Deutsche Sozialversicherung
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Latest proposals on social security for platform workers

Background information Dr. Sch.-W. 24/07/2019

Globally organised work needs a global social security system.

Professor Enzo Weber, Head of Research at the Institute for Employment Research, is taking a trailblazing approach to the debate on the future of social security. The European Social Policy Expert Group, consisting of representatives from the umbrella associations of the German social insurance system, have already had the opportunity to discuss his proposals thoroughly (see article Oct 2018).

Weber's concept has now been revised and a more detailed, refined version of the global and standardised Digital Social Security (DSS) model is now available. It was published by the Hans Böckler Foundation in May 2019 under the title 'Digital Social Security – Outline of a concept for the 21st century'. The latest version clearly shows that it is about more than simply shifting certain administrative processes to the international level. Rather, the scope and level of social protection for certain economic sectors has to be restructured on a global level and, if the model is successful, the power of the participating countries to structure social security has to be partially withdrawn.

At the core of Weber's model is a global DSS account or account system for each individual platform worker. Each platform operator, regardless of where they are located globally, must pay a certain percentage of the worker's remuneration from their platform work to this account, where it is held temporarily. The system could be administered by an international institution such a s the World Bank or the ILO. According to Weber, the DSS account 'collects the globally generated contributions and transfers them on a regular basis to the social security system of the platform worker's home country'. Two crucial factors already become apparent at this point: What is the basis for determining these contributions? What is the 'home country' of a platform worker who is globally active?

Weber makes it clear that the DSS system is not an independent insurance institution, but only a processing point for forwarding contributions to the (hopefully correct) responsible institution. It also seems that the system does not decide on the status of the platform worker as an employee or self-employed person; it would be used in both cases. In any event, it would offer dependent employees 'an efficient tool to organize social protection in an amorphous labour market'. However, the real advantage of the model comes to light with the self-employed. For example, the method of deducting contributions at the source means that the risk of contribution evasion is reduced.

The level of the contribution to be paid is the most critical variable in the DSS system. It is conceivable that the contribution rates to the DSS system could be adapted to each country so that the respective national regulations would also apply in full to crowd-workers. However, the contribution burden generated by this would not be proportional to the personal financial circumstances of crowd-workers. Furthermore, different national contribution rates would distort global competition. Therefore, Weber wants to introduce a uniform percentage for the amount to be deducted from the transferred payments for non-location-based crowd-workers who compete in the same global market. It is worth noting that half of this amount is considered as employer or customer contribution and the other half as employee or crowd-worker contribution. This aspect is even more important than the administrative DSS transfer point, which could even be omitted, if necessary, in favour of a direct transfer to the responsible institutions.

It should be kept in mind that the contribution paid will never correspond exactly to the amount actually owed to the competent social security system. In some cases, it may be too high, especially if the competent country is not obliged to provide insurance coverage at all. The contribution would then have to be reimbursed retrospectively. In most cases, however, it will be too low, especially if you ‘start from low contribution rates’, as the author suggests. Underfinancing is where Weber focuses his subsequent considerations. He implicitly excludes the option of demanding additional contributions in the event of underpayment. The result is that the responsible insurance institution must somehow make do with the low contribution that has been transferred. This has to be done in such a way that access to benefits in-kind, such as health insurance, is possible at minimum contribution levels. Any remaining funds can then be used for other types of insurance which follow the equivalence principle where benefits are in line with the amount of contributions previously paid. This includes, first and foremost, pension insurance and unemployment benefits. The same applies if the person already has health insurance coverage via other means, for example, as a recipient of social welfare. Since any remaining payments presumably would not be as high as contributions otherwise should be, the scaling principle would mean that any benefits would also be correspondingly lower.

A version of the German Artist’s Social Insurance Fund?

Even if Weber does not want his model to be confused with the ‘creation of a new fully-fledged international social insurance’, it is much more than an international collection agency working on behalf of the social security institutions. Weber would even forego the DSS account and allow direct contributions to be transferred to the national systems, as long as the principle of a uniform contribution rate is maintained. In essence, the model resembles an international version of the German Artists’ Social Insurance Fund (KSK), although Weber does not refer to this at all. It is not necessary to fully understand the somewhat peculiar structure of the KSK in order to use it as a comparison. It is enough to know that the Fund deals with artists in the true sense, but not only artists; it is certainly not a fund in the traditional sense of a social insurance institution, such as a health insurance fund; and the social element consists in particular of a massive subsidy from taxpayer funds.

The KSK collects contributions and subsidies, then transfers them to the competent 'traditional' social insurance institutions, which provide insurance coverage according to their general rules. Like the DSS model, all contributions are collected from market operators; like the DSS model, benefits are claimed from the user due to a lack of employer; like the DSS model, the 'generator of income' gains access to high-quality social protection at extremely favourable conditions; and like the DSS model, the endemic financing gaps must be filled by an anonymous third-party. It is therefore understandable that the KSK model is greatly popular on all sides of the German platform economy. Weber takes up this unseen thread and weaves it consistently on a global level, beyond the purely national dimension.

The aim of the DSS system is clearly to provide adequate social protection in a globally integrated market despite cost pressures. However, this has its price and Weber is conscious of these issues. He tends to answer the question he himself poses 'Do platform workers have the means to afford social security contributions?' with a 'no'. Nevertheless, social security should not be relinquished, especially in terms of health insurance and old-age pensions. The question as to whether such a non-sustainable business model should actually be subsidised on a long-term subsidised basis is not addressed. Therefore, the DSS model raises some very serious, fundamental questions. However, it is to be expected that, like the KSK model, it will be warmly embraced by the business community and it should therefore be one of the approaches to be considered for the future.

