⁰ Läkartidningen, Nr4 2005:
www.lakartidningen.se/store/articlepdf/2/2609/LKT0548s3666_3674.pdf

¹³¹ Sveriges kommuner och landsting, 2009: www.skl.se/artikel.asp?C=5840&A=57728

¹³² Skattebetalarnas tidning, Sunt förnuft, 2007 september, Robert Gidehag

¹³³ Försäkringskassan, 2008: www.forsakringskassan.se/press/pressmed/pm2008/pm26_08/

¹³⁴ Dagens Nyheter v. 14.6.09

social consensus has to be demanded that will secure the necessary resources for organizing and financing the medical care of an ageing society.

4.6 Sweden's new pension system

The new system was determined by the Parliament in 1998; it has been in power since 2003. It was introduced because the old system had been too expensive and had not corresponded to the economic situation of the country. Additionally it disadvantaged people who had worked for a long time and had had a regular income.

The general pension consists of three parts. The main part is the pension based on the income. Each year 18.5% of an employee's gross income is deducted as a contribution to his pension insurance. Not only wages and salaries are effective for the pension, but also benefits of the unemployment and social insurance. 16% of the gross income are placed on a fictive account; in reality the money is used to pay the current pensions. The system consists of six funds, the so-called AP-funds that have the goal of accomplishing a balance between deposits and payments.

The future pension is based on one's life income. People who had a high income and worked until the age of 67 receive a higher pension than someone who had a low income and stops working at an earlier age. In order not to disadvantage persons who have little children, who accomplish compulsory military service, or students, they can obtain compensation and thereby avoid a pension reduction.¹³⁵

The system is independent of the national budget; it is only financed by contributions and is complying with the development of the average income in Sweden. Therefore the pensions rised by 4.5% in 2009, as the economic situation of Sweden had been very good in 2008. As the economic situation got much worse afterwards and the AP-funds lost much of their value, there will be less money in the system. In order to get a balanced system again, the pensions will probably sink by about 4% in 2010. The parties that have introduced this system, the social democrats and the four middle-class parties are now debating how the system may be changed to avoid major fluctuations.

The three parts of the new pension system are:

The premium pension: 2.5% of the gross income are invested into funds. You can choose on your own, into which funds you want to invest and thereby try to raise your future pension. Of course, there is no guarantee that the value of the funds will increase.

Employee's pension: By labour agreements most people working in Sweden have the right to an employee's pension. The employer is paying the contributions, but the employee is choosing on his own how to invest the money. You can either choose a traditional insurance or invest the money into funds. The insurance is the safer alternative. By the general pension and the employee's pension you receive approximately between 60 and 80% of the former income.¹³⁶

¹³⁵ www.regeringen.se/content/1/c6/04/79/98/ddf1552c.pdf

¹³⁶ <http://www.regeringen.se/sb/d/2634/a/93644>

Guaranteed pension: People not having earned anything or only little and therefore get no or only a very low pension based on the income have the right to a pension guaranteed by the state (minimum pension). In order to get it you must have reached the age of 65. In 2009 this pension amounts to monthly 6.777 SEK¹³⁷ if you are married or 7.597 SEK if you are not married. People who have lived less than 40 years in Sweden do not get the total amount. Someone having lived in Sweden for only 20 years gets 50% of the amount.

By these means Sweden is one of the few countries that has succeeded in creating a self-financed pension system that is adapted to the demographic development and that is able to react to the economic development of the country.

The pressure on the social security systems seems to be less than in other countries. Essentially, this is caused by two reasons. The birth rate of 1.8 children per woman who is capable of bearing children is relatively favorable compared to other European countries. Furthermore, prognoses indicate that the immigration by mainly young people will continue in the next decades.

