

UNEMPLOYMENT INSURANCE FOR THE MONETARY UNION

ADEMU FINAL CONFERENCE, FLORENCE
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HISTORY

- 1975: Report by Robert Marjolin outlines “Community Unemployment Benefit Fund”
- 1977: MacDougall Report: monetary union would need a shared budget to the tune of 5 or 7% of Community GDP
- 1992: Pisani-Ferry and Italianer argue for automatic stabilisers (fiscal transfers < 2% of EU GDP)
- 2012: Four Presidents’ Report
- 2012-3: Commission Blueprint, followed by Communication on Social Dimension of EMU
- 2013-4: expert conferences in Brussels by Commission and Bertelsmann Stiftung



RECENT DEVELOPMENTS

- 2014: Italy presidency stages debates in informal EPSCO and ECOFIN in Milan
- 2014: Commission study launched with EP support
- 2015: Five Presidents' Report on EMU deepening
- 2015: Pier Carlo Padoan (IT finance minister) campaigns
- 2016 May: Böge-Beres draft report on Eurozone budgetary capacity
- 2016 July: Slovakia presidency + CEPS conference
- 2018: MEP von Weizsäcker et.al. proposal for a robust European unemployment insurance scheme



OPTIONS FOR AUTOMATIC STABILISERS

- Automatic income support (based on „output gap”)
 - + certainty of legal base under current Treaty
 - lack of social focus
- Reinsurance of national unemployment insurance funds (transfers triggered by major crises)
 - + stronger visible impact at times of crisis
 - lack of constant stabilisation, trigger may be set too high
- Partial pooling of unemployment benefit systems
 - + strong connection of recipients with EU solidarity
 - + no delays at all
 - greater need for partial LM harmonisation (could be a +)

BOTH REINSURANCE AND PARTIAL POOLING...

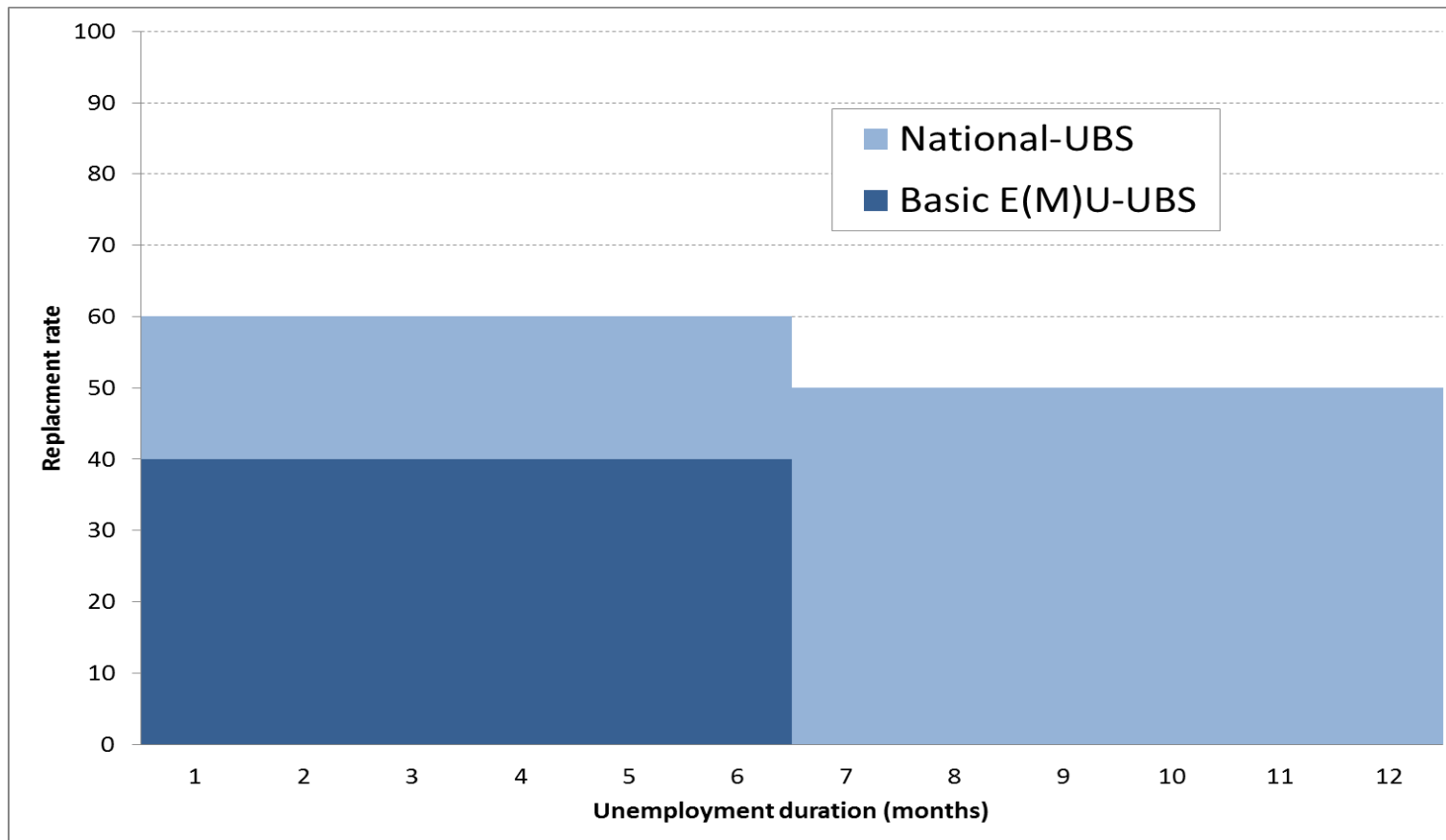
...deliver:

