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SPEAKING NOTES

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AUTOMATIC STABILIZERS FOR THE EUROZONE: PROS AND CONS OF A EUROPEAN UNEMPLOYMENT BENEFIT SCHEME

Assessing the impact of an EMU UBS on diverse national benefit systems: (To what extent) Do we need common eligibility rules?

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Politically unfeasible, unacceptable and impractical

- To set up an EU Unemployment Benefit Scheme would require a minimum amount of harmonization, for example regarding qualifying conditions, minimum level of benefits and contributions.
- It would also require fiscal integration in the Eurozone, including relinquishing some national sovereignty over budgets.
- This would firstly not be acceptable, secondly have negative economic implications, thirdly not be practical, given the diversity in member state systems and finally contradict the Treaty.

1. Unacceptable:

- Setting up such a scheme would mean a significant removal of existing national competences in the area of social protection, and a level of harmonization of key elements of national systems. This is unacceptable.
- To be effective, unemployment insurance must be shaped at national level in the light of the overall economic and social safety nets in which they are embedded.

2. Not effective in encouraging structural reform

- Aside from the problems of political acceptance of an EMU Unemployment Benefit Scheme, it would also be counterproductive from an economic point of view as it would have the adverse effect of reducing incentives for structural labour market reform.
- Providing an insurance system whereby risks of economic shocks are pooled across member states is a very different proposition to the introduction of contractual arrangements as a way of responding to economic shocks. The former provides an automatic transfer of funds from EU level to member states (triggered by certain economic/labour market conditions), whereas the latter allows for a more targeted case-by-case approach.
- BUSINESSEUROPE supports the introduction of contractual arrangements in relation to structural reforms, provided the proposals strike the right balance between solidarity and responsibility by increasing incentives for structural reforms, and do not lead to an increase in the overall tax burden in the EU or the Euro Area.

- However, we oppose the introduction of an EMU wide unemployment scheme, as we believe it risks undermining the incentives for Member States to undertake the labour market reforms and fiscal consolidation that are the primary route through which Member States, and in turn the euro area can strengthen its ability to respond to economic shocks.
- This would especially be the case if such a scheme ended up providing more permanent transfers than was originally intended, creating a reliance on the transfers at national level. The solidarity element would exist, however not the responsibility element to counterbalance it.
- Since labour market reform is key for lowering unemployment, such a scheme would not meet this key objective.

- The scheme as described in the various research papers prepared for DG Employment also has problems in terms of the timeliness of transfers:

  - The labour market reaction to economic shocks, manifested in unemployment, may not be immediate. Therefore, by the time the transfers are made to member states, the labour market conditions may already have deteriorated.
  - This renders the action ineffective in terms of its stabilizing impact.
  - On the other hand, the labour market/economic situation triggering the activation of the insurance scheme and transfer of funds may change.
  - This creates a risk that transfers are made which in the end were not necessary.
  - This not only makes the scheme ineffective but more dangerously could destabilize an economy by further overheating it.

- The underlying ambition of a European stabilization/insurance mechanism is stated in the research paper prepared for DG Employment as ‘making provision of unemployment compensation more generous’, or at least offering funding at EU level to ‘compensate countries’ which are cutting back unemployment insurance schemes to reduce public deficits.[1]
- Social protection systems have acted as automatic stabilisers during the crisis, however their role in protecting the most vulnerable can only be ensured if they are sustainable. Fine-tuning systems to make them more generous is not a sustainable option at a time of persisting economic difficulties, poor employment perspectives, and restricted government budgets.
- If this is the objective of such a scheme, it would clearly be a disincentive for member states to reform their social protection systems, whereas this is necessary.

- It is also worth mentioning that the key challenge at present in terms of labour market developments is dealing with long-term unemployment, whereas the focus of this would have to be on short-term unemployment to avoid permanent transfers.

[1] DG Employment overview of EU unemployment benefit schemes, 2013

3. Not practical given diversity in member state social protection

- From a general point of view, social protection benefits have helped cushion the effects of the income shocks on households from the economic crisis. However, a more detailed analysis reveals significant differences between Member States' social protection systems with respect to their anti-cyclicality and employment friendliness[2].
- One of the points made in the research paper prepared for DG Employment[3] is that for such a scheme to be politically acceptable, it would have to only be available for those citizens who have made sufficient contributions to insurance before becoming unemployed. However, what is considered 'sufficient' surely differs between countries.
- This paper even makes the point when trying to make a simulation of the scheme, that 'national systems differ to much in eligibility criteria'.

- Some examples of diversity[4]:

- With regard to the benefits, in terms of the gross replacement rates (80% in Luxembourg to 13% in UK); net replacement rates (92% in Portugal, around 60% in Austria, to 12% in UK), of course partly due to differences in tax rules.
- With regard to benefits in terms of the duration (21 weeks in Lithuania, around 50 weeks in Germany, around 100 weeks in France, an unlimited period in Belgium). Even larger differences if consider special provisions for specific groups in some countries.
- With regard to qualifying conditions, in terms of the period of employment required (17 weeks in France – 156 weeks in Slovakia, but for around half of the countries it's 50-52 weeks, so less variation here);
- With regard to the contribution rate (employer contributions from 0.6% in Bulgaria to 24% in Latvia; employee contributions from 0.2% in Finland to 11% in the UK).[5]

- The approach taken in the research paper prepared for DG Employment, to deal with this diversity, is simply to harmonise certain dimensions of national unemployment schemes, either by identifying common denominators or by targeting those countries that 'deviate markedly from broader European patterns'.
- This is not acceptable as social protection systems should remain the competence of member states.

[2] EC Review on social and employment developments 2012 (published Jan 2013).
[3] "A euro-area wide unemployment insurance as an automatic stabiliser: Who benefits and who pays?" Paper prepared for the European Commission DG Employment by Sebastian Dullien, January 2013.
[4] DG Employment overview of EU unemployment benefit schemes, 2013
[5] ISSA – International Social Security Association, 2010

4. <u>Contradict Treaty</u>

- Subsidiarity is enshrined in the Treaty in the field of social affairs.
- On employment the EU is limited to measures designed to encourage cooperation between Member States and to support their action. Any harmonization is clearly excluded.
- Social security and social protection systems are the competence of member states. The EU's competence is limited to setting minimum requirements, whereby it shall not affect the right of Member States to define the fundamental principles of their social security systems and must not significantly affect the financial equilibrium thereof.
- In addition, the treaty does not envisage common elements of fiscal policy at the euro area level and the EU has no competence over the budgetary responsibilities of its Member States.
- Therefore, as is highlighted in the commission's communication on strengthening the social dimension of the EMU, such measures would require a substantial Treaty change.

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