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Creating a Union with a "Human Face": A European Unemployment Insurance

by Daniele Fattibene

ABSTRACT

A European Unemployment Insurance (EUI) for the Economic and Monetary Union (EMU) would be a feasible and effective tool to cushion the impact of asymmetric shocks. It would have had a deep stabilisation effect during the last recession, stimulating aggregate demand and reducing the pressure to cut fiscal stabilisers in a pro-cyclical way (the so called "race-to-the-bottom" effect). Fiscal, institutional, legal and statistical problems can be tackled, without reducing the generosity of the scheme. If implemented the EUI would finally give a "human face" to the EU integration process, with policies that have a far-reaching impact in the everyday lives of the EU's citizens.

European Union | *Economic and Monetary Union (EMU)* | *Labour market* | *Eurozone crisis*

keywords

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Introduction

The latest economic crisis has shown that the early 2000s claims that the common monetary policy would act as a stabilising force for the overall economic cycle proved unrealistic. Meanwhile, national welfare systems have been tremendously weakened. The recession has thus unveiled the "original sin" of the Economic and Monetary Union (EMU) – the lack of fiscal coordination and solidarity among its members. Social inequality has increased, making it more problematic to reach the Europe 2020 targets.[1] In March 2015, more than 18 million people – of whom 3.2 million were under 25 years of age – were unemployed in the Eurozone.[2]

In this context, the ambitious proposal of creating a European system of automatic fiscal stabilisers has resurfaced. The European Council,[3] the European Commission[4] – particularly thanks to the work of the former Commissioner László Andor[5] – and the European Parliament[6] endorsed this idea, which actually traces its origins back

[1] See the European Commission webpage, *Europe 2020 targets*, last update August 2011, http://europa.eu/!CQ76dq.

[2] See the Eurostat webpage, *Statistics Explained: Unemployment Statistics*, last update April 2015, http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics.

[3] Council of the European Union, *Towards a Genuine Economic and Monetary Union* (Four Presidents' Report), 5 December 2012, http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/134069.pdf.

[4] European Commission, *Strengthening the social dimension of the Economic and Monetary Union*, 2013(COM)690, 2 October 2013, http://eur-lex.europa.eu/legal-content/en/ALL/?uri=celex:52013DC0690.

[5] László Andor, *Social dimension of the Economic and Monetary Union: what lessons to draw from the European elections?*, Lecture at Hertie School of Governance, Berlin, 13 June 2014, http://europa.eu/!vm74YV.

[6] Joseph Dunne, *Mapping the Cost of Non-Europe, 2014-2019*, 2nd ed., Brussels, European Parliament DG for Parliamentary Research Services, July 2014, http://dx.doi.org/10.2861/66616.

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. This paper was written during a research period spent at the United Nations University – Institute on Comparative and Regional Integration Studies (UNU-CRIS) in Bruges.

to the 1970s (the Marjolin Report).[7] A European Unemployment Insurance (EUI) for the EMU would be a feasible and effective tool to cushion the impact of an economic downturn, stimulating aggregate demand by supporting disposable incomes and reducing the pressure to cut fiscal stabilisers in a pro-cyclical way (the so called "race-to-the-bottom" effect). Most of all, it would give a "human face" to the EMU, by tackling the existing imbalances through policies with a far-reaching impact on the everyday lives of citizens.

1. What does the EUI consist of?

A basic EUI consists of a targeted and temporary fiscal stabiliser. It addresses all employees in the Eurozone, who have contributed to national insurance systems for at least 12 months prior to unemployment. Taking into account the differences in GDP per capita among the EMU Member States, the EUI would provide an average insured wage of around 80 percent of the average national wage, with a replacement payment of 50 percent of the insured wage for a limited time-frame (12 months). The scheme would be financed with taxes paid both by employers and employees and collected through national unemployment insurance administrations. A common unemployment insurance should be a flexible tool, able to run surpluses or deficits in single years, depending on the overall economic performance of the Union. In this perspective, a study from the Centre for European Economic Research (ZEW) in Manheim highlighted (Figure 1) that a basic scheme would have experienced surpluses from 2000 to 2003 and from 2006 to 2008 – due to growth in nominal earnings – and deficits during the recent downturn.[8]

The EUI would complement rather than replace already existing national fiscal stabilisers. Hence, states will be free to use national funds to add further resources to the scheme. Simulations revealed that a basic EUI would have cost around 50 billion euros per year over the period 2000-2013 (which means 0.5 percent of the total GDP in the Eurozone).[9] A uniform contribution rate of 1.57 percent on employment income would have assured revenue-neutrality at the EMU level.[10] A common unemployment insurance for the Euro area is an ambitious project, whose feasibility has triggered an intense debate on its positive and negative implications.

[7] European Communities, *Report of the Study Group Economic and Monetary Union 1980*, March 1975, http://www.cvce.eu/content/publication/2010/10/27/93d25b61-6148-453d-9fa7-9e220e874dc5/publishable_en.pdf.

