The history and debate in Europe on a European Unemployment Benefits Scheme*

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> "…the means of redressing imbalances between Community countries should be considerably reinforced…. The introduction of a community system of unemployment benefit would constitute an effective approach". [1]

These words were written in an official European Commission report more than 40 years ago. The Marjolin Report sought to draw up a study for Economic and Monetary Union in 1980. Just last year another report was trying to do something similar, entitled "Completing Europe's Economic and Monetary Union" it was written by European Commission President Jean-Claude Juncker[2] in close cooperation with 4 other EU institutions' presidents. It said, "All mature Monetary Unions have put in place a common macro-economic stabilisation function to better deal with shocks that cannot be managed at the national level alone…". It did not identify a European unemployment benefits (or even unemployment linked) system as one such function but it did say "the exact design of such euro area stabilisers requires more in-depth work." Between these two bookmarks, beginning the history of the modern European debates and setting a current position, much has been said and written, on European unemployment linked stabilisers, particularly in recent years.

Starting with the Marjolin Report, proposals were made for some type of European unemployment benefits in a rather haphazard way in the 1980s and 90s. But the EMU, in operation with a single currency since 2001, appeared to be working well without a supranational fiscal capacity or instruments. The crisis came and it was certainly not the end of history for European unemployment benefits schemes (EUBS), quite the opposite. 2012 saw a resurgence of publications and proposals with the Commission's "A Blueprint for a deep and genuine economic and monetary union"[3] and the Four Presidents' Report[4] the most politically prominent.

[1] Marjolin et al (1975)
[2] Juncker (2015)
[3] European Commission (2012a)
[4] Van Rompuy (2012)

In an earlier paper[5] three types of European unemployment linked automatic stabilisers were identified.

1. Fiscal transfers to Member States with high and rising unemployment, triggered by predetermined increases in unemployment, which could be phased down or out over time, with the Member state free to use the transfer as it wished.
2. Reinsurance mechanisms based on fiscal transfers triggered as in type 1 but earmarked for unemployment benefit expenditure on the basis of harmonised provisions, conditionality and minimum standards, e.g. labour activation, social protection.
3. Union wide UBS with common financing and common provisions leaving Member States the possibility to top up.

The last variant could be designated a full or genuine European unemployment benefits scheme but clearly all three are automatic stabilisers based on changes in unemployment.

The Marjolin Report proposed a fully-fledged EUBS in quite some detail. For the longer term this was to see a single standard Community system with harmonised provisions but in the shorter term national systems would continue to exist while a Community unemployment benefit (UB) fund could pay each unemployed person a fixed Community allowance (not proportionate to previous wages) with national schemes topping up as they saw fit. The Community UB fund could be financed by employer and employee contributions. This was being proposed as the EEC (as it was then) was hit by stagflation in the wake of the Second Oil Shock. A failure to make progress on European unification in general, and creating an EMU in particular, was ascribed to three principal causes: "unfavourable (economic) events, a lack of political will, and insufficient understanding in the past on the meaning of an EMU and the conditions which must be fulfilled if it is to see the light of day and become operational"[6]. Balance of payment crises and currency pressures were seen as risking the imposition of import controls threatening the free movement of goods, the principle at the heart if the EEC. An EMU was seen as the key solution.

The MacDougall Report, written just two years later, took up the ideas of the Marjolin Report. (Douglas MacDougall had been a member of the Marjolin Report Working Group). The economic situation was a little less grim. The report, however, did not foresee EMU any time soon. As it said, "The creation of a degree of convergence in productivity levels, and of

[5] Strauss et al (2013)
[6] Marjolin (1975), Page 3

automatic compensation for short-term relative changes in income, would facilitate progress towards monetary union. We do not think, however, that the extent to which convergence and compensation could be promoted by Community expenditure on the scale that we are assuming for the pre-federal integration stage could, in any case, be adequate to make major progress towards monetary union practicable, and we regard this as an objective for a later stage, not for the immediate future."

As economies recovered in the early 1980s, there was somewhat less attention paid to European unemployment benefits. Some interest returned in the latter part of that decade. In 1987 the Report[7] from the group chaired by Padoa-Schioppa echoed the proposal made by the Marjolin Report and in 1990 Emerson et al's work[8] did the same. As preparations for EMU began in earnest, two more papers appeared in 1993 in the same Commission publication.

