



POLITECNICO
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DIPARTIMENTO DI ARCHITETTURA
E STUDI URBANI



POLITECNICO
MILANO 1863

Manos Matsaganis

False starts, wrong turns and dead ends

How (not) to ensure social protection for all workers

18th International Conference in Commemoration of Prof Marco Biagi

Beyond Employment: Protecting Autonomous Work

16-19 March 2021

- stylised facts
- false starts
- wrong turns
- dead ends
- ... and a possible way forward



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Self-employment on the rise?

- Standard employment (full-time, open-ended) has declined in recent decades
- Non-standard employment is on the rise
- Part-time work has become more prevalent
 - *12.45% in 1984 of all employment in the EU*
 - *17.43% in 2013*
 - *16.48% in 2019*
- ... and so has temporary employment
 - *8.14% in 1984 of all dependent employment in the EU*
 - *14.50% in 2006*
 - *13.64% in 2019*
- ... but has the share of self-employment (autonomous work) risen too?



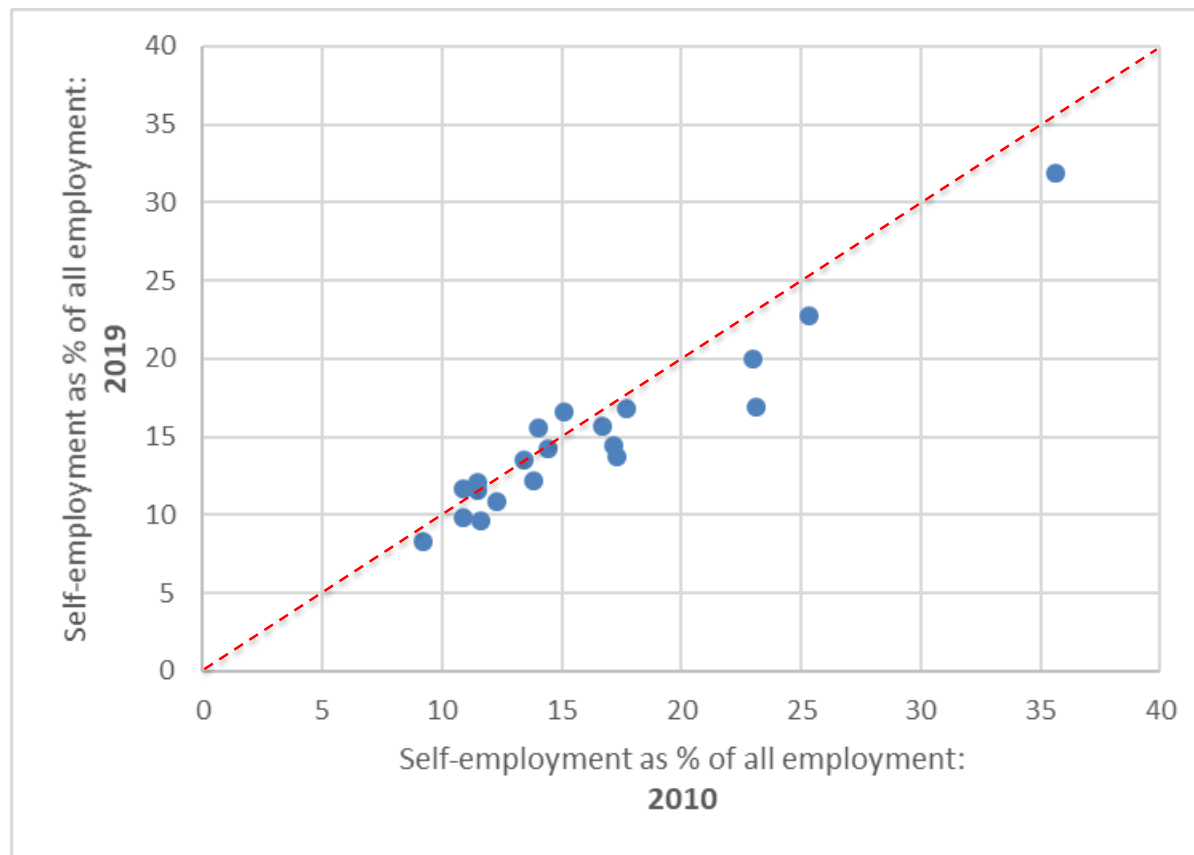
Not really!

