

# Social Benefits Expenses and their Financing in the Member States of the European Union

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## Abstract

*The vast majority of Europeans regard social protection as a significant materialization of modern society, looking at it as a main instrument of continuity of social interdependence.*

*In Romania, social policy is a concise policy, coordinated by the Ministry of Labor and Social Solidarity and supported by the work of other ministries such as the Ministry of Education.*

*Romania's social policy is constantly developing as is the European Union's social policy which is constantly developing, in line with European priorities, as well as its own national priorities.*

*Each Member State of the European Union shall be responsible for constituting social expenditure and financing social protection systems and for agreeing and taking into account the right to social benefits providing protection, according to their historical characteristics, as well as existing political choices and public finances, and also provide quantitative aspects of the quantitative impact of mass economic and social phenomena.*

**Key words:** social protection, public expenditure, sources of funding, financial resources

**J.E.L. classification:** H55, O57

## 1. Introduction

The size of social security expenditure varies from country to country depending on economic potential, population structure and number, the orientation of social policy and the social security system. In some countries, social security expenditure has a significant place in total public expenditure.

Within the European Union, the financing of social protection has been, and has remained, very varied from one country to another. "There are two main financing systems: Contributory, which are based on the payment of social and non-contributory contributions, which are based on budgetary financing plus donations or other resources" (Văcărel, 2003, p.218).

There has been an attempt recently to decrease the frequency of contributions and increase tax-related financing. This trend is still too weak to see it as a feature that will continue to mark developments in social protection financing schemes.

## 2. Theoretical background

From 1989 to today, Romania has undergone a series of major social and political changes. This phase of transition from a closed authoritarian system to a free democracy and market economy has given rise to a number of difficult and complicated social options for the country's leaders and for all Romanians. The social problems that have arisen as an immediate consequence of changes in the economic system have led to the establishment of a social protection structure.

The most important European legal instruments are those of the Council of Europe, the European Union and the International Labor Organization.

Social policy is achieved at national level through specific legislative anticipation, decisions and orders of social planning, including the transfer of income to social security expenditure.

The European Union's policy on social policy focuses on balancing the labor market and the work done by citizens under normal working conditions.

The set of laws which have been drawn up by the Romanian Government in the field of social protection have been in conformity with the general provisions which are made available as information or imperative by the European Economic Community, bearing in mind that the acceptance of our country into the organization also requires respect for the social principles that the community is leading.

"All these guidelines derive from the question of the financial sustainability of social protection systems, obviously with specific features from country to country and from scheme to scheme" (Poenaru and others, 2003, p. 67).

### 3. Research methodology

The considerations presented in this article refer to social protection expenditure and its financing in the Member States of the European Union, comparing 15 Member States (EU-15) according to the estimates for 2020 in Eurostat databases. When the article was drawn up, we have resorted to various scientific methods of research: Induction, deduction, analysis, synthesis and comparative method.

### 4. Findings

Each state has a public budget reflecting expenditure and revenue. The management of the public budget shall be exercised by the Government in all the States of the European Union taking into account the fundamental principles of the European Union budget.

At European level, data on social protection are recorded in the database entitled "European System of Integrated Social Protection Statistics" (ESSPROS), namely: expenditure on sickness/health care, disability, old age, survivors, family and children, unemployment, housing and social exclusion, income by type and sector of origin, number of pension beneficiaries per sex and net social benefits.

The frequency of social protection expenditure in gross domestic product is an important benchmark in comparative estimates in this area.

Thus, the shares of social benefits expenditures according to the Eurostat-ESSPROS in 2020 are estimated to be the lowest in Hungary (18,1%), Latvia (17,7%) and Romania (13,8%), while the countries with the highest share are in France (35,7%), Austria (33,8%) and Italy (33,4%). Taking into account 2019, of the 15 countries presented, it is clear that France (33,6%), Belgium (31,8%), Austria (29,3%) and Italy (29,3%) are the top, and Romania (15,3%) is the lowest share of social benefit expenditure, followed by Malta (15,4%) and Latvia (15,7), according to Table No.1.