¹³⁷ 1 € = 11,40 SEK (im März 2009)

E Reports of the workgroups

1 The demographic development as a challenge for pension insurance systems

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1.1 Introduction

The major part of the costs for the cornerstones of social security (pension, health and unemployment insurance) comes to the pension insurance. Due to the demographic development the former system of pay-as-you-go financing (the contributors are financing the pensions of the current pensioners) is less and less able to be paid for. Besides, the age of beginning retirement has decreased since 1970. At the same time life expectancy has increased continually. In 1960 German men received their pension for an average period of 9.6 years; women for 10.6 years. Until 2005 the average period of receiving pensions increased by almost 50% to 14.7 years for men; for women the period even doubled to 19.8 years. In most welfare states the increasing part of old people will outnumber the young. If today 25 out of 100 persons are at retirement age (above 60 years); there will be 37% in 2050 (in Germany). This tendency gets stronger not only because the part of the elderly employed people has continually decreased in most countries. The social security systems have to take account of these developments. Facing a declining economic growth, increasing unemployment and decreasing tax revenues the public indebtedness increases. It is already the second highest expense item of the national budgets of Belgium and Germany. Since the turn of the millennium public debt in Germany ascended by 27% and currently amounts to 65% of the German economic performance per year (84.9% in Belgium). Therefore the public financing capacities for the social security systems become more and more limited. The consequences for the pension insurance are that the own contribution of the insureds has to increase for making it effective and as independent of the national budget as possible.

Even the employees' and employers' contributions for the social security systems can hardly be increased anymore; the opposite is the case: the countries try to lower the non-wage labour costs for the employees almost everywhere for making the "work factor" cheaper and to strengthen the competition power of their own national economy.

With regard to a higher own contribution to the pension provisions it has become clear that primarily in the most developed welfare states many people have no sufficient willingness to it and rely only on the state-run provisions.

To be added to this are the special problems of the individual nations:

- The old Swedish retirement system disadvantaged the ones who had worked a long time, as mainly the 15 years of high income were crucial for the annuity rates.

- In Poland the early retirement age contributed to low pensions (right to a pension at the age of 55 after 30 years in the job), which led to a considerable poverty among the elderly people for those who had no relatives.
- Belgium developed a system of early retirement (“bridge pension”) which is not stable in the long run.
- In many nations women have been disadvantaged, as the periods for raising the children had not been credited against their pensions.
- In the last 10 to 20 years the living expenses in many nations have increased more than the pensions. The pensioners had to accept many pay freezes.
- Certain special groups (labor jobs, farmers, civil servants...) have made great financial demands on the system by getting special conditions (earlier retirement age, lower social insurance premiums and higher pensions).

By taking the listed deficits and problems of the old models into consideration, it becomes indispensable to reform the retirement insurance and to develop newly effective and socially fair systems in our nations.

1.2 Criteria for an effective and socially fair retirement system that is able to be financed

Because of the already described budget situation in most nations the financing of the pensions have to be independent of the national budgets, as it already is the case in the new Swedish pension model. The point is to develop a self-supporting, effective and also socially fair system to which the government, the employee and the employer have to contribute adequately. We suggest the following steps to become part of such a model.

All types of **activating steps** have to serve the aim of stimulating the willingness to work and to create incentives to stay in jobs that are subject to social insurance as long as possible. The more this is the case, the more money flows into the provision funds. With regard to these requirements we suggest the following points:

1. The **age of entering into a job** should be adequate, that means conditions have to be created to take over young people into employment as soon as possible. Part of it is to direct the time period of academic studies in order for the students to finish their studies in a designated time. An example for this could be the Swedish student grant system where the support granted is dependent on the success of the studies. (The students have to pass 75% of the exams of the current term in order to get further financial support for the following terms).
2. The **level of the job qualification** has to be increased in order to get all the young people a job. Therefore reforms in the education system have to be carried out, in order to promote young people with low education. A flexible system of job education, similar to the dual system in the German speaking countries, would have to be recommended. In addition the system of life-long learning has to be developed to increase the general qualification level. This will also lead to a higher labor force participation rate of elderly employees.
3. Creating better requirements for the **economy** in many nations to employ both more young and more elderly people. Parts of it are a loosening of the

protection against unfair dismissal and a more flexible payment depending on the profitability of the companies. The people aged 55 to 64 represent a great potential. As in Belgium and Poland only one out of four of them has a job, in Sweden 70% are employed. Particularly in the countries mentioned, the companies need incentives (e. g. the Polish model 50+, which provides special qualifications and governmental benefits for this age group) in order to raise the labor-force participation rate of elderly employees.

