Social Security for the Self-employed: With a Focus on the European Countries*

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Introduction

Social security for self-employed workers has only recently become a topic of interest for policymakers and scholars. With the development of capitalism in the Western world, the majority of labor force participants were wage workers, followed by a small number of business owners and the self-employed including small farm owners, tenants and professionals. Among these groups, the newly formed group of workers who sold *labor* for wages to live on needed to be collectively protected as they lacked any income sources upon their exit—for whatever reason—from the labor market and therefore had no means to provide for the livelihood of their own selves and their families. Frequent accidents at the workplace and retirement due to health issues or old age, compounded by the increased risk of unwanted unemployment due to economic volatility, further underlined the need for the social protection of wage workers.

Thus, social insurance-centered social security can be understood as a system first put in place for wage workers to prepare for life after income. In other words, social security is a collective solution that protects wage workers against such risks that cause income loss as old age, medical conditions, unemployment or industrial accidents. Within this system of social security, the cost of providing for such social security benefits is shared jointly by wage workers and their employers (and sometimes the government) so that workers are not excessively burdened.

In the past, self-employed workers were mostly small farm owners or professionals who were relatively more sheltered from social risks. Farmers could set their own retirement age

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and could opt to gradually enter retirement, and they also possessed their own land (property). Professionals used their skills to operate small businesses and were therefore generally richer than the rest of the working population. Also, as self-employment did not account for a large portion of the workforce, there was not much consideration for this group in the process of establishing the social security system.

Since the mid-1970s, with a prolonged economic recession, changes have occurred in the self-employed segment. Amidst rising unemployment and widespread chronic unemployment in Europe, the long-term unemployed, women, and youths who were particularly vulnerable in terms of employment started to enter more frequently into self-employment with the blessing of the government. These newly self-employed workers are different in nature from the previous group of self-employed workers. This new group is, in some aspects, the most vulnerable group in the workforce that most definitely requires a substantial welfare system to protect them from falling into the depths of long-term unemployment of chronic poverty. Meanwhile, arrangements in free trade such as the WTO have caused a decrease in the income of agricultural workers, thereby leading to the need for social security for these farm workers, too.

Within the existing framework of the welfare state that centers on wage workers, the self-employed are a very different and heterogeneous group. Social security for the self-employed cannot follow the previous formula of burden-sharing by workers and employers, and this group has generally been excluded from coverage by unemployment insurance or workers' compensation insurance. But now there is a social imperative to build a collective safety net for this group that is prone to exclusion from the labor market and which has a relatively low degree of accumulated skill or capital and to provide protection against income loss. We must also remember that the wider use of alternative work arrangements are increasing the number of workers who are somewhere in between wage workers and the self-employed.

It is against this backdrop that this chapter seeks to examine factors —such as the size of the self-employed segment, the structure of the welfare system, and the public/private contribution sharing structure —affecting the establishment of social security schemes for the self-employed. This chapter then looks at available data from the European and OECD countries on the structure, management/operation, and funding of social security for the self-employed and also looks at how social security is provided for the self-employed with respect to various social risks. The last section provides a summary and conclusion for this chapter.

This chapter engages in this examination of protection for the self-employed in the Western world because the issue of providing systematic protection for the self-employed is currently a major task that also needs to be addressed by the Korean social welfare system.

Factors Affecting the Formation of Social Security Institutions for the Self-employed

The extent to which self-employed workers are included in a country's welfare system relates to the size of the self-employed segment, the structure of the welfare system, and the method of funding employed by the system. This section looks at these aspects in relation to the inclusion of self-employed workers in the welfare system.

Self-employment Numbers and the Welfare System Structure

Self-employment ranges from less than 10% in countries such as the US, Norway, Denmark, and France to over 30% in Korea, Greece, Brazil, Mexico, and Turkey. The size of the self-employed segment of the workforce affects the ease and necessity of including this group in the welfare system.

The inclusion of self-employed workers in social security also depends on the nature of the existing social security system. If the existing welfare system provides universal coverage based on citizenship, then it is more likely that the self-employed can be included in the system. Universal welfare systems do not provide protection for only wage workers, but protect all citizens from universal risks. Countries with social security systems that focus more on social security as a service than as a social insurance scheme and those that have social insurance schemes that cover all citizens can be regarded as having a universal welfare system. Cost sharing in a universal system is usually not just left to employers and the beneficiaries, but is often also participated in by the government. Meanwhile, countries with welfare systems that rely on social insurance schemes that differ according to occupation and employment status usually have much less room for the inclusion of self-employed workers in the system.

The inclusion of self-employed workers in the existing welfare system is relatively easy for countries with universal welfare systems that have a small self-employment segment, whereas countries with a large self-employment segment that have a welfare system that is differentiated for the different occupations will face many difficulties and quite significant social resistance when attempting to include self-employed workers. Difficulties are compounded due to the fact that it is not easy to set an adequate level of protection because it is difficult to fully account for self-employment income and because self-employment income is usually quite unstable. We must remember, however, that it is also very clear that there is an all-the-more urgent need to protect the self-employed in these very countries that have a high proportion of self-employment.

Table 1. *OECD Self-employment Rates as a Percentage of Total Employment by Gender (2006)*

	Total	Men (A)	Women (B)	A-B
Russian Federation	6.0	6.2	5.7	0.5
Luxembourg	6.4	-	-	-
United States	7.4	8.6	6.0	2.6
Norway	8.5	11.7	4.9	6.8
Denmark	8.9	11.7	5.8	5.9
France	9.0	10.9	6.9	4.0
Canada	9.1	10.2	7.9	2.3
Sweden	10.0	14.2	5.4	8.8
Netherlands	11.0	12.9	8.6	4.3
Switzerland	11.2	11.6	10.7	0.9
Germany	12.2	14.7	9.3	5.4
Slovak Republic	12.6	16.7	7.3	9.4
Hungary	12.8	16.0	9.1	6.9
Finland	12.9	17.1	8.4	8.7
Australia	13.0	15.6	9.8	5.8
United Kingdom	13.2	17.7	8.0	9.7
Austria	13.6	15.4	11.3	4.1
Japan	13.8	13.9	13.7	0.2
Belgium	14.7	19.9	14.6	5.3
Iceland	14.7	20.8	7.6	13.2
Czech Republic	16.2	20.3	10.9	9.4
Ireland	16.5	23.7	6.7	17.0
New Zealand	17.7	22.0	12.5	9.5
Spain	17.9	20.7	13.8	6.9
Portugal	24.1	25.5	22.4	3.1
Poland	24.4	26.6	21.8	4.8
Italy	26.7	30.8	20.5	10.3
Korea	32.8	33.2	32.3	0.9
Brazil	34.0	35.5	31.8	3.7
Mexico	34.5	34.4	34.6	-0.2
Greece	36.3	39.1	32.1	7.0
Turkey	43.5	40.1	53.3	-13.2
China	52.0	54.1	49.9	4.2
EU15 average	14.2	20.2	12.2	8.0
OECD average	16.0	19.3	14.3	5.0

Note. From OECD Factbook 2008: Economic, Environmental and Social Statistics.

Public and Private Social Expenditures

The likelihood that self-employed workers will be included in the social security system also depends on the way in which social security costs are shared in the country. Even in countries where social insurance coverage is occupation-specific, if the government shoulders at least a certain portion of the costs, it is more likely that the self-employed can be included in the social security system. Under a social insurance system that receives no funding support from the government, self-employed workers would face a much heavier monetary burden than their wage worker counterparts. In this case, a very low ratio of self-employed workers would subscribe to social insurance in a system of voluntary coverage, while many self-employed workers would try to avoid subscription even under a system of mandatory coverage. This, in turn, would lead to a much lower than anticipated effectiveness in terms of protection offered for the self-employed through social insurance.

Social security systems are traditionally either Bismarckian or Beveridgean according to the funding source. Bismarckian systems rely on funding from subscribers and usually provide social security in the form of social insurance schemes that provide benefits to paying subscribers. Beveridgean systems, on the other hand, are funded through taxation, where social security is provided to citizens as a service by the government. The distinction between Bismarckian and Beveridgean has become quite blurry, however, as most countries that previously left social security funding to workers and employers (Bismarckian systems) have started to engage in some degree of Beveridgean fiscal intervention. To elaborate, governments may contribute a certain proportion of income tax to some social insurance schemes or governments may choose to fill the deficit of some social insurances. This fiscal intervention on the part of governments is a trend that has continuously gained strength over the years.