- --economic stabilisation (helping faster recovery through aggregate demand channel)
- --social stabilisation (less unemployment and poverty at times of recession)
- --institutional stabilisation (better enforceability of EMU fiscal rules; greater legitimacy)

...require:

- --acceptance of limited (rule-based, conditional etc.) transfers
- --limited harmonization of labour markets
- --transparent governance + stakeholder involvement (to ensure balance between European solidarity and national responsibility)

Example of basic European unemployment insurance and a more generous national scheme topping it up (Dullien)



"DO IT YOURSELF" EUROPEAN UNEMPLOYMENT INSURANCE

GREGORY CLAEYS, SIMON GANEM,
PIA HÜTTL AND THOMAS WALSH
(BRUEGEL)

SEPTEMBER 2014

[HTTP://WWW.BRUEGEL.ORG/NC/BL
OG/DETAIL/ARTICLE/1434-DO-IT-
YOURSELF-EUROPEAN-
UNEMPLOYMENT-INSURANCE/](http://www.bruegel.org/nc/blog/detail/article/1434-do-it-yourself-european-unemployment-insurance/)

Select Parameters or Objectives of the scheme

Parameters Objectives

Area

Euro Area European Union

Contribution rate

Single Differentiated

Type of insurance

Basic Catastrophic

Replacement rate

50% 60% 70% 80%

Region	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	0.0%	-0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.1%
Belgium	0.0%	0.0%	0.0%	0.1%	0.0%	0.1%	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.1%
Cyprus	0.3%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.2%	0.2%	0.3%	0.4%	0.3%
Estonia	0.3%	0.1%	-0.1%	0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.1%	0.8%	0.5%	0.0%	-0.2%	-0.2%
Finland	0.0%	0.0%	-0.1%	0.0%	-0.1%	-0.2%	-0.2%	-0.2%	-0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
France	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%
Germany	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.0%	-0.1%	-0.1%	0.0%	0.0%	-0.1%	-0.1%	-0.1%
Greece	0.1%	0.0%	0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	0.2%	0.0%
Ireland	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.5%	0.2%	0.0%	-0.1%	-0.1%
Italy	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%
Latvia	0.3%	0.1%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	0.8%	0.3%	-0.1%	-0.1%	-0.4%
Luxembourg	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Netherlands			0.1%	0.1%	0.2%	0.1%	0.0%	-0.1%	-0.1%	0.0%	0.1%	0.1%	0.1%	0.1%
Portugal	0.0%	0.0%	0.1%	0.2%	0.1%	0.1%	0.0%	0.1%	0.0%	0.1%	0.1%	0.2%	0.3%	0.1%
Slovakia	0.5%	0.4%	0.2%	0.1%	0.1%	-0.1%	-0.2%	-0.1%	-0.1%	0.3%	0.2%	0.1%	0.1%	-0.1%
Slovenia	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.2%	0.1%	0.1%	0.1%	0.1%
Spain	0.0%	-0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	0.7%	0.4%	0.2%	0.1%	-0.1%
Annual cash position (%GDP)	0.02%	0.07%	0.00%	-0.03%	-0.05%	-0.03%	0.02%	0.05%	0.00%	-0.14%	-0.08%	-0.03%	-0.05%	-0.01%
Accumulated cash position (%GDP)	0.02%	0.09%	0.10%	0.07%	0.02%	-0.01%	0.01%	0.06%	0.05%	-0.09%	-0.17%	-0.19%	-0.24%	-0.25%
Annual cash position (bn euro)	1.81	5.50	0.20	-2.30	-3.82	-2.30	1.39	4.32	-0.14	-11.95	-6.76	-2.48	-3.91	-1.21
Accumulated cash position (bn euro)	1.81	7.31	7.51	5.20	1.38	-0.92	0.47	4.80	4.66	-7.29	-14.05	-16.53	-20.44	-21.65

KEY QUESTIONS IN DEBATES

- **Is fiscal capacity really the next step in EMU reform?** (proxies and byways: EFSI, CMU, QE, competitiveness councils etc.)
- **Acceptance of transfers; fear from moral hazard** (EuCo already circled around conditional transfers /"CCI"/ in 2013)
- **Degree of harmonisation needed** (depends on chosen model but not too much in any case)
- **Funding sources matter** (European payroll tax? GDP based contribution? Levy on current account surplus?)
- **Borrowing capacity** (greater impact linked to inter-temporal stabilisation function)
- **Role of social partners** (clear possibility in governance; controlling adjustment tools)

