

LABOUR AND SOCIAL JUSTICE

SOCIAL PROTECTION REFORM IN GEORGIA

Principles and Perspectives from Germany

Remi Maier-Rigaud, Simona Helmsmüller

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The healthcare system should be simplified by reducing out-of-pocket payments and scrapping benefit ceilings. Public financial resources need to be continuously increased in order to make the system truly universal and to provide all necessary medical treatments to the entire population.



An unemployment insurance based on mandatory contributions should be established, which grants income replacement benefits for a defined period of time in case of unemployment. For longer periods of unemployment, people would need to transfer to the TSA. This needs to be accompanied by a minimum wage policy, which effectively eradicates in-work poverty.



The three-pillared pension system should be reformed by strengthening the second, social insurance pillar. Moving this pillar from defined contribution to a PAYG benefit scheme would mean paying old-age pensions immediately out of current contributions, which should be used as a selling-point and pull factor for formal employment.

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Executive Summary

Using a life-cycle approach, we identify key gaps for social reform in Georgia. The reduction of informal work is the most pressing of these, since formal employment is the backbone of any robust and reliable social insurance scheme. At the same time, greater financial resources are required through taxation in order to enable systematic social reform in Georgia. Both interventions are needed in order to fill the gaps in the current social protection system, which include the limited scope of pension and health insurance, as well as the lack of permanent unemployment insurance and universal child benefits.

Against the background of Germany's long experience with social protection, we outline the main principles of the German welfare state and present the design of three main social insurance branches (pensions, health and unemployment). Based on the mixed experience that has emerged in Germany, in particular due to path dependencies and political deadlock, we derive lessons that inform a clear and coherent vision for social reform in Georgia.

Contributory systems tend to be more efficient compared to tax financing, so long as there is a clear link between contributions paid and benefits received by the individual insured. This link is achieved by applying the principle of equivalence, according to which contributions are linked to individual entitlements. This key design principle of social insurance should be implemented whenever income replacement is the primary objective (as, for example, in the case of pensions and unemployment insurance). By contrast, if the primary objective is to provide universal services according to the principle of need (as in the case of health care and for a social protection floor), then tax financing should be considered. Based on this insight, this study distinguishes between contingencies that should be covered by contributory social insurance schemes and contingencies where income replacement is not the policy goal and tax-financing is therefore preferable.

Finally, we stress that, besides a technically sound and coherent social reform proposal, it is important to accompany the reform process with the dissemination of factual narratives that create a positive amplifier effect and, as a result, higher acceptance rates among the general population. The government has to ensure, for example, that social insurance contributions are honoured and protected in terms of the ensuing entitlements, so that the population can rely on this promise over several decades, irrespective of which party is in government. Ultimately, the benefits of social protection need to be explained and the design of the welfare state should not be guided by those few who might be tempted to abuse the rules, but rather there should be a "kick-start" of a virtuous circle, in which reasonable behaviour is assumed a priori.

1

INTRODUCTION

Social protection: definition and focus. Enshrined as a human right as early as 1948 (in the Universal Declaration of Human Rights), inclusive social protection systems are a vital means of increasing equal participation in the benefits of economic growth. For the purposes of this report, we will define social protection as all those programs and measures that aim to address poverty and inequality or to protect against certain shocks which may occur during an individual's life cycle. At the same time, in-kind social assistance and other non-cash programs, such as labour market or education programmes, are excluded from this definition. In this report, we are focused only on social insurance and cash-based social assistance.

Status quo and goals. In recent years, the Georgian Government has made significant progress in extending social protection, and seems motivated to extend it even further. So far, social protection measures include such schemes as Targeted Social Assistance (TSA) and the pension system, which have been widely praised for their outreach and effectiveness. Nonetheless, a systematic approach is needed to achieve broad, sustainable impact and to increase efficiency. To this end, the Government of Georgia is seeking advice from its international partners.

German example. The Friedrich-Ebert-Stiftung aims to support the Georgian Government by informing stakeholders about the German experience of social protection. Germany has a long tradition of compulsory social insurance dating back to the 19th century. For decades, the archetype of the Bismarckian welfare state has been a point of reference for many other countries around the world, but especially for other European states (Ayaß et al. 2021: 8; Rudloff 2021). From a critical perspective, central lessons from the German experience of implementing social protection are drawn in the form of both "dos" and "don'ts".

Synopsis. In this study, we follow the life cycle approach advocated by the ILO, which structures social protection interventions according to the risks people face at different stages of their lives. In the first chapter, we summarise previous studies of the Georgian social protection system to identify areas of greatest need as well as the major constraints under which the Georgian Government must operate. This leads us to focus on pension schemes, health and unemployment insurance in the second chapter, where we present the design and structure of these mechanisms in Germany. In the last chapter, we explain the principle by which we recommend contributory schemes or tax-financing as more appropriate, and present corresponding recommendations for the Georgian setting. This final section also contains our key conclusions.

2

SOCIAL PROTECTION IN GEORGIA

2.1 BACKGROUND AND CURRENT SYSTEM

Economy. Apart from the shocks of the financial crisis of 2008 and the Covid 19 pandemic - ongoing since 2020 - Georgia's GDP has grown steadily since the beginning of the millennium. Much of this development is credited to Georgia's free market, low taxes, and other neo-liberal policies, which Georgian Governments of various parties have implemented since 2003. This includes a downsizing of Government agencies, as well as a number of free trade agreements, such as those with the EU and China, all designed to attract much-needed direct foreign investment. As a result, for the past three years, Georgia has been ranked among the top 10 countries in the world for *Ease of Doing Business*.¹ Additionally out of all Black Sea countries, Transparency International ranked Georgia lowest in the Corruption Perception Index in 2020.²

Poverty and unemployment. While overall economic growth has been accompanied by an impressive decrease in poverty rates, 21.3% of the Georgian population still fell below the national poverty line in 2020 (NSOG, 2021). This is consistent with the challenges Georgia faces in its labour market. Unemployment is persistently high at 18.5% in 2020 and as high as 38.5% for people aged 20 to 24. In addition, 31.7% of its population are reported as being informally employed, with the highest share among males and among the rural population (NSOG, 2021).³ This implies that only half of Georgia's potential labour force is subject to income tax.

Social protection challenge. The high degree of informality in the labour market poses a dilemma for the Georgian Government because it limits the country's overall budget whilst also increasing the need for social protection. For one, many informal jobs are low-paid (e.g. in the

agricultural sector) and pose greater threats to personal safety (e.g. in the construction sector), thus increasing the need for effective, multi-faceted social protection. Secondly, informally-employed individuals don't pay taxes, limiting the amount of revenue available for tax-financed in-cash assistance. The informally-employed are also beyond the reach of employer-based social insurance schemes.

Social protection components. Despite this challenge, Georgia's current social protection system is wholly tax-financed and includes three main components: 1. (Near-) universal old-age pensions (including a new supplementary pension system), 2. Universal disability benefits, and 3. targeted social assistance (TSA) at household level. Below, we summarise the main aspects of each of these components, which we deem to be at an advanced level of maturity.

There are also targeted cash transfers directed at special interest groups, such as people living in high mountainous regions, internally displaced persons, and families with more than two children in regions with low birth rates. Due to the country-specific nature of these benefits, we will not consider them in this report. Furthermore, Georgia provides some child and maternity as well as some health care benefits, which, however, have not reached the level of universal outreach yet and will therefore be discussed as gaps in Chapter 1.2.

COMPONENT 1: Old-age pensions

Tax-financed universal pension pillar. More than 70% of Georgia's spending on social protection is on old-age pensions. Georgia's pension system effectively follows a three-pillar approach. The first pillar is a universal, tax-financed redistribution scheme, which pays benefits to all female citizens over the age of 60 and to all male citizens over the age of 65. The system has won international acclaim for its universal outreach, efficient targeting and well-organised administration. However, the pension scheme does not aim at enabling a living standard equivalent to that before retirement, but rather only provides a basic income, equivalent to USD 2.55 per day (USD 2.9 per day for those over 70 years old). Although UNICEF (2018) shows that the system has markedly decreased the poverty risk for children (as 35% of children live in households with

1 <https://www.doingbusiness.org/en/data/exploreeconomies/georgia> Note that these reports have been suspended by the World Bank since 2021 due to data irregularities discovered in China (2018 report), Saudi Arabia and the United Arab Emirates (2020 report), and Azerbaijan (2020 report).

2 <https://www.transparency.org/en/cpi/2020/index/nzl>

3 <https://www.geostat.ge/en/modules/categories/683/employment-unemployment>

an older, dependent household member), around 9% of beneficiaries are also dependent on targeted social assistance. The latter is particularly true for women, single older people and older people with severe disabilities, suggesting that the first pillar is inadequate as a social protection tool for the elderly.

Contribution-funded pension pillar. In an attempt to address this situation, the Georgian Government introduced a new, mandatory, defined contribution-funded pension model in 2018, which forms the second pillar of the pension system. The system is reported to have reached 100% of its targeted participants, from whose paid wage mandatory deductions of 2% are taken. In addition to the employee's contributions being tax-free, they are also matched by the employer, and – depending on the income level – by the state too. Ideally, this would create much needed incentives for participating in the formal labour market, however, many employees seem sceptical of the scheme, perceiving it as yet another tax with no immediate benefits. As a funded pension system (as opposed to the German pay-as-you-go system), no significant payments have been issued yet and hence its outreach and impact on beneficiaries is currently unclear. It can, however, be expected that the impossibility of cross-subsidising within this system implies that the first pillar will remain an important tool for addressing labour market inequalities.

Voluntary private pension pillar. The third pillar consists of voluntary contributions to private pension funds, which have an extremely limited outreach, covering only 1% of the workforce. There are no tax benefits for voluntary private pensions and overall regulation seems to be largely lacking (Urotadze 2020).

