Flash Economics

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How can we halt the rise in social costs (health insurance and pensions)?

In many European countries, the generosity of the welfare state is being called into question. German Chancellor Friedrich Merz declared this summer that 'the welfare state as it exists today is no longer financeable'.

In France, the debate has been launched on how to balance the pension system (in a report published in February 2025, the Cour des Comptes forecasted a deficit of €15 billion for the pension system in 2035, rising to €30 billion in 2045) and the health insurance system (in June 2025, the Commission des Comptes de la Sécurité Sociale forecasted a health insurance deficit of €16 billion in 2025, rising by a further €3 billion in 2029).

How can social spending be stabilised as a proportion of GDP?

As far as pensions are concerned, France should have a higher employment rate, which would make the pension deficit disappear; but Germany already benefits from a high employment rate.

As far as healthcare spending is concerned, the decline in the fertility rate (1.59 children per woman in France in 2024, compared with 1.35 in Germany) and the rise in the number of elderly people mean that we cannot expect a stabilisation in the burden of healthcare spending.

What remains to be done is to find the right balance between increasing contributions and reducing the generosity of public pension and healthcare systems. The American example shows that privatising part of the healthcare system is a highly inefficient solution.

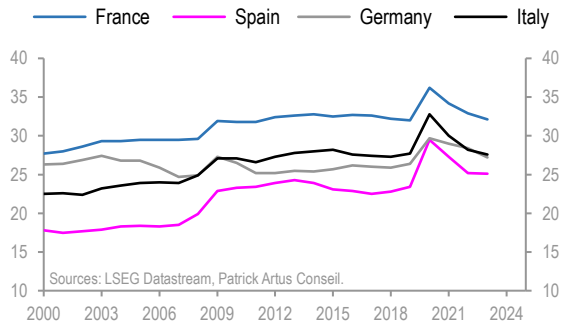
Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus
Patrick Artus

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The rising weight of social spending

In many European countries, **the generosity of the welfare state is being called into question**. If we look at **the proportion of GDP** accounted for by social benefits since the early 2000s (**Chart 1**), we see a rising trend in the weight of this expenditure.

Chart 1
Public expenditure on health and social protection
(as % of nominal GDP)



If we focus on France, we can see that the ratio of the number of contributors to the number of pensioners has fallen sharply since the 1960s (**Table 1**).

Table 1: Ratio between the number of contributors and the number of pensioners

Year	Ratio
1975	3.14
2004	2.02
2022	1.77
2050-2075	1.50

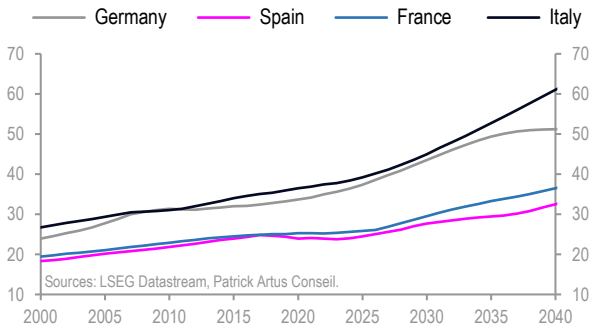
Source: INSEE

The prospect of a further increase in the burden of social expenditure

We focus here **on pension and healthcare systems**.

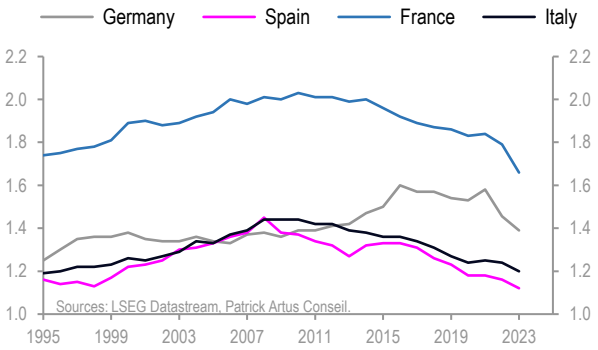
The deterioration in the balance of the pension systems is and will be mainly due to the increase in the proportion of the population aged over 65 compared with those aged 15 to 64 (**Chart 2**).

Chart 2
Population aged 65 and over as a percentage of the population aged 15 to 64



In the long term, **the drop in fertility rate** (**Chart 3**) will exacerbate this demographic imbalance.

Chart 3
Fertility rate (births per woman)



The population's ageing is also undermining the financial equilibrium of healthcare systems, as healthcare expenditure rises sharply with age from 60 onwards (**Table 2**).

