



## Stabilising the European Economic and Monetary Union: What to expect from a common unemployment benefits scheme?

Miroslav Beblavý and Karolien Lenaerts

### Abstract

In the aftermath of the Great Recession, there has been a widespread call for reform of the Economic and Monetary Union (EMU), as it became clear that its current institutional architecture lacks an automatic stabilisation mechanism to prevent economic shocks and to mitigate their impact. A European unemployment benefits scheme (EUBS) has long been discussed as one potential stabilisation mechanism. In this report, we explore this option in more depth. We start from 18 EUBS variants, of two types – equivalent and genuine – for which we assess the legal and operational feasibility of introducing these schemes and the added value that they would bring. Our analysis focuses on added value in terms of macroeconomic stabilisation as well as the potential contribution to labour mobility and Europe’s social dimension. The feasibility assessment covers legal and operational options and constraints at the national and EU levels. The report further devotes attention to important challenges such as institutional moral hazard, permanent transfers and EUBS implementation.

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The research project is undertaken by a consortium comprising the following institutions: the Centre for European Policy Studies (CEPS), the Centre for European Economic Research (ZEW), the Institute for Social and Economic Research (ISER), Cambridge Econometrics (CamEcon), EFTHEIA and the University of Leuven (KUL). For more information on the project, please see Annex 1 of this report.

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# Stabilising the European Economic and Monetary Union: What to expect from a common unemployment benefits scheme?

Miroslav Beblavý and Karolien Lenaerts\*

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**M**ost EU member states are equipped with a set of powerful instruments to mitigate the effect of economic shocks on employment and income. With the inception of the Economic and Monetary Union (EMU), countries have lost control over their monetary policy, which instead is now managed centrally at the EMU level. Fiscal policy, which comprises important automatic stabilisers such as a country's unemployment insurance scheme, remained a national competence. EMU does not have such a stabilisation mechanism.

In the past, EMU's dual institutional architecture has been strongly criticised and many have called for reform, especially after the financial crisis starting in 2008 and the subsequent European debt crisis. This weakness was also underlined more recently in the Five Presidents' Report "Completing Europe's Economic and Monetary Union" published in 2015, which proposed introducing in the longer term a fiscal stabilisation function for the monetary union. Such automatic stabilisation at the euro area level should provide a cushion for large macroeconomic shocks, thereby making EMU more resilient overall, provided that a significant degree of economic and financial integration is achieved, together with further pooling of decision-making on national budgets and democratic accountability.<sup>1</sup> The exact design of such stabilisers requires more in-depth work on the legal, economic and political preconditions.

A European unemployment benefits scheme (EUBS) has long been discussed as one possible response to stabilisation needs, among other potential stabilisation mechanisms. In 2014, the European Commission, following a request by the European Parliament, commissioned an investigation into the feasibility and added value of an EUBS as a fiscal stabilisation mechanism for the eurozone (for more details on the project, see Annex 1). This study was conducted by a consortium led by the Centre for European Policy Studies (CEPS) and examined 18 EUBS variants (on which more details are provided in Annex 2). It does not represent the Commission's position. A comparative assessment of the EUBS with other stabilisers, however, was beyond the scope of this study.

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<sup>1</sup> [https://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report\\_en.pdf](https://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_en.pdf).

## 1. Which mechanisms could be envisaged as macroeconomic stabilisers for EMU?

Since the deep recession of 2009, the EU has developed a number of tools to prevent economic shocks and mitigate their impact. New instruments were introduced when it became clear during the crisis that the common monetary policy and national fiscal policy were not sufficiently adapted to deal with these challenges, especially when shocks are asymmetric in nature. Other instruments, such as labour mobility or price and wage adjustments, are also not very powerful in Europe.

Two important tools for crisis prevention are the Macroeconomic Imbalance Procedure (MIP) and the Single Supervisory Mechanism (SSM, the Banking Union's first pillar). Other instruments have been developed to deal with the impact of severe crises. The European Stability Mechanism (ESM), i.e. the crisis resolution mechanism for member states of the euro area, is an important instrument to bolster crisis-struck economies, but it is designed for extreme situations and is not triggered automatically; balance-of-payments assistance can be made available to non-euro member states. The ECB's Outright Monetary Transactions (OMT) programme has become a crucial stabilisation instrument but is not intended for prevention.

