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## Own-account workers in Europe: flexible, mobile, and often inadequately insured

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Karin Schulze Buschoff and Claudia Schmidt

**Own-Account Workers in Europe**  
**Flexible, mobile, and often inadequately insured**

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## **Abstract**

The European Union is currently experiencing a kind of “renaissance of self-employment”. As part of this trend, the share of self-employed workers who are operating their enterprises without the support of dependent employees is growing particularly evidently. Members of this category of self-employed are known as “own-account workers”. Proceeding from the theory of transitional labour markets, the authors develop a concept with which mobility rates and mobility patterns can be used to compare the dynamics of own-account work (entries, exits and duration) in five different European countries (Germany, the Netherlands, Italy, United Kingdom and occasionally Sweden). Against this background, the insurance coverage offered to the self-employed as well as that enjoyed by persons entering or exiting the status of self-employment are then observed and compared across the different countries.

## **Zusammenfassung**

Die selbstständige Erwerbsarbeit hat in den letzten Jahrzehnten in der Mehrzahl der EU-Mitgliedsstaaten an Bedeutung gewonnen. Insbesondere der Anteil von Klein- und Solo-Unternehmen weist eine steigende Tendenz auf. Im Kontext der Theorie der Übergangsmärkte wird ein Mobilitätskonzept entwickelt und die Dynamik der Solo-Selbstständigkeit anhand von Mobilitätsraten und Mobilitätsmustern (Eintritte, Austritte, Dauer) in fünf europäischen Ländern (Deutschland, den Niederlanden, Italien, Großbritannien und Schweden) verglichen.

Abschließend wird auf die national unterschiedliche institutionelle Absicherung von Mobilität bzw. von Übergängen eingegangen. Am Beispiel der staatlichen Rentenversicherungssysteme wird aufgezeigt, ob Statuswechsel in und aus der Solo-Selbstständigkeit heraus in sozialversicherungsrechtlicher Hinsicht in den betrachteten Ländern mit Nachteilen verbunden sind.



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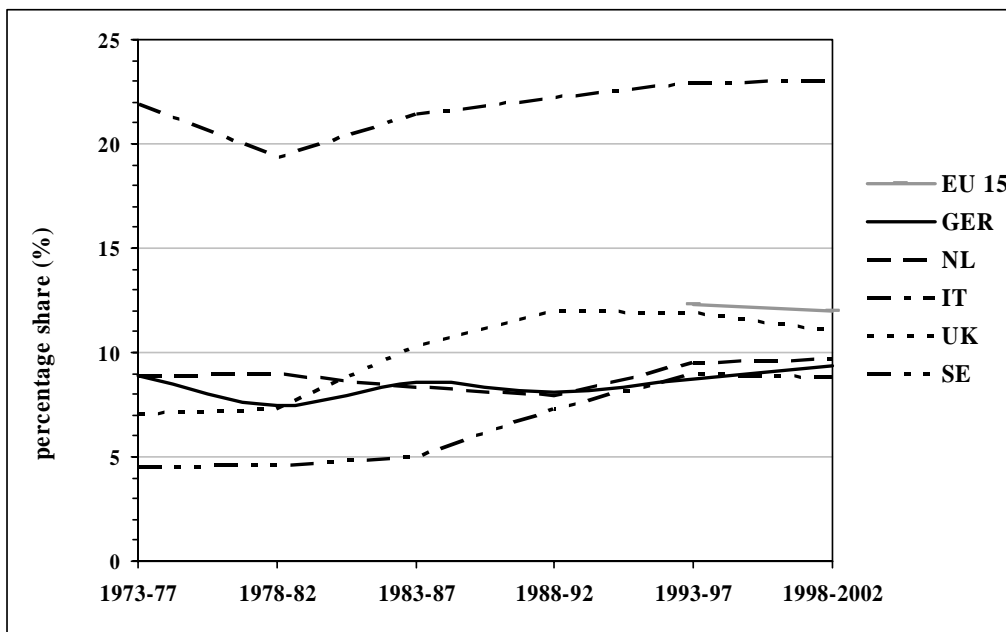
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# 1 Introduction

Recent decades have seen a marked rise in self-employment in most member states of the European Union. Whereas the ratio of self-employed to total employed was in decline up until the mid-1970s, the late 1970s and early 1980s brought a sharp increase in self-employment in many countries (Arum/Müller 2004). This trend was equally evident in countries with low and in countries with high shares of self-employment – the differences between the countries then tended to persist at an increasing level overall. While in Italy more than every fifth gainfully employed person (with the exception of the agricultural sector) was self-employed in 2002, in Sweden the share amounted to only every twelfth person in the same year, despite the fact that this share had almost doubled since the beginning of the 1970s (see Figure 1).

**Figure 1:** Share of self-employed in Europe



Self-employed with and without dependent employees as a percentage share of the total working population. Values refer to the average annual share for the period indicated. Agricultural sector not included.

Source: OECD Labour Force Statistics, authors' calculations.

The “renaissance of self-employment” is also associated with a change in the structure of this type of employment. Overall, the self-employment sector has become more diverse and vibrant. In addition to the classical model of the small or medium-sized business, in the service sector, especially, new and innovative forms of self-employment have emerged. In many countries, special labour market schemes have created self-employment opportunities for new groups of workers – especially women and workers with little available capital coming directly from unemployment. Self-employment has



increased across Europe in the sectors of health, education, culture, other personal services and enterprise-related services. In most European countries the self-employment renaissance has been accompanied by a noticeable increase in self-employed workers who operate without dependent employees, in other words, entirely on their own account. In Europe as a whole, no less than two thirds of all self-employed are own-account workers (Leicht 2003). The share of women amongst the own-account self-employed is also on the rise.

In addition to special support schemes provided under labour market policy, other explanations for the growing share of own-account workers and small and medium-sized enterprises are the increased outsourcing of enterprise units and functional areas, the decentralisation of organisational functions, the increased flexibility of employment policy, and the sectoral change in favour of an expanding service sector. The entry barriers in the service sector – measured in terms of human and financial capital – are much lower than those in the industrial sector.