COMPONENT 2: Disability benefits

Coverage. People suffering from a disability can obtain assessment through an approved medical professional. If the disability is classified in one of three groups, the individual becomes eligible for disability benefits. Coverage is as good as universal for those with severe disabilities (Groups I and II) and extends to 75% for people with moderate disabilities (Group III). This gap in coverage might be due to the lower benefits in Group III and some adverse regulations regarding public employment for recipients. While minors are covered under the program, this disability assistance automatically converts to an old age pension upon retirement. The gender difference in retirement age therefore likely contributes to men being overrepresented among recipients of the disability fund. Additionally, people with lower incomes and people living in rural areas are more likely to receive the benefit, reflecting different levels of exposure to work hazards and other risks.

Challenges. These benefits fall short of the levels of ILO conventions, which recommend benefits worth 45-50% of the prevailing wage for unskilled manual work. Benefits for severe disability, however, compare well with other coun-

tries in the region. The greatest concern regarding disability assistance is that of an exclusion error given the lack of data on disabled people who fail to seek assessment. This is likely to be significant due to a lack of awareness of their rights, limited resources or fear of stigma.

COMPONENT 3: Targeted Social Assistance (TSA)

Coverage. As a non-life cycle program, Targeted Social Assistance provides cash transfers to households assessed as poor. An adult household member can apply to the program or be referred by social workers, after which the household's needs are assessed using a proxy means test (PMT). The assessment takes account of consumption, socio-demographic factors, location, and income variables producing a poverty score in which lower values indicate less wealth. Currently, around 13.4% of households are eligible for TSA benefits, corresponding to PMT scores below 65,000 points (ILO 2020: 24). Beneficiary households are subject to re-assessment of the PMT score every four years.

Challenges. As with any social assistance program based on PMT, the risk of exclusion and inclusion errors is large, due to inaccuracies in the PMT methodology itself as well as the dynamic nature of poverty. Possibly due to this design-inherent exclusion error, the programme has been the object of criticism by many Georgian citizens. This is despite the fact that Georgia spends around 1% of GDP on this programme, which is high in comparison with other states, and that the administration of the TSA seems to work quite efficiently. The Georgian Authorities have responded to complaints in the past by adapting the programme rules (e.g. regarding new employment). Non-beneficiaries also seem concerned that the program provides disincentives for formal employment.

2.2 MAIN GAPS IN LIFE CYCLE PERSPECTIVE

GAP 1: Unemployment insurance

No unemployment benefits. Except for an efficient, but temporary (6 month), scheme implemented during the Covid-19 pandemic, Georgia doesn't provide unemployment benefits. As stated above, Georgia's unemployment rates remain high, especially among young people. The average duration of unemployment is, however, unknown, so it is unclear how many workers move in and out of temporary unemployment and how many fall into long-term unemployment. Addressing the latter issue would call for a careful look at economic policies, labour market regulations and support programs such as training and other incentives for employees. However, the risk of poverty due to short-term unemployment could be most efficiently buffered through social insurance. Unemployment insurance would equip people with the necessary income security for fixed periods of time in order to search for new jobs,

invest in additional training, or start up a new business. In addition, unemployment insurance is an important automatic stabiliser for the economy, since it compensates for aggregate demand loss in times of economic crisis.

GAP 2: Employment injury

No generally mandatory employment injury insurance. In general, the aim of employment injury insurance is to cover the costs of medical treatment, rehabilitation and to replace lost income for people injured in the workplace. The Law of Georgia on Occupational Safety requires only employers in hazardous professions to provide private insurance against work-related injuries, but provides for no state subsidies. Even if injury insurance were to be extended to non-hazardous professions (e.g. by creating a public work injury insurance), only formally employed people would be entitled to benefits, which amounts to only 50% of the potential labour force. Compensating injuries resulting from work in the informal sector remains a challenge.

GAP 3: Child-specific cash benefits

Means-tested child benefits. Children in Georgia face a greater risk of general and extreme poverty than other age groups. Yet, with spending on child cash benefits at only 0.38% of GDP in 2019, Georgia spends far less than high-income countries. Following the adoption of the Code on the Right of the Child in 2019, the Georgian Government has introduced a targeted Child Benefit Package (CBP) which currently pays GEL 50 per child under 15 years of age to families with poverty scores below 100,000. In 2018, 11.6% of all children were living in households with PMT scores below 65,000, qualifying them for both TSA and CBP. Only 2.4% of children lived in households with PMT scores between 65,000 and 100,000, meaning they only received the CBP. ILO analysis of the 2018 Integrated Household Survey (IHS) data reveals that CBP reaches only 43% of children in the lowest consumption decile, suggesting inefficiencies in targeting. Additionally, the ILO suspects that there are administrative challenges, based on the observation that the likelihood of obtaining the CBP increases with the age of the child concerned (ILO 2020: 42-45).

Disability and survivor benefits for children. In addition to the CBP, Georgia pays universal disability benefits for children at the highest national level (GEL 220 per month) and also provides survivor benefits to orphaned children under the age of 18 who have lost one or both parents. In both cases, exclusion errors can't be ruled out in the absence of data on the true size of the target population.

GAP 4: Maternity

Lump sum benefit for mothers. Mothers of new born children who are formally employed in the private or public sector are entitled to a lump sum benefit of up to GEL 1,000. Despite there being no mandatory information provided by doctors during pregnancy, the ILO estimates take-up to be nearly universal among those women entitled to the benefit. While the ILO Maternity Protection Convention 2000 (No. 183) recommends that maternity benefits replace two thirds of income for at least 14 weeks, the Georgian system is equivalent to paying only 35% of the average woman's income during that period. The exception is civil servants, who are entitled to six months of paid leave at full salary and one and half years of unpaid leave with guaranteed job protection. Women employed in the informal sector, self-employed or unemployed women have no access to maternity leave whatsoever. The ILO estimates that around 54% of the female labour force are in this category.

Georgia does not currently provide for paternity leave.

GAP 5: Health insurance

Universal health insurance. Since 2013, Georgia has implemented a Universal Health Care Programme (UHCP), which covers approximately 90% of the population with subsidised or means-tested free health care (Goginashvili et al. 2021). For poor or low-income households as well as for pensioners, disabled people, children and veterans the UHCP covers emergency care, childbirth, outpatient care, some specified surgeries, as well as treatment for cancer and infectious diseases. Coverage of outpatient pharmaceuticals is limited. For working-age people with more than 100,000 points on the social assistance scale, services are restricted and might involve co-payments, usually by being charged a percentage of the medical service fee. In addition, coverage ceilings are set for specific health services with hospitals nevertheless allowed to charge more than the UHCP tariff. This leads to high out-of-pocket (OOP) expenditures, which vary between beneficiary income and age groups and types of service. On average, between 7% and 9% of household spending is on out-of-pocket expenditures for healthcare (Goginashvili et al. 2021: 60). These are particularly high for low-income households above the poverty line and children aged 6 to 18 years, and for people with chronic conditions (Goginashvili et al. 2021). Particularly striking is that out-of-pocket expenditure by poorer segments of the population are related to the purchase of medicines, which shifts to inpatient care among the richest segments of society (Goginashvili et al. 2021: 29). Since 2017, the highest income percentile is excluded from the UHCP and these citizens are expected to obtain private insurance. According to the ILO, private spending accounts for 54% of total health spending (ILO 2020), and a similar level of 48% is reported by the WHO for 2018 (Goginashvili et al. 2021: 61).

Vertical health care programmes. Additionally, vertical programmes for prevention, early detection and screening, disease management and risk reduction counselling exist for special purposes (such as diabetes management or tuberculosis control and village doctor and referral services).

Challenges. Public spending on healthcare is currently at 2.8% of GDP, which is clearly not sufficient for the population's needs (Goginashvili et al. 2021: 60). This is clearly reflected in the fact that not all necessary medical treatments are covered. For example, dental care is currently excluded (Goginashvili et al. 2021: 12), pointing to the challenge of increasing public health resources to ensure full service coverage. By contrast, EU health systems endorsing full coverage typically spend 10% or more of their GDP on healthcare, irrespective of differences in the design of their respective healthcare systems. Another challenge is the rather fragmented coverage of the population. Simplification of the rules and living up to the proclaimed universality of the health care programme are both much-needed changes. In addition to population coverage, the rules governing out-of-pocket payments are highly complex and involve monetary ceilings for health services covered (Goginashvili et al. 2021: 13). The latter are problematic, because monetary ceilings expose patients to catastrophic risks – something which should be avoided as one of the core functions of social protection. Medical drugs are primarily responsible for catastrophic out-of-pocket spending in the healthcare system (Goginashvili et al. 2021: 40). Catastrophic health spending is defined as the situation in which a household spends more than 40% of its available resources on healthcare (Goginashvili et al. 2021: 37). Moreover, since generic drugs are less available than branded pharmaceuticals in Georgia, the introduction of generic substitution regulations would be a key part of any strategy to control costs for pharmaceuticals.

In general, competitive pressures in health systems are an important part of controlling costs. However, competition can't be expected to come from the demand side, but can only be achieved by a strict split between purchaser (the insurer) and provider (doctors, hospitals, pharmacies) within a regulatory environment that safeguards against cartelisation and the abuse of market dominance. The pharmaceutical sector in Georgia seems to fall far short of this standard, according to monitoring by the Georgian National Competition Agency that has been conducted since December 2018. The agency observes strong horizontal and vertical integration, with the three largest companies controlling close to 70% of the market at import level. Holding groups tend to control the supply chain of pharmaceuticals from import or production to wholesale and right through to the level of prescription. These company groups also own clinics and insurance companies, which suggests that competition is not working in the interest of patients, but in the interest of the few profit-maximising company groups that control the sector (Georgian National Competition Agency 2021: 4).

