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## SOCIAL PROTECTION AS THE KEY PILLAR OF SOCIAL SYSTEMS IN THE EUROPEAN UNION

**Abstract.** Social protection systems are the most significant sphere of practicing solidarity in a welfare state. They represent one of the fundamental common signs of a European welfare state, covering significant risks in life and being based on the solidarity principle. Current economic and social development has started a

new stage of the development of social protection national systems in the EU which have to respond to the internal problems within individual social protection schemes, including financial ones, and to the indirect impact of the economic growth schemes transformation in knowledge economy.

**Keywords:** social protection; social risks; social insurance; universal protection; social protection activation.

**JEL Classification:** H50, H55, D63

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**СОЦИАЛЬНЫЙ ЗАХИСТ ЯК ФУНДАМЕНТАЛЬНА СКЛАДОВА РОЗВИТКУ  
СОЦИАЛЬНИХ СИСТЕМ У ЄВРОПЕЙСЬКОМУ СОЮЗІ**

**Анотація.** Системи соціального захисту є найбільш важливою сферою практичного застосування солідарної відповідальності в державах загального добробуту. Наявність ефективної системи соціального захисту, що дозволяє усунути чимало відчутних ризиків і заснована на принципі солідарності, – це одна з основних загальних рис європейської держави загального добробуту. Нинішній економічний та соціальний розвиток дав старт новому етапу функціонування національних систем соціального захисту в рамках ЄС. Ці системи шляхом упровадження окремих програм соціального захисту повинні реагувати на виклики зовнішніх і внутрішніх проблем, зокрема фінансових, та опосередковано сприяти трансформації моделей економічного зростання в економіку знань.

**Ключові слова:** система соціального захисту, соціальні ризики, соціальне страхування, універсальний захист, активізація соціального захисту.

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**Аннотация.** Системы социальной защиты являются наиболее важной сферой практического внедрения солидарной ответственности в государствах всеобщего благосостояния. Наличие эффективной системы социальной защиты, которая позволяет устранить немало ощутимых рисков и основана на принципе солидарности, – одна из основных общих черт европейского государства всеобщего благосостояния. Нынешнее экономическое и социальное развитие дало старт новому этапу функционирования национальных систем социальной защиты в рамках ЕС. Эти системы путем реализации отдельных программ социальной защиты должны реагировать на вызовы внешних и внутренних проблем, в частности финансовых, и опосредованно способствовать трансформации моделей экономического роста в экономику знаний.

**Ключевые слова:** система социальной защиты, социальные риски, социальное страхование, универсальная защита, активизация социальной защиты.

**Introduction.** Social protection represents the basic element of social ties in the societies of European countries. Economies are becoming more flexible at shifting developed economies towards the post-industrial revolution and transferring towards services, and at transforming manufacturing methods and work organisation. Family models are being diversified; the number of women in labour markets increases and the population is ageing. These changes require changes in the sphere of social policy aiming at adapting to a new lifestyle and changes in social risks and at the same time at restricting or reducing tax burden and economic cost. Globalisation, technological progress and ageing of the population represent the most significant challenges for sustaining social protection systems and development on labour markets. Social systems and social protection included in them have to respond to these challenges in their development.

**Brief Literature Overview.** Theoretical analyses confirmed the existence of numerous factors which are obstacles to the application of exclusive market logic upon social coverage arrangement. Some approaches in political and moral philosophy are based on the idea that dignity, each person's ability of

possibilities practice and safety are the most important property to which each person should be entitled, and they are incomparable to goods. Rawls (1999) theory is based on these approaches, aiming at the issue of distributive justice and criticising utilitarianism. According to Sen (1999), the main goal of social and economic measures and efficient means is general welfare implementation. According to Akerlof (2005), current economic theories acknowledge that value approaches retroactively affect the possibility of effective economic balance achievement. Lechevalier (1997) examined microeconomic aspects of the labour income insurance model and social transfer model. De Jong & Marmor (1997) associated their microeconomic analysis of social insurance systems and social care with broader political characteristics of social policy, on which they grounded their arguments in favour of welfare state. Bruno & Martin (2008) analysed the models of social protection systems, their reforms following globalisation and social changes. Barbier (2002) deals with examining the issues of two schemes of social protection activation and social protection modernisation in the community Europe. Boyer (2006) deals with the issues of social protection activation by means of flexicurity, and