This change is most likely due to the socio-economic changes of population aging and globalization and the increased need for the protection of small business owners. Aging is pushing up the costs shouldered by the current generation to support the older generation and requires greater contribution by both employers and workers to social insurances, but globalization and the accompanying free movement of capital no longer realistically allows for further increases of employer contributions to the social security system. In this situation, one solution is for governments to engage in fiscal intervention in social insurance schemes. With the exception of some professionals, it is expected that most self-employed workers will not enjoy a high economic status; and therefore to effectively bring these persons into the social security system, the government will most likely need to participate in funding for this system. When self-employed micro-businesses are faced with a loss of income, the effects of this loss are not limited to just these people, but come back as a huge burden on the national budget as this loss of income quickly degenerates into poverty. This can, of course, also be a considerable detriment to social integration.

One benefit of the intervention of government in funding for social insurance is that stronger social security can be provided for the self-employed who were previously relatively marginalized. In a system of social security that is maintained by subscriber contributions, whereas workers and employers share the burden for wage workers, the self-employed face the huge burden of having to shoulder all costs by themselves. Accordingly, while the self-employed have been included in some manner in such social insurances as old-age pension and health insurance that provide coverage for social risks that affect the population at large, they tend to be excluded from workers' compensation insurance and unemployment insurance as these insurance schemes were originally designed with wage workers in mind.

With government intervention in funding, however, some countries have been attempting to include the self-employed in workers' compensation insurance and unemployment insurance. For instance, Italy has created an workers' compensation insurance for farmers that is supported in funding by the government, while Belgium provides a portion of income tax and value-added tax as support for its social security system, and France has introduced a new tax for direct social security contributions.

Structure, Management and Operation Systems and Funding Methods of Social Security for the Self-employed

Social Security Approaches for the Self-employed

Social security protection for self-employed workers is achieved by integrating the self-employed into the general system or by introducing an exclusive system for the self-employed. The two approaches are discussed below.

General System Approach

A universal or general social security system provides a structure for basic social protection within a single system for all working groups or for all citizens. In other words, social security is not distinguished structurally or organizationally for each occupation or population group, but is provided through a single institution which offers identical basic security through a single management structure and funding system. Countries with universal social security may originally have established their social security system for wage workers, but have since gradually widened protection to cover self-employed workers and the general public through mandatory or voluntary insurance schemes within a single inclusive institutional framework. A single institutional framework does not mean that social insurance premiums are collected at the same rate for all subscribers; some countries have introduced two-tier systems in their social insurance schemes for the self-employed, where basic mandatory insurance is provided at a lower rate for a lower level of protection while higher-level or wider protection is available at a voluntary higher insurance premium.

Table 2. *Social Expenditure by Source*

	Public	Mandatory private	Voluntary private
Sweden	31.3	0.6	2.4
France	28.7	0.4	2.3
Belgium	26.5	0.0	3.9
Germany	27.3	1.2	1.8
Denmark	27.6	0.2	2.3
Switzerland	20.5	7.2	1.1
Netherlands	20.7	0.7	7.0
Austria	26.1	0.9	1.2
Norway	25.1	1.6	1.0
United Kingdom	20.6	0.8	6.0
Finland	22.5	3.5	1.2
Italy	24.2	1.8	0.5
United States	16.2	0.4	9.7
Portugal	23.5	0.4	1.0
Luxembourg	22.2	2.6	0.1
Iceland	18.7	5.1	0.0
OECD-30 average	20.7	1.1	2.0
Greece	21.3	0.0	2.4
Polannd	22.9	0.0	0.0
Hungary	22.7	0.0	0.0
Canada	17.3	0.0	5.4
Australia	17.9	1.2	3.2
Czech Republic	21.1	0.2	0.1
Japan	17.7	0.7	2.6
Spain	20.3	0.0	0.3
Slovak Republic	17.3	0.2	1.1
New Zealand	18.0	0.0	0.5
Ireland 1	15.9	0.0	1.4
Turkey 2	13.2	0.0	0.0
Korea	5.7	2.2	0.2
Mexico	6.8	0.0	0.2

Note. From OECD, Social Expenditure Database(SOCX).

Denmark, Sweden, Finland, the UK, Ireland, the Netherlands, Luxembourg, and Portugal are countries that have such general systems. Because social security benefits are not linked to employment status, the distinction between workers and self-employed workers is not very important. These countries have either a basic insurance or a universal system for all citizens and another system that provides protection according to occupation, and it is in this additional layer of protection that differences exist between the occupational groups and between wage workers and the self-employed. The following is a description of welfare in countries that include self-employed workers in a general system.

In the Netherlands, self-employed workers are included in the universal insurance scheme that covers all citizens on equal footing as wage workers. This insurance coverage provides self-employed workers with only basic benefits for old age, death, health (high risk), and family care. Long-term care for industrial accidents or occupational disease is provided for the self-employed through a separate occupational insurance scheme that was introduced in 1988. Prior to 1988, occupational risks were also covered by universal insurance for all citizens. Currently, no supplementary coverage exists within the framework of universal insurance for long-term care, and nor is there any protection provided for the risk of short-term care needed due to occupational hazards or unemployment. A separate workers' compensation insurance provides protection in these instances. The supplementary pension scheme is mainly only for wage workers, while only a very small portion of the self-employed are required to subscribe to this supplementary pension plan. Meanwhile, since 2000, self-employed workers with profits less than a certain amount have been allowed to subscribe to health insurance for workers.

In Denmark, self-employed workers are included in schemes covering short-term care for occupation-related risks and unemployment. Self-employed workers may voluntarily participate in unemployment insurance, while—in principle—only wage workers may subscribe to the supplementary pension plan and to workers' compensation insurance. In Sweden and Finland, however, self-employed workers may subscribe to all occupation-related social security schemes (including those providing coverage for job termination after short-term employment, partial disability, temporary unemployment, etc.).

Luxembourg seems—at first glance—to have a categorical approach to social security in that coverage for different occupational groups is managed by different entities. But Luxembourg is still regarded as having a general approach as the social insurance coverage provided by each entity exists in very carefully orchestrated harmony, where each social insurance is funded through the same means regardless of the occupation of the subscriber, and all entities managing the insurance schemes are required to engage in very close cooperation.

Meanwhile in Portugal, the general system consists of different insurance packages for each occupational group. Here, self-employed workers subscribe to a basic package that provides coverage for old-age, disability, death, and maternal care, while they can also voluntarily subscribe to supplementary insurance packages that provide coverage for industrial accidents, occupational disease or short-term care. Unemployment insurance, however, is only provided for wage workers. Still, Portugal relies on a single administrative management system for both wage workers and the self-employed, and self-employed workers may opt to subscribe to the expanded insurance package by paying the same level of contributions as their wage worker counterparts.

Ireland has only recently expanded coverage to self-employed workers for old-age pension and survivors' benefits, while discussions are currently being held on expanding disability pension to the self-employed. For all other benefits, self-employed workers in Ireland must rely on public assistance, the amount of which is determined through a survey of assets possessed by the self-employed person.

Social security in the UK—in principle—does not discriminate between the self-employed and wage workers. But the system in the UK is extremely fragmented, where basic benefits are supplemented by numerous other benefits which, at times, may not be paid out unless the situation of the person matches the specific terms of coverage. These supplementary benefits are the main source of the different degree of protection offered to wage workers and the self-employed. The main difference between wage workers and self-employed workers in terms of pensions is that self-employed workers cannot subscribe to supplementary (tier 2) pensions that are related to their occupations. Self-employed workers who wish to receive benefits provided by supplementary pensions must subscribe to private insurers' plans. As for the statutory pensions, self-employed workers are only eligible for a fixed-amount basic benefit. Self-employed workers in the UK are also ineligible for unemployment benefits and occupational risk benefits.

