EU-CHINA
Social Protection Reform Project
中国-欧盟社会保障改革项目

COMPONENT ONE

Relations between Employment and Social Security Policies in Europe

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Social Protection and Employment

“Partnership or Rivalry”

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en3s

JUNE 2016

Foreword

The EU-China social security reform project (SPRP) Component 1 is committed to addressing in-depth, as part of its 2016 Programme of Activities, the factors and circumstances that may affect the sustainability of a reformed pension system, including the relevance, the efficiency and the equity of the schemes forming the system.

Both in China and across Europe, providing to the active population sufficient decent employment opportunities is at the core of the preoccupations of Government authorities at all levels, and the social partner. In China, these preoccupations are embodied in the XIIIth Five-year Plan, which was adopted in March 2016 by the National People's Congress (NPC). The period covered by the Plan – 2016-2020 - in fact coincides to that remaining for the European Strategy for smart, sustainable and inclusive growth, making the goals pursued by the two partners, China and the EU, absolutely compatible.

Having decided, with its NDRC partners and the support of the EU Delegation in Beijing, that the Component 1 2016 Programme of activities would include a Policy dialogue between NDRC and the Commission, an International Workshop and a High-level event devoted to the relationship between employment and social security policies both in Europe and in China, the Component team launched a research project to better apprehend the current state of this relationship Europe-wide.

After competitive bidding, the Research project was finally attributed to the EN3S – French National School for Higher Social Security Studies, represented by Mr. Jean-Yves Hocquet. On the basis of the Technical Note reproduced as an annex to this document, Mr. Hocquet produced the attached report. The SPRP Component 1 team is now proud to present this master piece, which we are convinced will provide researchers and decision makers, in China and in Europe, with very substantial materials and reflexions to design and conduct successful programmes promoting employment within the framework of full, efficient, equitable and sustainable social protection mechanisms.

Laurent de Lespinay,

Project Component 1 coordinator
EXPERTISE FRANCE
June 2016

This document will also be published in Chinese under the title
社保与就业：合作或竞争 *(provisional title)*

Acknowledgement

Social protection was affirmed as one of the main objectives of European construction. However its place was limited in European law to the achievement of the single labour market. Because social protection is organized in the Member States according to very different models (level, funding, benefits) reflecting the national diversity, it offers to the third country policymakers a wide range of possibilities even if, in all the countries, there is a major trend towards adapting the post-World War II systems to the sociological changes taking care not to load the wages with undue charges (Part I). Through the development of social security coordination, Europe is trying to identify these changes (new risks, new forms of work) but also to fight against social fraud that can distort labour markets. The need for coordination is responding to adapting European Regulations, by improving the convergence of national social policies and by better bridging the employment and social policies through the Open method of coordination (Part II). The contribution of recent studies shows that social protection could have a direct although limited impact on employment. Its main added value to a sustainable growth and to employment lies in traditional social objectives as the reduction of inequalities in the search of a more employment friendly balance (Part III).

Special acknowledgement must be given to the experts who have shared their experience.

Jean-Louis Dayan former director of the Centre d'études de l'emploi (Centre for employment studies)

Laurent Caussat former general secretary for the Haut conseil du financement de la protection sociale (High council for the funding of social protection)

Colleagues of the EN3S (National School for Higher Social security studies) and of the FreSsco (Free movement of workers and Social security coordination)

J-Y H.

May 2016

CONTENTS

LIST OF GRAPHS

Executive Summary

Out of reconstruction after WWII and steady growth, full employment was achieved. Improvement of social protection and employment were tightly correlated. In any case it is important to stress that whatever model was used, the implementation of social protection was a strong commitment of the governments of most European countries. The European Union (EU) and the European social model are not only a market driven movement but also a political one. It could be an error to focus solely on the social protection/employment relationship. Social protection is not a by-product of growth subordinated to employment. Point 7 of the Community Charter of Fundamental Social Rights for Workers adopted on 9 December 1989 states that the completion of the internal market must lead to an improvement in the living and working conditions of workers in the Community. Opinion is still divided. At one end of the spectrum, social objectives are seen as central to the European project and as a good thing in their own right. At the other, the EU is considered fundamentally as an economic union and social policy should only be brought in to the extent that it is necessary to achieve those economic aims.

Since employment is one of the mains factors of social inclusion it is important to consider its contribution to social protection and conversely how the design of social protection could contribute to employment.

A large range of social protections systems in Europe

Social protection seeks to assist and protect people from disease, poverty and social exclusion by establishing safety nets in case of poor health in the event of job loss or retirement. By hedging risk it smoothens the vagaries of life that individuals or households are subject to.

The stabilizing role of the social protection system came into full play in Europe after the 2008 crisis, which was atypical, both in intensity and in duration but impacted European countries in different ways. The scale of the crisis was uneven across Europe and responses were varied. However this protective effect was attenuated over time due to the persistence of the crisis and reforms adopted to contain the widening public deficits.

With a slowdown in growth, full employment is more difficult to achieve and the question of the trade-off between social protection and employment could appear as a major issue. Since the beginning of the crisis, the European average employment rate for those aged 20-64 years within the EU 28 decreased (68.4% in 2013 versus 70.3% in 2008) and the unemployment rate rose from 7.0% in 2008 to 10.9% in 2013. These averages mask wide disparities. In Greece and Spain, more than a quarter of the workforce is unemployed. In Germany, only 5% are concerned. The rate of long-term unemployment has doubled between 2008 and 2013, reaching 5.1% of the workforce in the EU 28, nearly half of the total number of unemployed. Young people are particularly affected by the massive increase in unemployment, while senior citizens and women are relatively spared.

The concept of flexisecurity puts the question at the centre of the EU and Member States (MS) policies. Actually it leads more to a revision of the social protection (SP) management (funding and benefits) than to a challenge of the principles. The debate is not settled. On one hand a liberal approach tends to minimize the cost of social protection considered as a burden, on the other hand social protection is seen as an asset for the well-being of mankind especially for those young or low-skilled people who are particularly hard hit by job insecurity. Flexicurity is a comprehensive approach to labour market policy that combines sufficient flexibility in contractual arrangements - to allow firms and employees to cope with change - with the provision of security for workers to stay in their job, or be able to find a new one quickly with the assurance of an adequate income in between jobs. This is possible through lifelong learning, active labour market policies and high levels of social protection[1]. Beyond the global analysis it is important to consider several focal points. The average unemployment rate in the EU could be bearable if it affected all the population equally but the deviation from the average can be huge by country, skill, age, gender or even regional area and leads to unsustainable situations for some categories. Due to this context social protection takes place as a part of a global policy.

There are interactions with others levels:

- The tax system and job creation
- Wage moderation
- Investment in education and training
- Transition from school to work
- Reintegration of long term unemployed
- Better social dialogue

The EU offers a large sample of social protection systems. It is important to keep in mind these following remarks:

- The various European social protection systems are rather different regarding the level of spending, the kind of benefits and the sources of financing. So in most cases the design of the national social protection could be influenced mainly by national choices that are made in these areas. (Social protection spending in the EU: EU average 29%; Denmark 34%; France 33.6 %; Latvia 15.1 %.)
- The countries of Southern Europe dedicate about 50 % of their social protection spending to retirement benefits. Family or child benefits are highest in the Nordic countries and Germany and Ireland. Nordic countries tend to have a high coverage of the invalidity risk a high level of spending for housing and inclusion in the Netherlands and the UK

If we consider unemployment as measured by the unemployment rate and its relation to social protection there is no direct relation to the level of spending or the kind of model .The same level of performance could be achieved with very different social protection designs. If we move to more global indicators, the more affluent the countries are, the more they spend on social protection and if we observe the attractiveness of the countries it is no hampered by a high level of social spending. This situation actually gives policymakers a lot of room to tackle the question of unemployment. Benefits could be used to manage the consequences of economic trends and the origin of the resources gives the public authorities more or less opportunity to act on employment policy.

It is completely impossible to define one size fits all policy because of national differences but it is possible to find the mix that could achieve the objectives designed within the EU. The huge differences observed have not prevented the implementation of a European labour market.

[1] Commission Communication on flexicurity 2007

A successful coordination of social security to achieve the single labour market

One of its first aims was the building of a European labour market and, from the beginning onwards, it has required an efficient, if perfectible, coordination of social protection. This coupling of social security and employment is one of the most interesting elements of the European experience. The MS have managed the diversity of national protection systems through social security coordination and they have implemented new mechanisms of coordination between employment and social protection policies without endangering national sovereignties.

- Discrimination on grounds of nationality is prohibited;
- Rules are laid down to determine which member country's legislation the person is subject to;
- Rights in the course of acquisition are protected through aggregation of periods of insurance and/or residence spent in each of the respective countries;
- Rights already acquired are protected by allowing certain benefits to be exported.

The material scope of social protection changes. Some measures such as active labour market policies (ALMP) are at the fringe but their introduction into the scope of social security coordination is on the way. Interactions between social protection policy and employment policy are better understood through the implementation of the Open Method of Coordination (OMC). It must be added that fight against frauds to social contributions or taxes is a major European countries because its effects of fraud on the fair competition.

Social protection has a rather limited impact at the macroeconomic level but is a condition of sustainable growth.

All the countries try to reduce the public spending in social protection but because the dynamic of health and long term care because of the ageing of the population. The shift to out the pocket spending does not imply a better allocation of resources. The example of the United States shows that a high level of spending in the GDP (for health) does not reduce the public spending with a rather limited efficiency. The charge of growing spending could be not sustainable even for private contribution i.e. insurance plans sponsored by private companies. As long-term care shows it, the voluntary coverage in developed countries is fragile and limits the shift to private funding. The positive effect of some voluntary funding as pension funds are indisputable through a direct effect on savings, investment and employment during the period they reach their expected level and less important after.

Limiting the cost on labour factor

The alleviation of employers social contributions has a limited impact on the employment except for low wages .It is currently used to safeguard the employment of low wage worker or as an incentive for the employer to hire special categories as long term unemployed people or young people. Actually in most of the countries employers' contributions are about zero at the lowest level.

Others resources could be more and more linked to behavioural criteria as described for employer experience based contributions or to the consumption habits in relation with the risks (tobacco, alcohol, soft drinks) or to others expanding revenues as value added tax or environmental taxes. In a global approach every tax would have an effect on the employer or on the employee. Modulation of social contributions paid by employers may decrease dismissals or occupational hazards. The result on the employment would depend on the capacity of the households to accept a reduction of their purchasing power. Another path to explore is to decrease the spending by an active management of employer contributions.

Reducing the inequalities

The focus on the employment policy could divert social protection from what is its major playground to growth and therefore employment. Excessive inequalities lead to a long term discrepancy between these who enjoy long term employment with a quality work life, high wages and lifelong learning and those who are excluded and unable to maintain their human capital because of problems related to skills, health or others social dimensions. Furthermore inequality prevents a growing percentage of the population from contributing to growth because of the lack of purchasing power and the difficulty in contributing to savings and investment.

This contribution of social protection benefits (excluding pensions) to reduction of inequality ranges from 40% (Italy) to 84% (Sweden), and is close to 75% in France. Further information on the redistributive impact of the major categories of benefits by risk points out that effect arises from the progressivity of the benefit schedule, or from their weight in household disposable income and consequently the mass of income they transfer between individuals. In this regard unemployment benefits still appear as the primary contributors to the reduction of income inequality in most countries. This contribution is particularly large in Spain (45%), due to the high unemployment rate of the labour force in this country. Conversely, unemployment benefits play a weak role in redistributing the UK (4%), given their nearly flat amount and limited length of award.

In fact, the calculations made by the OECD assessing the impact of the monetary value of benefits in-kind services reach to 28% of average household disposable income. By themselves, they would contribute to a 22% reduction of income inequality, and of a 40% reduction in the risk of monetary poverty. Health and social services (health, aid for self-care for young children) represent two-thirds of the contribution of all in-kind benefits and services in the reduction of income inequality, with more than half for health services alone. This contribution of health and social services to income redistribution appears particularly substantial in Germany, Belgium and France, and more modest reverse the Netherlands. The study also points out that a more global perspective and long term, in kind benefits and services have a second impact, more indirect, on income distribution, improving employment opportunities and pay beneficiaries throughout their professional lives in particular through the links between health status and job retention or the impact of an adequate supply of care facilities for young children on female employment.

Social protection as a source for new employment opportunities

The number of care workers is a good indication of the size of the formal long-term care sector. In 2008, long-term care workers represented only 0.3% of the total working-age population in the Czech and Slovak Republics, compared to 3.6% in Sweden and 2.9% in Norway and Denmark. The difference embodies the margin of employment available in this sector. Family and child care offers also job opportunities but also has longer term effects. The more women are able to work, the higher the fertility rate. Anyway women are ready to leave a job for parenting if they are convinced to come back easily. Too much parental leave could be an obstacle to returning to the workforce. That is why couples are encouraged to split parental leave so that neither of them spends too long off the job and benefits in kinds are redirected to sponsoring facilities for children of working parents.

From a passive to an active management of benefits

Regarding the effect of early or on-time retirement on the employment of young people, in most of cases the jobs offered, if any, are different and require skills that are not always available. It is possible to have a good impact in companies in growth with a human resource policy focused on precise qualification needs i.e. a very small percentage of businesses .It has also a negative side effect on middle aged workers, who have increasingly been regarded as unemployable. If early retirement has helped to maintain the competiveness of businesses and therefore to safeguard some jobs, it has been detrimental to public and social accounts and sometimes even to the knowhow of the company itself, with a negative impact on social cohesion. Overall, the vacancy rate was decreasing at the worst of the crisis, but has increased in 2011 and remains steady since, reflecting a significant proportion of unfilled jobs despite rising rates of unemployment. The situation is not homogeneous between countries (the situation is more favourable in Germany than in most of the other EU member countries, including the UK, France, Italy, the Netherlands and Denmark) or between age groups. At the least, better adequacy must be attained through better education and vocational training.

At present, legal retirement age still exists but as a symbolic figure. Direct transition from work to retirement is becoming more and more rare. Most new retirees are unemployed or receiving disability benefits and relatively few of them start working again before they reach the statutory retirement age. As a result, some social insurance programs often work in practice as an arrangement to smooth the transition from work to retirement, alongside formal retirement programs. In the last decades of the twentieth century, almost all European countries had strong disincentives to work at older ages because of such social insurance programs.

Since the 1990s, many governments have started to reform welfare state institutions to reduce the disincentives to work as well as encouraging employers to maintain older workers (see the Delalande amendment in France). Hence, these reforms may have contributed to the increase in participation rates of older workers across Europe. Studies have concluded that generous social insurance- and early retirement programs lead to early labour market withdrawal. Furthermore, they have also found that high unemployment rates lead to lower participation rates among older workers in other forms. Part-time and self-employment were also used to counterbalance this trend with self-employment acting as safety net.

Measures to increase labour market participation for workers especially older workers

This is of particular importance for women. The move towards gender equality in the employment rate of older workers is not mirrored in a broader move towards more equal work patterns. Women, generally, have a lower participation rate, experience a gender pay gap, and more often interrupt their working lives due to child rearing. Female pensioners have a higher risk of poverty than men and, as a consequence of these gender inequalities; women receive lower pensions than men and often fail to qualify for benefits. Therefore, first and foremost, active ageing measures which ensure equal outcomes for men and women are needed, as the lack of progress in activity and employment rates can often be explained by poor employment opportunities and working conditions for older workers which can undermine the incentives embedded in pension systems. Social protection systems which effectively contribute to maintaining the health of the population and provide adequate long-term care also play a key role in enabling participation in society and the labour market and ensuring independent living by older people. Beyond health services, working and living environments should also be better adapted to the needs of older people, including adapted housing and transport services and home support, which enable the elderly to live independently for longer retirement age.

An important part of ensuring sustainable and adequate pensions in the future, in view of the ageing population and the increases in retirement age, is related to guaranteeing adequate employment opportunities for older workers. This requires efforts related to retraining, life-long learning, improving working conditions to fit the needs of elderly workers, providing reasonable accommodation in the workplace in case of disability, among others. Reforming pension systems has consistently been an important element of the structural reforms agenda for a number of MS since Strategic Social Reporting was rolled out within the Social OMC and the European Semester. Increasing the retirement age has been a priority for all MS. Aligning it with life expectancy is in the process of being analysed or planned for by a number of countries in view of future measures but is not considered by all MS as a solution for raising the retirement age. Increasingly significant efforts have been focused by some MS on limiting early retirement options, among others through reviewing access to disability pensions and reforming work incapacity schemes in order to facilitate labour market participation and the accumulation of pension rights.

Globally active labour market policies could be included into the scope of social security for the purpose of social security coordination. Social protection benefits (e.g. disability or retirement benefits) are more and more linked to "work first" policies to reduce unemployment. On a European level, the divergence in national performance is often the product of differences in productive and social investment. The countries now experiencing the greatest difficulties are those where investment has been the lowest in research, development, and human capital in the 1990s and 2000s. Expenditure in social investment —health, early childhood, reconciliation of work and family life, education and training, other active labour market policies— are essential in order to stimulate potential growth and to ensure the sustainability of public finances. These differences have very significant cumulative consequences in the medium and long-term. So ALMP must be incorporated into a multidimensional approach which combines the social protection dimension with other policies designed to:

- Effectively activate and enable those who can participate in the labour market,
- Protect those (temporarily) excluded from the labour markets and/or unable to participate in it,
- Prepare individuals for potential risks in their lifecycles, by investing in human capital.

Jean-Yves Hocquet,
April 2016

Acronyms

ADL	Activities of daily living
ALMP	Active Labour Market Policies
ANI	National Interprofessional Agreement
AWOD	Accidents at Work and Occupational Diseases
CJEU	Court of Justice of the European Union
CSR	Country Specific Recommendations
DG EMPL	Directorate General for Employment, Social Affairs and Inclusion
Drees	Directorate for Research, Studies, Evaluation and Statistics
EC	European Commission
EN3S	National School for Higher Social Security Studies
ESSPROS	European system of integrated social protection statistics
EU	European Union
EU-SILC	EU Statistics on Income and Living conditions
EUD	EU Delegation
Eurostat	EU Statistical Office
FreSsco	Free movement of workers and Social security coordination
GDP	Gross domestic product
HCFi-PS	High Council for Social protection financing
HLY	Healthy life years
HSBC	Hong Kong and Shanghai Banking Corporation
IADL	Instrumental activities of daily living
ILO	International Labour Organization

INAIL	National Institution for Insurance against Accidents at Work
INSEE	National Institute for Statistics and Economic Studies
KELA	The Social Insurance Institution
LFS	Labour force survey
LTC	Long term care
MS'	Member States
NPC	National People's Congress
OECD	Organization for Economic Cooperation and Development
OMC	Open Method for Coordination
OSH	Occupational Safety and Health
PAYG	Pay-as-you-go
PDsA1	Personal declaration form A1
SP	Social protection
SPRP	Social protection reform project
TEU	Treaty for the European Union
TFEU	Treaty for the Functioning of the European Union
UBI	Unconditional basic income

Introduction

Had this study been done some 60 years ago the exercise would have been quite easy. Between reconstruction after WWII and steady growth, full employment was achieved. Those were the days when Keynesian policy with a demand-oriented market was enough to cushion the small weaknesses of the economic situation. Improvement of social protection and employment were tightly correlated. In any case it is important to stress that whatever model was used, the implementation of social protection was a strong commitment of the governments of most European countries. After two conflicts in Europe policymakers were due to deliver a promise of better life and peace to the populations either in Eastern or in Western Europe. The European Union (EU) and the European social model are not only a market driven movement but also a political one, even if today the memory of the conflicts is fading wile extensive coverage of the basic risks has been achieved[2]. It could be an error to focus solely on the social protection/employment relationship. Social protection is not a by-product of growth subordinated to employment. Point 7 of the Community Charter of Fundamental Social Rights for Workers adopted on 9 December 1989 states that the completion of the internal market must lead to an improvement in the living and working conditions of workers in the Community. Opinion is still divided. At one end of the spectrum, social objectives are seen as central to the European project and as a good thing in their own right. At the other, the EU is considered fundamentally as an economic union and social policy should only be brought in to the extent that it is necessary to achieve those economic aims.

Since employment is one of the mains factors of social inclusion it is important to consider its contribution to social protection and conversely how the design of social protection could contribute to employment. Today social protection is a component of a sustainable development. Average standards of living in the various countries are improving and the social protection floors promoted inter alia by the International Labour Organization ILO contribute to a better coverage of the world population against the social risks[3]. Social protection actually has different aims, first and foremost the development and strengthening of individuals' human capital, this from cradle to grave. Social protection seeks to assist and protect people from disease, poverty and social exclusion by establishing safety nets in case of poor health, in the event of job loss or of retirement. By hedging risk it smoothens the vagaries of life that individuals or households are subject to.

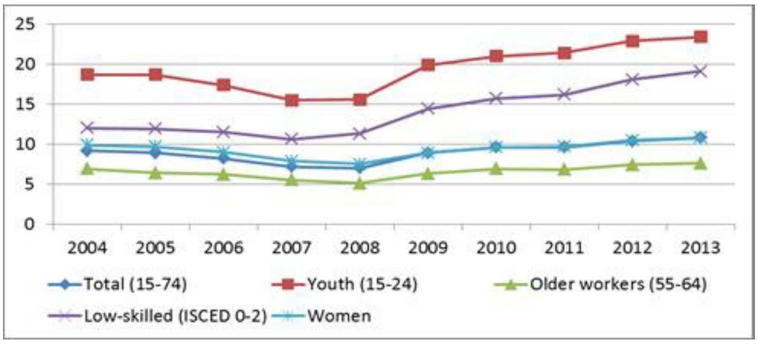
The stabilizing role of the social protection system came into full play after the 2008 crisis, which was atypical, both in intensity and in duration but impacted European countries in different ways. The scale of the crisis was uneven across Europe and responses were varied. However this protective

[2] The European Community for Steel and Coal in 1950 was based on the idea that pooling coal and steel production should 'make it plain that any war between France and Germany becomes not merely unthinkable, but materially impossible'.
Article 3(e) of the Treaty of Paris said that 'the institutions of the Community shall, within the limits of their respective powers, in the common interest […] promote improved working conditions and an improved standard of living for the workers in each of the industries for which it is responsible, so as to make possible their harmonization while the improvement is being maintained'.
3"The recent economic crisis has demonstrated the importance of structural progress towards extending social protection in a coherent and coordinated manner at national and local levels. Social protection measures have cushioned the impact of the crisis among the vulnerable population, served as a macroeconomic stabilizer fuelling demand and enabled people to better overcome poverty and social exclusion in developing and developed countries." Bachelet report, Social protection floor for a fair and inclusive globalization http://www.social-protection.org/

effect was attenuated over time due to the persistence of the crisis and of reforms adopted to contain the widening public deficits.

With a slowdown in growth, full employment is more difficult to achieve and the question of the trade-off between social protection and employment could appear as a major issue. By its scope and duration, the financial and economic crisis of 2008 is the hardest suffered by Europe since the 1930s.Since the beginning of the crisis, the European average employment rate for those aged 20-64 years within the EU 28 decreased (68.4% in 2013 versus 70.3% in 2008) and the unemployment rate rose from 7.0% in 2008 to 10.9% in 2013. These averages mask wide disparities. In Greece and Spain, more than a quarter of the workforce is unemployed. In Germany, only 5% are concerned. The rate of long-term unemployment has doubled between 2008 and 2013, reaching 5.1% of the workforce in the EU 28, nearly half of the total number of unemployed. Young people are particularly affected by the massive increase in unemployment, while senior citizens and women are relatively spared.

Graph 1 Unemployment trends 2004-2013 in the EU



Source: Eurostat, Labour Force Survey

The concept of flexisecurity puts the question at the centre of the EU and Member States (MS) policies. Actually it leads more to a revision of the social protection (SP) management (funding and benefits) than to a challenge of the principles. The debate is not settled. On one hand a liberal approach tends to minimize the cost of social protection considered as a burden, on the other hand social protection is seen as an asset for the well-being of mankind especially for those young or low-skilled people who are particularly hardly hit by job insecurity. Flexicurity is a comprehensive approach to labour market policy, which combines sufficient flexibility in contractual arrangements - to allow firms and employees to cope with change - with the provision of security for workers to stay in their job, or be able to find a new one quickly with the assurance of an adequate income in between jobs. This is possible through lifelong learning, active labour market policies and high levels of social protection[4]. Beyond the global analysis it is important to consider several focal points. The average unemployment rate in the EU could be bearable if it affected all the population equally but the deviation from the average can be huge by country, skill, age, gender or even regional area and leads to unsustainable situations for some categories. Due to this context social protection takes place as a part of a global policy. The contribution of social protection policy to employment policy is mainly to:

[4] Commission Communication on flexicurity 2007

- facilitate labour market participation
- prevent and protect against risks from cradle to grave

There are interactions with others levels:

- the tax system and job creation
- wage moderation
- investment in education and training
- transition from school to work
- reintegration of long term unemployed
- better social dialogue

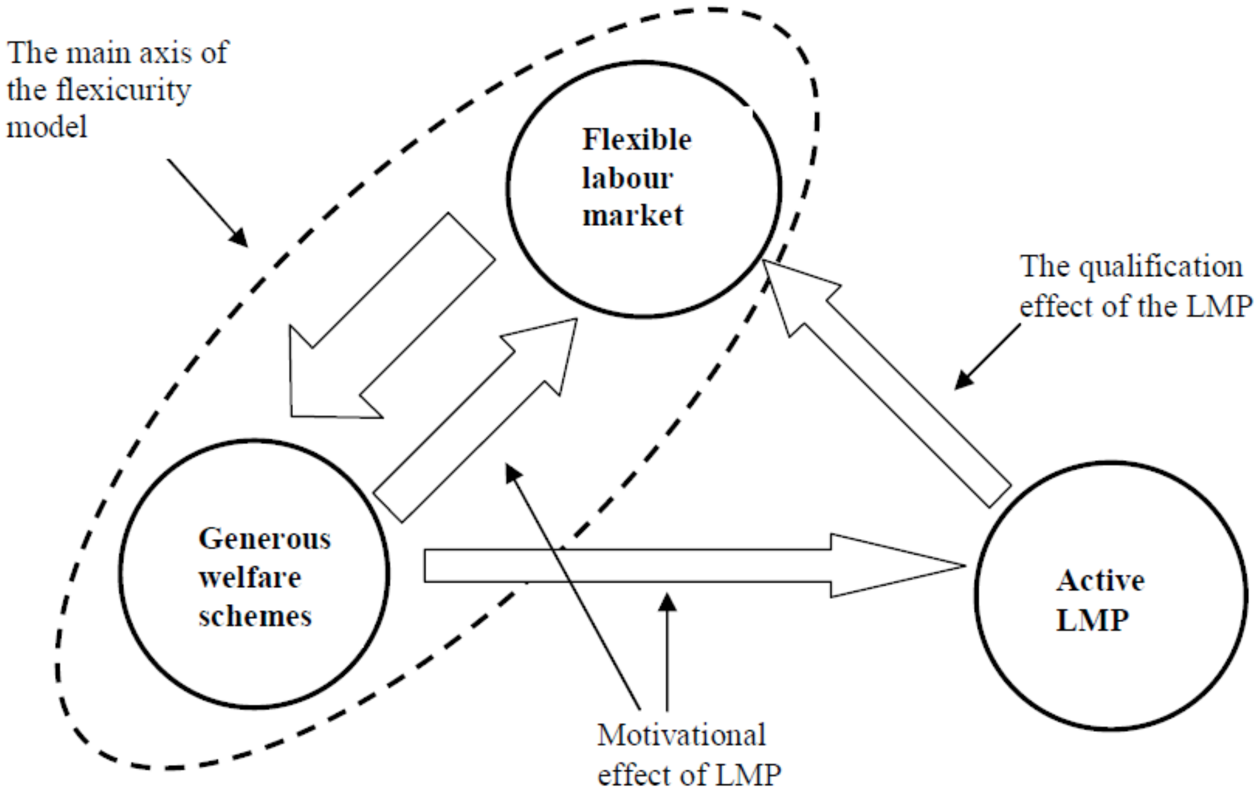
The EU offers a large sample of social protection systems. One of its first aims was the building of a European labour market and, from the start, it has required an efficient, if perfectible, coordination of social protection. This coupling of social security and employment is one of the most interesting elements of the European experience. It is one of the reasons that, while there are common principles of flexicurity there is no one-size-fits-all for the approach of the flexicurity pathway. Because of the Chinese context it is useful to recall how the MS have managed the diversity of national protection systems through social security coordination and how they have implemented new mechanisms of coordination between employment and social protection policies without endangering national sovereignties.

Finally this document aims to give Chinese policymakers an insight into the question of the relationship between employment and social protection from an operational point of view through direct answers to specific questions.

Some choices had to be made. Because of the complexity of social protection by definition and the difficulty in obtaining significant data, the European situation is privileged to enable national comparisons. The material scope covers the main risks that constitute the core of social protection. Some measures such as active labour market policies (ALMP) are at the fringe but their introduction into the scope of social security coordination is on the way. It was not possible to deal with all the employment policy.[5] That is why this report will focus on the interactions between social protection policy and employment policy, which are better addressed through the implementation of the Open Method of Coordination (OMC). Without jumping to conclusions it seemed important for the conception and the implementation of policies in the two sectors to stress that social protection has a rather limited impact at the macroeconomic level but is a condition of sustainable growth.

