

Policy briefing

Introduction

YouthProAktiv is a coalition of young people promoting a culture of proactivity and entrepreneurship in education and policy. This document was created to communicate to policy makers in a clear and simple manner our study on how self-employment could help to countermeasure youth unemployment in Europe.

Unemployment

Political, economic and societal efforts to overcome the crisis provoked by COVID-19, right after Europe was finally overcoming the effects of the economic crisis of 2008, can be seen as successful. **Unemployment** rates are decreasing again after reaching a peak in 2020. Following this positive trend and according to EUROSTAT data, in February 2022 unemployment registered a 6.2% rate. However, the percentage of youth unemployment is twice this number, accounting for a 14%. It is significant that youth unemployment sharply increased from 2019 to 2020, while unemployment for people aged 55-74 was stable.

Overall, EUROSTAT data shows that unemployment rates are higher for young people than for those over 30 years old. Especially regarding the **population in EU aged 24-29, who have a 7,5%** of unemployment ratio, 1,3 % higher than the general unemployment rate.

Employment

For those EU citizens who are employed, the vast majority are classified as employees (86.2% in the third quarter of 2021), compared to the 13.2% of self-employed and 0.6% of contributing family workers*, according to EUROSTAT. It is thou to be highlighted that the real rates of self-employment are lower, due to the existing bogus self-employment**

Those who are self-employed can also be divided into those with or without employees. Taking as a reference Q3 of 2021 we observed ratios of 31.8 % of self-employed employers and 68.2 % of own-account workers.

It has been further studied, that self-employed rates increase generally with age. Out of the general 13.2% of self-employed rates, just a 4% of self-employed workers accounts for the age group 15-24, while the percentage raises to 17% for the age group 55-64. It can be argued that fear to the potential risks linked to the self-

employment status represent an entering barrier that starts to be overcome on the basis of senior experience in the and previously developed trust of the actors of the market.

Furthermore, the rates of self-employment also differ between genders with self-employment rates higher within the male population than within females.

Conversely, the level of education acquired shows lower levels of disparity than those related to age or gender. This can be explained in relation to the flexibility and adaptability of skills and knowledge with regards to the variety of occupations and sectors of activities and can be portrayed and understood as an opportunity for newcomers since the level education seems not to represent a limiting barrier.

Summary of numbers 2021 in EU

- Youth unemployment numbers were twice the average unemployment rates.
- Unemployment is specifically higher for those aged 25-29.
- 86,2% of employed people are employees.
- 13.2% of employed people are self-employed
 - 4% of people aged 15-24 are self-employed
 - 17% of people aged 55-64 are self-employed
 - There are 60% more self-employed men than women
 - Self-employment rates are not highly affected by education levels.

Potential for youth self-employment

The high rates of unemployment together with the internet and globalization have made job-seeking a much more competitive process, where hundreds of workers can apply for the same position. Here, lack of professional experience often becomes the main disadvantage for newcomers to the labour market.

In the light of this observed fact, the core focus of the project *Transforming COVID-19 into an opportunity: new inclusive digital jobs and training for your people in the creative sector* is to boost self-employment mindset and opportunities for unemployed young people to become economically activated on the basis of their acquired competences.

Promoting policies to encourage creative business ideas and making Europe a more business-friendly environment could be very beneficial according to the *Youth entrepreneurship in Europe: Values, attitudes, policies* study by Eurofound. These benefits could directly affect job creation, the development of human capital and the fostering of entrepreneurial skills. In addition, according to their studies, young people in Europe find self-entrepreneurship an attractive career option though the percentage of young people who think of it as a feasible career path is much lower.

The perception of entrepreneurs as role models seems to be reduced in EU member states in comparison with similarly developed countries. The access to finance and complex administrative procedures as main barriers are also emphasized more in EU than in other places. Overall, the reviewed literature agrees that Europe is viewed as a less favourable and friendly environment for youth entrepreneurship despite its' potential and the interest it generates.

Challenges to become self-employed

There are three main challenges preventing young people and citizens in general to choose self-employment as career path. First, culture and education as main sources of lack of motivation and self-entrepreneurial skills. Secondly, the economic factor, where taxes and administrative procedures mean a preventive initial barrier. And thirdly, the protection and information factor leaving the self-employed worker in a less supported environment for social benefits and guided procedures.