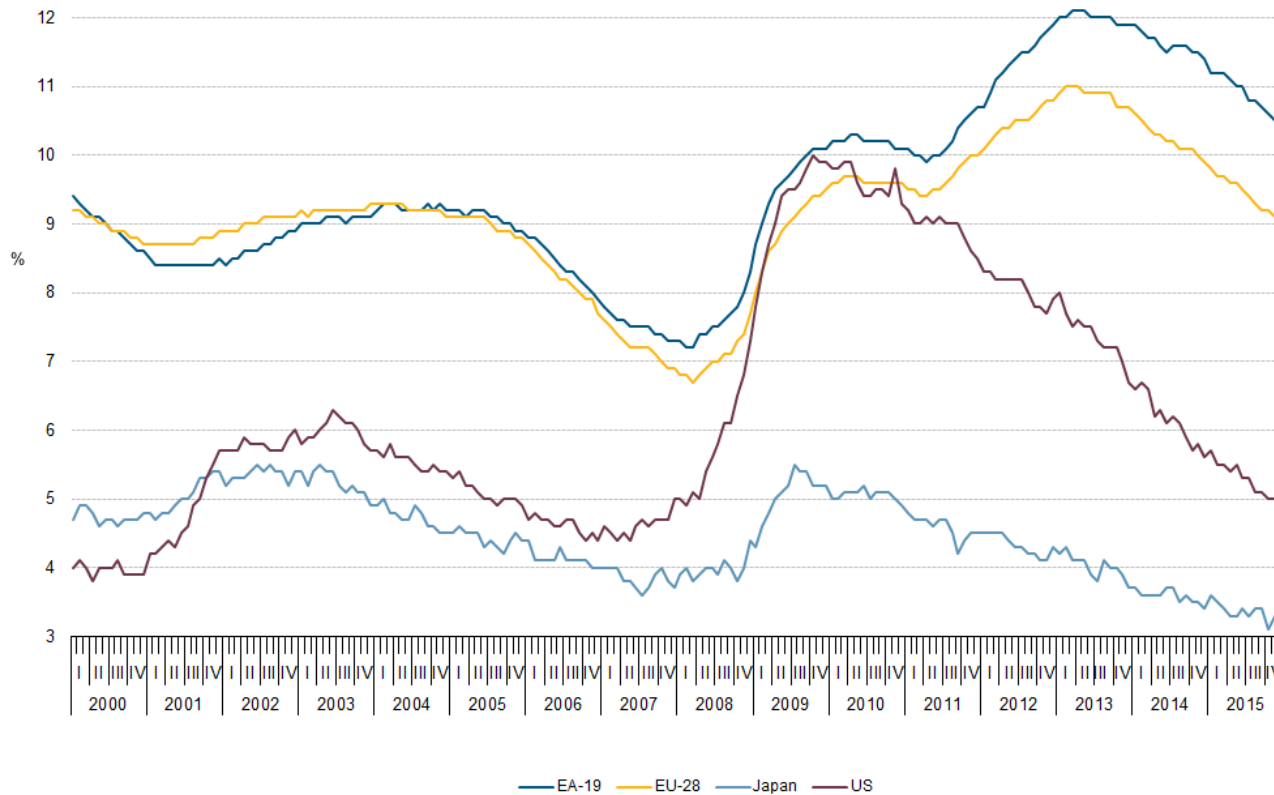
- **Thank you for your attention!**

REFERENCES

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- Paolo Pasimeni: http://www2.euromemorandum.eu/uploads/pasimeni_the_economic_rationale_of_an_emu_fiscal_capacity.pdf
- Matthias Dolls et.al.: <http://www.eui.eu/Documents/DepartmentsCentres/Economics/Researchandteaching/Conferences/ADEMUWorkshopMay2016/Dolls-Paper.pdf>
- Intereconomics (Andor, Dullien, Jara, Sutherland, Gros): <http://archive.intereconomics.eu/year/2014/4/designing-a-european-unemployment-insurance-scheme/search/unemployment+insurance/0/>