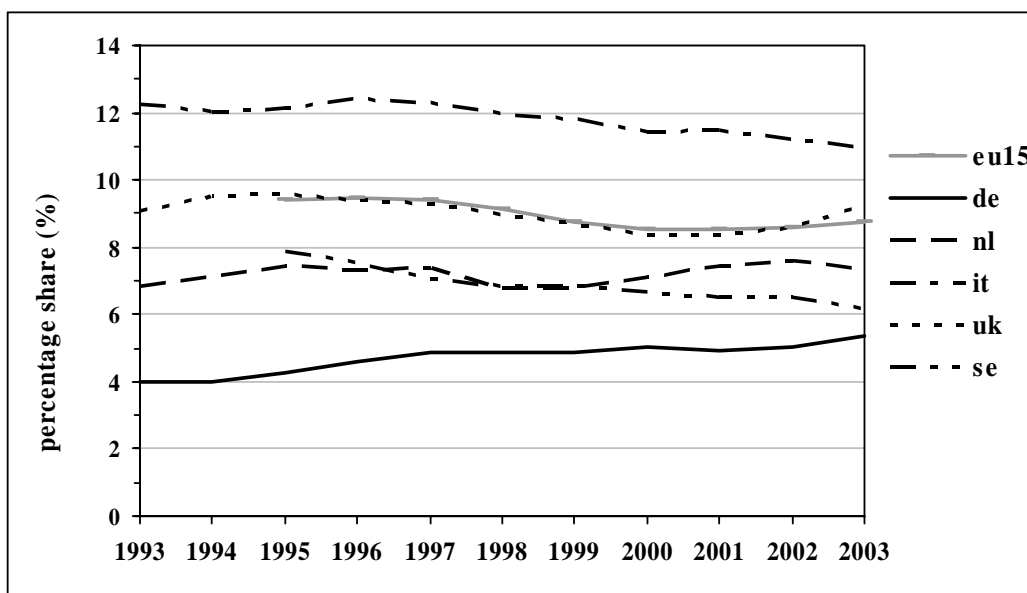
If one only observes the last decade, however, and not those preceding it, then the dimensions of the self-employment renaissance change. The rising trend for self-employment that began in the early 1980s in many EU countries has not persisted in recent years. In four out of the five countries observed, the share of this type of employment has been basically stagnant (Italy, Netherlands, United Kingdom) or even slightly in decline (Sweden) since the beginning of the 1990s. Only in Germany has the upward trend for self-employment continued uninterrupted (see Figure 1). It is also true, however, that the rise in self-employment began later in Germany – at the beginning of the 1990s.

Likewise, the structural change in favour of a growing share of own-account workers that has accompanied the self-employment renaissance has not continued noticeably since the beginning of the 1990s. Again, the exception here is Germany, where the share of own-account workers compared to all gainfully employed rose from 4% to 5% between 1993 and 2003 (see Figure 2). Compared to all self-employed, the share of own-account workers rose from 46% to 50% over the same period. Thus, in Germany, too, every second self-employed person is now working on his/her own account. Notwithstanding these figures, Germany – alongside Italy – (still) brings up the rear in our five-country comparison. In first place is the United Kingdom, where in 2003 a hefty three quarters of all self-employed were operating without employees. The Netherlands (67%) and Sweden (63%) are ranked second and third, respectively.<sup>1</sup>

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<sup>1</sup> For purposes of comparison: In 1983, 61% of the self-employed in the United Kingdom had no employees, compared to 52% in the Netherlands and 47% in Germany (authors' calculations on the basis of the ELFS; no 1983 data available for Italy and Sweden).

**Figure 2:** Own-account workers as a percentage share of all gainfully employed aged over 15



Source: ELFS, authors' calculations.

Seen in relation to all gainfully employed, it emerges that in the five countries observed, between 11% (Italy) and 5% (Germany) were own-account workers in 2003. This means that despite the largely stagnant or even slightly declining shares seen over the last decade, own-account work still occupies a sizeable slice of the labour market in each of the countries observed (see Figure 2).

We expect, moreover, that there is a much greater number of own-account workers than the aggregate data for single years show at first glance. We suspect that the special support provided under labour market policy, the comparatively low entry barriers and the high degree of flexibility characteristic of own-account work have created a relatively strong dynamic in this segment of labour market. We believe that own-account work is also going to become more attractive as a transition phase during working life for a growing number of people. For these reasons we assume that own-account work is associated with greater mobility than other types of employment.

In classical research on enterprise foundation, it is not the mobility but the stability of an enterprise that is considered a criterion for success. The essential question is whether the enterprise can establish itself on the market after the critical initial start-up phase. In the case of own-account workers, the question as to the sustainability of the new business is not entirely adequate. The “success” of one-person and small firms cannot be measured only in terms of perseverance in the status of own-account self-employment, that is, in terms of the continued existence of the (one-person) enterprise. In the case of new businesses started up by former unemployed, especially, it can certainly also be considered a successful outcome when the person concerned accomplishes a transition from own-account work into a dependent employment relationship. And, in particular, it must be seen positively when own-account work represents a step towards

employer status, in other words, when a one-person firm becomes a company with its own employees.

In the area of own-account work, especially, it is important that robust bridges be built in both directions, that is, both into self-employment and out of own-account work. The concept of transitional labour markets (Schmid 2002) indicates how such “employment bridges” can be created. This concept envisages the institutional protection of transitions between different types of employment so as to prevent social exclusion and to contribute to a redistribution of work while at the same time improving employability.

Successful labour market transitions in this sense are therefore characterised by the fact that not only are these workers insured against risks, but their discretion to act under conditions of uncertainty is also strengthened. Transitional labour markets should provide options or offer opportunity structures that allow workers to assume more risks. The mobility created in this way also increases the opportunities for “outsiders” to once again successfully gain a foothold on the “regular” labour market. Thus, a high degree of mobility is desirable in the context of transitional labour markets as an expression of the expansion of workers’ options between different types of employment and activity. However, it is essential that labour and social law provide for the institutional protection of mobility and transitions. The different types of institutional protection provided in the countries observed will be dealt with at the end of this paper with reference to the results of the quantitative empirical analyses.

The paper will be structured as follows. First, the concept of mobility on which the quantitative empirical analyses are based will be explained. The empirical analyses that follow will describe mobility rates and mobility patterns. The decisive criteria here will be entries into, duration of, and exits from own-account work. Specifically, the following questions will be answered: Is there greater mobility in own-account work than in other types of employment? Does own-account work represent a transition phase or a more a permanent type of employment? Is own-account work followed relatively frequently by a phase of unemployment? Are there typical patterns and characteristic features of own-account work in the different countries?

Finally, we wish to examine the question as to whether the mobility patterns in the area of own-account work create special challenges for labour market and social policy. Here, too, the question as to national differences arises. How are own-account work and transitions between own-account work and other types of employment institutionally protected? Do the countries observed adequately meet the potential challenges created by the specific mobility patterns?