Exclusive System Approach

General approach for all self-employed workers

Countries with a general approach for all self-employed workers provide social security coverage for self-employed workers through one system that covers all occupational categories of the self-employed. The system for the self-employed is managed through a dedicated management and operation system with independent funding. This general approach does not divide the self-employed into smaller occupational groups, but regards self-employment as a single inclusive category and fiscally manages social security for self-employed workers from this perspective. Belgium is an example of a country with an exclusive social security system for self-employed workers that follows a general approach.

Categorized approach for self-employed workers

A categorized approach to social security for self-employed workers utilizes different systems of protection according to the occupational category of the self-employed workers. Germany, France, Italy, Austria, Spain and Greece are examples of countries with such systems that are structured around different occupational groups. Here are some descriptions of welfare systems for the self-employed that are operated through a categorized approach.

In Germany, agricultural workers and the liberal professions have their own unique pension plan. Artists and writers are covered by health insurance and pension insurance schemes that are operated in the same manner as those for general workers but are slightly adjusted for this group and operated by a separate organization. Health insurance for agricultural workers is managed through a separate system, while professionals are managed within the general health insurance scheme. Self-employed workers who do not belong to any of these categories may subscribe to the general pension plan for general workers.

France has four different pension plans for self-employed artisans, tradespeople, lawyers, and the liberal professions, respectively. Health insurance is provided through a common system that includes all self-employed occupational groups. Self-employed agricultural workers, however, are provided social security through a separate system that covers both self-employed and waged agricultural workers. This example of grouping together self-employed and waged workers of a specific occupational group within a single system can also be found in Spain, where all agricultural and fishery workers—whether they are self-employed or waged—are covered by a separate social security system. With the exclusion of some liberal professions, other self-employed workers in Spain are protected through a general approach for self-employed workers, which is part of the larger general scheme that provides coverage for all workers including wage workers. Although this larger general scheme does included all workers, self-employed workers are treated a bit differently from waged workers in that they cannot receive unemployment benefits, while for occupational risks, they are only covered for short-term care and must voluntarily subscribe to receive coverage for occupational disease.

In contrast to the system in Spain, Greece manages social security for self-employed workers through multiple special systems. Among these, the two most general schemes provide protection for self-employed workers engaging commerce and for those who are professionals or craftsmen. Due to financial difficulties, these two schemes have often been merged with other smaller schemes, while efforts are being made to change the schemes for self-employed workers so that they are more similar to the system that covers wage workers. It is quite difficult to list all the social protection schemes that exist in Greece. The following example will show, however, how complicated the system in Greece actually is: In Greece, professionals who work in cities with a population of less than 2 million are covered not by the insurance scheme for the self-employed but by the insurance scheme for agricultural workers.

In Italy, some self-employed groups (those engaging in commerce, professionals, and agricultural workers) are covered for certain risks by the general social security scheme for wage workers, but are managed through a separate system. The liberal professions (doctors, engineers, architects and lawyers) are protected by a different social security scheme which has recently gained more autonomy from the general social security scheme. Self-employed workers who do not belong to any of the aforementioned groups in Italy must mandatorily subscribe to the general scheme for wage workers.

Social security in Austria is provided through a strict categorized approach, where each insurance scheme covers a separate occupational group. If a self-employed worker engages in commerce and is registered with the chamber of commerce, the worker is included in the social security scheme for business people and industrial workers. Liberal professions lacking a trade license are also included in this scheme, but the coverage provided by this scheme differs according to the occupational group. Meanwhile, agricultural workers are covered by their own special scheme. Also, since 1998, self-employed workers who do not belong to any official occupational group or those engaged in special employment relations have been required to enroll in the pension insurance plan provided within the insurance scheme for business people and industrial workers.

Relativity of the Distinction between General and Categorized Approaches

The categorization of social security schemes for the self-employed should be based on the substance of each scheme. The existence of a separate categorized scheme for self-employed workers does not imply that the self-employed are provided with more specific social security benefits within a more general scheme. For instance, German agricultural workers are included in the general social insurance scheme for workers that provides coverage for occupational risk, but are managed through a separate operational system; and self-employed workers in Germany who do not belong to any occupational group may voluntarily subscribe to the general pension plan for wage workers. Meanwhile, France has a general health insurance scheme for all self-employed workers, with the exclusion of agricultural workers; but family benefits are provided to self-employed workers and wage workers through a single system. In Italy, self-employed workers in certain categories (mostly agricultural workers, business people and professionals) are included in the general scheme for wage workers, but are managed through a separate operational system. In Belgium, the self-employed are included in the health insurance scheme for wage workers.

Coverage provided for the self-employed through a categorical approach tends to develop in a manner that closely resembles the more general scheme for wage workers. For instance, the basic pension plan for business people, industrial workers, professionals and agricultural workers in France is calculated and paid out exactly the same as for the basic pension for wage workers. And in Greece, reform of the various categorized pension schemes for self-employed workers is modeled on the pension scheme for wage workers.

Meanwhile, general social security schemes sometimes need to provide special coverage for self-employed groups. Adjustments made for the self-employed mostly appear in the form of short-term income replacement and fiscal regulations. At times, adjustments can be excessive to the degree that special treatment is provided to the self-employed, particularly in countries with a categorized approach to social security for the self-employed that are seeking to develop their system to more closely resemble the general scheme for wage workers. In this sense, the categorized approaches of France and Greece have been developing in the direction of the scheme for wage workers. In contrast, while the self-employed in the UK are included in the same scheme as wage workers, they are only eligible for basic benefits for partial disability. And in Germany, although agricultural workers are included in the same health insurance scheme as wage workers, they cannot receive any sickness benefits while they can receive care benefits which generally provide better compensation for income loss. In Spain, agriculture and fishery workers are covered by a separate categorized scheme, but receive almost identical coverage as wage workers for occupational risks.

Management and Operation Systems

Countries with a general approach to social security usually have one management and operation system that operates the social security scheme regardless of the employment status of the subscribers. Denmark, Sweden, Finland, the UK, and Ireland have such systems, while Portugal and Spain also have single management and operation systems that operate their general occupation-based approach to social security. To elaborate, in the UK, the organization that receives contribution payments and that which pays out benefits each independently carries out their duties regardless of the occupation of the individual subscriber. In Ireland, contributions by self-employed workers are received by the Office of the Revenue Commissioners, while benefit payments are made by the Department of Social and Family Affairs.

Belgium has a dedicated management and operation system for the receipt of contributions and the payment of benefits within their general social security scheme for self-employed workers. Collaboration with other statutory bodies ensures that this system fulfils all delegated tasks.

Countries with separate social security schemes for each occupational category have much more complicated management and operation systems according to how occupational groups have been categorized. France has separate management and operation systems for each occupational group and for each risk that is covered, making for an extremely complex structure. For example, the pension plan for each self-employed occupational group is managed and operated by separate systems, while medical insurance coverage is provided through a single management and operation system for all self-employed occupational groups with the exception of agricultural workers; family benefits are managed and operated through a single system that covers all workers in the country regardless of the employment status of the family members; and all social security risks for the agricultural sector are managed by a separate management and operation system.

The management and operation of social security coverage in both the general approach and the categorized approach for self-employed workers are mostly decentralized, perhaps because of the highly specialized nature of insurance schemes. Whether public or private, related organizations have usually been established to deal with a certain aspect of social security management, and are generally managed within each self-employed occupational group. By appointing government representatives to lead the organizations or by specifying legal conditions, however, governments retain a certain degree of control over the management and operation of these organizations. The functionally decentralized organizations each have differing levels of autonomy. For instance, organizations that manage and operate social security schemes in Greece are under the tight control of the government because they receive quite significant subsidies from the government. Subsidies may sometimes be replaced by the dispatch of government representatives. In Italy, however, the organization that implements insurance schemes for the liberal professionals has been privatized and has gained greater fiscal autonomy from the general social security scheme at large. Still, while private organizations may manage social security funds, final decisions must still be approved by the government.

There is not any particular representation of the self-employed groups within the general approach. The interests of the self-employed are usually determined by employer representatives, and not too much expectation should be placed on the general scheme as being fully representative of self-employed workers' interests. Categorized schemes mostly receive government intervention in terms of funding or are structurally merged into a more general social security scheme, and therefore have almost no autonomy in terms of their management and operation systems. On the other hand, however, the management and operation of schemes within the general approach related to specific occupational groups may sometimes be delegated to the group, as in Denmark, Sweden, and Finland where self-employed occupational organizations manage and operate their own unemployment insurance schemes. Supplementary pensions are also operated in this manner in Finland. Such developments imply that functional decentralization is occurring even within the general approach to social security.