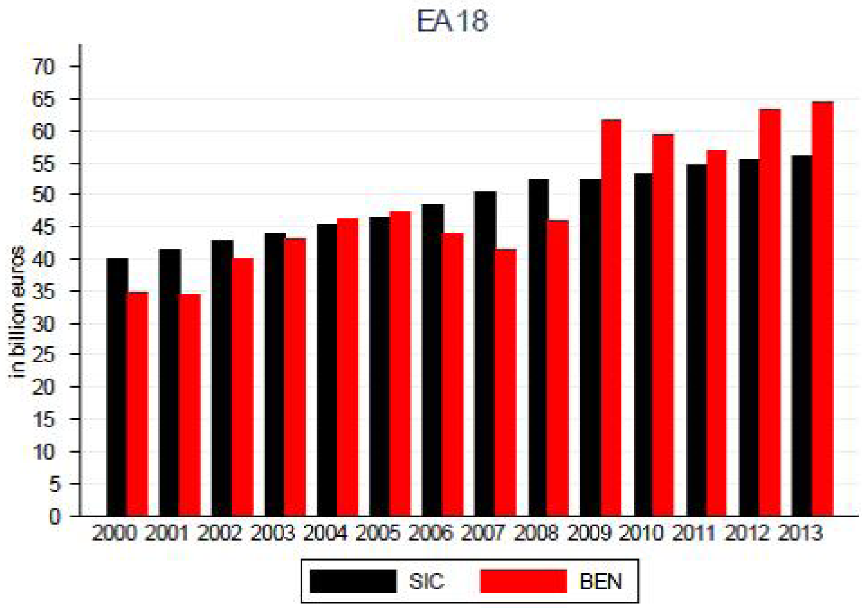
[8] Mathias Dolls et al., "An Unemployment Insurance Scheme for the Euro Area? A Comparison of Different Alternatives using Micro Data", in *ZEW Discussion Papers*, No. 14-095 (2014), http://www.zew.de/de/publikationen/7655.

[9] Sebastian Dullien, "The Macroeconomic Stabilisation Impact of a European Basic Unemployment Insurance Scheme", in *Intereconomics*, Vol. 49, No. 4, (July/August 2014), p. 189-193, http://intereconomics.eu/archive/year/2014/4/designing-a-european-unemployment-insurance-scheme.

[10] Mathias Dolls et al., "An Unemployment Insurance Scheme ...", cit., p. 18.

IAI WORKING PAPERS 15 | 13 - MAY 2015 ISSN 2280-4341 | ISBN 978-88-98650-37-8

Figure 1 | Overall social insurance contributions (SIC) and benefits (BEN) at the Eurozone level, 2000-2013



Source: Mathias Dolls et al., An Unemployment Insurance Scheme ..., cit., p. 18.

2. A basic EUI: Weaknesses and possible alternatives

There are several reasons behind the opposition to the implementation of a basic EUI. The risk that permanent transfers would emerge among Member States is an important source of concern. The ZEW simulation as well as other studies[11] raised the issue that a basic EUI would make some states (Austria, Germany and the Netherlands) become net contributors, and others (Spain, France and Latvia) net recipients. Figure 2 shows the different contributions of the member States to the scheme, as a percentage of GDP. Germany (0.2 percent), Austria (0.25 percent) and the Netherlands (0.42 percent) would have been the biggest contributors, whereas Latvia (-0.33 percent) and Spain (-0.53 percent) would have been the largest net recipients. These conditions would make the scheme politically very hard to be accepted by several member States.

In order to tackle these imbalances, the ZEW study introduces some alternatives to the basic scheme. In particular, it suggests implementing two claw-back mechanisms to smooth the negative outcomes. Firstly, a two-month "waiting period" is set to reduce the effect of seasonal unemployment. Secondly, it proposes that the EUI would cover only a share of short-term unemployed, who receive national unemployment insurance benefits. Figure 3 shows that these claw-backs

[11] Thomas Rhein, "Verteilungswirkungen einer europäischen Arbeitslosenversicherung – Simulationsrechnung", in *IAB Aktuelle Berichte*, October 2013, http://doku.iab.de/aktuell/2013/aktueller_bericht_1306.pdf.

