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European Social Model—A Parting of Ways?

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Abstract: The European social model is currently the topic of many scholarly discussions. Most authors (Krebs, Mitchell, Godet, etc.) agree that, due to demographic factors and economic crises, the view of the European welfare state has to be changed. The discussions about the welfare state (Krebs, 2011) concern its existence, and moreover how it should work: its extent, its organization, and its long-term effectiveness. Changes in the perception of the welfare state in general are reflected in perceptions of particular welfare states of developed European countries. It is apparent that the national economies' capacity to fund extensive social programs is limited, and that it is necessary to shift the boundary between national and individual responsibilities. This article investigates the Czech Republic's position in terms of social benefits in comparison to the United Kingdom and France, as representatives of more advanced economies. The study addresses whether the social expenditures of individual EU countries are sustainable under the contemporary EU priorities for social security.

Keywords: social policy; social benefits; research; public spending; European welfare state; social economics

JEL codes: A13, H72, I38

1. Introduction

In the current economic crisis, social security systems find themselves at the centre of expert discussions. Within the framework of restricting public spending, some countries are also reducing social security benefits. Other countries do not apply any reductions, preferring to keep social security benefits at their current rate or to increase them over the long term in order to maintain or improve the standard of living, increase purchasing power, and maintain long-term sustainable growth. In the Czech Republic, there is an effort to reduce the funding directed towards social security benefits. An example of this effort was the decrease in expenditure on social security benefits between 2010 and 2011, from 40.8 to 36 million Czech crowns (MPSV, 2011). The trend of reducing social security expenditures includes a reduction of the expenditure on family policy. There is currently a low birth rate trend in the Czech Republic. Reproduction rates in the Czech Republic are currently below the level of simple reproduction, i.e., less than 2.1 live births per woman. According to Eurostat, the fertility rate in the Czech Republic in 2009 was 1.49 births per woman (according to the Czech Statistical Office, it was 1.49 in 2010); the fertility rate in France was 2.0 (according to the French statistical office, it was 2.01 in 2010). A low birth rate results in an ageing population. According to Krebs (2010, p. 180), in the Czech Republic, the current ratio of

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old-age pensioners to the employed population is around 3:10. It began to decrease rapidly after 2010 and will reach 1:2 by 2020.

It is not only the Czech Republic that faces an ageing population and a low birth rate. These phenomena bring numerous economic issues. A low birth rate could lead a society to a difficult situation in which a small percentage of economically active citizens must provide for a growing number of elderly people.

Population ageing affects virtually all the spheres of the national economy and has a huge impact on government spending, particularly on health care and pensions. The fiscal challenges arising from population ageing are highly significant. The importance of social and family policy is now being evaluated and considered in connection with the low birth rate and the increased ageing population (Mitchell, 2009). According to Mitchell (2010, p. 5), opinions on whether policy instruments motivate young people to establish a family or have more children vary across the scientific community. Some scientists argue that birth rate is affected by the knowledge that having and raising a child means a loss of security and a lack of economic resources, because a family's living standard decreases with a child's arrival. According to Krebs (2010), it is in the country's own interest to ensure the full functioning of families and to make efforts in economic, social, and legal support for these families.

The purpose of financial support is to supplement or partially replace a family's income (Krebs, 2010). This support is extended primarily by means of various benefits and may take different forms. It may be direct support in the form of family benefits (Kolibová, 2008), social benefits, or scholarships (Höhne, 2008a; Kolibová, 2008). The reason for national interest in indirect financial support is the desire to ensure opportunities within the economic and social environment that will make families less dependent on direct financial support in the form of social benefits. Indirect financial support is a type of state assistance, usually in the form of various types of tax relief, including tax deductions for dependent children (Höhne, 2008a; Kolibová, 2008).

According to Godet (2007, p. 7), family is both a private and public concern. It has a positive effect on society, determining social cohesion and sustainable development. According to Godet (2005, p. 273), if a family performs its societal functions well, the positive effects include healthy children, education, and social inclusion. These positive effects support the growth and well-being of both the family and the entire society.

Investments in the family are thus quantitative investments in human capital and qualitative investments that produce positive effects resulting in sustainable economic and social growth and national prosperity. As they are the smallest investments possible, they are more effective than investments in family child care compensations would be.