2.3 FINANCIAL CONSTRAINTS AND FURTHER CHALLENGES

Challenge 1: Labour market structure

Challenges for social protection. Georgia's biggest challenge concerning the financing of social protection is, without doubt, the nature of the labour market, which features high levels of both informality and unemployment. As mentioned above, this creates a double challenge because it reduces revenues from income tax, but also hinders the development of effective contributory systems that are linked to employment. A particular challenge arises in the case of programs such as maternity benefits, which are tax-financed, but in which entitlement is contingent on employment, thus creating an unequal distribution of burden and benefits which could be perceived as unjust.⁴

Informal economy. Combatting informal employment is a prerequisite for the effective and efficient functioning of a holistic social protection system which includes contributory insurance. We focus on the impact social protection mechanisms may have on labour market structures as they provide incentives for formalization. The interested reader is referred to Loayza (2018) for an overview of different approaches to reduce informality.

Unemployment. This report does not cover active labour market policies (ALMPs) aimed at reducing unemployment, such as improving search and matching, job subsidies, or education and vocational training.⁵ We will, however, describe how unemployment insurance in Germany is contingent on labour market participation and discuss the impact of conditioning social assistance on participation in activation measures.

Challenge 2: Tax system

Main taxes and effects on labour market. As laid out above, Georgia's current social protection system is largely funded through tax revenues. The main components of Georgia's tax system are three flat-rate taxes collected at national level: a value-added tax (VAT) at 18%, corporate tax at 15% (with exemptions for businesses with low turnover), and personal income tax currently at 20% and paid by all employees. Despite recognizing the business-friendly design and the efficient administration of the tax system, the IMF has recently criticised the system's rigidity, the ex-

⁴ Besides financing concerns, additional challenges to the social protection of Georgia's citizens directly arise from labour market policies. In particular, occupational health and safety is a concern which calls for not only regulation but also supervision. Minimum wage levels and anti-discrimination policies would deserve additional attention as social protection tools.

⁵ See Card (2016) for a broad review of the impact on active labour market policies on long-term unemployment and Annex VI of the IMF staff country report (2021) for a brief discussion of policy considerations for strengthening the Georgian labour market.

istence of loopholes, and the system’s regressive nature. Regarding the latter, the fact that income tax doesn’t envisage exemptions for low incomes, it disproportionately burdens low-income earners and might be creating disincentives for formal employment within this segment. Additionally, workers can avoid the 20% personal income tax by sub-contracting as a small business, which is taxed at 1% of turnover (IMF 2021).

Challenge for social protection. According to the IMF report, Georgian legislation leaves little leeway for increasing tax revenues; in particular, raising top tax rates to move to a more progressive system seems almost impossible. Given the fiscal constraints, a focus on contributory social insurance seems politically desirable. Since this is in line with the German social protection system, we put particular emphasis on the contributory system in this report. However, in light of the structural challenges in the labour market, it is reasonable to assume that tax-financed social assistance programs will continue to play an important role. Also, in Germany, some important social protection tools are tax-financed (such as child benefits). Although we are aware of the challenge this poses within the Georgian tax system, we nonetheless recommend including tax-financed components for elements of social protection such as the healthcare system. We elaborate our recommendations further in Chapter 3.

Extending social insurance to the informal sector. In recent years, other countries have also experimented with extending contributory schemes to the informal sector. Box 1 briefly highlights some of the lessons learned.

Box 1

ILO recommendations on social protection for the informal sector

Many countries around the world - including Brazil, South Africa, Algeria and the Philippines - have experimented with extending social security to large parts of their populations that are employed in the informal sector. Lately, the ILO has studied these initiatives and derived key lessons learned, summarised in the ILO resource package on “Extending Social Security to Workers in the Informal Economy”.⁶ While the publications cover guidelines for tax-financed social protection floors, they also present ideas for contributory financing. This is challenging given the often low and volatile wages in the informal sector, exposure to financial shocks, high mobility of workers with changing or multiple employers, and the likely impossibility of sharing contributions between workers and employers. Given these circumstances, which are also likely to hold for Georgia, the ILO - amongst other recommendations - suggests:

⁶ <https://socialprotection-humanrights.org/resource/i-lo-resource-package-on-extending-social-security-to-workers-in-the-informal-economy/>

- adapting contribution schedules flexibly to income patterns (e.g. annual rather than monthly or following seasonal patterns for agricultural workers) and allowing temporary suspensions of membership;
- simplifying the payment mechanisms (e.g. introducing a “monotax” as in Uruguay or Brazil) and using non-traditional access points (e.g. mobile phones or busses as mobile access points);
- simplifying registration and strengthening cooperatives or workers’ associations so they can provide collective insurance agreements;
- subsidising contributions for low-income or specific vulnerable groups while being careful to not subsidise informality and to provide tax incentives for formalizing employment, e.g. for domestic workers;
- establishing a coherent and easy to understand strategy and to carefully raise awareness and manage expectations in the target group.

In addition, a very recent OECD publication develops the idea of using remittances to finance social insurance.⁷ This is an intriguing concept given that migration is an increasingly popular risk management strategy and alternative to informal work, especially among middle-class informal households that are excluded from social insurance although their financial means would allow them to pay contributions. In light of Georgia’s high influx of remittances (reaching an all-time-high in 2021) this innovative financing model might be worth exploring further.

⁷ <https://www.oecd.org/dev/financing-the-extension-of-social-insurance-to-informal-economy-workers-bbc70a07-en.htm>

Challenge 3: Path dependence and acceptance within society

Path dependence in social protection. One of the main goals of social protection systems is to protect against the consequences of life hazards such as unexpected health problems or unemployment. The most severe types of shocks are rare, meaning most individuals have no direct experience of the true value of social protection over the course of their life. Instead, learning – and hence, the acceptance of new policy options – is derived from the experience of previous generations and the institutions they created. Irrespective of the original rationale behind the creation of social protection systems, they are usually defined by a path dependence, in which the range of possible policy options is narrowed and constrained by the historical development of that system and its institutions.

Historic development of social protection in Georgia. As the ILO's report notes, Georgia's social protection system has seen various changes since the fall of the Soviet Union (ILO 2020). Starting with as much as 37% of payroll going to employer contributions in the mid-90s, the burden gradually shifted completely to employees over the subsequent ten years, who were then paying 25% of their salaries in contributions. Subsequently, social insurance was discarded in favour of a flat-rate income tax and an associated tax-financed social protection mechanism. Although recently, a new contributory pension scheme was introduced, this is designed as a funded scheme, meaning that no benefits have yet been distributed.

Uncertainty and acceptance of new policies. Taking into account historical events and high levels of political uncertainty (IMF 2021), both employers and employees might be concerned about the re-establishment of any contributory financing schemes. Therefore, a careful communications strategy is necessary in order to increase trust in any such process. In addition, current policy makers should be aware of the responsibility they have in terms of creating new path dependencies. Taking a long-term perspective, policy makers should ideally foresee future developments and design policies which are not only financially and socially sound, but also politically sustainable. In this respect the experience of the German welfare state provides some valuable lessons.

3

SOCIAL PROTECTION IN GERMANY

3.1 ORIGINS AND PATH DEPENDENCIES

Historic origin. The German welfare state is mainly based on five social insurance pillars, which account for 62% of social spending, meaning Germany is therefore characterised as a social insurance state. Three of today's five pillars were established at the end of the 19th century, with unemployment insurance added in 1927 and long-term social care insurance in 1995. The initial decision to create a social insurance system was made under the reign of chancellor Bismarck for reasons of power politics. Chancellor Bismarck wanted to stabilise the monarchy in Germany, while socialist movements were forbidden and at the same time workers were appeased by establishing social insurance exclusively for this segment of society (Ayaß et al. 2021: 27-30).

Extension and path dependence. During the last 120 years the social insurance system has evolved in several respects. Large parts of the population (in particular employees) were included and benefits were broadened and increased. Still, the basic structure of social insurance was maintained and remained relatively inert despite various attempts at structural reform. Therefore, the system exhibited the typical characteristics of an institutional path dependency, where historic decisions shape current reform options. Among other aspects, this is especially true for social insurance organised by professional associations, as laid out in Box 2.

Box 2

Social insurance for liberal professions and public servants

Currently, more than 1.4 million Germans are self-employed in the so-called liberal professions. Their work is characterised as a personal, autonomous and independent provision of services for contracting authorities or in the public interest, which requires specialised qualifications or artistic talent. These include medical professions, cultural professions, lawyers and consultants, as well as free technical and scientific professions. They are self-employed and therefore not covered by the general social insurance system. Instead, those professions which are organised in chambers (physicians, pharmacists, architects, notaries, lawyers, tax consultants, veterinarians, chartered accountants, dentists and psychologists or psychotherapists) are legally obliged to contribute to the old-age pension scheme of their associations. Professions not organised in chambers, however, do not have their own pension schemes, and their members are required to buy private insurance for old age on a voluntary basis. Health insurance, on the other hand, is mandatory for all individuals engaged in liberal professions. In general, self-employed people remain in the health insurance system that they were previously a member of (public or private), or are free to choose between public and private insurance if they had not been insured before. Unemployment insurance is also only available on a voluntary basis and only if entered into within the first three months of self-employment. Finally, some professions are legally required to insure against work injuries (physiotherapists, midwives, nurses and others), whereas other professions are exempt from this requirement (doctors, psychologists, pharmacists and others).

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Whereas artists, journalists, online content-producers (such as Youtubers), and other creative people are generally also considered to be engaged in a liberal profession, they contribute to their own social insurance, called the artists social security (Künstlersozialversicherung). This form of insurance was established 35 years ago in response to the often considerable financial risks faced by those working in these professions. Financed 50% through member contributions and 50% through taxes on companies that market creative content and through federal revenues, the system provides pensions as well as health insurance. Similarly, agricultural professions have their own social insurance system which provides health, old age, work injury and long-term care insurance. Furthermore, civil servants are exempt from mandatory social insurance contributions. Their pensions are paid from tax revenues and they are required to obtain private health insurance, with their public employer covering half of their contributions.