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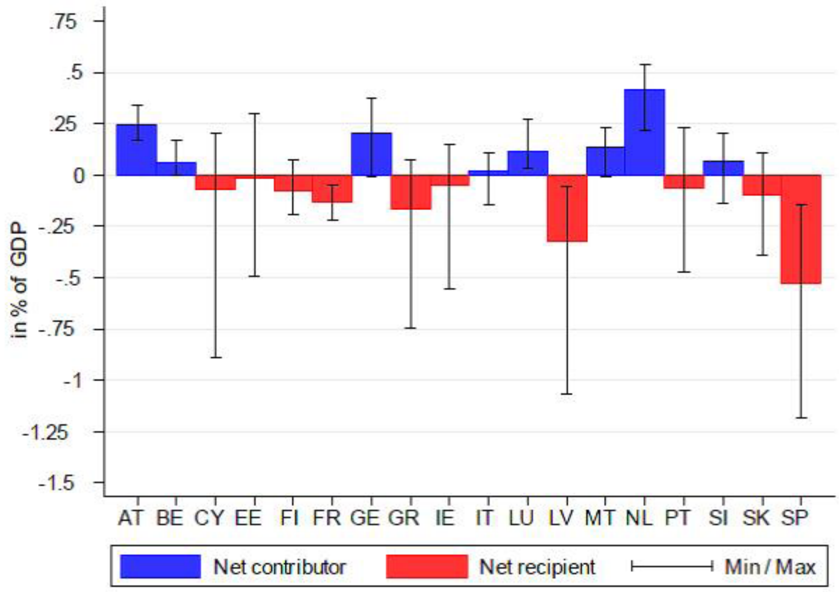
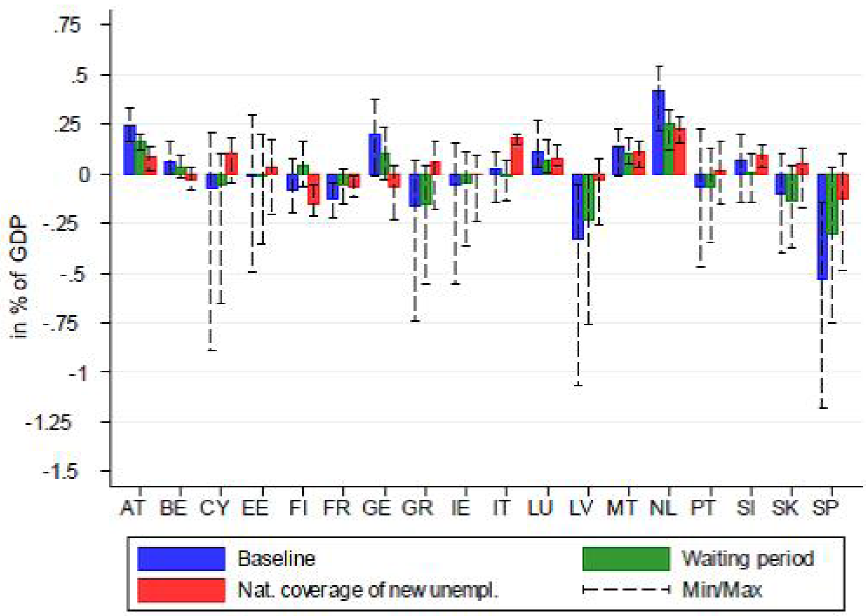
do reduce imbalances at the Member States' level. However, they also paradoxically create a situation in which some Member States which are net contributors in the baseline scenario become net recipients (Belgium and Germany) or vice versa (Cyprus, Estonia, Greece, Portugal and Slovakia). Furthermore, claw-backs make the system less generous, thus limiting its stabilisation effect.

Figure 2 | Average yearly net contributions to the EUI, 2000-2013



Source: Mathias Dolls et al., An Unemployment Insurance Scheme ..., cit., p. 13.

Figure 3 | Average yearly net contributions – different coverage scenarios



Source: Mathias Dolls et al., An Unemployment Insurance Scheme ..., cit., p. 14.

Another fiscal problem regards the way the scheme would be financed. The ZEW baseline scenario envisages a 1.57 percent uniform contribution rate on employment income as a way to assure revenue-neutrality to the system as a whole. Yet, this would create strong imbalances, since a uniform contribution rate does not assure revenue-neutrality at the Member State level. For this reason, the ZEW study suggests a two-fold path. In the initial period an EUI-wide revenue-neutral contribution rate (1.57 percent) leading to an unbalanced budget at the Member States' level would be applied. In the subsequent periods, country-specific contribution rates will be introduced, in order to reduce previous imbalances. However, this would not be easy to implement for political reasons, since it implies that some countries would be forced to ask higher taxes on wages to their taxpayers. This would be rather troublesome to achieve, especially in case of an economic downturn. The table below shows the country-specific contribution rates that would assure revenue-neutrality of the scheme both at the EMU and at the Member States level. It highlights that there are huge differences within the Eurozone, ranging from 0.75 percent in the Netherlands to 3.3 percent in Spain.

Table 1 | Country-specific contribution rates (in % of employment income)

Country	Contribution Rate
Austria	0.97
Belgium	1.39
Cyprus	1.85
Estonia	1.57
Finland	1.74
France	2.07
Germany	1.15
Greece	2.08
Ireland	1.81
Italy	1.50
Luxembourg	1.10
Latvia	3.05
Malta	1.19
Netherlands	0.75
Portugal	1.82
Slovenia	1.39
Slovakia	1.84
Spain	3.30
EMU 18	**1.57**

Note: Lithuania, which joined the Eurozone on 1st January 2015, was not included in the study.
Source: Mathias Dolls et al., An Unemployment Insurance Scheme ..., cit., p. 19.

IAI WORKING PAPERS 15 | 13 - MAY 2015 ISSN 2280-4341 | ISBN 978-88-98650-37-8

The ZEW's simulations suggest as an alternative a "contingent scheme," whereby countries receive benefits only in case of a recession, when unemployment rises by at least one percent from an already high level (5 or 7 percent). Using these triggers would reduce the overall budget of the scheme (passing from 50 billion to less than 20 billion euro per year), as well as the contribution rate assuring revenue neutrality at the EMU level (from 1.57 to 0.41 percent on employment income). Yet, the simulation also reveals that this system offers a smaller stabilisation potential on disposable incomes. Moreover, Dullien pointed out that since "national budget processes – especially in interaction with the European semester – are not geared towards spending additional funds quickly,"[12] it might take several months before funds are allocated to the Member States, particularly if supplementary budgets must be formulated and then approved by national parliaments.