[5] Such an integrated approach should cover the four main components of flexicurity: flexible contractual arrangements, comprehensive lifelong learning strategies, effective active labour market policies and modern social security systems.

Graph 2 The flexicurity model



I Various European models with contrasted situations related to social protection but some common trends in the Member States

There is no global study of the various social protection systems in Europe including the various components of financing. The objectives of the EU with the European system of integrated social protection statistics ESSPROS[6] are to provide "a comprehensive and coherent description of social protection in the MS in an integrated system of social protection statistics which allows a coherent comparison, between European countries, of social benefits to households and their financing : covering social benefits and their financing; geared to international comparability; harmonized with other statistics, particularly the national accounts, in its main concepts. "

As defined by ESSPROS, social protection encompasses all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, provided that there is neither a simultaneous reciprocal nor an individual arrangement involved. The list of risks or needs that may give rise to social protection is, by convention, as follows[7]:

1. Sickness/Health care
2. Disability
3. Old age
4. Survivors
5. Family/children
6. Unemployment
7. Housing
8. Social exclusion not elsewhere classified.

Social benefits are transfers to households, in cash or in kind intended to relieve them from the financial burden of these risks or needs. The risks or needs of social protection refer to the ESSPROS functions that are comprehensive, but do not include education unless it is a support to indigent families with children. Social benefits are made through collectively organized schemes by government and/or collective agreements. The schemes do not necessarily refer to institutions, although they are in many cases. These schemes can be defined only for ESSPROS as a classification of schemes exists, where schemes are grouped by criteria. All schemes that are solely based on

[6] http://ec.europa.eu/eurostat/documents/3859598/5917481/KS-RA-11-014-EN.PDF/ee86d517-3348-4c20-94ee-a37c330755b1

[7] The ILO Global Jobs Pact specified as core components of the social protection floor "access to health care, income security for the elderly and persons with disabilities, child benefits and income security combined with public employment guarantee schemes for the unemployed and working poor" (ILO, 2009a, p. 6). The OECD uses a larger definition than ESSPROS including education.

individual arrangements or where simultaneous reciprocal agreements exist are not regarded as social protection.

ESSPROS does not take into account some tax or social contribution rebates e.g. for children or for long-term care. The inclusion of these rebates would reduce the differences between countries. Even on the financing side ESSPROS does not give a complete representation of national pictures. These categories, which are used for statistical comparisons, are just one way to organize social protection risks. For the social security coordination Regulations that will be examined later the scope is slightly different and also marked by a continuous change:
Sickness, maternity and equivalent paternity benefits ; benefits in respect of accidents at work and occupational diseases ; death grant ; invalidity benefits ; old-age and survivors' pensions ; unemployment benefits ; pre-retirement benefits ; family benefits ; special non-contributory cash benefits.

An important discussion remains about benefits located in the border area between exportable and non-exportable benefits. This is often related to questions about classifying certain benefits as social advantages that fall outside, at least, the Coordination Regulations. The current fear of social tourism feeds this debate. This borderline issue between hybrid benefits, social security benefits and social assistance benefits falling outside the scope of the Regulations therefore remains a challenge.

However, several reports also show the growing problem of keeping social assistance excluded from the Coordination Regulations' material scope of application. What differentiates these social assistance benefits from other social security benefits? A somewhat related issue is the problem of long-term care benefits. This issue is still unsolved under the present Regulation, but it is currently fully recognized on a European level as a sector in need of a better coordination mechanism. There is indeed a growing recognition that an ingenious solution is necessary, as the classification of these benefits as sickness benefits in kind is far from convincing. Several reports state how difficult it is to define which of their national benefits could be considered as long-term care benefits, and even how difficult it might be to describe some of these benefits as social assistance benefits.

This means that the classification is not the same for the administrative needs as statistical ones. In any case the ESSPROS data allow us to make out some of the major features of the European situation. Even for unemployment benefits the definition is so variable that it is just about impossible to make a perfect assessment of the comparative situation that could lead to definitive conclusions. Cross-country comparisons must be assessed with due caution because of the diversity of concepts and underlying definitions. The OECD uses another definition, but the larger the scope is, the more complicated it is to use data for comparison. It is interesting to note that the addition made by the OECD (public spending, mandatory private spending, and voluntary private spending) does not change much the hierarchy of the countries but largely levels the differences among them.

The comparison of the various systems within the EU is all the more complicated if you want to take accounts of benefits and services, institutional provisions based on political , economic and social history. One of most quoted systems is Denmark with 5.6 million inhabitants. It enjoys a rather privileged situation but as an academic once said:" in our country we know each other. "The various European institutional or cultural particularities matter also.

However the data confirm the validity of the division of countries into two main groups:

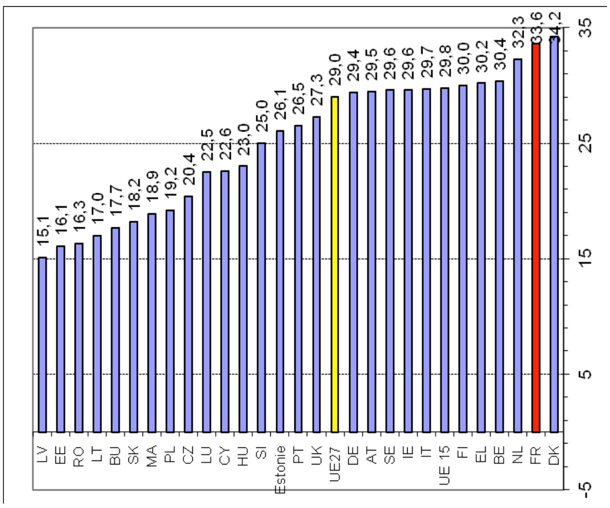
- Bismarckian countries, as the six first members of the European community were, whose social risks are covered mainly by social insurances based on an employment and principally funded by social contributions.
- Beveredgian countries, which guarantee social rights to the resident population without regard for the professional activity and which are mostly funded by taxes. They entered the EU through the first enlargement with the UK and Eire and later with the Nordic MS. The MS from Middle and Eastern Europe fell into the two models.

This classification remains rough. Even the Beveridgian model could be split into a social democrat one with a high level of benefits (Nordic countries) and a liberal one where benefits are targeted to the very less favoured recipients (UK, Eire). Intuitions are also often false. Social insurances do not always mean autonomous administration; the breakdown of the management is not clear-cut but a mix of state and local authorities, of public and private bodies.

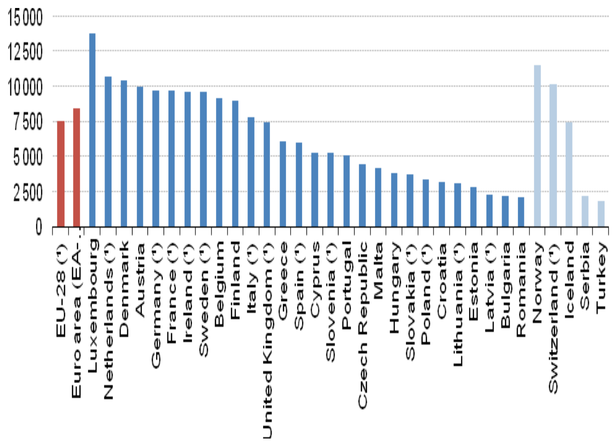
I-1 A wide range of percentage of the gross domestic product (GDP) dedicated to social spending with no direct relation to employment or attractiveness

There is a large scope of the social protection spending in the EU: EU average 29%; Denmark 34%; France 33.6 %; Latvia 15.1%.The information come from the national sources with different bases. For example France includes employer benefits that are not mandatory. Variability also depends on demographic factors and mutualisation. So a ranking per inhabitant will give a slightly different picture. France, which is at the top with Denmark for the social protection spending/GDP ratio, will be behind other continental countries for the spending per capita, because of its larger and relatively younger population in comparison with Germany. Since these data do not include private spending they underestimate the charge directly paid the recipient especially for health expenditures and do not give the total expenditure devoted to the coverage of social risks.

Graph 3 SP spending in the GDP



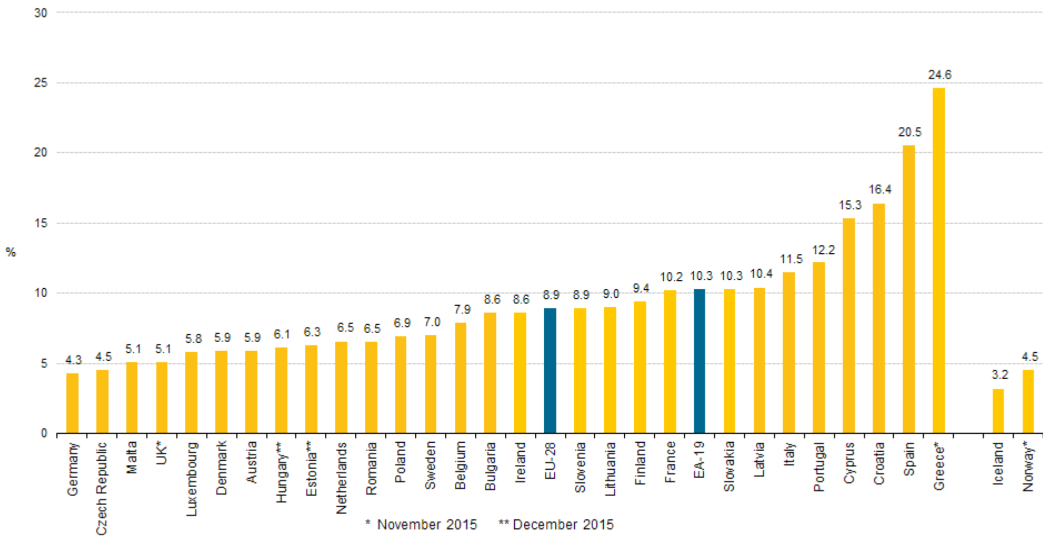
Graph 4 SP Spending /inhabitant (euros)



Source : Haut conseil du financement de la protection sociale

To find a correlation between unemployment and social protection spending is not possible. For example Denmark which ranks at the top for social spending with a 34,2 % rate had a 6.6% unemployment rate versus the UK which had a 27.3% social spending rate and 6.1 % for unemployment and Germany with 29.4 % for spending enjoys the lowest unemployment rate in the EU with 5%.

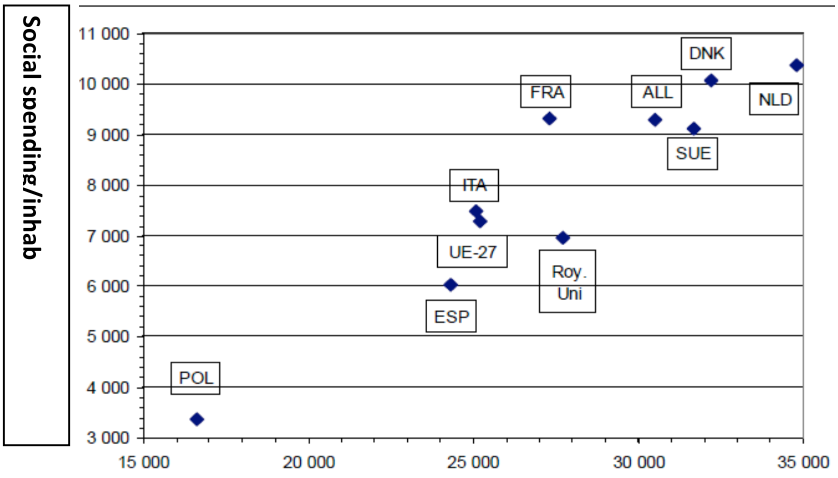
Graph 5 Unemployment rate across the EU



Source Eurostat

If one considers the situation of the various countries through global indicators it is still difficult to find a clear relation. The countries that spend the most on social protection are also those that enjoy the highest level of wealth per inhabitant. One reason is that it is easier for more developed countries to dedicate a larger proportion to social protection plus the fact social protection services such as health are a growing part of the GDP in affluent societies.

Graph 6 Social spending /inh. GDP/inh. *(Source Haut conseil du financement de la protection sociale)*



When one considers the international ranking for foreign direct investment it appears that the level of social protection is not the cause of a lack of attractiveness. In any case this ranking introduces the concept that labour costs matter and there is still a visible advantage for Eastern Europe countries in terms of job creation.

Graph 7 Ernst and Young[8] European attractiveness survey 2015

Top 10 countries by FDI projects

	2015	2014	Percentage change
UK	1,065	887	20%
Germany	946	870	9%
France	598	608	-2%
Spain	248	232	7%
Netherlands	219	149	47%
Belgium	211	198	7%
Poland	211	132	60%
Russia	201	125	61%
Turkey	134	109	23%
Ireland	127	106	20%
Others	1,123	1,032	9%
Total	5,083	4,448	14%

Top 10 countries by job creation

	2015	2014	Percentage change
UK	42,336	31,344	35%
Poland	19,651	15,485	27%
Germany	17,126	11,890	44%
Russia	13,672	18,248	-25%
France	13,639	12,579	8%
Romania	12,746	10,892	17%
Hungary	11,741	4,868	141%
Ireland	10,772	7,306	47%
Serbia	10,631	5,104	108%
Slovakia	9,564	8,012	19%
Others	55,788	60,620	-8%
Total	217,666	186,348	17%

Source: EY Global Investment Monitor, 2016

8 Ernst and Young is a multinational professional services firm that provides insurance (including financial audit), tax, consulting and advisory services to companies.

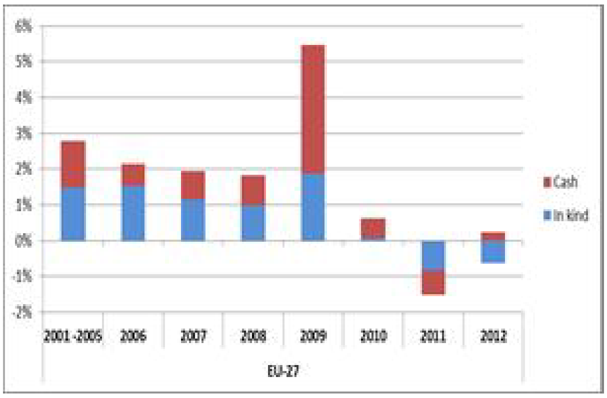
I-2 Social spending has acted as an automatic stabilizer against the economic crisis for the whole EU

The deterioration of the labour market tipped many people at risk of poverty or social exclusion.

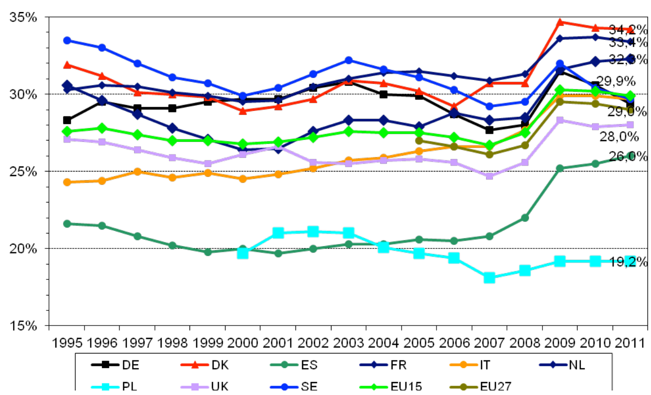
In this highly degraded macroeconomic context, social protection systems played their traditional role as shock absorber. At the start of the crisis in 2009, social benefits were the main contributor to the stabilization of household disposable income. But as the crisis went on, social protection became less efficient to protect incomes, especially in countries hardest affected. The stabilizing effect weakened in many MS in 2012 when revenues contracted again.

Social expenditure growth rates have been negative. Since 2011 an increase in social expenditure has been driven mainly by unemployment expenditure, but also, to a lesser extent, by other functions (notably pensions and health). Social expenditure growth weakened in 2010, reflecting a combination of fiscal stimulus measures expiring and the standard path of phasing out automatic stabilization in countries experiencing recovery. Since 2011, social expenditure declined particularly on in-kind benefits and services, despite the further deterioration of the economic and social backdrop. The decrease was earlier in Germany and Sweden.

Graph 8 Contributions to growth in real public social expenditure of cash and in-kind benefits in the EU



Graph 9 Evolution of SP spending in a sample of EU countries



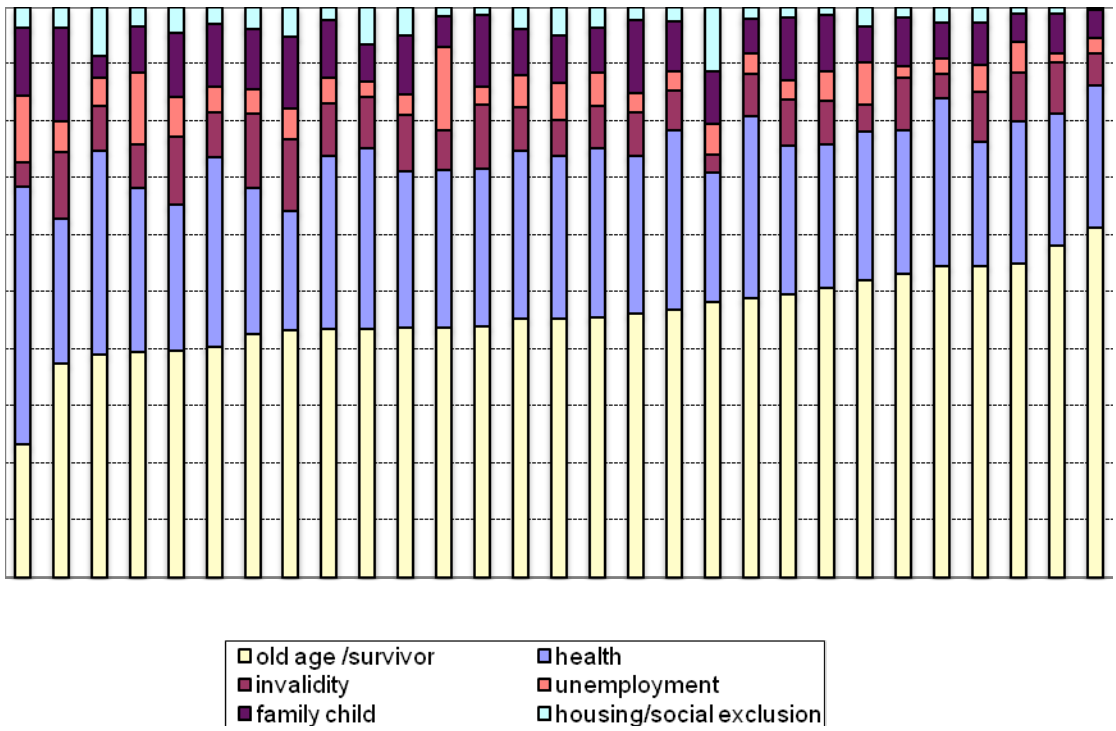
Source: National Accounts, (DG EMPL calculations).

In any case it is more difficult to properly assess the impact of social spending on employment. In an open economy part of the spending is on import goods, a phenomenon that has a limited effect on national job creation.

I-3 Beyond the portion of the GDP dedicated to social spending the breakdown of the social spending varies from country to country.

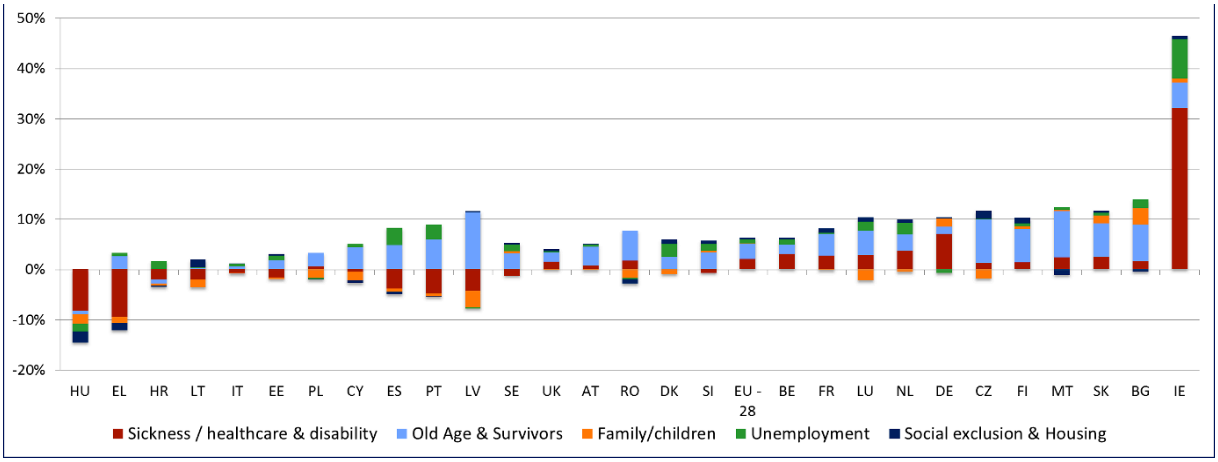
- The countries of Southern Europe dedicate about 50 % of their social protection spending to retirement benefits
- Family or child benefits are highest in the Nordic countries and Germany and Ireland.
- The Nordic countries tend to have a high coverage of the invalidity risk, a high level of spending for housing and inclusion in the Netherlands and the UK

Graph 10 National breakdown by risk



If we take a dynamic approach, the structure of social protection spending has also been altered by the crisis. Between 2008 and 2012, (real) social protection expenditure per inhabitant has increased by 8 % in the EU-27. The strongest contributions to the increases have occurred in the areas of pensions (increasing old age and survivors benefits accounted for around 48% of the total increase) and sickness, healthcare and disability (32%). Conversely, in the areas of unemployment and social exclusion, increases in social protection expenditure per inhabitant have been modest despite the surge in unemployment. The differences across MS are thereby substantial, as between 2008-2012 the rise in total social protection spending per inhabitant was below 4% in eight MS, while increases amounted to more than 10% in five MS (Ireland, Bulgaria, Slovakia, Malta and Finland). Social protection expenditure per inhabitant decreased in four MS between 2008 and 2012 (Hungary, Greece, Croatia and Lithuania**).**

Graph 11 Changes in social protection expenditure 2008-2012



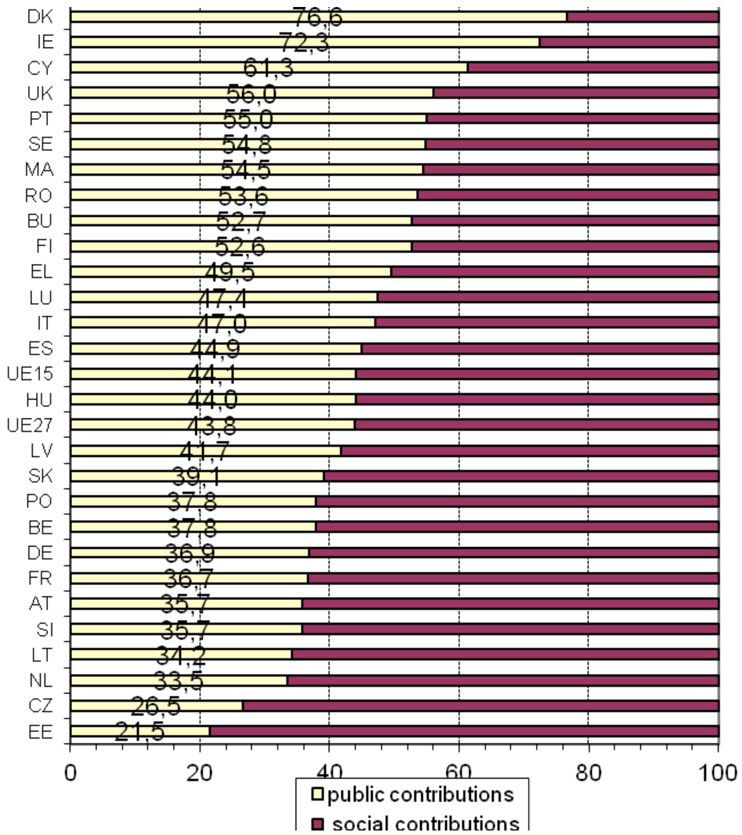
Source Eurostat

So the global effort for social protection is not only different among the MS but the ranking of the risks is not the same nor is the dynamic. All in all each country addresses the question of social protection according to its own set of priorities. It also means that it is necessary to respond to the question of the social protection as a whole. The fact that unemployment expenditures have not soared as it could normally have been expected means that others benefits have been used to compensate the conditions put onto unemployment benefits. This could be the case for people taking long sick leave or are entitled to disability or invalidity pensions. Even if the trend is toward increasing the retirement age, some people could choose to receive a lower- rate old age pension, which does not prevent them to come back on the labour market at a later date. In most of the cases, restrictions on one benefit induce a communicating vessels effect.

I-4 A partition in the field of resources

A first problem is that of different financing methods. MS are free to decide how to finance their social security scheme(s). There is no comparable approach. Some MS finance their systems in a traditional way, mostly via taxes, while others focus more on contributions. Yet, there are no absolute models; no MS relies exclusively on taxation or on contributions. Usually there is no problem as long as one and the same MS levies taxation and contributions. The question, how much a single person has to pay in total (contributions and tax) is a carefully balanced and sensitive issue in all the MS. In average, social, contributions are still the main resources of social protection. A clear split is still visible between Continental, Central and Eastern Europe on the one hand and the UK, Ireland and Northern Europe on the other. In the first group the proportion of social contributions is over 60 % (73.5% in the Czech Republic 66.5% in the Netherlands, 63.3% in France and 63.1% in Germany. In the second group social contributions are a minority part (45.2% in Sweden, 44 % in the UK, 23.5% in Denmark).

Graph 12 Breakdown of social protection resources



With regard to employment there are still two models, one based on professional logic (the so called Bismarckian model), one on a universal approach (Beveredgian) or residence-based approach with almost as many sub models as countries. In this regard there is also a kind of hybrid because of the extent of public contributions growth in all the countries. If the professional model is more responsive to this shift because it is more suited to a full-employment situation (and less suited to durable unemployment), it is a trend that is applicable to all the countries. The main reasons for this are:

- Efforts to reduce the cost of labour that will be examined later

- Better coverage of non-working people because of the decrease of the traditional family with a husband as the breadwinner, a wife and two children; single parent households are more frequent. Non-marital relationships and lone parenting have become more widely accepted. Single-parent households are relatively common e.g. In Estonia and the UK (in both cases above 20 %)[9].

- Childless (married or unmarried) couples and same-sex partnerships are no longer novelties. Although in some countries the participation of women in the labour market was already quite high, this is being promoted and growing in many countries.

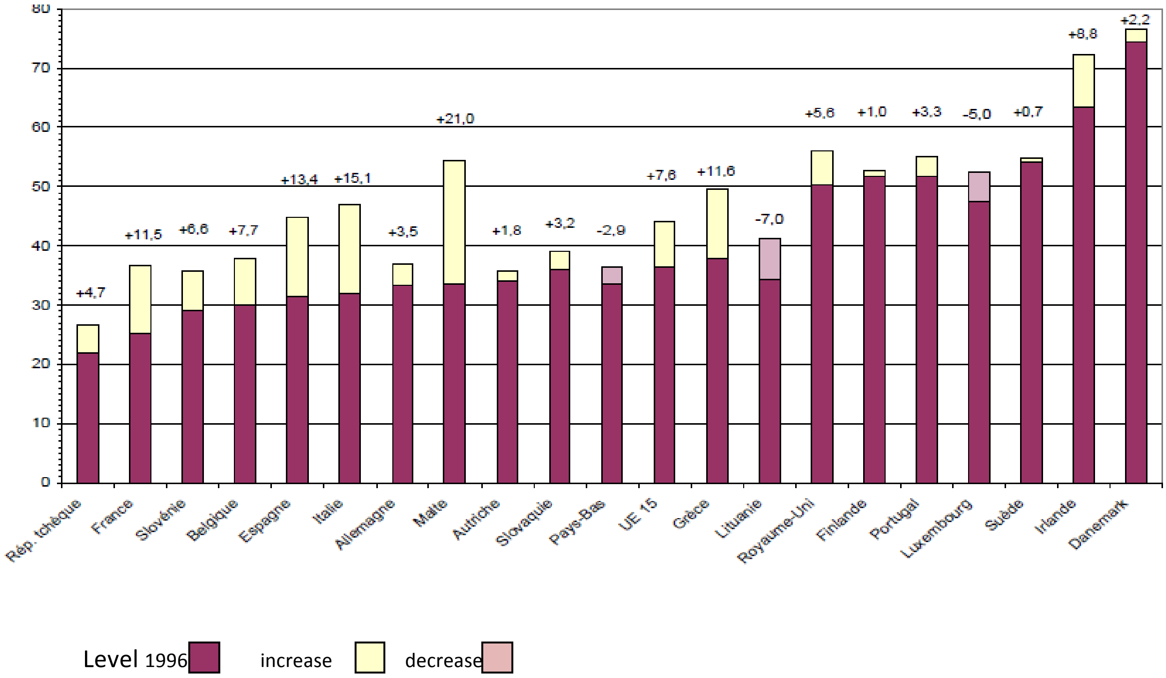
Due to all these changes in family structures, large families that would be able to provide security to their family members, no longer exist (or at least are becoming rare). Modern social and family policies tend to achieve a greater individualization of rights.