The paper aims to address whether the European social model is directed towards a rigorous fiscal policy or whether it is about to shift towards maintaining generous public social spending. The social security structures across the EU are left to the discretion of national policies. Comparisons among the national social models can be complex, as it is difficult to compare the fiscal expenditures due to the uniqueness of these national models. Although the relevant parameters of these systems can be compared, it is necessary to draw attention to the methodology of the national statistics in the social field.

2. European Social Model

2.1 Materials and Methods

The basic challenge for international comparisons of social models is their uniqueness. There are differences in language terminology (which, given the defined benefit, is not a problem), there are varying forms of benefit financing (from the social security system or from the national budget), and sometimes even the benefits themselves are not the same (e.g., two different benefits in one country may be a single benefit in another). The criteria for granting benefits may vary among countries (e.g., allowance provision terms may vary). We decided to identify select benefits in the Czech Republic and two other EU countries (the United Kingdom and France) with a traditional welfare policy for families with children. We started from the premise that these countries have responsible and strict fiscal conditions.

Four model households with children were compared in the three countries. The family models were created to replicate the real demands of families in terms of social assistance from the state. Using these models and relatively equal scenarios for the three compared countries, it is easier to understand and compare the diversity of their systems. The size of the various families in terms of the number of adults and children in the household and the net family income was fixed, and each family's entitlement to various forms of tax relief, child benefits, maternity leave, and housing allowances was then established based on that. Since the systems are set up differently and it is difficult to create a fixed family model and a number of benefits for them, particularly in the UK system (due to the system of individual benefits and determination of tax credits for children), we used the data available from official sources as a guide for setting the benefits. In reality, the amount of benefits available to the families who match the specified models may differ slightly from those we used. This certainly does not undermine the importance of the final findings of our research. The research was conducted using the valid legislation from 2011 (France, Czech Republic) and April 2011–March 2012 (UK). A social cost comparison of selected European welfare states was used at the end.

2.2 Results and Discussion

Due to the varied historical development of family policies and the resulting different systems, only the benefits that can be mutually compared were selected. The evaluation model was simplified in some respects. It was set according to the level of availability of information on the provision of benefits. Some benefits were adjusted slightly in order to facilitate comparison.

In order to test the actual generosity of the system, models of families with different sizes and incomes, from low to average, were created. The researched benefits were then applied and compared within these models. The increase in the net family income when granted the benefits for specific models was assessed, as was the final income after taking into account all the benefits combined. The research mainly focused on social benefits (in compliance with the Czech model), namely: child allowance, housing allowance, tax credits, maternity leave, and maternity benefits (the terminology varies by country). A partial analysis of the research is presented in detail in the paper "The Czech Republic—a Generous Welfare State?", which was presented at the international scientific conference "Social Development and Quality of Life in the Context of Macroeconomic Imbalances" in May 2012 (2012, pp. 703-704).

Partial and final modelling analysis confirmed that in terms of granting family policy benefits, the UK is more generous than the Czech Republic. In the majority of the model families, the percentage increase in net household income after being granted benefits was higher in the UK. This finding refutes the general view that the Czech Republic, as a country of the former Eastern bloc, is a welfare state with significantly higher social benefits, particularly when compared to Western countries. Another study presented more information about the differences between the UK and the Czech Republic in their family policy social systems. In the UK, the administration of benefits, tax credits for children, and living allowances is much more demanding than in the Czech Republic; this inevitably puts a higher burden on the national budget. The administrative complexity is mainly because the amount of benefits is presented as a guideline, but each family is assessed individually, and a large number of factors must be taken into account. The complexity of the system and the lack of access to accurate information on the established benefits presented a problem when creating the models. For this reason, when determining the amount of claimed benefits we primarily used the available tables. Although the system is administratively complex, basic information about all the benefits is easily accessible and written in a language comprehensible even to an ordinary citizen.

Generally, the distribution of benefits in the UK is set differently than it is in the Czech Republic. The analysis showed that the level of financial assistance to single parent and socially disadvantaged families is significantly greater in the UK than in the Czech Republic. The benefit rate for these two groups in the UK is exceptionally high; nevertheless the amount decreases significantly with higher incomes. Conversely, in the Czech Republic, benefits such as housing allowances and tax credits are balanced evenly and spread from low-income families to families with average incomes.