In the EU, the share of self-employment has fallen

➤ from 18.30% in 2000 to 15.27% in 2018



In most European countries, the relative weight of self-employment did not increase over the 2010s



Source: OECD



Stylised facts

EU countries in which the self-employment rate *increased* over the 2010s

	2010	2019	<i>change</i>
Netherlands	15.1	16.6	<i>+1.5</i>
Lithuania	10.9	11.7	<i>+0.8</i>
France	11.5	12.1	<i>+0.6</i>
Latvia	11.5	11.6	<i>+0.1</i>
Finland	13.4	13.5	<i>+0.1</i>

Note: Share of self-employment in all employment (%)

Source: OECD



Stylised facts

EU countries in which the self-employment rate *decreased* over the 2010s

	2010	2019	<i>change</i>
Portugal	23.1	16.9	-6.2
Greece	35.6	31.9	-3.7
Slovenia	17.3	13.7	-3.6
Poland	23.0	20.0	-3.0
Ireland	17.2	14.4	-2.8
Italy	25.3	22.7	-2.6
Germany	11.6	9.6	-2.0
Austria	13.8	12.2	-1.6
Hungary	12.3	10.8	-1.5
Sweden	10.9	9.8	-1.1
Spain	16.7	15.7	-1.0
Denmark	9.2	8.3	-0.9
Czech Republic	17.7	16.8	-0.9

Note: Share of self-employment in all employment (%)

Source: OECD



Stylised facts

Change in the self-employment rate in non-EU countries

	2010	2019	<i>change</i>
New Zealand	16.2	18.6	<i>+2.4</i>
United Kingdom	14.0	15.6	<i>+1.6</i>
Switzerland	15.7	15.4	<i>-0.3</i>
Israel	12.8	12.3	<i>-0.5</i>
United States	7.0	6.1	<i>-0.9</i>
Canada	9.3	8.2	<i>-1.1</i>
Norway	7.7	6.5	<i>-1.2</i>
Australia	11.5	9.7	<i>-1.8</i>
Japan	12.2	10.0	<i>-2.2</i>

Note: Share of self-employment in all employment (%)

Source: OECD



A policy concern

- The rise (and rise) of gig work
 - ✓ *on-location platform-determined routine work (e.g. Uber)*
 - ✓ *online client-determined specialist work (e.g. Freelancer)*
- The spread of *dependent* self-employment
 - ✓ *often policy-induced (more shortly)*
 - ✓ *sometimes 'bogus'*
- A challenge for social policy
 - ❖ *in-work poverty*
 - ❖ *coverage gaps*



In-work poverty

Access to social protection for all forms of employment

Table 1 - Incidence of working poverty by contractual arrangements

MS	Self-employed	Non-standard employees	Standard employees
AT	33.6%	54.2%	14.5%
BE	30.3%	35.9%	4.2%
BG	24.3%	57.6%	10.2%
CY	27.4%	74.9%	14.2%
CZ	26.7%	44.9%	10.9%
DE	38.8%	64.9%	8.2%
DK	40.3%	32.5%	10.3%
EE	50.2%	58.5%	18.2%
EL	35.1%	59.4%	7.2%
ES	41.7%	62.0%	10.3%
FI	38.1%	60.0%	8.6%
FR	35.1%	46.6%	6.7%
HR	35.0%	44.7%	7.2%
HU	23.2%	66.3%	7.3%
IE	36.4%	64.9%	9.0%
IT	32.1%	57.5%	10.6%
LT	34.0%	60.8%	17.7%
LU	33.2%	50.2%	8.4%
LV	42.5%	67.8%	17.2%
MT	23.5%	55.3%	12.0%
NL	39.5%	47.6%	10.1%
PL	29.9%	31.2%	5.2%
PT	31.8%	43.1%	5.1%
RO	81.4%	22.0%	2.7%
SE	34.9%	46.1%	10.7%
SI	62.8%	50.8%	9.5%
SK	19.2%	33.4%	3.6%
UK	41.6%	64.2%	9.3%
EU28	39.0%	55.1%	8.4%

Source: elaborations on EU-SILC 2015



Should policy *encourage* autonomous work?