Ageing is an important factor. The population of the EU is growing older. According to the EU's Demography report 2010, the MS' population aged 65 years or over accounted for 17.4 %, with its peak in Germany with 20.7 %, followed by Italy at 20.2 %, of the entire population, and is expected to rise. One of the reasons is an increasing life expectancy.[10] According to the report, life expectancy shows an increasing trend. It was estimated at 80.4 years in 2011 (83.2 years for women and 77.4 years for men). In a relatively short period of ten years since the start of this millennium, life expectancy thus has increased by 2.3 years for women and 2.9 years for men. Another element in the ageing of the population is a low level of fertility. Fertility rates are increasing, although they are still rather low. The fertility rate in the EU was 1.6 in 2009 (the lowest in Latvia with 1.31, followed by Hungary and Portugal with 1.32, and Germany with 1.36). In many countries this is far from the required 2.1 or 2.2 births per woman to enable a normal renewal of the population (not taking into account various migration flows). In addition, women are postponing childbirth for various reasons (including education, career and/or housing concerns). The ageing of population, which is a long-term trend, is expected to continue. The share of persons aged 65 or more is projected to increase from 17.4 to 30 % in 2060 in the EU (at the same time it should be noted that the reliability of such long-term projections might be questioned; some countries as Sweden have experienced dramatic turns related to birth rate through an ambitious policy to reconcile work and family life with 3.2 % of the GDP dedicated to child and family policy). In the absence of any unpredictable events, ageing is a fact that has to be taken into account when reforming social security systems and their coordination. An increased life expectancy implies welfare and quality of life, which should also be maintained at the highest attainable level in old age, when the primary social risk of reduction of work capacity and income due to old-age is accompanied especially by risks of sickness (higher costs of health care) as well as reliance on Long term care (LTC) and other social services (of general interest). Dependency and reliance on LTC is not exclusively but nevertheless predominantly a phenomenon related to the reduction of personal autonomy due to old age. The problem might be linked to a lack of family and household members at the time the elderly or disabled members of the family have an increased need for LTC. Because of the relative novelty of this new challenge the risk is still mostly covered by

[9] Demography report 2010 ('Older, more numerous and diverse Europeans', March 2011)
[10] 'EU Employment and Social Situation Quarterly Review March 2013 – Special Supplement on Demographic Trends'

public contributions. A recent international survey from the bank HSBC notes that the world population is rather optimistic and does not feel spontaneously the need for protection in this area.

Graph 13 Trends in the proportion of public contribution devoted of social protection financing 1996-2011



Source: Eurostat – Sespros, calculation Drees.

If we go deeper into the analysis of the breakdown between employers' and of the employees' contribution the average in the EU was about 61% for the former with 55%-45% in Germany and 70%-30% in France. In France if you add all the taxes related to the salaries it is about 72% of social protection resources that are directly or indirectly linked to the salaries. In this matter two conceptions are debated: either contributions paid by the employers are *in fine* sustained by the companies and are labour costs, or they are a part of the salaries which could be arbitrated with the overall wages if employees are ready to accept a decrease in their net wages. So the effect of a reform of the social protection financing by substituting budget or tax resources for employer contributions could be very different. The performance of Germany in comparaison with France is for a part in its capacity to keep relatively stable wages during the last period . At the beginning of the 1990s' the hourly cost of labour in France was about 10% lower than in Germany. In 2010 the relationship was reverse because of the stability of wages and the introduction of Mini jobs [11] which was possible because of the lack of minimum wage.

[11]. Mini jobs were introduced in 2003 in Germany. €450 a month tax-free "mini jobs." Workers (and their employers) whose mini jobs are their main job contribute to the national retirement pension insurance in Germany. The employee pays 3.7% and the employer pays 15%. They do not contribute to either the national health insurance funds or for unemployment coverage. They can either be covered by

Graph 14 Trends in the employers' social contribution in the labours costs France /Germany

Two remarks could be added. First, part of the decrease in the social contributions could be related to a limited increase of wages in the GDP; and, second, even for the part which is transferred to tax , the base could be still the salaries .

So to conclude this first part we can keep in mind these following remarks:

- The various European social protection systems are rather different regarding the level of spending, the kind of benefits and the sources of financing. So in most cases the design of the national social protection could be influenced mainly by national choices that are made in these areas.
- If we consider unemployment as measured by the unemployment rate and its relation to social protection there is no direct relation to the level of spending or the kind of model .The same level of performance could be achieved with very different social protection designs. If we move to more global indicators, the more affluent the countries are, the more they spend on social protection and if we observe the attractiveness of the countries it is no hampered by a high level of social spending. This situation actually gives policymakers a lot of room to tackle the question of unemployment. Benefits could be used to manage the consequences of economic trends and the origin of the resources gives the public authorities more or less opportunity to act on employment policy.

the health insurance of the higher earning partner (or parents for students up to 25 years of age) or they can contribute on a voluntary basis (at a flat rate of 140 euro per month).

- It is completely impossible to define one size fits all policy because of national differences but it is possible to find the mix that could achieve the objectives designed within the EU. The huge differences observed have not prevented the implementation of a European labour market.

II Social security coordination as an indicator of employment challenges

One of the challenges of the European Economic Community was to achieve freedom of mobility for goods, services and workers. Workers mobility was one milestone towards European citizenship but also a way to open opportunities for work due to differences in growth rates, demographic trends or labour market situation in those years. Free movement of workers is a fundamental principle of the founding Treaty enshrined today in Articles 39 and 42. A single labour market could only be achieved if national social protection systems were not an obstacle to mobility.

Because **social protection systems were and still are a major dimension of national identity** it was and it is not possible to speak about harmonization but about coordination." It is necessary to respect the special characteristics of national social security legislations and to draw up only a system of coordination as confirmed in Recital 4 of Regulation 883-04.

So it is interesting to complete the picture by introducing a few words about the open method of coordination (OMC). As said before the founding fathers of Europe rapidly gave up the idea of a harmonizing social security. There is not even a European definition of social security but with more ambitious objectives as such the Lisbon strategy[12] it was more and more difficult to keep to a limited conception of social affairs. The OMC introduces the possibility of deepening the cooperation in social protection and introducing a better coupling between social and employment policies

II.1. Social security coordination as a cornerstone of the European labour market

Regulations 3 and 4, which date back to 1957, at the very beginning of the European construction, were a prerequisite for the workers mobility and have undergone a permanent process of updating till regulation 883-04 in 2004.

Not only modifications in family structures, but also demographic changes influence how national social security systems are shaped and coordinated (internally and supranationally).

The material scope has changed due to trends in risks (for example long term care or early retirement) while other measures as active labour market policies (ALMP) could be regarded as social security benefits in the near future. An additional issue is that the boundaries of the Coordination Regulations are being increasingly tested. There are a growing number of non-statutory benefits based on, for example, contractual (collective bargaining) arrangements. This may cause problems,

[12] The original Lisbon Strategy was launched in 2000 as a response to the challenges of globalization and ageing. The European Council defined the objective of the strategy for the EU "to become the most dynamic and competitive knowledge-based economy in the world by 2010 capable of sustainable economic growth with more and better jobs and greater social cohesion and respect for the environment"

since non-statutory benefits do not fall within the material scope of the Regulation because the funding of social protection does not have the same definition in each country.

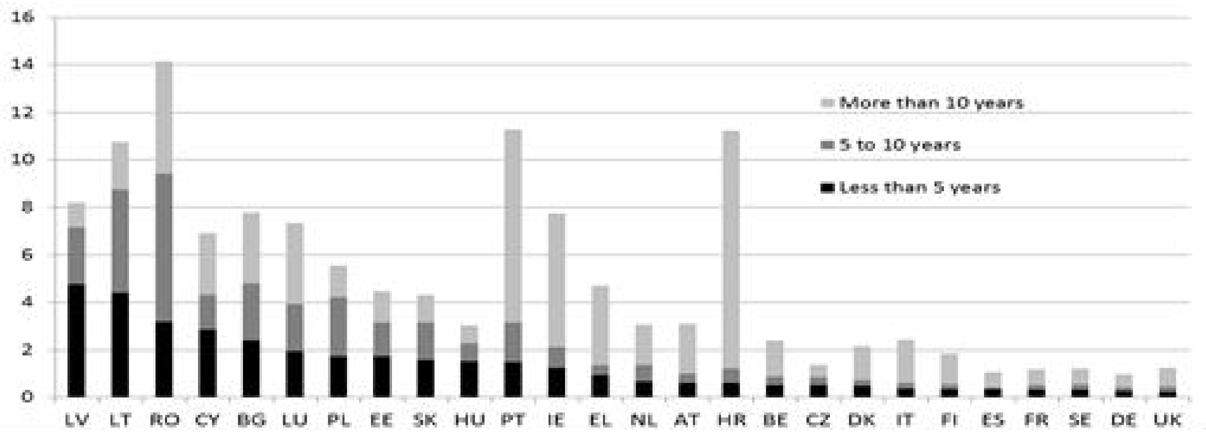
The personal scope has changed since it now covers the European citizen from students to retirees but workers have changed too. Lessons of experience are of particular value for the Chinese people because of the regional differences regarding social security in China and it illustrates the changes in working conditions. Workers have changed in Europe.50 years ago most of the mobile workers were migrant workers who settled in another country at least for their working life and eventually retired in their home country.

Today the mobile worker is more a border worker who comes back home every night or who in the same year, can alternate, periods in the home country or abroad as a wage earner, self-employed, be jobless or with two of these status simultaneously. New forms of work organization are helping to shake the traditional model. Aircraft pilots could live in France with an Irish contract, fly in several European skies during the day with a jet listed in Portugal by a Swiss company. As the result of the widespread use of computers and of communication and data-sharing networks, for a growing number of workers, employment no longer assumes that the worker is permanently present at the workplace.

Furthermore, the result of this intellectual, manual or mixed activity is presented electronically. As the place of work may be located outside the company premises or may be itinerant, working time and personal time relate to each other differently for a person who works with information technology and mobile communication tools; the electronic work may be delivered at all times and from anywhere: the boom in telecommuting from home allows cross border relations between employers and employee even if nobody moves while IT helpdesk and development services are being outsourced. Will surgeons, who will soon perform or assist operations remotely, be considered as working at the place where they are during these operations or at the place where the tools are working which they are remotely operating?

As growth rates or labour market conditions are not the same in the various countries, cross borders movement are important. EU citizens could satisfy workforce shortage. Durable intra-EU labour mobility remains limited, especially in proportion of the overall size of the EU labour market. While one out of four EU citizens say they would consider working in another EU country in the next ten years, until 2013 only 3.3% of the EU economically active population resided in another Member State. Cross-country differences are quite sizeable though. Due to substantial differences in unemployment rates between EU MS, the rising number of persons wanting to move has partly materialized in increased mobility since 2011 but only to a limited extent and not as much as would be needed to have a real equilibrating role against the huge imbalances across EU labour markets with only about 3% of the EU workforce that is 10.3 million workers to which1.5 million posted workers could be added.

Graph 15 Mobility rates by sending country — mobile EU citizens living in another EU Member State, by years of residence (age group 15-64, 2012, in % of working-age population of country of citizenship)



Source: DG EMPL calculations based on Eurostat-EU-Labour force survey

Social protection must not be an obstacle to workers' mobility .The EU provides common rules to protect social security rights when moving within Europe (EU 28 + Iceland, Liechtenstein, Norway and Switzerland). The rules on social security coordination do not replace national systems with a single European one. All countries are still free to decide who is to be insured under their legislation, which benefits are granted and under what conditions. The original basic principles are aggregation of periods, equal treatment, export of benefits, only one applicable legislation at a time and administrative cooperation:

- Discrimination on grounds of nationality is prohibited;
- Rules are laid down to determine which member country's legislation the person is subject to;
- Rights in the course of acquisition are protected through aggregation of periods of insurance and/or residence spent in each of the respective countries;
- Rights already acquired are protected by allowing certain benefits to be exported.

So an EU national is entitled to take up work or look for a job in another EU country, work there without needing a work permit, reside there for that purpose, stay there even after employment has finished and enjoy equal treatment with nationals in access to employment, working conditions and all other social and tax advantages. EU nationals who return to their country of origin after having worked abroad are also covered as well as the family members. Rights may differ somewhat for people who plan to be self-employed, for students, and for retired or otherwise economically non-active persons.

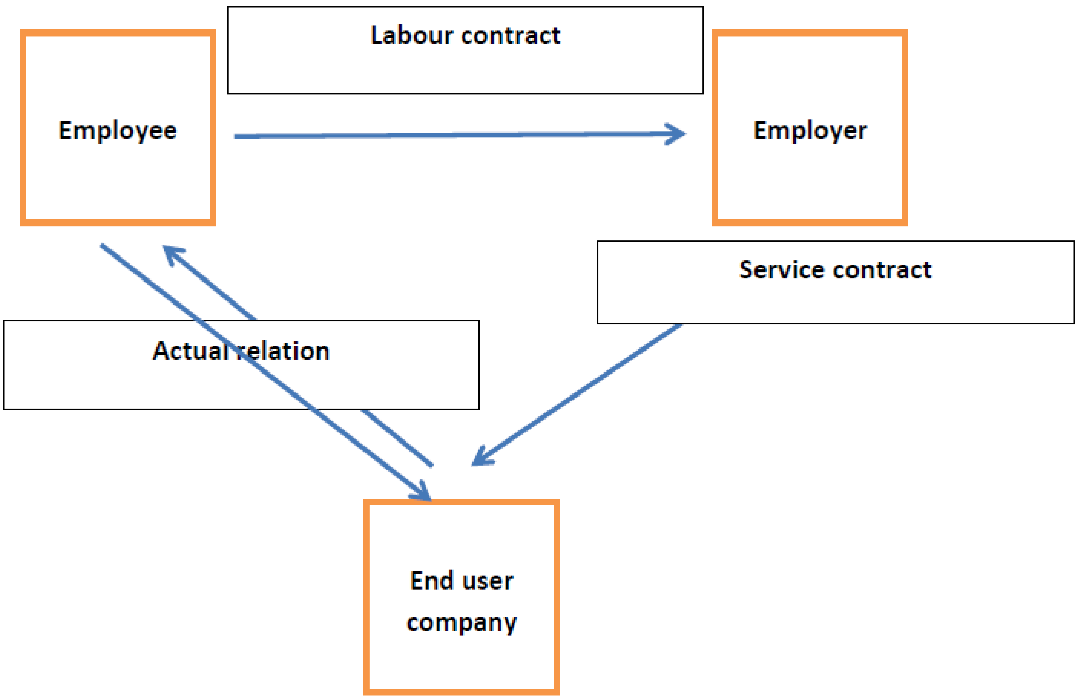
II.2 Cross border worker mobility emphasizes the need for a sound application of social provisions to protect employment: the risks of frauds related to posting.

The founding fathers introduced however a kind of exception to these principles (and especially that of lex locus laboris – applicable law is that of the working place): posting. A worker is "a posted worker" when he is employed in one EU MS but sent by his employer or by himself as a self-employed worker on a temporary basis to carry out his work in another MS. This category does not include migrant workers or frontier workers who go to another MS to seek work and are employed there.

The use of posting may allow companies in different States to take advantage of differing levels of social security contributions and, in some cases, differences in compensation between European countries, and thus to modify the impact of national systems of social protection on the cost of labour and the competitiveness of local businesses since, contrary to other mobile workers, posted workers continue to be subject to the labour and social security legislation at their place of origin.

Graph 16 Posting workers

A worker has a contract with a company which is in relation with a third party which is the actual employer. For example a Polish worker has a contract with an employer from Cyprus which delegates him on a construction site in France where he works for a French company which is linked to the Cyprian employer by a service contract



This labour mobility is also increased because of the development of new itinerant activities, which are a consequence of both globalization and electronic performance of certain tasks and works, such as consultancy and expertise. In addition, apart from networks of businesses being created, globalization causes networking or intra-groups to flourish. This leads to triangular labour relationships, meaning that authority is divided between the 'nominal' business, which the employee is linked to, based on an employment contract, and the principal business, which often holds part of the economic decision-making power. The role of the employer is broken up; the workforce is fragmented. This system has two levels. The first level is a level of authority over the activity and the worker, for example divided between the employer-principal contractor and the employer-subcontractor who executes the task requested. The second level is the triangular level including the employee, the business that is the employer 'nominally', and the business, which gives the assignment, or the company the employee is connected to. Consequently, the existence of networks of businesses creates network or intra-group mobility. Within the networks, at a certain point in time and in the course of their careers, employees seem to have multiple links with different businesses; their career pattern forces them to go from one member of the network to another.

This concept of networking could also cover posting. Posting is defined as most often a three-player game (including the worker; the employer-service provider; and the company of temporary activity, the buyer of the services), but is presented as a static and unique situation in the Coordination Regulations. Reality shows that many businesses that have posted workers do so frequently and for several workers. Furthermore, a posted worker may be posted at least once in his or her professional career, but may very often also be posted repeatedly depending on his or her profession, the type of business he or she is working for and the opening up of different markets, accompanied by the lifting of limitations to the free movement of services. So, there are continuous and unique network activities within the community of businesses who are clients of the business employer, and intra-group activities if all or part of these businesses-clients and the business employer belong to the same network. The search for the best revenue-to-costs ratio and the need to constantly adapt to technological development, to competition and to the availability of production factors leads these business networks to adopt a strategy to manage their human resources on two levels:

- The localization of human production resources depending on their availability at the location and on their wage, social and tax cost, next to the availability and cost of other production factors (capital, raw materials, energy, transport, joint venture offers etc.);

- But also the internationalization of part of the human resources for production needs and their mobility, depending on the qualifications of the workforce concerned and their relative cost. This second level is shown in several developments. Firstly, it can be seen in the development of intra-group mobility for managerial staff and highly qualified personnel or in an increased number of members of personnel being posted. Secondly, in the search for the most flexible and least costly social and tax link combined with social protection by companies or groups (pension funds, insurance groups etc.), which allows the business networks to level out the differences in national protection and to offer their mobile workers protection that is on the whole considered attractive and fostering loyalty. So there is quite a paradox trend with some workers getting social security coverage by companies as part of their corporate social responsibility while adding to tax and social contribution evasion in the country where the work is really performed.

To guarantee that the rights and working conditions of a posted worker are protected throughout the European Union, and to avoid "social dumping" where foreign service providers can undercut local service providers because their labour standards are lower, the European Community law has established a core of mandatory rules regarding the terms and conditions of employment to be applied to an employee posted to work in another MS. These rules will reflect the standards of local workers in the host MS (that is, where the employee is sent to work).

The idea is that where a MS has certain *minimum* terms and conditions of employment, these must also apply to workers posted to that State. However, there is nothing to stop the employer applying working conditions that are more favourable to workers such as, for instance, those of the sending MS (that is, where the employee usually works).

It is interesting that posting and the risks involved are addressed through two legal approaches, one through social security coordination and one through work regulation. This means that a comprehensive approach to the effect of the social protection towards employment could be not studied without taking into account the influence of working conditions at large (safety regulation, working time). It is worth mentioning because it illustrates the trade-off between principles when it comes to social security, which sets the applicable legislation as that of the workplace, and the possibility of temporary exceptions.

These exceptions must be monitored to prevent misuse. Each employer or self-employed individual who wants to benefit from the posting provisions must send a form (portable document A1) to the national competent body that forwards it to its foreign counterpart so that the conditions can be verified (fixed term). Fight again fraud and error is a major issue for the relation between social protection and employment. Posted workers could be a way to avoid fair competition.

There is a rapid increase even if the absolute number is still limited with 1.9 million portable documents A1 in 2014. Compared to 2013, the overall number of postings has increased by 8.5%. Roughly 8% of the posted persons were self-employed. Approximately 86% of the forms were issued to perform work in an EU-15 Member State. In absolute terms the three main sending MS were Poland (266.745 PDs A1 issued), Germany (232.776 PDs A1 issued) and France (119.727 PDs A1 issued) and the three main receiving MS were Germany (414.220 PDs A1 received), France (190.848 PDs A1 received) and Belgium (159.753 PDs A1 received). In 2014, on average an equivalent of 0.7% of the employed population was posted to another Member State. Three main groups could be identified:

- Western continental Europe Germany France Italy Austria, Belgium, Netherlands, Luxemburg. These countries have mutual flows of posted workers
- Flows from central Europe to Western Europe mostly to Germany
- Flows between the Scandinavian countries and from Baltic States to Scandinavian States.

43.7% of the PDs A1 was issued to posted workers in the construction sector of the receiving MS. Also, 32.9% of the forms were issued for activities in the service sector. Construction and industry account for the majority of workers coming from Eastern Europe and services account for most of the posted workers coming from Belgium, Iceland, and Finland .The two mains grounds of posting are to go with the internationalization of businesses and trade and to reduce the labour costs between countries with high differences of wages.

There is abuse of posting when there is no real link between the posted worker and his country of origin or when the service provider is an empty shell or when posting is for the sole purpose of violating the regulation of the host country or to evade the country of origin. Even if posting amounts to a small percentage of the employment it has a major effect on construction or on the meat industry, with heavy job losses in the receiving country because of unfair competition on wages and social protection costs. This example embodies the need to tackle taxes and social contributions evasion both at the national level and at the international level to prevent the endangering of employment by fraud or unfair competition.

II.3 Active employment programmes: The social security coordination illustrates the challenges confronting the various MS in this regard

The lack of synchronization between social security and taxation as well as labour law added to the fact that only contributions and not taxation are coordinated can lead to enormous differences in cross-border situations. Other EU instruments adopted to solve some of these problems do not, however, take away all of these disadvantages:

- Technical developments, digitalization, data exchange, new technological developments and electronic means of work change the way contributions or taxes could be raised
- Changes in the way of living, family situation, aging population, dependency on LTC and demographic trends as said before.

These changes have various implications related to employment

-They have direct effects on labour costs regarding the ways of funding and the level benefits;

-They can induce irrelevant movements of workers or of non-working persons burdening the cost of social protection systems of one MS.

Eligibility conditions to social security benefits cannot always be coordinated. As an example, the introduction of active employment programs as a condition for an invalidity pension which would be granted only to people who are willing to undergo rehabilitation measures aiming a reintegration into the labour market. In one MS the legislation actually links entitlement to invalidity benefits with additional rehabilitation measures. If the person concerned was subject to the legislation of this MS and now resides far away in another MS, which has not implemented a comparable concept of rehabilitation program, rehabilitation measures cannot be applied there. Can the benefit be denied or does it have to be granted also without rehabilitation measures (which would put persons abroad in a much better situation than the resident population)?

The main problem with such active employment programs is that they usually have to be regarded as benefits in kind and that the EU Regulation only provides provisions for the coordination of benefits in kind concerning sickness or accident at work benefits in kind. Which branch of social security is concerned by such active employment programs (obviously not only unemployment) and is there an equivalence of such measure under other systems? As long as the Regulation does not contain specific rules on such active employment programs there will always be uncertainty and gaps that could be filled by new Court of Justice of the European Union (CJEU) rulings.

To give yet another example of new active employment programs some new benefits (bonuses) were introduced in Slovenia from the beginning of 2013. Questions may be raised regarding their proper classification for coordination purposes. One of these benefits is a bonus that is intended to entice insured persons to continue working after reaching the retirement age. An insured person who meets the conditions for acquiring the right to an old-age pension and remains insured to the same extent can request a monthly payment of 20 % of the old-age pension to which he or she would be entitled. It is provided on top of the salary until the insurance is terminated or a partial pension is claimed, or until the age of 65 (it is not provided beyond this age). The question might be whether such incentive to continue working is in line with the basic philosophy of the social security system as such. The purpose of social security is to provide income replacement in case of its loss or reduction. In this case there is (and should not be) any reduction in income and hence no need for its replacement in order to guarantee social inclusion. The CJEU emphasizes that when benefits are classified, the social risk for which they are intended should be taken into account. This might cause problems. The bonus described is not an old-age pension and the social risk of old age has not materialized (no reduction or loss of income). Hence, according to its legal nature it might actually be better to classify this bonus as an active employment measure, rather than as a pension benefit.

These questions, which appear on the field of social security coordination, witness the pressure that employment puts on the traditional definition of the former. The introduction of new benefits especially dedicated to cover active labour market policies introduces also confusion for the contribution payer.

It is possible to achieve a single labour market with various social protection systems, but new conditions for employment policies in relation with social security could ask for changes, to prevent undue charges on national protection systems. The MS' welfare systems face challenges such as new approaches towards the inclusion of people in the solidarity circle (residence is a growing connecting factor); an often rising gap of benefit levels between MS; new ways to look at the prevention; and, reconsidering social security risks (inclusion of active employment programs, of benefits such as LTC benefits and the individualization of social security rights). It is more and more necessary for the EU countries to reach a better coordination of social policies themselves even if the matter stays within the competence of the MS.

II.4 The open method of coordination (OMC) a way to progress on a common approach about social protection, and a bridge between employment and social protection policies

The open method of coordination in the European Union may be described as a form of "soft law". It is a form of intergovernmental policy-making that does not result in binding EU legislative measures. It does not require EU countries to introduce or amend their laws.

The OMC, originally created in the 1990s as part of employment policy and the Luxembourg process[13], was defined as an instrument of the Lisbon strategy (2000)[14]. This was a time when EU economic integration was advancing quickly but EU countries were reticent to give more powers to the European institutions.

The OMC has provided a new framework for cooperation between the EU countries, whose national policies can thus be directed towards certain common objectives. Under this intergovernmental method, the EU countries are evaluated by one another (peer review), with the Commission's role being limited to surveillance. The OMC takes place in areas that fall within the competence of EU countries, such as employment, social protection, education, youth and vocational training.

The OMC is principally based on:

- Jointly identifying and defining objectives to be achieved (adopted by the Council);
- Jointly established measuring instruments (statistics, indicators, guidelines);
- Benchmarking, i.e. comparison of EU countries' performance and the exchange of best practices (monitored by the Commission).

One of the results is a collaborative approach on both questions of social protection and employment policies. Based on good practices, a number of common benchmarks could be defined, to support upward convergence processes, while recognizing the diversity of starting points and practices across MS.

A draft joint employment report from the Commission and the Council[15] accompanying the communication from the commission on the annual growth survey 2016 shows how this connection improves:

"MS have continued to modernize their social protection systems to facilitate labour market participation and to prevent and protect against risks throughout the life course. Social protection

[13] The "Luxembourg process", acted in November 1997, marks the launching of the European Employment Strategy.
[14] For the Lisbon strategy see footnote 12 above.
[15] The European Council is composed of heads of State or Governments. It is an official institution since 2009 only. The European Commission is independent from Governments, and acts as a Government itself.

systems must better protect against social exclusion and poverty and become encompassing instruments at the service of individual development, labour market and life-course transitions and social cohesion. Adequate pensions remain contingent on the ability of women and men to have longer and fuller careers with active ageing policies sufficiently covering health and training. Investment in the working age population, including through the provision of childcare, is essential to secure inclusive employment outcomes as well as sustainable public finances. Health systems contribute to individual and collective welfare and economic prosperity. Sound reforms ensure a sustainable financial basis and encourage the provision of, and access to effective primary health care services.[16]

Modernization of social protection systems should aim at providing effective protection for all and adequate investment in human capital.

The future focus should be on structural reforms, helping to move beyond the crisis towards ensuring systems oriented by clear social investment priorities and providing adequate protection throughout the lifecycle.

MS have shown increasing policy effort to improve activation, access and adequacy of minimum income schemes but the impact of the schemes still varies greatly across the EU. Improving coverage and actual access to benefits remain a priority. Social protection systems (including minimum income and unemployment benefit schemes) should activate those able to access the labour market, and protect those furthest away from the labour market. Continuous support for labour market reintegration (through job training, job search, etc.) should be an integral part of social protection, thus avoiding costly losses in human capital.

Overall gender disparities are being reduced and the pensionable age is being raised, opening routes to prolong working lives and improve pension entitlements, but reforming pension systems only will not be enough. The adequacy and sustainability of pensions are closely linked to economic performance and labour market developments. Discouraging early exit from labour markets is crucial. Policies promoting cost-effective and safe complementary savings for retirement are an important part of the necessary mix of measures to ensure future pension adequacy.

Inequalities in health and access to health services need to be addressed in most MS within constrained health budgets. MS will also have to address challenges to their health systems posed by ageing and a rise in chronic diseases. “

[16] http://ec.europa.eu/europe2020/pdf/2016/ags2016_draft_joint_employment_report_en.pdf

This approach, which is also promoted by the ILO, 17 gives an expression to the European social model. The OMC whose outputs twin more and more social and employment policies stress the importance of a combined approach of both questions beyond the social security coordination needed by European labour market.

Four general trends in unemployment could be noted across Europe. Firstly, the initial increase in unemployment in Europe is primarily due to adverse and largely common shocks. Secondly, different institutions led to different initial outcomes. Collective bargaining and/or inflation could be used to reduce real wage growth and determine the size of the increase in unemployment. Thirdly, the increase in unemployment, in most countries, led to changes in institutions as most governments tried to limit increases in unemployment through employment protection and to reduce the pain of unemployment through more generous unemployment insurance - see part I. Fourthly, most governments in Europe have partly reversed the initial change in institutions due to financial pressure and intellectual arguments. However, this reversal was partial and sometimes perverse. The different paths chosen may well explain the differences in unemployment rates across European countries today.