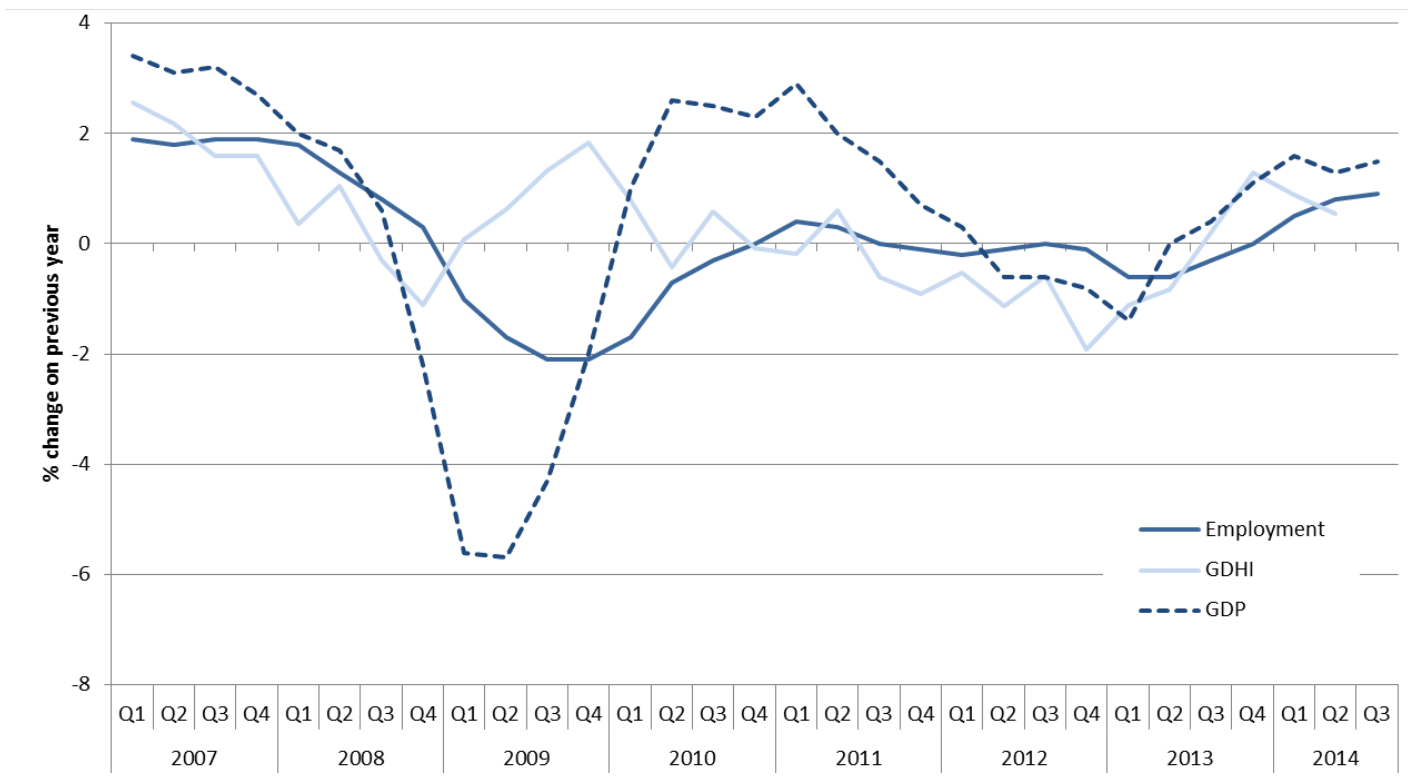
UNEMPLOYMENT RATES EU-28 EA-19 US AND JAPAN

SEASONALLY ADJUSTED, JANUARY 2000 NOVEMBER 2015



From economic to social crises in EU

Growth in GDP, employment and household incomes (GDHI)