4. The **age of entering into retirement** has to become more flexible and the system of **part-time work** must be developed. The work of retired people must be stimulated adequately and obstacles (e.g. pension deductions when they have a job) have to be reduced. We see new job possibilities for elderly people in the child care. Many grandmothers and grandfathers could work under the instruction of qualified teachers in kindergartens, company kindergartens, preschools or as day mothers. Investments into this area could be an important contribution to increasing the birth rate and therefore strengthen the basis for the financing of such work systems and also the pension systems altogether in the long run. The compensation for this work of the elderly employees could in our eyes also be partially granted as allowances in kind (e. g. dental prosthesis, glasses and other medical care). When the elderly employees and pensioners take over meaningful tasks they can pass their life experience and values to the youth. Thereby they also increase their own quality of living.
5. An important requirement for the functioning of an effective and socially fair retirement system is strengthening the willingness of the citizens to **provide for their own old age**. Among these are effective tax incentives (e. g. "Riesterrente" in Germany and noticeable tax reductions in Sweden). It is essential to primarily reach a social stratum with a non-academic background, this would mainly be possible in the schools.
6. It is indispensable to have a regular **information flow** by the public authorities about the right to the expected pension on different conditions in order to strengthen the consciousness for the need to contribute to the own old-age pension in time.

1.3 Our pension model

This system should be made up out of three parts. The aim of our model is, as already mentioned, the total independence of the national budget. It has to be self-financed by 100%. These three cornerstones are a **state-aided minimum pension**, a **company pension** and a **private provision**. In doing so the citizens are expected to take over a high degree of personal responsibility. In parts we refer to the already reformed Swedish system, however slightly modified.

The state only has to pay for the minimum pension of each citizen, in order to grant a minimum standard of living and to avoid old-age poverty. The minimum pension serves only to meet the basic needs of food and living. The aim is to create an effective incentive for working and making private provisions. This minimum pension is self-financed: From birth forward a so-called pension account has to be set up for every citizen. Every month an amount fixed by the state is paid into this account. Until the citizen will earn money on his own, a fixed part of the child allowance plus an inflationary compensation will be paid in. When finally entering

into a job he will continue to pay in this amount for the rest of his working life. This amount has to be independent of the income, i. e. a businessman will pay in as much as a cleaner. In times of unemployment a small part of the unemployment benefits will be paid into this lifelong pension account directly by the job centre.

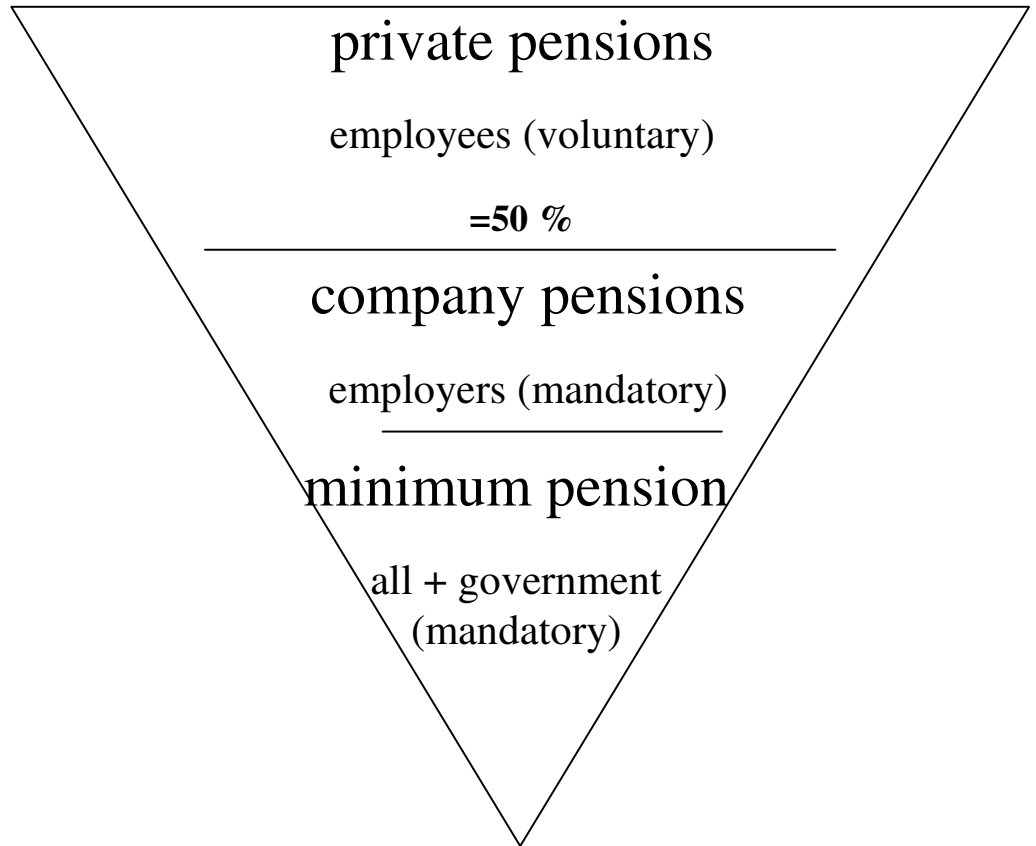
Based on the German data we made up the following calculation for the financing of a nation's minimum pension: 40 million employees with an average monthly income of 2.700 Euro in the year 2009 pay in 10% of it (~11 billion Euro). Added to this have to be 15 million children, 2 million students and 4 million unemployed who each contribute 10 Euro per month, this would be 200 million euro for one year. If we estimate a minimum pension of 600 Euro per month, for 20 billion retired persons would have to flow in 12 billion Euro into the fund for the minimum pensions. For a higher minimum pension the contributions would have to rise accordingly. By this system the minimum pension could be self-financed. However, it has to be considered that this system will only cover the minimum standard of living and that private provisions are indispensable.

