



Increasing employment through in-work benefits: way ahead

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ONLINE EVENT

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Webinar Summary

The webinar was an event co-organised by BusinessEurope and the EESC Employers' Group on 7 July 2022. The speakers and participants included representatives of the European Parliament, the European Commission, the OECD, PES Network members, representatives of EU and national level social partner organisations as well as EESC members. The webinar was one of many employers' initiatives aimed at facilitating further cooperation among stakeholders.

Current labour and skills shortages in all EU Member States are acting as a bottleneck for economic growth. They represent a serious challenge to business development by putting additional pressure on labour markets across all sectors and at different skill levels. At the same time, a significant number of working-age people in the EU remain inactive: one in four is inactive, while the inactivity rate exceeds 30% in five EU Member States (Italy, Greece, Romania, Belgium and Croatia)¹. The combination of an ageing population and a shrinking workforce is also a challenge to making sure social protection systems are sustainable and adequate for future generations. **The goal of the webinar** was to discuss reforms and policy options to get more people into employment with the support of in-work benefits.

BusinessEurope and the EESC Employers' Group believe that in-work benefits (IWBs) are at the core of "making work pay" policies and improving incentives to work. IWBs support employment participation and increase disposable income without raising employment costs for employers. They also support employment by contributing to job retention and making low-paid jobs more attractive. The upcoming proposal for a Council recommendation on minimum income should encourage Member States to put in place well-designed IWB schemes. The role and potential of IWBs should also be taken into consideration in the reflections of the High-Level Group on the future of social protection and of the welfare state in the EU².

Panel 1: In-work benefits: an effective tool to bring inactive people (back) to the labour market

Main points raised:

- Employment is the best way to ensure access to social protection. People should be better off working than being on social benefits.
- While social protection systems are best designed at national level, there is room for EU-level guidance and support through benchmarking or exchange of good solutions.
- Ongoing mega-trends such as digitalisation, climate change and the ageing population entail a need for continuous "re-matching" of workers with vacant jobs. We need dynamic labour markets that facilitate labour market transitions among different sectors and jobs.
- In addition to financial incentives, issues such as skill level, lack of work experience, care responsibilities, availability of enabling services and job counselling have an impact on labour market access and participation.
- IWBs alone cannot improve the current situation on the labour market. However, in the context of a strong demand for labour, financial incentives are a more powerful driver for employment-related decisions. IWBs can help jobseekers, especially those with low skill levels and/or long spells of unemployment, to take up entry-level or part-time jobs or increase their working hours.
- In planning IWB schemes it is important to take into account the inter-job mobility of workers. At the same time, the design of IWB schemes should take into account the fact that the impact of IWBs may be limited for some groups. Last but not least, the interplay with a comprehensive social benefits system should be taken into account.

¹ <https://www.statista.com/statistics/1258896/inactive-population-in-europe-by-country/>

² By the end of 2022, the High-level Group will present a vision of how to reinforce European social protection and welfare systems in the light of current and future challenges.

- IWBs can provide targeted support to workers in need and their families while reducing government spending, as they are less costly than untargeted support. They can alleviate the risk of poverty, especially if they support a transition to regular employment. They can also be a good tool for reallocation of social protection resources and even over time allow for savings, i.e. when beneficiaries become more financially self-sufficient through their own work.
- There are some challenges that should be addressed when formulating IWB policies. For instance, the IWBs should be understood by their beneficiaries, including their rights and responsibilities. The right balance between in-work and out-of-work support should be ensured.
- A number of countries suffer from serious labour and skills shortages and at the same time the inactivity rates are high across the EU. However, in some countries a part of those considered inactive are, in fact, working undeclared. To ensure the sustainability of social protection, labour markets and social protection systems should promote declared work opportunities in a way that takes into account the increased demand for flexibility in working life.
- In the context of labour shortages, it is also important to improve the role of public (PES) and private (PrES) employment services so matching between available jobs and the labour force becomes more effective. Social dialogue can also play an important role in deciding the most appropriate approach to IWBs and their design.

Panel 2: In-work benefits: how to make them work?

Main points raised:

- The national IWB schemes differ and this reflects the differences in labour markets and social protection systems. What is important is to exchange best practices and draw lessons on how to improve them to make them more efficient.
- In some Member States IWBs support the post-COVID recovery. Ireland is an example of the employment support schemes that aim, amongst other things, to facilitate recruiting workers and to encourage recruitment of the unemployed. For example, the Work Placement Experience Programme enables participation in training that should lead to employment. At the same time, it makes it possible to preserve rights to welfare payments.
- In Poland the IWB system is fragmented. There are, for example, tax exemptions for young people (under 26) and people who have reached the retirement age but pursue full-time employment. Internship vouchers for the long-term unemployed are one of the instruments supporting employment. Also, a concrete example of a successful sector-led IWB came from the automotive industry, where after introducing initiatives addressed particularly to women (such as childcare provisions, reskilling opportunities and flexible work arrangements), the number of female workers has increased significantly.
- In Sweden the New Start subsidy was created in order to address the challenges of a high unemployment rate among persons with low skill levels or limited work experience. The target group covers, among others, the long-term unemployed, persons on sickness benefit or social welfare support and refugees. It is a rights-based subsidy and its success builds on substantive reduction of the labour cost, simplicity and predictability. The length and amount of the subsidy varies depending on age, length of unemployment and whether the recipient is a refugee. Practical business experiences have shown that the scheme is successful, reaches out to those who otherwise would have been unemployed and often leads to a regular employment contract.
- While an IWB scheme – as defined by the OECD – does not exist in Germany, there are other support programmes, such as the additional payment from the minimum income scheme to persons who are employed but cannot meet the needs of their family. Another example is "mini-jobs", which are exempt from taxes and social contributions. Furthermore, in "midi-jobs" the social security contributions are reduced depending on the salary level. The objective of the "midi-job" is to have a smooth transition from mini-jobs without social contributions to a job with a progressive social security contribution. In addition, there are wage subsidies or "integration subsidies" for people who face difficulties finding employment.
- The discussion showed that if schemes are too complicated, not understood by employers or potential beneficiaries or if there is too much red tape, their take-up will be limited. Communicating in a clear and concise way promotes the use of IWB schemes.

The webinar discussions clearly showed that the EU and Member States should continue their work on reforms. In times of high labour demand, such as now, it is important for governments to consider in particular the role of IWBs to create favourable conditions for increased labour market participation. The European Semester is the right framework for encouraging the Member States to carry out the reforms that are needed. Furthermore, implementation of national recovery and resilience plans is an important opportunity for each Member State to undertake the necessary structural reforms. The national social partners need to be involved in designing and implementing the reforms.