The existence of this complicated system of exemptions and individual regulations in many cases is due to historical reasons and path dependency. It is frequently criticised for creating unfair advantages for some high-income professionals such as doctors, who don't contribute to the financial insurance of lower-income groups, and may therefore undermine the principle of solidarity. Also, the system is rigid and hardly adaptive to career changes. Proponents of the system argue, however, that people in the liberal professions tend to have higher life expectancy and would overly burden the public pension system. Similar arguments apply to civil servants. An additional point of criticism here is that, while the public pension system contains upper bounds, the pensions of civil servants regularly exceed this limit. Including civil servants in the general public social insurance system might provide a better alignment of incentives and may help gain citizens' trust in the system. Learning from the German experience and aiming to avoid unnecessary complications in the future, Georgia should aim to design a system which encompasses as many citizens as possible within the same set of rules, especially high-income groups, thus fostering a sense of solidarity and trust.

Box 3

Non-standard employment: Germany's mini-jobs

Besides the liberal professions highlighted in Box 2, the most common non-standard forms of employment in Germany are so-called mini jobs and temporary work.

Mini-jobs are a unique feature of the German labour market, defined as employment with a maximum of EUR 450 per month (or, less commonly, a maximal workload of 70 days per year). With the intention of lowering labour market entry barriers for the long-term unemployed, these jobs exempt employees (but not employers) from social insurance contributions and taxes. Therefore, workers are unable to claim unemployment benefits beyond the basic income support for job seekers (see below) after their mini-job terminates. While the employer pays a small flat-rate contribution to health insurance, the mini-jobber is not automatically insured. Several options exist for health insurance:

- If another, traditional employment contract exists, the employee is insured via compulsory health insurance under that contract;
- If the employee has no other contract and no further contract, the mini-jobber can be insured via a spouse's health insurance, if such exists;
- If the employee has no other contract and is registered as unemployed, the Federal Employment Agency covers contributions to health insurance.

In principle, mini-jobbers are obliged to contribute to the state pension system, if only with marginal contributions. However, they can be exempted upon request. In practice, people who work solely in mini-jobs for long periods of their working life face a greater risk of old age poverty. In 2021, there were 4.1 million people who exclusively work in mini-jobs (10.6% of all currently employed) and an additional 3.1 million people who work in a mini-job as a side job (9% of people in traditional employment).⁸

All other labour market regulations apply (such as safety and health regulation and minimum days of leave). This includes the minimum wage, which is expected to increase to EUR 12 an hour under the new Government, and, consequently, the mini-job threshold is expected to increase to EUR 520 per month to allow mini-jobbers to work the same number of hours.

⁸ <https://statistik.arbeitsagentur.de/DE/Navigation/Statistiken/Fachstatistiken/Beschaefigung/Aktuelle-Eckwerte-Nav.html;jsession-id=82D18551A0367B49568458EE9738268A>

3.2 MAIN DESIGN PRINCIPLES

Focus in this study. The German welfare state is highly complex and therefore we highlight the main principles governing social insurance and provide an overview on three social insurance pillars, covering the contingencies old-age, health and unemployment. This is complemented by two boxes focusing more specifically on tax-financed child benefits and regulation concerning pharmaceuticals in order to ensure access to affordable, high-quality medicines.

Overall principles. Social insurance is compulsory and mainly financed through wage income-related contributions. Those contributions are individually linked to entitlements or benefits in the case of income replacement (here, we consider only pensions and unemployment insurance – sickness and maternity benefits would also fall under this category). The principle of equivalence between individual contributions and individual benefits reproduces work-related inequalities during periods in an individual's life when income replacement becomes necessary. This is one reason why the German welfare state is characterised as conservative in the international comparative literature on the subject. The other reason is the design of social services in the area of care and family policy, which relies heavily on the family in accordance with the principle of subsidiarity. The rationale behind the principle of equivalence is twofold: Firstly, if financial shocks do occur, individual living standards can still be maintained. Secondly, by paying contributions, insured individuals gain an entitlement guaranteed by the German constitution in exchange. This makes contributions fundamentally different from taxes.

Self-administered social insurance bodies. Social insurance bodies are self-administered (within the parameters set by the state through social law) by representatives of insured people and employers in order to ensure the efficient management of social insurance and to avoid selective interference by the state. It is supposed to increase legitimacy on the input side by enabling the democratic participation of concerned groups, but also on the output side in terms of finding appropriate solutions to disputes and resolving conflicts, as well as encouraging acceptance of these solutions. In practice, however, the “social elections” to the governing bodies of these insurers – which take place every six years – suffer from a lack of public awareness and meaningful competition and often come in for strong criticism (Gerlinger 2015: 757-759).

3.3 PENSION INSURANCE

Contributory financing with tax grants. The German statutory pension scheme (Gesetzliche Rentenversicherung) is mainly financed by contributions shared equally between employers and employees. The current contribution rate is 18.6% and only applied to work income up to the contribution threshold of EUR 7,100 (EUR 6,700 for East Germany) per month (2021). The system is technically meant to be

financed through contributions, thereby ensuring the principle of equivalence. In practice, however, the system is strongly subsidised, with 26.6% of total expenditures of the statutory pension systems currently financed by federal tax grants.

Dynamic calculation of pensions. The statutory pension scheme is generally characterised by a pay-as-you-go (PAYG)⁹ defined benefit system based on points (on a scale between 0 and 2). The number of points accumulated during one's working life determine the retirement pension one receives. For an average annual work income, an individual receives one point. These points are then related to a monetary pension value in Euro, which is adapted each year according to improvements in productivity (more precisely, Aktueller Rentenwert). Established in 1957, this indexation of pension entitlements is a major achievement of German post-war social policy. It ensures that pensioners and the working population equally benefit from a growing economy.

Lowering of the pension level and introduction of a multi-pillar system. In general, the public pension scheme has been successful in securing the individual standard of living achieved during the work-life (Lebensstandardsicherung). However, in the face of demographic change and sustained high unemployment rates during the 1990s, the basis for levying work related social insurance contributions weakened. These challenges resulted in a paradigm-shift in 2001, when a multi-pillar system was introduced, leading to a lowering of the pension level in the public scheme, whilst also relaxing the pressure that has built up on the income side of the scheme. Due to this reform, the individual standard of living could no longer be secured by the public pension scheme alone, and additional retirement provisions needed to be made by the working population through occupational (pillar II) or private schemes (pillar III). This eroded the legitimacy of the public scheme, because it stopped securing a constant living-standard through the course of one's life, whilst still not systematically addressing poverty in old-age (Lindner 2020: 270).

Subsidised basic pension floor. Decreasing benefit levels within the public schemes have been countered by the introduction of a tax-financed subsidy for low public pensions (Grundrente) in 2021. Individuals who have contributed to the scheme for at least 33 years are entitled to benefit from the scheme subject to income testing at the household level. Technically, this is achieved by topping-up the pension points by those insured persons who are entitled, which is done automatically through data exchange

⁹ In pay-as-you-go pension schemes current contributions of the working population are used to finance current pensions. This design relies on an implicit generational contract and the fact, that there are always new generations contributing to the scheme. The advantage is that there is no capital stock subject to financial market risks or creating political misappropriation. In addition, a newly established PAYG scheme immediately improves the financial situation of pensioners.

with the tax offices. This automated procedure is a good example of how a modern public administration can make processes more efficient and less stigmatising for beneficiaries at the same time (Friedrichsen & Schmacker 2019). Generally, the increase in the value of lower pensions has been welcomed, but it has also been criticised for not systematically addressing poverty in old age due to the requirement of having contributed for a very long period beforehand (Blank 2020: 17). Again, this reveals the path dependence of public pension insurance based on the principle of equivalence between individual contributions and benefits, leaving little room for the goal of avoiding poverty.

Funded private insurance. During the last 20 years, sustained low interest rates and high provisions by private insurers were responsible for weak performances of the private pillar (Riester-Rente). Despite state subsidies, people no longer trust the private pillar to deliver old-age protection and many experts consider it dysfunctional in its design. Despite this experience, discussions are currently ongoing about the possible inclusion of a funded component in the pension scheme.

Retirement age. Another recurring reform proposal designed to mitigate the challenges posed by an ageing population is to increase the standard retirement age. As a result of reform in the early 2000s, it is expected to gradually increase from 65 to 67 years between 2012 and 2031. Although this reform is yet to be fully implemented, there are already calls to increase the standard retirement age even further to 69.3 years (Deutsche Bundesbank, 2019). Increasing the retirement age is tempting, because it could simultaneously reduce spending on pensions whilst also increasing contributions. However, this option hinges on whether older people could still find employment and could potentially have regressive effects, if lower income groups performing physical work need to drop out earlier from the labour market. In this respect, increasing the retirement age runs the risk of implicitly lowering the pension for low-income earners.

3.4 HEALTH INSURANCE

Public and private insurance. Health insurance is compulsory in Germany, but the system is still substitutive in the sense that 90% of the population is covered by the public, statutory health insurance (SHI) scheme (Gesetzliche Krankenversicherung) and only 10% are privately insured (Private Krankenversicherung). Both schemes are legally obliged to cover all necessary treatments from a medical point of view with only marginal co-payments. In Germany, the main business model of private health insurers is to replace public insurance for high income groups, the self-employed and civil servants, and hence it is characterised as substitutive (i.e. in Germany, health insurance coverage is achieved in the main either through private or through public insurance). By contrast, most modern health systems with private health insurance follow an approach where private insurance comes on

top of a public scheme covering the entire population. Under such complementary systems, private insurance covers either further health services or out of pocket payments.