There are several relevant explanations for these trends. A more favourable macroeconomic environment and an improvement in institutions should lead to a substantial decline in unemployment. High productivity growth need not imply favourable employment performance, or vice versa. There is a strong tendency on the part of policy-makers to presume that economic problems must be one dimensional – that growth and job creation are both aspects of an underlying quality, quoted as ‘competitiveness’. The available evidence suggests, however, that the unemployment problem has a life of its own, and is not simply part of a generalized deterioration in economic performance. Significant differences in the overall economic and social environments created the gap – and resultant tensions – between two clusters of European countries: North and South. The consequences of the current crisis have been drastic.

There are several possible answers. One view is that investment in human capital – both in basic education and in the retraining of older workers – can reverse the trend towards greater inequality. A second view suggests improvements in the welfare system, especially decreasing expenditure, which would reduce social contributions and hence lower the cost of labour. A third view, advocates an ‘active manpower policy’ with subsidized employment for those who would otherwise be unemployed, which is seen as the way to cut through the otherwise agonizing trade-off between

[17] Excerpt from the Report of the ILO Social protection floor advisory group, 2011: “The social protection floor relates strongly to the Decent Work Agenda; to succeed in combating poverty, deprivation and inequality, it cannot operate in isolation. In order to realize poverty reduction effectively, its strategies must be accompanied by others, such as strengthening labour and social institutions and promoting pro-employment macroeconomic environments

The effectiveness of social protection floor-type measures in reducing poverty, containing inequality and sustaining equitable economic growth is already well acknowledged in developed countries. In OECD countries, it is estimated that levels of poverty and inequality are approximately half of those that might be expected in the absence of such social protection provision.

In addition, it can help people adapt their skills to overcome the constraints that block their full participation in a changing economic and social environment, contributing to improved human capital development in both the short and longer term, and in turn stimulating greater productive activity. The report also shows how social protection has helped to stabilize aggregate demand in times of crisis and to increase resilience against economic shocks, contributing to accelerate recovery and more inclusive and sustainable development paths. Social protection represents, in fact, a “win–win” investment that pays off both in the short term, given its effects as macroeconomic stabilizer, and in the long term, due to the impact on human development and productivity” mass unemployment and mass poverty. Economic stagnation and high unemployment in several countries will have an impact on remittances from workers abroad with potential repercussions for countries highly dependent on the external demand and financial flows.

The current crisis has been created by two factors: the sharp rise in European unemployment rates, and the emergence of large budget deficits in countries with extensive welfare and lower productivity. Leaving aside hopefully education and training, there is one alternative: a decrease in labour cost at all costs or a balanced mix between welfare and flexibility. If one of the risks were covered by social security the individual does not have to care about his or her protection. By contrast, under the new, very often market-based, philosophy of the transformed social security schemes, everybody has to look him or herself for the best protection and benefits depending on the efforts made during the active life. The contribution of the OMC to the debate is embodied by the various reports that represent a comprehensive approach of the questions related to social protection and employment and help to present a balanced evaluation more relevant in front of the available evidences.

The open method of coordination and common strategies did not have the expected spill over effects. The credibility of social Europe has been rejected: a dynamics of divergence, even dualisation, have become apparent in socioeconomic and employment trajectories in MS, in particular within the Eurozone. The social performance targets set in 2010 in the Europe 2020 strategy have already been compromised. Social Europe seems to have led to a major imbalance, with the perception of a loss of national sovereignty by citizens that has not been offset by EU regulatory capacity. The principles of subsidiarity in social protection and autonomy of social partners in collective bargaining no longer appear to protect national social models: they are not articulated with the strengthening of economic governance including country specific recommendations relating to fiscal discipline and budgetary situation, structural reforms and wage policy as part of the « European semester »[18] and excessive deficit procedure. Europe still lacks the effective process to associate the citizen to a new social contract much more complicated to achieve and to explain than the traditional welfare state where employment went along social protection without questions.

[18] Implementation of the EU Economic Governance is organized annually by semesters – one where the EC analyzes data, and provides recommendations to MS., one where MS. Implement the commonly agreed upon policies.

III Contribution of social protection to employment policies must be reassessed

Because of ideological debates the amount of public social spending is under scrutiny. However, empirical elements as presented in the first part do not confirm a negative effect of social protection systems on employment. The second Chapter has nonetheless identified some challenges to be met by social protection systems. The question in this Chapter is not to discuss the absolute or relative level of social spending (private or public) even if the management of the entire system could be improved. The question is not either to examine how public savings in social protection could be reallocated to others services of general interest (public safety, education, and investment in research) or how to limit the funding by implicit or explicit debt, but to review how the funding for social protection could become more employment friendly.

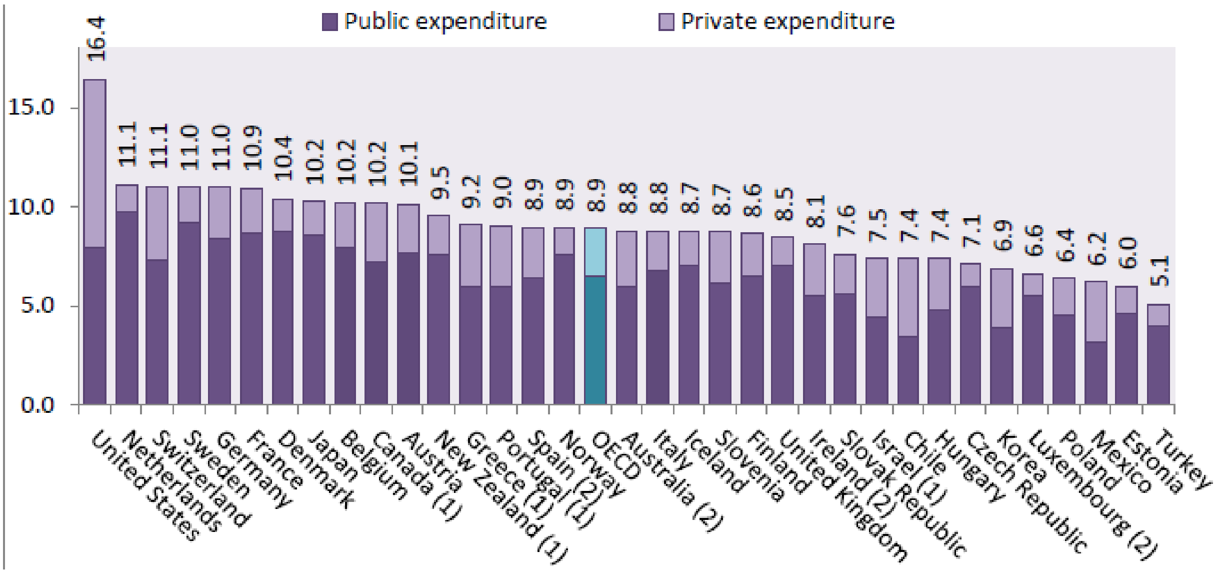
III.1 Limiting or expanding social security protection

The level of the public spending matters more and more because funding has become one of the criteria to assess public management. Since social protection expenditure are considered part of public spending, their level could lead to budget deficit or lead to a bad allocation of the resources on less efficient investments or purchases with bad macroeconomic impact on the national economy.

The global level of spending depends of many factors:

- The generosity of the welfare system
- The demographic factor which has many consequences .The number of inhabitants but also the age pyramid following the number of children or of ageing people needing care have a huge impact on the spending.
- The level of mutualisation. Most of the data used in this document are related to public spending. Sometimes the citizen must cover some of the costs out of pocket. In both cases the spending contributes to the GDP. High levels of social spending could be funded not only through public money. For health spending the highest level in the OECD is reached by the United States with 16,4 % of the GDP but less than half of it is public funded.

Graph 17 Health spending (excluding investment 2013)



Source OECD

The sources of financing (taxes, social contributions and debt) have a general effect on employment by increasing labour costs and diminishing the profit and the incentives to invest for the entrepreneur.

Most policies tend to reach a balance between the spending categories by controlling the overall increase in benefits, notably benefits in kind as health, or by restricting access to the most dynamic spending such as “pay as you go” (PAYG) pensions and by looking for the most efficient mix of taxes, social contributions and borrowing.

In all the countries the trend is to shift part of the labour costs to public contributions to diminish the tax wedge. Tax wedge is defined as the ratio between the amount of net salary paid to an average single worker (a single person at 100% of average earnings) without children and the corresponding total labour cost for the employer.[19]

As seen before, the main reason for the increase in social spending is ageing, with consequences on health and retirement benefits hard to rollback. Public intervention is needed because the citizen will not spontaneously invest in own protection. Making spending compulsory like for car insurance could be enough to sort the question out but public intervention is linked with societal present or future projects. The French “success” in child and family policy with a rather high rate of fertility and a somewhat higher rate of women activity than the average European level is strongly linked to the experience of WWI and the demographic deficit that followed. Social protection is also the expression of solidarity not only between rich and less affluent people but also between the employed and the unemployed, young people and old, healthy people and those suffering from

[19] OECD (2016), Tax wedge (indicator).

illness. Finally it is important to prevent the "creaming" (selection) by private insurers of the population to be covered, which could lead to massive exclusion of the less favoured.

In any case there is an opinion that considers social contributions or taxes on salaries as a hindrance for competitiveness for companies with a negative effect on employment, so it would be important to shift to a more job friendly tax or contribution base to improve the financial status of the companies along with growing employment opportunities. It requires the following conditions:

- A minimum level of competition must prevent companies from pocketing the increase in profits
- The decrease in labour costs must not cause too much of an increase in other production factors costs such as capital, which could discourage investment
- A high level of unemployment could justify a decrease in lower wages to reduce the discrepancy between wages and productivity but this does not work for all skills.

Action on social protection must be estimated at different levels with different criteria to evaluate its consequences on employment:

- Macroeconomic, growth, household purchasing power, employment
- Consequences on companies depending on their size and industry
- Impact on the distribution of household revenues
- Clarification of the financing of social security risks
- Specific question for individual business or for non-profit activity
- Actual condition of implementation (collection of contribution, side effects, collective bargaining…)
- Every action on SP resources must be determined in connection with these aspects, which could be of political importance too.

III.1.1 Mixed results for reductions in employers' contribution

To discuss the question, it seemed interesting to refer to chapter 4 'Financing Social Protection: the Employment Effect '[20] of the OECD 2007 Employment Outlook while completing the empirical conclusions with some quantitative results of scenarios which have been recently tested in France. The mechanisms through which a decrease in employers' social contributions leads to positive effects on employment must take account of the consequences of the financing which is necessary to balance the loss of resources for the social protection schemes. Three parameters play a major role: the behaviour of the companies' profits which describes how they pass on their production costs to their selling prices, the cost elasticity of employment with various consequences according to how concentrated contribution breaks are at the bottom of the wage scale, the ramification of the mandatory contribution intended to compensate for these breaks on negotiation and adjustment of salaries and therefore on the final variation of labour costs.

[20] http://www.oecd.org/employment/emp/40776791.pdf

The string of effects must be assessed in the short run and in the long run because these agents, who will benefit from the breaks or be hit by their funding, are not those who will sustain their effect *in fine*, a fact which could influence the "equilibrium unemployment"[21].

Macroeconomic models have limits to describe the transfers between households and companies, the factors linked with the attractiveness of the country, the attitude with regard to research and innovation as well as the threshold effect or asymmetrical behaviour.

Finally labour costs are part of a mix that also includes the price of intermediate consumption and capital cost. As showed in the first Chapter there is no overall relationship between level of spending, funding and the unemployment rate.

Some studies were done for the French government on various scenarii[22] for social protection financing in a tense period of public deficits. The point of the exercise is that it covers the mains objectives cited above with an extensive use of data and macroeconomic models that do not include all the variables but are richer than an empirical study. Results must not be received as generalizable but as a description of the core interactions. Other things being equal it gives the same conclusions as the above quoted OECD article but with figures.

The main concern was to obtain a better fit between risks and resources in social protection. Although France has undergone a major shift to public contributions, a large part of certain risks that are mostly universal such as child and family benefits, are still funded by resources based on labour revenues. Four sets of scenarii have been developed to reflect the main issues raised by policymakers[23].

The first set encompasses the reallocation of existing taxes and contributions among the various risks covered by social protection but without a macroeconomic effect on activity, employment or income distribution among households. The objective is to improve the adequacy of resources and spending e.g. to reallocate contributions for child and family benefit from employer contributions to taxes.

The second set targets a change in the breakdown of taxes and contributions among households without change in employer contributions. The macroeconomic effects are almost nil except if major changes should occur in the propensity to consume and the propensity to save. The aim is a reduction of inequalities of the disposable income among households. Family contributions paid by employers would be transferred to the retirement scheme with a decrease in the employee retirement contribution and an increase in taxation of income extended to replacement benefits (unemployment benefit, retirement benefit) and asset incomes. The contribution rate could be made progressive.

[21] The equilibrium unemployment level is the difference between those employed at a given wage rate and those who can work but are not willing to work at that wage rate.

[22] Haut conseil du financement de la protection sociale : Point d'étape sur les évolutions du financement de la protection sociale – High Council for Social Protection Financing: Progress report on the evolution in social protection financing (2014)

[23] See Annex XII for details

The third set aims at a reduction of the taxes and contributions paid by employer on labour costs as a fixed global amount. They introduce major changes in relative costs of inputs with differentiated outcomes in the various economic sectors. It introduces some new kind of parameters to calculate the employer contribution such as labour cost/added value or the company's hiring and firing record to entice the employers to a more active labour management.

The fourth set forecasts a decrease in employers' contributions, which would be compensated for, by supplementary contributions on households through value added tax or behavioural taxes (tobacco, alcohol) or environmental taxes with major macroeconomic impact.

To summarize, a general 2% decrease in employer contributions, without factoring compensation, is favourable but limited on the activity (+0.3-0.8 % GDP in a 5 year period) and on employment (134.000- 214.000 new jobs created or safeguarded) .The level depends of the repercussion on the alleviation of contributions on production prices. Without compensation the impact would be negative on the balance of public administrations. The effect on employment is higher if the alleviation is focused on modest wages with 5.000 to 37.000 supplementary jobs for middle wages and up to 15.000 to 160.000 additional jobs if focused on the lowest wages.

In the case of compensation of contributions breaks, the impact would be reduced to 0.0-0.2 % GDP with 30.000-81.000 jobs; partial adjustment of the household purchasing power through a wage increase will reduce the impact of the labour costs decrease on job creation.

In the simulations with a positive impact on employment, the balance for public administrations is improved with a lower "ex post" public funding requirement than the costs "ex ante". The effect is more or less positive on the foreign balance and investment. It depends upon the capacity of companies to conquer market shares on the interior market and to invest accordingly.

In the best case scenario the number of jobs created or safeguarded could reach 370.000 in comparison with 2.860.000 unemployed people (December 2015 ILO definition). The less efficient scenario would provide just 5.000 jobs.

For the OECD the more public spending goes to social protection, the higher the "tax wedge", roughly defined as the difference between labour costs and take home pay in proportion to labour costs. But the extent to which a higher tax wedge has an impact on employment depends crucially on three factors: *i)* the "progressiveness" of funding systems; *ii)* the link between what is paid and expected benefits; and *iii)* how labour taxation affects wage claims and replacement incomes. A higher tax wedge reduces the opportunity cost of not working (as defined by the ratio between non-labour incomes and after-tax wages) and thus tends to depress labour supply and generate wage resistance. The survey identifies the following effects:

- An *income effect*: in order to compensate for the income loss resulting from higher taxes on wages, households may tend to raise their labour supply, thus moderating wage claims.
- A *perception effect*: employees may be willing to accept lower after-tax wages as taxes rise, if they effectively recognize a linkage between the taxes they pay and their benefits entitlements.

The above effects of the tax wedge ignore the potential impact of social protection on productivity. The OECD remarks that certain welfare benefits like parental leave, effective active labour market policies and well-designed unemployment benefits may raise labour productivity in various ways, which would offset any negative employment impact of the taxes needed to finance these welfare benefits. Likewise, health programs may support workers' motivation and productivity. More generally, well-designed social protection is likely to serve as a productive input for the economy.

As discussed above, the *average* tax burden weighing on wages and labour costs may shape employment performance in various ways. The precise impact depends crucially on:

i) The tax burden on low-wage employment (since the presence of wage floors makes it difficult to pass tax increases onto lower wages);

ii) The extent to which there is a close link between the taxes and contributions that fund social protection, and social protection benefits (*a priori*, the closer the link, the less the risk of a negative impact of taxes on employment);

iii) The extent to which a broadening of the tax base to fund social protection helps meet employment objectives, in particular by affecting the wage/replacement income ratio. At the minimum wage level, labour costs and net incomes result entirely from policy choices concerning labour taxation, benefits and the minimum wage itself. The latter plays a doubled-edge role: a high minimum wage relative to the average wage tends to deter the employment prospects of vulnerable groups, but it also contributes to make work worth it when compared to welfare benefits.

Payroll tax cuts targeted on lower-wage earners are generally found to be more effective in boosting the employment prospects of disadvantaged groups and reducing aggregate unemployment, than general tax cuts. However, deadweight losses – *i.e.* the fact that the reduction of employer social contributions also benefits existing low-wage jobs and new jobs that would have been created even in the absence of the tax reduction – tend to be substantial. This is a strong limitation, as these measures pose a major funding issue and require higher taxes elsewhere in the wage ladder. Insofar as payroll taxes are not overly high, implementing or going further with broad tax cuts covering all those in low-paid work may be less cost-effective than schemes more closely targeted at jobless and hard-to-employ individuals, and aimed at facilitating transitions from unemployment or inactivity to regular employment in the private sector.

In countries with high minimum wages, well-designed employment-conditional benefits may help limit further increases in the statutory minimum wage to make work attractive enough, and may be more cost-effective than further broad employers' tax cuts. On the employee side, financial rewards from moving from unemployment or inactivity to low-paid work tend to be very low in most OECD countries. For unemployed or inactive persons, accepting a low-paid job – *e.g.* a full-time job at the minimum wage or at 67% of the average wage – provides little net additional incomes. When moving from unemployment to work, 70-80% of the additional gross income is on average taken away in the form of income taxes, employee social security contributions and/or lower welfare benefits. This proportion is lower when switching from inactivity to work but still represents on average 60-70% of the additional gross income. Reducing this disincentive may be achieved by better linking employees' contributions to their future benefits and employers' contributions to the cost they incur to the system. On the employee's side, increasing the perceived value of the counterpart to taxes would moderate wage claims, thus making taxes less distortionary. On the employer's side, introducing some linkage between labour taxation and the costs incurred by social protection systems (in terms of benefit payments), through experience-rating mechanisms, may be socially desirable and economically efficient, as employer behaviour in terms of workforce management has an impact on the observed frequency of some so-called " risks " covered by social protection and on employment.

Both approaches to the evaluation of results from reductions in employers' contributions, the French approach based on macroeconomics or the OECD, come together on the same conclusion. The most efficient policy to create jobs is to focus on the employers' tax or contribution on the lowest wages, but it does not offer a definitive solution. Due to the limitations of the contribution, alleviation is often focused on the less productive people, young people in transition from school to work, low skill employees and the long-term unemployed.

So some measures were taken to reduce the tax wedge on labour, especially for disadvantaged individuals, and to stimulate labour demand and consumptions beyond the strict limits of social protection. Belgium intervened to lower the social contributions paid by low-wage workers, exempted employers from paying social contributions on overtime compensation in selected sectors, and extended the scope of the exemption of the withholding tax for employees. Italy lowered personal income tax for low-income earners for the year 2014 and applied a permanent reduction of 10% in the regional tax economic activities due by employers. The government of Spain approved a tax reform including a reduction from seven to five tax bands, a slight reduction of the marginal rates and an increase of the exempted amount, which has been phased in between 2015 and 2016. Slovakia increased the earnings threshold for students to be exempted from social contributions, while Estonia increased the basic exemption from income tax as of 1 January 2015. Slovakia reduced the tax wedge for employees re-entering the labour market after long-term unemployment through temporary exemptions from social contributions. In the context of a wide-ranging budgetary package, Latvia alleviated the tax burden especially on families with dependents by increasing targeted non-taxable thresholds for personal income tax. France implemented for the first year in 2014 a wage-based tax credit for companies, supplemented in 2015 by a decrease on employer's social security contributions. Measures to reduce income tax on median and low wage earners were also decided. Greece launched a further reduction of social security contributions to facilitate new recruitments and improve the competitiveness of businesses by reducing non-wage labour cost.

Targeted hiring incentives and start-up subsidies have been means to promote the activation of young job seekers in some MS. The Netherlands adopted a tax rebate for employers hiring young people who receive unemployment benefits or social assistance for a period up to two years, whereas Poland introduced exemptions from social insurance contributions for under-30-year old. Slovakia introduced support towards the first regular paid job for unemployed people under the age of 29 years. Other Member States have adopted new hiring incentives to stimulate job creation for other groups among the long-term unemployed. General hiring incentives have been introduced or reinforced in Portugal, Malta, Greece, Spain and Cyprus. For example, Malta offers a wage subsidy to employers for new hires up to half of the basic wage and of social contributions for a period up to one year.

Spain approved a flat social contribution rate for firms hiring new workers with open-ended contracts, including part-time contracts, for a period up to two years (three for small firms) as well as special allocations for Youth Guarantee beneficiaries hired on open-ended contract. Malta targeted a specific subsidy on older workers, including a tax deduction covering the costs of training. Finland has extended the duration of the renewable wage subsidy for older long term unemployed to two years.

III.1.2 A loose relation between employers' social contributions and hourly labour costs

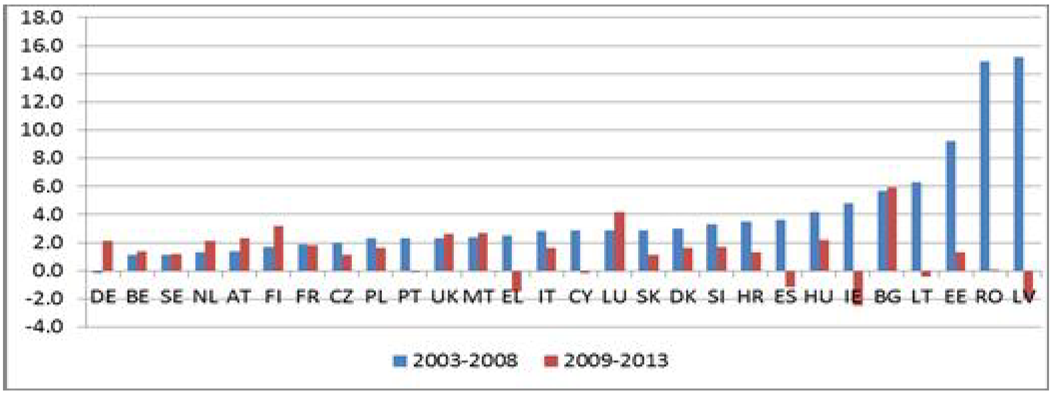
Comparative analysis does not reveal in Europe a statistical relation between the level of hourly labour costs and the share of social contributions paid by employers. The chart below identifies different country profiles, such as Denmark in which a modest share of employers' social contributions does not preclude a relatively high hourly cost of labour. On the contrary Spain has a relatively low level of labour costs despite the high apparent rate of social contributions paid by employers. In certain countries the cost of social contribution paid by employers could be shifted to the employee through a decrease of his net wage. The hierarchy of labour costs in Europe primarily reflects differences in labour productivity and relatively not so much institutional arrangements for social protection. Economic analysis suggests traditionally two main factors for export dynamics of a country: the global demand for goods and services, and the prices for export by the companies. In the case of developed countries that trade among them and with the rest of the global economy, it can be assumed it is the same global demand that is directed to each of them. Therefore, differences in export performance between countries respond in a first approach to price differences for export: it is called the "price competitiveness", which covers both the "cost competitiveness" (costs of inputs), margins and if any, changes in exchange rates.

Important differences between countries or markets for goods and services are linked on the export sensitivity to prices. The same price change will have variable effects on exports from e.g. France and its various commercial partners. This heterogeneity of the export price elasticity allows to suggest that factors other than price influence the dynamism of businesses export: innovation, marketing, geographic or sector specialization, competitiveness.

In its Employment report [24]the European Commission points that: "Unit labour cost reductions and wage moderation have fed only slowly and incompletely into lower prices. Partly, this incomplete pass-through can be explained by simultaneous hikes of indirect taxes and administered prices due to fiscal consolidation. Nominal unit labour cost reductions in the face of sticky prices have led to decreases in labour income shares in several MS, in particular Greece, Spain, Ireland and Portugal. The resulting increase in profit margins has not (yet) been fully accompanied by an increase in investments.

[24] Draft Joint Employment Report from the Commission and the Council accompanying the Communication from the Commission on the Annual Growth Survey 2015

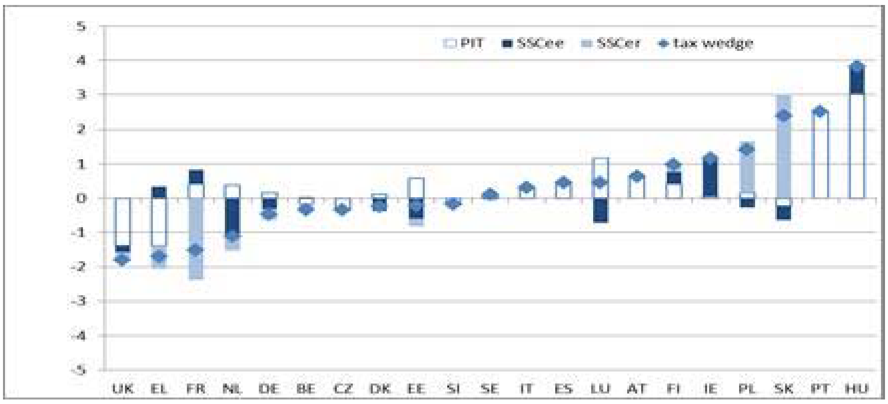
Graph 18 Nominal unit labour cost developments in the EU-28, average year-on-year changes, 2003-2008 and 2009-2013



Source: Eurostat, DG EMPL calculations

Changes in the total tax wedge have been driven mainly by personal income tax (PIT), where increases can be seen for 15 out of 21 Member States. Increases in PIT (at least for this particular type of household – single, no child - and at 67% of the average wage) have been particularly large in Portugal and Hungary, while it has decreased quite substantially in the United Kingdom and Greece. Taking PIT and employees' social security contributions together, the burden on employees has increased in 10 Member States, while this is less true for employers (3countries with increases in the tax burden). Overall the level of employers' social security contributions has remained more or less stable in most Member States, with a few exceptions; there were relatively strong increases in Poland and Slovakia, while at the same time the level decreased quite considerably in France.[25]

Graph 19 Change between 2011 and 2013 of the total tax wedge by components (67% of the average wage, single person, no child).



25 Draft joint employment report from the commission and the council accompanying the Communication from the Commission on the Annual Growth Survey 2015

Source: EC-OECD tax and benefits database
SSCer: social security contribution paid by employer; SSCee: social security contribution paid by employee; PIT: personal income tax.

In an economic and monetary union, the issue of wages is not just of national interest: crises sanction imbalances that have arisen out of divergences in competitiveness, to which divergent trends in unit labour costs have contributed; countries being unable to devaluate their currency, they correct imbalances via internal devaluation (in particular lower wages); national trends in wages have direct implications for the achievement of the common objective of price stability (inflation target of 2%). This balance has not been met, despite disparities in wage costs beginning to fall (For the countries concerned, an internal wage devaluation strategy is difficult to maintain in the long-term (as in the case of Spain); it requires a divergent trend in wage costs in countries that have more latitude (in particular Germany). Otherwise, there is a risk of contraction in demand and deflationary trend within the Eurozone.

The alleviation of employers' social contributions has limited impact on employment except for low wages. It is currently used to protect the employment of low wage workers or as an incentive for the employer to hire special categories as long-term unemployed people or young people. Actually in most of the countries employers' contributions are about zero at the lowest level.

The shift to out the pocket spending does not imply a better allocation of resources. The example of the US shows that a high level of spending in the GDP for health does not reduce the public spending and has a rather limited efficiency. The charge of growing spending (health and LTC) could be not sustainable even for private contributors i.e. insurance plans sponsored by private companies. As long term care shows it, the voluntary coverage in developed countries is fragile and limits the shift to private funding. The positive effect of some voluntary funding of pension funds are indisputable through a direct effect on savings, investment and employment during the period they reach their expected level and less important after .In any case all the States are engaged in an effort to improve the efficiency of social protection, to curb the spending at least for the more dynamic risks viz. health and retirement.

The shift to others resources could be more and more linked to behavioural criteria as described for employer experience-based contributions, or to consumption habits (tobacco, alcohol, soft drinks) or to other expanding revenues as value added tax or environmental taxes. In a global approach every tax would have an effect on the employer or on the employee. The result on the employment would depend on the capacity of the households to accept a reduction in their purchasing power and on the capacity of businesses to develop their sales. Another path to explore is to decrease spending by an active management of employer contributions.