The second part of our model is the company pension. Companies have to provide for their employees. By introducing the minimum pension the employer's contribution has fallen away. We suggest to use it as a foundation for the new company pension. The pensions will regularly be negotiated by the trade unions and the employers (like the wages). By doing so it is possible to react flexibly to the economic development of individual sectors and the particular profitability of the companies.

The focus of our model is the personal provision making up a minimum of 50% of the pensions. It is essential to create a stronger consciousness for one's personal provision among the population. It is left to the individual, if, how much and in which form he provides for his own old age. The state should not relieve the citizen of his personal responsibility. The requirements of transparency and individuality are made by an early education and by offering a broad range of products. It is left to the citizen if he will provide for his own old age by means of stock purchases, funds or saving. Another incentive will be tax concessions, which will continue to be granted to those who provide.

In our opinion our model meets the requirements of an effective and socially fair pension system and is also flexible enough to be adapted to the particular national conditions.

Our model



2 Challenges and strategies for the European labour market policy

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2.1 Does the EU need a common labour market policy?

The main aspect of the change from the mere welfare state to an activating welfare state is consisting of increasing requirements for employers and employees. This becomes especially clear in the area of the labour market and the fight against unemployment. The steady increase of the European economy and the persistent enlargement of the welfare state have reached their limits due to stagnant economic activity, demographic and structural changes.

Today the EU consists of 27 member states that have the liberty to make important decisions on labour political questions on their own. As a consequence the vision of a common market in the area of labour market policy can only be fulfilled with difficulty.

As the Lisbon Strategy can only coordinate comprehensive labour market political questions inside the EU and does not dispose of law-making power this leads to the question if the EU needs a common employment policy.¹³⁸

By comparing Belgium, Germany, Poland and Sweden we will point to the most important problems and will discuss possible solutions afterwards.

The initial point of these considerations was the comparison of the most important national problems of the different states in order to find something in common and to work out possible solutions.

2.2 Labour market political challenges and strategies: an overview

Unemployment of the young and elderly population

In the four countries Belgium, Poland, Sweden and Germany mainly young people between 15 and 24 years of age as well as employable people older than 50 are affected by unemployment. In Belgium 19%, in Poland 17%, in Sweden 22% and in Germany 15% of the young people are unemployed. The average of the EU amounts to 15%.