In certain other areas, the concept is also not as simple and legally compliant as intended. By using the DSS account, Weber expects that 'arrears of payment and surprising additional demands' can be avoided, for example when income 'exceeds exemption limits'. However, at best, this is a legitimate aspiration only in cases where transferring a contribution to the DSS account would settle all claims of the social security authorities against the participating economic operator, that is, in the case of non-location-based online work, including click work. However, because the author states that 'DSS is explicitly not an instrument … to create a "second class worker"', a possible retrospective reclassification of the activity as dependent employment by the competent country cannot be ruled out – with all the consequences that this may have for the subsequent collection of contributions.

A weak spot in the model is its ambiguous relationship to the 'tax state'. Weber even doubts that the model works where social security benefits are financed through taxation. There is no need to be that pessimistic, but there is one point about which one should not be under any illusions: The DSS system will not prevent tax authorities accessing a platform worker's income. The payment of fixed contributions by the platforms to the system may block further claims to contributions by the responsible social insurance institutions, but not the demands of the responsible tax offices. Therefore, contrary to what the model initially suggests, it is not possible to rule out arrears and unpleasant follow-on claims. Weber therefore suggests that the DSS system should also give tax authorities – and ultimately also the labour administration – insight into the payment flows in the area of platform economy. Although the payment of fixed contributions by the platforms to the system is able to prevent more extensive contribution claims by the responsible social security institutions, it is not able to restrict the demands of the responsible tax offices. Therefore, unlike the model suggests, arrears and unpleasant subsequent claims cannot be ruled out here either. Weber thus suggests that the DSS system should also give tax authorities, and ultimately labour market authorities, insight into payment flows in the platform economy.

It may be worth taking a separate look at this scaled-down function of a DSS system – as a link between platforms and national authorities through the collection and transmission of payment data.

EU Digital Single Window

Weber's concept has now been taken up and further developed by a High-Level Expert Group appointed by the EU Commission. It has proposed the creation of a Digital Single Window by the European Union. The aim is to exchange the social security and tax-relevant data of self-employed persons who work for multiple clients via electronic platforms and all other types of labour market intermediaries. Platform operators would have to automatically transmit all relevant income data to the Window in a standardised format, regardless of where the client is based or lives. The Window would then forward the data to the national institutions responsible for taxation and the collection of the social security contributions of the platform worker concerned. From the point of view of the platform operator, the project would also have major advantages because it would simplify reporting and compliance, regardless of whether national law requires the operator or (typically) the self-employed platform worker to report income.

The aim of this European solution is to prevent platforms from having to report to a large number of national institutions – a step towards the completion of a harmonised Digital Single Market. However, it should be explicitly left to the Member States to decide whether they want the system or not. What Weber sees as the core of a global Digital Social Security model would be optional according to the proposal of the High-Level Expert Group, namely a module that would enable platforms to collect contributions at the source on behalf of the competent institutions and pass them on to these authorities. This variant would also have the advantage that it would not interfere with the competence of the Member States to define the contribution rate themselves, including for platform workers.

But the question also arises here as to why the model should be developed internationally at all. It is feasible, that the Window could be administered nationally without circuitously setting up a European/international body. This would avoid numerous administrative problems, some of which are impossible to solve. However, from the platform operators' perspective, a national solution would be disadvantageous because it would mean being faced with multiple contact points when it comes to meeting reporting obligations. There is also the risk that nothing at all will be reported if there is not a clear contact point.

The question of the geographical location of the country ultimately responsible for the social security (and taxes) of the platform worker must be strictly separated from the issue of establishing a digital account of any kind. This is no trivial matter, because in the event of any doubts it also determines the level of benefits and, if one follows Weber's DSS model, it determines which country has to bear the burden of underfunded social security. In principle, there are three possibilities: the place where the service is produced, the place of residence of the recipient of the service, or the place where the service is delivered. According to the applicable rules, the place where the service is provided is the 'place of work'. Obviously for practical reasons, Enzo Weber would like to start with the service provider 's country of residence, which would normally be the same country where the services are provided. Such a regulation would be contrary to the system but could be steered in the right direction with a little effort.

This would look quite different according to a model proposed by Joachim Schuster, Member of the European Parliament. He would like platform workers to be subject to the rules of the Member State in which the service is physically or digitally received for the duration of the service provision. This approach is difficult to implement, but not inherently inconsistent, because it follows the country of destination principle of the European rules on the posting of workers and the Services Directive. It is only somewhat surprising because it comes from a Socialist MEP and not from business representatives. The context only becomes apparent at second glance, namely the discussion at EU and OECD level on the introduction of a digital tax. Essentially, this is about no longer taxing certain services only where they are produced, but also more heavily where they are consumed. This places the consumer at the centre of the value-added chain, probably because of the realisation that Europe has fallen behind globally in the production of digital services.

It should also be mentioned that the topic plays a role in the macroeconomic debate, namely in the issue of which countries are net payers and which are net recipients in the European 'fiscal adjustment'. In a publication for the left-wing network Social Europe, a Portuguese economist argued that net payers in Europe were not those countries whose domestic exports exceeded imports, but that the true correlations had to be looked at the other way around. The largest net contribution comes from the countries that import the most or, to put it another way, those that consume more than they produce.

This thesis may be considered somewhat audacious, because, according to this model, if all European countries were net contributors, the EU as a whole would be financially dependent and externally controlled by the producing rest of the world. This would mean that social security could not be sustainably financed either nationally or by the EU. However, this thesis of ‘Consumption makes you rich – production makes you poor‘ is part of a more general trend. At the centre of value creation, the role of the producer is becoming less and less important and that of the consumer more and more prominent – for example, as a ‘co-producer’. This will initially have consequences for global tax rules, followed by a flow-on effect to social security.