Funding Methods

The fiscal structure of social security for self-employed workers in most countries relies upon contributions from the subscribers. Exceptions are the basic social security benefits provided in Denmark, Sweden, and Finland. Denmark’s unemployment insurance manages contributions from both self-employed workers and wage workers, and also receives considerable financial support from the government. Finland and Sweden rely partially on subscriber contributions for their workers' compensation insurance and unemployment insurance schemes, where reliance on contributions is a growing trend.

For general coverage for medical security and family care, funds are usually secured through more general methods, the examples of which can be found in family benefits provided in Ireland and the UK.

It is therefore almost useless to compare the proportion of contributions in benefits, all the more so since social security coverage in different countries does not include the exact same scope of protection or population groups. Some social security systems may not provide certain benefits while some may include self-employed workers in the general social security scheme. When self-employed workers are included in the general scheme, the financial burden to be shouldered by self-employed workers is determined on the basis of how each country gauges self-employment income which forms the basis for all contribution and tax collection, the method for which differs in each country.

Determination of Base Income for Contribution Calculation

Unlike wage workers, self-employed workers do not have a set wage, and therefore the determination of base income for the purpose of calculating taxes or contributions is an issue that must be addressed when discussing funding for self-employed workers’ social security coverage. Self-employed workers are required to report their income, but while the tendency is to underreport income, it is quite difficult to prevent this from happening.

There are two methods used to calculate base income for the purpose of contribution collection. The first is to collaborate with the national tax authorities, and the second is to have the social security agency directly determine base income. The second method is used when tax collection is not very effective or when it is too complicated to cooperate with the tax authorities.

Cooperation with Tax Authorities

Cooperation with the tax authorities can happen in two ways. One is for the tax authorities to collect all social security contributions, and this method is used in Sweden, Denmark, Finland, the UK, Ireland, and the Netherlands. The other method is to gather information on income from the tax authorities and collect contributions through a different organization, and this second method is used in France, Luxembourg, Belgium, and Italy. When income data is received from the tax authorities, the data usually provides information on the tax amount determined on the basis of income from the previous year, leading to a time gap that may sometimes be problematic as the base data used to calculate social security contributions cannot accurately reflect the current income of self-employed workers. For instance, Belgium uses finalized tax data for contribution calculation purposes, but this data provides information on a finalized profit amount that is 3 years old. Similar situations can also be found in France and Italy.

France and Italy do, however, use a different method of contribution collection for professionals and tradespeople. The current year's contribution is collected at a set amount, while supplementary contributions are collected after tax reports are filed the next year. This method does address changes in income, but leads to excessive administrative costs for social security for the self-employed.

Each country has its own way of determining the fiscal base for social security contributions. Some countries choose to look at social income i.e. pre-tax income from which taxes are collected. Austria is an example of a country which uses such a method to determine self-employment income for social security purposes. In this case, the country has chosen not to use income from which tax deductions for investments have already been taken into account, but instead to use pre-tax income as the basis for calculating social security contributions.

Hypothetical Basis for Contribution Calculation

Spain, Portugal, Germany, Greece, and Finland use hypothetical bases for the calculation of supplementary pension contributions.

In this case, minimum wage, the average income of (workers in) the concerned sector, the wage of civil servants engaging in similar work[1] and wage measurement coefficients[2] are used to determine income for the purpose of calculating social security contributions.

The issue here is that there is no real connection between actual income and the income used as a basis for contribution calculations. Income determined through such hypothetical bases are also usually quite lower than actual income levels, and therefore leads to insufficient funding for social security that may eventually require government funding support. To prevent this structural underestimation, some countries including Spain and Portugal have introduced fixed wage scales from which self-employed workers are required to select their wage level and then receive social security benefits that are tied to their indicated wage level. Finland also uses a similar method to calculate supplementary pension calculations. The starting point is different for Finland, however, as it uses this method in an effort to approximate the actual income of self-employed workers, since business income generally includes many other elements other than personal income. If, however, self-employed workers continuously choose income levels that are too low, or if income fluctuates excessively, other methods—such as a comparison between the reported income and the standard income for the sector—are also employed to determine income. Personal income determined for social security contribution purposes need not be lower than income reported for taxation; and income deductions related to various business activities are not considered in the course of determining personal income.

Social Security for Self-employed Workers for Different Social Risks

Old-age Pension and Survivors′ Pension

Pension schemes for self-employed workers exist in all social security systems that have been discussed so far. Pension for the self-employed is generally provided through the following two models. The first model is to have fixed-amount basic benefits with the possibility of voluntarily subscribing to a supplementary pension, while the second is to offer pension benefits that are tied either directly or indirectly to previous market income. Most

1) For example, Greece uses the wage of judges to determine the base income of lawyers.

2) i.e. the number of rooms for hotel owners; and the area of arable land, the area of utilized land and the crop amount for farmers.

countries require self-employed workers to either pay contributions or have resided in the country for more than a certain number of years to be eligible for pension benefits. The level of both fixed and non-fixed pension benefits is determined according to the length of contributions or residence.

Pension schemes that require contributions for at least a certain number of years include the pension schemes in Denmark, Sweden, Finland, the Netherlands, the UK, Ireland and in Germany for agricultural workers and that for the liberal professions in France. These countries have basic pensions and additional supplementary pensions which are also provided through the private sector. In Denmark and the Netherlands, self-employed workers can subscribe to supplementary pension schemes that are structured to the characteristics for each occupational sector or group, while self-employed workers in Sweden and Finland are included in statutory supplementary pension schemes. Agricultural workers in Germany are required to subscribe to the supplementary pension scheme with their farming profits in order to be eligible for pension payments, and in France, self-employed workers engaging in the liberal professions are required to subscribe to a mandatory supplementary pension scheme.

Belgium's pension model for the self-employed sits somewhere in between the two aforementioned models and brings together the strengths of each model. Since 1984, the self-employed in Belgium have received fixed pension amounts based on the duration of engagement in one's profession. Benefit amounts are determined on the basis of business profits used to calculate contributions, but pre-1984 income is calculated on the basis of fixed income amounts.

The second model can be found in Germany (with the exception of agricultural workers), France (excluding the liberal professions), Italy, Luxembourg, Spain, Portugal, Austria, and Greece. The base pension in France is determined on the basis of the average income of self-employed workers during the ten months with the highest income levels, while supplementary pension (that is mandatory for professionals and agricultural workers) is determined on the basis of past income. Annual contributions are recorded in the form of points, and the purchase value of these points changes each year. Supplementary pension amounts are determined on the basis of accumulated points, by multiplying points and their purchase value. Spain, Austria, Greece, Portugal, and Italy all base their determination of pension amounts on the number of years that contributions have been made, where Spain and Portugal base pension amounts on base income levels as indicated by self-employed workers themselves. Finland also maintains a similar supplementary pension scheme.

Survivors' pensions also follow similar models. With the exception of the UK, survivors' pension is usually based on the general pension scheme. The UK, however, has family benefits that function as a survivors' pension, but these family benefits are completely detached from the general pension scheme and are fixed in amount. Denmark has eliminated its base survivors' pension, while Germany's scheme for agricultural workers provides various other social benefits such as a survivors' pension with additional condolence benefits for surviving family members who maintain the agricultural business until retirement age. The Netherlands is gradually phasing out survivors' pensions, and currently—in principle—only makes survivors' pension payments to persons who were born no later than 1950. If, however, the surviving family members are unmarried or there are children or disabled persons to support, survivors' benefits are still available.

