



Feasibility and Added Value of a European Unemployment Benefits Scheme

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Outline of the presentation



- Introduction and background
- Design of an EUBS
- Added value of an EUBS
- Feasibility of an EUBS
- Conclusions from the project

About the project



- Commissioned by DG Employment, initiated by EP
- Assess feasibility and added value of an EUBS:
 - 18 EUBS variants
 - 28 MS, EA, EU
- **Feasibility**: legal and operational barriers
- **Added value**: economic analysis



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- **EMU's institutional architecture widely criticized, especially after the Great Recession:**
 - Common monetary policy
 - National fiscal policy: limited, pro-cyclical
 - Market failures: price and wage rigidities, limited mobility
 - Spillover effects, sub-optimal spending
 - Current account imbalances
- **Five Presidents' Report: fiscal stabilisation function**
 - But also in earlier documents: Blueprint, Four Presidents' Report

Why a fiscal capacity for EMU?



- An **automatic stabiliser** as responsive to shocks as national tax-benefit systems is missing for EMU
 - Prevention of shocks and mitigation of their impact
- Other mechanisms:
 - Banking Union, Capital Markets Union
 - MIP, ESM, OMT
 - Public investment
 - Regional policy

*Complement
not substitute*

Why a common EUBS?



- Idea dates back to early 1970s, was revived in 1990s and is again discussed now
- **Strengths of an EUBS:** anti-cyclical, automatic, fast, high multiplier effect, non-discretionary, easy to measure, sign of solidarity, ...
- **Yet, also many obstacles:** moral hazard, permanent transfers, harmonisation of national schemes, ...

- Focus = **short-term unemployment**
- Key choice: **equivalent or genuine EUBS**
 - 4 equivalent EUBS variants (re-insurance)
 - 14 genuine EUBS variants (13 basic, 1 top-up)
 - Distinction not necessarily clear-cut
- Both types come in many different forms:
 - Benefit amount, benefit duration, eligibility, ...
 - Typically equipped with experience rating and claw-back mechanisms to prevent permanent transfers and address moral hazard

Design of an EUBS

| | Equivalent EUBS | Genuine EUBS |
|-----------------------|--|---|
| Active | Only when triggered | Continuously |
| Pay-Out | Financial transfers to MS | Direct transfers to any eligible unemployed individual |
| Pay-In | Contributions collected from MS (% of GDP, start-stop) | Contributions collected from employers and employees (% of gross wage, equal share) |
| Interaction with NUBS | More flexible (depends on minimum requirements) | Partially replace NUBS, requires substantial harmonisation |

Genuine EUBS variants: 14 schemes



| Building blocks of national schemes | Specific EUBS features |
|--|--|
| Benefit duration (waiting period): <ul style="list-style-type: none">▪ 9 months▪ 12 months, 3 months | Experience rating (link pay-in to use): <ul style="list-style-type: none">▪ Yes▪ No |
| Replacement rate (last gross wage): <ul style="list-style-type: none">▪ 50%▪ 35%, 60% | Claw-back (address LT imbalances): <ul style="list-style-type: none">▪ Yes▪ No |
| Eligibility conditions (worked for): <ul style="list-style-type: none">▪ 3M/12M▪ 3M/6M, 12M/24M | Debt-issuing (cover ST imbalances): <ul style="list-style-type: none">▪ Yes▪ No |
| Capping of benefit amounts: <ul style="list-style-type: none">▪ 150%▪ 100%, 50% | Cyclical variability (extend benefits?): <ul style="list-style-type: none">▪ No▪ Yes |