examines (2007) the issues of institutionalising social protection, solidarity and effectiveness, and analyses searching for a normative model to which reform efforts could converge. He raised the question of how to harmonise social solidarity and economic performance in the globalisation era. Lefebvre & Meda (2006) deal with the Northern activation model and social protection convergence in European countries. Wilthagen (2004) offered a matrix describing the combination of different forms of flexibility and different forms of security, as these are carried out in a two-dimensional manner. Esping-Andersen & Palier (2008) analyse the issues of social protection in relation to economies transformation, new social risks and social investments.

**The purpose** of the paper is to theoretically characterise social protection as the key pillar of national social systems in the European Union and its most significant microeconomic characteristics, and to specify basic ways of modernising the European systems of social protection, by means of which they effectively adapt to the current economic and social development.

**Results.** Social protection can be defined as a set of certain decisions to ensure and help individuals in avoiding greater existential risks, which essentially regard unemployment, sickness, old age and family. According to the European system of integrated social protection statistics, social protection is defined as all interventions by public or private organisations aimed at relieving households and individuals of the burdens of defined risks or needs under the condition that neither simultaneous nor individual agreement exists. The Manual of the European System of Integrated Social Protection Statistics (ESSPROS) classifies social benefits (without deducting taxes or other compulsory fees paid by beneficiary) according to the purposes – sickness/health care, disability, old age, survivors, families/children, unemployment, housing, social exclusion, and unclassified elsewhere.

Social protection fulfils two goals concurrently – material goals (to provide the expenditure of health care, in case of old age or responsibility for e.g. a numerous family) and social objectives (to reduce inequality between individuals in case of risks occurrence, and ensure a minimum income for them, enabling them to integrate in society). Social protection fulfils three key functions – minimal income ensuring, health care provision and social services provision.

Majority of the risks of social life has two types of consequences, causing additional expenditure (e.g. outpatients' treatment room, purchase of medicaments) and suspending the income from common activities – salary. Social protection covers two types of risks. On the one hand, it at least partially compensates additional expenditure, so called natural costs which can also be paid (e.g. in case of a sickness), while it compensates the loss of income from an activity due to suspension or termination of employment agreement on the other. It is a substitution income or so called financial benefits (e.g. sickness benefits during sickness leaves or maternity leaves).

From the viewpoint of the development of risk institutionalisation in social protection, four risks can be particularly included among the original risks. They are accidents at work as historically oldest risk, sickness including maternity, old age and pensions in individual schemes, and family. The unemployment risk was institutionalised later. The risk of poverty, excluding minimum income implementation, does not correspond to an individual social protection branch. A significant legal role from historical viewpoint was played by the risk of accident at work. It has become negligible from quantitative viewpoint, and sickness/health and particularly old age have grown important, as they have been developing the fastest.

According to the Universal Declaration of Human Rights adopted and proclaimed by the United Nations General Assembly in 1948, everybody has a right to social security. In practice, social protection institutions recognise direct rights (contributor or the insured) and derived rights (housewife, children). Social protection is generally ensured by four basic types of entities. They are social institutions of public character (social security institutions are predominantly legal institutions. Law enforced by them creates a part of social law, and right holders

are social security beneficiaries), state (covering certain expenditure from state budget), territorial units (municipalities, towns, regional entities) and private services (e.g. charity organisations are partially also in charge of social security, often focusing on the most marginalised population).