Culture and education

Culture and education can play a key role as potential enabler or initial barrier for self-entrepreneurship. It has been largely studied that there is a need for entrepreneurs as role models in order to foster a more positive attitude and culture towards entrepreneurship in a given country. Furthermore, it can be discussed that in many countries, students are trained “to be employees” either of the public or private sector, since many countries do not foster entrepreneurial skills in their formal education. Without a proper training on entrepreneurial skills and knowledge of this career option, it would be very hard to motivate the young people to choose this path or to avoid a feeling of uncertainty and lack of guide once an individual makes the decision of choosing this career option.

Economical and administrative factor

This factor includes unsupportive tax regimes, excessive costs & complicated procedures of registration, important limitation on access to credit, as well as poor information on the related processes.

Both the bureaucracy and the legislation are factors that have been studied for having a restraining impact for new entrepreneurs by institutions of several EU countries like Spain and Hungary (Hungarian Commissioner for Fundamental Rights, 2014; Spanish Ministry of Employment and Social Security, 2013a).

In many EU countries, self-employed workers have to pay administrative procedures before starting their activity and start paying taxes right from the beginning of their activity, which can be very demanding, especially at the beginning of the work activities. According to the Eurofound research report “Exploring self-employment in the European Union”, a specific topic within this field, is the varying regulation and definition of the status of self-employed in the different member countries. In some member states, there is no statutory definition of self-employment. However, some have guidelines and working definitions that help to distinguish between subordinated workers and the self-employed. Moreover, there

are also specific legal rules and conditions that apply to certain professions, which add further legal classifications. Overall, in some cases it can be difficult to determine to which category does one's activity belong to, which extends the uncertainty to one's legal rights and obligations. It seems to be a recurring issue when, in some countries like Denmark, one can apply to the tax agency for a written confirmation of what type of self-employed one is.

Regarding the finance aspect, in the "Self-employed and entrepreneurship: breaking the barriers to job creation" report, the European Commission stated that those who are self-employed find a barrier when expanding their activity or hiring employees, due to their lack of collateral and the high fixed costs for loans. Moreover, according to the OECD, women, youth and unemployed often have more difficulty in accessing finance to start or sustain their business as self-entrepreneurs.

Protection and information

Public and private employees are protected when they lose their jobs, when they have an accident at work, or receive help when they have a baby. This is something that does not always apply to the self-employed status. Research analyst at Bruegel ("Better pensions for the European Union's self-employed" report) have found that in many EU countries, it is often the case that self-employed have and no protection against unemployment unless they take out personal coverage.

Thus, when the self-employed have to search and understand how they should pay taxes or structure their activity for it to be legal, they are on their own. There is no such public help for self-employed in most EU countries.

Overall, this means that the quality of life and the protection is generally less assured for those who choose to be self-employed in the EU.

How can policies & practices support and enhance self-employability

Culture and Education

Formal education should raise awareness and motivate students to act upon and try to create a positive impact in society or the environment, promote more reflection and learning from mistakes and shift towards putting more weight on implementing, prototyping and testing out solutions.

This has been proposed and implemented all over Europe through the DOIT European Initiative*** funded by the Horizon 2020 program, where Ministers of Education from EU Member states has been encouraged to include entrepreneurial education as part of the formal curriculum. Innovative toolboxes had been designed and tested including working tools on: creating, reflecting, scaling up, sharing, sensitising, exploring and working together, as well many other relevant and creative resources available for teachers and students from 6-16 years old.

Entrepreneurial skills and education should be taught and encouraged in public schools. For instance, in Austria, the Austrian Federal Economic Chamber created in 2004 the initiative Entrepreneur's Skills Certificate that many schools all over the country have implemented. It is offered to students as an additional qualification from the eighth grade onward, and it is a course that covers essential and practical questions on entrepreneurship. In 2018, 275 schools offered this option alongside the core curriculum.

Business competitions should also be promoted at a formal education level to engage and inspire young people in entrepreneurship. Many countries organize business competitions, for instance, in Finland every year the multinational consultancy Ernst and Young organizes 'The Young Entrepreneur of the year' competition. In this yearly competition, young entrepreneurs from all over the world compete and receive support from experts. This program specially seeks those individuals who show leadership and whose projects aim to improve the quality of life in their communities, countries and around the world.

Economical and administrative factor

Regarding the administration, it would be beneficial to those starting their self-employment journey to have a clear and easy to understand guide as to what kind of relationship is considered employment and which is considered self-employment in their countries. For instance, the Norwegian Tax Administration (Skatteetaten) gives specifications, providing guidelines in order to clarify under which circumstances self-employment can be used and when an employment contract is called for: this includes considerations such as whether the work is conducted under supervision, whether the employee uses their own tools or whether tools are provided by the contractor/employer.

