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On the Social Privileges

**Following the discussion at the meeting of the inter-ministerial working
group on local budgets and inter-budgetary relations**

The present paper was prepared by the Directorate of Democratic Institutions, Directorate General of Democracy and Political Affairs, in co-operation with Prof. Gérard Marcou, University Paris 1 Panthéon-Sorbonne, Director of GRALE (Research Group on Local Administration in Europe), France.

These comments were prepared following a discussion, which took place at the meeting of the inter-ministerial working group on local budgets and inter-budgetary relations on 8 July in Kyiv. The Council of Europe experts cooperate with this group and with the Ministry of Finance of Ukraine within the framework of the Council of Europe (CoE) Programme to Strengthen Local Democracy in Ukraine (2010-2013, funded by the Swedish International Development Cooperation Agency Sida).

The paper will focus on the issue of the so-called “social privileges”, i.e. a number of advantages in kind funded by public budgets for various groups of citizens. A major concern with “social privileges” is their budgetary cost, whereas it is felt that many of them are no longer justified and should be removed or, possibly replaced by monetary allowances.

The notion of “social privileges” is very broad, which complicates the discussion on their assessment. It would thus be important to distinguish several categories of “privileges”:

- 1) Some of them are bound to a profession or a function: they are not justified by a social purpose, they are rather a salary supplement, as a bonus or an award. This kind of advantages could be replaced by awards or bonuses, unless the benefit in kind provides finally a greater satisfaction to the beneficiaries and is less costly to the society than a monetary award.
- 2) Other benefits are strictly linked to the function: for example a number of functions require an employee to reside on the spot. In this case, the public administration will provide an employee with free or subsidised housing. In such cases, there is a need to assess whether such duties really need such an advantage; if it is not the case the salary has to be recalculated on a purely monetary basis.
- 3) Many benefits are indeed a compensation for hardships incurred for the State's benefit: for example, pensions due to war veterans, depending on the time of service and on physical damages; pensions to the victims of the Chernobyl nuclear accident. The issue is to assess for how long such benefits have to be maintained and to whom (children, widows?).
- 4) Most of benefits have a social purpose: they are aimed at alleviating expenses corresponding to basic needs for people with lower incomes. These include reduced tariffs for water or gas supply, allowances to compensate part of the price for such services or for housing, reduced fares for public transport, or lower interest loans for housing.

Other categories could be added. It is absolutely necessary to have a clear view of the various categories of “social privileges”, of their origin and of their purpose, to list them

exhaustively and to have an estimate of their costs, and their economic impact. In fact, numerous “social privileges” do not contain calculations of other, hidden or indirect expenses or costs. These non-calculated costs have to be taken in account in the assessment; it would make no sense to consider only the direct costs of the “privileges”.

Furthermore, some “social privileges” extend beyond their direct beneficiaries. The typical case is public transport. There is no single case in Europe of a country where urban public transport is funded only by the fares paid by the users. In all countries a large proportion of the costs is covered by public subsidies or contributions paid by third parties – the employers. The reasons are obvious and are derived from the fact that public transportation has many externalities:

- Good public transportation is beneficial not only to the users, but also to the employers: with rapid urban transports and extended transport networks, the labour market is also extended; enlarged manpower basins increase job opportunities and the possibility for enterprises to find the people they need; additionally, this is a benefit also for enterprises to have their personnel able to arrive on time to the workplace.
- The collective benefit of public transport is more and more widely recognised as an alternative to individual cars and as a way to reduce CO² emissions. Therefore, subsidising urban public transports to keep fares relatively low is justified also by the economic gain in terms of environmental benefits.
- In all countries social fares are granted for retired people, schoolboys and students, jobless people, and so on.

Regarding reduced fares, it is unrealistic to expect them to be removed or replaced by monetary allowances. Removing low fares would result to a sharp decline of the number of travels and bring the authorities to suppress a number of lines. Monetary allowances replacing subsidised fares would be insignificant for the beneficiaries, because all of them do not use transport facilities with the same intensity. To assess the feasibility and the consequences of the monetarisation of “social privileges” it is worth to consider the implementation of the 2004 federal law on monetarisation of social privileges in Russia. It turned to be very expensive for the federal budget, because the federal government, facing protests, had to release more financial aid to allow for sufficient compensations.

Therefore, the problem has to be solved by precise and well-targeted adjustments, removal of some specific benefits that are no longer justified, change of the conditions of the benefits, or by diminishing the amounts of the benefits.

Regarding public urban transport, all countries have their own system to keep low fares and compensate reduced fares for various categories. France has an original experience in this respect: employers contribute to the funding of public urban transports in two ways. First, they all have to reimburse to each employee a part of their monthly transport card. Secondly, all enterprises with more than 9 employees have to pay to the organising authority of urban transports (a city or an inter-municipal body over 10,000 inhabitants) a contribution based on the payroll which is assigned to expenditures for the improvement of public transports. The rate of the contribution is determined by the municipal council or the council of the organising authority within the limit of the ceiling fixed by the law (0.55% of the payroll in areas under 100,000 inhabitants, 1% over 100,000 inhabitants; 1,75% where it has been decided to build and operate a rail or a road-guided transport system). The resource may be used only for public transport current or capital expenditures. The rate is higher in the region of Ile-de-France: 2.6% in Paris and in the department of Hauts-de-Seine (with the business centre of La Défense); 1.4 or 1.7% in other peripheral departments.

This contribution (*versement transport*) is nowadays the main resource for all urban public transport and it is accepted by the enterprises, because they are aware of the benefits of well- functioning transport systems.

The Council of Europe Programme expertise is available to further advice and discuss on this and other issues related to local budgets.