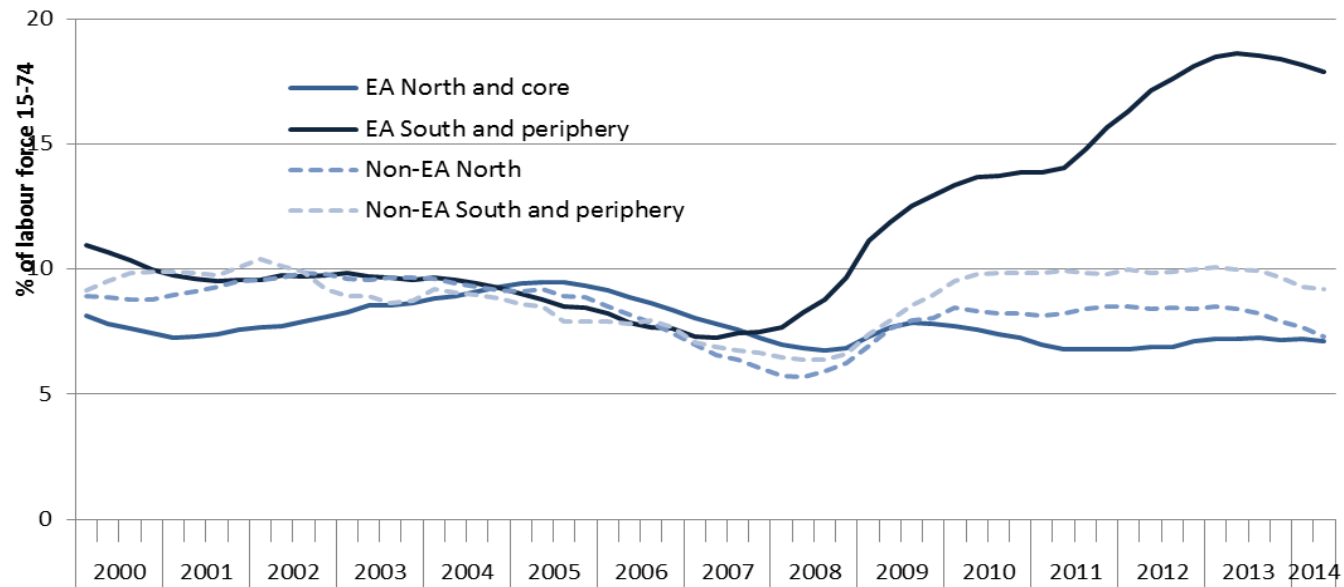


Source: Eurostat, National Accounts
GDHI: Gross Household Disposable Income