Statutory health insurance (SHI). A few decades ago, SHI consisted of more than 1 000 health funds, but this number has since gradually declined to 103, partly due to mergers and insolvencies that have taken place. Since 1996 insured persons have been able to choose and switch between health funds and, despite several regulatory changes in the intervening years, the funds were allowed to compete to some degree through the contribution rate each fund levied. The current general contribution rate for all health funds is 14.6% equally shared between employers and employees. In addition, each health fund individually sets an additional contribution charged from its insured members, which currently averages 1.3%. The contribution rate is only applied to wage incomes up to the contribution threshold of EUR 4 838 per month (2021), which means that work income above this threshold doesn't contribute to health insurance financing. Generally, health funds compete on service quality and also through the individually-determined additional contribution. In order to avoid adverse selection of the insured, there is a morbidity-oriented risk-compensation scheme in place (the so-called: Morbi-RSA). Moreover, there are significant federal tax grants for the SHI, which normally amount to EUR 14.5 billion annually, but, due to the Coronavirus pandemic, they were increased to 19.8 billion in 2021 (GKV-Spitzenverband 2021). This financing of SHI through taxes is justified by the non-insurance benefits (versicherungsfremde Leistungen) enjoyed, for example, by family members, who are covered without making their own contributions (§ 221 in the fifth book of the German social code, SGB V). However, the level of non-insurance benefits covered by SHI were EUR 42.7 billion in the year 2016, three times the size of the federal tax grant in that year (Meinhardt 2018: 14). Systematically, this calls either for an increase in the federal tax grant or for an exclusion of non-insurance benefits (e.g. coverage of family members without their own contribution) from SHI.

Shortcomings and current reform discussions. There are several debates currently ongoing about potential reforms to the German health insurance system. Besides the role of competition between public health funds and the remuneration of inpatient health services through diagnosis-related groups, the most fundamental discussion revolves around whether a unified health insurance scheme should be established, thereby abolishing the current substitutive system. One of the central arguments for a unified citizen insurance is that it would cover the entire population, thereby creating a single solidary system without the possibility of opting-out for higher-income groups as is currently the case. Also, in order to strengthen the financing basis, the inclusion of all sources of income sources, and not just work income, has been considered. This would ensure the principle of horizontal and vertical justice: Horizontal because individuals with identical incomes (independent of source) would contribute the same amount of money; vertical because in a unified scheme without (or with a higher) contribution threshold, persons with higher incomes would contribute more

than persons with lower incomes. Moreover, the current system is also unfair from a gender perspective, since coverage of dependent family members (beitragsfreie Mitversicherung) and the contribution threshold favours single-income households over dual-income households.

However, it is very difficult to depart from the current path of a substitutive health system. The German system is the outcome of historic developments, dating back to the time that Bismarck focussed on appeasing waged workers by establishing a health insurance scheme linked to employment status. Furthermore, the German case shows that it is difficult to establish a health insurance scheme with social objectives such as insuring family members, without resorting to significant federal tax grants.¹⁰ This and the fact that the goal of health insurance (unlike pension insurance) is not primarily to provide income replacement (where the principle of equivalence would be an argument for a contributory scheme) bring us to the conclusion that tax financing should be considered as a general option for financing universal access to health care.

Box 4

Financing pharmaceuticals

Early benefit assessment. In the area of pharmaceuticals, one substantive reform was the introduction of early benefit assessment in 2011, which is generally referred to as Health Technology Assessment (HTA). New pharmaceuticals (or pharmaceuticals with a new indication) that have received market authorisation are reviewed by the independent Institute for Quality and Efficiency in Health Care (IQWiG). The goal of this assessment is to find out which pharmaceuticals provide added benefits to patients in terms of reducing mortality and morbidity or improving health-related quality of life compared with the existing standard treatment. This is based on a dossier submitted by the pharmaceutical company including clinical study reports and other related evidence (the gold standard being randomised controlled trials (RCTs)). The results are primarily used for pricing and reimbursement decisions but are also available to physicians, thereby improving evidence-based shared decision-making between physicians and patients (Köhler & Christoph 2021).

Price setting. After stakeholders have had the opportunity to comment on the preliminary early benefit assessment, the Federal Joint Committee (comprising represent-

atives from the statutory health funds and health providers), decides on the reimbursement price (which regularly determines the free price setting by the pharmaceutical company) by referring pharmaceuticals without added benefit to similar or identical existing groups of pharmaceuticals (the so-called Festbetragsgruppen). If there is evidence of an added benefit, then the case is referred to price negotiations between the pharmaceutical company and the umbrella organisation of the SHI funds.

Impact. Although there is room for improvement in this process (such as free-pricing during the first year - that is, the pharmaceutical entering the market whilst being reimbursed by SHI funds until the final price is negotiated), early benefit assessment proved to be an important element for containing costs (Witte & Greiner 2021: 6). This is underlined by the fact that between 2011 and 2017, for a significant share of the 216 new pharmaceuticals entering the German market, IQWiG found no added benefit (58%), and only 25% showed considerable or major added benefit (Wieseler et al. 2019). These figures show that there is a need to distinguish between new pharmaceuticals that are truly innovative and mere “me too” products. Moreover, debate is ongoing about moving to a cost-benefit assessment of new pharmaceuticals, that is to say, including efficiency considerations into the assessment as a further relevant component of decisions on reimbursement.

Generic substitution policy. Another core element of the German pharmaceutical strategy is the generic substitution policy. In Germany, generic substitution takes place at the pharmacy level, unless the physician has ruled this out and insists on the prescription of a brand product or the patient is willing to pay the price differential out-of-pocket. In order to ensure that generic pharmaceuticals duly enter the market at significantly lower prices, the German and EU competition authorities have been monitoring this sector closely since 2008 (European Commission 2009) and impose fines in case of anti-competitive behaviour by pharmaceutical companies.

3.5 UNEMPLOYMENT INSURANCE

Goals and instruments. With the goal of maximising employment, the Federal Republic of Germany actively engages in employment promotion with a wide range of policy instruments implemented by the Federal Employment Agency and its local offices. These instruments are aimed at 1) avoiding unemployment from the beginning, 2) reducing the period of unemployment, and 3) supporting supply and demand on the training and labour market. As such, Employment Agencies provide services such as vocational counselling, promote vocational training and continued education, support people in becoming self-employed, and promote the integration of persons with disabilities into the work force. Among this wide set of tasks, the Employment Agency is also responsible

¹⁰ The German social insurance schemes (in particular health and pensions) are subject to tensions between contributory financing and the principle of equivalence on the one hand, and social objectives on the other hand. As a result, the schemes exhibit mixed financing with significant tax funding complementing contributions. The German experience shows that this leads to political debate concerning the use of scarce tax resources. In order to avoid such recurring political debates, we argue for a clear distinction between contributory schemes focusing on income replacement and purely tax financed schemes if the objective is to provide universal services according to the principle of need.

for paying income replacement benefits for people who have become unemployed.

Financing and beneficiaries. The main source of financing for employment promotion is contributions which are paid by employees and employers in equal shares. Currently, the contribution rate is set at 2.5% of gross salaries with a monthly ceiling of EUR 6,900 in Western Germany and EUR 6,450 in Eastern Germany. Despite the contributory financing, all people are entitled to certain services, such as job seeking advice, access to employment ads, and use of the vocational guidance centres (known as *Berufsinformationszentren*).

First pillar: Income replacement benefits. Nonetheless, only people who have contributed to the insurance for at least the previous 12 months, are entitled to receive unemployment benefits if they register as unemployed and begin looking for work. These contributions are usually in the form of the above-mentioned mandatory deductions from the worker's salary, but claiming sickness benefits also counts towards the qualifying period for unemployment insurance and there is also the option of contributing voluntarily under certain pre-conditions (such as during parental leave or intermittent periods of self-employment). It is noteworthy that unemployed people are allowed to work for less than 15 hours a week (either in formal employment or self-employment) without losing unemployed status. The benefits, paid by transfer to the recipient's bank account, amount to 60% of the salary averaged over the previous twelve months, minus taxes and 20% contributions to social insurance (or 67% for people with children for whom they are entitled to child benefits). Benefits are paid for only six months if the contributory phase was 12 months, but with longer periods of contribution, the entitlement period also rises (up to 12 months after 24 months of contributions, and up to 24 months of benefits after 48 months of contributions for people aged 58 or older).

Disqualification periods in case of violation of insurance conditions. Paragraph 159 in the third book of the German social code (SGB 3) mandates that certain behaviour violates the social insurance contract and can therefore lead to disqualification for a specified period of time. Most importantly, people who quit their jobs without pressing reasons can be blocked from benefits for up to three months. It is the role of the local employment agency to determine whether pressing reasons exist. These could be such reasons as having to move to a different city to be with family, breach of contract by the employer, or medically confirmed health reasons including mental health issues. In addition, declining reasonable job offers can lead to disqualification for three, six or twelve weeks after the first, second or third violation respectively. Failure to actively seek employment may be penalised for a duration of two weeks. The latter is mostly measured by the number of applications written over a certain period of time.

Second pillar: Basic income support for jobseekers. In addition to the contributory unemployment insurance, there

exists a second pillar in the form of tax-financed and means-tested unemployment assistance. The target group here is unemployed jobseekers and their household members who are in need for assistance, capable of work, and either actively looking for work or whose income is insufficient to ensure a minimal standard of living. The term "in need for assistance" in particular implies that the person can no longer live on savings or by selling assets, including valuables such as properties, cars or jewellery. Notably, basic income support is granted on a household basis, so that also assets that belong to other household members are considered in the assessment of need. There are however allowances, such as EUR 150 per year of life, which people are allowed to keep. The basic income support is made up of individual building blocks, called needs. The regular amount (currently at 446 EUR per month, smaller amounts for additional household members and children, higher amounts for single parents or pregnant mothers) is meant to cover food, clothes, personal hygiene, and household costs. This is topped-up with an amount for housing and heating, which varies regionally and depends on household size.