The design of social policy in the individual countries and its response to particular challenges depends on the general welfare-state framework. In order to carry out a representative comparison of welfare-state contexts, the following European countries were selected: Germany, the United Kingdom, the Netherlands, Italy and Sweden. Following Esping-Andersen’s (1990) typology, this selection encompasses the various existing

welfare-state regimes and traditions.<sup>2</sup> Thus, a broad spectrum of the diverse economic policy priorities, general institutional and social policy conditions, and cultural settings found in Europe are represented.

## **2 The concept of mobility**

The concept of mobility used in this paper is based on the description of flows between different types of employment (own-account self-employed and employer self-employed, dependent employment and non-employment). The impetus for choosing this concept of mobility is provided by social law: entries into and exits from self-employment go hand in hand with a significant change in status with respect to labour and social security law. The cross-country comparison shows that – to different extents in the different countries – transitions from dependent employment into own-account work have more significant consequences in terms of social security law than transitions within the status of dependent employment from one employer to another. When a worker changes employment status, his/her position with respect to insurance obligations and benefits generally changes very substantially. Thus, mobility is calculated as the sum of entries and exits from one employment status (or from non-employment) into another.

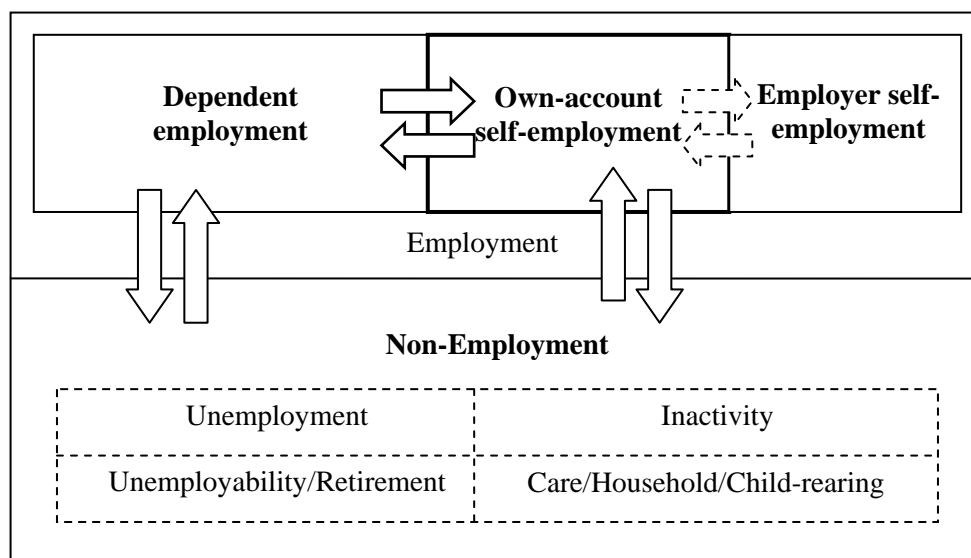
Despite the quasi stagnation in self-employment rates over the last ten years (with the exception of Germany), we believe that this is still a relatively dynamic area of employment.

We define mobility as follows:

Mobility is defined as the share of persons who have made transitions (entries and exits) from one employment status to another within a single year. In each case, the status at survey time *t* (2nd quarter of the year in question) compared to the status one year previously (*t*-12 months) is observed. Mobility rates are calculated as the share of persons who moved (at least once) into or out of a specific employment status in the 12 months prior to survey time *t* compared to all the persons with that specific employment status. It is not possible to show repeated transitions within a single year.

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<sup>2</sup> Under this typology, Germany represents a conservative-corporatist regime, Sweden and the Netherlands a social-democratic regime (although the Netherlands also has many elements of the conservative-corporatist model), and the United Kingdom a liberal regime. Italy represents a particular kind of welfare state found also in other southern European countries.

**Figure 3:** Mobility flows on the labour market

The employment flows included in the mobility rates are represented by simple arrows. Flows within the status of self-employment are represented by dashed arrows.

A more precise definition of the concept of mobility is required with respect to own-account work. It can be assumed that a transition between own-account work and dependent employment or non-employment has more significant consequences in terms of the applicable social security regulations than the step from self-employment on one's own account to employer status. *By definition, therefore, flows within the status of self-employment (between own-account self-employment and employer self-employment) are not taken into consideration in the calculation of overall mobility.* The mobility rates given for own-account workers (and similarly for employers) *do not* therefore encompass transitions between employer self-employment and own-account self-employment<sup>3</sup>.

Overall, in the analysis of changes in employment status, the differences that exist in the type of support provided under social security law in the individual countries must be taken into account. The design of social security provisions can tend to either foster mobility or hinder it. We will deal with this point again at the end of the paper, examining whether and to what extent a country's mobility rates and mobility patterns are sustained by national social security law.

The description of the mobility patterns is mainly derived from analyses based on the European Labour Force Survey (ELFS). Compared to other surveys, the ELFS is characterised by a relatively large number of cases and the precise, standardised identification of own-account workers (categorisation in accordance with the International Labour Organization's system of International Classification by Status in Employment,

<sup>3</sup> These flows will be dealt with separately in Section 2.4.

ICSE-1993<sup>4</sup>). The ELFS is not a “real” panel study, but the individual data only allowed us to identify the previous year’s employment status in addition to the current status. So the evaluation of these data was sufficient for an examination of flows into and out of the status of self-employment. For aspects of the research that required a longer-term, life-course perspective, we analysed data from the European Community Household Panel (ECHP).<sup>5</sup> Given the structure of the data, the computations of the mobility of own-account workers were limited to the period 1994–2001 when the data basis was the European Community Household Panel, and to the period 1993–2003 when the basis was the European Labour Force Survey.<sup>6</sup>

### **3 Mobility rates**

#### **3.1 Comparison of mobility rates by type of employment**

##### *Comparison of the mobility rates of dependent employees and own-account workers*

A comparison of the mobility of own-account workers and dependent employees confirms our initial thesis that own-account workers are more mobile than other types of workers. In all five countries and at all points in time during the period 1993–2003, the mobility rate of own-account workers was much higher than that of dependent employees. Whereas the mobility rates of the dependent employed in all countries fluctuated within a relatively narrow band of between 13% and 17% and remained quite stable over the years (with the exception of the Netherlands), the mobility rates of the own-account self-employed ranged from 19% to 35% (see Figure 4).