Social protection can be financed from several sources. A great part of social protection expenditure is financed from compulsory taxes. Taxes enable the payment of expenses from state budget or the budgets of territorial units. The collection of financial means from employers and employees enables the financing of social protection expenditure. Private services are financed from specific sources like private contributions, gifts or subventions from state, territorial units or multinational organisations (particularly financial sources from the European Union funds).

Social protection was gradually formed by means of four basic ways in Western European countries. These ways were conditioned by the development of society and the needs to build market economy. The first development line is represented by the completion of legal state development in the form of a welfare state, when, following the first generation of rights regarding freedom (the freedom of opinion, the freedom of religion, the freedom of assembly, etc.), the enforcement of the second generation of rights, so called rights of trust of citizens to state (e.g. the right to rest, the right to health, the right to employment, the right to pension, etc.) followed, implying relatively quantifiable expenditure and being perceived as a certain form of «debt» or responsibility of a state towards its citizens. The second line is followed up by the development of economics and society, having conditioned the fact that social protection has taken on the original social functions of family. It means that financial transfers and statutory adjustments have gradually replaced personal and non-commercial solidarity connected to family relations. Gradual transition of functions from family to state has also been accompanied by qualitative changes to family structures. The Industrial Revolution caused mass feminisation in employment, and the original relationships between generations (retirement, child care) have currently been taking ways different than family solidarity. The third development line was initiated by a newly formed business class which took over responsibility, historically as well as due to moral reasons, for charity, which had originally been dealt with by church, which created public help from it. Exclusively private charity proved to be insufficient and it was necessary to replace it by public assistance financed by taxes. The fourth line is represented by the establishment of an insurance company as an institution of public character. Market economy transformed labour into merchandise, enabled the development of individual autonomy and necessitated the social protection need as collective, social and compulsory protection.

Social protection can be managed from the viewpoint of following up two principles – insurance principle and the principle of care, assistance and solidarity, which is in a greater extent connected to the social justice idea. In case of insurance, contributions and deductions are paid to the social insurance company to protect against some risks (e.g. sickness, unemployment, old age). If a risk occurs, a benefit or pension is provided. Balance between sources (social contributions) and expenses (benefits, pensions) is necessary in this system. The second case concerns solidarity (e.g. solidarity between generations or between the rich and the poor). This system is for those who cannot receive benefits from social insurance system. Its financing is ensured by state or territorial units. The necessity of social insurance (as a part of social protection) results from its characteristics different from commercial insurance. The amount of paid contributions is not based on a risk but on an income of a person.

Some segments of social protection (assistance, family) are financed from income taxes (frequently particularly progressive income tax). They are subject to very different principles, as payments for services are not dependent on expenditure but on the income of a receiver (solidarity). The idea of solidarity raises questions about possible demotivation of a person. If tax burden is too high it encourages people with high incomes to prefer

leisure time. Income tax achieves a decreasing profitability particularly in case of progressive tax.

We can theoretically formulate two basic models (schemes) of social protection, which significantly differ in their definitions of risk, i.e. the qualification of persons it affects. In individual existing social protection systems, certain compromises are applied within both models. Employer is exposed to risk within the insurance model, while it is a citizen from the viewpoint of social tax transfers model. The forms of distribution of expenses and benefits from the viewpoint of social risks coverage correspond to these different qualifications. Different characteristics of the basis of social protection express contradicting concepts of the role of insurance applied in social protection systems. These two models are based on contrasting institutionalised forms, which are reflected in the conditions of financing and entitlements to benefits in each particular case.