Table no. 1 The share of spending on social benefits in GDP

	Years				Increase (+) or decrease (-) the share of social protection expenditure in GDP (%) (p.p.)			
	2010	2015	2019	2020	2010-2015	2015-2019	2015-2020	2010-2020
France	33,2	34,3	33,6	35,7	1,1	-0,7	1,4	2,5
Denmark	34,0	33,7	31,3	31,5	-0,3	-2,4	-2,2	-2,5
Germany	30,0	29,4	30,3	32,3	-0,6	0,9	2,9	2,3
Austria	29,6	29,9	29,3	33,8	0,3	-0,6	3,9	4,2
Italy	28,4	29,7	29,3	33,4	1,3	-0,4	3,7	5,0
Belgium	29,6	29,8	28,9	29,1	0,2	-0,9	-0,7	-0,5
Norway	24,5	27,2	28,0	30,7	2,7	0,8	3,5	6,2
Slovenia	24,4	23,8	22,2	25,0	-0,6	-1,6	1,2	0,6
Poland	19,7	19,4	21,3	22,4	-0,3	1,9	3,0	2,7
Cyprus	18,7	20,0	18,7	22,4	1,3	-1,3	2,4	3,7
Hungary	22,4	19,0	16,6	18,1	-3,4	-2,4	-0,9	-4,3
Lithuania	19,1	15,7	16,5	18,3	-3,4	0,8	2,6	-0,8
Estonia	17,4	16,0	16,3	19,1	-1,4	0,3	3,1	1,7
Malta	18,9	16,4	15,4	20,4	-2,5	-1,0	4,0	1,5
Romania	17,5	14,6	15,3	13,8	-2,9	0,7	-0,8	-3,7

<b>UE-15 (average)</b>	<b>24,5</b>	<b>23,9</b>	<b>23,5</b>	<b>25,7</b>	<b>-0,6</b>	<b>-0,4</b>	<b>1,8</b>	<b>1,2</b>
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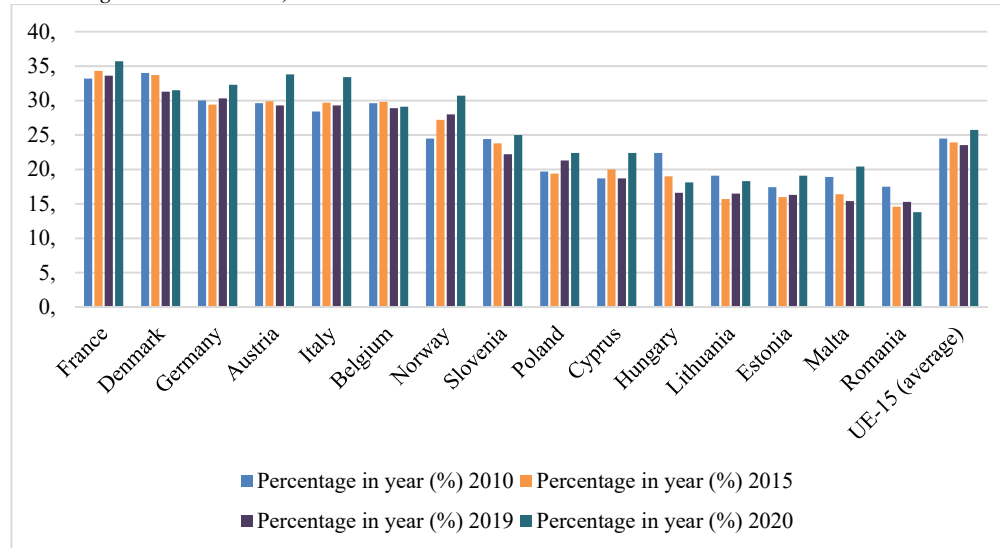
Source: Eurostat ESSPROS:

<https://ec.europa.eu/eurostat/databrowser/view/tps00098/default/table?lang=en>

\*<https://mfinante.gov.ro/documents/35673/41334/Programconvergenta2021-2024.pdf>

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Figure no. 1 Share of expenditures on social benefits in GDP in the period 2010-2020 (author's processing according to Eurostat data)



Source: <https://ec.europa.eu/eurostat/databrowser/view/tps00098/default/table?lang=en>

It is noted that over the period 2015-2020 there has been an increase in the share of social benefit expenditure in GDP, a seemingly positive development in view of the need to ensure a higher level of social protection for the population.