EMU as a whole still lacks an automatic stabiliser that would be as responsive to economic shocks as national tax-benefit systems. This explains why much attention has been devoted to this idea in recent academic and policy debates. Importantly, any stabiliser should comply with the four key requirements spelled out in the Five Presidents' Report: i) it should not lead to permanent transfers; ii) it should preserve incentives for sound fiscal policies and for tackling structural weaknesses; iii) it should be developed within the existing EU fiscal framework; and, finally, iv) it should help prevent crises that would require intervention by the European Stability Mechanism. An automatic stabiliser would be a complement to, rather than a substitute for, other policy instruments and market mechanisms.

This project explores the idea of a common European unemployment benefits scheme as a supranational automatic stabiliser for EMU. It compares two basic approaches, namely *equivalent schemes* (also called "*reinsurance*" schemes) and *genuine schemes*. A genuine EUBS would pay unemployment benefits directly to unemployed individuals and would be funded through contributions from employers and employees. An equivalent EUBS variant is one in which financial transfers from an EUBS would occur only from and towards the member states. In this study, equivalent schemes are conditioned by a trigger which determines when funds are transferred to a member state: funds are transferred when short-term unemployment in a country exceeds its long-term average by a certain percentage, i.e. the threshold. The study models 18 EUBS variants of these two basic designs (four equivalent and 14 genuine variants) and assesses their legal and operational feasibility and economic added value. Apart from their common features (such as being linked to developments in short-term unemployment rates), these 18 variants differ from each other in terms of a range of features, e.g. the duration of unemployment benefits or the replacement rate.

Besides a European unemployment insurance scheme, several other potential stabilisers have been proposed by academics and policy-makers. Some proposals have considered alternative

indicators, such as GDP or the output gap, rather than unemployment. A first example is to establish a European fund which is tied to the output gap: member states would pay into the fund when their economies perform better than the EMU average and receive a pay-out in the opposite case. A more recent idea is to adjust the European Stability Mechanism such that it becomes an automatic mechanism. Under current ESM, member states have to apply for a bailout and fulfil a number of conditions in order to be eligible, e.g. agree to carry out strict economic and fiscal reforms. Another proposal is to create a budget for EMU. This idea was introduced in the “Blueprint for a deep and genuine Economic and Monetary Union” and Four Presidents’ Report “Towards a Genuine Economic and Monetary Union” published in 2012. Stabilisation instruments could also take the form of public investment programmes, including through regional policies, but these typically require long lead-times and would only have a delayed impact. A comparative assessment of all the options for a stabilisation mechanism has yet to be done.

## 2. What would be the added value of a European unemployment benefits scheme?

Unemployment benefits are very responsive to economic shocks to the extent that unemployment rises quickly (albeit with a lag following an output contraction) and benefits almost immediately replace lost income from employment. That also makes them more countercyclical than other elements of tax-benefit systems or public investment programmes, particularly if a temporary increase in benefits can be financed by issuing debt rather than by raising additional contributions. An EUBS could therefore contribute to macroeconomic stabilisation to deal with shocks that cannot be managed at the national level alone.

There are two key questions in this regard: To what extent can a European unemployment benefits scheme enhance the stabilisation capacity of the existing national unemployment benefits schemes (NUBS)? And what additional stabilisation effects can it achieve? One could argue that the national unemployment insurance schemes have many characteristics in common with their European counterpart, e.g. the swift response to shocks and a high multiplier effect. In fact, when designing an EUBS, policy-makers can combine a number of features that can take a range of values.<sup>2</sup> Like the national schemes, an EUBS would come with a fixed duration, amount, eligibility conditions, etc. (see Annex 2 for more details).

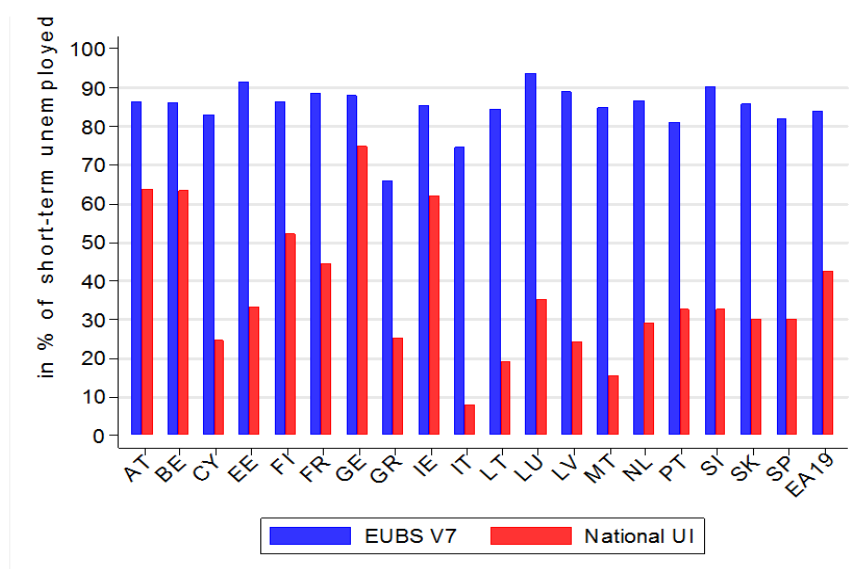
Although NUBS could serve as powerful stabilisers, the crisis has shown that they have not necessarily achieved their potential, notably as a result of their limited coverage or generosity. Coverage refers to the share of the (short-term) unemployed who qualify for unemployment benefits. In some countries, the self-employed are not eligible for unemployment benefits, and the number of self-employed in the economy can be high. In the event of a crisis, many of these self-employed lose their income without receiving any support from the government. Similarly,