The salary insurance model is based on the qualification of the insured as persons carrying out a professional activity dependent on employment contract conclusion. Risk is defined as occupational hazard related to a productive activity, i.e. compensation of each person is related to their productive abilities. It thus concerns insurance of the ability to maintain their salary within a unified limited risk for contributors. At a more general level, this model is based on the equivalence relationship between a benefit and a counter value, while it takes into account ex post redistribution between the insured. The insured pays contributions in advance. Their amount is derived from a risk estimate and has to cover the amount of benefits. The need of the overall equivalence between the value of overall collected contributions and the value of summary compensation to pay a benefit thus exists. Paid financial benefits are not directly related to the collection of financial contributions; however from the viewpoint of rates, they depend on the amount of salaries. They are salary compensating benefits. This model tries to cover all citizens (or after their birth) by means of redistribution mechanisms. The objective of the system is to encourage individuals to protect themselves. It supports individualistic character of risks coverage. From this viewpoint, insurance, whether private or public, is subordinated to the exclusion principle, i.e. persons not contributing to protection are not entitled to it.

The model of social transfers from taxes is based on different qualification of persons exposed to risk. Risk related to covering the systems of social transfers from taxes is dependent on social agreement, by means of which citizens mutually pay off the debt. It thus concerns the coverage of risks of exclusion from society burdening citizens, e.g. poverty, old age, occupational hazards, etc. Each citizen needs to have ensured material conditions, which entitles them to exercise their rights. This model is based on the idea that state has to take responsibility for risks coverage. This concept makes social protection a collective asset and redistribution insurance.

Several modifications of social protection schemes exist within the given models, particularly compulsory social insurance, universal protection, employers' insurance, individual insurance and assistance conditioned by sources.

Taking out compulsory social insurance is compulsory. Schemes are established under the influence of state, which sets out rules. Financing is secured by collecting contributions. Entitlement to benefits hinges upon contributions collection; however benefits designed by legislation are not a direct function of collected contributions. The schemes create certain redistribution. In case of financial imbalance, adaptation options are limited. The system is associated with budget discipline.

Universal protection ensures social protection for all settled persons. Insurance is compulsory. Benefits are statutory. The entitlement to benefits depends on the settlement condition. Social rights hinge on entitlement (age, sickness, amount of sources, etc.) and depend on what society considers reasonable or unreasonable. Schemes are financed from state budget. Financing by means of capitalisation is impossible, however state can create reserves. Adaptation options are manifold (tax changes, deficits and loans, budget changes).

In case of employers' insurance, state requires employers to insure benefits set out for their employees. Schemes are

established under the influence of state. Entitlement to benefits hinges on employment. Schemes are obligatory. Financing is particularly secured by contributions from employers. The system should stimulate saving, investments and growth, however investment income is uncertain. It can also obstruct professional or in-house mobility. Redistribution effect cannot be expected from these schemes. State cannot intervene by means of target interventions. Pension schemes are generally financed under the capitalisation principle.

In case of individual insurance, individuals save a certain part of their income in an insurance company, which is governed by statutory regulations. Schemes are established under the influence of state, which sets out rules. Entitlement to benefits hinges on paid contributions. Financing of benefits is particularly secured by these contributions. The system depends on economic and population development as well as interest rate, and should lead to a greater encouragement of saving, investment and economic growth.

Schemes based on assistance under the condition of sources help persons with low incomes. Entitlement to benefits hinges on previous income. Financing is carried out by means of state budget. Benefits can be adapted to personal situations of applicants at the moment of need, and help can be focused on persons most in need. Benefits should enable individuals without income to survive without being discouraged to work. The phenomenon of so called «idleness trap» can occur.

Different social protection systems have been formed in the EU countries, having their own historical, social and economic context. A particular system merges various programmes in order to solve particular social problems (poverty, care of dependent persons, etc.), while at the same time reflecting a global normative concept specifying social goals, economic functions of social protection and roles of state. Social protection building is based on the social protection paradigm, having two basic dimensions in Europe – common economic and social basis in the EU on the one hand, and principles and political compromises typical of each system on the other.