One of the indicators that better reveals the differences between countries is the size of social protection expenditure per inhabitant expressed in the standard purchasing power (Purchasing Power Standards (PPS)).

Taking into account the estimated expenditure for 2020 for the 15 EU Member States, it is noted that the largest were in Norway (18.155,40 euros), followed by Denmark (16.892,33 euros), Germany (12.923,39 euros), Austria (14.236,47 euros), so countries that have still promoted and promoted more generous social protection policies and the lowest ones are in Hungary (EUR 2.525,89), followed by Estonia (EUR 3.904,180) and Lithuania (EUR 3.190,90), (Table 2 and Figure no. 2).

Table no. 2 The hierarchy of EU countries according to the size of social protection expenditures per capita in 2020

	Years				EURO pee inhabitant in PCS		
	2010	2015	2019	2020	2010-2015	2015-2019	2015-2020
Norway	10.236,00	11.997,21	12.373,64	18.155,40	11.174,24	12.004,84	13.029,93
Denmark	10.659,40	12.003,49	12.233,18	16.892,33	11.225,74	11.894,51	12.727,48
Germany	9.136,42	10.833,04	12.146,98	12.923,39	9.911,25	11.400,44	11.654,27
Austria	9.595,55	11.096,95	11.501,47	14.236,47	10.254,32	11.174,79	11.685,07
France	9.298,88	10.892,09	11.350,64	12.079,18	10.087,64	11.028,48	11.203,60
Belgium	8.801,33	10.373,22	10.639,47	12.372,91	9.488,77	10.256,74	10.609,44
Italy	7.698,17	8.067,80	8.669,62	9.288,74	7.781,40	8.266,77	8.437,10
Slovenia	5.126,51	5.605,55	6.095,87	5.500,08	5.330,08	5.748,85	5.707,39
Poland	3.397,66	4.297,40	5.441,40	3.095,89	3.788,09	4.747,69	4.472,39
Cyprus	4.619,43	4.776,00	5.235,00	5.416,01	4.788,22	4.940,17	5.019,48

Malta	4.047,23	4.614,71	4.800,49	5.067,24	4.261,46	4.711,78	4.771,02
Lithuania	2.992,03	3.605,60	4.519,28	3.190,90	3.211,64	3.926,77	3.804,13
Estonia	2.945,00	3.673,36	4.353,49	3.904,18	3.142,97	3.977,37	3.965,17
Hungary	3.879,77	4.084,69	4.117,90	2.525,89	3.942,79	4.040,69	3.788,23
Romania	2.308,24	2.499,30	3.584,93	:	2.319,12	3.006,48	:

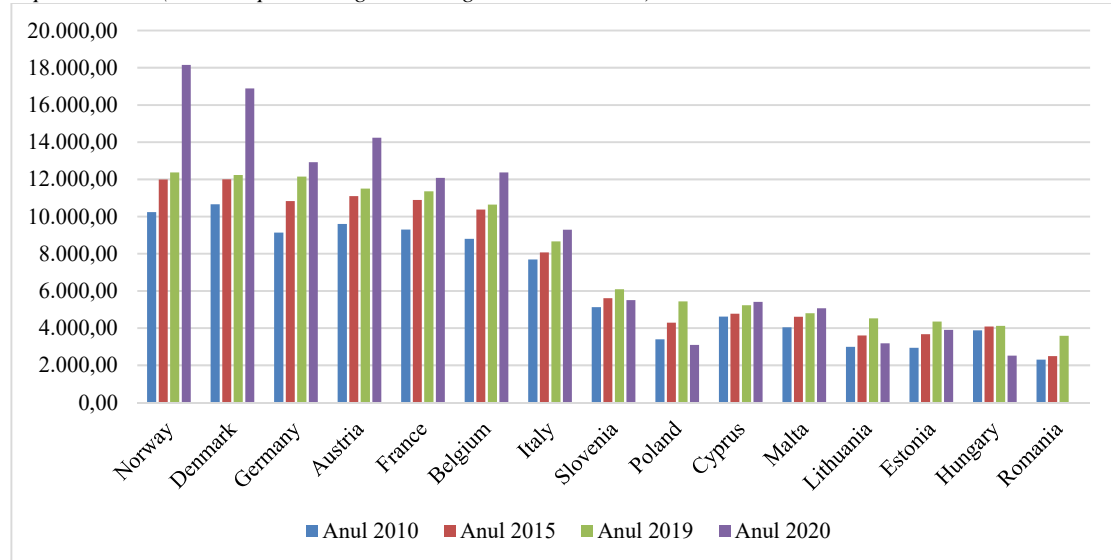
Source: Eurostat – ESSPROS

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Figure no. 2 The hierarchy of EU countries according to the size of social protection expenditures per capita in 2020 (author's processing according to Eurostat data)



Source:

[https://ec.europa.eu/eurostat/databrowser/view/spr\\_exp\\_sum/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/spr_exp_sum/default/table?lang=en)

<https://ec.europa.eu/eurostat/web/social-protection/data/early-estimates>

According to European statistics, in 2019 it is noted that Luxembourg (15.620,56 Euro) is the highest in terms of special protection expenditure per capita, Serbia (2.628,01 Euro) is the last highest in terms of the ranking (3.584,93 Euro).

The distribution expenditure on social benefits by the main category provides information on social issues or the accents that each country places in its social policy.

Table no. 3 Grouping social benefit expenditure by main categories in % by GDP in the years 2019-2020

(UE 15)	TOTAL Social protection benefits		Sickness/ Health care + Disability		Old age + Survivors		Survivors		Family/ Children		Unemployment		Housing + Social exclusion n.e.c.	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Belgium	27,50	31,77	10,00	11,64	12,90	14,10	1,80	1,87	2,10	2,32	1,50	2,69	0,90	1,02
Denmark	30,00	31,52	12,20	13,82	11,30	12,48	0,20	0,25	3,30	3,40	1,20	1,44	1,30	1,36
Germany	29,10	32,25	10,00	11,60	12,80	14,07	1,70	1,84	3,40	3,78	0,90	1,74	1,20	0,16
Estonia	16,10	19,11	9,40	10,95	11,10	12,28	0,00	0,05	2,30	2,45	0,50	1,86	0,80	0,06
France	31,40	35,71	9,50	11,06	12,70	13,96	1,60	1,72	2,30	2,44	1,90	3,41	1,40	1,41
Italy	28,30	33,44	9,10	10,59	13,70	15,10	2,60	2,87	1,10	1,26	1,60	3,03	0,70	1,45
Cyprus	18,30	22,42	8,20	9,75	12,40	13,72	1,30	1,49	1,10	1,24	0,90	1,01	1,00	1,06
Lithuania	16,10	18,28	8,90	10,25	11,50	12,62	0,40	0,39	1,70	2,22	0,70	1,28	0,80	0,30
Hungary	16,30	18,12	8,40	9,78	11,90	13,05	0,80	0,82	1,90	1,91	0,30	0,48	1,10	0,33

Malta	15,20	20,36	8,10	9,48	12,30	13,52	1,20	1,29	0,90	0,95	0,20	3,31	0,80	0,27
Austria	28,60	33,80	9,30	10,73	12,70	13,93	1,60	1,70	2,60	3,04	1,50	3,44	0,80	0,84
Poland	21,00	22,41	8,70	10,37	12,70	13,82	1,60	1,59	3,00	3,81	0,20	0,22	0,70	0,33
Portugal	23,20	26,59	9,20	10,65	12,90	14,19	1,80	1,96	1,20	1,39	0,70	1,63	0,70	0,23
Slovenia	21,80	24,98	8,60	10,07	12,30	13,62	1,20	1,39	1,80	2,09	0,50	0,57	0,70	0,90
Norway	27,50	30,72	12,00	13,66	11,30	12,49	0,20	0,26	3,20	3,48	0,50	1,42	0,80	0,69

Source:

<https://ec.europa.eu/eurostat/web/social-protection/data/early-estimates>

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Thus, it is noted that the dominant part of welfare expenditure is pension (old age and survivors) and health expenditure.