Majocchi and Rey[9] developed the idea of a "conjunctural convergence facility" (which had previously appeared in the MacDougall report). In order to cope with country-specific exogenous shocks (or common shocks with asymmetric affects), they proposed a "contingency fund", financed *ad hoc* by EMU Member States. The mechanism would be activated in a discretionary form, and only if the shock is not due to policy failures of the Member State asking for funds. The assistance should consist of grants and loans of up to 1% of GDP of the recipient Member State so limited to a maximum nominal amount. To overcome time-lag problems associated with discretionary action, a first tranche equal to 25% of the maximum aid should be automatically available for the concerned Member state. It was also said that the degree of utilisation of this facility could be reduced if the built-in capacity of the budget was increased and the availability of economic instruments for facing the problems of the economically weakest countries is enlarged through the strengthening of Structural Funds.

Italianer and Vanheukelen[10] proposed two variants of a stabilisation mechanism based on the yearly change in the unemployment rate of an EMU country relative to the Community average. The system consisted of transfers to the Member States' governments, which could then decide how to spend the funds. A full stabilisation mechanism would automatically operate for asymmetric shocks of all sizes. The transfer was limited to 2% of the receiving

[7] Padoa-Schioppa et al (1987)
[8] Emerson et al (1990)
[9] Majocchi and Rey (1993)
[10] Italianer and Vanheukelen (1993)

Member State's GDP. A limited stabilisation variant would ensure that payments were only made if the asymmetric shock is above a minimum threshold. This second version would therefore serve as an insurance mechanism, and it would be activated either automatically or on a discretionary basis. The maximum estimated cost of the mechanism would equal 0.2% of the Community GDP in order to provide approximately the same degree of stabilisation as in the USA. The overall degree of stabilisation of both versions of the scheme depends on political decisions such as the minimum threshold which qualifies for the transfer, the size of the transfer and the maximum transfer per Member State.

On the eve of the (then unknown) crisis Sebastian Dullien published two papers[11] proposing a European unemployment insurance scheme aimed at stabilising symmetric or asymmetric macroeconomic fluctuations in the EU. A European basic unemployment insurance would consist of direct transfers to short-term unemployed and would substitute part of the national scheme. However, participating countries could decide to top-up the European transfers. In addition to the 12-months basic benefits, "extended benefits" and "emergency benefits" could ensure higher transfers in times of deep economic downturns. The system would be financed through an E(M)U-wide payroll tax.

The crisis broke and unemployment benefit schemes for the EU were not part of the short term solution but as soon as the worst was over for most countries, proposals for one, largely to allow an EMU to avoid such dire consequences as the crisis saw, came thick and fast, although none from the European Commission. Proposals for a EUBS were contained within a wider advocacy of some form of stabilisation mechanism, either automatic or discretionary. Of course, many did not favour a EUBS, either because of technical and/or more political reasons. One frequently preferred shock insurance instrument involved based on output gap differentials.[12] Others were questioning the usefulness of automatic fiscal stabilisers.[13] The political world started to join the debate aided (and abetted) by academic works stimulated by the politicians.

The Commission, seeing a lack of automatic stabilisation as a key issue in EMU weakness, commissioned a number of papers on how a EUBS might work. Three such papers[14] were

[11] Dullien (2007, 2008)
[12] Enderlein et al (2013)
[13] In 't Veld et al (2012)
[14] Delpla (2012), Dullien (2012) and Sutherland (2012)

presented at an internal seminar by professors Delpla, Dullien and Sutherland. The key points they made were:

Delpla suggested an EMU-wide unemployment insurance as part of a more complex inter-governmental mechanism including also a Job Training Scheme and a European Labour Contract. In this framework, unemployed people would receive in any case the existing national unemployment benefit. In addition to that, they might receive an optional European unemployment benefit. This would be conditional to previous acceptance of the European Labour Contract and the sum of national and European benefits would be capped, either on a common European basis or by country. As far as the financing is concerned, each EMU country would annually contribute 1% of its GDP in to the European unemployment insurance, shifting part of national spending for unemployment schemes already in place into the contribution to the new European scheme.