If we differentiate current political and social goals of social protection systems we can traditionally divide them into three big families or schemes – social and democratic scheme in Scandinavian countries, liberal scheme in Anglo-Saxon countries and conservative and corporatist scheme of continental Europe. This classification divides systems from the viewpoint of their goals (equality of citizens, social coverage of the poorest, maintaining incomes of employees) and tools used to achieve them (free social services, targeted social policy, social insurance). Differentiation of different social protection systems in the administration of the European Commission is also based on this approach. So called Sapiro report (2003) stated four possible models – Northern (Scandinavian) model, Anglo-Saxon model, Continental model and Mediterranean model, which was joined by a group of new member states after 2004.

These systems were significantly developed between 1945 and 1975. Over this period, economic and social policies were oriented to seeking full employment by means of supporting demand, social rights and welfare, not governed by market laws (common basis). Social policies helped economic growth, particularly a sharp growth of productivity in industrial sector, which enabled the provision of necessary means for a significant development of social policies. Social transfers carried out by means of social policy helped safeguard social rights for all citizens without being fully dependent on their position on the labour market.

Reforms of social protection systems started spreading in the EU at the end of the 1980s. They were particularly affected by the institutional systems structure. Problems and reforms of social protection systems change depending on a particular character of social protection institutions. Institutional arrangement logic corresponds to each social protection scheme, representing a certain burden for governments. This restriction has the same meaning as economic, demographic or technological restrictions to social protection systems.

Activation has become one of the basic ways of reforms. The basis of social protection activation is the introduction of



stricter compensations in relation to activity or education in return for the provision of a certain amount of benefits. It is expressed by the development of unemployment or assistance benefits activation policies. Two types of activation have developed in Europe. The first one can be characterised as liberal activation approach, corresponding to so called workfare (welfare activation model). It restricts the access to benefits, lowers the level of compensation, limits the time of benefit payment, etc. It basically has a punitive character. The second approach is universalistic (social and democratic), corresponding to the Northern model of activation, so called flexicurity. It aims at enhancing employability of the unemployed and inactive by offering them education possibilities, better qualification, mobility, professional experience gain, etc., however these activation measures condition the access to benefits.

#### Conclusions

1. Each social protection system is able to secure, in a certain extent, income compensation for individuals and independence on the market. This ability depends on the role, principles and goals of social protection. Each country has developed a specific political concept of social protection role. Different social protection concepts applied nowadays are differentiated according to the role of state from the viewpoint of further social factors (family, market, associations), according to common goals from the viewpoint of the position or social welfare of citizens, according to family model and supported relationships between men and women, according to the will to transform social stratification, and according to political ideology adopted by the system.

2. All EU countries have fully built social protection systems, however none of them are identical. Frequently raised question is whether protection of specific features is desirable in the environment of building the unified European structure. Certain social protection features will undoubtedly not avoid the common European structure enforcement in future. European dimension and convergence will be enforced. Social protection is a focal element of the reconstruction of social ties at European level.

3. Social protection used to be based on the policies of full employment. Nowadays, besides others, it is jeopardised by high unemployment rates and expansion of temporary employment contracts. Additionally, hidden risks are arising. Old age is not a risk in a probable meaning of the word anymore. It is becoming almost a certainty and it is reflected in the ageing of the population. Health issues are acquiring a common dimension with regard to nutrition security, environment and epidemics. Family forms are being transformed, placing new issues in front of society. Unemployment and employment

threats question the existing forms of compensation in unemployment. Social protection needs to adapt to this development. Social protection adopts the solidarity principle; however it is necessary to deal with technical aspects of social protection like the issues of financing, management of the system and individual contributions.

4. The most significant challenges for the sustainability of social protection systems and development on labour markets particularly include globalisation, technological advancement, information society beginnings and ageing of the population. Rise of segmented labour markets with separated groups of so called insiders (protected workers) and so called outsiders (unprotected workers) is a potential risk. Adaptation to these challenges requires flexible labour market combined with the level of security acceptable for employees as well as employers. The flexicurity model is an appropriate way how economic growth, high employment and satisfactory public finance can be achieved in a socially balanced way. It includes the solution of labour markets flexibility, work organisation and labour relations and security comprehended as employment security and social security.

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