- European Employment Strategy
 - *“Entrepreneurship and self-employment help:*
 - ✓ *create jobs*
 - ✓ *develop skills*
 - ✓ *give unemployed and vulnerable people an opportunity to fully participate in society and the economy”*
- Small is beautiful?
 - ✓ *necessity-driven vs. opportunity-driven entrepreneurship*
 - ✓ *small firms tend to be less innovative and less successful*
- Tax compliance
 - ✓ *Tax evasion and avoidance an inherent feature of self-employment*
 - ✓ *Not a question of administrative capacity*
 - *Share of income from self-employment under-reported:*
 - *in Greece: 48% (Artavanis et al. 2016)*
 - *in the US: 57% - 59% (Slemrod 2007, 2019)*



A policy concern

- UN Sustainable Development Goals
 - ✓ *Target 1.3: Implement nationally appropriate social protection systems and measures **for all**, including floors, and by 2030 achieve substantial coverage of **the poor and the vulnerable***
 - European Pillar of Social Rights
 - ✓ *Principle 12: Regardless of the type and duration of their employment relationship, workers, **and, under comparable conditions, the self-employed**, have the right to adequate social protection*
- The question is how



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Solidarity within one class?

(paraphrasing Fritz Scharpf's "socialism in one class")

- Create separate systems of social protection for the self-employed
 - *Historically, the preferred approach of policy makers in countries where social protection mostly relied on 'Bismarckian' (contributory) social insurance*
 - *Side effects:*
 - ✓ *Lower benefits: pensions*
 - ✓ *No entitlement: unemployment, sickness, maternity benefits*
 - ✓ *Over-reach: health care, child benefits (assegno familiare)*
 - *Still common practice in Latin America and elsewhere*
- Occupational fragmentation
 - ✓ *an affront to universalist aspirations*
 - ✓ *utterly ill-suited to a dynamic economy*



Access to social protection

% at risk of not being entitled to social benefits			
	unemployment	sickness	maternity
Temporary full-time	31.9	5.1	8.5
Permanent part-time	0.6	1.8	1.6
Temporary part-time	38.7	9.7	12.7
<i>Self-employed</i>	<i>54.5</i>	<i>37.8</i>	<i>46.1</i>

Note: Proportion of employed workers aged 15-64 (except for maternity: % of employed women aged 15-49).

Source: Matsaganis M., Özdemir E., Ward T. & Zvakou A. (2015) Non-standard employment and access to social security benefits. Research Note 8/2015. Social Situation Monitor, European Commission.

Data: Labour Force Survey for the year 2014 in the EU28.

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Unemployment insurance for the self-employed?

- Already quite common in Europe
 - *Compulsory insurance:*
 - ✓ CZ, HR, HU, IS, LU, RS, PT, SI, SK
 - ✓ FI, EE, IE, UK: means-tested / flat rate tier only
 - ✓ EL, PL, SE: partial coverage / stricter conditions
 - *Voluntary insurance:*
 - ✓ AT, DK, ES, RO
 - *No unemployment protection :*
 - ✓ BE, BG, CH, CY, DE, FR, IT, LI, LT, LV, MK, MT, NO, NL, TR
- *Source: Spasova S. Bouget D., Ghailani D. & Vanhercke B. (2017) Access to social protection for people working on non-standard contracts and as self-employed in Europe: a study of national policies. European Commission.*



Unemployment insurance efficient?

- Economic theory provides grounds for scepticism
 - *One big side effect:*
 - ✓ *Moral hazard (decision not to work at least partly endogenous)*
 - *Work vs. worklessness not a binary outcome*
 - ✓ *Effects along the extensive (job loss) vs. the intensive (fewer hours) margin*
 - ✓ *Employees: unemployment protection vs. furlough schemes (e.g. Kurzarbeit)*
 - ✓ *Self-employed equivalent?*



Unemployment protection or furlough schemes?