The following model would be possible for integrating both population groups into the labour market. A vacancy could be occupied by a young and an elderly unemployed person in equal shares. Both share the job and obtain an allowance by the state in order to not having financial disadvantages. The state can also save

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<http://www.brysselkontoret.se/home/bryssel/fackligt.nsf/unidView/577E42EC2CAB4171C12574F30047B28E> (25.03.2009)

money, as the job applicants are not dependent on the full support anymore. In addition to that the number of early retired people can be reduced. In the course of the years a reduction of the working hours of the elderly employee has to take place and at the same time an upgrading of the young employee. Both have the chance to benefit of this model; the young of the experience of the elderly and the elderly of the innovations of the young. The crossover into retirement is proceeding subtly. The job is introduced slowly to the job beginner and by the way he has the possibility to attend to his professional training or his family.

Structural changes

a) Economic changes

In the recent years many economic changes have taken place in the member states of the EU. Poland for example increased its agriculture. In order to comply with the requirements of the EU many agricultural companies had to be modernized. As many could not afford restructuring, companies had to be closed. In order to avoid this in the future, government aid would be necessary.

It would be possible to merge the smaller companies and to establish specialists with a management training. So financial means could be more effectively distributed to building projects and training measurements. In addition, the existing unemployed persons of the agricultural areas could be financed the required training measurements. This stirs up the question how far the European agricultural aids could be used for this change.

b) Regional differences

A further reason for unemployment is the difference of the regions inside the member states. In three countries unemployment is dependent on regional circumstances. In Germany, for example, the unemployment rate is highest in the east and lowest in the south. In the east of Poland there are more unemployed than in the west, and in Belgium problems of unemployment are existing in the south rather than in the north. We find the reasons in the history of each country and the connected settling of the companies. A possibility has to be found to advance the development of those regions with the highest rate of unemployment.

Higher employment could be made possible by financial support of the EU for building new infrastructures, for modernizing existing companies and releasing money for the settling of new companies. Furthermore, young people have to be encouraged to stay in those regions by allowing them benefits for purchasing property and building homes.

c) Strategies for advancing education

An essential reason for unemployment in the four mentioned countries is that education and training do not match the requirements of today's labour market. As a consequence many EU-states have a lack of specialists in different areas. Today more people become humanists than scientists and engineers. This is the reason for lacking qualified medical doctors and computer specialists. In addition to that many job trainings are not focused on the job itself. The four mentioned countries

spend about 6% of their gross domestic product on the training of young people.

¹³⁹

A further aspect is that in many EU-nations there is not enough investment into the areas of education, research and sciences. According to studies of Eurostat¹⁴⁰, investment into research and development amounts to 3.82% of the gross national product in Sweden, 2.51% in Germany and 1.83% in Belgium. In Poland only 0.56% of the gross national product is spent on these areas as the government is not ready to invest more.

One solution could be to invest more money into the areas in which there is a lack of specialists and to reorganize education in a more practical way. Interest in technical and natural scientific professions could already be stirred up in elementary school. This could be achieved by different projects carried out by the corresponding institutions or by using media, e. g. TV programs on different jobs.

Another solution could be to give the students of natural or engineering sciences the possibility to graduate, financially supported by a company, and the students in turn have to work one to five years for the company. Besides, the cooperation of companies could improve the practical orientation.

d) Migration

We have to notice that migration from the new EU-member states is increasing and many qualified people leave these countries for Western Europe and the US to make more money. This leads to a lack of qualified specialists.

On the other hand problems are occurring by immigration to the old EU-member states, above all to Great Britain, Spain and Germany. An insufficient integration policy and a lack of language skills lead to a low employment rate among foreign fellow citizens. Another problem is the settling of migrants in a particular area of the cities as this leads to the development of parallel societies. In the long run the labour force of the migrants could be required in order to meet the problems of an ageing society.

The opening of the labour markets for all members of the EU is considered to be a solution to the migration problems, problems in the area of education and the problems of an ageing society. At the moment the markets of Germany, Denmark and Austria are closed. In 2011 all borders have to be opened. In order to counteract the lack of qualified labour forces in medical science, the technically oriented industry and the engineering sciences the strict legal restrictions have to be eased and the qualifications acquired abroad have to be recognized more easily. That is the only way to facilitate the entry to migrants of non-EU countries.