With regard to old-age and survivors' pensions, schemes for self-employed workers have principles that are pretty much similar to those of pension schemes for wage workers. One difference may be that pension schemes for the self-employed are perhaps less diverse in the way that they are designed. For instance, self-employed workers can rarely hope to be included in any pension plans for part-time work, probably because it is quite difficult to control or oversee such part-time work by self-employed workers. Pensions for part-time wage workers generally look at averages for when workers are not able to participate in their job, and provides for the right to receive pension payments for the remaining time. The difficulty when dealing with self-employed workers is in measuring the amount of time used for occupational activities. Still, Finland and Denmark have introduced part-time pension schemes for self-employed workers, although they are a bit less flexible than part-time pension schemes for wage workers. For self-employed workers, the restriction is that they can only receive a half-pension, the amount of which is determined according to the degree of loss of occupational income. The requirement is that the remaining income must be less than half of the income earned through past full-time occupational activity. It is very clear that such schemes can only function correctly when tax authorities are able to accurately determine self-employment income. Meanwhile, in Austria, self-employed workers can choose between a 20-hour partial pension scheme and a 28-hour partial pension scheme.

Bridging pensions that support the transition from unemployment benefits to old-age pensions are also a type of pension that is not usually offered to self-employed workers. This is most likely because of the collective nature of this type of pension or perhaps because this pension is closely related to unemployment insurance schemes which are very seldom available to self-employed workers. In Denmark and Finland where self-employed workers are entitled to unemployment insurance benefits, similar transitional benefits are also offered for the self-employed. Denmark provides transitional benefits to those self-employed workers between 60 and 67 years of age who are eligible for unemployment benefits. These self-employed workers can also continue to develop their occupational activities on a limited or independent basis. In Finland, persons between 60 and 64 years of age who have received all unemployment benefits for the duration of their eligibility period are then eligible for a pension.

Schemes can also provide coverage for early retirement, both for wage workers and for the self-employed, where the pension amount is reduced according to the number of years left until normal retirement age. For agricultural workers, however, early retirement is often fiscally encouraged. In such cases where it is clear that agricultural workers must leave agriculture and when the arable land is handed over to a third party, agricultural workers do not suffer any financial loss due to early retirement. Such special schemes were instituted in order to support early retirement in the agricultural sector with funding support from the EU.

Benefits for Loss of Work Ability

Self-employed workers lose all work income when they are no longer able to carry out their self-employment activities. This can happen due to disease or accidents, or because of bankruptcy and other uncontrollable external factors. We now therefore examine benefits for the short-term loss of work ability and the long-term loss of work ability (disability benefits) in self-employed workers.

Benefits for Short-term Loss of Work Ability

The treatment of self-employed workers in the early stages of work ability loss is quite different in each country. Greece, the Netherlands, Ireland, Italy, France, and Germany do not—in principle—provide benefits to self-employed workers for the short-term loss of work ability. Meanwhile, Austria, Portugal, and Spain allow self-employed workers to voluntarily subscribe to schemes that provide benefits for the short-term loss of work ability.

Still, countries such as Spain, Portugal, and France have statutory maternity protection schemes for self-employed workers, while Austria’s social security structure provides for domestic help and self-employment help for pregnant self-employed women. Italy, Germany. and Austria have expanded the scope covered for accidents during work to include (certain) self-employed blue-collar groups. Economically vulnerable self-employed workers can often be included within the scope of coverage for short-term loss of work ability, an example of which are the artists and writers of Germany. Once the income of these persons exceeds a certain level, they can subscribe to private instead of public insurance.

All other countries have expanded their schemes that provide wage workers with coverage for short-term loss of work ability to include self-employed workers, but restrictions are usually put in place. For instance, self-employed workers in Belgium can only receive fixed-amount benefits, while wage workers can receive benefits tied to the level of their wages. A waiting period often accompanies such benefits for self-employed workers and this waiting period can range from 3 months in Belgium and Luxembourg to 3 days in the UK. Some countries including Sweden, Denmark, and Belgium encourage self-employed workers to voluntarily subscribe to supplementary insurance schemes that eliminate this waiting period.

Similar restrictions on medical benefits for self-employed workers have also been established based on arguments that funding is lacking, that self-employed workers do not have fixed income, that it is impossible to accurately measure income loss, and that it is not possible to control temporary medical leaves taken by the self-employed. The situation of each occupational group is, however, quite different with respect to the aforementioned arguments. For instance, a self-employed worker who operates a business that employs a number of workers may not lose any income even if she misses a few days of work. In contrast, in the same situation, a self-employed worker who works alone faces the risk of losing numerous contracts. Still, in either case, it is not clear whether either self-employed worker will record a deficit at the end of the year.

A number of countries have introduced a *more corrected method* of overcoming risks associated with the short-term loss of work ability. In Germany, for example, although the medical insurance scheme for agricultural workers existed within the scheme for wage workers, when agricultural workers were disabled, they could not receive sickness benefits. A method to correct for this discrepancy was introduced where entrepreneurs can demand business aid, and the cost of this aid is (mostly) covered by adjusted benefits that protect against the short-term loss of work ability. When the wife of a self-employed worker gives birth, the provision of domestic help is first offered and is later followed by the provision of a certain amount of maternity benefits.

Medical coverage schemes for self-employed workers in France provide replacement benefits that can be used to replace occupational or domestic activity and then also provide fixed amounts as maternity benefits. Austria also provides structural coverage to replace the lost work ability of self-employed workers or their spouses due to childbirth. The reasoning behind such replacement benefits is quite interesting in that income that is lost as a result of a short-term loss of work ability due to such circumstances is not regarded as being significant, while the labor that is lost is regarded as being quite significant.

In sum, countries are quite different in terms of how they deal with the risk of short-term loss of work ability, and there is no consensus as to which risk—the loss of labor or the loss of income—should be compensated for. For German agricultural workers and in Austria, the government has chosen to compensate for the monetary cost and therefore provides benefits to replace the loss of income due to the short-term loss of work ability.

Benefits for Long-term Loss of Work Ability

With the exception of Ireland, all EU countries provide disability benefits for self-employed workers with long-term loss of work ability. Germany, however, only provides disability pensions to some occupational groups among the self-employed including the liberal professions, agricultural workers, professionals, and artists, while other self-employed workers are allowed to voluntarily subscribe to the disability pension scheme.

The fact that most countries provide disability pension coverage for self-employed workers can probably be explained in terms of the relative ease of dealing with disability as compared to the short-term loss of work ability. These European pension schemes are usually divided into fixed amount basic pensions and income-linked benefits.

There tends to be a reluctance to provide sickness benefits to self-employed workers, however, even in benefit schemes covering the long-term loss of work ability. Most countries only provide disability benefits when work ability is completely lost. Meanwhile, Denmark, Sweden, Finland, and the Netherlands do use the concept of partial disability which is applied to wage workers and the self-employed alike. Italy and Portugal also have benefits for partial disability, but self-employed workers only qualify for coverage when their income falls to one-third or less of their usual income, while in Austria a loss of 50% or more of work ability must be reported as a full disability. Countries that recognize partial disabilities do of course face the problem of how to determine the degree of disability in accordance with the extent of income loss.

Most countries in this study do not provide any special benefits related to industrial accidents or occupational disease. The countries that do provide such benefits often have social security schemes that are structured collectively for the occupational groups regardless of the employment status of each individual. In this case, an individual's occupational group takes precedence over employment status. While these schemes mostly include even self-employed blue-collar workers in their coverage, compensation for the loss of work ability is often insufficient within the general scheme. Examples of such schemes can be found in Italy's coverage for professionals and agricultural workers and in France's scheme for agricultural workers, while Austria and Luxembourg's schemes are structured around specific occupations.

Medical Benefits and Family Benefits

As mentioned previously, most self-employed workers in Europe receive the same treatment as wage workers in terms of medical benefits and family benefits. This is due to the fact these benefits are not related to labor. Questions that arise with regard to medical and family benefits include: Should medical benefits cover, in principle, all citizens regardless of their employment status? And do the same principles apply to family policies that aim to provide fiscal support to families with children through social security schemes and to those that provide support through revenue services? In Europe, we can see that some countries (such as Ireland, Denmark, and Portugal) have opted to institute a national medical scheme that encompasses all citizens and that family benefits have been realized (by Germany and Ireland, for example) through separate schemes that are independent of the various social security schemes that are implemented according to employment status. Other weaker forms of medical and family benefits can be found in countries (Luxembourg and Spain) that treat medical and family benefits equally within a benefit scheme that encompasses numerous occupations.

