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
Background: A call for EMU reform

• 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, ...
Design of an EUBS

• 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

<table>
<thead>
<tr>
<th></th>
<th>Equivalent EUBS</th>
<th>Genuine EUBS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Active</strong></td>
<td>Only when triggered</td>
<td>Continuously</td>
</tr>
<tr>
<td><strong>Pay-Out</strong></td>
<td>Financial transfers to MS</td>
<td>Direct transfers to any eligible unemployed individual</td>
</tr>
<tr>
<td><strong>Pay-In</strong></td>
<td>Contributions collected from MS (% of GDP, start-stop)</td>
<td>Contributions collected from employers and employees (% of gross wage, equal share)</td>
</tr>
<tr>
<td><strong>Interaction with NUBS</strong></td>
<td>More flexible (depends on minimum requirements)</td>
<td>Partially replace NUBS, requires substantial harmonisation</td>
</tr>
</tbody>
</table>
### Building blocks of national schemes

<table>
<thead>
<tr>
<th>Benefit duration (waiting period):</th>
<th>Specific EUBS features</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ 9 months</td>
<td>Experience rating (link pay-in to use):</td>
</tr>
<tr>
<td>▪ 12 months, 3 months</td>
<td>▪ Yes</td>
</tr>
<tr>
<td></td>
<td>▪ No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Replacement rate (last gross wage):</th>
<th>Claw-back (address LT imbalances):</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ 50%</td>
<td>▪ Yes</td>
</tr>
<tr>
<td>▪ 35%, 60%</td>
<td>▪ No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Eligibility conditions (worked for):</th>
<th>Debt-issuing (cover ST imbalances):</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ 3M/12M</td>
<td>▪ Yes</td>
</tr>
<tr>
<td>▪ 3M/6M, 12M/24M</td>
<td>▪ No</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Capping of benefit amounts:</th>
<th>Cyclical variability (extend benefits?):</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ 150%</td>
<td>▪ No</td>
</tr>
<tr>
<td>▪ 100%, 50%</td>
<td>▪ Yes</td>
</tr>
</tbody>
</table>
Equivalent EUBS variants: 4 schemes

<table>
<thead>
<tr>
<th>4 Equivalent EUBS Variants</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trigger</strong>&lt;br&gt;(ST UR in quarter t &gt; 10-year average of UR + x%)</td>
</tr>
<tr>
<td><strong>Experience rating</strong></td>
</tr>
<tr>
<td><strong>Claw-back</strong></td>
</tr>
<tr>
<td><strong>Debt-issuing</strong></td>
</tr>
</tbody>
</table>
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
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)

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<th>Equivalent</th>
<th>Genuine</th>
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<tr>
<td>Size</td>
<td>0.03% - 0.13% of EA GDP over 1995-2013</td>
<td>0.11% - 0.43% of EA GDP over 1995-2013</td>
</tr>
<tr>
<td>Stabilisation impact</td>
<td>0.07% - 0.21% of EA GDP in 2009 (% above baseline GDP level)</td>
<td>0.03% - 0.14% of EA GDP in 2009 (% above baseline GDP level)</td>
</tr>
<tr>
<td>Determinants</td>
<td>Trigger</td>
<td>Generosity and coverage (eligibility, replacement rates, duration)</td>
</tr>
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</table>
Added value of an EUBS

**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)
Feasibility of an EUBS: At MS level

- 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?
Conclusions on EUBS design

• **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
Further information on the study

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!
Permanent transfers

• 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?
IMH: Conclusions from case studies

• 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