III.1.3 Social contributions paid by employers as a leverage for a reduction of social spending: an opportunity with conditional good outcome

Social contributions are paid by employers with the primary purpose of funding social spending. Beyond their economic impact from the macroeconomic perspective, however, in some cases, social protection financing schemes have also been set up with a view to microeconomic incentives addressed to employers or insured people, to promote behaviours reducing the occurrence of certain social risks and costs associated with them in terms of social protection. The idea is then to individualize part or all of the contributions payable by the businesses or the insured based on the historical costs incurred by them in certain social systems: an employer would be encouraged to take measures that reduce the expenses paid by SP schemes if a good record would be accompanied by a decrease in enterprise's contributions.

Regarding this type of incentives to employers, experiences implemented in developed countries are overwhelmingly linked to insurance "accidents at work and professional disease" and to a lesser extent to unemployment insurance or, more occasionally, to the management of disability or other social risks. On unemployment insurance, it is almost exclusively limited to the US, while for the insurance "occupational accidents and diseases", it is much more widely used.

The experiments of modulation of unemployment insurance contributions

Modulation of employer unemployment insurance contributions in the United States is the most important experience. Its implementation is unique at this level. It applies to all federal states, to almost all the private sector and became widespread in the 1980s. More recently, more limited modulation experiments were set up in France and Italy.

The most commonly used formula is the so-called "reserve ratio". In this system, an account is established for each company, which traces the expenditure on unemployment benefits due to redundancies decided by the company and supported by the scheme, and revenue contributions which it has paid, with these two flows being calculated over different periods of time (usually over the entire life of the business, sometimes for shorter periods). These costs are reported to payroll itself assessed over different periods depending on the State, and compared to the average contribution rate in the State. The rate to which the company will be submitted depends on the difference between the two ratios. Another approach is the "ratio of payments" which compares the total benefits paid to the payroll during a fixed period (and not on historical). There are also in every state a floor rate and contribution limits that cap, upwards or downwards, the due contributions and induce a certain mutualisation between businesses. This pricing is therefore to modulate the unemployment contributions of a company based on costs actually endured by unemployment insurance: a company that has a history of lay-offs will see its premiums soar, while conversely its contribution would have decreased. In doing so, the system imposes *de facto* dismissal costs to business, but also hiring costs since the increase in the contribution rate for unemployment insurance, which follows a dismissal ipso facto, results in increased costs for the future.

The system managed in each State determines the extent to which firms are to internalize the costs they generate for the scheme: it is theoretically possible to consider any kind of rule, from a complete pooling (which translates by a single contribution for each company, regardless of its past layoffs) to a complete individualization of employer contributions (where each company bears the costs of past layoffs). The actual degree of modulation of contributions, like other insurance parameters (eligibility, replacement rate, benefit duration, maximum and minimum contribution rate, etc.), can be quite variable from one State to another, both because they can make different choices, but also because they may be in different economic situations that require them to modify some unemployment insurance provisions. In any case, the full non-individualization and the existence of minimum and maximum rates induce many transfers between companies of different sizes or sectors. Finally it should be noted that a provision allows companies to opt out to not pay contributions, but they directly pay the final costs of the allowances to the bodies in charge of the payment of compensation.

The contributions modulation system is based not on the actual number of redundancies of the company, but on the costs that they entail for unemployment insurance. This characteristic makes important the issue of non-use by the people who would be eligible but do not claim their rights. In fact, the average rate increases from 20% of eligible people in the early eighties to settle around 35% today.

Some companies (especially those belonging to the non-profit sector or certain agencies of the Federated States) and certain employees (e.g. managers of business) may use the "opting out". They then pay only expenses relating to those employees they laid off. This choice favours optimization on the part of corporate behaviour in order to reduce costs under the unemployment insurance: the proportion of people under the "opting out" among the eligible persons increased from about 5% in 2005 to almost 35% in 2012 nationally.

Companies are very careful in the use of unemployment insurance. This can have the effect of increasing the selection of workers favouring those who might be less inclined to use the compensation for dismissal because they could quickly find a new job, with therefore little potential impact on their future contribution rates. As for the workers, it can also be an incentive not to use unemployment benefits to which they are entitled, in order to give a "signal" to a future employer that they will not burden its costs in case of dismissal and thus trying to increase their employability.

More recent and more limited European experiences

Limited experiments have been tempted on specific points in Europe.

In France for example, the "Delalande contribution" paid for dismissal of a worker over 50 years, aimed to discourage the removal of older workers from the labour market, was introduced in 1987. It was completely abolished in 2008. Some estimate that it would rather have had a deterrent effect vis-à-vis the hiring of workers over 50 years. More recently, the National Interprofessional Agreement (ANI) of 11 January 2013 introduced an increase in social unemployment insurance employer contributions for some fixed-term contracts of very short duration. Conversely, the ANI provides exemptions from the employer's unemployment contributions for hiring a young person under 26 years with an open-ended contract: the duration of exemption is three months if 50 or more employees in the business, and four months in smaller companies.

Italy, for its part, had to reform its unemployment insurance system as part of a broader overhaul of devices known as "social shock absorbers" in force since 1 January 2013. This reform fundamentally changes labour law in the sense of a relaxation of dismissal criteria (it includes in particular in its

Article 18 a provision of contractual termination by mutual consent). In return, it introduces greater social protection for the benefit of the excluded categories of major collective agreements, including employees of small businesses. The law also creates a new employment contract with a duration of three years, which aims to facilitate the hiring of young people. Certain provisions relating to unemployment insurance funding are consistent with the employment behaviour of firms and the costs they generate for unemployment insurance: the financing reform implementation provides for an additional contribution of 1.4% for all fixed-term contracts and the payment of a lump sum contribution per employee laid off, up to € 500 per year with a three-year limit.

Few other developed countries use individualized modulation of unemployment contributions. European countries where labour regulations are relatively protective, compared to those in force in other areas adherent to the OECD, do not usually establish an incentive for employers to moderate their dismissal decisions. However, the legal or conventional redundancy payments to employees, resemble to a contribution proportional to the number of separations, but without pooling of the contributions paid, as for social insurance schemes.[26]

Modulation in contributions for occupational accidents and diseases

It is in the field of Occupational Injuries that modulation of contributions is widespread since many developed countries practice individualized modulation of contributions for occupational accidents.

Pricing method based on "experience" is meant as an incentive, for the company, to internalize the costs of work accidents and occupational disease. It is likely to generate for the community and to invest in safety and prevention:

- The management of this risk can be delegated to private operators (Belgium, Finland, Portugal), organized at the level of professional branches (Germany) or be supported by a national public operator (France, Italy);

- Contributions are, in part and to a greater or lesser extent, always individualized and set according to the direct cost of occurring occupational accidents and diseases (“experience rating"). In order not to impose small or middle businesses with excessive premiums compared to their turnover following a serious accident, some systems provide a separating rate of progressive contribution related to the company size. Others (Germany) do not use difference by size of business but implement different pricing schedules depending on the sector, so as the level of risk. Finally, to smooth the consequences of the occurrence of a serious accident in time, the premium paid in year n is generally calculated on accidents occurring during a past period taking into account several years;

- Some systems are organized according to two pillars: insurance against accidents at work contracted by companies and compensation for occupational diseases under the Social Security (Belgium, UK)

Other features of modulation for social contributions paid by employers

[26] The trend is to cap payments related to litigation to limit the uncertainty for the employer

For example, in Finland part of the employers' social contributions to retirement scheme depends on company size, age of each employee and also partially on the present value of expenses payable in relation with the number of eligible employees for the early retirement scheme before the age of 65. This modulated component of corporate contributions to pension plans was strongly identified during the pension reform implemented from 2000, the rate of internalization for early retirement charges companies increasing from 50% to 80% for larger companies.

For France, the provisions relating to the consideration of the hardship were introduced as part of the Law of 20 January 2014 "Guaranteeing the future and justice of pension system ". The creation of an account "that will allow the employee to accumulate points when they are exposed to painful working conditions beyond a certain threshold, under certain types of exposure (night work, repetitive work, work in hyperbaric environment, alternating team work schedules, heavy lifting, awkward postures, mechanical vibration, exposure to hazardous chemicals, extreme temperatures or noise). The accumulated points will allow the employees to accede vocational training to apply for an unexposed or less exposed workplace, to obtain a reduction in working time or to benefit from increases in pension insurance periods. To finance these actions and to encourage the development of prevention policies, companies where eligible employees are working must pay a basic fee related to the number of employees effectively exposed at the rate of 0.01% from 2017. An additional fee will be levied with a rate of 0.2% when employees are exposed to a single criterion of hardship and 0.4% from 2017 when exposed to several criteria for arduous work (2017).

Results of international studies on the impact of these experiences modulation

1) Modulation of social contributions paid by employers may decrease dismissals or occupational hazards

The unemployment insurance pricing in the US has led to numerous studies that have assessed its impact on dismissal flows. According to a summary performed by Fern and Margolis (1999), all of these studies concluded to the effectiveness of an increase in individualization of contributions in terms of reduced layoffs. It was able to assess a potential 30% decrease in the number of temporary unemployed - i.e. those with a prospect of re-employment -individual data. Over 20% of the layoffs - temporary as definitive - could be due to contributions' individualization failure. These studies, however, also bring out the fact that wages have decreased in companies that experienced an attenuation of their degree of pooling because they have transferred on employees a significant part of the additional costs of individualization of contributions.

Another point is the impact of the modulation of premiums on fluctuations in unemployment. The underlying idea is that unemployment is a cost for companies, who have to bear part of the consequences of their decisions on dismissals in the form of an increase in their contributions, and therefore their costs. This characteristic could therefore result in limiting fluctuations in unemployment since companies have an interest in reducing their use of redundancy in case of negative economic shock, also limiting their hiring in upturns. The higher the degree of modulation is the more stable the level of employment is. The intuition tells that the effect of the cycle on layoffs / recruitment is lower when pooling is itself lower.

2) In terms of accidents at work and occupational diseases, an impact on the reduction of the claims

- Any mutualisation (or the introduction of franchise arrangements) results in a decrease in the claims, which is both the result of a better consideration of safety, but can also result from increasing under-reporting, it is not always possible to accurately quantify the relative weight of the two effects;
- An increase in the generosity of the benefits encourages further employers to improve health and safety at work (which reduces the claims), and promotes the full exercise by the injured employees of their rights to compensation (this tends to increase claims). Contradictory effects therefore occur when the generosity of compensation varies.

3) The modulation can, however, also cause some difficulties of implementation or undesired

Difficulties of implementation

Imposing the unemployment insurance contribution rate for companies reflecting the costs they generate for thee compensation scheme could induce them to search through court proceedings qualification of dismissal as voluntary departure or dismissal for misconduct, cases in which either the employee does not receive compensation or the cost of the latter is not imputed to the company.

In a more general way, Blanchard and Tirole [27]argue that "experience rating" systems are exposed to a variety of implementation difficulties. Thus, smaller companies have fewer opportunities to implement actions to prevent dismissals or workplace accidents, and higher contributions can put them into financial difficulty. On the other hand, the gap between the increase in redundancy or accident risks in the company and its incorporation into the rates of contributions required an important historical record in case of modulation based on costs which may encourage some companies to go out of business before it has to pay the increased fee, and resume activity later under another name. It has also been argued that, in the case of the individualization of unemployment insurance contributions, reducing costs in case of decrease in layoffs could affect wage demands in a context where employees would find themselves less exposed to the risk of job loss.

Risk of increase of under-reporting of claims and litigation

The issue of under-reporting is often mentioned in studies on modulation of contributions. They generally find a significant effect on the reported claims, they also recognize that a part, difficult to quantify, of this decline could come from underreporting in cases of individualization of the

[27] O. Blanchard, J. Tirole (2003), "Employment protection and redundancy procedures"

contribution. Indeed, the expected increase in contributions that follows the claims may encourage businesses to develop strategies enabling them to under-report accidents or layoffs. In the case of unemployment insurance, the phenomenon of non-use (on the part of employees as the use by companies of "opting out") is spreading in the United States since the mid-2000s.

Given the complexity of the regulations and financial issues related to the modulation of the contributions, the development of litigation is also cited as one of the side effects of “experience rating” and raises the issue of legal uncertainty arising from litigation for different players, as well as the difficult and lengthy procedures that affect the ability of the concerned employees to be covered and compensated.

These results lead to a number of lessons, but also questions about the use of the modulation of premiums, especially if their extension is intended to promote employment and its stability.

Key parameters for the implementation of modulation schemes

- It seems logical that the extent of individualization is increasing with the size of the company, not excluding the exemption of smaller businesses from such mechanisms.
- It is also plausible that the modulation is more marked when the risk is likely to be significantly reduced through preventive actions of employers; in this regard, accidents at work are more adapted to "experience rating" than invalidity benefits.
- The depth of the history on which is measured the costs incurred by the company also implies arbitration between (long term) the need for the employer to have a sufficient time for preventive actions affecting costs, with the requirement that higher contributions do not put the company in difficulty, and (short term) the interest of a relatively small time window to deter opportunistic behaviour of cessation of activity
- The inclusion in prospective contributions of the impact of preventive measures taken by the employer to the extent that they are observable by the insurer could finally be preferable to consideration of the claims on the basis of historical costs.

The appropriate use of modulation also raises a number of questions to which answers do not appear always easy to make[28]:

- Regarding the unemployment contributions, the study results suggest that the mechanisms of modulation have more relevance on labour markets where the risk of job loss is equally distributed between employees, and where employers have less leeway to select employees in hiring based on their potential risk related to unemployment. Secondly is the duration of unemployment benefit the only indicator to be taken into account in the modulation? Total duration of unemployment may be higher in countries with a significant long-term unemployment, which is likely to generate high social costs beyond the period of unemployment benefits (minimum support, assistance or rehabilitation measures...).
- A second question concerns the interaction between modulation in employers' social contributions and macroeconomic context. In this respect, if the individual risks are not

[28] Haut conseil du financement de la protection sociale Rapport sur l’analyse comparée des modes de financement de la protection sociale en Europe

independent, but correlated positively - the most obvious example being the risk of job loss, increases or decreases for all employees in a downturn or upturn in business - the modulation could lead to increase premiums when market conditions are unfavourable, and thus to exert pro-cyclical effects, unless the modulation rules were themselves continuously adjusted according to the average trend of the labour market (which then raise the question of the influence of the variability of the rules on the level of employment).
- Finally, the modulation of social contributions paid by employers raises the question of inter-sector transfers due to the differences in patterns or in productive combinations that characterize each sector: A possible answer would be that modulation is used only as deviation from the average sector indicator which is to be improved. Questioning then becomes that of the trade-off between adapting modulation mechanisms to variability in economic activity and / or the characteristics of the different sectors, and that of the readable and appropriable nature of these mechanisms for social actors, in a context where complexity can lead to administrative difficulties or disputes.

III.2 Contribution of social protection to reduce income inequality in EU countries is conducive to growth and employment

In the previously quoted chapter of the OECD document[29] the function of social protection as a tool to reduce inequalities is mentioned .The focus on the employment policy and on social protection as a factor of labour costs reduction (with mixed outcomes) could divert social protection from what is its major playground to growth and therefore employment. Excessive inequalities lead to a long term discrepancy between those who enjoy long term employment with a quality at work life, high wages and lifelong learning and those who are excluded and unable to maintain their human capital because of problems related to skills, health or others social dimensions. Furthermore inequality prevents an increasing percentage of the population from contributing to growth because of the lack of purchasing power and the difficulty in contributing to savings and investment. That why it seemed relevant to add some comments about the results of social protection in reducing inequality, which could appear as the most important contribution to employment policies.

Because of the lack of harmonized data available, the analysis primarily describes the redistributive properties of social benefits in cash, combined with direct contributions on income - and on a complementary basis, those benefits and services in kind. This overview will be based upon the OECD study, which has been updated by the French Ministry for Social affairs.

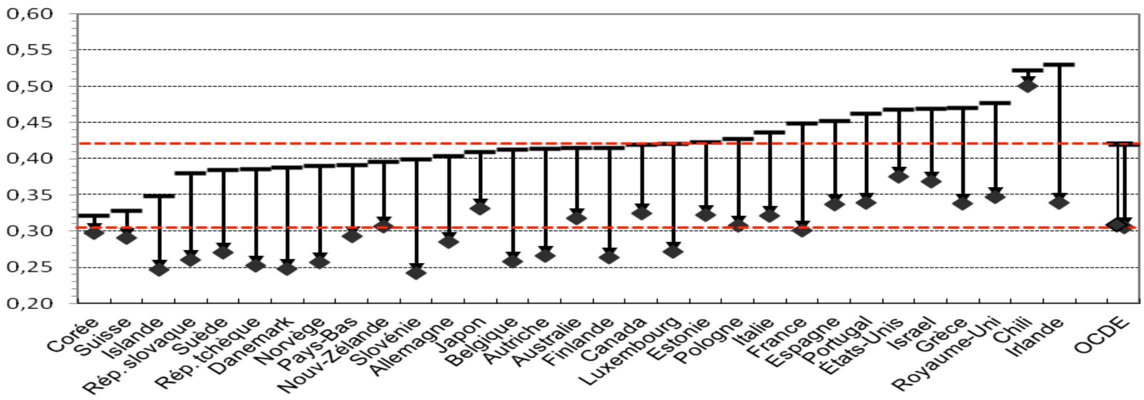
III.2.1 The redistributive impact of social benefits in cash and direct debits

The OECD studies on the impact of social transfers and contributions on inequality in disposable income allow for deeper analysis of disparities and trends in income inequality in developed countries. They depend on the one hand on the level of “primary" or "initial” income inequality before transfers and contributions, and secondly on the redistributive impact of these transfers and contributions. Some countries such as the Scandinavian countries have low primary income inequality, which allows them to reach low degrees of disposable income inequality with a relatively

[29] See point III.1.1 above

limited redistributive impact of transfers and contributions. Others such as Ireland are characterized by a high degree of primary income inequality, and must exercise considerable redistributive efforts with transfers and contributions to come near the average of developed countries in terms of inequality of disposable income. France is in the second category of countries with primary income inequality higher than the OECD average, and a significant redistributive impact of transfers and contributions that allows this country to exactly reach the OECD average in terms of inequality in the distribution of disposable income. In contrast other countries with a high degree of primary income inequality (Spain, USA, and UK) remain, due to a limited redistributive impact of direct contributions and benefits in cash, significantly above the OECD average in terms of inequality of disposable income.

Graph 20 Inequality (Gini coefficient) of market income and disposable (net) income in the OECD



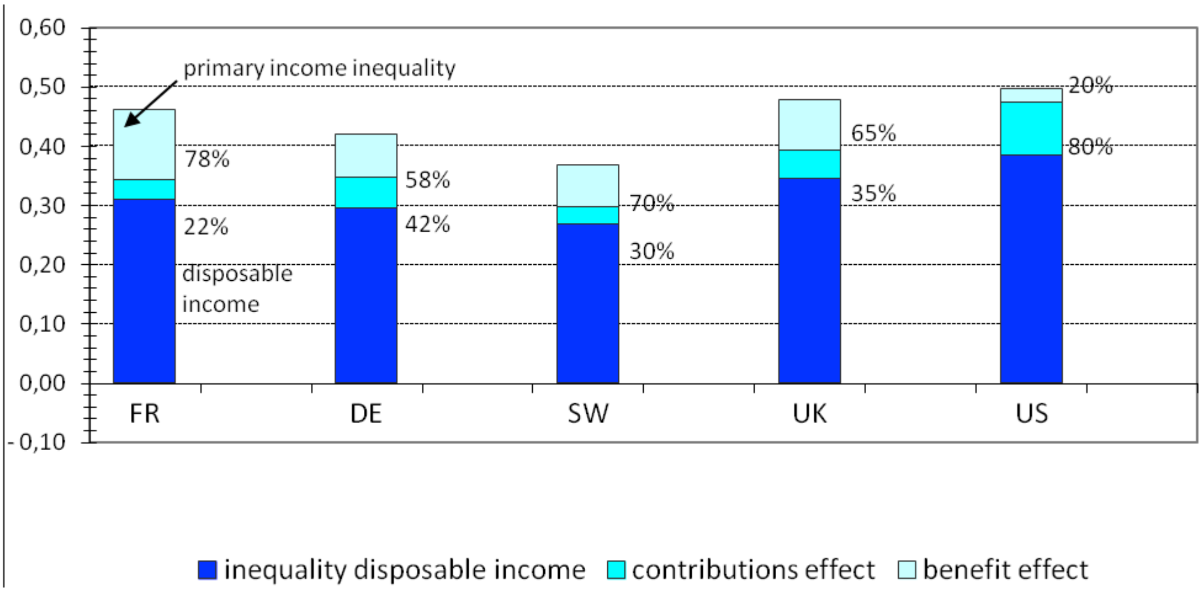
-market income ◆ disposable income

Inequalities of income distribution before and after transfers and contributions in OECD countries for the population 15 to 64

Source: OECD, 2013, "The crisis reduces revenues and sounds on inequality and poverty" www.oecd.org/fr/social/inegalite-et-pauvrete.htm.

Also, when trying to break down the respective outcomes of social benefits on the one hand, and of direct contributions on income on the other hand in reducing the inequality of disposable income, we observe that European countries are characterized by benefits in cash substantially larger outcomes for redistribution than direct contributions. Like Sweden, France seems to particularly accentuate this trend with a contribution of benefits to the redistribution 3.5 times greater than that of contributions, while Germany and the UK experienced a more balanced impact of these two mechanisms. However, there is a sharp contrast with the US where contributions account for 80% of the reduction of disposable income inequality compared to those of primary income. This major contribution in Europe of cash benefits in reducing income inequality explains that the reduction measures of these expenditures imposed within the financial recovery plans implemented from 2010 in some countries may have had the effect of increasing inequalities in the last years.

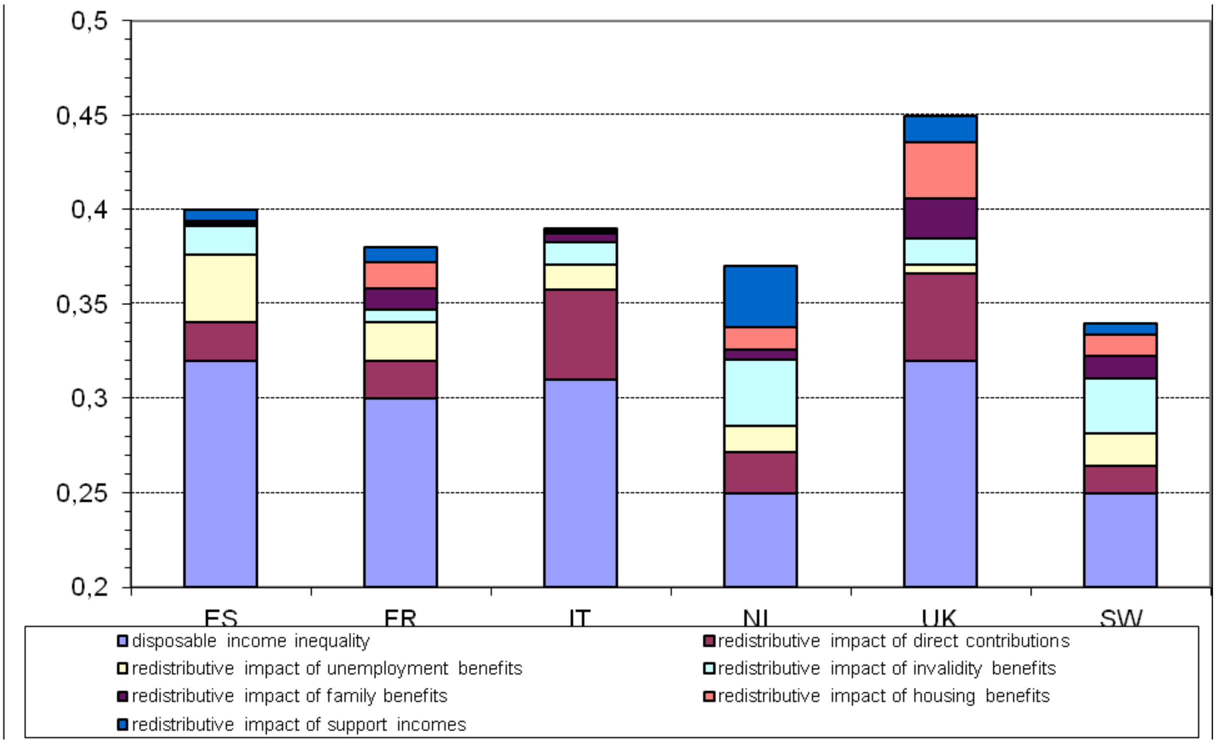
Graph 21 Contribution of social protection benefits and direct contributions on income to the reduction of income inequality



On the same theme, a study made on behalf of the High Council of financing of social protection has exploited the last available wave (Wave 2011 regarding 2010 data) from the European Survey on Income and Living Conditions (EU-SILC). It presents the Gini index on the distribution of living standards before and after these contributions and transfers. It provides contributions and benefits relating to the various risks to the reduction of living standards inequity. These contributions can themselves be divided into a first effect that traces the weight of each transfer in disposable income, and a second effect related to the progressivity of each transfer. Thus, a benefit or a strongly progressive levy may not have a strong effect on income redistribution if it represents only a small share of disposable income.

This analysis shows that, except in Italy where direct taxes account for 60% in the reduction of income inequality, it is social benefits excluding pensions that contribute to the majority of this reduction. This contribution ranges from 40% (Italy) to 84% (Sweden), and is close to 75% in France. The results provide further information on the redistributive impact of the major categories of benefits by risk, to assess whether their effect arises from progressivity of the benefit schedule, or rather from their weight in household disposable income and consequently the mass of income they transfer between individuals. In this regard unemployment benefits still appear as the primary contributors to the reduction of income inequality in most countries. This contribution is particularly large in Spain (45%), due to the high unemployment rate of the labour force. Conversely, unemployment benefits play a weak role in redistribution in the UK (4%), given their nearly flat amount and limited length of award.

Graph 22 Impact of benefits in cash on income inequality reduction



Note: Drees calculations based on Eurostat data (EU-SILC).

III.2.2 The redistributive effect of benefits in kind and services

According to a study published by the OECD in 2012 concerning the specific role of benefits and services in kind provided by governments in reducing inequalities in the income distribution these benefits and services represent a larger average share of national wealth than that of social benefits in cash (13% of GDP, against 11%, respectively). This underscores the great potential to contribute to reducing inequalities of these systems.

In fact, the calculations made in the OECD study assessing the impact of the monetary value of benefits in-kind services reach to 28% of average household disposable income. By themselves, they would contribute to a 22% reduction of income inequality, and of a 40% reduction in the risk of monetary poverty. Health and social services (health, aid for self-care for young children) represent two-thirds of the contribution of all in-kind benefits and services in the reduction of income inequality, with more than half for health services alone. This contribution of health and social services to income redistribution appears particularly substantial in Germany, Belgium and France, and more modest in the Netherlands.

The study also points out that a more global perspective and long term, in kind benefits and services have a second impact, more indirect, on income distribution, improving employment opportunities and pay level of beneficiaries throughout their professional lives in particular through the links between health status and job retention, or the impact of an adequate supply of care facilities for young children on female employment.

III.3 Creating or preserving employment

III.3.1Reversing the trend of early retirement

The ageing of the population is a major challenge that will be facing most of the European welfare systems in the near future. Spontaneously, an increasing life expectancy will lead to higher expenditure on pensions and healthcare and an ageing society will have fewer younger people who pay taxes and contributions to finance the welfare systems. To use a frequent quotation, the problem is not that people are living longer, but that they retire too early. In Western societies the issue is not only balancing the accounts of the pension funds but also keeping a minimum supply of labour. Even in younger countries employment is not a pie that must be divided among fewer recipients.

The policies which aimed to reduce working time, yearly duration, or the working life could be regarded as a major contribution to people's well-being. When the retirement age was reduced to 60 in France in the 1980s, a blue-collar worker could expect at most two years of retirement. Today it is more than twenty years. If environmental concerns along with the effects of the economic crisis on health, especially on prevention, could lead to a slowing of this growth or even to a decrease in life expectancy, this dramatic progress would not be offset since life expectancy in good health is growing. In general, at the EU level, the number of healthy life years (HLY) at 65 is now quite similar for both women and men, with the EU average for both being 8.5 years in 2012 positively associated with economic growth and social welfare.

This effort is justified by the failure of early retirement policies as employment policies. From the beginning of the economic crisis in the seventies, early retirement was a way to facilitate the redundancies that result from job destructions. Because costs were largely mutualized through taxes or social contributions so that businesses could externalize most of the burden of severance payments, and because it was socially acceptable to see tired workers with a relatively short life expectancy enjoying old age pensions, the measure has been and is still rather popular .It has been working as an "addiction" with early retirement that can be as early as age 45. Hard restrictions dried the flows but some big companies do not hesitate to use this kind of policy through contracts with private insurers or through in house systems. However, costs are internalized and less supported by public spending.

Regarding the effect of early or on-time retirement on the employment of young people, in most of cases the jobs offered, if any, are different and require skills that are not always available. It is possible to have a good impact in expanding companies with a human resource policy focused on precise qualification needs, which however represent a very small percentage of businesses. It has also a negative side effect on middle-aged workers, who have increasingly been regarded as unemployable. If early retirement has helped to maintain the competiveness of businesses and therefore to safeguard some jobs, it has been detrimental to public and social accounts and sometimes even to the knowhow of the company itself, with a negative impact on social cohesion. Overall, the vacancy rate was decreasing at the worst of the crisis, but has increased in 2011 and remains steady since, reflecting a significant proportion of unfilled jobs despite rising rates of unemployment. The situation is not homogeneous between countries (the situation is more favourable in Germany than in most of the other EU member countries, including the UK, France, Italy, the Netherlands and Denmark) or between age groups. At the least, better adequacy must be attained through better education and vocational training.

