

## Social Protection Expenditure - Comparisons and Discussions for the EU Countries

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### Abstract

*The period of the Covid-19 pandemic is a special one, it is a period in which governments around the world have allocated large sums to social protection spending, when many parts of the economy have seen a reduction or even closure of activity. The present paper is structured as empirical research that analyses longitudinally and cross-sectionally social protection expenditure with the purpose of identifying those countries in the EU that have significantly increased this expenditure and to see whether in the last decade the growth rates are significant. So, we found that at EU-27 level, the social protection spending has expanded and intensified during the pandemic and that the governments have adopted measures to support vulnerable groups.*

**Key words:** social protection expenditure, GDP

**J.E.L. classification:** H50, H55

### 1. Introduction

One of the main functions of governments is the redistribution of income and wealth, which is financed by compulsory payments from the state budget. The category that dominates budgetary expenditure is social benefits and transfers paid to households to reduce the risk of poverty and to cover social needs. This includes unemployment benefits and pension payments.

Social protection policy is an important part of public policy in EU countries. The European institutions are constantly striving to increase employment in parallel with active social policy to prevent social exclusion, unemployment or inequity. Substantial funding is allocated at EU level for food and material aid through numerous projects with the aim of ensuring the full fundamental rights of European citizens.

### 2. Literature review

A 2019 study shows that the global recession of the past decade has had a significant impact on welfare spending. In almost all EU countries, their share in GDP increased, even reaching an average of 28% in 2016, even though, after 2010 European countries limited this expenditure as much as possible. Three patterns of countries can be observed, the Nordic and continental countries allocating the highest amounts to social protection, the southern European countries allocating medium amounts and the Central and Eastern European countries allocating the lowest amounts to social protection. Moreover, this hierarchy also respects the hierarchy in terms of GDP of these countries, the higher the GDP, the higher the level of social protection. (Spasova, 2019)

In terms of the level of taxation and its impact on the redistribution of welfare income, it has been found that countries with relatively low taxes and social protection have a comparative performance with countries where taxes and transfers are much higher, such as Germany. (Jourmard et al., 2012)

If we consider inequality in terms of social protection, Saracenco argues that inequality must be considered ex ante in terms of the sources of its formation and its reproduction, rather than ex post, which only redistributes income and, in many cases, increases social inequality. (Saracenco, 2019)

Detailed research about the volume and structure of social protection expenditure at EU level between 2007 and 2016 concludes that Nordic countries have a higher level of social protection compared to Eastern European and Baltic countries. Also, the largest share of social protection

expenditure is spent on old age, illness and disability benefits in most European countries. There is also great diversity across the EU in terms of social assistance policies, demographic trends and the economic, social and institutional factors determining the volume and structure of social protection expenditure. (Halaskova, 2018)

A recent study identifies economic and demographic trends, the economic crisis at the beginning of the century and the pandemic period as the main factors determining changes in social protection spending in the EU. Among these factors, the trends in Member States' economies are particularly notable. In this context, social protection systems have adapted, but substantial reforms are needed to ensure the sustainability of public finances. (Szymańska, 2023)

### 3. Research methodology

In this paper we aimed to see what the evolution of social protection expenditure at EU level has been, with a focus on the post-crisis period and the pandemic Covid-19 period.

We tried to find a balance between theory and practice. To this purpose, we have empirically studied in which EU countries budget allocations for social protection have increased significantly and if the growth rate of these expenditures has exceeded the growth rate of GDP. The methods used are longitudinal and cross-sectional, concentrating on identifying groups of countries for which social protection expenditures are significant.

### 4. Findings

We analysed the statistical data provided by the European Commission and observed significant increases in social protection expenditure in 2020 compared to 2019 for all EU countries. In total, the increase in social protection expenditure per capita was 7.22%.

*Table no. 1 Country level of total expenditure on social protection per head of population (Euro per inhabitant, at constant 2010 prices)*

Country	2010	2019	2020	2021	Percentage change 2020 compared to 2019 (%)	Percentage change 2021 compared to 2010 (%)
EU-27	7130.25	7937.62	8510.53	8556.32	107.22	120.00
<b>Countries with the highest social protection expenditure per capita</b>						
Denmark	14921.55	15660.38	15982.50	15966.15	102.06	107.00
France	10213.70	11277.11	11821.19	11874.73	104.82	116.26
Luxemburg	11639.39	18641.75	20720.30	20424.65	111.15	175.48
Austria	10461.94	10931.90	11843.50	11947.81	108.34	114.20
Finland	10223.45	11341.88	11781.68	11879.04	103.88	116.19
Sweden	11322.94	12136.47	12438.55	12531.97	102.49	110.68
<b>Countries with the lowest social protection expenditure per capita</b>						
Bulgaria	879.26	1182.94	1340.04	1472.37	114.36	158.52
Romania	1083.57	1490.74	1704.86	1717.72	115.12	150.01
Estonia	1944.88	2626.04	3023.19	2917.60	110.27	167.84
Latvia	1531.06	1981.40	2184.96	2569.66	116.55	161.56
Lithuania	1730.54	2358.30	2748.55	2795.94	110.43	171.53
Poland	1874.38	2809.19	3102.31	3215.14	114.36	158.52

Source: <https://ec.europa.eu/eurostat>

For the group of countries that have allocated more than 10,000 per capita in the last decade, we see moderate increases. For Denmark the increase is 2.06%, for Sweden 2.49%, for Finland 3.88% and for France 4.82%. Only Luxembourg allocated higher amounts to social protection expenditure, with an increase of 11.15%.