The principle of rights and responsibilities. The tax-financed basic income support for (long-term) unemployed people was introduced as the fourth component of a labour market reform in 2005 (named after the Head of the Reform Commission, Peter Hartz) in response to high and solidified long-term unemployment since the mid-90s. Prior to the reform, long-term unemployed were entitled to benefits linked to the last income earned (up to 57%). The Hartz Reform substantially reduced these benefits and also shifted the focus to needs-based assistance as described above, with the aim of underlining each citizen's responsibility to meet their own living expenses out of, and according to, their own capabilities. Receipt of basic income is therefore conditional on actively seeking employment and participating in activation measures as recommended by the Employment Agency, which has the right to pronounce sanctions if beneficiaries fail to fulfil these responsibilities. Importantly, the agency has only exercised this right against 2.4 to 3.4% of beneficiaries between 2007 and 2019.¹¹ This implies that 97% of beneficiaries fulfil their responsibilities and actively seek labour market integration. At the same time, beneficiaries also have the right to obtain the same support and advice from the Employment Agency as is available to people covered under the contributory scheme, in addition to further integration measures for long-term unemployed. In short, every German citizen has the responsibility to end reliance on public aid but also the right to be assisted in their integration into the labour market (BMAS 2020). For people who can't reasonably be expected to find formal employment (such as people in ill-health or socially difficult circumstances) special regulations of the German Social Aid system apply.

Moral hazard and impact of reform. In line with both economic theory and data, it is common knowledge that un-

¹¹ https://statistik.arbeitsagentur.de/SiteGlobals/Forms/Suche/Einzelheftsuche_Formular.html?submit=Suchen&topic_f=Zr-sanktionen

employment insurance reduces labour supply. However, the intuitive explanation that unemployment benefits create disincentives for work (that is, the moral hazard) is only partially true. In fact, as Chetty (2008) lays out, the other mechanism at play is that unemployment insurance allows liquidity-constrained individuals to engage longer in job searching, thus allowing for improved match quality and thus increasing labour productivity – a socially desirable outcome. As such, the major idea behind the Hartz reform was to increase incentives for job hunting during the first year of unemployment by lowering benefits after that period of time, since it was assumed that after one year the devaluation of human capital would outweigh the potential gains in match quality. Indeed, several studies show that unemployment rates decreased after the reform was introduced, although causality is statistically difficult to establish and the reduction was possibly not especially large - 0.8 percentage points according to Krebs (2019) or 2.8 percentage points according to Krause and Uhlig (2012). However, recently, Wolf (2021) found that wages and job quality decreases if individuals are sanctioned for not accepting job offers. In addition, Jung and Kuhn (2019) show that the employment effect is not due to more successful job searching, but rather to a decrease in contract termination. Moreover, the reform strengthened the bargaining power of employers, which led to lower wages for both new hires as well as long-term, high-wage employees who have the most to lose. This could potentially have reinforced the pre-existing trend of an increase in the number of the “working poor”.

Current challenges and reform discussions. By far the largest share of criticism falls on the basic income support system, while there is little critique of the income replacement scheme. Criticism is mostly directed at 1) the amount of benefit available, which is considered insufficient for a decent living, 2) insufficient incentives to take up part-time work as the implicit tax can be as high as 90%, 3) insufficient allowances for savings and assets which effectively penalise prior precautionary savings on an individual basis, and 4) the inherent complexity and stigmatisation of the two-pronged system (Blömer et al. 2019). Concerning the latter, the non-take-up rate of tax-financed basic income support is estimated at around 50% and experimental evidence shows that (a fear of) stigmatisation is a likely explanation, thus calling for more discrete uptake designs (Friedrichsen & Schmacker 2019). Many economists agree that incentives for work as well as for savings during employment should be strengthened by increasing allowances and decreasing implicit taxes, and that the top-up amount for children at least should be increased substantially (Walwei 2019). Lately, sanctions have drawn criticism, even though only a small fraction of unemployed people are affected by these. The fact that sanctions are not eliminated despite their infrequent use might be another example of path dependency. Regarding the income replacement scheme, job loss at an increased age is more likely to lead to long-term unemployment than job loss at a young age. Linking the duration of benefits to age might therefore be a socially desirable policy reflecting heterogeneous risk profiles.

Box 5

Child benefits

Administration. Residents in Germany who are legal guardians of children are entitled to child benefits. This benefit currently covers around 18 million children. The agencies responsible for payments of child benefits are the so-called “Family Benefits Offices”, which are part of the Federal Employment Agency. Beneficiaries have to apply through their local office by filling out the corresponding application forms, which is also possible online.

Beneficiaries. For every child, only one person receives the benefits. In the case of both parents living with the child, the Family Benefits Office determines one recipient. If the parents are separated or the child lives with other relatives, foster parents or other legal guardians, benefits are usually paid to the person in whose household the child resides. Only if the child is fully orphaned will benefits be paid directly to the child. Whereas the general age limit is 18, benefits can be expanded in certain cases, e.g., until the age of 25 if the child is still in school or vocational training, or until the age of 21 if the child is registered as unemployed.

Benefits and financing. Child benefits are cash benefits, and the size of the benefits depends on the number of children and is currently staggered as follows:

- 219 EUR per month for the first two children,
- 225 EUR per month for the third child, and
- 250 EUR per month for the fourth child and following.

As such, child benefits are not means-tested and are paid independent of the parents’ income. This is, however, only partially true, as the initial idea of child benefits is one of reducing income tax: In Germany, there exists a basic income floor which is not subject to income tax as it is considered the minimum amount needed to sustain a livelihood. For each child, this floor is raised by a certain amount (currently by EUR 2 586 for child-related expenses and EUR 1 320 for childcare and education. Higher amounts apply for single parents or for the third child and following children). The income tax deducted from payable wages however does not take into consideration this raised floor. Instead, the above-listed monthly cash benefits are transferred separately to the beneficiaries. With the annual tax declaration however, taxes are calculated based on the true taxable incomes. If the corresponding tax reduction exceeds that year’s paid child benefits, parents will be refunded the difference. This is often the case for higher income groups. For lower income groups however, potential tax savings would often be lower than the monthly benefits, in which case the tax allowance is discarded and parents are entitled to keep the whole amount of the child benefit. The Tax Office automatically calculates whether child benefits or tax deductions are more favourable to the household and hence the decision is not

left to the households and is therefore safe from any risk posed by tax-filing errors.

Main goal. Child benefits tax-financed in this way are the centre piece of the suite of German family support policies and are intended to directly increase the well-being of children. To this end, child benefits are also protected against the attachment of bank accounts. This means, if a household faces private insolvency and their finances are frozen, creditors can't satisfy their claims by seizing the child benefits – the rights of the child are protected against potential creditors.

Impact and crisis response. Following the financial crisis of 2008, tax benefits were raised from EUR 154 per month for the first child in 2008 to EUR 184 in 2010. Since 2015, there have been yearly increases to reach the above-mentioned amounts. As Raschke (2015) shows, increases in child benefits do indeed lead to increases in household food expenditure and these increases are larger for low-income households. During the Coronavirus crisis, the existing mechanism was used to channel a “children's bonus” of EUR 300 in 2020 and of EUR 150 in 2019 to all families. Due to the off-setting effect of tax reduction, these payments increased the net income of households with incomes below EUR 85 974. In the end, 75% of children benefited fully from the children's bonus, whereas 25% received only partial or no relief.¹² Additional child-related benefits due to the pandemic include the children's leisure bonus, which finances leisure activities such as sports and music, and the “Corona Time-off for Families” which finances short family vacations - both only for low-income families.

Additional support for low-income households. Independent of the pandemic, the German Federal Government also grants child allowance to households that do not pass the minimum income threshold for adequately supporting their children's maintenance. This allowance (up to EUR 205 per child per month) is paid in addition to the usual child benefits and targets families with some minimum income (currently EUR 600 for single parents and EUR 900 for couples). Households that don't meet these minimum requirements are entitled to unemployment and housing benefits with top-ups for children.

Non-cash benefits. In addition to these cash transfers, the German state provides subsidised child care, which partially covers costs. Parents however benefit from tax allowances for additional child care fees.

¹² <https://www.bundesfinanzministerium.de/Content/DE/FAQ-Q/2021-03-18-FAQ-Kinderbonus-2021.html>

4

PRINCIPLES FOR CREATING A CLEAR AND COHERENT VISION OF SOCIAL PROTECTION

Financing options. In general, social protection can be financed from two different sources: Contributions and taxes (general revenues). In order to guarantee a minimum of social protection, a universal social floor needs to be established, which is typically financed through general taxes. Above this floor, tax financing should be used to provide universal services according to the principle of need. Contributory social insurance schemes should be reserved for consumption-smoothing over the course of one's life (ILO 2020: 14). Ideally, the latter secures a continuous standard of living throughout one's life. Avoiding mixed financing is at the core of our coherent vision of social protection, underpinned by efficiency considerations, but also more importantly by arguments relating to public acceptance, transparency and the avoidance of political risks.

Distributive properties. From the point of view of allocative efficiency, contributory systems tend to be less distorting than tax financing, as long as there is a link between contributions paid and benefits received by the insured person. Typically, this can be achieved in social insurance schemes designed to ensure income replacement (Meerendonk 2021). For example, the contribution for a pension scheme is not taken away from the insured, but simply pre-assigned to the pension entitlement of the insured. Based on this insight, in the following sections we distinguish contingencies that should be covered by contributory social insurance schemes from contingencies where income replacement is not the policy goal and, therefore, tax-financing is preferable (Mackscheidt & Maier-Rigaud 2020).

4.1 INCOME REPLACEMENT THROUGH CONTRIBUTORY SYSTEMS

Recommendation for pensions. We recommend reforming and strengthening the second pension pillar by moving towards a PAYG benefit system in Georgia.¹³ This would mean that contributions to this scheme aren't saved, but instead directly paid to pensioners. Contributions made under

the former system, would need to be credited as contributory periods in the same way as new contributions under the PAYG system, leading to higher pension entitlements according to the principle of equivalence. It is of utmost importance for a transparent and trustworthy scheme to honour all contributions made as individual pension entitlements. Paying old-age pensions immediately to the current generation of pensioners could improve the acceptance of the scheme and is likely to work as a pull factor for formal employment in order to qualify for the pension. It relies on the strength of future generations of workers and ensuring gains in labour productivity. Gender differences in retirement age should be gradually harmonised in the longer term and can be adapted to increases in the remaining life expectancy. Concerning the latter, it should be noted that the distribution of gains in life expectancy between the work and the retirement phase is normative and therefore it is a policy choice to be made. The statutory pension scheme in Germany experienced strong pressures to increase tax subsidies for the system. Similar pressures should be less pronounced in Georgia, as long as the tax-financed, redistributive first pillar is retained. In order to follow a transparent and coherent reform vision, it is recommended that a second pillar be designed as a pure social insurance pillar according to the principle of equivalence.

