

Old welfare in new labour markets? The social protection of atypical workers*

Headlines

- Non-standard forms of work are increasingly common across Europe, raising doubts about the capacity of existing tax-benefit systems to provide adequate social protection to all types of worker.
- Guaranteeing adequate social protection to atypical workers is a priority for the EU and included in the European Pillar of Social Rights.
- Atypical workers are in general less well protected than traditional employees in the event of unemployment, as their access to unemployment insurance schemes is limited. This is also reflected in their greater exposure to poverty risk, both when unemployed and when in work – 25% of atypical employees and 20% of the self-employed are at risk of poverty while in work.
- JRC simulations using the EUROMOD model show that extending unemployment insurance to the self-employed would significantly improve their income protection and lessen their exposure to the risk of poverty in the event of unemployment.

The growing need for social protection in a changing labour market

The last two decades in Europe have seen a shift away from traditional full-time, open-ended employment towards atypical forms of work, which include temporary jobs, part-time work, casual

and seasonal work and solo self-employment (i.e. self-employed work without employees). The share of permanent, full-time employees in the total working population in EU countries in 2016 was 59%, 4 percentage points down from 2002. The literature suggests that the decline of full-time employment may accelerate in the future, due in part to the increasing automation of jobs and other technological advances.

Research has shown that, while often serving as a stepping stone into stable employment, non-standard work has led to greater job insecurity and precariousness, with negative consequences in terms of wage polarisation, knowledge and skill accumulation, and health and well-being.

In their current design, social protection systems usually address the needs of standard, full-time employees. Atypical employees are normally subject to the same eligibility rules, although it is often difficult for them to meet the required conditions, meaning that they are excluded de facto. Moreover, the self-employed are sometimes completely excluded or only able to opt in voluntarily. This accentuates the existing divide between traditional employees and atypical workers in the labour market, and raises questions of fairness. Guaranteeing adequate social protection to atypical workers is a priority for the EU, which reaffirmed its support for fair and well-functioning labour markets and welfare systems by proclaiming the European Pillar of Social Rights in November 2017. The Pillar asserts the right to fair and equal treatment regarding working conditions for all workers. With respect to social protection, it states that 'Regardless of the type and duration of

*This brief is based on the JRC Science for Policy report: Income protection of atypical workers in the event of unemployment in Europe, H. Xavier Jara and Alberto Tumino, JRC Working Papers on Taxation and Structural Reforms No. 05/2018. It can be downloaded from: <https://ec.europa.eu/jrc/en/research/crosscutting-activities/fairness>. The views expressed in this policy brief are those of the authors and do not necessarily reflect the official views of the European Commission.

Quick Guide

Using the EUROMOD microsimulation model, the JRC assessed the level of social protection provided by the tax–benefit systems in the event of unemployment in the 28 EU Member States for three groups of workers, namely: standard employees, non-standard employees and the self-employed. Low values on a work intensity index, based on months and hours worked, was used to identify non-standard employees, as they are typically employed in part-time or temporary posts. The extent of social protection is measured by indicators such as the potential coverage rates in the event of unemployment, net replacement rates and poverty protection. Additionally, the study assessed the effects of a hypothetical reform scenario in which eligibility for unemployment insurance benefits was extended to self-employed workers in countries where they are not compulsorily covered, under the same conditions as existing rules for standard employees (i.e. all Member States except Denmark, Hungary, Croatia, Poland, Slovenia, Czech Republic, Finland, Luxembourg and Sweden).

Transitions from employment to unemployment were simulated worker by worker for the entire working population. The EUROMOD model combines country-specific coded policy rules with representative household microdata to simulate cash benefit entitlements, including unemployment insurance, and direct personal tax and social insurance contribution liabilities. The simulated tax–benefit rules refer to the 2017 policy systems. Microdata are derived from the European Statistics on Income and Living Conditions (EU-SILC 2015) and, for the UK, the Family Resource Survey (FRS 2014/15).

their employment relationship, workers, and, under comparable conditions, the self-employed, have the right to adequate social protection'. Moreover, the European Commission proposed a Council Recommendation on access to social protection for all workers and the self-employed, providing guidance on how to ensure adequate coverage for all.

The vulnerability of atypical workers

The EUROMOD microsimulation model is used to assess the level of social protection in the 28 EU Member States provided by the tax–benefit systems in the event of unemployment for three groups of workers, namely: standard employees, non-standard employees and the self-employed. An indicator of work intensity has been used to distinguish between standard and non-standard employees (see the 'Quick guide' for details). Simulations show that the share of atypical workers (i.e. non-standard employees and the self-employed) potentially covered by existing unemployment insurance schemes in the event of unemployment is significantly lower than the potential coverage rates for traditional employees.¹ Greece and France offer the highest potential coverage rates