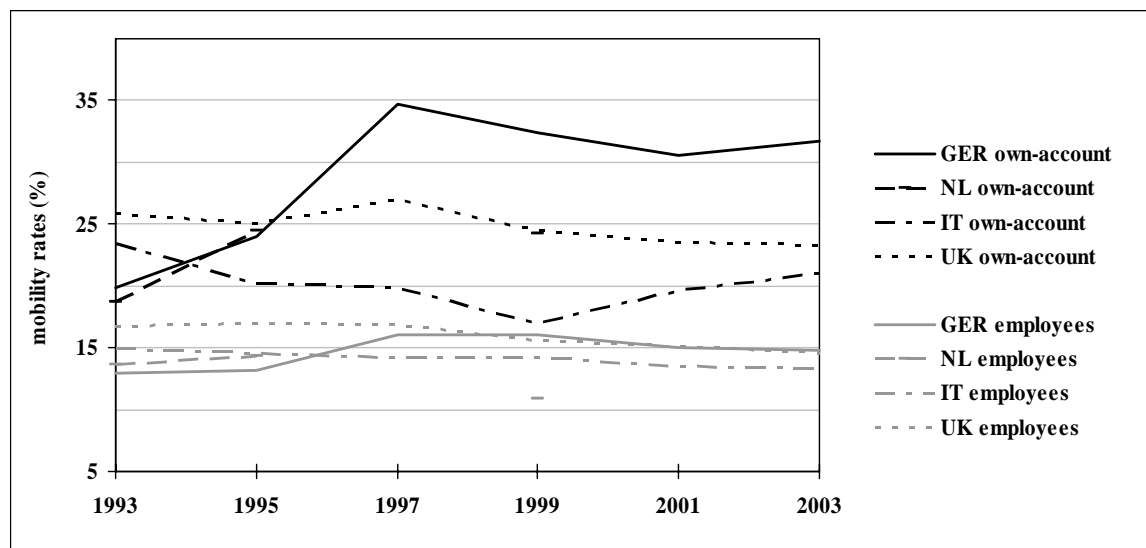
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<sup>4</sup> See ILO (1993) for definitions. For details on the application in the ELFS see European Commission (2003).

<sup>5</sup> The European Community Household Panel uses the responses to the item “Number of regular paid employees in the local unit”. If the self-employed’s response is “none”, then the person is classified as an own-account worker.

<sup>6</sup> Because of the limitations on the data, only Germany, the Netherlands, Italy and the United Kingdom are included in the empirical analyses on mobility. However, Sweden is maintained as a reference country for the concluding description of the normative social security frameworks for the national mobility patterns. We did not analyse individual mobility patterns in Italy on account of inconsistencies in the available data.

**Figure 4:** Comparison of overall mobility of own-account workers and dependent employees (percentages)



Sum of entries and exits as percentage share of persons in each type of employment at time t-1, not including transitions within self-employment. Data not available for the Netherlands in the years 1997, 2001 and 2003.

Source: ELFS, authors' calculations.

Compared to the other countries, the *United Kingdom* has a relatively high mobility rate for own-account workers, with stable values of between 26% and 23% (though there has been a slight decline since 1997). This means that for every year since 1993 a group of persons amounting to around a quarter of the annual stock of own-account workers changed employment status during the preceding year.

The result for the *Netherlands* is more difficult to evaluate because no data is available for a number of individual years. It becomes clear, nonetheless, that during the period 1993–1999 own-account workers had quite a high rate of overall mobility of between 19% and 24%, compared to a noticeably lower rate for dependent employees of only between 14% and 10%.

*Italy* stands out compared to the other countries because it shows the smallest difference between the mobility rates of own-account workers and those of dependent employees. While the mobility rates of the own-account self-employed are between 3% and 8% higher over the course of time than those of the dependent employed, the difference between these two rates is much higher in the other countries (it amounts to between 7% and 19% in Germany, for example, and to between 8% and 10% in the United Kingdom). The mobility rates of own-account workers in Italy amounted to between 17% and 23% in the period 1993–2003, compared to rates of between 13% and 15% for dependent employees.

*Germany* is conspicuous for the substantial increase in the mobility rates of own-account workers over time. This mobility rate amounted to 20% in 1993, reached its highest value of 35% in 1997, and also remained at a high level of between 31% and 32% in the following years, albeit declining slightly. *In recent years, therefore, a group*

of persons that corresponded every year to almost a third of the annual stock of own-account workers changed employment status during the preceding year. Thus, since 1996, Germany has the highest mobility rate by far for own-account workers compared to the other countries. The very sharp increase in the mobility rate from 20% in 1993 to 35% in 1997 might be related to labour market policy reforms. The introduction under labour market policy of the “bridging allowance” in 1986 was associated with a steady increase in the share of business start-ups by former unemployed that were funded by the employment office – from 6,000 in 1986 to 26,000 in 1996 (the first year covered by our analysis) and to 90,000 in 2003.<sup>7</sup> And transitions from non-employment into own-account self-employment also increased perceptibly in this period. The number of transitions from dependent employment into own-account self-employment has also risen substantially since the mid-1990s

