



CETD Policy Brief¹

September 2016

A European Unemployment Benefits Scheme?

Donna E. Wood,
University of Victoria²

Since 2012, the European Union (EU) has been assessing the potential for a European Unemployment Benefits Scheme (EUBS). Such a scheme would not only work as an automatic stabilizer to mitigate the impact of economic shocks on employment and income, but could also even out macroeconomic imbalances in a euro area that lacks a common fiscal policy. While most EU member states already have stabilizers in the form of unemployment insurance (UI) and social assistance (SA), these vary widely in terms of quality and coverage. The financial and euro area crisis has unveiled what many describe as the ‘original sin’ of the Economic and Monetary Union (EMU) – the lack of fiscal coordination and solidarity among its members.³ Restraint measures imposed on some member states through a process called the ‘European Semester’ have further weakened their capacity to help their unemployed citizens.

¹ This policy brief is part of a series funded by the Canada-Europe Transatlantic Dialogue (CETD). CETD receives funding from the Social Sciences and Humanities Research Council of Canada (SSHRC). The contents of this publication are the sole responsibility of the author and can in no way be taken to reflect the views of CETD or of SSHRC.

² Donna E. Wood is an Adjunct Assistant Professor at the University of Victoria. She has published on federalism and social policy in Canada, the United Kingdom, and the European Union. She attended the July EUBS conference in Brussels as a guest of CEPS and contributed to one of the background studies undertaken to assess moral hazard in a EUBS.

³ See Fattibene, Daniele 2015, *Creating a Union with a “Human Face”: A European Unemployment Insurance*, Istituto Affari Internazionali, IAI Working Papers 15/13, May 2015.

As requested by the European Parliament, in July 2014 the European Commission issued a tender to assess the feasibility and value added of a EUBS. The work was awarded to a consortium led by the European Centre for Policy Studies (CEPS) with five other partners. In July 2016 a high level conference was convened in Brussels to assess the consortium's work. Over 280 policy-makers, academics, and other stakeholders participated in the event.⁴

The role of unemployment insurance schemes as automatic stabilizers in a monetary union has been well documented. A study undertaken in 1995 confirmed that Canada's UI scheme (now called Employment Insurance or EI) reduced the monetary or fiscal shock on Gross Domestic Product (GDP) and employment by 15 to 20 percent. This compared to 3 to 5 percent for the United States (US) scheme. The study concluded that, if Canada's UI system had not been operating in the 1982 recession, a further 100,000 jobs would have been lost.⁵ In addition to stabilization, national UI systems are key ways to foster solidarity among citizens and regions. Certainly the Canadian scheme—put in place in 1940 as a result of the Great Depression—was initially framed in terms of national identity and unity as some provinces were impacted more than others. Requiring a constitutional amendment to transfer responsibility to the Government of Canada, EI has been a key component of the Canadian welfare state ever since.

Whether any UI scheme actually achieves its stabilization or solidarity objectives is a function of how the arrangement is constructed, who manages it, how it is funded, who is eligible, the type of 'unemployment' covered, and the level and duration of benefits paid. Given the pre-existence of EU member state social protection schemes, of critical importance is how a new EU-wide EUBS would interact with the UI and SA schemes already in place, as well as activation measures to help the unemployed back to work. Also of key importance are issues such as experience rating, claw back, and minimizing 'free-riders' among the EU member states.

The CEPS project detailed 18 options, all variants of two broad schemes: 1) a 'reinsurance' or 'equivalent' scheme where financial transfers from a EUBS would occur only from and to member states and 2) a 'genuine' scheme that would pay benefits directly to the unemployed. A 'reinsurance'

⁴ All of the CEPS works on a EUBS can be accessed at this link <https://www.ceps.eu/topics/unemployment-insurance>.

⁵ See Dungan, Peter and Steve Murphy, 1995, *The UI System as an Automatic Stabilizer in Canada*, UI Macroeconomic Stabilization, Human Resources Development Canada, available at http://publications.gc.ca/collections/collection_2015/rhdcc-hrsdc/LU2-153-209-1995-eng.pdf.

scheme bears a strong resemblance to Canada's equalization program, albeit conditional on member states demonstrating that they used the EUBS money for UI benefits. While a variant of the 'genuine' scheme might seem to resemble Canada's federally-operated EI program (funded by contributions from employers and workers), in reality it would be more like the US scheme that is run in different ways by the 50 US states under federal rules. Consisting of regular unemployment compensation, emergency unemployment compensation, and extended benefits, each component has different degrees of federal and state involvement.

Any kind of European-wide UI scheme would require some form of harmonization of national benefit schemes, labour market policies, and institutional capacity. As discussed at the conference, such harmonization would be a very tall order. It is still not clear what kind of scheme – of the two variants – is being proposed, let alone the precise parameters of a specific scheme. There is a world of difference between the interpersonal solidarity of a genuine scheme and the interregional solidarity of an equivalent scheme. The two types would also have different administrative impacts. Additionally, without an EU agency held directly responsible for the scheme – visible to citizens – neither variant would contribute to the building of a sense of European citizenship. While acknowledging that expenditures from either variant would be higher, without key decisions on design no costing evidence was provided. Decisions on the legal framework, minimum standards, and social partner involvement would also be required.

While politicians who participated in the morning discussion at the conference seemed supportive of the potential of a EUBS, officials and bureaucrats who weighed in during the afternoon were less optimistic, pointing out the huge diversity not only between member state unemployment insurance, social assistance, and activation schemes, but also how each of these were intertwined with their respective retirement, taxes, pensions, minimum wage, and labour laws. Setting up a EUBS was seen by some as a 'daunting effort', suggesting that it was the 'long route' to an EMU automatic stabilizer. The European Commissioner for Employment, Social Affairs, Skills and Labour Mobility, Marianne Thyssen from Belgium, had the last word, suggesting that upward social convergence of member state UI, SA, and activation schemes should be the primary goal as opposed to building a EUBS. How these developments will play out over the winter is yet to be determined. Progress on a EUBS would be a clear signal of 'more Europe'. As evidenced by the June 2016 Brexit vote, many citizens in the UK want 'less Europe'. We can look forward to a Commission White Paper on this topic in spring 2017.