Then, do countries use different measures to provide such benefits? Belgium, for example, provides self-employed workers with coverage for high-risk medical treatment only through a mandatory insurance scheme. This may come as a surprise since health insurance for wage workers was expanded to include the self-employed, but we must note that wage workers and self-employed workers are treated quite differently within this insurance scheme. Unlike wage workers, self-employed workers only have coverage for high risks[3)], while protection from all other risks (the *smaller* risks) must be gained by voluntarily subscribing to a supplementary pension scheme. For family benefits, the greatest difference is that self-employed workers receive benefits for their first child, but the amount provided is much lower than that provided to wage workers.

France also distinguishes between high risk and low risk in terms of its medical benefits. But the French system is actually quite different from Belgium's system in substance. High risks (that require costly treatment) are usually provided 100% coverage by the health insurance scheme. For low risks, however, although the self-employed are also covered, their contribution amounts to 30% to 50% of the total cost. Maternity protection costs are covered completely by health insurance.

Do these situations put self-employed Belgians and French in a worse position than their peers in other EU countries? Although it is probably not necessary to do so, let us still examine a few cases. Because of the distinction between national insurance and workers insurance in the Netherlands, self-employed workers can only gain coverage for high-cost medical risks. In Germany, with the exception of those in a few occupational categories that have been merged into the general health insurance scheme for wage workers, most self-employed workers do not mandatorily have to subscribe to health insurance.

A smaller yet still essential difference is found in the examples of Ireland and Austria. In Ireland, the supplementary medical insurance scheme that provides coverage for all drug-related costs is restricted only to wage workers, while in Austria the contribution level of self-employed workers to health insurance is a bit higher than that of wage workers.

Industrial accidents and occupational disease may also be a point of interest in the context of medical benefits. While medical benefits might be organized in the same manner for wage workers and self-employed workers, coverage for industrial accidents and occupational disease usually only applies to wage workers. When wage workers suffer from industrial accidents or occupational disease, the workers' compensation insurance scheme usually covers all costs. Self-employed workers, however, do not have access to any such schemes.

As for the risk of family support, self-employed workers in Italy and Greece are outside the scope of social security (with the exception of Italian farmers), while those in Portugal are

3) High risks include mental disorders, polio, major surgeries and x-ray examinations.

included within the scope of social security.

Industrial Accidents and Occupational Disease

Although other countries have a much smaller proportion of non-wage workers among all employed workers in comparison to Korea, many countries have established schemes to provide coverage for non-wage workers who are involved in accidents while on the job. Some countries even extend such coverage to homemakers and students, while still others provide coverage to all of their citizens. Among countries that apply industrial insurance coverage to non-wage workers, some that are not able to include all non-wage workers still provide coverage for at least their agricultural workers and for their professionals who face higher risks in their jobs.

Among the OECD countries, 8 countries provide workers' compensation insurance coverage to both employed and non-employed persons, while the Netherlands and New Zealand cover all citizens. In Germany, Luxembourg, Austria, Hungary, Norway, and Denmark, coverage is extended to homemakers, students and some other non-employed persons.

Table 3. *Workers' Compensation Insurance Coverage in the OECD Countries*

	Employed persons				Non-employed persons (Some or all)[1]
	Wage workers		Wage workers + non-wage workers		
	Partial coverage	Total coverage	Partial coverage	Total coverage	
Countries	US, Canada	Belgium, UK, Ireland	Korea, Denmark, Australia, Japan, Spain, Turkey	Austria, Hungary, Iceland, Germany, Mexico, Luxembourg, France, Czech Republic, Slovak Republic, Sweden, Netherlands, Switzerland, Portugal, Finland, New Zealand, Poland, Greece, Italy, Norway	Austria, Hungary, Netherlands, Luxembourg, New Zealand, Denmark, Germany, Norway
Of the OECD 30 members	2 countries (10%)	3 countries (10%)	6 countries (17%)	19 countries (63%)	8 countries

Note. Non-employed persons include students, homemakers, pre-schoolers etc. (Netherlands, New Zealand - all citizens / Germany, Luxembourg - students, homemakers, domestic workers / Austria, Hungary, Norway - students / Denmark - persons born with congenital disabilities due to their parents' industrial accidents). Countries providing coverage to non-employed persons are also listed under those that provide coverage for employed persons. From SSA(1999), *Social Security Throughout the World*.

An examination of workers' compensation insurance coverage for employed workers tells us that 25 countries include self-employed workers in their coverage, while 5 restrict coverage to wage workers only. Of these 5 countries, Belgium, the UK, and Ireland provide coverage for all wage workers, while the US and Canada only provide coverage from some wage workers that meet conditions related to firm size, duration of work, and industry type. The 25 countries that provide workers' compensation insurance coverage to both wage and non-wage workers comprise 80% of the OECD membership. Of these countries, Korea, Denmark, Australia, Japan, Spain, and Turkey provide coverage for only some self-employed workers, while the remaining 19 countries provide coverage for all self-employed workers.

A closer examination of the 25 countries that extend workers' compensation insurance coverage to non-wage workers shows us that only Denmark, Australia, and Korea[4)] exclude farmers from coverage, while the 22 other countries all provide farmers with coverage. Of these 22 countries, 19 provide mandatory coverage for farmers. Among these countries with mandatory workers' compensation insurance for farmers, 2 countries exclude other self-employed workers from coverage while 5 countries allow voluntary subscription by self-employed workers. The special protection that is provided for farmers tells us that farming itself is a considerably high-risk occupation with a relatively low income level. This protection of farmers also reflects the importance of agriculture and farmers in the context of food security.

In terms of workers' compensation insurance coverage for other self-employed workers aside from farmers, twelve countries or 40% of the OECD membership require mandatory insurance for these self-employed workers. With the exception of New Zealand, all of the countries are in Europe. They include Hungary, Czech Republic, Slovak Republic, Poland, and other former socialist East European countries, and Sweden, the Netherlands, and other EU member countries with longstanding solid welfare institutions that are operated within integrated schemes. Meanwhile, no countries in North America or Asia are included in the twelve.

4) Denmark includes only fishery workers, while Australia only includes quasi-workers.

Table 4. *Workers' Compensation Insurance Coverage for the Self-employed in OECD Countries*

	No coverage for farmers		Voluntary coverage for farmers	Mandatory coverage for farmers		
	No coverage for self-employed	Partial mandatory coverage for self- employed	Voluntary coverage for self- employed	No coverage for self-employed	Voluntary coverage for self-employed	Mandatory coverage for self- employed
Countries	US, Belgium, Ireland, Canada, UK, Korea, Australia	Denmark[1]	Iceland, Norway[2], Japan[3]	Spain, Turkey	Germany, France, Finland, Iceland, Mexico	Greece, Italy, Luxembourg, Hungary, Sweden, Portugal, Netherlands, New Zealand, Poland, Czech Republic, Slovak Republic, Austria
Of the OECD 30 members	7 countries (23%)	1 country (3%)	3 countries (10%)	2 countries (7%)	5 countries (17%)	12 countries (40%)

Notes. Denmark only mandates coverage for fishermen. Norway mandates coverage for fishermen, while coverage is voluntary for other self-employed workers. Japan provides voluntary coverage for persons engaging in certain risks among farmers and self-employed workers. Korea provides voluntary coverage for some self-employed workers (excluding farmers). *Self-employed* in this table refers to all self-employed workers aside from farmers. From SSA(1999), *Social Security Throughout the World; and* EU(2001), *Social Protection of the Self-Employed.*

Unemployment Benefits

Issues Related to the Payment of Unemployment Benefits to self-employed workers

In the history of social insurance in the Western world, unemployment insurance has always been introduced last. This is most likely due to the perception that unemployment is not a social risk that could befall anyone but is a result of laziness and unwillingness to look for one of the many jobs that are out there. The global economic depression then rendered even willing and not-so-lazy persons unemployed, and people began to realize that unemployment is a social risk that can occur cyclically, thus leading to the introduction of unemployment insurance. Unemployment insurance was, however, initially designed with the wage worker in mind and did not include self-employed workers within its scope.

Self-employed workers were excluded from unemployment insurance because, as people responsible for management who are not subject to instructions or orders from other people but move according to their own judgment based on creativity and a sense of adventure, they were expected to accept all risks involved in their choice of self-employment. In other words, the prevalent thought was that a decision to become self-employed was essentially a decision to shoulder all responsibility related to the business' possible bankruptcy. It is also not very easy for self-employed workers to tell whether or not they are actually unemployed. When self-employed workers completely stop all activities related to their occupation, the loss from this complete suspension of occupational activities can be used as a basis to calculate prior work income, but the criteria is not very clear when this is not the case. For these reasons, attempts to include self-employed workers within the framework of unemployment insurance were quite rare.