#### *Comparison of the mobility rates of self-employed with and without employees*

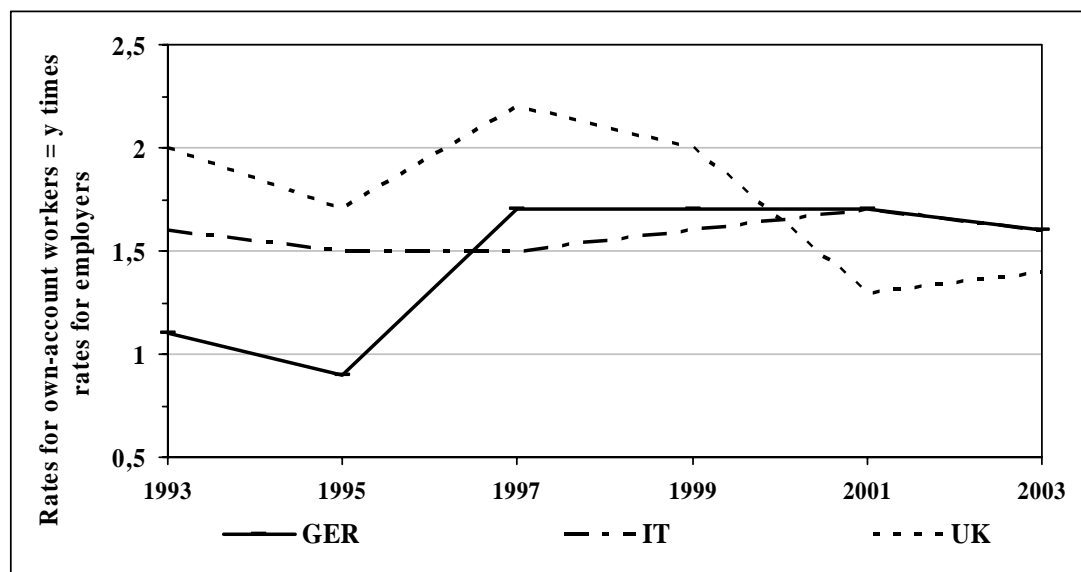
Our thesis that own-account workers are more mobile is also confirmed when we compare the mobility rates of own-account workers with those of the self-employed who have employees (that is, employers). In the countries observed, the mobility rates of own-account workers were higher than those of employers throughout almost the entire period (1993–2003). Only in Germany in the period 1993–1995 were the mobility rates of own-account workers and employers almost identical. But from 1996 onwards in Germany, too, the difference between the mobility rates of own-account workers and those of employers also increased significantly. In the period 1997–2003, the ratio in Germany was 1:1.7. In the other two countries, the mobility rates of own-account workers were appreciably higher than those of employers over the entire period 1993–2003.<sup>8</sup> In Italy and the United Kingdom, the ratios of the two rates amounted to 1:1.4 and 1:2.1, respectively. This means that for the last ten years in these two countries and since 1997 in Germany, the mobility rate of own-account workers has been between one and a half and two times as high as that of the self-employed with dependent employees.

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<sup>7</sup> Coincident to the debate concerning “Me, Inc.” government-supported business start-ups in 2002 and in 2003 (the year of their introduction and the last year covered by our analysis), the number of start-ups that received funding again rose substantially. In these two years, however, the increase in funded start-ups went hand in hand with a sharp decline in non-funded start-ups, so that the number of start-ups overall stagnated (Schulze Buschoff 2005: 83).

<sup>8</sup> Because of limitations related to the available data, no comparison is made with the Netherlands here.



**Figure 5:** Comparison of mobility rates of own-account workers and employers

The mobility rates of the own-account self-employed amount to  $y$  times the mobility rates of the employer self-employed.

Source: ELFS, authors' calculations.

### 3.2 Comparison of male and female mobility rates

A comparison between male and female own-account workers shows that the women in all countries are almost always more mobile.

Women in all three countries move from non-employment into own-account self-employment much more frequently than do men. Since the beginning of the 1990s, the share of these transitions made by women has often been twice as high in Germany and the United Kingdom and a hefty three times as high in the Netherlands as the share of these transitions made by men. The share of transitions from self-employment to non-employment has also been higher for women than for men in all three countries and in all years (with the exception of the United Kingdom in 1993 and 1995). Surprisingly, women also move from own-account work to dependent employment more frequently than do men. Thus, own-account work seems to represent a stepping stone to dependent employment more frequently for women than it does for men. There is no clear picture, by contrast, with respect to transitions from dependent employment into self-employment. Sometimes the share of these transitions is higher amongst women and sometimes it is higher amongst men. The exception here is the Netherlands, where this pattern of transition was also more frequent amongst women in all the years observed.

## **4 Patterns of mobility**

### **4.1 Duration of phases of own-account work**

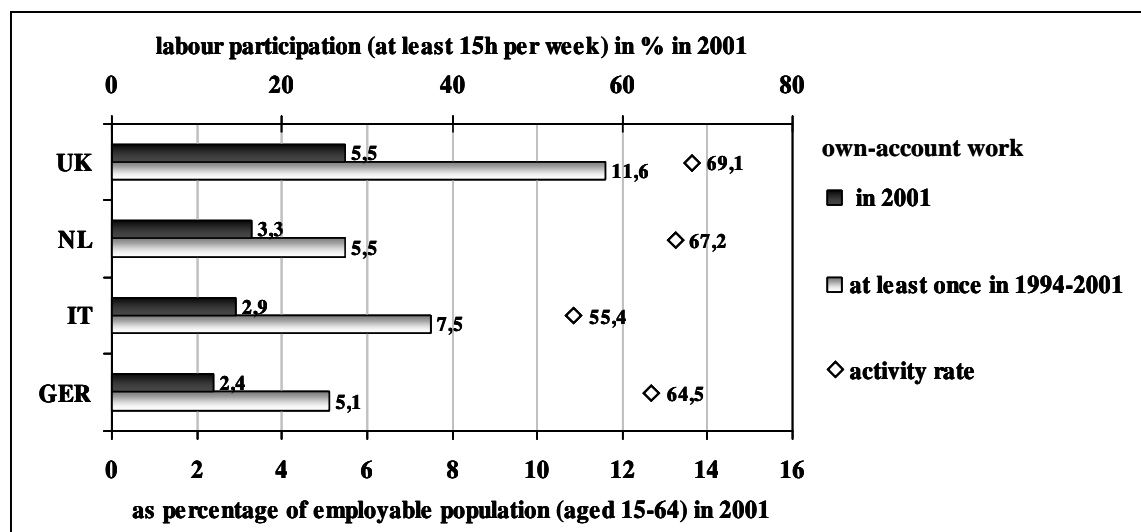
The mobility rates in the area of own-account work show that this is a very dynamic segment of the labour market; in other words, proportionate flows into and out of own-account self-employment are relatively substantial. It can therefore be supposed that a much greater share of workers experiences a phase of own-account work over time than is reflected by the self-employment rates for a specific point in time.

Our analyses showed that in 2001 of all employable people (aged 16-64 years)<sup>9</sup>, 5% in Germany, 6% in the Netherlands and 8% in Italy were in own-account self-employment at least once during the past 8 years (1994-2001). The highest share of 12% was found in the United Kingdom (see Figure 6). The fact that this share varies substantially from country to country is, of course, a result – on the one hand – of the different amount of own-account workers overall. On the other hand, however, it is true for all four countries that the number of persons who were own-account self-employed at least once between 1994 and 2001 was at least twice as high as the number of own-account workers in 2001 (with the exception of the Netherlands).<sup>10</sup>

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<sup>9</sup> Because the aim here is to examine own-account work in particular in relation to mobility over the course of the employment career, it makes more sense to observe the entire employable population instead of just the current working population. In this way the analysis also takes account of people who have been temporarily non-employed, for example because of child-rearing or care activities.