At present, legal retirement age still exists but as a symbolic figure. Direct transition from work to retirement is becoming more and more rare. There are less and less people who move straight from work to pension. Most of the people go through a period of unemployment benefit or disability benefit or “self-employed period” which are not considered as working periods.

Relatively few of these “new retirees” start working again before they reach the statutory retirement age. As a result, some social insurance programs often work in practice as an arrangement to smooth the transition from work to retirement, alongside formal retirement programs. In the last decades of the twentieth century, almost all European countries had strong disincentives to work at older ages because of such social insurance programs.

Since the 1990s, many governments have started to reform welfare state institutions to reduce the disincentives to work as well as encouraging employers to keep older workers (see the Delalande amendment in France – point III.1.3 above, “European experiences”). Hence, these reforms may have contributed to the increase in participation rates of older workers across Europe. Studies have concluded that generous social insurance- and early retirement programs lead to early labour market withdrawal. Furthermore, they have also found that high unemployment rates lead to lower participation rates among older workers in other forms.[30] Part-time and self-employment were also used to counterbalance this trend with self-employment acting as safety net.

In 2014, part-time employment in the 28 EU MS amounted to 22.5% of total employment for the 55-64 age group. It is much more common among women (36.4%) than men (11.1%). Part-time work is generally more prevalent among workers aged 55 to 64 than among those aged 25 to 54 (22.5% versus 17.6%). This is the situation in all 28 EU MS, with the exception of Greece, Spain and Italy. The share of part-time work increased slightly between 2000 and 2014 for the age 55-64 years in the EU-28, but this increase was driven by men (in contrast, the share of part-time employment for women decreases for this age group as well as in the countries of Central and Eastern Europe).

In all countries except Estonia, the proportion of self-employment is greater in the 55-64 age group than in the 25-54 group. In 2014, in the EU-28, 20.3% of people in employment aged 55 to 64 years are independent workers, versus 14.3% of people in employment aged 25 to 54 years. For women,

[30] Jim Been and Olaf van Vliet, Early retirement across Europe: does non-standard forms of employment increase participation of older workers?

the percentage of independent workers among those employed in the EU-28 was 10.0% in the 25-54 age group and 13.3% in the 55-64 group. For men, the proportion of self-employed still differs more between these two age groups: 18.0% for ages 25-54 and 26.0% for those aged 55-64. The independent workforce aged 55-64 increased much more slowly than total employment for ages 55-64 years 2000 and 2014. Their share fell by more than 5 points on average in the countries of the EU-28 (slightly less for countries in the EU-15) over that period while it is fairly stable among those aged 25-54. So policies aimed to increase the participation of older workers must take into account other benefits or non-conventional employment, which could be a second best for some ageing workers willing to carry on working.

Graph 23 Part-time and self-employment, EU 28

	AGE 55 TO 64 %			AGE 22 TO 54 %		
	T	W	M	T	W	M
PART-TIME EMPLOYMENT	22.5	36.4	11.1	17.6	na	na
SELF-EMPLOYMENT	20.3	13.3	26.0	14.3	10.0	18.0

In any case, pensions are the most reformed sector in social protection with three leverages for public authorities: entitlement rules, level of benefits and retirement practices. Most reforms have changed the rules for future benefits with major changes related to increases in pensionable age and aligning pensionable age with changes in life expectancy. However, in a number of MS, the need for strong efforts to balance budgets continues to have strong implications for pensions in payment and current retirement rules. In this Section, the objective is to give an overview of the latest changes introduced in some MS, actions which can be consolidated into the following six policy levers: a) early retirement rules; b) pensionable age; c) contributory periods; d) level of pension benefits and pension indexation; e) supplementary pensions, and f) improving employment opportunities for older workers.

The main driver behind these reforms is improving the sustainability of the pension systems. Pensions continue to avert poverty for many, though divergence in adequacy and effectiveness remains. Pensions constitute by far the main source of income for older Europeans, who represent a large and growing share of the EU population. They are also the largest element in social protection systems, affecting the primary income of more people than any other component. The total number of pensioners in the EU presently comes to about 120 million or a quarter of the population. Almost 2/3 of these are women. The adequacy of pensions is measured by, among other things, their ability to prevent poverty, the degree to which they replace income before retirement and how they compare to the average income of people below pensionable age.

Regarding the ability of pensions to prevent poverty in old age, in many MS the trend in the income situation of the elderly has been better than for other age groups, since the beginning of the crisis mainly due to the stability of pension income. 23 MS have seen the share of the elderly at risk of poverty or social exclusion decrease by more than 1% between 2008 and 2013. There are, however, three countries that have had increasing rates of poverty or social exclusion of the elderly over the same period – Hungary, Luxemburg and Sweden. In addition, several countries saw increases between 2012 and 2013 (Estonia, Latvia, Luxemburg and the UK), although the general trend remains widely positive with 15 MS recording significant reductions. In terms of actual levels of the share of the elderly living in poverty or social exclusion remain wide disparities remain across MS. In 2013 the share was close to 60% in Bulgaria and above 30% in Croatia, Lithuania, Latvia and Romania, while it was below 10% in Luxemburg and in the Netherlands. It is important to remember that after WWII pensions were the major instrument of the fight against poverty. Retirees were poor or a large proportion of the poor were retired people, especially women, till the pension schemes reached their full momentum. So the level of future pension benefits is an important marker for the confidence of the active population in the entire social protection system.

Pension systems play a key role in allowing people to maintain their living standards in old age at a level comparable to that achieved during working life. The median relative income of older people (i.e. the ratio of the median disposable income of people aged above 65 to the median disposable income of those aged below 65) has been rather stable in most MS in the latest period with few exceptions. At the EU level the relative median income ratio reached 93% in 2013, but underlying this are substantial differences across countries. The relative median income ratio was below 70% in Estonia, and under 80% in Belgium, Bulgaria, Cyprus, Denmark, Finland, Latvia and Malta. At the other end of the spectrum, Greece, Spain, France, Hungary, Luxemburg, and Romania recorded a relative median equivalent income for people over 65 that were equal to or greater than that for younger cohorts.

Most MS have already put in place mechanisms for a gradual increase in the pensionable age as part of an on-going trend to improve pension sustainability through later retirement and longer working lives and thus also contributing to pension adequacy.

Extending the effective Active ageing measures is of growing importance, as recent pension reforms require longer contributory periods to ensure an adequate pension. Increased employment ensures the accumulation of pension rights and contributes to the sustainability of the pension system. Older workers' employment must guarantee pension rights and pension levels must be adequate in order to combat poverty and social exclusion in old age. This is of particular importance for women. The move towards gender equality in the employment rate of older workers is not mirrored in a broader move towards more equal work patterns. Women, generally, have a lower participation rate, experience a gender pay gap, and more often interrupt their working lives due to child rearing. Female pensioners have a higher risk of poverty than men and, as a consequence of these gender inequalities, women receive lower pensions than men and often fail to qualify for benefits. Therefore, first and foremost, active ageing measures which ensure equal outcomes for men and women are needed, as the lack of progress in activity and employment rates can often be explained by poor employment opportunities and working conditions for older workers which can undermine the incentives embedded in pension systems. Social protection systems which effectively contribute to maintaining the health of the population and provide adequate long-term care also play a key role in enabling participation in society and the labour market, and ensuring independent living by older people. Beyond health services, working and living environments should also be better adapted to the needs of older people, including adapted housing and transport services and home support, which enable the elderly to live independently for longer retirement age.

An important part of ensuring sustainable and adequate pensions in the future, in view of the ageing population and the increases in retirement age, is related to guaranteeing adequate employment opportunities for older workers. This requires efforts related to retraining, life-long learning, improving working conditions to fit the needs of elderly workers, providing reasonable accommodation in the workplace in case of disability, among others. As part of its national employment policy in favour of seniors Luxemburg has introduced a bill on a package of measures in relation to ageing policy, which is currently in the legislative process. The bill provides for an obligation for employers with more than 150 employees to develop an age management plan which must cover at least three of the following: hiring older workers, anticipation of changing careers, improving working conditions, access to lifelong learning or the transmission of knowledge and skills. Financial incentives are provided. Further to that, programs on increasing the activation of jobseekers have also been developed (e.g. 'fit4job-Restart my career'[31]). Lithuania has developed an Action Plan, which is designed to improve the employability of older workers. The Law on Support for Employment which took effect in 2014 aimed at encouraging employers to put in place measures to support the acquisition of professional skills to retain older employees (50 years or older) in the cases where they train newly hired young people (up to 29 years of age). Romania has recently adopted a National Strategy for Active Aging and Promoting Elderly's Rights for 2015-2020 plus a corresponding Strategic Plan encouraging and promoting active aging in good health conditions and maintaining an active working life for as long as possible.

In conclusion, reforming pension systems has consistently been an important element of the structural reforms agenda for a number of MS since Strategic Social Reporting was rolled out within the Social OMC and the European Semester. Increasing the retirement age has been a priority for all MS. Aligning it with life expectancy is in the process of being analysed or planned for by a number of countries in view of future measures but is not considered by all MS as a solution. Increasingly significant efforts have been focused by some MS on limiting early retirement options, among others through reviewing access to disability pensions and reforming work incapacity schemes in order to facilitate labour market participation and the accumulation of pension rights.

Some countries address the area of indexation, with specific challenges related to elderly poverty and average pension levels, as a tool to contribute to pension adequacy. Other MS focus on increases to minimum pension as a way to strengthen social protection for those most in need. A few MS are stepping up efforts to develop supplementary pension schemes. Few are underpinning their pension reforms through initiatives in the labour market aimed at improving the employability of older workers. Beyond, health services, working and living environments should also be better adapted to

31 Fit4job programme is a project aiming at organizing employability diagnosis of persons losing their employment, to enter into retraining adapted to the needs of the sector and the capacities of the individuals. The first Fit4job programme was for the financial sector (2010). Subsequently, programmes were launched for trade, public works, medical and health personnel. In 2011, a specialFit4job – Restarting career programme was launched for workers aged 45+.

the needs of older people, including adapted housing and transport services and home support, which enable the elderly to live independently for longer retirement age.

Graph 24 Evolution in legal retirement age in EU MS

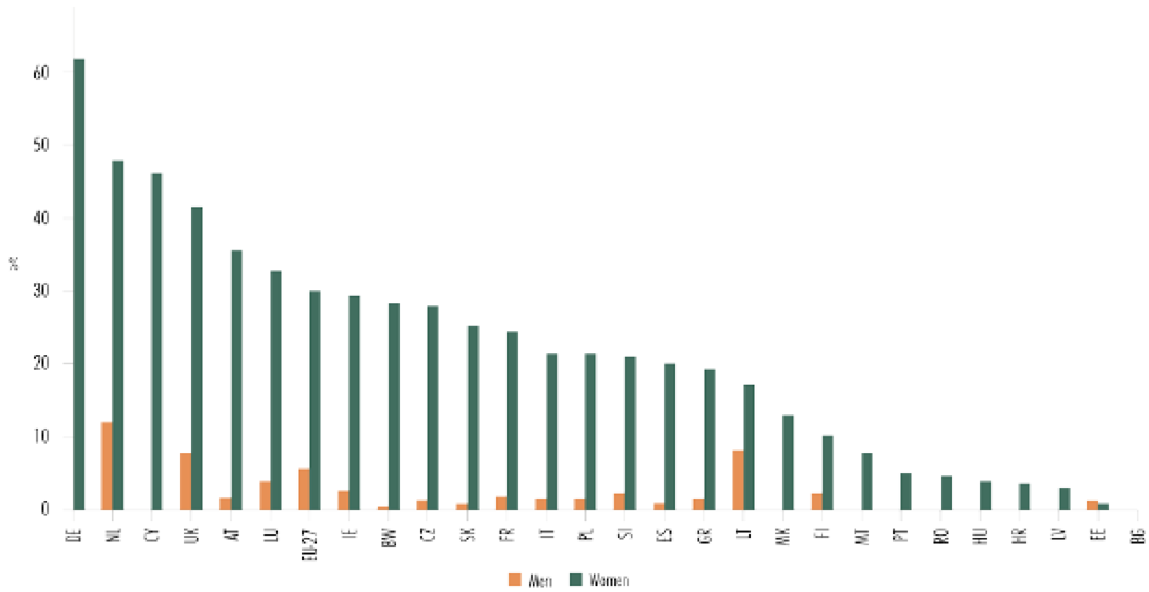
	2009		2013		2020		After 2020	
	Men	*Women*	*Men*	*Women*	*Men*	*Women*	*Men*	*Women*
BE	65		65		65		67 (in 2030)	
BG	63	60	63y8m	60y8m	64y3m	61y6m	65	
CZ	62	56y8m-60y8m (1)	62y6m	57y8m-61y8m (1)	63y10m	60y6m-63y10m (2)	67+ (in 2044) (3)	
DK	65		65		66		67 (in 2022)+ (4)	
DE	65		65y2m		65y9m		65y10m-67 (in 2029)	
EE	63	61	63	61	63 (in 2016)		65 (in 2026)	
IE	65		66		66		67 (in 2021); 68 (in 2028)	
EL	65	60	67	62	67		67+ 5)	
ES	65		65-65y1m (6)		65-65y10m (6)		65-67 (in 2027) (6)	
FR	60-65 (6)		61y2m		62-67 (6)			
HR	65	60	65	60y9m	65	62y6m (7)	65 (in 2030), 67 (in 2031-2038)	
IT	65y4m	60y4m	66y3m	63y9m (18)	67y		67+ (5)	
CY	65		65		65+ (8)			
LV	62		62		63y9m		65 (in 2025) (9)	
LT	62y6m	60	62y10m	60y8m	64	63	65 (in 2026) (10)	
LU	65		65		65		65	
HU	62		62		64y6m		65 (in 2022)	
MT	61	60	62		63		65 (in 2026)	
NL	65		65y1m		66y8m		67+ (in 2021) (11)	
AT	65	60	65	60	65	60	65 (in 2024-2033)	
PL	65	60	65y1m (12)	60y1m	66y10m-67	61y10m-62	67 (in 2020)	67 (in 2040)
PT	65		65		66+ (13)			
RO	63y4m	58y4m	64y8m	59y8m	65 (in 2015)	61	65	63 (in 2030)
SI	63	61	65	63y6m (17)	65			
SK	62	55y3m-59y3m (1)	62	57y6m-61y6m (1)	62+ (14)			
FI	63-68 (15)		63-68 (15)		63-68 (15)		63-68 (15)	
SE	61-67 (15)		61-67 (15)		61-67 (15)			
UK	65	60	65	61y3m-61y8m	66		67+ (from 2028) (16)	

III.3.2 The positive effect of social protection spending on employment: the example of family and child care and of long term care: increasing the active population and job opportunities

Family and child care

As presented before, the employment rate of ageing people must be increased to cope with the decrease in the population of working age and reduce the retirement benefit burden. In the same way, it is important to achieve a better activity rate for women by securing them a sustainable income both during their activity age and during their retirement. Their activity rate presents considerable room for improvement. In most European countries, the burden linked to raising children fall mainly on women and limits their participation in the labour market. The indicator of people needing to cut back on their working time because of a young child is about ten times higher for women than for men.

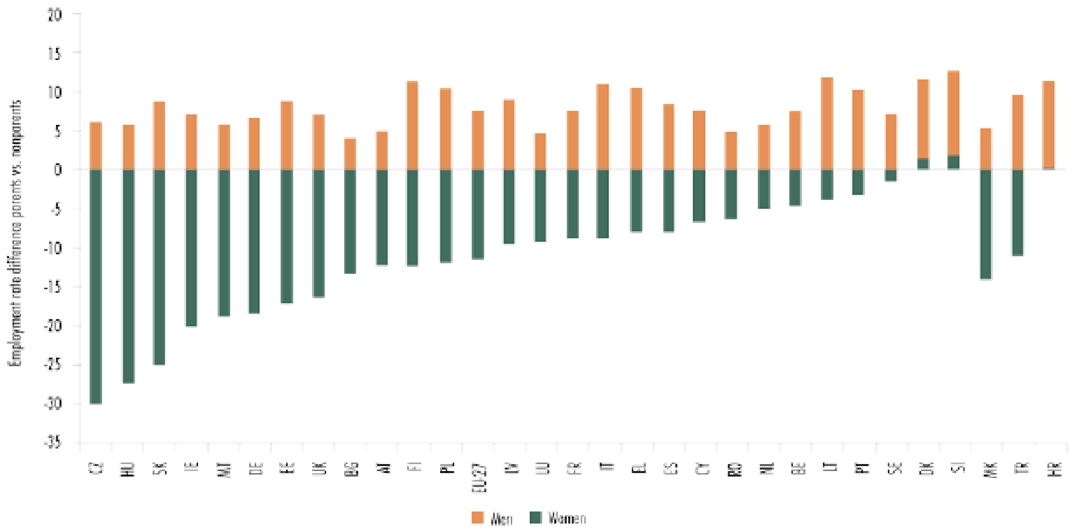
Graph 25 Percentage of men and women aged 20 to 49 who have reduced their working hours to take care of the youngest child in the household up to the age of 8



Source How childcare, parental leave and flexible working arrangements interact in Europe (DG Employment, Social Affairs & Inclusion, European Platform for Investing in Children, 2014)

Another indicator of this obstacle to female participation in the labour market is the employment rate of men and women aged 25 to 45 with and without children under 12.The presence of a child has practically no influence on the activity rate of men but a huge impact on that of women.

Graph 26 Differences in employment rates for men and women aged 25 to 45 with and without children under 12



How childcare, parental leave and flexible working arrangements interact in Europe (DG Employment, Social Affairs & Inclusion, European Platform for Investing in Children, 2014)

In these circumstances, childcare seems to be a major contribution of the social protection system to a better employment rate. First of all, childcare is an investment. Well-schooled children in good health will spare spending on health or on pre-training for employment in the future. Secondly, the social model has changed with more lone-parent households and more and more women are in charge of earning for the family. Childcare has an immediate effect on activity rates, especially for women, with immediate and differed effects e.g. it saves support income for women and improves retirement benefit levels for women or slows the ageing of society. Generally, the fertility rate is higher in Western societies when women are encouraged to work (France). Action on social protection takes place with a broader outlook. Some countries continue to discourage women from taking up work or working more, in particular by providing disincentives for second earners to work full-time because of the immediate decrease in the global employment rate.[32] For example fiscal policy could prevent second earners in the household from accepting a fulltime job because of the progressivity of the income tax rate.

Provisions could indeed be introduced into labour law to improve opportunities for parents to reconcile work and family life. In the United Kingdom, the right to request flexible working has been extended to all employees as from 2014. In Poland, a grant for telecommuting – for the employment of unemployed parents returning to the labour market (bringing up at least one child under 6) or

[32] Draft Joint Employment Report from the Commission and the Council accompanying the Communication from the Commission on the Annual Growth Survey 2015

those who resigned from work to care for other dependants – was introduced. In Hungary, parents can return to work while still receiving the childcare benefit. In Germany, the parental allowance reform that applies to births from 1st of July 2015 incentivizes both parents to share childcare and work. In liaison with labour law more flexible parental leave could be funded by family schemes.

Other incentives could be introduced to improve women's participation:

- Affordable child care or free schooling during parents' working hours (Malta offers free and universal childcare to families where both parents are working. Childcare is available during the parent/s work hours as well as an extra hour a day for commuting).
- Funding of private or public child facilities by public authorities or social security schemes. In the Czech Republic, the law on child groups aims at easing the creation of child care centres outside of the public kindergarten network

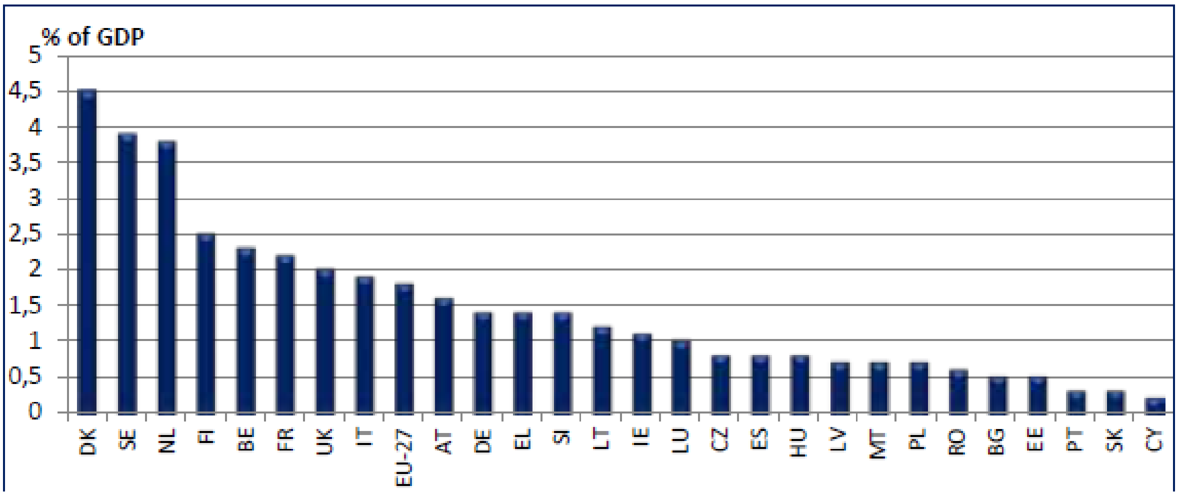
The goal is to extend child enrolment in early childhood care and education as part of their strategies to improve opportunities for children. Germany has made some progress in further increasing the availability of fulltime childcare facilities but only limited progress in increasing the availability of all-day schools. In France, measures targeting families with dependent children have been introduced, such as improving access to school lunchrooms and providing extra day-care centre slots (with 10% reserved for children from low-income households). Ireland has introduced subsidized afterschool child care slots to help low-income and unemployed persons return to the workforce, and created childcare spots for unemployed persons who participate in community employment schemes which provide training and experience to support activation into employment.

The more women are able to work, the higher the fertility rate. Anyway women are ready to leave a job for parenting if they are convinced to come back easily .Too much parental leave could be an obstacle to returning to the workforce. That is why couples are encouraged to split parental leave so that neither of them spends too long off the job, and benefits in kinds are redirected to sponsoring facilities for children of working parents.

Development of long term care

Long-term care (LTC) is defined as a range of services and assistance for people who, as a result of mental and/or physical frailty and/or disability over an extended period of time, depend on help with daily living activities and/or are in need of some permanent nursing care. The daily living activities for which help is needed may be the self-care activities that a person must perform every day (Activities of Daily Living, or ADLs, such as bathing, dressing, eating, getting in and out of bed or a chair, moving around, using the toilet, and controlling bladder and bowel functions) or may be related to independent living (Instrumental Activities of Daily Living, or IADLs, such as preparing meals, managing money, shopping for groceries or personal items, performing light or heavy housework, and using a telephone).

Graph 27 Public expenditure on LTC as percentage of the GDP



Source Ageing report 2012

The differences between MS in public expenditure on long-term care mainly reflect differences in the estimated coverage of formal systems of institutional care and informal care. Formal care workers who are paid and work under contract primarily provide long-term care in institutions or at home. In most European countries informal caregivers still provide a great deal of the LTC for older or disabled people. The number of care workers is a good indication of the size of the formal long-term care sector. In 2008, long-term care workers represented only 0.3% of the total working-age population in the Czech and Slovak Republics, compared to 3.6% in Sweden and 2.9% in Norway and Denmark. Even though most care recipients are cared for at home, the majority of formal care workers work in institutions where care intensity is much higher than at home.

This means that child and family care as LTC could contribute to employment both by allowing women or ageing people to participate more in the labour market and also by offering workplaces both in services or facilities dedicated to childcare, ageing or disabled people at different levels of skills from menial work to highly qualified education or health jobs.

Financial support for carers – such as allowances paid directly to carers and cash benefits paid to the care recipient – recognize and compensate carers for their effort, but targeting support to those facing the highest health and labour market risks, and defining appropriate compensation, remains a challenge. Carers' allowances are cash benefits providing carers income support replacing lost wages or covering expenses incurred due to caring. In the Nordic countries, the payment to carers is akin to remuneration, offering compensation for caring efforts while representing a relatively low wage. In Ireland and the United Kingdom, allowances are targeted to carers with income below a set threshold, or carers who provide a minimum amount of hours of care. While recognizing the societal value of caring, carers' allowances raise difficult design issues, for example how to set an appropriate compensation level that offers carers a reasonable reward without discouraging labour market participation for working carers. Means-testing and eligibility conditions, for example, may result in disincentives to work. Eligibility criteria need to be clearly spelled out, but the definition of who is the primary carer and the measurement of carer's efforts are prone to errors. Strict eligibility requirements help to avoid abuse, but can be costly to administer and be viewed as arbitrary. There are trade-offs between how many carers can be compensated and the amount of the compensation that can be afforded by public authorities. Cash benefits paid to the care recipient offer direct support to the person who is most in need, but are not only or necessarily used to compensate carers. Such cash benefits exist in many MS. Cash benefits paid to care recipients have some advantages, because they avoid having to define who the primary carer is. Moreover, the amount of the cash benefit can be more closely related to need. But they also leave carers dependent on the care recipient for compensation of their effort and may change family ties into a relationship where money is the driving factor. Requiring family carers to be employed under formal contracts (France for relatives other than spouses) has the advantage of clearly identifying the primary carer.

III.4 Activating social protection spending

In Chapter 2 the question was raised whether active labour market policies could be included into the scope of social security for the purpose of social security coordination. In this part it has been shown that the utilization of social protection benefits (e.g. disability or retirement benefits) to reduce unemployment has a limited if adverse effect with a significant increase in social protection expenditure. On the European level, the divergence in national performance is often the product of differences in productive and social investment. The countries now experiencing the greatest difficulties are those where investment has been the lowest in research, development, and human capital in the 1990s and 2000s. Expenditure in social investment —health, early childhood, reconciliation of work and family life, education and training, other active labour market policies— are essential in order to stimulate potential growth and to ensure the sustainability of public finances. These differences have very significant cumulative consequences in the medium and long-term, so ALMP must be incorporated into a multidimensional approach that combines the social protection dimension with other policies designed to:

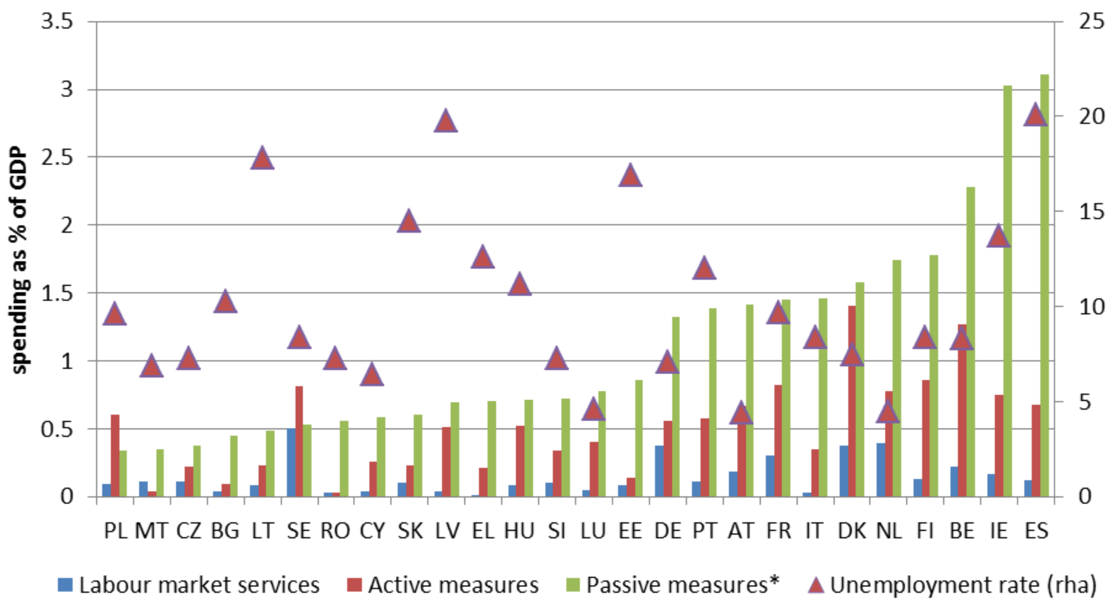
- Effectively activate and enable those who can participate in the labour market,
- Protect those (temporarily) excluded from the labour markets and/or unable to participate in it,
- Prepare individuals for potential risks in their lifecycles, by investing in human capital.

The implementation of Youth Guarantee, which introduces benefits for young people in many MS, is an opportunity to couple benefits with job assistance through better efficiency of public employment services. Many MS are developing rehabilitation programs for disability benefit or support income recipients. Two main concerns must be addressed:

- Even if the frontiers become blurred, when cooperation is needed it is important to keep in mind the main goals of the different policies, decent job for employment, protection for social security and fighting against poverty for social assistance,
- It is the coordination of the different levers that achieved good performance. Countries that have the best results dedicate a significant part of their GDP to labour market services and to active measures, but also to passive measures i.e. unemployment benefits which contribute largely to the reduction of inequalities.