These reasons, however, are losing ground in today's world. If self-employed workers have chosen to shoulder all risks, why then are they being included in social insurance that provides coverage for loss of income due to sickness? The fact is that suspension of self-employed occupational activities may well be due to nonmedical reasons that are completely beyond the control of the self-employed person. For example, a self-employed person may easily go bankrupt because their main client has gone bankrupt.

The claim that it is technically impossible to set up unemployment benefits for the self-employed has already been disproven by countries that do operate unemployment insurance for self-employed workers. Luxembourg, Denmark, Sweden, and Finland have rather mature unemployment insurance schemes for the self-employed, while some countries provide partial compensation for the suspension of self-employment activities which, in content, is close to unemployment insurance. Other countries use unemployment assistance to protect self-employed workers who have completely suspended all occupational activities.

In Europe, self-employed entrepreneurship has been advocated as a route to escape unemployment amidst Europe's chronic unemployment, but many of the new entrepreneurs eventually go bankrupt. In this situation, it is all the more important to protect self-employed workers who do not have any income due to the suspension of activity for financial reasons or because of the economy. Countries are responding to the situation by introducing measures to provide registered self-employed job seekers with job seeker's allowance, to grant unemployment benefits to low-income individuals, and to allow voluntary subscription by self-employed workers to unemployment insurance. The following provides a more in-depth look into various approaches to unemployment insurance for the self-employed.

Countries with Mandatory Unemployment Insurance for Self-employed Workers

Self-employed workers must mandatorily subscribe to unemployment insurance provided in the social security scheme in Iceland, Poland, Finland, and Hungary, a number of which are formerly socialist countries. These countries have a universal social security system that does not discriminate at all with respect to employment status. Here, self-employed workers and wage workers are all required to subscribe to the various social insurance schemes, and are all eligible for unemployment benefits when unemployed.

The countries do differ in terms of the actual operation of unemployment insurance.

The Icelandic social security scheme follows a general approach where there is no difference in social insurance schemes according to employment status. All self-employed workers and wage workers are required to subscribe to the mandatory social insurance schemes, including unemployment insurance, so the self-employed can of course receive unemployment benefits when unemployed.

Hungary also has a general approach, where the self-employed must subscribe to unemployment insurance. Unemployment insurance in Hungary requires subscribers to pay 4% of their income to the insurance scheme. The self-employed report their own income for the purpose of this insurance, with the exception of farmers who pay insurance premiums and receive benefits according to the minimum wage. Farmers are allowed, however, to voluntarily subscribe to a higher level of benefits.

As another country with a general approach to social security, Poland applies the same unemployment insurance and employment stability policies to both the self-employed and wage workers. While, in principle, there are no schemes that exist exclusively for self-employed workers, the funding, management and operation of social insurance for the self-employed is taken care of by a separate body, and yet another organization also exists to operate social insurance coverage for farmers. Since 2000, family workers have also been eligible for benefits, thus requiring self-employed workers to pay contributions for their family workers. Self-employed workers are responsible for reporting their own income, and the ceiling on contributions is at the same level as for wage workers. When unemployed persons start new businesses, social insurance contributions start being collected two years after the initial start-up. Farmers, meanwhile, have been managed separately since 1991 through an agricultural workers' social insurance scheme that includes government subsidies.

In Finland, while employment status is irrelevant in the operation of the social insurance scheme, unemployment insurance for self-employed workers is managed on the basis of separate rules. Self-employed workers must mandatorily subscribe to basic unemployment insurance, but have also been allowed since 1995 to voluntarily subscribe to receive income-related unemployment benefits and income-related unemployment allowances. This unemployment benefit fund is managed separately in the case of Finland.

Countries with Voluntary Unemployment Insurance Available for All Self-employed Workers

Denmark and Sweden have voluntary unemployment insurance available for all self-employed workers. The social security systems in these two countries follow a universal approach that, in principle, does not discriminate on the basis of employment status. Unemployment insurance, however, is managed separately, but all self-employed workers are still allowed to voluntarily subscribe to unemployment insurance.

In Denmark, funding for self-employed workers' unemployment insurance is managed separately, but the benefits are identical to the benefits provided to wage workers. The only difference is that there is a 4-week waiting period before unemployment benefits are paid out to self-employed workers. Sweden's unemployment insurance is managed privately (by the unions), and self-employed workers can voluntarily subscribe to unemployment insurance managed by the association representing the occupation to which they belong. Self-employed workers are also eligible for unemployment assistance that is provided for all citizens.

Countries with Employment Policy-related Unemployment Benefits (Such as Those For Start-ups) for Self-employed Workers

Some countries choose to provide unemployment benefits to the self-employed as part of their employment policy that focuses on promoting business start-ups for the unemployed and on encouraging the retirement of older self-employed workers. Norway, Luxembourg, and Belgium are countries that link unemployment benefits with their employment policies. The details are as follows.

Norway has a general approach to social security that, in principle, does not discriminate in terms of the scope of protection or the level of benefits on the basis of employment status. Self-employed workers, however, are not allowed access to unemployment insurance. If a person was previously a wage worker, though, and engages in a business start-up while unemployed, the person can continue to receive unemployment benefits for 9 months after the start-up. Self-employed workers from 64 to 67 years of age who stop their business activities are also eligible for unemployment benefits.

Luxembourg also has universal social security, but social insurance for self-employed workers is operated through a separate scheme. Unemployment benefits are provided to self-employed workers only when they register as job seekers after suspending their self-employment business activities. To receive benefits, these persons must have made pension insurance contributions for at least 2 years while registered as a self-employed person. If, however, the self-employed person has been self-employed for less than 6 months, they can still be eligible for unemployment benefits if pension contributions were made for at least 2 years including the period during which contributions were made as a wage worker. The level of unemployment benefits is set at 80% of the income level used to calculate pension contributions. The lower and upper limits for general unemployment benefits are applied to benefits provided to self-employed workers, and therefore the benefit level cannot exceed the ceiling set in the general scheme and cannot fall below 80% of the minimum wage.

Meanwhile, Belgium does not have an unemployment insurance scheme for the self-employed. But from January 2007, self-employed workers who go bankrupt have been fiscally assisted through a special benefit that acts as an unemployment benefit. This benefit encourages entrepreneurship over unemployment by allowing up to 15 years of access to this bankruptcy benefit for unemployed persons who start new businesses. Persons who are eligible for this benefit include unemployed persons who start new businesses and then go bankrupt or self-employed workers who go bankrupt and then establish debt repayment plans. The benefit is paid at the minimum pension amount (1081.91 Euros per month for persons with family support responsibilities and 814.91 Euros for those with no family support responsibilities) for 12 months.

Countries with Unemployment Insurance only Available for Some Self-employed Workers

Some countries have unemployment insurance schemes that cover only small business owners and fishery workers. Germany and Austria allow only small business owners voluntary access to unemployment insurance, while Ireland, Norway, and Spain have separate unemployment insurance schemes that cover only fishery workers among the self-employed.

Countries that offer unemployment insurance coverage only for small business owners

Among all self-employed workers, Germany and Austria allow only small business owners voluntary access to unemployment insurance, most likely because they link employment policies to unemployment benefits. To explain, these countries have introduced unemployment insurance for small business owners as a means to promote business start-ups by unemployed persons and to provide coverage for the risk of unemployment that accompanies business start-ups. Details on each country follow.

Germany is representative of a country with insurance schemes that are categorized according to industry, and previously did not have any unemployment insurance for the self-employed. From February 2006, however, small business owners have been allowed to voluntarily subscribe to unemployment insurance. With this change, small business owners who have subscribed to unemployment insurance for at least 12 months during the previous 24 month period can receive unemployment benefits. Professionals such as doctors, lawyers, and accountants can operate their own separate social insurance schemes, so they can also introduce different schemes as needed. Meanwhile, agricultural workers and self-employed workers engaging in art and publishing do not have any access to unemployment insurance.