Furthermore, it is necessary to take political steps to make jobs in these countries more attractive, even by advertising interesting jobs. Besides, social programs could be developed to integrate employees, e. g. by language courses. They also have to be informed about their rights and the systems required in the country they

¹³⁹ www.oecd.org

¹⁴⁰ Eurostat 2006

immigrated to. In addition to that it is necessary to recognize the degrees of other countries and to work against the development of so-called “ghettos”.

e) Static labour market

In spite of the development described at the beginning it becomes clear that inside the EU and especially in the countries with a long tradition of social security we have an attitude of relying on our social security systems. Particularly in Sweden, Germany and Belgium the motivation for being proactive is restrained by the strong support of the government. This attitude is aggravated by the enormous social influence of the trade unions.

This leads to a lack of flexibility and mobility on the labour market and a tendency to misuse the social security systems. Besides, the wages earned by working are in some cases not sufficient to induce the unemployed to start a job.

f) Insufficient deregulation

In Germany we allowed for this development by the concept of “Fördern und Fordern” (“promoting and demanding”). For obtaining governmental aid the job seeker has to show personal initiative and the real readiness to take up employment. The amount paid is in accordance with a socio-cultural minimum standard of living – the former living standard cannot be maintained in most cases. This will have to lead to a higher motivation for taking up employment.

In spite of a similar approach in Sweden, where payments have also been reduced, there are great differences in the different countries. In Sweden unemployment benefits range between 900 and 1.800 € per month, in Belgium between 1.259 and 1.906 €, in each case depending on the former income. In Germany long-time unemployed get 351 € plus expenses for adequate living. However, in Poland an unemployed receives 130 € per month for one year and afterwards he has no rights to further payments. Therefore the unemployed in Poland are forced to develop personal initiative and go after a job.

On the other hand there are strict regulations for companies in all of Europe that hinder investment and new jobs. In this case a far-reaching deregulation could produce relief. For example, an authorization procedure for a limited company disposing of employees subject to social insurance contribution is taking 56 days in Belgium, 43 in Germany and 16 in Sweden.

g) Dynamisation of the labour market

By comparing other countries to Poland it becomes clear that the problem of passivity is merely not found with low unemployment benefits. Reducing the payments in case of unemployment would contribute to more flexibility and mobility and less misuse of governmental benefits in Sweden, Belgium and Germany. A dynamic standard rate based on the efforts of a job seeker could also be a high incentive to take up employment. To facilitate the job seeking all European countries and especially Poland need a more efficient administration. Furthermore, the loosening of protection against dismissal could lead to a transition to a flexible labour market in all of Europe.

Lower non-wage labour costs are a possibility of making work subject to social insurance contribution more attractive. The reduction of illegal working will lead to

lower labour costs and will advance job creation, especially in labour-intensive areas.

In order to improve the qualification of employees on the other side to facilitate taking up employment at all, programs for life-long learning in cooperation with private companies could contribute to re-integrating long-term unemployed to the labour market.

Further radical reforms will, however, only be enforced against considerable resistance of the population. Last but not least, drastic cut-backs in the social security systems could erase the idea of the European welfare states.

2.3 Conclusion

All four countries we examined have problems with the situation on the labour market. The greatest challenges are: unemployment of young and of elderly people, a change of structures, emigration and immigration, the education system and last but not least the dynamisation of the labour market.

We already suggested several possible solutions to handle these challenges. It is important to create incentives for taking up employment and to restrict a misuse of the social systems, in order to make support also in the future available to those who really need it. A further important step is to adapt the educational policy to the needs of the labour market and to lead young people systematically to working. Governments, employers and employees, trade unions and other social organizations have to cooperate to meet these challenges successfully. Does Europe need a common labour market policy then? Our response is YES! It is not only necessary for the countries of Poland, Sweden, Belgium and Germany to converge, but it is in fact indispensable for an actual unification of Europe. If we work together on our problems, we can create a stronger and more competitive Europe that is the guarantee for our future beyond the Lisbon Strategy.