Contrasting opinions. It should be noted, however, that global trends such as an ageing population, as well as the pandemic, have recently shifted European recommendations towards individual, defined contribution-funded pension solutions (Meerten & Zanden 2021). Although this proposal is framed as sustainable, because funds could be invested in fostering a green transition, it is not socially sustainable, since the individual monthly pension would be uncertain under a defined contribution system. This in turn could trigger higher tax expenditures in order to finance the social floor. Generally, it should be noted that funded and PAYG schemes are equally affected by ageing populations (Barr 2000). The standard advice of the World Bank during the mid-1990s to move old-age security towards fully-funded, defined contribution systems rests on questionable framing and a highly contested neoclassical paradigm (Maier-Rigaud 2009: 185-204). Not surprisingly, many of these reforms have since been reversed (ILO 2018).

¹³ Similar to our proposal, Hutsebaut (2017) recommends a second pillar according to the defined benefit, PAYG design for Georgia. He refutes arguments related to demographic change that tend to be invoked as an argument against such a reform.

Recommendation for unemployment insurance. Mandatory, contributory benefits for temporary unemployment which are linked to a qualification period may not only effectively help individuals smooth consumption over short periods of unemployment, but may also create important incentives for formal employment. Voluntary contributions should be possible during short periods of self-employment, as this may incentivise young people in particular to try out business ideas and to register microbusinesses. At this point, it is also worth mentioning the positive impact of unemployment insurance on general and mental health, as discussed in Renahy et. al. (2018), with effects increasing with the generosity of the scheme. Despite this important potential, most studies and policy makers focus instead on the risk of prolonged unemployment. However, as the case of Germany shows, concerns regarding this moral hazard could in principle be mitigated by including an upper limit on the duration of payments and restricting benefits in the case of wilful job loss. However, the German experience of the Hartz Reform demonstrates that limiting the duration of the benefit period not only impacts labour supply, but also has effects on the labour demand side as well, since it reduces the bargaining power of employees. That is, when employees are faced with less attractive outside options, employers are able to offer lower wages. In this way, firms profit from reducing the scope of benefits of the unemployment insurance, whereas the costs are paid solely by employees. As Jung and Kuhn (2019) demonstrate, it is possible to internalise these costs, (that is, to let costs be incurred where profits are made) which would lead to more efficient market outcomes. The authors list potential measures, which should be considered from the start, such as mandatory severance pay which punishes firms for staff lay-offs or experience ratings, which is a tax evaluation tool used by the US unemployment insurance programs to collect taxes from companies proportional to the unemployment insurance benefits paid to their former employees.

Communication strategy. While the design of the income-replacement component of temporary unemployment insurance is relatively straight-forward (as opposed to the design of accompanying activation measures), the real challenge lies in obtaining political support for the new system. In contrast to other social protection measures, which are generally aimed at vulnerable or disadvantaged groups, unemployment insurance targets able-bodied people. This is the reason why unemployment insurance is often the last social insurance to be introduced in a country and often remains contested (as it is in the US).¹⁴ As we further stress in Section 3.3, a careful communication strategy is vital for the successful introduction of unemployment insurance. Moreover, insurance design should not be guided by concerns over minor resource leakage, but rather foster positive attitudes towards the solidarity institutionalised in the welfare state.

Alternative financing of unemployment benefits. Temporary unemployment benefits could be financed from income tax. As in the contributory system, paying income tax for a certain period of time would be requirement for eligibility. The Government could set aside a specified percentage of income tax which could then replace income during a short period of time, potentially at a decreasing replacement rate. However, we strongly prefer the contributory system since contributions generate a feeling of entitlement and foster Government accountability. In contrast, tax-financing might be politically unsustainable since Government might be tempted to decrease benefits in times of fiscal difficulties.

4.2 TAX-FINANCING FOR SERVICES AND SOCIAL PROTECTION FLOOR

Towards universality for services. The vision endorsed here is that services in the realm of social policy that are used universally according to the principle of need, are best financed through taxes. Areas like health and long-term care cover risks that should be independent from the individual standard of living, as long as a certain level is reached. To this end, the establishment of a social protection floor must be guaranteed. Since the poorest segments of society are unable to contribute to a formalised social insurance scheme, this floor needs to be tax-financed as well. However, tax-financing should not be restricted to the poorer segments. Overall the healthcare system should provide identical, high-quality services. This would be a clear statement that health is of fundamental value to the state and care should be provided to all citizens, regardless of their ability to pay.

Recommendation for the healthcare system. The current form of health insurance (UHCP) in Georgia should continue to be tax-financed and should become gradually more universal, providing identical high-quality health services to the entire population. To fully rely on general revenues might be particularly difficult for Georgia, as the state budget is tight (ILO 2020: 16). The widespread use of out-of-pocket payments should be gradually reduced, while communicating this gain in protection to the population. This could contribute to simplifying the rules of the entire health system, making it more transparent for the population and, at the same time, potentially reducing administrative costs. A high priority should be the abolition of benefit ceilings. To use financial resources within the system more efficiently, it is important to contain costs relating to pharmaceuticals (see Box 5). To move to a social insurance scheme due to constraints in fiscal space could be the first step on a path that is difficult to depart from as the German experience shows. It took more than 100 years for the German welfare state to extend statutory health insurance to more and more segments of society, with 90% now covered. Also, there is a divide in the German health system between statutory health insurance and private health insurance, which leaves both sides unsatisfied. On the one hand, since statutory insured individuals might feel as though their insurance is second class, while private insured persons run the risk of potentially harmful and inefficient over-provision. This divide and the slow and

¹⁴ In this regard, an interesting analysis comes from Obinger & Schmitt (2021) who argue that the experience of the two World Wars increased support for unemployment insurance in European countries.

gradual move towards universal health insurance could be avoided by strengthening the current tax-financed health system in Georgia. Ultimately, modern welfare states require at least mildly progressive tax systems, which could be the condition sine qua non for improving benefit adequacy in the health system and other areas of social policy in Georgia

Box 6

Containing costs for pharmaceuticals

Three strategies for avoiding escalating costs. One of the main drivers of costs in health systems is pharmaceuticals. In order to prevent escalating expenditures for pharmaceuticals without incurring loss in terms of quality, it is particularly important to establish the following policies in Georgia:

Firstly, generic substitution would ensure that cheaper generic pharmaceuticals could be used whenever available without a loss of quality or efficacy in treatment. This could take the form of prescribing pharmaceuticals not by brand names, but using instead the International Non-proprietary Name (INN-prescription). Secondly, new treatments (including pharmaceuticals) should be subject to HTA. The German and EU experience show that evidence-based assessment by independent researchers guiding health systems to distinguish the added (medical) benefit of new treatments over existing treatments contributes to containing costs in the health system whilst also ensuring incentives for innovation in the pharmaceutical sector. Furthermore, in order to save on costs for administrative and research capacities, Georgia should start participating in international cooperation in this area for example, for benefit assessments, through the EUnetHTA (<https://www.eunetha.eu/>) (Babidge 2021; Wieseler et al. 2019). In the longer term Georgia should also participate in the European Medicines Agency (EMA) in order to benefit from the central procedure for marketing authorisation of pharmaceuticals for the entire EU and EEA. The stated aim of the Georgian government of harmonising the regulatory framework for pharmaceuticals with EU legislation (Government of Georgia 2021: 48) should move beyond marketing authorisation rules and involve modern pricing and reimbursement procedures involving HTA. One immediate measure would be to avoid free pricing and to introduce price regulation such as reference pricing for pharmaceuticals, taking a basket of three European countries with the lowest prices in the EU as an upper point of reference for domestic pricing in Georgia. Finally, competition in the pharmaceutical sector needs to be ensured. This should include the absence of vertical integration between pharmaceutical companies, wholesalers and pharmacies as well as hospitals and insurance companies. Competition between pharmaceutical companies creates a favourable environment for generic substitution policy as well as for HTA to have its full effect.

These three strategies for an efficient pharmaceutical sector that ensures access to high quality pharmaceuticals for patients are wholly consistent with recent recommendations by the Georgian National Competition Agency (2021: 12).

Recommendations on means-tested basic income support.

The Georgian Government Program 2021-2024 foresees a continuation of targeted social programs aimed at vulnerable groups (Government of Georgia, 2021). Lessons for this can, to some degree, be drawn from the German system of income support. In principle, the German system distinguishes between people who are able to work and those who are not, and expects the former to actively seek employment. However, the fact that sanctions for those who fail to comply with these conditions are hardly ever necessary and, more importantly, may have negative effects on job quality (Van den Berg et. al. 2017), imply that this distinction should not be copied as such. If anything, the German experience clearly demonstrates that any efforts to incentivise formal employment should be accompanied by a general minimum wage above the subsistence level, which we also recommend for Georgia. If that is effectively implemented, any person in formal employment would automatically be disqualified for targeted social assistance as an individual - although the household might still receive benefits if too few members are in employment. The strong point of the German system lies rather in the self-conception of the German state as agent for employment promotion. A first step towards creating a similar perception in Georgia would to increase the promotional capacities of employment agencies and conduct further studies to understand the patterns of - and reasons for - unemployment and informal employment as well as the kind of support that is needed.

Indirect and direct taxes. Which taxes should be used for financing? Typically, taxes can be divided into two different types: direct and indirect. Indirect taxes are levied on transactions, like value-added taxes (VAT), and are regressive, that is to say they place a higher relative burden on the poorer segments of society. Indirect taxes, on the other hand, can be used with less administrative capacities and also work in countries with a large informal sector compared to direct taxes. As a result, they are often used in low and middle-income countries to finance social protection. By contrast, direct taxes can be designed in a progressive way, imposing a relatively larger burden on the richer segments of society. They consist of personal income tax, wealth taxes and taxes on other economic actors such as corporations. Similar to contributory schemes, direct tax collection and administration is better suited for countries with a large formal sector (Meerendonk 2021).