In 2020, expenditure on health, healthcare and disability related benefits accounted for a share of 35,26% of total expenditure or 10,96% of GDP in all EU-15 countries analyzed. Denmark ranks first (13,82%), followed by Norway (13,66%) and France (11,06%), and Malta (9,48%).

Expenditure on old-age and survivors' pensions in 2020 represents 50,55% of total social welfare expenditure or 13,53% of GDP on average for the EU-15. Italy (15,10%) is the EU-15 ranking, followed by Portugal (14,19%) and Belgium (14,10%), and Denmark (12,48%) and Estonia (12,28%) are the last two.

Expenditure on family and children in 2020 accounts for 8,91% or 2,36% of GDP in total EU-15 expenditure, where Poland (3,81%) ranks first, followed by Germany (3,78%) and Malta (0,95%) and Cyprus (1,24%) in the last place.

Unemployment benefit expenditure accounts for 6,86% on average in the EU-15 countries or 1,84% of GDP, where the highest share is in Austria (3,44%), succeeded by France (3,41%), while the lowest share is in Poland (0,22%) and Hungary (0,48%). "Unemployment benefit figures are not always explained by the size of unemployment, as there are key differences between countries in terms of coverage of unemployment benefits and level of benefits" (Faghiura, 1993, p. 82).

The main sources of funding for social benefit systems, at the level of the Member States of the European Union, are the social contributions that fall under the obligation of employers and protected persons, as well as the resources (tax revenues) come from taxes, duties and other income.

In 2019, the analysis of the 15 EU Member States shows that France (34,3%) has the highest share of total social benefit income, followed by Denmark (33,1%) and Germany (32,1%), while Malta (15,4%) and Hungary (16,1%) account for the lowest share.

According to statistics, in 2019, Romania recorded 1,4% of tax revenues from the government, 2,8% of social insurance contributions from employers, 10,8% of social insurance contributions from protected persons and 0,1% of other income. Comparing the percentages of the 15 EU countries analyzed, it is noted that Romania has the lowest share of tax revenues (1,4%) and the highest share of social security contributions from protected persons.

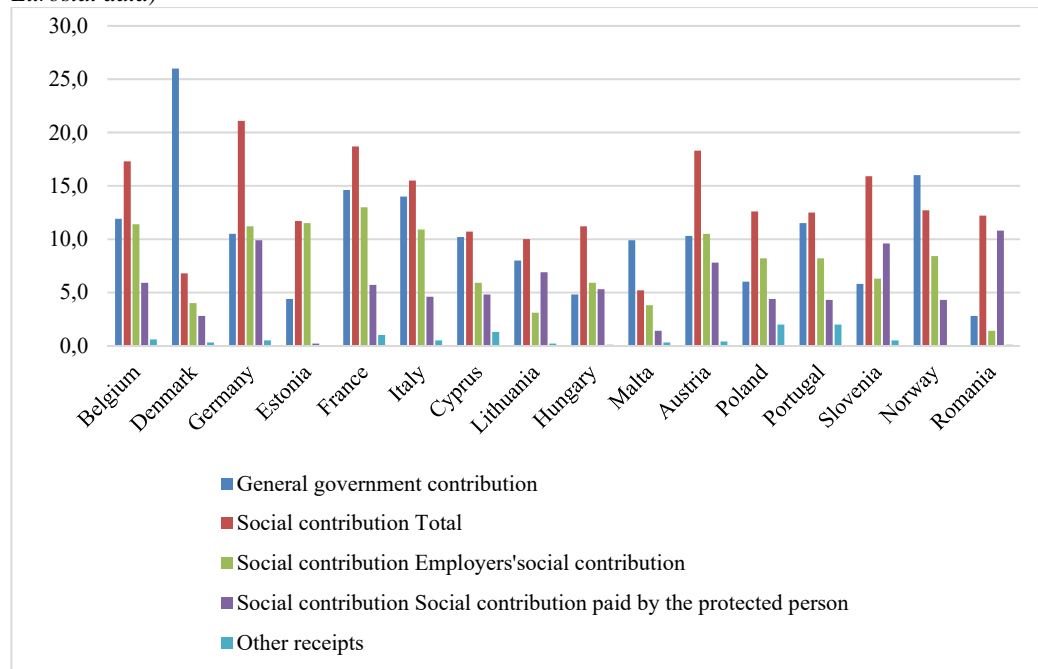
Table no. 4 Structure of social protection incomes in EU countries, in 2019 (%)