Germany also has an unemployment assistance scheme that provides unemployment allowances to both wage workers and self-employed workers who have registered as job seekers and who have property that is valued at less than a certain amount. Therefore, self-employed workers in Germany who have given up their business activities and who do not have any property can access fiscal assistance through this unemployment assistance scheme.

Austria also has a social security system that is based on occupational categories. While self-employed agricultural workers in Austria cannot access unemployment insurance, self-employed workers who engage in commercial activities have been allowed to voluntarily subscribe to unemployment insurance since January 2009 per the Act on Social Insurance for Persons Engaged in Commercial Activities. Unemployment insurance benefits are based on contributions, and these contributions can be determined on the basis of a person's total income or 3/4, 1/2 or 1/4 of their income as selected by the subscriber. Once a person decides to subscribe at a certain level of contribution determined upon the chosen base income, contributions and benefits are paid out for 8 years on the same basis. Insurance contribution levels are set at 6% of base income, and benefits are equal to those paid to wage workers.

Countries that offer unemployment insurance coverage only for fishery workers

As described below, Norway and Ireland include fishery workers in their unemployment insurance schemes.

As mentioned previously, Norway does not generally include self-employed workers in its unemployment insurance scheme, and only provides unemployment benefits to some persons from the employment policy standpoint of promoting business start-ups and encouraging retirement for older self-employed workers. Fishery workers, however, are unique in that they are required to subscribe to unemployment insurance. A separate unemployment insurance scheme provides mandatory coverage for all fishery workers at a lower contribution rate of 7.8% compared to the 11% required of other workers.

Meanwhile, Ireland has a universal social security system, but does not include self-employed workers in its unemployment insurance scheme. Fishery workers can, however, choose to voluntarily subscribe to unemployment insurance, and can receive unemployment benefits if they have made contributions for 13 or more weeks during a 1-year period.

Countries Without Any Unemployment Insurance for Self-employed Workers

Countries without any unemployment insurance for self-employed workers can be grouped as follows.

First, some countries including the Netherlands, Portugal, and the UK have general approaches to social security coverage that require self-employed workers to mandatorily subscribe to the social security scheme, yet still exclude self-employed workers from unemployment insurance. Portugal has a general social security system that requires subscription by all self-employed workers, but blocks self-employed workers from subscribing to unemployment insurance. In the Netherlands, the principle is to operate social security as a general system that does not discriminate on the basis of employment status, but here, too, self-employed workers are excluded from unemployment insurance coverage. The UK also has a general approach to social security, but self-employed workers do not have any employment insurance. The only protection offered comes in the form of job seeker's allowance for unemployed persons whose income is lower than a certain level.

The second group provides general social security for self-employed workers through a separate fund, but excludes unemployment insurance from social security coverage. France and Spain are examples of countries with such systems. France operates a separate fund to provide social security coverage for self-employed workers, but unemployment insurance is not included. Spain also has a similar system and, since January 2008, has operated a special social security scheme for tax-paying self-employed farm owners and persons engaging in commercial activities, but this scheme does not include unemployment insurance coverage.

The third group consists of countries such as Italy and Greece that have weak social security schemes for self-employed workers at large and operate special schemes exclusively for agricultural workers, but do not include unemployment insurance coverage in any of these schemes. Italy, for instance, has a special scheme to provide social security coverage for agricultural workers, but has yet to include self-employed workers in its unemployment insurance scheme. Greece has also operated a special scheme for agricultural workers (including farm owners, farm managers, and agricultural wage workers) since 1998, but unemployment insurance is still not available for the self-employed.

The final group consists of only Switzerland, which has almost no social security coverage at all for self-employed workers. Since Switzerland has absolutely no social insurance schemes for the self-employed, it naturally excludes self-employed workers from subscribing to employment insurance.

Summary and Conclusion

This chapter reviewed the background for discussions on social security for self-employed workers and examined factors affecting the formation of social security schemes for self-employed workers such as the number of self-employed workers, the structure of the welfare system, and the structure for sharing the burden of welfare costs between government and the private sector. This chapter then examined available data from European and OECD countries on the structure of social security coverage, the management and operation systems, and the method of funding.

As self-employed workers were traditionally a small minority that suffered relatively little loss from social risks, past social security systems were not designed with the self-employed person in mind. The extended global economic downturn led governments to encourage self-employment as a means to escape from long-term unemployment, causing a change in the composition of the self-employed and triggering discussions within society on the need for social security coverage for self-employed workers. With the addition of small business owners to the original mix of self-employed small capitalists and small farmers, the inclusion of self-employed workers in the social security scheme emerged as an important task.

Factors affecting the formation of social security schemes for self-employed workers include the size of the self-employed segment, the structure of the welfare system, and the structure for cost-sharing between the public and private sectors. When there are a small number of self-employed workers in a country with a universal welfare system, it is relatively easy to include self-employed workers in the existing welfare system, but when there are a large number of self-employed workers and the existing welfare system is based on occupational categories, it becomes quite difficult to integrate self-employed workers into the existing system. With a large number of self-employed workers, however, it is all the more important that they be included in the scope of protection offered by the social security system.

The cost-sharing structure also influences the probability for self-employed workers to be included in social security coverage. When the government is responsible for more than a certain portion of the cost burden, it is more likely that self-employed workers can be included in the system. The recent trend has been for governments to engage in increased financial intervention in the social security system, and more countries are accordingly including self-employed workers in their social security systems.

Countries include self-employed workers in their social security systems in different ways, with some countries providing equal basic social security for all citizens within a general system and others providing self-employed workers with social security through schemes set up exclusively for the self-employed. A general system implies that basic coverage, the management structure, and the system for funding provides all population groups with identical social security coverage regardless of their occupation. Systems that are exclusively for self-employed workers either include all self-employed workers within one scheme or—more often—provide different schemes for the various self-employed groups, where many countries have special coverage for agricultural and fishery workers. The distinction between categorized and general approaches to social security for the self-employed is relative, however, and even coverage provided through categorized schemes tend to be similar in substance to coverage offered for wage workers.

The following is a summary of social security coverage associated with different social risks that is offered to self-employed workers. First, almost all countries in this study provide self-employed workers with old-age pension and survivors' pension either through fixed-amount basic allowances supplemented with voluntary subscription to additional benefits or through pension allowances that are determined directly or indirectly in connection with previous market income.

Benefits for the loss of work ability cover either the short-term loss of work ability (sickness benefits, maternity protection, etc.) or the long-term loss of work ability (disability benefits). Countries have quite varying responses to the short-term loss of work ability for self-employed workers. A considerable number of countries do not, in principle, provide sickness benefits in this case, while some provide access to sickness benefits through voluntary subscription. Meanwhile, statutory maternity protection is provided as a norm for the self-employed in many countries.

Almost all countries provide disability benefits to self-employed workers when they suffer a long-term loss of work ability. This coverage usually does not include sickness benefits, however, and is often limited to disability benefits provided upon the complete loss of work ability.

As for medical and family benefits, most self-employed workers are treated equally with their wage worker counterparts. For industrial accidents and occupational disease, many countries have instituted measures to protect non-wage workers from work-related risks, and some have moved further to provide coverage for homemakers and students, while others extend protection to all citizens. Countries that include non-wage workers in their scope of coverage for workers' compensation insurance may sometimes not be able to provide coverage for all self-employed workers, but tend to at least cover farmers and the relatively high-risk professionals in their workers' compensation insurance schemes.

The status of unemployment insurance coverage for self-employed workers is as follows. In the past, self-employment was regarded as a choice that was made with the assumption of risk, so self-employed workers were expected to take full responsibility for any potential bankruptcy. This and the difficulty in proving the unemployment of self-employed workers led to very few countries with unemployment benefits for self-employed workers. Today, however, self-employment through entrepreneurship is promoted as a means to escape chronic unemployment, and because a considerable number of these new business owners eventually go bankrupt, an increasing number of countries have introduced unemployment benefits for self-employed workers. The provision of unemployment benefits is sometimes linked with employment policies or labor market policies. Unemployment benefits are provided to self-employed workers through various methods including job seeker's benefits for self-employed workers who register as job seekers, benefits for unemployed workers with an income that is less than a certain amount, and voluntary subscription to unemployment insurance.