- Distinction between necessity- vs. opportunity-driven entrepreneurship
 - *Necessity-driven self-employment:*
 - ✓ *reflex when business is failing: remain in activity
=> intensive margin (furlough schemes more appropriate)*
 - ✓ *more common in Europe where business culture and bankruptcy law stigmatise failure*
 - *Opportunity-driven self-employment:*
 - ✓ *reflex when business is failing: close business and cut losses
=> extensive margin (unemployment protection more appropriate)*
 - ✓ *more common in the US where business culture and bankruptcy law supportive of failure*



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The “double burden”

*“In many cases, self-employed workers face a ‘**double contribution challenge**’: in the absence of an employer, the burden of paying the full contribution (employer and employee parts) falls on them.*

*“Unless **adapted mechanisms** are in place, self-employed workers with very low earnings cannot afford to pay the required social security contributions.”*

ILO (2019) Extending social security to self-employed workers



The Greek example (to avoid)

- 1931-2016
 - ✓ *separate schemes for own-account workers and liberal professions*
 - ✓ *social contributions for retirement and health insurance benefits:*
 - *flat-rate*
 - *rising with time*
 - ✓ *distributional effects highly regressive*
- 2016-2018
 - ✓ *social insurance unified on the insistence of the EU-ECB-IMF 'Troika'*
 - ✓ *contributions for the self-employed made income-related*
 - ✓ *contribution rates equal to the sum of employer and employee contributions*
 - *receipts from social contributions fall sharply*
- 2018-2020
 - ✓ *Constitutional Court declares «double burden» unconstitutional*
 - ✓ *the self-employed pay only the employee portion of social insurance contributions*
- 2020
 - ✓ *incoming government repeals income-related contributions for the self-employed*
 - ✓ *social contributions for the self-employed made flat-rate (time-invariant!)*



The “double burden” in practice

	Employees	Employers	Total	Self-employed
BG	8.78	11.02	19.80	19.80
HR	20.00		20.00	20.00
CY	8.30	8.30	16.60	15.60
CZ	6.50	21.50	28.00	28.00
EE		20.00	20.00	20.00
FI	8.25	17.35	25.60	25.60
FR	6.90	8.55	15.45	17.75
DE	9.30	9.30	18.60	18.60
IT	9.19	23.81	33.00	33.00

Note: Social contribution rate for pension insurance as a proportion of earnings (thresholds and ceilings may apply)

Source: MISSOC



The “double burden” in practice (cont’d)

	Employees	Employers	Total	Self-employed
LV	11.00	24.09	35.09	32.15
LT	8.72		8.72	8.72
PL	9.76	9.76	19.52	19.52
PT	11.00	23.75	34.75	25.20
RO	25.00	0.00	25.00	25.00
SK	4.00	14.00	18.00	18.00
SI	15.50	8.85	24.35	24.35
ES	4.70	23.60	28.30	29.80
SE		10.21	10.21	10.21
NL	17.90		17.90	17.90

Note: Social contribution rate for pension insurance as a proportion of earnings (thresholds and ceilings may apply)

Source: MISSOC



In defence of the “double burden”

- The view from economics

- ✓ *How social contributions are split between employers and employees is largely symbolic*

(... or at most relevant only in the short term)

- ✓ *What matters is the total size of the tax wedge*

*labour costs for employers
minus
take home pay for workers*

- ✓ *... not the way it is shared between employers and workers*



In defence of the “double burden”

- The view from economics
 - ✓ *Having the state or social insurance agencies pay the employer part of social contributions for self-employed (and other non-standard) workers would introduce **perverse incentives***
 1. *It would encourage ‘social security arbitrage’*
 - *unscrupulous employers: resort to bogus self-employment (i.e. treat their employees as freelance workers)*
 - *all employers: shop between schemes to economise on non-wage labour costs*
 2. *It would make own account work more attractive relative to dependent employment*
 - *... and in the process discourage business growth*
 - ✓ *small is not beautiful*



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What future for social protection?

1. Raise the weight of non-contributory elements in the social benefits mix
 - ✓ *Universal health care and other social services (e.g. child care)*
 - ✓ *Child benefits*
 - ✓ *Basic pensions*
 - ✓ *Means-tested non-categorical income support (e.g. housing benefits, minimum incomes)*
 - *Unconditional basic income (?)*



What future for social protection?

2. Make the remaining contributory benefits more 'actuarial'

- ✓ *Remove non-linearities in benefit formulae*
 - ✓ *(e.g. minimum thresholds, ceilings and the like)*
- ✓ *Move towards notional defined contribution-type retirement benefits (?)*
- ✓ *Introduce portable individual accounts (?)*



What future for social protection?

3. Shift the burden of taxation away from jobs

- ✓ *Close loopholes*
- ✓ *Abolish tax havens (starting from the EU)*
- ✓ *Tax wealth (incl. housing wealth) more*
- ✓ *Tax businesses (incl. digital platforms) more*