	General revenue	General government contribution	Social contribution			Other receipts
			Total	Employers'social contribution	Social contribution paid by the protected person	
Belgium	11,4	11,9	17,3	11,4	5,9	0,6
Denmark	4,0	26,0	6,8	4,0	2,8	0,3
Germany	11,2	10,5	21,1	11,2	9,9	0,5
Estonia	11,5	4,4	11,7	11,5	0,2	0,0
France	13,0	14,6	18,7	13,0	5,7	1,0
Italy	10,9	14,0	15,5	10,9	4,6	0,5
Cyprus	5,9	10,2	10,7	5,9	4,8	1,3
Lithuania	3,1	8,0	10,0	3,1	6,9	0,2
Hungary	5,9	4,8	11,2	5,9	5,3	0,1
Malta	3,8	9,9	5,2	3,8	1,4	0,3
Austria	10,5	10,3	18,3	10,5	7,8	0,4

Poland	8,2	6,0	12,6	8,2	4,4	2,0
Portugal	8,2	11,5	12,5	8,2	4,3	2,0
Slovenia	6,3	5,8	15,9	6,3	9,6	0,5
Norway	8,4	16,0	12,7	8,4	4,3	0,0
<b>Romania</b>	<b>15,1</b>	<b>2,8</b>	<b>12,2</b>	<b>2,8</b>	<b>10,8</b>	<b>0,1</b>

Source: <https://ec.europa.eu/eurostat/databrowser/view/tps00108/default/table?lang=en>

Figure no. 3 Structure of social protection incomes in EU countries (author's processing according to Eurostat data)



Source: <https://ec.europa.eu/eurostat/databrowser/view/tps00108/default/table?lang=en>

According to statistics, in 2019, the European Union (EU27) countries spent on average 28,1% of their GDP on social protection, noting that the distribution of the indicator is different according to the financial system in each country.

It is also noted that contributions also vary widely from country to country depending on the share of contributions paid by employers and employees and the tax regime for the income of self-employed workers, where there is a fixed rate due by them in some countries.

A particular influence on the establishment and management of financial resources is the situation of both the economic environment and the degree of development of the States.

Over time, economic growth has impressed the growing need for financial resources, which are of a limited nature and are essential to respect the budgetary constraint.

## 5. Conclusions

Romania's ratification of the revised European Social Charter by Law No 74 of 3 May 1999, adopted in Strasbourg on 3 May 1996, which is currently in force, helps to speed up the process of reform of the social sector, it gives a boost to the process of transposing the *acquis communautaire* into national law and brings a more favorable political impact to our country at european level.

From a financial point of view, in order to reach stability, both the high level of public expenditure as a share of gross domestic product and the question of the creditworthiness of social protection have been and still are the main indicators for research and evaluation on the revaluation of these systems.

In the countries of the European Union, the budget is subject to the limits provided for in the multiannual financial framework in which maximum annual amounts can be spent over a period of generally 7 years. They agree on how the budget will be financed in the coming years and how it will be dimensioned.

The State was and is involved by including measures corresponding to each economic circumstance in reducing imbalances. Fiscal and fiscal policy thus plays a role in determining and prioritizing public expenditure and increasing public revenue.

Fiscal consolidation leads to the rate of income growth and to the constant minimum of public fraud.

The way in which the European Union's objectives are realized is tax harmonization through the adoption of a European legislative framework.

Social security provides the necessary mechanisms to prevent and combat poverty, reduce the major dispersion between social classes' incomes, for example, and develop human capital and productivity. That is, social protection is not only a means of alleviating poverty, but it is part of the development strategy which is to maximize its contribution to socio-economic development.

I believe that it is necessary to relaunch social dialog at European level, to correct social protection fairly by balancing contributions, to direct sickness policies, to balance pension systems, unemployment and dependency on all Member States. Europe, at the moment, is a developing structure of social life.

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