Fiscal obstacles are coupled by institutional ones; the most important being the high fragmentation of the EMU's labour markets. Shaping a "one-size-fits-all" model seems rather unrealistic to many. Member States have very different employment protection legislation, with a dichotomy between *State corporativist* and *comprehensive* schemes.[13] Hence, huge differences exist within the Eurozone unemployment benefit systems in terms of contribution period, replacement rate, duration, eligibility and coverage rates. Member States do not attach the same importance to unemployment benefit systems, with some countries allocating less than one-half of a percent of GDP to those spending almost four percent of GDP.[14] Table 2 briefly summarizes some of the main characteristics of unemployment benefit systems in 10 Eurozone members in 2012.

Additionally, establishing a common unemployment insurance for the Eurozone requires a certain legal framework to be set. Although the Lisbon Treaty envisages "solidarity" as one of the key elements which binds all the members of the Union, article 125 of the Treaty on the Functioning of the European Union (TFUE) also prevents fiscal transfers among Member States. For this reason, the implementation of the scheme would imply either a change of the Lisbon Treaty or at least a new intergovernmental agreement. However, it will take time before all members agree on shifting the decision making from a national to a supranational level. Social protection policies are a very sensitive topic, involving many actors (trade unions, employers' associations). Hence, it is quite likely that Member States will put up

[12] Sebastian Dullien, *A Euro-Area Wide Unemployment Insurance As an Automatic Stabilizer: Who Benefits and Who Pays?*, Paper prepared for the European Commission (DG EMPL), updated December 2013, p. 8, http://ec.europa.eu/social/BlobServlet?docId=12510&langId=en.

[13] The former are administered jointly by employers and employees and with income protection separated along occupational lines, whereas in the latter entitlements are based on contributions. For a more detailed description of the two models, see H. Xavier Jara and Holly Sutherland, *The Implications of an EMU Unemployment Insurance for Supporting Incomes*, Paper prepared for the European Commission (DG EMPL), updated March 2014, http://ec.europa.eu/social/BlobServlet?docId=11582&langId=en.

[14] Ingrid Esser et al., *Unemployment Benefits in EU Member States*, Paper prepared for the European Commission (DG EMPL), July 2013, p. 18, http://ec.europa.eu/social/BlobServlet?docId=10852&langId=en.

IAI WORKING PAPERS 15 | 13 - MAY 2015 ISSN 2280-4341 | ISBN 978-88-98650-37-8

some resistance before losing such a powerful political (and electoral) tool.

Table 2 | Heterogeneity of national unemployment benefit schemes

Country	Contribution (months)[a]	Payment	Duration (months)[b]	Assistance	Tax and SICs
Germany	12/24	67-60% of net; max	12	Means-tested UA	Neither
Estonia	12/36	50% falling to 40% of gross; min, max	12	Flat UA	Tax and reduced SICs
Greece	6/14	Flat rate	10 (12)	Flat UA (not universal)	Tax
Spain	12/60	70% falling to 50% of gross; min, max	24	Means-tested UA	Tax and SICs
France	4/28	40% of gross; min, max	24	Means-tested UA	Tax and reduced SICs
Italy	12/24	75% falling to 60% of gross; 25% above an earnings limit; min, max	8 (12)	None	Tax
Latvia	9/12	50-65% of gross; reduces with length of unemployment	9	Social assistance	Neither
Austria	12/24	55% of net; min, max	9 (12)	Means-tested UA	Neither
Portugal	12/24	65% falling to 55% of gross; min, max	11 (12)	Means-tested UA	Neither
Finland	8/28	45% of net; 20% above an earnings limit	17	Means-tested UA	Tax and reduced SICs

Notes: a) Months of contributions/period in which contributions can be made; b) "Standard" maximum duration (typical maximum duration taking account of age and other criteria, where this is longer). UA: unemployment assistance; SICs: social insurance contribution.
Source: H. Xavier Jara and Holly Sutherland, *The Implications of an EMU Unemployment...*, cit., p.28.

Another argument opposing the EUI is the so-called "moral hazard," both *ex ante* and *ex post*. The former means that countries could be tempted to reduce domestic stabilisers to benefit more from the common scheme. The latter warns that national governments could use funds for purposes which are not suitable for stabilisation, but which are more desirable in political terms.[15] Additionally, some analysts claim that a basic EUI would create disincentives to reform national labour markets. Since the member States do not bear all costs for unemployment, national administrations would have no pressure to solve internal labour market distortions. As noted by Dullien, this is a problem that has been observed empirically in some

[15] Henrik Enderlein, Lucas Guttenberg and Jann Spiess, "Blueprint for a Cyclical Shock Insurance in the Euro Area", in *Notre Europe-Jacques Delors Institute Studies & Reports*, No. 100 (September 2013), p. 9, http://www.delorsinstitute.eu/011-16659.

IAI WORKING PAPERS 15 | 13 - MAY 2015 ISSN 2280-4341 | ISBN 978-88-98650-37-8

federal systems of unemployment insurance, for example in Belgium, with an unemployment scheme of principally unlimited duration.[16]

As an alternative aimed at tackling these fiscal and institutional drawbacks, Enderlein et al. suggest to implement a "cyclical shock insurance" (CSI) fund calculated on the basis of the output gap.[17] A CSI would function in a similar way,[18] but it would be more balanced than the EUI, excluding the risk of ex-post revisions as well as that countries would become either net recipients or contributors in the long run. Moreover, the authors claim that a CSI would be politically easier to be accepted, since the output gap methodology has already been introduced in national legislation in the context of the implementation of the Fiscal Compact. Yet, the CSI has raised huge criticism, since estimating this value proved rather troublesome. During the recent crisis huge revisions were made, sometimes even with changes of the sign.[19] Furthermore, Dullien highlighted that if the common unemployment insurance had been designed on the basis of the output gap, this would have caused excessive transfers to some countries, sometimes worsening the overheating of their economies.[20] For these reasons, most authors consider the EUI as a more effective solution than a limited shock insurance fund.