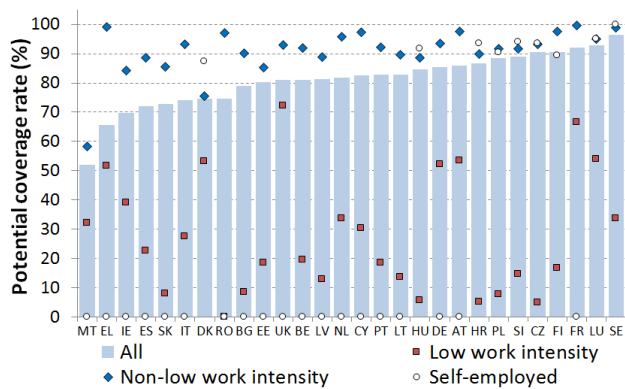
for standard employees, while the largest shares of potentially covered non-standard (low-work intensity) employees are found in the UK and France. The Czech Republic and Croatia demonstrate the largest gap in potential coverage between standard and non-standard employees. The gaps are even more evident for the self-employed, as in most countries this category of worker is not eligible for unemployment insurance (Figure 1).² Factors such as conditions of eligibility for unemployment insurance and the characteristics of the workforce explain the high degree of cross-country variability. Due to their low coverage by unemployment insurance, market incomes (income before transfers and taxes) of other household members play a primary role in sustaining the incomes of atypical workers in the event of unemployment.

Furthermore, results show that, on average, 76% of traditional employees are protected from risk of poverty, compared to 61% of non-standard employees and only 54% of the self-employed. It should be noted that around 25% of non-standard employees and 20% of the self-employed are at risk of poverty even while in work, by comparison with only 5% of traditional employees.

¹'Potential coverage' measures the share of workers who would be covered by unemployment schemes in the event of unemployment based on their previous work history. It is potential, as it is computed for the entire workforce, as opposed to actual coverage, which is based on unemployed people currently receiving unemployment benefits.

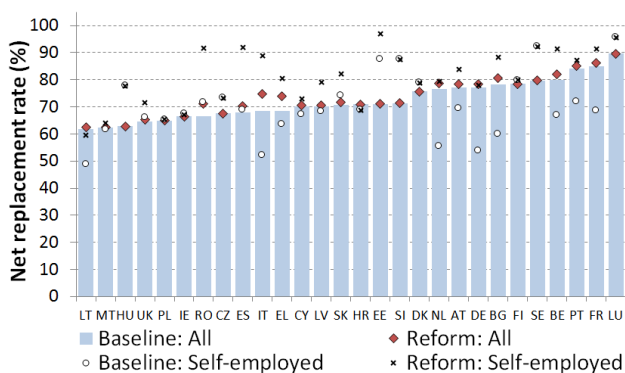
²For a detailed review of coverage and eligibility conditions see Jara and Tumino (2018). The number of low-work intensity employees is particularly low in Romania, where less than 1% of the total workforce belongs in this category. A subgroup analysis of low-work intensity workers in Romania should therefore be considered with caution, as sample size issues are likely to affect the significance of our findings with respect to this category.

Figure 1. Potential coverage of unemployment insurance schemes in the EU (%)



Source: JRC based on EUROMOD model.

Figure 2. Mean net replacement rates: baseline and hypothetical reform scenario (%)



Source: JRC based on EUROMOD model.

The implications of extending unemployment insurance to the self-employed

Our work analyses the consequences of removing the legal barriers to unemployment insurance facing self-employed workers, by, in a hypothetical reform, making them eligible under the same rules as employees. The results shows that extending eligibility for unemployment insurance to the self-employed, in countries where they are currently not eligible, would significantly increase their level of income protection. This is shown in Figure 2, which reports the average household disposable income in the event of unemployment as a share of the pre-unemployment net income (i.e. net replacement rates). Averages are computed before and after the hypothetical reform, both across the entire population and for the self-employed only. Furthermore, extending unemployment insurance coverage to the self-employed would reduce the share of the self-employed at risk of poverty in the event of unemployment from 25% to 15% in the EU. The largest reductions are observed in Belgium and Germany, with a 28-percentage-point decrease in the share of the self-employed that would be at

risk of poverty in the event of unemployment. In addition, this reform would narrow the poverty gap, meaning that the reforms would not only reduce the risk of poverty in the event of unemployment, but also its severity.

The cost of the reform was quantified as the average extra cost per self-employed person entering unemployment, expressed as a percentage of each country's median household disposable income. The additional cost would range from 4% of the median household disposable income in Ireland to 80% in Bulgaria. The additional cost per self-employed person entering unemployment would be above 50% of the median household disposable income in only 4 of 28 countries.

A number of caveats should be taken into account when interpreting the results of this study. First, the analysis assumes that the self-employed would be insured against unemployment risk at no extra cost to themselves (i.e. social insurance contributions are as in the baseline). Second, the study does not consider any labour supply disincentive which might be associated with an extension of unemployment insurance coverage to the self-employed. Although potentially problematic from a theoretical perspective, recent evidence tends to attach less importance to disincentives associated with unemployment benefit extensions, especially in times of recession. Third, income underreporting among self-employed workers is likely to affect the results. Fourth, the brief analyses the social protection of atypical workers for the population as a whole, when, in fact, unemployment probabilities are unevenly distributed both between and within population subgroups, influencing both the degree of observed coverage from social protection and the replacement rates.

Related and future JRC work

In the context of the 2017 European Pillar of Social Rights further work should be done to assess the effects of extending social protection to atypical workers in other spheres of working life, such as access to paternity and maternity benefits and sickness insurance.

This policy brief is one of **a series of 'science for policy' briefs** discussing various aspects of fairness. **A comprehensive report on fairness** will be published in 2019.

Contact:

Mailbox of the Community of Practice on Fairness
EC-FAIRNESS-COP@ec.europa.eu