Divergence in unemployment rates

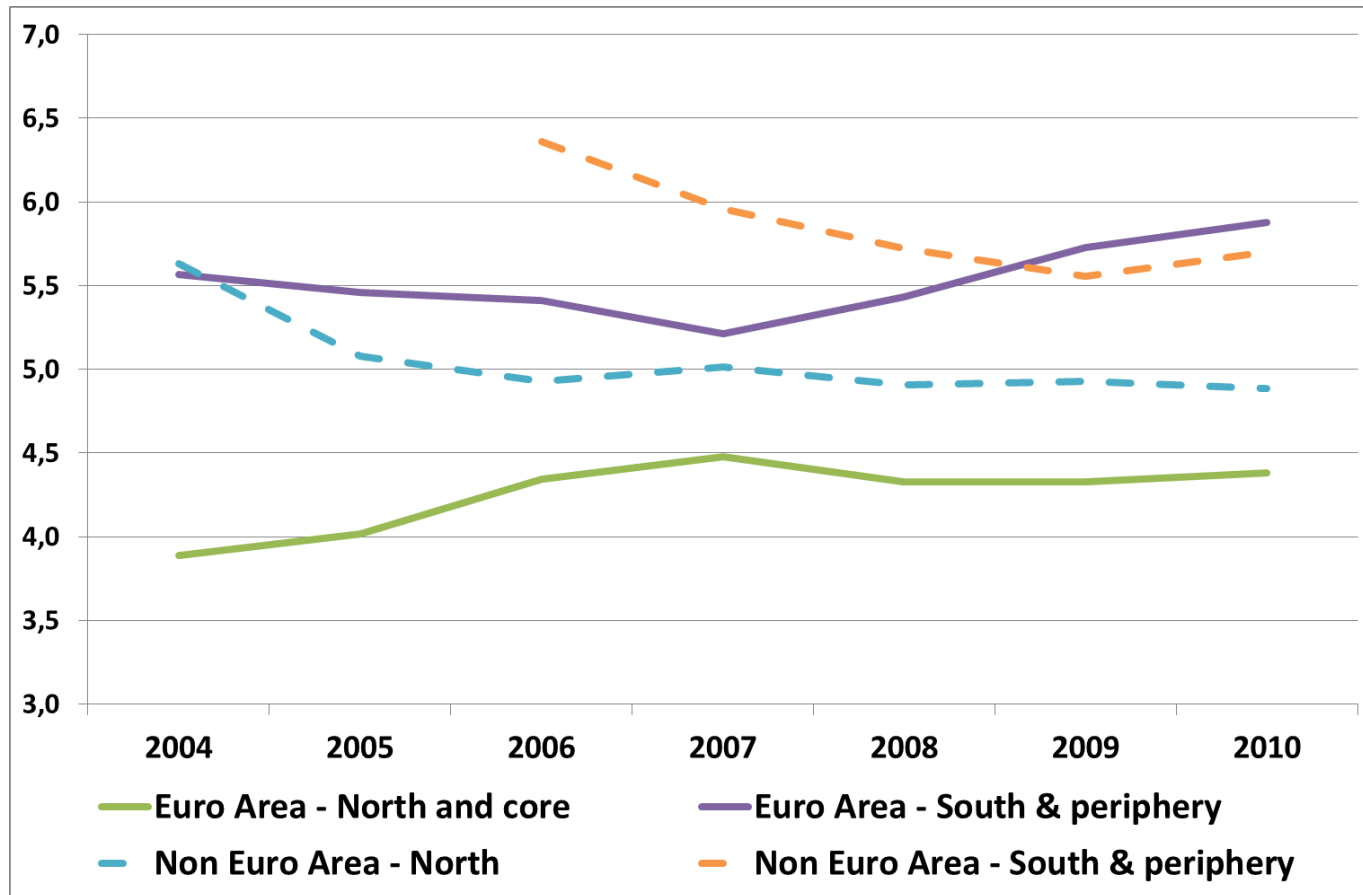
Unemployment rates: divergence greater within Euro area