However, the creation of a basic EUI has raised further concerns. In particular, some questioned its stabilisation impact, claiming that the scheme would better address short-term rather than long-term unemployment.[21] The idea is that such a scheme would be more effective during short recessions, rather than in long downturns. A long crisis usually causes a rise of long-term unemployment, thus hindering the stabilisation potential of such fiscal stabilisers on disposable incomes. Figure 4 highlights that for the PIIGS countries (Portugal, Ireland, Italy, Greece and Spain), the income stabilisation coefficient ranged from 23 to 31 percent at the beginning of the crisis, but smaller stabilisation effects were experienced later due to the rise of long-term unemployment in the latter years of the crisis. Moreover, the stabilisation impact of the EUI would be even lower if the aforementioned claw-backs (waiting period and national coverage of new unemployed) were applied to the implementation of the scheme.

[16] Sebastian Dullien, "The Macroeconomic Stabilisation Impact of a European Basic Unemployment Insurance Scheme", cit., p. 193.

[17] Henrik Enderlein, Lucas Guttenberg and Jann Spiess, "Blueprint for a Cyclical Shock Insurance in the Euro Area", cit. The output gap measures the difference between the actual output of an economy and the output it could achieve when it is most efficient, or at full capacity.

[18] When an EMU members' output gap is above the euro area aggregate level (meaning that their cyclical economic position is better) they pay into the system. On the contrary, countries would get payments from the scheme when their output gap in a given year is more negative than the euro area average.

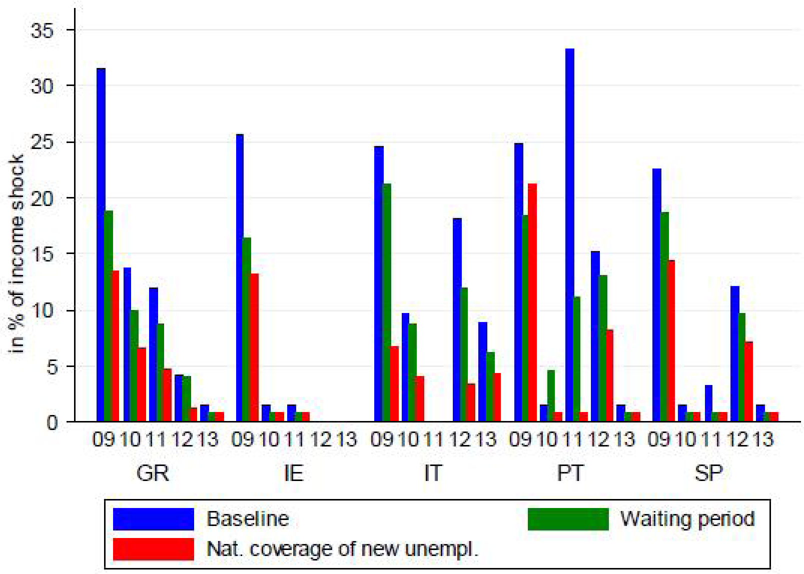
[19] Gerhard Kempkes, "Cyclical adjustment in fiscal rules: Some evidence on real-time bias for EU-15 countries", in *Deutsche Bundesbank Discussion Papers*, No. 15/2012 (July 2012), http://www.bundesbank.de/Redaktion/EN/Downloads/Publications/Discussion_Paper_1/2012/2012_07_24_dkp_15.pdf.

[20] Sebastian Dullien, *A Euro-Area Wide Unemployment Insurance ...*, cit., p. 5.

[21] Mathias Dolls et al., "An Unemployment Insurance Scheme ...", cit.

IAI WORKING PAPERS 15 | 13 - MAY 2015 ISSN 2280-4341 | ISBN 978-88-98650-37-8

Figure 4 | Income stabilisation for PIIGS countries, different coverage scenarios



Source: Mathias Dolls et al., An Unemployment Insurance Scheme ..., cit., p. 17.

Finally, there is also a statistical and methodological problem to be solved. Many studies faced serious trouble when trying to estimate the number of potential recipients of the common insurance because of the lack of publicly available data. Therefore, several analysts pointed out that the available data simply do not allow for a high degree of accuracy. An EUI requires an homogenous methodology, with common criteria and publicly available data about the past work history of the newly unemployed. Due to these fiscal, institutional, legal and statistical problems some practitioners realistically acknowledged that the creation of a basic EUI is a long-term project. In the short-term, priority should rather be given to other plans, such as boosting both public and private investments at the Eurozone level and achieving a better use of the EU budget by eliminating inefficient items and putting more emphasis on stabilisation.[22]

3. Why is the EUI a desirable tool?

Although it is important to bear in mind all these potential obstacles and drawbacks, a common unemployment insurance for the Euro area nonetheless seems a necessary step to be taken for several reasons. To begin with, a basic EUI would have a strong stabilisation impact. Dullien explains very clearly the logic of stabilisation. With higher unemployment a country's contribution to the scheme decreases.