Table 2: Health expenditure by age group (in euros per year)

Age group	Expenditure in euros
0-1	2135
2-16	870
17-59	1802
60-74	4195
75-79	6448
over 80	8355

Source: Sécurité sociale

As far as **pension spending is concerned, France could organise an increase in its employment rate**, which is abnormally low for young people and the over-60s (**Charts 4a/b/c**), whereas Germany already has a high employment rate.

Chart 4A
Employment rate of population aged 15 to 24 (as %)

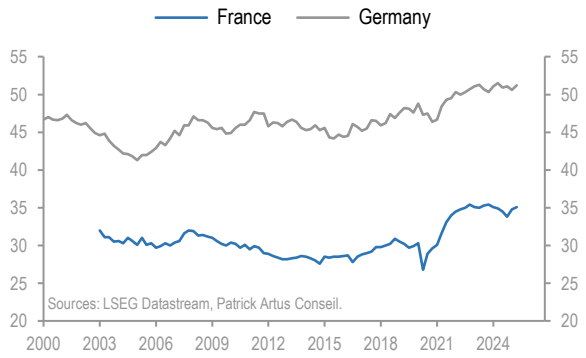


Chart 4B
Employment rate of population aged 55 to 64 (as %)

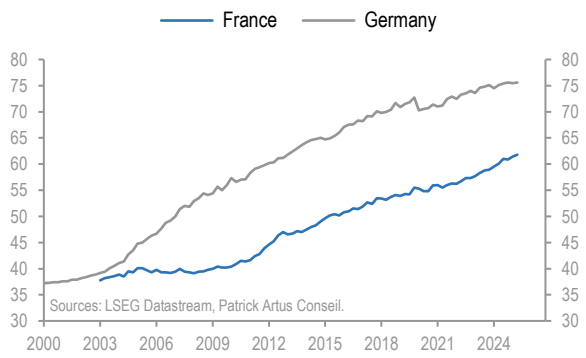
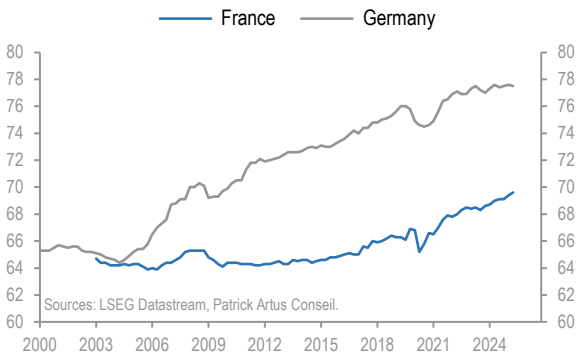


Chart 4C
Employment rate of population aged 15 to 64 (as %)



However this would require strengthening the education system and raising the retirement age, which is difficult and would take a long time.

As far as **healthcare spending is concerned, the increase seems inexorable** as the population ages. Privatising healthcare, along the lines of the US model, is not a solution, as it leads to a loss of control over healthcare costs and spending. **Charts 5A and 5B** show that healthcare expenditure is mainly private in the United States and public in Europe.

Chart 5A
Public expenditure on health (as % of nominal GDP)

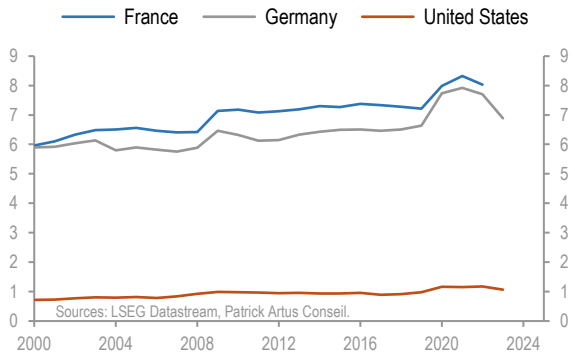
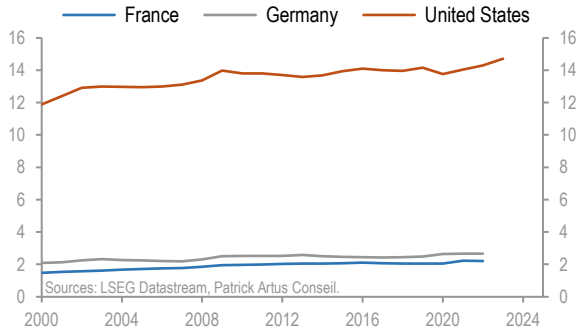


Chart 5B
Household expenditure on health (as % of GDP, in volume terms)



Summary: So, what's the solution?

Stabilising social spending as a percentage of GDP is probably an unattainable objective because of the population's ageing, which spontaneously increases pension and health spending; in France, increasing the employment rate is made difficult both by the poor quality of education and by the early retirement age. We will therefore have to resolve:

- increasing the rate of social security contributions;

- and reducing the generosity of social protection systems.

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