Box 7

Progressive taxation and inequality

Empirical evidence. There is sufficient empirical evidence to demonstrate a clear link between progressive taxation and inequality, relying either on tracking data over time or cross-country comparisons. A striking example comes from the USA. Following the Second World War, the top marginal tax rates were above 80%, while the share of the top 1% pre-tax income was slightly above 10%. From the early 1970s onwards, top marginal tax rates decreased, moving below 40% in 2013. At the same time, one could observe that the richest 1% now earned more than 80% of the income (Saez 2016). Cross-country evidence corroborates this picture: countries with large changes in top marginal tax rates (USA, UK, Ireland) also see the largest changes in the top 1% income share, and vice versa (Piketty, Saez & Stantcheva 2014). Overall, fears of high top tax rates inhibiting economic growth can be considered misplaced. Instead, highly progressive tax systems decrease inequality in particular as far as the top one percent is concerned, which is generally associated with greater social cohesion and higher levels of life satisfaction.

Exploiting all options. There are typically several sources of tax revenues that are under-exploited. These include so-called “sin” taxes on alcohol and tobacco, which are also relevant from a public health point of view, as they reduce the consumption of health-damaging products. Increasing taxes on income, wealth and property is also a promising avenue, hinging upon administrative capacities to avoid non-compliance and other reasons for low collection levels (Schiller 2021).

Addressing informality. The Georgian economy still has a significant informal sector. The pressing problem of transforming the Georgian economy into a modern, formalised economy can be considered a pivotal step towards moving Georgia closer to the European Union. Still, the goal for financing social protection should be a mixture of contributory and tax-financed schemes. The latter should be financed by direct taxation, although this could be phased in by starting with a larger share of indirect taxes. Increasing value-added tax in Georgia should be avoided, because it has regressive effects. Rather, Georgia needs to consider progressive direct taxes, in particular a progressive personal income tax including exemptions for low incomes, which would achieve the dual aims of increasing general tax revenues and reducing inequality for the benefit of social cohesion.

4.3 THE VALUE OF SOCIAL PROTECTION

Four principles for obtaining support among the population. A coherent vision of social protection requires broad support and acceptance by the population in order to be implemented effectively. Thorough explanation of the ration-

ale behind any new system and its corresponding reform pathway is absolutely essential. Understanding is the first step towards endorsing and supporting a social protection system. To gain such support among citizens, four elements are key. First of all, there needs to be trust in government institutions and administrations. It has to be clear that government institutions serve the citizens alone and are not influenced by special interest groups. A certain degree of independence of social insurance schemes could be ensured by a governance structure made up of beneficiaries and employers (i.e., social partners). Responsible budget decisions and control need to be made transparent to the wider public. Secondly, financing and spending should always be considered and communicated together, even if, formally-speaking, the principle of non-affectation does not allow for a direct link between the two. Social insurance schemes are highly efficient as long as they ensure a strict honouring of contributions and offer a public guarantee that they are directly linked to individual entitlements. Beyond technical issues, it is important to establish a fiscal contract between citizens (as tax-payers) and the government that outlines the advantages that social protection offers and how financing costs are distributed through the tax system (Schiller 2021). Thirdly, a fair design of social protection is pivotal for broad public acceptance. In particular, social insurance schemes should be compulsory in order to avoid large-scale opt-out, thereby leading to an erosion of the risk-pool (adverse selection). Having a unified, compulsory system avoids any division among the population or between occupational groups from the outset. For tax-financed social protection schemes, a progressive design is recommended in order to have both a fair design and sufficient financial headroom (see Box 6). Fourth, and building on the previous points, narratives explain welfare state development, but also shape attitudes among the population, which ultimately impacts political decision making (Greve 2020: 6). The importance of communicative strategies backing reforms by providing narratives and metaphors without going into the technicalities of social reforms was recently highlighted with respect to pension reform in Norway and the UK (Ring, Ervik and Lindén 2020). With this in mind, it is crucial to proactively accompany social protection reform with factual narratives in order to dispel myths and avoid the emergence of distorted views concerning social protection.

Positive conception of people. The biggest challenge is to kick-start a virtuous circle. Economists frequently focus on abuse, moral hazard, disincentives and other ways in which self-interested agents could potentially “game” the system. A good piece of advice could be to start reform by shifting from that perspective and to begin with the assumption that most people are fundamentally good and honest (Bregman 2020) and can be convinced by good ideas. Once the benefits of a coherent social protection system become visible in daily life, the system becomes self-sustaining.

5

CONCLUSIONS

Social protection reform in Georgia can benefit from the long experience of the German welfare state. Nonetheless, the German welfare state is frequently trapped in path dependencies and political deadlock, and these pitfalls could be avoided in Georgia through a selective learning process - following positive examples, whilst avoiding mistakes and dead-ends. The analysis in this paper has focused primarily on policy measures and design and the importance of communicating reform. We considered neither the political will of the current government to engage in broader social protection reforms, nor other vested interests and the particular international political situation in which Georgia finds itself. Having this caveat in mind, the following lessons for social protection reform in Georgia can be drawn:

- The three-pillared pension system should be reformed by strengthening the second, social insurance pillar. Moving this pillar from defined contribution to a PAYG benefit scheme would mean paying old-age pensions immediately out of current contributions, which should be used as a selling-point and pull factor for formal employment. The principle of equivalence between individual contributions and pension benefits should be emphasised, underlining the fact that contributions to such a scheme are not taxes, because insured persons earn a legally protected entitlement through their contributions. In the long-run, benefit levels should ensure a living standard similar to pre-retirement that goes further than avoiding poverty in old-age. Indexing pensions automatically according to the growth of the economy has proven a very successful generational contract in Germany.
- The healthcare system should be simplified by reducing out-of-pocket payments, in particular benefit ceilings, and other complex regulations. Public financial resources need to be continuously increased in order to make the system truly universal and to provide all necessary medical treatments to the entire population. Pharmaceuticals were identified as an area where resources could be saved within the system by making the sector more competitive and establishing a generic substitution policy as well as HTA. This is particularly attractive, as it generates savings for the healthcare system and helps to foster innovation, while ensuring that the population has access to high-quality pharmaceuticals. In the longer term, however, there is no alternative to establishing a (mildly) progressive tax system in order to reach a comprehensive health system similar to those of EU countries.
- An unemployment insurance based on mandatory contributions should be established, which grants income replacement benefits for a defined period of time in case of unemployment. For longer periods of unemployment, people would need to transfer to the TSA. This needs to be accompanied by a minimum wage policy, which effectively eradicates in-work poverty. Under these conditions, poverty would be clearly linked to long-term unemployment and hence the TSA should be accompanied by employment-promotion activities. Patterns of unemployment in Georgia still seem little understood, however, and should be studied further in order to ensure that incentives on labour supply and labour demand side are both adequately considered. In this respect, a general minimum wage should be introduced.

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LIST OF ABBREVIATIONS

ALMP	Active Labour Market Policies
CBP	Child Benefit Package
EMA	European Medicines Agency
HTA	Health Technology Assessment
INN	International Non-proprietary Name
IQWiG	Institute for Quality and Efficiency in Health Care
OOP	Out-of-pocket
PAYG	Pay-As-You-Go
PMT	Proxy Means Test
RCTs	Randomised Controlled Trials
SGB	Sozialgesetzbuch (German social code)
SHI	Statutory Health Insurance
TSA	Targeted Social Assistance
UHCP	Universal Health Care Programme

ABOUT THE AUTHORS

Remi Maier-Rigaud is Professor for Social Policy at the Bonn-Rhein-Sieg University of Applied Sciences. After receiving his PhD (Dr. rer. pol.) from the University of Cologne, where he also held research positions, he worked for three years in the Pharma and Health Services Unit of DG Competition at the European Commission. He is a member of the editorial board of the Journal of Social Economy and Common Welfare. His major research interests comprise social security systems (in particular health and pensions), changing attitudes to solidarity in the context of digital innovations such as health apps and wearables, and EU health and consumer policy.

Simona Helmsmüller (Dr. rer. pol. University of Mannheim, Dipl.-Math. Saarland University) is a lecturer at the Bonn-Rhein-Sieg University of Applied Sciences, Faculty of Social Policy and Social Protection as well as a freelance consultant and researcher. Since 2010, she has been working in development cooperation, advising mainly on projects in Asia and the MENA region. As a researcher, she focuses on detailed evaluation of social protection programmes in developing countries, including a pro-poor health insurance scheme in Pakistan and cash transfer programmes in Ecuador and South Africa.

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Friedrich-Ebert-Stiftung | Tbilisi Office
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SOCIAL PROTECTION REFORM IN GEORGIA

Principles and Perspectives from Germany



Social protection requires a clear and coherent structure. Contributory social insurance based on the principle of equivalence is an adequate and efficient design when the primary objective is income replacement. In cases where the primary objective is to provide universal services according to the principle of need, tax financing is preferable.



Based on this structure, it is recommended that Georgia strengthen its social insurance system. Georgia could benefit significantly from the German experience described in this study, particularly in the areas of pensions and temporary unemployment benefits. The healthcare system should continue its trajectory of universal care financed by taxation, irrespective of the individual ability to pay. Regulation with respect to pharmaceuticals is a promising avenue to free up financial resources within the health system, whilst also ensuring high-quality provision. Overall, the financial basis for social reforms needs to be strengthened by introducing a progressive taxation system.



Communicating the benefits of any reforms is absolutely central. Positive factual narratives should be used to back a clear and coherent reform structure. Fairness and the trustworthiness and reliability of government and administrative institutions are key for gaining broad public support.

More information under this link:
<https://southcaucasus.fes.de/>