[22] Grégory Claeys, Zsolt Darvas and Guntram B. Wolff, "Benefits and Drawbacks of European Unemployment Insurance", in *Bruegel Policy Briefs*, No. 2014/06 (September 2014), http://www.bruegel.org/publications/publication-detail/publication/847-benefits-and-drawbacks-of-european-unemployment-insurance.

IAI WORKING PAPERS 15 | 13 - MAY 2015 ISSN 2280-4341 | ISBN 978-88-98650-37-8

IAI WORKING PAPERS 15 | 13 - MAY 2015 ISSN 2280-4341 | ISBN 978-88-98650-37-8

Meanwhile, there is an upsurge of payments to the affected country. On the contrary, an increase in employment leads to higher net payments into the system, firstly by higher contributions and secondly by lower payouts. This produces a two-fold dynamic. On the one hand, in case of a crisis, the scheme would support purchasing power, keeping good levels of aggregate demand, thus stabilising GDP. On the other hand, during an economic upswing the system would contain an excessive growth of the purchasing power from the country in question, limiting the risks of overheating of the national economy. Several studies confirmed the impact that the EUI would have had during the recent recession. The aforementioned study from ZEW highlighted that the scheme would have absorbed 36 percent of the unemployment shock in 2009[23] (with lower stabilisation effects in the following years, due to rising long-term unemployment). Additionally, an EU Commission paper[24] emphasised the strong stabilisation impact that the scheme would have had in several countries, with the largest additional stabilisation registered in Greece, Latvia and Austria (by 23-24 points in each case). The stabilisation potential of the EUI is strengthened by the fact that it would increase the number of people covered by an unemployment benefit scheme. In some countries there is a great number of self-employed (39 percent in Greece and 27 percent in Italy), which are usually excluded from all unemployment schemes. This is confirmed by coverage rates in the EMU, which range from 96 percent in Spain to 63 percent in Greece. In this context, a basic EUI would significantly increase the amount of workers covered by unemployment benefits in case of job loss. In this sense, Figure 5 shows the additional percentage of the employed and self-employed in each country, who would benefit from the EUI while not qualifying for national benefits during the year. The EUI would increase substantially this level in Greece (31 percent) Italy (21 percent) or Portugal (15 percent), thus boosting the number of workers covered by unemployment benefits.

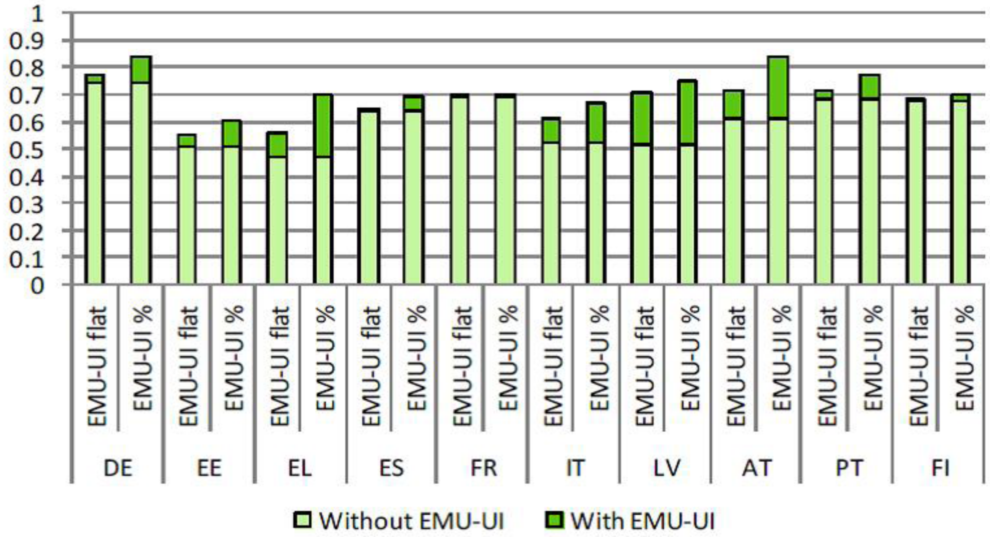
Figure 6 further supports the idea that a basic scheme would have a strong potential of protecting disposable incomes, by increasing the so-called "net replacement rate" (NRR).[25] Precisely, the same study shows the effects of the scheme to household disposable incomes after unemployment, under the existing tax-benefit systems. The EUI generates positive outcomes on the mean NRR in all countries to some extent – except for France and Finland where the effect is very small – notably in Greece, Italy, Austria and Latvia.

[23] Mathias Dolls et al., "An Unemployment Insurance Scheme ...", cit., p. 26.

[24] H. Xavier Jara and Holly Sutherland, The Implications of an EMU Unemployment ..., cit.