<sup>10</sup> This sharp difference is also evident in Italy, although the mobility rate of own-account workers is relatively low here compared to the other countries (see Figures 4 und 5). In order not to overrate the mobility rate in the area of self-employment, we decided not to include changes between employer status and own-account work. In Figure 6, a large part of the difference in Italy between the own-account self-employment rate in 2001 and the share over time (1994–2001) is due to the particularly frequent changes found in this country between own-account self-employment and employer self-employment. Although only 3% of the employable population was in own-account self-employment in 2001, 5% were in self-employment and had already been self-employed without additional employees during this spell of self-employment.

**Figure 6:** Own-account self-employment during working life

Shares of employable population who were in own-account work at least once during 1994–2001 compared to shares of own-account workers in 2001; the labour force participation rates of the individual countries can be seen in the background.

Source: ECHP, authors' calculations; weighted figures.

## 4.2 Universal mobility patterns

In addition to patterns that are specific to the individual countries, the comparative analysis also reveals features that are clearly universal across the different countries. Regardless of the dimension of the share of own-account workers compared to total gainfully employed, in all of the countries observed *own-account workers are more mobile* than other types of workers. In all countries and at all points in time the mobility rates of own-account workers were significantly higher than those of dependent employees and employer self-employed.<sup>11</sup>

In the comparison between men and women it emerges that *almost every year women in all countries have higher mobility rates* than men. In particular, transitions from non-employment are much more frequent amongst women than amongst men.

*Over time and in all countries, much more people have the status of own-account worker* than is revealed at first glance by the aggregate data for individual years. The share of people who were own-account self-employed at least once during the period 1994–2001 is around twice as high in the countries observed as the share of own-account workers in 2001 (with the exception of the Netherlands). On the other hand, in the individual countries, between two thirds (Germany) and four fifths (Italy) of those who were own-account workers during this period were long-term own-account workers, in other words they had been self-employed on their own account for at least three years.

<sup>11</sup> Only in Germany between 1993 and 1995 were the mobility rates of own-account workers and employers similar.

Every year in all countries a larger share of own-account workers become employers than employers become own-account workers.

### 4.3 National mobility patterns

*Germany* is the only country we observed where the rising trend for self-employment has also continued over the last decade. Both the shares of self-employed as a whole and the shares of own-account workers compared to total employed have risen constantly in Germany since 1993. Compared to the other countries, moreover, Germany has had the highest mobility rates for own-account workers since 1996. This is striking, on the one hand, because – despite the appreciable growth in the share in the preceding years – compared to the other countries, Germany at 5% (still) has the lowest share of own-account workers compared to total gainfully employed. This means that in the country in which own-account workers represent the smallest group as a share of total employed, at the same time the mobility of this group is the highest. Furthermore, at almost a third in 2001, the share of persons who are short-term own-account workers (for less than three years) is highest in Germany. Of these short-term own-account workers, however, only every tenth person had the status of own-account worker several separate times during the eight-year period observed (1994–2001). This is the lowest share of all the countries (it was every third person in the United Kingdom).

Compared to the other countries, the shares of transitions between dependent employment and own-account work are highest in Germany. Exits from own-account work leading into dependent employment are also on an upward trend – and more so amongst the women than amongst the men. Thus, on trend in Germany, the importance of own-account work as a bridging phase and as a means of (re-)entry into the labour market is growing. Moreover, at around 5% every year, the share of own-account workers who become employers is highest in Germany. Because the available data were not sufficiently up to date, it was not possible to consider flows into and out of non-employment that were a consequence of the “Me, Inc.” boom in business start-ups that began in 2003.

The *United Kingdom* stands out from the other countries because it has the highest share of own-account workers compared to all self-employed. In 2003, no less than three quarters of all self-employed there were running their business without employees. Compared to all gainfully employed in the country, own-account workers account for a generous share of 9% – a figure exceeded only in Italy (11%). The United Kingdom has the second-highest mobility rate (after Germany) for own-account workers. The share of repeated short-term phases of own-account work was highest in the United Kingdom.

In the *Netherlands*, 7% of all employed are own-account workers and the latter account for two thirds of all self-employed. These shares correspond more or less to the average across all countries. Compared to the other countries, by contrast, the share of transitions from own-account work into non-employment is by far the highest in the Netherlands. In contrast to the other countries, very few exits from own-account work lead into dependent employment, rather almost 90% lead into non-employment. It is

also striking that transitions between own-account work and employer status are a marginal phenomenon in the Netherlands compared to the other countries.

*Italy* has by far the highest share of self-employed compared to the other countries. In 2002, more than every fifth (23%) employed person was self-employed. Similar to Germany, in Italy around half of all self-employed are own-account workers. Seen in relation to total gainfully employed, in Italy 11% of the latter are own-account workers. This is the highest share in our country comparison. Italy is also conspicuous for the low mobility rate of its own-account workers compared to the other countries. In addition, the share of long-term (over three years) own-account workers was highest at 81%.

There is a need for further research in this field in the form of a more detailed analysis of transitions over the life course – in other words, a longitudinal analysis. For instance, transitions from education/training into self-employment and from self-employment into retirement should be examined more closely on the basis of panel analyses.

## **5 Challenges: Social risk management for own-account workers**

Self-employment represents a beacon of hope for national employment policy and for the European Employment Strategy. The political actors expect the growth in self-employment to have positive economic and employment effects. Support for entry into self-employment, including one-person and small firms, is a declared goal in employment policy concepts.

But throughout Europe own-account work also entails the risk of irregular income and the danger of inadequate social protection (Meager/Bates 2002, Betzelt/Fachinger 2004b, Schulze Buschoff 2004). Our analyses have shown that in all countries own-account work is associated with more frequent changes in status than other types of employment. This applies in particular to female own-account workers. Own-account work is becoming an increasingly frequent component of increasingly flexible employment careers. The need for legally guaranteed or (collective) contractually defined *protected bridges* between different employment relationships that are covered by adequate social insurance is particularly evident in the area of own-account work.

The problems facing own-account workers on the labour markets evidence a need for intervention of the kind envisaged by the concept of transitional labour markets.

Transitional labour markets are institutional arrangements in which the idea of “flexicurity” – flexibility and security – is put into practice on partial labour markets. According to the concept of transitional labour markets, workers should be protected against income and status risks not only in the event of unemployment, but also when they change from one type of employment or activity to another. The aim is not only to deal in practice with these risks when they emerge (for example by means of insurance-

based wage-replacement benefits) but also to engage in risk prevention and risk mitigation. This is where the term “social risk management” – which covers the full spectrum of options for intervention – comes into play.