3 Requirements for a health-system in the EU

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3.1 Introduction

After dealing with the variety of health systems of different nations of the EU, particularly those of Sweden, Belgium, Germany and Poland, we recognized that each system has its advantages and disadvantages. Each nation is facing nearly the same problems. In order to solve these problems we have tried to design central elements of a utopian health system for all EU-member states. We have to point out that the characteristics of our design cannot be applied to all EU-member states in the same way. The goal of our studies was not to introduce all characteristics of this system to each nation. However, it should be mandatory for every nation of the EU to carry out some of the important characteristics. The EU has to grant the introduction of particular mandatory characteristics in each member state and found a new institution therefore. This European Health Authority has to control the observation of the standards and to advice the nations accordingly.

The main problems of the different European health systems concern the quality of medical care, the guarantee to grant this medical care to everybody as well as the possibility to grant access to the required health care irrespective of the personal financial situation, the waiting time, the health prevention as well as the insufficient personal responsibility to maintain the individual health. We have to state that for example in each nation of the EU there are too long waiting periods and a lack of medical doctors, that qualified medical staff emigrates (“brain drain”) and that the financing of the health system is difficult.

3.2 Affordable health care for everybody

Everybody has to obtain all required medical services irrespective of his personal financial situation. A “two-class-model” is unacceptable. Especially poor and homeless people have to obtain all necessary services for maintaining and recovering their health.

The state has to grant the free accessibility to everyone. Because of that it is required that the health system has not only to be financed by the contributions of the employed. Rather it is required to obtain a particular financial subvention by taxes. All persons and institutions paying taxes have to participate in the financing of the health system. It would be wrong to finance it only by the employed and pensioners. The returns of companies have to be included into the mutual financing of the health system. Employers and employees have to bear the contributions to the health insurance for the employed in equal shares. The accessibility to medical services has to be simple to realize. We therefore suggest to using the personal ID card to get access to all services of the health system. The requirements would be to provide the ID card with an electronic chip that contains the essential data of health insurance and information about medical occurrences of

the patient. The separated ID cards existing in several countries have to be integrated. According to the above mentioned principles free access to health care has to be valid for citizens of all EU-member states. The issue of an ID card in all EU-member states hence requires the verified membership in a health insurance.

The basic principles of the free circulation of persons, goods and services inside of the EU must lead to every citizen of the EU obtaining all required medical care and to his health insurance taking over the costs. In this context we have to consider the below described aspects of personal responsibility.

Citizens of non-EU nations would only obtain free access to the required medical care in cases of emergency.

3.3 Access to medical care in time

The systems of medical care have to be organized in a way without having waiting periods of several weeks or even months as it is the case in some countries.

Medical care for emergency cases has to be available 24 hours a day for in-patients as well as out-patients.

It is necessary to develop service standards that also consider the waiting period. This is true for the making of appointments for treatment or examination as well as the waiting period at the day of treatment / examination both in the medical practice and in hospital. The waiting period for getting an appointment for a treatment should not exceed two weeks. The waiting period at the day of examination should not exceed 30 minutes. These standards have to be evaluated by the new European Health Authority which is also responsible for the quality of medical care.

To realize a short waiting time it is necessary to take particular steps. Among them mainly:

- An adequate number of doctors of each specification per 1.000 inhabitants in all regions
- For achieving an adequate regional spreading the state has to create incentives for doctors to settle in less attractive regions.
- Providing a sufficient number of qualified non-medical staff of the health system (nurses, therapists, psychologists, etc.).

A short waiting period is not to be realized at the expense of quality. Sufficient time is needed in order to adequately respond to the problems of the patients. This is also an aspect of the quality of medical care. For only a patient who experiences that the medical experts attend to his problems and concerns will be won for a constructive cooperation. This cooperation is an important basis for an attitude of health awareness and for personal responsibility.

3.4 Quality management

The meaning of quality is on the one hand the minimums standards that have to be kept by the medical institutions. On the other hand we suggest a family doctor-system that has to provide all people with the necessary medical care.

a) Minimum standards

There has to be a minimum standard of medical care that has not to be deseeded. Of course, services exceeding this minimum standard are permitted. Both public and private medical institutions have to keep this standard, however determining the expenses for this service on their own. The minimum standards of the level of medical care being the same does not necessarily mean that the expenses have to be the same. If a general practitioner does not keep the minimum standards he has to be warned. If he still will not comply with them, he has to be withdrawn his license.