Source: Eurostat, Labour Force Survey

EA North and core is AT BE DE FI FR LU NL,
EA South and periphery is CY EE EL ES IE IT LV MT PT SI SK,
Non-EA North is CZ DK PL SE UK,
Non-EA South and periphery is BG HR HU LT RO.

DIVERGENCE IN INCOME INEQUALITY (\$80/\$20)



Source: Eurostat, DG EMPL calculations – Years refer to income reference years

Economic problem and social dimension

Single market

- Polarisation effect of market competition in heterogeneous economic community
- Internal imbalances (asymmetric labour and capital flows)
- Risk of social dumping
- ✓ Cohesion policy (0,35% of MFF)
- ✓ Social legislation (minimum standards of working conditions to avoid race to the bottom)
- ✓ EU level social dialogue

Monetary union

- Constraints on monetary and fiscal policies (no lender of last resort, no fiscal capacity)
- „Internal devaluation” is main adjustment mechanism
- Core—periphery divergence
- Ex ante stabilisation (crisis prevention, resilience, MIP)
- Ex post fiscal stabilisation capacity (to deal with asymmetry and cyclicity)

RATIONALE FOR EMU FISCAL CAPACITY

- EMU born with serious design flaws:
- --**uniform fiscal rules (and centralised monetary policy) without common fiscal capacity, risk sharing or transnational fiscal transfers; absence of counter-cyclical capacity (Joseph Stiglitz)**
- --risk of *currency crises* eliminated but risk of *fiscal crises* increased (Paul De Grauwe)
- Crisis experience:
- --financial fragmentation; economic and social divergence
- --social problems generate spill-over effects on other members of euro area (e.g. falling demand, unwelcome migration)
- --deterioration of human capital, loss of long-term growth potential (mainly in countries of periphery)
- --risk of destabilisation and disintegration (in the entire union)

ELEMENTS OF AN EMU FISCAL CAPACITY

- Eurozone finance minister (JDI) – optimising fiscal space for the entire eurozone as opposed to parallel national objectives
- Eurozone investment fund / insurance fund (semi-automatic „Juncker Plan” with strong transfer component)
- **Automatic stabilisers**, i.e. built-in instruments to counter „asymmetric shocks” and resulting imbalances with rule-based, conditional and temporary fiscal transfers
 - Impact channel: targeted and temporary transfer → supporting aggregate demand → economic activity → employment → social cohesion in zones of economic downturn (...lacking autonomous fiscal/monetary policy)

2012: BEGINNING OF EMU-REFORM

- Key documents:
 - 4 Presidents' Report (4PR)
 - Blueprint for Deep and Genuine EMU
 - Thyssen Report (European Parliament)
- European Central Bank extends its toolkit
- European Stability Mechanism – launched in 2010 (declared permanent later, to be turned into European Monetary Fund)
- Banking Union – breaking the sovereign-bank feedback loop
 - Main BU elements: single rulebook (Bank Resolution and Recovery Directive), the SSM, the SRM & a SRF progressively being built up to finance possible recapitalisations (in practice in the next decade, when there's enough money in). Still outstanding: Deposit Insurance