Insurance is a historically established instrument for mastering risks (Schmid 2004: 4). National social security systems are country-specific instruments of collective risk management whose areas of emphasis vary depending on the welfare-state tradition of the particular country. However, national social security systems generally do not provide a satisfactory solution to the risk of irregular income and inadequate social protection that goes hand in hand with precarious employment relationships (Schmid 2004: 13). Alongside own-account self-employment, precarious employment relationships are also associated with an increase in fixed-term and marginal employment arrangements (Schmid 2004: 17, Meager/Bates 2002, Betzelt/Fachinger 2004b, Schulze Buschhoff 2004).

“Because of inadequate incentive structures, errors in the design of insurance systems, or insufficient political monitoring, there is often a dearth of preventive and mitigating risk-management measures that increase the degree of solidaristic risk-sharing. And yet these are the prerequisites required to encourage people to make more risky employment decisions, for example the decision to change from dependent employment to self-employment or from full-time to part-time employment or even the risk of taking on a second or third job.” (Schmid 2004: 40)

The problems are exacerbated where numerous special regulations determine insurance status in the individual sectors, as is the case in Italy and Germany. The difference in regulations between different insurance agencies with respect to obligations and benefit and contribution rates make it difficult to change status in these countries. Thus, in Germany for example, dependent employees are subject to mandatory insurance under the statutory health insurance system, whereas workers with the status of self-employed – with the exception of agriculturists, artists and publicists – are not under any obligation to insure themselves.

The restriction of mandatory insurance to just a few specific groups of self-employed renders Germany an exception compared to other European countries, for in most European countries the self-employed are covered by the state mandatory insurance system. The basic exclusion of the self-employed from membership in the statutory system in Germany is in accordance with the Bismarckian tradition of social security. The idea is that the self-employed, in contrast to dependent employees, do not need the collective protection of the solidaristic community because they can provide for themselves. However, it is clear that today’s self-employed, and especially the own-account self-employed, rely no differently than dependent employees on selling their labour. And they are also exposed to the social risks of old age, illness and unemployment (or a lack of orders) in just the same way. However, there has as yet been no widespread recognition of the need to provide social protection to the self-employed or to implement a general extension of mandatory social insurance so as to cover all the self-employed.

The need for social protection is not created only by the increase in own-account workers who often have a low or irregular income. Social protection is also required because, as our analyses show, own-account work represents a particularly dynamic sector of employment – especially in Germany. Increasingly frequent transitions into self-employment and out of self-employment into other types of employment or into non-employment can be expected. Yet the German social security system still does not do adequate justice to these increasingly flexible employment careers and frequent changes in status.

The creation of new special regulations for particular groups, such as, for instance, the introduction of social security for artists or the special social security regulations associated with the business start-up allowance (for “Me, Inc.” businesses), only serve to perpetuate the unsystematic and inequitable treatment of minority groups. Thus, while privileges are created for some groups, new obstacles, restrictions and disadvantages are created for the other groups not taken into consideration. Instead, the general need of the self-employed for social protection should be recognised and the most universal regulations possible should be implemented (Betzelt 2004: 34). This is why the mandatory inclusion of all self-employed in the social security system is now being widely called for in Germany (Bieback 2001; Betzelt/Fachinger 2004b; Schulze Buschoff 2005).

The design of social security has developed historically in the individual countries. The characteristic feature is strong path dependency as a result of welfare-state traditions. One can basically proceed from the premise that the type of social protection offered to the self-employed in one country will always be very different to that offered by another because social security itself is conceived of completely differently from country to country – for example, Sweden and the Netherlands have a universal basic subsistence provision financed from tax revenue, while Germany, Italy and the United Kingdom have exclusively contribution-based pension insurance schemes. The inclusion of the self-employed in the social security systems and the disadvantages that emerge as a consequence of changes in status will be dealt with in the following (see Table 1) using the example of the statutory pension-insurance systems.

Under *Sweden's* social-democratic system, given a context of a universalistic, tax-funded general insurance, the difference between self-employment and dependent employment has relatively minor consequences for the degree of social protection. Although the importance of the income-related mandatory pension scheme – which supplements the tax-based system of general insurance – was greatly increased by the most recent pension reform, under this system the income of the self-employed is taken into consideration in just the same way as that of dependent employees. Disadvantages in the event of a transition between dependent employment and self-employment are therefore less likely.

Like the German system, pension insurance in *Italy* is based exclusively on income and contributions. There is no basic pension or minimum subsistence provision. All employed persons, including the self-employed, are covered by a range of different pension funds, each specialised for a particular occupational group. There can be substan-

tial variations between one fund and another with respect to benefits and financing so that a change in status, and a subsequent change from one fund to another, can result in disadvantages.

The country comparison shows that a transition between self-employment and dependent employment has the most serious consequences with respect to social security status in *Germany*. Here, protection under social security law is extended exclusively to dependent employees. Since the inception of the social security system, the self-employed – with the exception of some specific categories – have been largely excluded from membership in the pension insurance schemes. Thus, in the very country that has the highest mobility rates for own-account workers, changes in employment status and in occupation can be accompanied by considerable disadvantages with respect to social security law.

In the *Netherlands*, statutory pension insurance provides all residents with a basic pension. A characteristic feature of the Netherlands is the high significance of company pension schemes, which cover almost 90% of all dependent employees. Own-account workers are disadvantaged in this respect because they do not belong to any company, and transitions into self-employment bring disadvantages for this reason.

In the *United Kingdom*, too, the self-employed are covered by the state pension system. Self-employed workers with incomes within certain limits pay a fixed contribution which is defined anew each year. In this way they acquire entitlement to benefits provided under the system of minimum subsistence provision. Contribution rates are relatively low, but they only apply to old-age and survivor's pensions and not, as in the case of dependent employees, to the risk of accidents at work or unemployment. Because they are excluded from labour and accident insurance as well as from statutory income-related supplemental insurance for old age, the self-employed are disadvantaged and changes in status tend to be rendered more difficult. Under the basic pension system, changes in employment status cause less disadvantages (although a change in status entails a change in contribution class).