A comparison of the model families between France and the Czech Republic showed that France provides families with children with more diverse amounts of benefits that are supplied depending on the number and age of children in the family regardless of income or depending on income. French family policy financially supports families better based on its two components: the family and society. The Czech Republic provides fewer types of benefits supporting families with children, and the benefit always depends on the family income. The Czech family policy is purely social. In the Czech Republic, there are no benefits intended exclusively to families with two or more children. The Czech system of family benefits, compared to the French one, does not financially support families with more children. The tax credits in the Czech Republic are equal for all children, since every child is provided with a flat amount. In France, mainly wealthier families and average income families benefit from tax relief, but only if they have three or more children.

Overall, families with children receive more financial support in France. A comparison of the economic impact of family benefits and tax credits on families showed that in three out of five cases, a family has more benefits in France, equivalent to thousands of Euros per month. The French system is more efficient in terms of the impact of benefits on the economic situation of the observed family models. Based on the positive experience in France, it is possible to formulate recommendations on how the Czech Republic could increase financial support for families.

Table 1 Total Expenditure on Family Benefits in the Czech Republic and France (2010)

	Czech Republic in million CZK	Czech Republic % GDP	France in million EUR	France % GDP
Total expenditure on family benefits	40,791 billion CZK	1.08%	44,124.1 million EUR (= 1,103.1 billion CZK)	2.28%

Source: Czech Ministry of Labour and Social Affairs (MLSA), Caisse d'allocations familiales (CAF); % of gross domestic product (GDP): own calculation

The Czech Republic paid 40,791 billion CZK to family benefits (e.g., welfare benefits) in 2012. This was 1.08% of the GDP. In the same year, France paid 44,124.1 million EUR (1,103.1 million CZK), which was 2.28% of the GDP. When divided by the number of inhabitants, the overall calculated cost per resident per year is 3872.8 CZK in the Czech Republic and 17,371.7 CZK in France. The expenditure per inhabitant is thus almost 4.5 times higher in France.

Considering the extent of the subject and the framework of our research and methodology, it was not possible to compare all the other European countries. The following table shows the total spending on social security benefits in these countries:

Table 2 Total Social Expenditure as a Percentage of GDP

Country	1995	2000	2005	2006	2007	2008	2009	2010	2011
EU 27	.	.	27.0	26.6	26.1	26.7	29.6	29.3	29.0
EU 25	.	26.5	27.2	26.8	25.9	26.9	29.6	29.3	29.0
EU 15	27.6	26.7	27.6	27.2	26.4	27.5	30.3	30.4	30.0
Eurozone 17	.	26.7	27.6	27.2	26.8	27.5	30.4	30.4	30.0
included:									
Belgium	27.3	25.4	27.3	27.0	26.9	28.3	30.6	30.1	30.4
Bulgaria	.	.	15.1	14.2	14.1	15.5	17.2	18.1	17.7
Czech Republic	16.7	18.8	18.4	18.0	18.0	18.0	20.3	20.2	20.4
Denmark	31.9	28.9	30.2	29.2	30.7	30.7	34.7	34.3	34.2
Estonia	.	13.9	12.6	12.1	12.1	14.9	19.0	18.0	16.1
Finland	31.4	25.1	26.7	26.4	25.4	26.2	30.4	30.6	30.0
France	30.3	29.5	31.5	31.2	30.9	31.3	33.6	33.8	33.6
Ireland	18.6	13.3	17.5	17.8	18.3	21.5	26.5	28.5	29.6
Italy	24.2	24.7	26.3	26.6	26.6	27.7	29.9	29.9	29.7
Cyprus	.	14.8	18.4	18.5	18.2	18.5	21.1	22.1	22.6
Lithuania	.	15.7	13.2	13.4	14.4	16.1	21.2	19.1	17.0
Latvia	.	15.7	12.8	12.7	11.3	12.7	16.9	17.8	15.1
Luxembourg	20.7	19.6	21.7	20.4	19.3	21.4	24.3	23.1	22.5
Hungary	.	19.9	21.9	22.5	22.7	22.9	24.3	23.1	23.0
Malta	16.1	16.3	17.8	17.7	17.7	18.1	19.6	19.4	18.9
Germany	28.3	29.6	30.0	28.9	27.8	28.0	31.5	30.6	29.4
Netherlands	30.6	26.4	27.9	28.8	28.3	28.5	31.6	32.1	32.3
Poland	.	19.7	19.7	19.4	18.1	18.6	19.2	19.2	19.2
Portugal	20.4	20.9	24.5	24.5	23.9	24.3	26.8	26.8	26.5
Austria	28.8	28.3	28.8	28.3	27.8	28.5	30.7	30.6	30.6
Romania	.	13.0	13.4	12.8	13.6	14.3	17.1	17.6	16.3
Greece	19.9	23.5	24.9	24.7	24.8	26.2	28.0	29.1	30.2
Slovakia	18.5	19.4	16.5	16.4	16.1	16.1	18.8	18.7	18.2
Slovenia	.	24.1	23.0	22.7	21.3	21.4	24.2	25.0	25.0
United Kingdom	27.7	26.4	26.3	25.6	24.7	25.8	28.6	27.4	27.3
Spain	21.6	20.0	20.6	20.5	20.8	22.2	25.4	25.8	26.1
Sweden	33.5	29.9	31.1	30.3	29.2	29.5	32.0	30.4	29.6