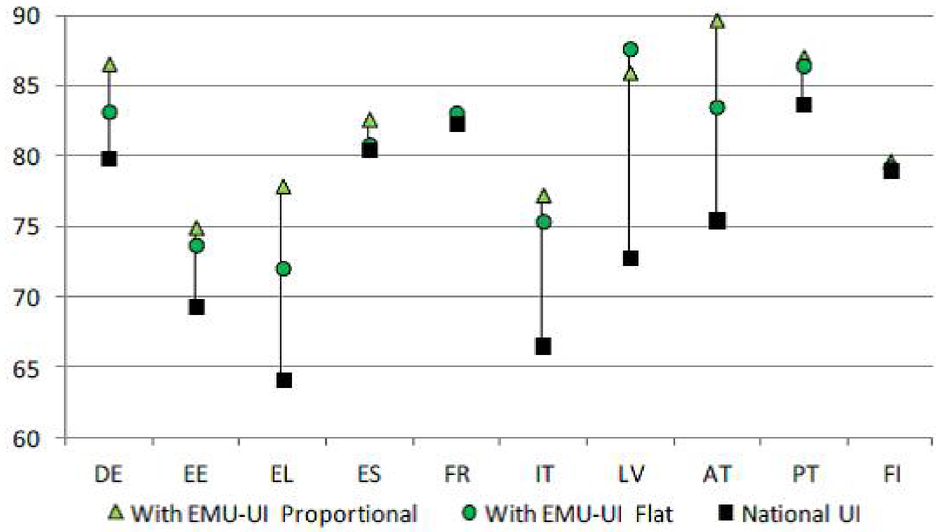
[25] The net replacement rate (NRR) is the ratio of disposable income based on social benefits when out of work and disposable income gained from work.

Figure 5 | Income stabilisation coefficient: additional effect of EMU-UI including self-employed[26]



Source: H. Xavier Jara and Holly Sutherland, *The Implications of an EMU Unemployment* ..., cit., p. 21.

Figure 6 | Mean net replacement rates: household disposable income post unemployment as a percentage of household disposable income pre unemployment, with and without EMU-UI, for all people currently in work, in case of unemployment



Source: H. Xavier Jara and Holly Sutherland, *The Implications of an EMU Unemployment* ..., cit., p. 18.

[26] The study by Xavier Jara and Sutherland dichotomizes between an EMU-UI flat level based on 33% of average earnings in the country and a proportional EMU-UI, based on 50% of previous (most recent) own gross monthly earnings, with no floors or ceilings. The latter is the one considered in this paper.

IAI WORKING PAPERS 15 | 13 - MAY 2015 ISSN 2280-4341 | ISBN 978-88-98650-37-8

Several studies also demonstrated that it is possible to avoid the emergence of both *ex-ante* and *ex-post* "moral hazard." In this sense, the aforementioned paper[27] from the Jacques Delors Institute proposes two possible strategies. On the one hand, a "rulebook" for macroeconomic stabilisation policies could be established. The aim is to agree on common minimum standards and to set effective mechanisms, which could even lead to suspension of a country's participation to the scheme in case of persistent violations of those standards. On the other hand, in order to prevent *ex-post* moral hazard, funds should be earmarked as a way to assure that they are spent effectively by preventing cuts in the unemployment benefits schemes. This would avoid "misalignment," which means that countries would use the funds they receive towards social security systems and not towards areas where multipliers are not the highest but which are more politically desirable for policy-makers.

The latest financial and economic crisis clearly showed that a common unemployment insurance would be much more effective than a collection of purely national systems borrowing from financial markets.[28] Enderlein et al. pointed out that being members of a currency (but not fiscal) union did not protect Member States from external financial pressures. On the contrary, the risk of default for individual Member States increased significantly, since countries had to issue their debt in a foreign currency upon which they did not have any control. This ignited a truly "self-fulfilling fiscal crisis." Hence, when doubts arose about the viability of some countries to pay their debt back, they encountered huge difficulties in supporting their budgets through financial markets. Moreover, the need to respect the Stability and Growth Pact rules further limited states' capacity to borrow money during the latest recession. For these reasons, several governments opted for cutting social expenditure and welfare state provisions in a pro-cyclical way. A basic EUI would be a key tool to prevent this "race-to-the-bottom" effect.

The EUI would also be a powerful driver for structural labour market reforms. On the one hand, it would increase the incentive for making labour markets more flexible, since some of the short-term costs will be covered at the EU level. On the other hand, as states will still hold primary responsibility for tackling long-term unemployment these costs will not be shifted to the other members. Furthermore, an EUI would help some states to solve internal labour market distortions and to reform the existing national unemployment schemes. Italy, for instance, would benefit from it, since it is the only Member State that lacks a national framework for unemployment assistance or social assistance.[29] The country does not have a national unemployment scheme, with the biggest part of its welfare system protecting mainly jobs in large industries rather than supporting all workers. In this context, an EUI would push the government to draw resources from its

[27] Henrik Enderlein, Lucas Guttenberg and Jann Spiess, "Blueprint for a Cyclical Shock Insurance in the Euro Area", cit.

[28] Sebastian Dullien, "The Macroeconomic Stabilisation Impact of a European Basic Unemployment Insurance Scheme", cit.

[29] Ingrid Esser et al., *Unemployment Benefits in EU Member States*, cit., p. 13-14.