**Table 1:** Pension insurance systems: Coverage of the self-employed and disadvantages in the event of a change in employment status

Country	Type of pension insurance	Disadvantage of changing status	Coverage/Advantages
<b>SW</b>	<p>General insurance: Guarantee pension Entitlement is linked to place of residence, tax-funded system; Contribution-based system: 1. Income-related pension, pay-as-you-go system; 2. Capital-covered premium pension. Systems 1 and 2 are mandatory for all gainfully employed. The incomes of the self-employed are taken into account in the same way as those of dependent employees. The self-employed are thus covered by all statutory systems.</p>	<p>General insurance system : no disadvantages possible.  Contribution-based system (1 and 2): Self-employed disadvantaged by contribution rate (dependent employees: 11% employer share + 7.5% employee share = 18.5%; self-employed pay entire 18.5%).</p>	<p>High level of coverage also in event of change in status, relatively high pension rates only partially related to employment career. Periods of non-employment (parental leave, continuing education) are taken into account in full.</p>
<b>IT</b>	<p>Employment-based, income-related pension insurance. There is no standard old-age insurance system that covers all residents, rather separate pension systems for different occupations with numerous different funds covering specific occupational groups. The entire employed population, including the self-employed, is covered by at least one of these systems.</p>	<p>The structure, benefits and financing of the different funds can vary substantially. Membership in one fund or a transition to another fund can therefore cause disadvantages.</p>	<p>When employment status changes and therefore also the responsible insurance agency, all pension entitlements are grouped together in one of the two agencies, which in certain circumstances may be freely chosen by the insured person. The amount of the pension due depends substantially on the employment career as regards the factors of time and income. Interruptions generally create substantial disadvantages.</p>
<b>D</b>	<p>Employment-based, income-related pension insurance system; the self-employed are largely excluded from membership in the system. However, there are mandatory special schemes for around a quarter of Germany's self-employed. The self-employed have the possibility of taking out voluntary insurance under the statutory system.</p>	<p>The regulations for the self-employed are exclusive and selective. Different types of employment and different occupations are offered very different degrees of protection under social law. Changes in status and occupation can bring considerable disadvantages.</p>	<p>Because of the lack of a minimum subsistence provision, there is a danger of poverty in old age for:</p> <ol style="list-style-type: none"> <li>Self-employed not subject to mandatory insurance;</li> <li>Self-employed subject to mandatory insurance with low earned income;</li> <li>Flexible employment careers (with phases of non-insurable self-employment or of marginal employment).</li> </ol>

<b>NL</b>	<p>As in many other countries, a three-pillar model (1. statutory, 2. occupational, 3. private), but with particular weight on the second pillar.</p> <ol style="list-style-type: none"> <li>1. Universal insurance system: AOW statutory pension insurance system, which guarantees a basic pension.</li> <li>2. Company pension systems: collective company or sector-specific supplemental systems (mandatory in some companies).</li> </ol> <p>The first pillar is based on the principle of residency, i.e. the entire population – including the self-employed – is covered.</p>	<p>No disadvantages possible in the first pillar.</p> <p>Over 90% of employed in the Netherlands are covered by the second pillar. Own-account workers, in particular, are disadvantaged because they do not belong to a company, therefore transitions into self-employment can bring disadvantages.</p>	<p>Universal pension under the first pillar with the aim of poverty prevention.</p>
<b>GB</b>	<ol style="list-style-type: none"> <li>1. Basic pension system, contribution-based. While the system covers the gainfully employed (dependent and self-employed), because of the low eligibility requirements, almost the entire population is entitled to benefits.</li> <li>2. Income-based statutory supplemental insurance only for dependent employees with no possibility of voluntary insurance for the self-employed.</li> </ol>	<p>Few possible disadvantages in the event of a change of status under the basic pension system (disadvantages result from different contribution classes for self-employed and dependent employed).</p> <p>Self-employed disadvantaged by exclusion from statutory supplemental insurance.</p>	<p>Universal pension under the basic pension system with the aim of poverty prevention.</p> <p>Self-employed with an income within certain limits pay a fixed contribution to national social security which is redefined each year. The contribution rate is relatively low but applies only to old-age and survivor's pensions and not – as in the case of the dependent employed – to the risks of accidents at work and unemployment.</p>

Synopsis of social security for the self-employed.

See Boden (2005), Bieber (2003), Fachinger/Oelschläger (2000), Devetzi (1999), Goetz (2000), Heese (2003), Lindskog (2005).

Our analyses have shown that in all the countries observed, female own-account workers have higher mobility rates. In particular, changes in status out of non-employment are much more frequent amongst women than amongst men. Because their employment careers are more flexible, women are considerably affected by the disadvantages in the pension systems caused by changes in employment status as described above. This applies in particular to the employment-based social security systems that do not provide a basic pension. The disadvantages are mitigated when a woman has derived entitlements (through her husband) or when certain periods of non-employment – time spent rearing children, for example, or caring for family members – are taken into account by the system.

The problem of disadvantages under social security legislation in the event of changes in status not only exists within countries but also in relation to the question of the international mobility of the self-employed. Different regulations in the different member states reduce geographical mobility and are problematic with respect to the

principal of freedom of persons and services pursued by the European Commission (Regulation 1408/71). It can be assumed that there is a considerable need for coordination on the part of the European Commission as regards both social law and tax law as they relate to the self-employed (Fachinger 2003: 12).

One of the aims of the *European Employment Strategy* is to promote self-employment, especially in the form of small and medium-sized enterprises and business start-ups by persons coming directly from unemployment. Another implicit goal of this strategy is to achieve, on the one hand, a sufficient degree of sustainability for new businesses, in other words to continue promoting their chances of survival even after a year of self-employment; and, on the other hand, to facilitate continued high inflows, but also outflows into dependent employment.

*European social policy* should be pursuing a strategy that ensures that social security systems are compatible with the demands of flexibility and security on the labour markets (Husmann 2002). Irrespective of the incoherence of the tax systems in the individual member states, labour market mobility within countries and cross-border mobility within Europe as well as atypical employment relationships should not lead to incommensurate losses with respect to social security benefits – especially pension entitlements. Persons planning to enter self-employment should not be inhibited by the design of the applicable social security systems.

In an age of globalisation, more acute international competition and labour markets that traverse national borders, it has become essential to (re-)calibrate the issues of self-employment, changes in employment status and social security. The goal should be a steadfast guarantee of a minimum level (to be negotiated by each society) of continuous basic subsistence – as understood under the concept of risk management – that does not stop at discontinuous employment careers. Depending on the design of each national social security system, there is a more or less urgent need to act. Pressure to improve the situation exists not only at national level, but also in relation to the establishment of supra-national, European regulations.

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