Allowing a wider span of time for the beginner self-employed to pay their taxes and registration costs would provide them a safety net to avoid having many costs before they even have benefits. For example, in Belgium, income tax is payable one year after the end of the Belgian tax year. Here, a self-entrepreneur can begin to pay their taxes up to 2 years after beginning their activities, which gives them an initial margin to pay their initial expenses before starting to pay their taxes.

Tax-related fines could also help to be lower for the self-employed workers, since they belong to the personal-income tax, which is already higher than the company income tax. As an example, in the Netherlands tax fines are very low for those who are self-employed. The fine is 3% of the tax, and if the tax return is filed late, there is only a 65€ administration fee.

Protection and information

Increasing the protection of the self-employed worker should be a priority to boost self-employment as employability enabler. As practical examples for this, part of the taxes paid by self-employed could be oriented to fund their healthcare, ensuring assimilation of the protection offered to employed workers during their work life. In Belgium, for instance, self-employed must join a social insurance fund and pay their social security. This covers their Belgian state pension, healthcare, child benefit, maternity benefit, and sickness and disability benefit. A different approach to providing this kind of security is Austria, where the social security of the self-employed is paid by their clients through the tax office. Here, the self-employed can also access maternity allowances. And in the Netherlands, self-employed workers can receive a healthcare allowance from the government (*zorgtoeslag*) if their income is below a certain level, which also fosters the help for those beginning their activity. As for unemployment support, in Estonia, for instance, the self-employed who become unemployed and meet certain basic criteria have access to unemployment help, just like any other employee would have.

It is also observed that, due to the reduced contributions and difficult access to these, the self-employed workers in EU generally receive significantly lower income than employed workers, in their old age from their pensions. Part of the taxes paid by self-employed should also fund their pension and retirement. Countries like Denmark, Sweden, Netherlands and Switzerland have a universal basic pension, where any employee regardless of being an employee at a company or a self-employed has access to a basic flat-rate pension. Another option that many countries in the EU have is an earnings-related pay-as-you-go (PAYG) public pension, which only in Denmark and Belgium can be combined with the basic pension.

Information should be the first form of protection. Enhancing the potential of informed decisions when dealing with job creation, self-employed workers would greatly benefit from the figure of a public self-employment office oriented to help

through the administrative processes of becoming a self-employed, explains the options and guides the self-employed in their initial working pathway. Some countries like Austria, have dedicated entities (the local Economic Chamber Offices (WKO)) where self-employed workers can with guided support through the whole process.

Conclusions

The insights that arose from youth employment numbers in Europe highlight that a further emphasis to foster effective inclusion of youngsters in the labour market is needed. Self-employment, as career choice, could trigger positive long-term economic growth and social cohesion in each of the 27 Member States, smoothing the negative impact of the economic recession that Europe is currently facing.

Three major constraints have been identified over this policy briefing that hinder European citizens to engage in self-employment as a career path: culture and education factors, economic and administrative factors and protection and information regimes. The lack of a proper training on entrepreneurial skills in the school education systems is a driving force that leads students to primarily consider the option of becoming “employees”, dismissing the enhancement of a culture of entrepreneurship. Better understanding of the self-employment status in each country, easy taxes and registration costs as smooth access to funding could help alleviate the beginning of the self-employment road. Finally, stronger and sufficient protection against unemployment (or lack of income), health- related constraints and pension coverage as well as greater information and support in the administrative and legal establishment of solo-entrepreneurs are proven to increase the rates of self-employed workers in a country.

Examples of best practices implemented in different EU Member States can serve as empirical guidelines for implementation of new approaches and practices supporting the self-employment status as a key enabler of economic activation and growth of a country.

Further comparative studies on the practical ways in which Member State are addressing education, taxation and protection of the self-employment status are key to ensure a peer learning approach across EU Member States oriented to achieve economic growth and increased rates of employability in Europe. Comparative best practices could additionally support European policy-maker in the definition of general frameworks of action that could guide Member States into the employability optimization of their national workforce.

* A contributing family worker is a person who holds a self-employment job in a market-oriented establishment operated by a related person living in the same household, and who cannot be regarded as a partner because of the degree of his or her commitment to the operation of the establishment, in terms of the working time or other factors to be determined by national circumstances, is not at a level comparable with that of the head of the establishment.

** False self-employment is a situation in which somebody registered as self-employed, a freelancer, or a temp is de facto an employee carrying out a professional activity under the authority and subordination of another company

*** <https://www.doit-europe.net>

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