Equivalent EUBS variants: 4 schemes

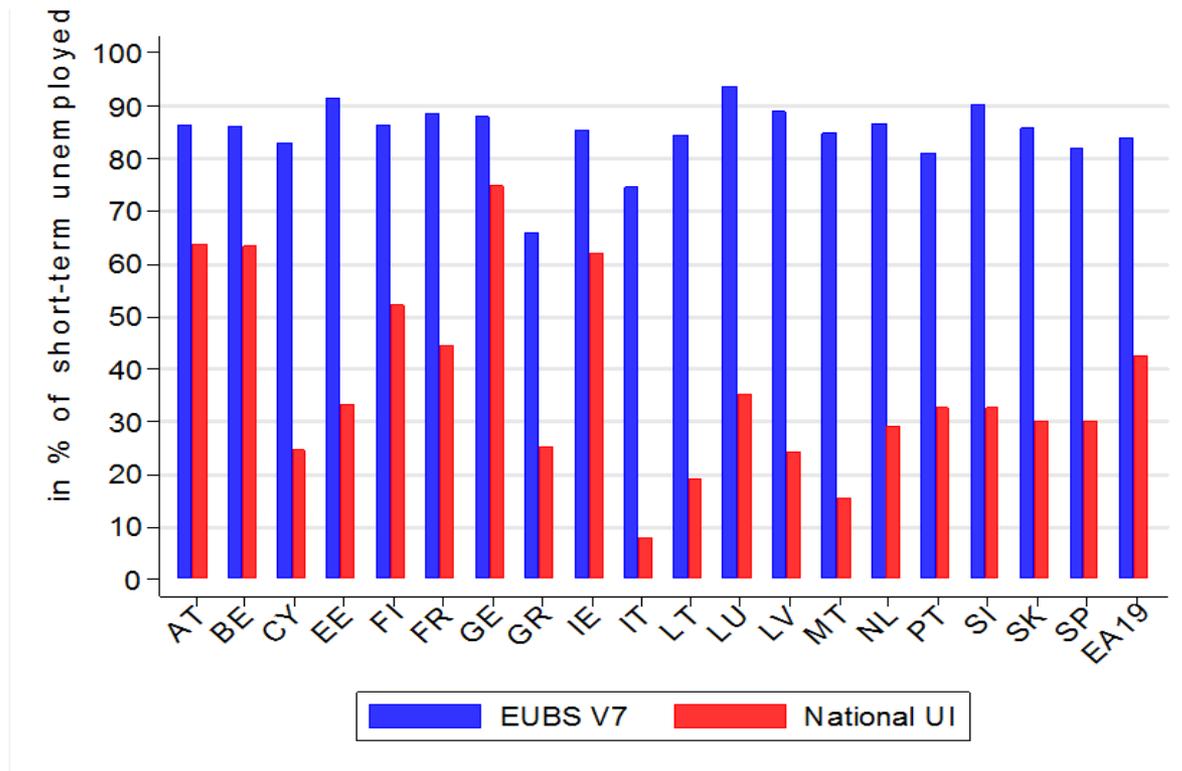
| 4 Equivalent EUBS Variants | |
|--|--|
| Trigger (ST UR in quarter $t > 10$ - year average of UR + x%) | <ul style="list-style-type: none">▪ Threshold of 0.1% (rainy day)▪ Threshold of 1% (stormy day)▪ Threshold of 2% (reinsurance) |
| Experience rating | <ul style="list-style-type: none">▪ Yes▪ No |
| Claw-back | <ul style="list-style-type: none">▪ Yes▪ No |
| Debt-issuing | <ul style="list-style-type: none">▪ Yes▪ No |

Macroeconomic stabilisation:

- Enhancement of national schemes: through minimum standards, improving their counter-cyclicality
 - Coverage and generosity
 - Politically and fiscally difficult without backstop
- Geographical insurance: reallocation of resources across countries ('true' risk-sharing)
 - Asymmetric shocks in small and medium-sized MS
- Inter-temporal insurance: reallocation of resources across time
 - Symmetric shocks, extended downturns
 - Ability to issue debt

Added value of an EUBS

Fig 1. Comparison of coverage of NUBS (average over 1995-2013) and an EUBS in which payment begins immediately on becoming unemployed (Variant 7)



Macroeconomic stabilisation:

- Stabilisation impact is highest at start of recession
- Clear stabilisation impact, but in line with limited scale of scheme:
 - Size: 0.03% - 0.43% of EA GDP over 1995-2013 (across 18 variants)
 - Stabilisation: 0.03% - 0.21% of EA GDP in 2009 (across 18 variants)

| | Equivalent | Genuine |
|----------------------|---|--|
| Size | 0.03% - 0.13% of EA GDP over 1995-2013 | 0.11% - 0.43% of EA GDP over 1995-2013 |
| Stabilisation impact | 0.07% - 0.21% of EA GDP in 2009 (% above baseline GDP level) | 0.03% - 0.14% of EA GDP in 2009 (% above baseline GDP level) |
| Determinants | Trigger | Generosity and coverage (eligibility, replacement rates, duration) |

Labour mobility: EUBS benefits could be made portable

- Impact likely is limited and more complex than it seems

Social Europe: for individuals, MS and EU

- Upward convergence: enhancement of NUBS, ALMP, institutional capacity
- Enhancement of protection of unemployed: access and quality of benefits
- Social cohesion: positive impact on reducing poverty and inequality
(most generous genuine EUBS: poverty ↓ 0.35 percentage points, Gini coefficient ↓ 0.14 percentage points)
- Legitimacy of European project: EU is doing something for its citizens, sign of solidarity
- Help promote and develop European Pillar of Social Rights

Feasibility of an EUBS: At EU level



- Need for **Treaty change** contested, most EUBS variants can be established within existing EU legal framework
- Legal base for financing side: Article 352(1) TFEU
- Legal base for payment side: Articles 175(3) and 352(1) TFEU for genuine, Article 352(1) TFEU for equivalent
- **No bail-out clause**: equip EUBS with experience rating, claw-back, minimum requirements
- Minimum requirements for activation and regulation of NUBS (to ensure smooth transitions between NUSB and EUBS)

- **Genuine EUBS are much more demanding than equivalent EUBS in legal and operational terms:**
 - Amendments to ordinary legislation governing unemployment insurance, social security, labour markets, etc.
 - Also operationally complex as they would replace NUBS
- Both types of schemes may trigger constitutional conflicts
- Largest impact for MS with very different national scheme: Ghent system, liberal welfare system
- Social partners: involved in management and design of NUBS, what role in EUBS context?

- **Genuine and equivalent EUBS:**
 - Common minimum standards
 - Experience rating (but without claw-back)
 - Ability to raise debt to provide a backstop and allow reserve building
 - Ability to change parameters during recessions (but discretionary)
- **Equivalent EUBS:** design of trigger
- **Genuine EUBS:**
 - No waiting period, sufficiently long duration
 - Eligibility criteria should be easier to meet than in national schemes
 - Replacement rate and capping should be considered simultaneously



More information on the project and the outcomes can be found on the CEPS website:

- <https://www.ceps.eu/topics/unemployment-insurance>
- <https://www.ceps.eu/content/feasibility-and-added-value-european-unemployment-benefit-scheme>



Feasibility and Added Value of a European Unemployment Benefits Scheme

Thank you very much for your attention!

- Short-term redistribution vs. long-term neutrality
- Simulations suggest that no MS is a net contributor or recipient in the long run
- Adjustment mechanisms:
 - **Experience rating:** links pay-in to use of the EUBS
 - *MS that use EUBS more, pay more → gradual adjustment*
 - **Claw-back:** collects additional contributions when deficit vis-à-vis the EUBS persists
 - *Accelerates the process ...*
 - Focus on ST unemployment

(Institutional) moral hazard

IMH is a situation in which two levels of government deal with the governance of a social risk and one level covers this risk, a task that could in principle have been tackled by the other level

- Issue is very high on the political agenda
- 8 case studies: **AT, AU, BE, CA, CH, DE, DK and US**
 - What can we learn from their experiences?

- Issue in any multi-tiered unemployment insurance system, so real challenge lies in its mitigation
- **Answers:**
 - Case studies: minimum standards, financial incentives, ...
 - Project: minimum requirements, experience rating, claw-back, trigger, ST unemployment
- **Trade-off:** weigh risk against the benefits of insurance (stabilisation, redistribution, social cohesion and growth)
- Distinction between reality, perception and concern