Source: Eurostat 04/03/2014

The countries shown in Table 2 can be divided into two types: former Eastern bloc states, where lower social benefits are evident, and conventional welfare state countries, where social expenses exceed 25% of the national GDP. Welfare spending is 33.6% of the GDP in France and 27.3% of the GDP in the UK. These two countries can be considered as generous welfare states (such as the “welfare state cradles”: Denmark, Sweden, Finland—these countries spend more than 30% of the GDP on social benefits). The Czech Republic aligns with the former Eastern bloc states, where social expenses are about 20% of the GDP. The reason for lower spending in the former Eastern bloc states is the social reforms in these countries in the early 1990s, when the social system was restructured on the basis of a changing economic situation. All EU countries are currently undergoing permanent social reformation, due to broad demographic, economic, and social changes. Four main trends are of particular significance (Krebs, 2010):

- ageing population in all member states;
- increasing participation of women on the employment market and the changing gender ratio; lingering long-term unemployment, especially among elderly workers, and the trend towards early retirement;
- variable household structures and an increased number of households in which no member is employed.

On March 3rd, 2010, the European Commission published "Europe 2020—a strategy for smart, sustainable, and inclusive growth". This "Europe 2020" strategy replaced the previous "Lisbon strategy". In these documents, the European Union tries to achieve consensus that the social protection system has to be up to date in order to play its traditional role in the future.

European welfare states now stand at a crossroads: they must decide whether to preserve their conventional social policies or to follow the advice of economists and implement new, stricter rules that will ultimately lower state expenditures on social expenses. The choice is not simple: European Union can give advice, but each member state must make its own decision.

3. Conclusion

In the comparison of model families and specific benefits for families with children in two European countries, the UK and France, both countries demonstrated high generosity. The UK is more generous in granting benefits. French family policy financially supports families more, particularly families with more than two children, which is a significant burden on the national budget. The comparisons indicate that the Czech Republic is not as generous welfare state as is often argued.

However, with its low spending on family policy the Czech Republic is not a winner, because the social costs have not been compared to the economic performance of the country, which cannot be ignored. In our research, the emphasis was on the comparability (in terms of the content of the selected benefits—content of securing the risk) of the benefits themselves, rather than on other economic indicators (GDP performance, employability, etc.). Based on the obtained data, it can be stated that the perception of the Czech Republic as a generous welfare state is based on its previous system of social security, and despite all possible social reforms the perception has remained.

Despite the problems in comparing the benefits, we come to the debate whether Europe will choose the path of rigour or that of generosity in its social systems. The very issue of establishing methods of comparison among the national systems would contribute to the clarification of some imperfect comparative analyses. Even national analyses are often faced with methodological inadequacies (MLSA, CSO, partial analysis of institutions). These questions of methodology could inspire further research on the welfare state in Europe. As to whether the social expenses of individual EU states are sustainable with the contemporary EU priorities for social safeguards, there is no simple and unambiguous answer. The Europe 2020 strategy is a recommendation for individual EU member states, rather than a singular remedy: each country has its own welfare system based on historical developments and on contemporary functional principles. Every member state has to consider what reform strategy to choose in terms of its own economy efficiency. The current economic situation indicates that social reform is necessary. How that happens is up to each member state.

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