

A European Stability Fund for the EMU

&

Agreeing to an Unemployment Insurance System for the EA?

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Disclaimer: The views on this presentation are my own and not those of The European Stability Mechanism

Interesting solutions to pressing problems – a nutshell

- **The European project needs more risk-sharing (for both large and small shocks)**
- **...and a robust crisis-solving mechanism**
 - **ESF** can deliver both in one stroke (ESM focuses on large shocks)
 - Acknowledge moral hazard → ESF delivers incentive-compatible financing
 - Transform risky debt into safe-assets
- **...different labour markets critical to the asymmetric response to the crisis**
 - System with risk-sharing delivers little benefit
 - But optimal insurance similar across countries → tax/transfers and **EUIS**
 - Neutralised change → everyone gains but different taxes needed
 - A system where taxes are homogeneous implies transfer
 - (No hay dos sin tres) ESF can do this!!

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How different from what we have...

- Conditionality
- Flexible (renegotiable) official loans

...are these contingent contracts?

How is e^* determined? What does it refer to?

- Contracting on fiscal actions (fiscal compact) seen as a constraint not as a proof of implementing the correct level of effort

Is the right counterfactual one where sovereigns can only finance using market debt that is non-contingent and long-term?

- Why not acknowledging the co-existence of those market instruments with plain-vanilla concessional official loans? (Corsetti et al., 2017)

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Does developing an EFS reduce the need for a SDRM?

- Excusable defaults

Is the need for trust in long-term partners to be expected?

- SDRM as a way to over-ride lack of trust on fiscal policy makers

Unemployment Insurance System

Proposed replacement rates are relatively low

- Model is complicated enough but...

...would including housing affect the results?

- If so do you know how?

Duration and severity of unemployment is also due to the productive structure (think of the role of the construction sector)

- Differences in unemployment not only due to institutions?
- Could this help fine-tuning further the mechanism?

Summing up

Ideas with potential to deal with some of our most pressing issues

I am looking forward to future versions with additional fine-tuning to make both proposals even more suitable to real-life situations