Dullien was building on his earlier work[15], proposing a European unemployment insurance scheme which aimed at stabilising symmetric or asymmetric macroeconomic fluctuations in the EU. The European basic unemployment insurance would consist of direct transfers to short-term unemployed and would substitute part of the national scheme. However, participating countries could decide to top-up the European transfers. In addition to the 12-months basic benefits, "extended benefits" and "emergency benefits" could ensure higher transfers in times of deep economic downturns. The system would be financed through an E(M)U-wide payroll tax.

Sutherland proposed the creation of either an EU insurance fund, financed by an EU (employee or employer) contribution, or an EU unemployment benefit which would act as a between-countries stabiliser in times of asymmetric shocks. Automatic benefits could also be supplemented with regulated adjustments such as extending the duration of benefit entitlement in times of higher unemployment. Concerning the design of the system, the most reasonable option would consist of an EU scheme that national schemes would need to match in a number of dimensions, thus introducing the idea of setting a common standard.

These and other academic works laid the foundations for the key political documents that appeared towards the end of the year. The Blueprint for a deep and genuine EMU and the Four Presidents' Report cited a EUBS as one possible automatic stabiliser. This was obviously

[15] Dullien (2007, 2008)

of major political significance as both the Commission but also the other key European institutions were openly exploring if and how to set up and use some form of unemployment insurance mechanism within the framework of making the EMU sustainable. Neither report went into great details (much less than the Marjolin Report); the Commission paper essentially referred to the US system as one to bear in mind. The Four Presidents' went a bit further and said:

"An EMU fiscal capacity with a limited asymmetric shock absorption function could take the form of an insurance-type system between euro area countries… The specific design of such a function could follow two broad approaches. The first would be a macroeconomic approach… The second could be based on a microeconomic approach, and be more directly linked to a specific public function sensitive to the economic cycle, such as unemployment insurance. In this case, the level of contributions/benefits from/to the fiscal capacity would depend directly on labour market developments. … the fiscal capacity would then work as a complement or partial substitute to national unemployment insurance systems. Transfers could, for example, be limited to cyclical unemployment by covering only short term unemployment."

In July 2013 the Employment Committee of the European Parliament held a public hearing on a European unemployment benefit scheme[16] and in October produced a motion for a resolution in which it "reiterates its call on the Commission to produce a Green Paper on automatic stabilisers in the Eurozone"[17]. The Employment Committee's chair, Pervenche Berès was a very active actor in the EUBS debate. The Green Party in the European Parliament was also a strong supporter of in-depth discussion of such schemes. Some of the latest academic work is also the result of EP initiatives, perhaps most prominent is the work for a pilot project[18] carried out by the Commission and financed by the EP.

In September 2013 the IMF published a paper entitled "Towards Fiscal Union for the Euro-Area[19]. It went into some detail on a EUBS.

The scene was set for a much more intense debate with such heavyweight political involvement. The European Commissioner for Employment, Social Affairs and Inclusion, Lazlo Andor, gave several speeches[20] citing a EUBS as a possible means to repair the EMU.

[16] European Parliament (2013a)
[17] European Parliament (2013b)
[18] Beblavý et al (2015)
[19] IMF (2013)
[20] Andor (2013a, 2013b, 2014ª)

Two big conferences were organised by the Bertelsmann Foundation with the extensive involvement of the Commission[21]. At the second one in June 2014, Commissioner Andor together with the until recently Prime Minister of Italy, Enrico Letta, as well as ECB Board Member, Yves Mersch, and several MEPS discussed whether an EUBS could help by acting as a form of automatic stabiliser.

Other key actors were also entering the debate. The social partners, in some countries the managers of (national) unemployment benefit schemes, advanced views. At the first Bertelsmann conference, the representatives of the European trade unions and the European employers were both very cautious about expressing support for an EUBS. This caution continued throughout 2014 and into 2015 based probably on a commonly held fear that any EUBS would see permanent transfers to poorer and weaker EU members. European trade union hesitancy was certainly largely driven by the strong reluctance of the German trade unions to support a scheme whereby its members would be seen as financing structurally higher unemployment in countries in the periphery of Europe. However, by 2015 the newly elected head of German trade union, Reiner Hoffmann, was publically reported as saying he had been advocating for years the setting up of an EUBS.[22]