In each country there is a national controlling authority authorized by the European Health Authority whose task is controlling and guaranteeing the compliance with the minimum standards. This authority also offers an ombudsman-service to which the patients can present their complaints, requests and suggestions. This controlling authority should not only be on the level of one complete state but also be made accessible by means of regional and local stations. The local authorities have to control the medical institutions on a regular basis.

There has to be an EU-standard for the medical training also in order to facilitate the access to jobs for qualified medical staff in other EU-nations and the employment of medical personnel from other countries. Medical knowledge is subject to a rapid change, therefore the personnel has to be kept up to date respecting new insights. Therefore the medical staff has to be committed to participate in further professional training on a regular basis. This obligation to training has to be advanced by financial allowances and by charging the training period to the working time.

b) The family-doctor system

The health system does not only have to be effective in the area of care and services, but also efficient with regard to the costs. To reduce the costs we suggest to introducing a system of family-doctors. This means that everybody is allowed to choose his family doctor or general practitioner who will be in the main charge of this patient. You have to contact this general practitioner in case of health problems first (excluding emergencies) and he will be in the main charge of the patient's medical file. The general practitioner will then refer the patient to another specialist. The patient has the right to decide, to which specialist he wants to go, as long as the specialist belongs to the required specialist area and the costs will be covered by the insurance.

For the success of the medical care it is essential for the patient to trust in the treating specialist. Therefore it has to be possible for the patient to take part in the decision on the kind of treatment as well as to consult another specialist.

3.5 Health care and personal responsibility

Besides the provision of medical care it is the task of the health system to take measurements for health care and the taking over of responsibility for the personal health.

General health examinations have to take place regularly and free of charge for everybody, so that the people are not hindered to participate in the general exami-

nations. During these examinations they have to get additional advice concerning the nutrition adequate for their health condition. The state has to offer websites informing about healthy nutrition to every citizen. Dental examinations have to be carried out once per year. Special controls, e. g. mammograms, ECGs as well as for genetic diseases or in case of disposition for a certain disease have to be carried out if they are necessary.

Health care can also mean the prescription of fitness programs instead of or in addition to medicinal treatment. Steps have to be taken in order to prevent sexual transmissible diseases or unintentional pregnancy. In addition to the free distribution of condoms the early and sufficient information is very important. This has to take place at the age of 12 at the latest, in which schools have the task to inform on a health-maintaining behavior.

People have to take over the responsibility for their health and to be aware of its importance. The state is supposed to reward a behavior of health awareness of individuals, e. g. by subsidizing memberships in sports clubs or supporting the withdrawal of alcohol, drugs and cigarettes. An efficient measurement to reduce the consumption of cigarettes and alcohol could be the raising of taxes. Sports organizations have to obtain aid money by the state in order to offer everyone to make sports at low costs. The offered sports also have to be adapted to the needs of sports beginners, so that everybody, no matter how athletic he is, is able to benefit of it. Sports lessons in schools are mandatory and have to stir up interest in sports with less athletic people.

3.6 Conclusion

We do not believe that our model will be rapidly introduced to the complete EU as a unitary system. The EU is characterized by cultural, ethnic and religious diversity and economic and demographic differences between the individual EU-member states. This makes it difficult to introduce an ideal model. The countries do not have equal possibilities to introduce this model. Different forms of government (federal states, centralist states) and the different organization of their health systems also hinder such a unitary system. But after several years every EU-state has to be able to keep the described minimum standards. It is not sufficient only to conclude them, but rather to control their observation. Every state is able to additionally determine further standards.

The following aspects have to be valid for all EU-states:

- One standardized call number for emergencies in all of the EU: 112
- Medical care on an equal minimum standard
 - Access to medical care 24/7
 - Hotline for citizens' requests concerning health
 - Consistent rate of doctors per inhabitant
 - Standardized European final medical degree
 - General standards for professional training in the medical area for all of the medical personnel
- A standardized labeling of food and drinks indicating health risks
- Information on health awareness by sexual lessons in schools

- An ID card for every EU-citizen which also serves as health insurance card and grants access to medical care everywhere in the EU. The ID card is provided with an electronic chip containing all information on the medical problems of the patient.

To ascertain the observation of all these standards and general regulations a European Health Authority has to observe and control the member states and to adapt the standards according to the innovations of science on a regular basis.