It is the combination of both dimensions of social protection and employment policies that could be efficient. Actually these dimensions are not integrated because they are managed most of the time by separate administrative bodies with a global lack of efficiency .In some countries the solution is sought by merging the services (Germany) or by better coordination (France). Even if four main types of enabling services could be effective in removing such obstacles to labour market participation and in reducing the risk of poverty or social exclusion, they are not sufficiently taken into account: early childhood education and care, life-long learning, housing, and healthcare. Access to quality social services is essential to providing support for those furthest from the labour market in their reintegration into working life as well as ensuring social participation for those who cannot work.

Graph 28 Expenditure on unemployment benefits and ALMP (% of GDP) and unemployment



* Out-of-work income maintenance and support, early retirement Source. Eurostat LMP database

III.5 Tackling undeclared work as part of better coverage of workers

One of the ways to make legal work more attractive is also to tackle undeclared employment. Part of the stress on SP could be linked with an evasion of taxes and contributions that should normally be paid to social security schemes. The example of posting and its side effects on possible fraud in both countries has made the fight against fraud and errors a shared European concern for social security. [33] Undeclared work is defined here as ‘any paid activities that are lawful as regards their nature but

[33] Eurofound Tackling undeclared work in 27 European Union Member States and Norway Approaches and measures since 2008

not declared to the public authorities, for tax, social security or labour laws. **Fighting undeclared work is a challenge in some MS.** Even in the most developed countries the reintegration of undeclared work could bring substantial resources to the social protection system

The undeclared economy as a percentage of GDP seems to be declining but it can account for a high percentage of GDP in certain MS. Undeclared work has major effect on SP systems:

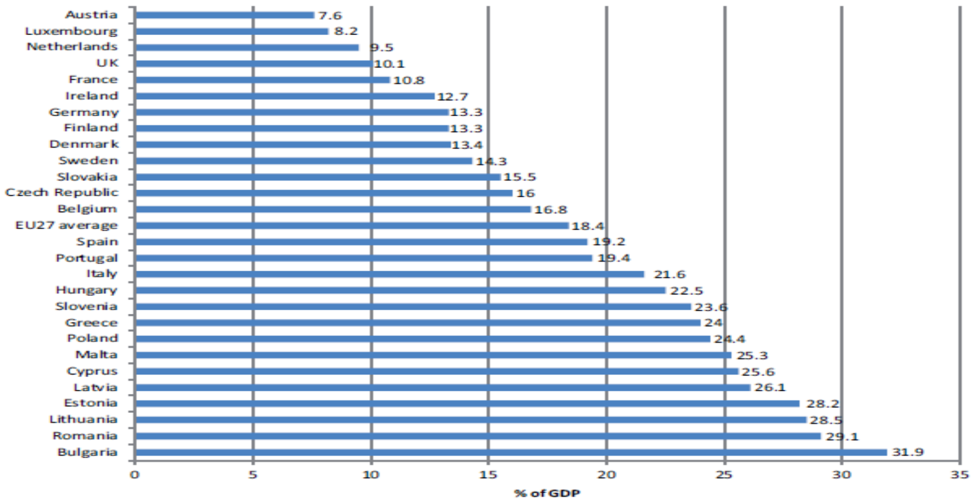
- It deprives the SP system of resources
- Undeclared work and other atypical forms of employment such as bogus self-employment tend to distort fair competition among firms, paving the way for social dumping inhibiting the creation of regular employment with full social protection
- It allows the access of benefits to people who have not contributed to their funding
- It fails to adequately cover long-term risk such as pensions.

It also undermines the confidence of the people in the government and in solidarity. If we move to the labour market, it does not even facilitate a return to work for unemployed people as undeclared workers are often already employed.

Forms of undeclared work are diverse within a formal or informal enterprise. This can be either wholly undeclared, where all one's wages are paid 'off the books', or partially undeclared, where a portion of the wage from one's formal employer is paid officially and a portion off the books ('envelope wages'); undeclared work for an enterprise or another client such as a household, conducted in a similar way to self-employment; more socially embedded own-account undeclared work, delivering goods and services directly to consumers who are neighbours, kin, friends or acquaintances.

The scope of intervention is wide but deterrence is still the major component of the policy. Many innovative policy measures have been implemented in certain countries, which could be transferable to other countries. These have been included in the expanded knowledge bank of good practice policy measures available with the quoted overview report from Eurofound.

Graph 29 Share of the undeclared economy % GDP 2012



Source Eurofound

Conclusion

In its current form, the European social model characterized by the coexistence of multiple logical (insurance and assistance) and financing sources (contributions and tax) is challenged by unemployment. The model has been said to reach its limits and to be facing a solvency and efficiency crisis with the rise of individualistic values and increasing inequality among citizens. The questions that are arising today to answer these challenges are manifold. Responses should consider the choice of economic model, but also the effects in the EU of globalization, which is submitting our social model to the test of competitiveness.

New risks appear, not only temporary unemployment but also long term exclusion from the labour market and the multiple dimensions of contemporary inequalities (social, economic, generational and regional) could change the model. The fight against inequality could be enlarged in the social model (inequality income but also access to public services, education…) while the social protection model base is increasingly being questioned.

The activation of social expense and individualization puts emphasis on individual responsibility and autonomy. These principles are questioning the organization of the welfare state, encouraging a move from a collective approach to an individual logic, from logic of solidarity to logic of responsibility. Underemployment through new forms of work raises the issue of whether work can remain central to the model (issues of portability social rights and securing career paths). This question is all the more central as participation in the labour market does not always guarantee decent living conditions. The temptation is to focus public intervention on those most in need, which requires some commonly agreed social assistance criteria pursuant to the basis of social protection. Such a view implies a consensus on the definition of those situations that require public intervention. This involves defining the scope of social entitlements within public intervention and organizing their portability. The objective is to strengthen social cohesion and to establish a kind of moral contract between individuals and society. The fact remains that, in a context of budgetary constraints, the participation of everyone in collective production is vital to the sustainability of the financial model. Therefore, solidarity should also be a reflection on the rights and duties that go with it. In France despite good achievements, the pros and cons have never been really presented.

The Nordic model, which was under strain at the beginning of the crisis with a high level of unemployment, is faring rather well because of a strong consensus:

- Appropriate mix in goods and services, which could support highly skilled workers with high salaries
- A high level of public service workers funded by a rather high level of taxes accepted by a population whose limited size has developed a tradition of collective bargaining.

On the other hand, the UK has achieved some impressive results with a limitation of wages but better integration into the labour market and improvement of certain public services (health, education) through a wide-reaching government communication campaign.

What social risks should the community meet? What respective weight should the social model grant to the principles of universality, contributiveness, and redistribution? What targeting criteria to retain to identify poor individuals beyond mere income test? What counterparts for solidarity work, investment in associative activities, civic service etc.? What is the place of work in the model (activation spending support, resources allocated to securing career paths, level of protection)? What balance between private and group insurance? Should we define a common set of protection complemented by an optional welfare system *à la carte*?

These are some of the questions that must be addressed, to which answers are in the end very much dependent upon national choices.

ANNEXES

LIST OF ANNEXES

ANNEX I Break down of the SP resources by contributor

	Public contributions	Social contributions	Social contributions covered person	Social contributions employer
ESTONIA	21,5	78,5	1,9	76,7
CZECH R.	26,5	73,5	23,7	49,7
NETHERLANDS	33,5	66,5	34,1	32,4
LITHUANIA	34,2	65,8	15,9	49,9
SLOVENIA	35,7	64,3	38,2	26,1
AUSTRIA	35,7	64,3	26,7	37,6
FRANCE	36,7	63,3	20,3	43,0
GERMANY	36,9	63,1	29,6	33,5
BELIGIUM	37,8	62,2	20,3	41,9
POLAND	37,8	62,2	18,9	43,4
SLOVAKIA	39,1	60,9	19,2	41,7
LATVIA	41,7	58,3	17,5	40,8
UE27	43,8	56,2	20,1	36,1
HUNGARY	44,0	56,0	20,1	35,9
UE15	44,1	55,9	20,1	35,9
ESTONIA	44,9	55,1	12,1	43,1
ITALY	47,0	53,1	14,8	38,2
LUXEMBOURG	47,4	52,7	24,5	28,2
GREECE	49,5	50,5	20,3	30,2
FINLAND	52,6	47,4	12,0	35,4
BULGARIA	52,7	47,3	16,2	31,1
ROMANIA	53,6	46,4	14,0	32,4
MALTA	54,5	45,5	16,7	28,8
SWEDEN	54,8	45,2	9,6	35,6
PORTUGAL	55,0	45,0	15,1	29,9
UNITED KINGDOM	56,0	44,0	12,8	31,2
CYPRUS	61,3	38,7	16,0	22,7
IRELAND	72,3	27,7	7,4	20,3
DENMARK	76,6	23,5	11,7	11,8

Source: Eurostat-SESPROS.

ANNEX II Is the creation of special insurance for the payment of wages and social security contribution in case of bankruptcy likely to decrease the reluctance to offer job opportunities?

The question of securing the wages and social security contributions has be addressed by a Directive 2008/94/EC on the protection of employees in the event of the insolvency of their employer[34].

In Europe the question is significant. As a part of the Schumpeterian movement of activities[35] it could be better for the entire economy to let down unprofitable activities to reallocate investment to more promising activities. In any case it is important to secure first the right to social protection of the employees, the resources of the social security organizations and the claims of the employees.

Without elaborating on the first two points it is possible to say that in countries with residence based system the rights to social protection are secured without regard to the situation of the employee. In the Bismarckian countries the right of the employees are secured during a determined period or through safety net provisions .For the resources of the social security tax or contributions are often preferential debts. Mutualisation is the main factor to secure the right of the employee to differed benefits. Pension fund based on companies could fail.

For protection of the employees' claims the directive introduces an obligation for the MS to establish a body that guarantees payment of the outstanding claims of the employees concerned. The state of insolvency should be defined in the light of the legislative trends in the MS and that concept should also include insolvency proceedings other than liquidation

According to a report for the period 2006-2009, the national guarantee institutions intervened in more than 420 000 cases of insolvency. In the same period, 3.4 million workers benefited from payments of the guarantee institutions on account of the insolvency of their employers. Moreover, the guarantee institutions have paid out 17.7 billion euro to those workers. The average number of workers per case in the period 2006-2009 was eight, while the average amount paid to each worker by the national guarantee institutions was 5 187 euro.

The Commission notes the significant increase in the number of cases between 2008 and 2009 (+19 %) and, above all, the number of workers (+ 61 %) and the money spent (+ 72 %), which can be attributed to the economic crisis. The average size of the companies becoming insolvent in 2009 also increased (from 7.4 workers per case in 2008 to 10.0 workers per case in 2009, i.e. an increase of 35 %) as well as the amount of unpaid remuneration (from 5 059 euro per worker in 2008 to 5 409 euro per worker in 2009, i.e. an increase of 7 %).

While Germany is the Member State with the highest number of cases (146 673 in the period 2006-2009), France accounts for the highest number of workers (953 887 in the period 2006-2009) and the most money paid out (6.4 billion euro).

[34] EUR-Lex%20-%2052011DC0084%20-%20EN%20ags.html

[35] According to Schumpeter (1883 – 1950) Creative destruction describes "the process of industrial mutation that incessantly revolutionizes the economic structure from within."

The Directive applies to all persons considered to be employees according to national law including part-time employees, workers with a fixed-term contract and workers with a temporary employment relationship. Exception are allowed provided that other existing forms of guarantee offer the persons concerned a degree of protection equivalent to that resulting from the Directive (Article 1(2)). Three MS have made use of this possibility: In Belgium workers and apprentices of businesses which are members of several joint committees or sub-committees are excluded from the protection of the general Guarantee Fund but are protected by sectorial funds established by collective agreement. In Cyprus non-resident merchant navy crews are excluded. In the United Kingdom, merchant seamen are excluded. The Commission considers that the 'maritime lien' which appears to be the main protection provided to seafarers in these two MS in case of insolvency of the employer may not always offer a degree of protection equivalent to that of the guarantee institution since the value of the vessel may in some cases not cover the minimum amount of outstanding claims provided for by the Directive. It is also the case for domestic servants employed by a natural person and share-fishermen, provided that such exclusions existed already in national legislation at the time of the entry into force of Directive 2002/74/EC in the Member State concerned (Article 1(3)). The Commission notes that share-fishermen are excluded in Greece, Italy, Malta and the United Kingdom; domestic servants are excluded in Spain, France, Malta, the Netherlands and Poland.

An employer is deemed to be in a state of insolvency (Article 2(1)) if:

– A request has been made for the opening of collective proceedings based on insolvency of the employer, as provided for by national law, and involving the partial or total divestment of the employer's assets and the appointment of a liquidator (or a person performing a similar task);

– The competent authority has decided to open the proceedings (or has established that the employer's business has been definitively closed down and that the available assets are insufficient to warrant the opening of proceedings).

The claims to be taken over by the guarantee institution are outstanding pay claims arising from an employment contract and relating to a period prior to and/or after a given date determined by MS. Bulgaria, the Czech Republic, Denmark, Greece, Malta, Portugal and Austria have fixed a reference period of six months before the request for insolvency to which the claims must relate; Poland uses a reference period of nine months; Italy and Latvia a period of 12 months; Slovakia, Ireland and Lithuania a period of 18 months; Cyprus uses 78 weeks; Belgium uses a period going from 12 months before the closure of the company to 13 months after it. Several MS have not fixed a reference period but just a date before and/or after which the claims must relate to. This is the case with Estonia, France, Germany, Luxembourg, Hungary, the Netherlands, Romania, Slovenia, Spain, Finland, Sweden and the United Kingdom.

Definition of the term 'pay' is left to national legislation, which leads to differences between MS as to the extent of the guarantee. Nevertheless, national law must respect the general principle of equality and non-discrimination when specifying the benefits payable by the guarantee institution .It exclude sometimes severance pay, bonuses, reimbursement arrangements, etc.

By setting ceilings on the payments made by the guarantee institution, provided that these ceilings do not fall below a level which is socially compatible with the social objective of the Directive (Article 4(3)). All the MS have fixed such ceilings with the exception of the Netherlands, but the method of calculating the ceilings varies greatly. The Directive contains no precise stipulations in this regard. However, as the Commission acknowledged in its report on the implementation of the Directive of 1995, it is assumed that if guarantee payments were in the final analysis equivalent to welfare payments or to the statutory minimum wage, problems of compatibility with the social objective of the Directive might arise.

By construction the guarantee is designed to protect the employees. The introduction of this kind of insurance increases the contribution on the wages but nonetheless it could have a positive effect on employment:

- By prodding people to accept job in start-up or small businesses whose growth is not foreseeable

- By easing the solution of collective proceedings by alleviating the charges for the business when the collective proceedings allow the continuation of the activity. The company liabilities are not increased by the salary debt towards the redundant employees.

The International Labour Organisation (ILO) adopted the Protection of Workers' Claims (Employer's Insolvency) Convention, 1992 (n.173) which Chinese text is available from the ILO website http://www.ilo.org/global/standards/lang--en/index.htm

ANNEX III Unemployment rate EU28

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
EU-28	9.2	9.3	9.0	8.2	7.2	7.0	9.0	9.6	9.7	10.5	10.9	10.2
Euro area	8.9	9.1	9.0	8.4	7.5	7.6	9.5	10.0	10.1	11.3	12.0	11.6
Belgium	8.2	8.4	8.5	8.3	7.5	7.0	7.9	8.3	7.2	7.6	8.4	8.5
Bulgaria	13.7	12.1	10.1	9.0	6.9	5.6	6.8	10.3	11.3	12.3	13.0	11.4
Czech Republic	7.8	8.3	7.9	7.1	5.3	4.4	6.7	7.3	6.7	7.0	7.0	6.1
Denmark	5.4	5.5	4.8	3.9	3.8	3.4	6.0	7.5	7.6	7.5	7.0	6.6
Germany	9.7	10.4	11.2	10.1	8.5	7.4	7.6	7.0	5.8	5.4	5.2	5.0
Estonia	10.3	10.1	8.0	5.9	4.6	5.5	13.5	16.7	12.3	10.0	8.6	7.4
Ireland	4.6	4.5	4.4	4.5	4.7	6.4	12.0	13.9	14.7	14.7	13.1	11.3
Greece	9.7	10.6	10.0	9.0	8.4	7.8	9.6	12.7	17.9	24.5	27.5	26.5
Spain	11.5	11.0	9.2	8.5	8.2	11.3	17.9	19.9	21.4	24.8	26.1	24.5
France	8.6	8.9	8.9	8.8	8.0	7.4	9.1	9.3	9.2	9.8	10.3	10.3
Croatia	14.2	13.9	13.0	11.6	9.9	8.6	9.2	11.7	13.7	16.0	17.3	17.3
Italy	8.4	8.0	7.7	6.8	6.1	6.7	7.7	8.4	8.4	10.7	12.1	12.7
Cyprus	4.1	4.6	5.3	4.6	3.9	3.7	5.4	6.3	7.9	11.9	15.9	16.1
Latvia	11.6	11.7	10.0	7.0	6.1	7.7	17.5	19.5	16.2	15.0	11.9	10.8
Lithuania	12.4	10.9	8.3	5.8	4.3	5.8	13.8	17.8	15.4	13.4	11.8	10.7
Luxembourg	3.8	5.0	4.6	4.6	4.2	4.9	5.1	4.6	4.8	5.1	5.9	5.9
Hungary	5.8	6.1	7.2	7.5	7.4	7.8	10.0	11.2	11.0	11.0	10.2	7.7
Malta	7.7	7.2	6.9	6.8	6.5	6.0	6.9	6.9	6.4	6.3	6.4	5.9
Netherlands	4.8	5.7	5.9	5.0	4.2	3.7	4.4	5.0	5.0	5.8	7.3	7.4
Austria	4.8	5.5	5.6	5.3	4.9	4.1	5.3	4.8	4.6	4.9	5.4	5.6
Poland	19.8	19.1	17.9	13.9	9.6	7.1	8.1	9.7	9.7	10.1	10.3	9.0
Portugal	7.4	7.8	8.8	8.9	9.1	8.8	10.7	12.0	12.9	15.8	16.4	14.1
Romania	7.7	8.0	7.1	7.2	6.4	5.6	6.5	7.0	7.2	6.8	7.1	6.8
Slovenia	6.7	6.3	6.5	6.0	4.9	4.4	5.9	7.3	8.2	8.9	10.1	9.7
Slovakia	17.7	18.4	16.4	13.5	11.2	9.6	12.1	14.5	13.7	14.0	14.2	13.2
Finland	9.0	8.8	8.4	7.7	6.9	6.4	8.2	8.4	7.8	7.7	8.2	8.7
Sweden	6.6	7.4	7.7	7.1	6.1	6.2	8.3	8.6	7.8	8.0	8.0	7.9
United Kingdom	5.0	4.7	4.8	5.4	5.3	5.6	7.6	7.8	8.1	7.9	7.6	6.1
Iceland	3.3	3.1	2.6	2.9	2.3	3.0	7.2	7.6	7.1	6.0	5.4	5.0
Norway	4.2	4.3	4.5	3.4	2.5	2.5	3.2	3.6	3.3	3.2	3.5	3.5
Turkey	:	:	9.5	9.0	9.1	10.0	13.0	11.1	9.1	8.4	9.0	9.9
United States	6.0	5.5	5.1	4.6	4.6	5.8	9.3	9.6	8.9	8.1	7.4	6.2
Japan	5.3	4.7	4.4	4.1	3.8	4.0	5.1	5.0	4.6	4.3	4.0	3.6

ANNEX IV Regulations for experience based contribution for accident at work and occupational disease

Country	Principles	Pricing
Germany	Compulsory insurance organized by professional branches	Contribution rates decided in each professional sector with distinction by risk class. Bonus-malus system for businesses based on the comparison of contributions to the costs they generate
Belgium .	Accident at work compulsory insurance scheme managed by private insurance companies. Occupational diseases are managed as part of a public fund.	The calculation of the premium reflects the risk group. For large companies, pricing is individual and based on past claims experience of the company
Finland	Delegate mandatory insurance system to private insurance.	Tiered pricing according to risk and individualization of premiums for large companies based on the claims experience of the previous five years
Great Britain	Public mixed system (for the "no fault") and private (for civil liability) managed by insurance companies.	Tax funding for the public system.
Italy	Compulsory public system under the Ministry of Labour	Highly individualized pricing with bonus-malus system.

ANNEX V The economic analysis of accident insurance and occupational diseases: principles and effects

1. The principles involved

The accident at work/occupational diseases insurance is an insurance form that emerges in case of accident at work to exonerate the employer from liability (except for wilful misconduct) by providing a right to compensation for the affected worker. Like all other types of insurance, the AWOD insurance is subject to information asymmetries between agents: the initial health conditions of workers are poorly known (including by themselves), compliance to safety measures by the employees can be difficult to verify for businesses, and the insurer, public or private, can only imperfectly monitor the proper implementation of security measures announced.

These asymmetries may have several implications for the risk coverage:

- If the agents (companies and employees) are insured, they may be tempted to pay less attention to security as they will be indemnified against the consequences of their actions (a phenomenon known as the "ex-ante moral hazard");

- Once the accident, companies may seek to prevent, report and workers may be tempted to "increase" the severity of the accident (a phenomenon known as "moral hazard ex post");

- Companies or workers experiencing the lowest levels of risk may have no interest in joining an insurance scheme that pools the costs associated with accidents or workers with businesses experiencing the highest levels of risk (phenomenon known as "selection downpour").

Pricing will have to be implemented so that the various agents involved in the prevention of Occupational Injuries are interested in reducing the consequences, i.e. adopt behaviours that reduce at the same time the probability of occurrence of an accident and its potential seriousness.

The problems of "moral hazard" (changing behaviour of agents who are insured) lead insurers (public or private), which can only imperfectly observe preventive behaviour within companies, to seek incentives resulting in sharing the cost among the insured (the companies in the case of AWOD) and the insurer: frequent claimants, who have a risk level higher than average in the industry to which they are part and which are a priori little inclined to prevention, are thus charged a higher premium.

Regarding adverse selection problems, they can be solved by providing compulsory insurance to prevent companies knowing the lowest risk not to make a choice made in France as in most developed countries where occupational Injuries insurance (whose management can be supported by private operators as insurance in Belgium, Finland and Portugal, organized at each of the professional branches as in Germany, or by a national public operator as in France or Italy) is mandatory membership.

2. The potential effects and empirically observed modulation

Abundant literature has addressed various aspects of the AWOD insurance, and in particular the modulation of contributions, and many empirical studies (mainly North American origin) sought to assess the effects on various parameters such as frequency, duration and compensation claims, the impact on wages or labour supply.

2.1. The expected effects on the behaviour of employees and employers

Insurance can affect both the number of staff accidents as well as the reported accidents (which may differ because of over- or under-reporting). The studies highlight several potential effects.

For a given wage level and a given level of security expenditure, an increase of AWOD compensation may be likely to lead some employees to less expand their accident avoidance efforts. Conversely, a generous insurance can also be designed to increase investment in health, which will mean that fewer people will be excluded from the accident or disease, and the supply of work can bear a positive impact especially in the most accident-prone areas.

On the employer side, in case of individual modulation of pricing, an increase in contributions will result in an additional effort for the prevention or control, but also an incentive to under-reporting of accidents, phenomena all the more pronounced when the level of individualization is itself higher.

Moreover, the effects of pricing type can also be observed on the side of labour demand, for reasons similar to those applying for unemployment insurance, with which the AWOD insurance shares some similarities. An independent pricing in claims (as is the case in France for small businesses) can have a positive effect on labour demand (since businesses will not endure the effects of an increase in the probability of accident or dismissal), but also more volatility (since enterprises are more likely not to adjust their labour demand down if they do not bear the costs directly). Conversely, a type of pricing "experience rating" is likely to lead to both a lower level of employment and less variability of it.

2.2. Empirical effects observed in the American and French studies

As we have seen, the theory often provides ambiguous consequences of pricing the AWOD assurance on the level of claims or the level of employment. Only empirical studies can determine the relative intensity of adverse effects that lead to changes in interest rates or changes in pricing mode.

The empirical studies relate primarily to the North American case. They may relate to a state data, an industry or a company located in different States and subject as such to different regulations. They seek to link the observed rate of loss (or certain types of accidents or diseases) to different variables related to demographics, industry, social (union), and business and of course the intensity of the degree of individualization contributions.

Three main conclusions can be drawn:

- Less pooling in pricing the insurance (either by introducing a mechanism that links the premium paid to the observed loss, either by introducing franchises) results in a significant decrease in the frequency of reported occupational accidents. This decline is both the result of a better consideration of safety by employees and businesses but also, probably, an increase in underreporting. - Increasing the AWOD level of compensation has more complex implications. It certainly makes an improvement in the health and safety of employees at work (increasing the level of compensation increases the cost of insurance which is reflected in higher premiums for employers, prompting them to invest in safety), but it can also result in increasing the observed level of reporting of accidents by reducing the incentive to under-reporting of these. Empirical work (including a US study on data) seem to clearly show an increased level of compensation increases statements but reduces the actual number of work accidents.

The first is a study of DREES[36] that uses the historically founded difference in pricing between Alsace Moselle and the rest of France[37] in the field of Occupational Injuries insurance as an attempt to demonstrate a differential loss between the two areas does not conclude that this is due to the influence of pricing. But this result may in part be related to the premium calculation (consideration of a past, sometimes quite distant in the calculation of the contribution for evil to link claims observed in a given year and the contribution rate actually paid).

A second reference is a doctoral thesis in économiques42 Sciences, which uses data on pricing set up following the 1995 reform, affecting the degree of mutualisation for firms between 10 and 300 employees. It highlights that:

- Individualization was more effective in small businesses of the least accident-prone areas ("non-food trade", "banking and financial services", "administration", "health" and "cleaning" in the study) than in small business of the riskiest sectors ("metallurgy", "construction" and "career" in the study): this observation is interpreted as the result of relatively lower safety investments and easier to implement in the little accident-prone areas than in areas that are more at risk.

- Increased individualization of corporate contributions between 20 and 300 employees has resulted in a significant increase in litigation.

A full assessment of a more individualized pricing method would require to take into account the behaviour of recourse to litigation, facing a law whose complexity can promote the development of disputes, and the underreporting of phenomena which are the subject a periodic assessment as part of the *ad hoc* commission established in Article L. 176-2 of the social security code. It evaluates the costs borne by health insurance under conditions that should fall under the Occupational Injuries Insurance and unsupported due to underreporting, amount to be a compensatory payment to health insurance and is taken into account in determining the elements for calculating the contribution payable for accidents at work and occupational diseases.

[36] Directorate for Research, Studies, Evaluation and Statistics in the French Ministry for Health and Social Affairs.

[37] The region of Alsace and Moselle was attached from Germany from 1871 ton1918, and from 1941 to 1945 – a certain number of German inspired legislation, derogatory of French law, have been kept in the local legal corpus, including for pricing in Employment Injury Insurance.

3. Pricing for contributions in Germany, Italy and the United States

3.1- The pricing in Germany

The insurance is organized by professional branches within industry funds (the "Berufsgenossenschaften" or BG), whose activity is regulated by legislation that requires each unit BG its contribution rate (bonus-malus). It also establishes the possibility to introduce financial incentives for companies that have a significant action on safety. Within this legal framework, BG are prohibited from making a profit. Dues are fully individualized by company (the size is not taken into account), calculated on the basis of actual expenditure of the insurer during the past year, according to categories of risk and fixed once and for all (but still subject to appeal by the company). All costs (accidents at work, commuting accidents, occupational diseases) are included in the calculation.

Within this framework, BG have wide latitude of application and can suggest different mechanisms of financial incentives affecting premiums (no-claims bonus, incentives such as discounts, rebates or subsidies):

- The no-claims bonus is calculated by comparing the load imposed by a company in which BG is adherent to the average burden of member companies in the same section. The boards of directors of each BG are free to exclude or to consider certain types of costs (commuting accidents, severity of accidents reported, and types of occupational diseases) in the calculation of bonuses and penalties and to modify the application (for example by limiting the increase in penalty rates or lower bonus). Thus in 2013 the sectorial BG Sugar industries modulated from -50% to + 60% its bonus-malus while that of Papermaking was -10% to + 40%;

- Additional features offered by BG which aim to induce or reward prevention efforts: there may be discounts or bonuses granted by example for the use of safer machines, training in occupational safety and health to increased protection devices against noise, internal prevention campaigns, etc.

These invitations are selected, managed and administered by BG depending on the characteristics of the branches they support and binding goals established by directors of BG.

3.2- The pricing in Italy

The insurance is mandatory and managed by a public institution, INAIL (National Institute for Insurance against Accidents at work). Pricing must ensure the balance between revenue and expenditure. The companies are divided into four sectors (industry, crafts, services and "other activities"), each with its own contribution rates grid, corresponding to the national industry average risk. Each sector is further divided into risk groups, the rates (calculated on the payroll of the company) varying between 0.5% and 16% (data for 2012) by risk group. Setting rates ignores the workforce, large and small firms in the same risk class being required to contribute at the same rate.

The device includes two Italian financial incentive mechanisms: bonus-malus and aids prevention.