The Blueprint for a deeper and more genuine EMU had been followed by a European Commission Communication on the Social Dimension of EMU.[23] It again said that a common instrument for macro-economic stabilisation could provide an insurance system and said that "the scheme could be based on earmarking payments from the fund for a defined purpose, with counter-cyclical effects (similar to the US unemployment benefit system, where a federal fund reimburses 50% of unemployment benefits exceeding a standard duration, up to a given maximum, conditional on unemployment being at a certain level and rising). The scheme could operate in such a way to avoid 'permanent transfers' across countries. In other words, they should be designed to avoid that, over a long period of time, any country is a net loser or gainer from the scheme."

In 2014, the debate on a EUBS continued in the political arena. The French Ministries of Finance and Economy published a brief in June 2014[24] supporting the establishment of common basic unemployment insurance, to consolidate euro area integration, improve the

[21] Bertelsmann (2013, 2014)
[22] See DW (2015)
[23] European Commission (2013)
[24] Trésor Economics (2014)

macroeconomic and financial stabilisation and move towards enhanced coordination of labour market policies. They suggested that such a scheme would need to be implemented in stages.

European Council formations were also active in discussing an EUBS. The Italian presidency was especially keen to debate the pros and cons and organised debates in the Informal Councils of Employment Ministers in July 2014 and of Finance Ministers in September 2014. (No minutes of such informal councils exist.) The EPSCO ministers called for a Green Paper on an EMU unemployment insurance.[25]

In November 2014, the Bank of Italy published a paper identifying the broad characteristics that a shock absorber based on unemployment should have in order to be incentive-compatible and politically feasible[26]. The study derives empirically the combination of activation thresholds, experience rating, eligibility criteria and benefit generosity to define such a system giving rise to macro-cross-national transfers, activated by a trigger and with partial experience rating. The results of the simulations conducted suggest that even systems that do not redistribute resources between countries can have a considerable stabilisation impact in the medium run.

And the private sector also entered the fray. The Deutsche Bank published a research briefing on this topic[27], stressing the problems of '"moral hazard" among participating countries, arguing that mechanisms to prevent it would automatically reduce the stabilisation impact of the scheme and that the difficulties to "establish an equilibrium between net contributors and net beneficiaries in the long term" would reduce the chances of political acceptance.

A new Commission came into office in November 2014. The incoming President had not referred to a EUBS during his campaign or hearing in the European Parliament but some thought he might be a potential supporter of the idea, at least for the longer term. This possibly erroneous idea did not manifest itself in the Report he lead and published one year later – the Five Presidents' Report. As noted earlier, it talked about a fiscal stabilisation function for the Euro-area but did not cite an EUBS, while it underlined that "all mature Monetary Unions have put in place a common macroeconomic stabilisation function to better deal with shocks that cannot be managed at the national level alone". "And that such a stabilisation mechanism would be a "natural development of the euro in the longer term (….)

[25] Andor (2016)
[26] Brandolini et al (2014)
[27] Vetter (2014)

as the culmination of a process of convergence and further pooling of decision making on national budgets".[28]

National contributions, sometimes joint, also enriched the debate. The German and French economics ministers published a joint manifesto in several leading European newspapers entitled "Europe cannot wait any longer"[29]. It called for a common Euro treasury and "a preliminary Eurozone budget" providing a tool for "automatic stabilisation" in times of crisis. An EUBS was not cited but although it could be such a tool, clearly this was not their first choice.

Italian interest in an EUBS has remained high. Finance Minister Padoan presented ideas for strengthening EMU including with an EUBS in October 2015. This was then discussed by him with the Employment Committee in an open session of the European Parliament in Brussels in January 2016.

The Commission's Communication on "A deeper and fairer EMU" in October 2015 outlining the implementation of the first stage of the Five Presidents' Report, said nothing on an EUBS but confirmed the presentation of a White Paper in Spring 2017 and the setting up of an expert group in mid-2016 to explore the legal, economic and political preconditions that will reform the long ten proposals as outlined in the Five Presidents' Report. It is to be assumed that a European unemployment benefit scheme will be debated by the group later this year.

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[28] Juncker (2015), page 14
[29] Macron and Gabriel (2015)

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