EMU UNEMPLOYMENT INSURANCE
HISTORY, ANALYSIS AND THE WAY FORWARD

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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
RECENT DEVELOPMENTS

- 2013-4: expert conferences in Brussels by Commission and Bertelsmann Stiftung
- 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
- Slovakia presidency + CEPS conference (July)
From economic to social crises in EU

Growth in GDP, employment and household incomes (GDHI)

Source: Eurostat, National Accounts
GDHI: Gross Household Disposable Income
SINGLE MARKET AND CURRENCY UNION

Single Market (EU-28)

- Cohesion policy
  (budget ~0.4% EU GDP)
  - supporting long-term cohesion & convergence
  - mitigating core-periphery dynamics (re-)produced by competition within Single Market

- Social legislation preventing a race-to-the-bottom in working conditions
  - Requires regular updating and finetuning

Currency union (€A-19)

- Much stronger constraints on monetary and fiscal policies, yet:
  - No lender of last resort
  - No shared fiscal capacity to help deal with cyclicality & asymmetry

- “Internal devaluation” as the only remaining adjustment mechanism (may boost competitiveness but weaken aggregate demand)

- Deepening core-periphery divergence inside eurozone
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 (S80/S20)

Source: Eurostat, DG EMPL calculations – Years refer to income reference years
SOCIAL DIVERGENCE IN THE ECONOMIC AND MONETARY UNION

- EMU with serious design flaws:
  - --risk of currency crises eliminated but risk of fiscal crises increased (PDG)
  - --uniform fiscal rules (and centralised monetary policy) without common fiscal capacity, risk sharing or transnational fiscal transfers; absence of counter-cyclical capacity
  - --social problems generate spill-over effects on other members of euro area (e.g. falling demand, unwelcome migration)
  - --deterioration of human capital, loss of growth potential, risk of destabilisation and disintegration (in countries of periphery mainly)

→ Need to restore socio-economic convergence in EMU. Youth Guarantee and Youth Employment Initiative point to right direction but insufficient
STRONGER EMU SOCIAL DIMENSION

Ability of economic governance mechanisms & policy instruments to anticipate, take into account & address problematic developments & challenges related to employment & social policies in the EMU; helping all MS to realize their growth & employment potential & improve social cohesion

- Better **monitoring** of employment & social dynamics in EMU: scoreboard of five indicators introduced in European Semester
- Better **coordination** of employment & social policies to **collectively ensure timely action**
- Better involvement of EU-level & national **social partners** in EMU governance

- **Need for automatic stabilisers**, i.e. countering „asymmetric shocks” and resulting imbalances with rule-based, conditional and temporary fiscal transfers

- Supporting aggregate demand \(\rightarrow\) economic activity \(\rightarrow\) employment \(\rightarrow\) social cohesion in zones of economic downturn (lacking autonomous fiscal/monetary policy)
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 +)
Example of basic European unemployment insurance and a more generous national scheme topping it up (Dullien)
"DO IT YOURSELF"
EUROPEAN UNEMPLOYMENT INSURANCE

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

SEPTEMBER 2014

HTTP://WWW.BRUEGEL.ORG/NC/BLOG/DETAIL/ARTICLE/1434-DO-IT-YOURSELF-EUROPEAN-UNEMPLOYMENT-INSURANCE/
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)

- Role of social partners (clear possibility in governance; controlling adjustment tools)
• Thank you for your attention!
THE SOCIAL DIMENSION OF THE EU & THE EMU

- A strong social dimension is indispensable for the legitimacy of the EU. However, the social agenda of the EU has been defined in the Delors era, and it has been primarily focusing on social legislation.

- Together with cohesion instruments in the EU budget, social legislation has ensured that the single market does not lead to a polarisation among member states and it makes real convergence possible.

- The establishment of a minimalist monetary union produced new types of financial and social risks, and the crisis of the EMU brought the EU to massive divergence and a weakening of the national welfare systems.

- All countries in the EU have the ambition to be welfare states in a sense to be able to limit unemployment, poverty and income inequality. The eurozone crisis has severely damaged this capacity in countries of the eurozone periphery.
The financial crisis has produced an unprecedented social crisis but social policy alone cannot compensate for the malfunctioning of the monetary union. It is the monetary union itself which needs to be repaired and reformed.

The EMU controls most of the parameters that frame national welfare systems (and esp. fiscal capacity), therefore social policy cannot be purely a matter of subsidiarity either.

The EU social agenda has to cover a wide spectrum of policies (coordination, legislation, budget resources) but today the key question is how to strengthen the social dimension of the EMU and counter social divergence.