- The bonus-malus system is based on past claims experience, with a dual limit on the possible variation rate. First, the difference between the own claims to the company and the average loss of his risk class is particularly taken into account when the company employs a large number of employees. On the other hand, the change in rate possibly is limited (the ceiling for this rate of change is from 7% for companies with fewer than 100 employees to 20% for those over 500 employees since the 2000 reform). The rates are symmetrical upwards (malus) and downwards (bonus) so that the largest companies (where the loss ratio is the lowest in general) benefit outweigh the small bonus. To alleviate this problem a second floor was set to the device. The two combined applicators apply the maximum rate of no-claims bonus ranging from 22% for smaller firms (under 10 employees) to 35% for those with over 500 employees.

- The second mechanism takes into account the prevention measures, chosen in the catalogue of INAIL, established the previous year. Each share is accompanied by a "score" (a number of points) that entitles you to a certain amount of discount on contribution due, even stronger when the company is small. This second device is subject to targeted financial assistance towards SMEs alone, agricultural and craft businesses, and on compliance with the law programs, as well as on training and information. Such aid must necessarily be supplemented by own funds of the company.

In total, by combining the two mechanisms (no-claims bonus and rebate under preventive actions), the maximum modulation that can be obtained varies between 52% (for companies up to 10 employees) and 42% for companies beyond 500 employees.

3.3- The insurance in the US

Companies are required to subscribe for their employees an insurance covering costs and compensation of an accident or occupational disease. A federal regulation is defined by Occupational Safety and Health Administration (OSHA) and implemented by each State under the authority of the insurance commissioners. The employer underwrites insurance with the insurer, generally private (with the exception of five States), but the States may exempt certain categories of companies (very small businesses in general) or workers (farmers, for example). OSHA has also been able to authorize certain large companies or sectors of companies with very low loss to self-insure.

The system has faced since the late eighties a very rapid cost growth, itself caused by the explosion of medical costs and increased procedures of "class action" for new categories of occupational diseases (consecutive to exposure to asbestos, for example). These factors led to concern with the reduction of occupational hazards in companies, employers wishing to contain their insurance premiums, and insurers face higher compensation and increased competition in the market, trying to restore their margins. This led to the emergence of contracts with franchise and the introduction of mandatory mechanisms "experience rating of" in over half of the States. It is however the companies sensitive to their public image and the emergence of a workplace safety consulting market which contributed to the significant improvement in the situation and a decrease in the loss ratio over the last 10 to 15 years. However, this decline in the number of workplace accidents (-42% between 1990 and 2003) did not allow a parallel decline in the cost of the warranty due to medical inflation and rising litigation (the presence of a lawyer in a dispute related to a labour accident increase by 12 to 15% of the cost of the latter).

ANNEX VI Trend in employment rate of older worker

In the EU-28, the employment rate of people aged 20 to 64 years, which is the age group target under the Europe 2020 Strategy, experienced different phases between 2000 and 2014: it rose sharply from 2002 to 2008 (from 66.7% to 70.3%) and the trend reversed, with a marked decline until 2010 (68.6% that year) followed by virtual stagnation until 2013 (68.4%) and a "rebound" from 2013 to reach 69.4% in 2014.In the vast majority of countries in the EU-28 (excluding Denmark, Ireland, Greece, Spain, Cyprus, Portugal, Romania and Slovenia), the employment rate 20-64 increased between 2000 and 2014.

In the vast majority of countries in the EU-28 (with the exception of Greece, Cyprus, Portugal and Romania), the rate of employment of older workers 65+ increased between 2000 and 2014. In average for the EU-28, it raised from 36.9% in 2000 to 51.8% in 2014, with, however, significant differences between countries, regarding the level reached in 2014 (34.0% in Greece to 74.0% in Sweden) and the developments over the period (-6.4 % for Romania to 28.0 % for Germany and 29.2 % for Bulgaria). The employment rate of older people within the EU-28 has increased by nearly 15 points between2000 and 2014, much faster than the employment rate of 20-64 years. Contrary to the last crisis, the employment rate of people aged 55 to 64 in the EU-28 has increased steadily since 2000. In particular, the trend remained upward during the sharp decline phase of the employment rate for 20-64 year olds between 2008 and 2010. Since 2010, the employment rate of 55-64 years is increasing at a faster pace. The population aged 55 to 64 is not homogeneous in terms of the labour market situation. The employment rate decrease indeed sharply with age: in 2014, the rate of employment 55-59 was 65.7% in the whole EU-28, against 36.6% for the 60-64.

Sweden has the highest employment rate in 2014, both for the age group55-59 (81.9%) and the 60-64 (66.0%). The weakest employment rates are observed in Greece for the age group of 55-59 years (43.9%) and Slovenia for the age group of 60-64 (18.9%).

Until recently, the "critical age" of termination was 60 years in average within the EU-28, the decline in the employment rate between 59 and 60 years was more significantly pronounced than the decrease among each age from 55 to 59 years or between 60 and 64 years. But because of the increase in employment rates for seniors of all ages between 2000 and 2014, age 60 no longer appears as the "critical age" of employment termination and only persists a relatively sharp decline in the employment rate between 64 and 65 years.

Following various reforms in the retirement ages in Europe between 2000 and 2014 in the EU-28, the 55-59 employment rate increased by 18 points for women and 9 points for men, while the increase of employment rate 60-64 was more homogeneous, 13 % for women and 15 % for men.

For women, the increase in the age for ending employment between 2000 and 2014 is stronger for the younger age within 55-64. This can matches the gradual increase in the employment rate of women over generations, which reflects in the age group of 55 and older the gradual closure of derogatory mechanisms to enable women (not just mothers) to leave early in certain countries (Italy and the United Kingdom in particular*)*

ANNEX VII Median relative income ratio for the elderly, 2008, 2012 and 2013

		EU 28	EU 27	EA 18	BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	HR	IT
2013		0.93	0.95	0.94	0.76	0.76	0.85	0.76	0.89	0.69	.94	1.04	1.00	1.03	0.88	0.97
2012-2013 % change											N.A.		N.A.			
2008-2013 % change		n.a.	9.4	9.3		15.2	7.5	8.6		11.3	18.9	20.9	17.7	7.4	17.3	9.1
	CY	**LV**	**LT**	**LU**	**HU**	**MT**	**NL**	**AT**	**PL**	**PT**	**RO**	**SI**	**SK**	**FL**	**SE**	**UK**
2013	0.77	0.77	0.81	1.13	1.03	.79	.90	.95	0.98	0.94	1.04	0.87	.90	.78	0.81	0.87
2012-2013 % change	10				8.2								11.1			
2006-2013 % change	30.5	45.3	34.1	16.5	5.0	8.2	7.1	8.0		13.3	22.4		13.9	8.3		17.6
Source: EUROSTAT - SILC																

ANNEX VIII Redistribution effect of social protection

	Inequality of market income (↗)	Inequality of disposable income	Change (m-d)/m
Slovak Republic	**0,380**	**0,260**	32%
Sweden	**0,385**	**0,270**	30%
Czech Republic	**0,386**	**0,253**	34%
Denmark	**0,388**	**0,248**	36%
Norway	**0,391**	**0,257**	34%
Netherlands	**0,391**	**0,293**	25%
Slovenia	**0,399**	**0,242**	39%
Germany	**0,403**	**0,285**	29%
Belgium	**0,413**	**0,258**	38%
Austria	**0,414**	**0,266**	36%
Finland	**0,415**	**0,263**	37%
Luxembourg	**0,420**	**0,272**	35%
Estonia	**0,423**	**0,322**	24%
Poland	**0,427**	**0,308**	28%
Italy	**0,437**	**0,321**	27%
France	**0,449**	**0,301**	33%
Spain	**0,452**	**0,337**	25%
Portugal	**0,462**	**0,339**	27%
Israel	**0,469**	**0,368**	21%
Greece	**0,471**	**0,338**	28%
United Kingdom	**0,477**	**0,347**	27%
Ireland	**0,530**	**0,339**	36%

ANNEX IX Inequality in Income Distribution

	Gini index Disposable income	Gini index Disposable income +benefits in kind	Effect of redistribu-tion	*OF WHICH (total 100% of Effect)*				
				Health benefit	*Education*	*Child care*	*Social housing*	*LTC*
GERMANY	0,300	0,249	-16,9%	*61,5%*	*30,2%*	*7,1%*	*1,8%*	*-0,6%*
AUSTRIA	0,270	0,220	-18,5%	*56,8%*	*34,1%*	*7,6%*	*1,6%*	
SPAIN	0,340	0,276	-18,7%	*60,4%*	*32,1%*	*5,3%*	*0,5%*	*1,6%*
FINLAND	0,270	0,220	-18,7%	*57,8%*	*23,0%*	*5,3%*	*0,5%*	*13,4%*
ITALY	0,320	0,259	-19,0%	*48,4%*	*41,1%*	*7,9%*	*2,6%*	
NETHERLANDS	0,270	0,218	-19,2%	*42,2%*	*33,3%*	*9,4%*		*15,1%*
SLOVAKIA	0,250	0,200	-19,9%	*60,8%*	*33,7%*	*3,0%*	*2,5%*	
POLAND	0,320	0,256	-20,0%	*43,0%*	*49,5%*	*5,5%*	*2,0%*	
ESTONIA	0,310	0,246	-20,6%	*56,3%*	*31,1%*	*6,8%*	*1,9%*	*3,9%*
GREECE	0,340	0,270	-20,6%	*46,6%*	*28,6%*	*2,4%*	*22,3%*	
CZECH REP.	0,260	0,206	-20,8%	*63,9%*	*24,5%*	*7,7%*	*3,8%*	
LUXEMBOURG	0,270	0,213	-21,1%	*50,7%*	*36,0%*	*10,9%*	*2,4%*	*8,3%*
BELGIUM	0,260	0,204	-21,7%	*65,9%*	*20,3%*	*6,9%*	*6,9%*	
DENMARK	0,250	0,196	-21,8%	*45,9%*	*26,1%*	*5,0%*		*22,9%*
FRANCE	0,280	0,217	-22,5%	*57,8%*	*25,8%*	*8,0%*	*4,9%*	***3,6%***
PORTUGAL	0,370	0,286	-22,6%	*60,2%*	*35,4%*	*4,0%*	*0,4%*	
HUNGARY	0,260	0,201	-22,8%	*46,1%*	*36,0%*	*12,3%*		*5,7%*
UNITED K.DOM	0,330	0,254	-22,9%	*54,6%*	*30,6%*	*3,1%*	*4,8%*	*7,0%*
IRELAND	0,320	0,246	-23,2%	*53,9%*	*43,5%*	*0,4%*	*2,2%*	
SWEDEN	0,240	0,183	-23,8%	*52,1%*	*23,5%*	*6,3%*	*0,4%*	*17,6%*

ANNEX X ACTUALITY OF BASIC INCOME

Two national situations in Europe embody the extent of the debate on social protection far beyond the usual terms.

In the **Swiss Confederation** a referendum was held in June 2016 about the implementation of basic income, the unconditional basic income (UBI). Even though the vote was negative, it is usually considered that the fact that it could be held and receive a far from negligible support is already a significant development. For its proponents it would have replaced many existing welfare programs. Given to everybody, no questions asked, it would eradicate poverty and dependence on welfare. However complementary programs, like unemployment insurance would still exist. The UBI could also play the role of a micro-credit, covering the costs of existence and thus favouring the success of young businesses. The parents, the children and the people who take care of close friends can thanks to the UBI better take care from each other. The UBI encourages cultural and artistic life as well as research and innovation, which are the foundations of Swiss prosperity. The UBI would allow us to choose a job depending on its advantages and conditions. It would eliminate the obligation to accept any job just to survive. The UBI would give many people the security to choose part-time work, thus allowing other people to get a job too. The UBI would democratize higher education and allow everybody to educate themselves for their entire life.

In **Finland** the Finnish government is considering a pilot project that would see the state pay people a basic income regardless of whether they work. The scheme is of particular interest to people without jobs. In Finland, they now number 280,000 - 10% of the workforce.

For now the government has committed to implement a basic income experiment through KELA, the Finnish government agency in charge of welfare benefits. According to Kela it aims to find feasible options for an overhaul of the social security system in response to labour market changes. Some of these trends include the growth of temporary contracts and freelance work that is not covered by the current work-based benefits structure. The experiment will also explore how to make the system more effective in terms of providing incentives for work, and avoiding poverty trap (benefit recipients are discouraged from taking up employment, if the additional income received from a job is only marginally higher than means-tested benefits). Another goal is to reduce bureaucracy and simplify complex and costly procedures for administering benefits.

The experiment will be carried out in a context marked by three years of economic downturn, which has led to rising unemployment and pressures on public spending. A working group has been created with the task of providing a preliminary study that will lead to the actual experiment. The study will identify a model for basic income to be tested. The experiment will evaluate the effects of giving a basic income to members of different population groups, and produce an overall cost estimate. The experiment is scheduled to start in 2017.Differents scenarios were considered:

- Full basic income replaces almost all insurance benefits with a rather high level of income
- Partial basic income replaces almost all insurance benefits with a minimum level equal to the present day minimum benefit(550 euro a month °
- Negative income tax through additional transfers through taxation

There are several ideological positions behind these proposals. Some look for a simplification of the existing system and spare of managing costs. Some see to secure a minimum support income due to the scarcity of work in post-industrial societies. Some think that a better allocation of the social protection spending will be reached through the empowerment of individuals, free to choose the kind and the level of coverage they need for social security risks.

NB. In the mid nineteen-seventies, a similar programme was introducted in the province of Manitoba (Canada) where it lasted until 1979 and its abolition by a newly elected conservative Government. Another experiment is being tested in Oakland (USA). See http://www.newyorker.com/magazine/2016/06/20/why-dont-we-have-universal

ANNEX XI European Legal framework on social and employment questions

Europe's sustainable development, based on balanced economic growth and price stability, and on a highly competitive social market economy, aiming at full employment and social progress (Article 3 Treaty on the European Union TEU);

• Combat social exclusion and discrimination, and promote social justice and protection, gender equality, solidarity between generations and protection of children's rights (Article 3 TEU);

• Promote economic, social and territorial cohesion, and solidarity among EU countries (Article 3 TEU);

• Ensure economic and social progress by common action to eliminate barriers that divide Europe (Preamble to TFEU); and

• An objective of constantly improving people's living and working conditions (Preamble Treaty on the functioning of the European Union TFEU).

Article 153 TFEU gives the Council the power to adopt directives, but not directly applicable regulations, setting out minimum requirements in relation to social security and social protection of workers. To date, this power has not been used. If it were used, it would be subject to the limits set out in Article 153(2) which excludes any harmonisation of national laws and Article 153(4) which prevents the adoption of any provision that would affect the right of each Member State to define the fundamental principles of their social security system, or significantly affect the financial equilibrium of the social security system of the Member State. Unanimity in Council is also required for any such directive.

Building on the existing mechanisms for economic, employment and social protection coordination, in 2010 Member States adopted the *Europe 2020 Strategy* (EU2020) 'to support smart, sustainable and inclusive growth'. This sets ambitious EU-level objectives on employment, innovation, education, social inclusion and climate change/energy to be reached by 2020.

The coordination of employment policy as part of EU2020 takes place under the broader umbrella of the European Semester, a yearly cycle of economic policy coordination and surveillance. Member States and the Commission jointly report on progress against agreed Europe 2020 EU-level targets, including raising the employment rate to 75%, and lifting at least 20 million people out of the risk of poverty and social exclusion.

The coordination and surveillance process involves presentation of Member States' reform plans to the Commission and other Member States, and the production of a National Reform Program report. The European Parliament again has no formal role.

Following the submission of the National Reform Program reports by Member States, which give an account of each Member State's progress against the previous year's Country Specific Recommendations, as well as other developments and plans, the Commission prepares annual Country Specific Recommendations (CSRs) for each Member State. The CSRs are discussed by Member States, including at the Employment and Social Protection Committees, then by Ministers at the relevant Council and are then endorsed by Heads of State and Government at the European Council, before formal adoption at the end of June or in early July. This timing is intended to allow the recommendations to be available to Member States before they finalise their plans and draft budgets for the following year. Nevertheless, CSRs are non-binding on MS.

ANNEX XII – FRANCE, FIT BETWEEN RISKS AND RESOURCES IN SOCIAL PROTECTION – FOUR SETS OF SCENARIOS

1. Set 1: Scenarios that primarily conduct to a clarification of the social contributions and wage costs borne by households and businesses

An orientation would be to reallocate between the branches of social protection existing social contributions borne by households and businesses to improve coherence between these resources and the expenditure they finance. Since they do not alter the nature and the total contribution paid by households and businesses, these scenarios do not affect macroeconomic aggregates such as activity and employment, or affect the distribution of income among households.

- Scenario 1A:

A decrease in "family " benefits contributions paid by companies to balance increased "old age" benefits contributions is also supported by the businesses and reallocation of taxes attributed to these branches between the "old age", "health" and "family" branches; the option to integrate health in this reallocation of taxes allows to go further in clarification of the financing of social protection, focusing behavioural taxes (alcohol, tobacco taxes …) on in this branch and then to transfer to the «family" branch large revenues such as part of the VAT(value added tax) or the CSG(contribution sociale généralisée a tax on incomes dedicated to social protection); a second option would be to reduce transfers to the" old age" benefits and transfer the equivalent part of CSG to the "family" branch

Scenario 1B:

Conversion of "family" contributions paid by firms in social contributions or CSG supported by employees, offset by an increase of gross wages that would leave everything unchanged, the net salary of all employees and total labour costs for all businesses,

Scenario 1C:

A decrease in "family" contributions paid by companies to balance increased "old age" contributions supported by the companies, itself balanced by a decrease of "old age" contributions paid by employees, and ultimately completed by an increase of the CSG on activity income

2 Set 2: Scenarios that reallocate social contributions borne by households leaving the overall levies borne by them unchanged.

The purpose would be to consider a different distribution between households of social contributions paid by them without affecting levies on businesses.

The stakes of this scenarios set are not macroeconomic, except at the margin in case of significant changes in the distribution of income among households whose propensities to consume and to save would be very different. They do not comprise either as such modifications of the allocation of revenues to the various branches of social security, but are focused on the potential of social security contributions for reduction of income inequalities between households, which will be assessed using micro-simulation tools.

- Scenario 2A:

As in the previous scenario1C, a decrease of 'family' contributions paid by business, offset by increased "old age" contributions also supported by companies, balanced by lower "old age" contributions paid by the employees, and accompanied by an increase in CSG

Not only on earned income but on all household incomes (activity income, benefit in cash and asset), with potential redistribution between households depending on the composition of their income;

- Scenario 2B:

introduction of progressive social contributions paid by employees depending on their salaries, for an unchanged overall yield of these contributions, which could be considered either through a progressive scale of certain contributions or through a modification of the proportion of capped or uncapped contributions;

- 2C scenario:

Introduction of an escalation of the CSG on the activity income with an unchanged overall yield of the levy;

- 2D scenario:

A management of escalation of the CSG on benefits in cash, from the current three level scale, to eliminate the significant threshold effects that appear from the exemption threshold to the reduced CSG rate and to the standard rate;

- 2E scenario:

An expansion of the base of social contributions on asset incomes, to include non-taxable income, the capital gains on securities in the event of donation or transfer or" fictive rent" corresponding to the advantage created by the free occupation of housing by its owner.

The scenarios of the next two sets mostly consider additional reductions of social contributions paid by employers. The objective is an elimination of employer social contributions for the financing of the family branch combined with a clarification of financing. These sets include scenarios in which social contributions for relief of companies are financially compensated for social security schemes by raising respectively levies borne by businesses and households. A variant of these scenarios would be associated with payroll tax relief and reduced public spending.

Concerning contributions relief, a decisive parameter of their macroeconomic impact lies in the form they would be likely to take, depending on the wage distribution, taking account of the existing tax or contributions relief that are largely focused on modest salaries, and on the other hand economic analyses that highlight an substantially stronger impact on employment when these reductions are related to the bottom of the wage scale.

3 Set 3: scenarios that carry out relief or reorganisation of social levies paid by companies leaving the withdrawals supported unchanged

In this perspective, this third set includes scenarios that have in common to reallocate the social contributions paid by companies, usually by reducing the share directly supported by the labour factor, the overall amount of these levies however unchanged. The issues they raise are macro-economic, since the planned reforms can alter the impact of social levy on the relative costs of production factors. It should also be taken into account for assessing these scenarios, their different impacts depending on the size and sector of business activity. Their consequences in terms of changes in the distribution of household incomes are by construction pointless,

The following scenarios belonging to the set 3, calibrated to deliver the same amount of revenues to social protection schemes could thus be analysed:

- Scenario 3A:

A re-articulation of general reductions in social security contributions borne by employers and the tax credit in place in France leads to interactions between social contributions for businesses, results of the companies and amount of the corporate income tax; if the macro-economic impact of this scenario is probably limited to medium-long term it raises issues however because of significant transfers between firm size and industry sector (some of them are not eligible for tax relief), and feasibility related to the difference between the immediacy of social contributions cuts and the delay needed for the company to enjoy the benefit of the tax relief ; This scenario can also be an opportunity to analyse the articulation of targeted social contribution exemptions on sectors or geographic areas especially if the tax relief would amplified ; it implies in any case to reallocate to the corresponding amount to social security schemes resources

- Scenario 3B:

Individualized modulation of social security contributions for businesses, according to parameters such as the ratio of "payroll / value added" or history hiring and firing in every business, in order to use the social levy for the purpose of encouraging employers to develop employment;

- 3C scenario:

An expansion of the base of social contributions paid by employers, for example, the entire value-added businesses.

Set 4: Scenarios that introduce relief of social contributions with transfers between companies and households

The fourth set proposed possible developments of the financing of social protection. Reductions in social security contributions paid by employers would be compensated for social protection schemes at least partially provided through additional levies paid by households. The scenarios introduce potentially cumulative macroeconomic impact given the reductions in social contributions planned and redistributive impacts between the various categories of households. This set potentially covers the following scenarios calibrated to ensure revenue unchanged amount to social protection schemes:

- Scenario 4A:

Lower social contributions paid by employers, offset by increases in social contributions payable by employees, possibly more progressive contributions in relation with the salary (see above the comments Scenario 2B);

- Scenario 4B:

Lower social contributions paid by employers, offset by raising the CSG; it could cover all or part of income today taxable for the CSG (income from work, benefits in cash, assets, gains from gambling), and in the case of the CSG on income from work may be greater through a progressivity of the scale (see above mentioned observations about 2C scenario);

- 4C scenario:

Lower social contributions paid by employers, offset by increase in the VAT rate, according to various forms of action on the reduced rates, intermediate or normal;

- 4D scenario:

Lower social contributions paid by employers, offset by raising other taxes borne by households, such as taxes environmental or behavioural.

Annex XIII SOCIAL SECURITY AND EMPLOYMENT - CHINESE MAIN FOCUS OF INTEREST

Since the late seventies China has progressively introduced a « modern » social protection system[38] as a key element for China's transition to a market economy and the Chinese leadership intends to further expand it as part of a transition to an internal consumption centred economic model. At the same time it is clear that the « new normal » economy and the desirable shift from a two-digit, export-oriented basis to a more modest, internal consumption centred economic model is a challenge for both the labour market, and the social security system. As China implements reforms under the "new normal," maintaining stability in the labour market is a priority. Thus, the Chinese leadership is looking for an approach that balances the needs and limitations of a restructuring labour market, with the need to provide its citizens a better access to social protection and social services.

Although the Chinese labour market has long appeared to be resilient, in part because of an expanding service sector, there are signs that the Chinese labour market is becoming less performing. Low-skill jobs are not offered in such abundant numbers anymore, while growing numbers of mobile working population have difficulties to keep salaried employment. As the Chinese leadership has recognised the need to address overcapacity in the manufacturing sector, they count on the continuing expansion[39] of a more labour-intensive service sector to absorb redundant workers as to keep unemployment under control. The development of rural provinces might also act as a safety valve, especially since redundant migrant workers are expected to return to their home provinces[40] due to the *hukou* system. Rapid population ageing also provides some relief within this context, as by 2020-2025 China's surplus labour is going to shrink to the point of elimination.

However, in order to achieve this China will have to improve the functioning of its labour market. Labour mobility is counteracted by bureaucratic rules, including fragmentation of the social security system. Since rules are not necessarily applied identically in different locations, differentials in social security coverage may be seen as an element in competitiveness, hence a tool in promoting local employment opportunities (coverage may be in some place accepted for a few risks, not for all risks, controls may be stricter in some places, looser in others, inclusion of all elements of remuneration in contributory base may be enforced differently in different locations, etc.). The labour market is also fragmented; as various hurdles (administrative, cultural, societal, economic, human reasons) make transitions between labour market segment segments very difficult if not impossible.

Social security is generally seen mostly as a cost, not as a tool for labour market integration, fighting crisis or facilitating labour mobility. Despite a low overall percentage of GDP spent on social

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[38] A system not based on employers' liability but with collective financing and risk sharing.

[39] In nominal terms, service output grew by 11.6% year-on-year in the first nine months of 2015, whereas manufacturing grew by just 1.2%.

[40] In 2008, at the height of the global financial crisis, tens of millions of migrants simply went back to rural areas.

protection programmes (around 5%), employers claim the nominal contribution rate of 23% is too high[41]. Workers are still reluctant to contribute to the general scheme since salaries are low[42] and they see no immediate or longer term interest given the fact that there are alternative schemes providing for medical coverage and even for minimal pensions. Lower growth rates and growing labour market uncertainty no doubt reinforces this reluctance to fund social security, while the revenue from social contributions is dropping.

At the same time labour market restructuring increases the need for social protection and social services. Unemployment benefits and pensions for aged workers cushion the social and economic impact of labour market restructuring, while employment services are vital in reallocating redundant workers. Opportunities for training, retraining, skills upgrading, vocational rehabilitation etc. are in more demand.

Moreover, a modern social protection system, which acts as an automatic stabiliser during economic downturns, might be essential for China's « new normal » economy with its emphasis on internal consumption. Social protection provides replacement income that smoothens consumption during recessions and thus prevents a deepening of recessions due to collapsing consumer confidence and its negative effects on domestic demand.

A modern social protection system is grafted on the labour market and thus improves labour market functioning. Employment services assist job seekers and help reconcile labour market supply and demand. Unemployment benefits protects workers against the financial impact of job-loss and helps them maintain their employability during a spell of unemployment, while improving their chances to find a job matching their skills. Access to health-care services helps workers to maintain their health, while sickness and invalidity benefits protects them against the financial impact of sickness or accidents, so they can be more easily return to employment once they have been cured. Maternity leave programmes provide working mothers with the time needed to deal with the requirements of parenthood, while retaining the link with their employers, thus reducing their chances of dropping out of the labour market altogether. Contributory social insurance schemes promote formal employment throughout worker's professional careers. In general, social protection provides a framework for the professional career and indeed the life-course of workers and their families.

QUESTIONS THAT ARE PARTICULARLY RELEVANT TO CHINESE POLICY MAKERS

- ***Limiting or expanding social security protection***: Are there commonly agreed upon indicators or thresholds on optimal social security programmes from an employment promotion viewpoint, for example in relation to GDP, population covered, level of benefits?

[41] Although there is in fact no or little control on declared contributory amounts, while part-time jobs and temporary jobs are exempted.
[42] It is true that the lowest basis for contributions (60% of local average wage with ceiling at 3 times local average wage) can be high in low-skill employment units.

Is there any evidence of an adverse influence of too developed social security protection on the labour market – or conversely of too weak social protection negatively influencing the labour market? It is realistic to suggest a social security protection not predominantly financed through labour based contributions concerning benefits intended at replacing lost income? Is it legitimate to transfer part of social security coverage to voluntary provisions, in order to alleviate the burden of compulsory social security contributions on the enterprises?

- ***Employment creation***: How can social security contribute to more and better employment (mobility – vesting and portability, reintegration on labour market after prolonged unemployment, direct job creation – social work, more balanced use of resources, productive investment of funds, counter-cyclical action)? Is the creation of special insurance for the payment of wages and social security contributions in case of bankruptcy likely to decrease the reluctance to offer new job opportunities?

- ***Using social security as encouragement for employment creation***: What tools are available to target social security support for enterprises generating employment (e.g. basing part of the contributions on non-labour related indicators, lower contribution rates for low income or younger workers or elder workers, temporary exemption for job creation)? How the corresponding loss of resources for social security is compensated (alternative funding etc.)? How to control that social security exemptions/subsidies are effectively used for employment creation? In order to avoid deteriorating employment conditions and unfair competition among enterprises, should all forms of employment subject to social security contributions?

- ***Creating or preserving employment***: Does rising legal retirement age to ensure better balance of pension funds financing affect employment generation negatively, especially for younger workers? Are work-sharing experiences positive (progressive decrease in working time when approaching retirement age, such as part-time retirement)?

- ***Employment promotion and unemployment***: Is it legitimate to have partial early pension payments made through unemployment funds? What should be the role of social security in relation with labour market instruments, including financing vocational training, skills upgrading, temporary jobs, supplementing part time salary after unemployment, etc.?

- ***Alternative employment patterns***: How can social security respond to the challenges from alternative employment patterns like home-based work, multiple employers, flexible employment, informal employment, micro-entrepreneurs, etc. (how to collect contributions, how to monitor, how to facilitate making use of alternative forms of employment)?

JV Gruat & K. Vleminckx, 19 January 2016.

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