IAI WORKING PAPERS 15 | 13 - MAY 2015 ISSN 2280-4341 | ISBN 978-88-98650-37-8

traditional industrial subsidies ("*cassa integrazione*"), by supporting active labour policies through a truly universal unemployment insurance.[30] Reforming the EMU labour markets would strongly reduce existing fragmentation, leading to a higher harmonisation within the Eurozone. Esser et al. state that this would help to identify countries that deviate markedly from broader European patterns (contribution rate, eligibility criteria, duration and coverage rate), indicating where special adjustments are most desirable. This would, for instance, foster reforms both in Portugal – where unemployment benefit expenditures are modest – and Slovakia – which combines long contribution periods, modest replacement rates and short duration with comparatively low expenditure levels.[31] A convergence towards best practice models in the EMU – in terms of generosity and stabilisation capacity – would not only smooth existing differences but also limit the discrepancies in wage developments.[32] A more integrated social welfare system will definitely improve the functioning of the EMU, boosting labour mobility and making the conduct of monetary policy easier.[33] Available data contradict the myth that the creation of the EMU increased labour mobility in the Eurozone. On the contrary, the single market still has great growth potential and that it is still far from reaching the same level as the United States or Australia. Approximately 8.1 million EU citizens work and live in another Member State today, representing only 3.3 percent of the total EU labour force.[34] Moreover, intra-EU mobility flows do not even amount to 0.3 percent of its population – ten times lower than the corresponding US statistic.[35]

Last but not least, an EUI would have a positive impact on the citizens' everyday lives, since it would provide a clear signal that social issues are (again) at the core of the EU integration process. Making social policies and employment the main pillars of the EMU would ensure that an increased labour market flexibility is balanced by adequate levels of social protection. The latest Eurobarometer confirms that unemployment is still the most important concern for the EU citizens but also that the creation of a European social welfare system harmonised between the Member States would best strengthen the idea of European citizenship.[36]

[30] Umberto Marengo, "A new fiscal policy for the EU: the European unemployment insurance", in *Europa Quotidiano*, 11 July 2014, http://www.europaquotidiano.it/?p=303288.

[31] Ingrid Esser et al., *Unemployment Benefits in EU Member States*, cit., p. 20.

[32] Eurostat, *Hourly labour costs ranged from €3.8 to €40.3 across the EU Member States in 2014*, 30 March 2015, http://ec.europa.eu/eurostat/documents/2995521/6761066/3-30032015-AP-EN.pdf.

[33] Armin von Bogdandy et al. (Glienicker Gruppe), *Towards a Euro Union*, 17 October 2013, http://www.glienickergruppe.eu/english.html.

[34] László Andor, *Labour mobility in the EU: challenges and perspectives for a genuine European labour market*, Lecture at the European University Institute, Firenze, 24 June 2014, http://europa.eu/!rb47QM.

[35] Mikkel Barslund, Matthias Busse and Joscha Schwarzwälder, "Labour Mobility in Europe: An untapped resource?", in *CEPS Policy Briefs*, No. 237 (March 2015), p. 2, http://www.ceps.eu/node/10224.

[36] European Commission, *Standard Eurobarometer 82*, Autumn 2014, http://ec.europa.eu/public_opinion/archives/eb/eb82/eb82_en.htm.

IAI WORKING PAPERS 15 | 13 - MAY 2015 ISSN 2280-4341 | ISBN 978-88-98650-37-8

Conclusion

A basic, targeted and temporary EUI represents a feasible and effective tool to tackle future asymmetric shocks within the EMU. Obviously, the implementation will not be simple due to fiscal, institutional, legal and statistical problems. The risk of permanent transfers as well as of moral hazard among the Member States is a huge burden, which makes the political acceptance of the project rather troublesome. Moreover, the EMU's labour markets are still very fragmented and this makes it harder to establish a "one-size-fits-all" model. Therefore, it will take time until an EUI scheme is launched at the EMU level. The scheme would also be much more effective during a short economic downturn, thus it must be accompanied by other measures which would allow for tackling long-term unemployment. However, the proposed alternatives do not seem more feasible. Claw-backs may reduce imbalances at the EU level. Yet, simulations demonstrated that the less generous the scheme, the smaller its stabilisation impact. Other strategies, such as using triggers to make more contingent transfers or launching a CSI on the basis of the output gap, also present serious implementation problems. Measuring the output gap with accuracy proved to be rather troublesome during the recent crisis, with huge changes in sign registered in many countries. Additionally, triggers tend to significantly reduce the generosity of the scheme, while requiring long time periods to be launched.

Therefore, a basic EUI for the Euro area still seems the best option to be implemented. It would be much more effective than purely national unemployment benefit systems and it would not represent a huge financial burden for the EMU budget (only 0.5 percent of the overall GDP). Several studies demonstrated that permanent transfers and moral hazard can be tackled by setting precise thresholds and criteria that do not reduce too much the generosity of the scheme. A basic EUI would have had a deep stabilisation impact during the last recession, helping states to limit the costs of the crisis and avoiding a deterioration of national welfare systems through the so-called "race-to-the-bottom" effect. The EUI would be a powerful driver for structural labour market reforms, pushing states like Italy to abandon their traditional and ineffective industry subsidies by establishing a truly universal unemployment scheme for all the workers. A common unemployment insurance would give a strong impulse for the further harmonisation of the existing labour markets, boosting intra-EU labour mobility. Finally, and most importantly, a basic EUI would give a "human face" to the EU integration process, with policies that have a concrete and far-reaching impact in the everyday lives of the EU's citizens. Some positive steps (the Financial Assistance Mechanism or the Banking Union to mention two) have already been taken to increase the Eurozone capacity to resist future crises. Yet, the glass seems still half empty. A renovated debate on a basic EUI would help to address the Eurozone's weaknesses and to strengthen the long-term sustainability of the common currency. An EUI would not be the silver bullet for all the EMU's fiscal problems, but it could definitely give a clear signal that the union is moving ahead and not backward.

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IAI WORKING PAPERS 15 | 13 - MAY 2015 ISSN 2280-4341 | ISBN 978-88-98650-37-8

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