For countries with the lowest allocations of social protection spending, increases in 2020 compared to 2019 exceed 10%. Thus, Latvia recorded an increase of 14.55%, Estonia 10.27%, Lithuania 10.43%. Romania and Bulgaria recorded similar increases, both 14.36%. For these countries, the Covid-19 period required more substantial budgetary efforts.

Regarding the trends of the last decade in the evolution of budgetary allocations per capita to social protection, we note that for countries with a high level of GDP per capita the increases in 2021 compared to 2010 are significantly lower than for other countries. The growth of this expenditure is 7% for Denmark, 16.26% for France, 16.19% for Finland. The exception is Luxembourg, which has increased this expenditure by 75.48% over the last decade.

For countries with a low level of GDP per capita, the last decade's increases in social protection spending have been significant, exceeding 50%. For example, Bulgaria recorded an increase of 58.52%, Romania 50.01% and Lithuania 71.53%. This shows that budget allocations have been higher, perhaps also due to the increase in GDP per capita over the last decade.

We note that we have chosen to compare the 2021 values with the 2010 values, given that 2020 was a special year that caused additional spending on social protection in a pandemic context.

*Table no. 2 Total expenditure on social protection as percentage of GDP*

Country	2010	2019	2020	2021	2022
EU-27	28.6	28.0	31.6	29.9	27.2
<b>Countries with the highest social protection expenditure as percent of GDP</b>					
Italy	28.4	29.2	34.3	31.8	29.6
France	33.2	33.4	38.0	35.8	32.2
Austria	29.6	29.3	34.0	33.0	29.7
Belgium	29.6	28.7	32.7	30.0	27.9
Denmark	34.0	31.7	32.9	30.7	27.0
Germany	30.0	30.0	32.8	31.9	29.2
<b>Countries with the lowest social protection expenditure as percent of GDP</b>					
Bulgaria	17.0	16.6	18.7	18.9	19.5
Romania	17.1	15.2	17.7	16.6	-
Estonia	17.6	16.4	19.2	17.4	15.6
Latvia	17.9	15.6	17.5	19.3	17.2
Hungary	22.3	16.6	18.3	17.8	16.0
Ireland	25.4	13.7	15.4	13.6	11.3

Source: <https://ec.europa.eu/eurostat>

At UE-27 level, the expenditure of social protection as a percentage of GDP increased from 28.0 % in 2019 to 31.6 % in 2020. In 2021 there are 29.9 %, more than in the last decade which preceded the pandemic Covid-19 period.

In volume terms, the growth of social protection expenditure is with 8.27% more in 2020 compared to 2019, which means 311,453 million euro. We also notice that GDP at the level of all Member States, and, therefore, also at the EU-27 level, recorded significant decreases in 2020.

The highest percentage of GDP spent on social protection in 2020 was allocated by France at 38%, followed by Italy at 34.4% and Austria at 34%. At the other end of the scale, Ireland allocated the smallest percentage 15.4%, followed by Lithuania with 17.5%, Romania with 17.7% and Bulgaria with 18.7%.

In the post Covid-19 period, social protection spending as a share of GDP decreased, less in 2021 and more in 2022. Thus, at EU-27 level in 2021 the rate was 29.9%, and in 2022 it was 27.2%, even lower than in 2010 or 2019.

We also specify that one of the limitations of the study is that when making comparisons between countries we will consider that for some countries specific social benefits are taxable, while for others they are not. Specifically, some social benefits are granted under the form of tax deductions, while others are paid directly to the beneficiary.

## 5. Conclusions

During the period Covid-19, social protection expenditure increased significantly in all EU countries. Increases were highest for countries that previously had the lowest social protection expenditure per capita. Much of this expenditure was accounted for by sickness benefit schemes, unemployment benefits, minimum income, short-time working schemes, leave for parents to care for children during school closures.

In the post Covid-19 period at EU-27 level and in all Member States the level of social protection expenditure decreased significantly as percent of GDP, reaching pre-pandemic levels or even lower. At the same time, if we talk about the amounts of social protection expenditure, these have increased, which is due to the faster growth of GDP, in the context that in all economies there is a rebound effect from the negative effects of the pandemic.

## 6. References

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