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<sup>2</sup> For example, the amount of unemployment benefits that someone receives is often determined on the basis of a reference wage, e.g. gross or net, taken in the last month or an average over a longer period, to which a replacement rate is applied (which can be set at 50%, 60% or any other value).

if an unemployed individual is only entitled to a very low amount of benefits, this sum may not be sufficient to support his or her family, thereby pushing many into poverty. The EUBS variants considered in this study generally have a wider coverage than the national schemes. This is illustrated in Figure 1, which shows the coverage differences between the NUBS and the most generous genuine EUBS variant (to illustrate the stabilisation potential of an EUBS; under this variant, unemployment benefits are paid for 12 months, starting from the first month of becoming unemployed). These gaps are particularly pronounced for the member states in Central, Eastern and Southern Europe. In most member states, the young (under 30) would stand to gain the most in terms of additional coverage of an EUBS, because short-term unemployment is particularly prevalent among them.

Figure 1. Comparison of coverage of national unemployment benefits schemes (average over 1995-2013) and a generous EUBS in which payment begins immediately on becoming unemployed (Variant 7)



*Enhancing the national unemployment benefits schemes*, for example by improving their coverage and generosity, would by itself already increase the stabilisation capacity within EMU. While it is conceivable to move to enhanced benefit systems through benchmarks, such a process would take time and it could be politically and fiscally difficult to impose more generous unemployment benefits in the absence of a common funding arrangement.

Furthermore, EUBS attain stabilisation through two additional channels: spatial and inter-temporal insurance. *Spatial insurance* implies that the risk and costs of unemployment are pooled across a group of countries, instead of being borne by a single member state. This is where a common EUBS could bring an important added value *vis-à-vis* the national schemes.

*Inter-temporal insurance* implies a reallocation of resources over time. One way to achieve this is by allowing the EUBS to *issue debt*. If an EUBS runs out of funds, it could collect additional contributions from the member states or issue debt. Raising additional contributions is, however, likely to reduce the scheme's stabilisation capacity and may result in a procyclical stance by having to raise more money when the member states are still mired in a deep

recession (and possibly cutting their spending). In addition, the EU's complex institutional framework would call for a predetermined, automatic solution. One caveat, however, is that there is currently no consensus on common debt financing. Public debt is already very high in Europe and the idea of debt-issuing has raised political and moral hazard concerns.

### 3. How much stabilisation can an EUBS achieve and at what cost?

Simulations performed within this study suggest that the scale of the EUBS ranges from 0.03% to 0.43% of GDP over the period 1995-2013 (across the 18 variants examined), measured as the total value of benefits paid out over 1995-2013 as a share of EA-19 GDP over that period ('gross cost'). Equivalent EUBS variants require less funds than most of the genuine EUBS variants (with the exception of the least generous ones); indeed, as the trigger threshold goes up in the equivalent schemes, they are activated less frequently, which limits spending. This is illustrated in Table 1, which reports the size and stabilisation impacts of three EUBS variants.<sup>3</sup>

The total amount of spending through the scheme would have ranged between 0.03% and 0.13% of GDP if an equivalent EUBS variant had been in place during 1995-2013, and between 0.11% and 0.43% of GDP if a genuine EUBS variant had been in place instead.<sup>4</sup> The spending differs according to the scheme's features. For example, equivalent variants with a *higher trigger threshold* are less expensive than those with lower thresholds, as they are activated less often (0.13% of GDP for a trigger threshold set at 0.1%; 0.05% of GDP for a 1% threshold and 0.03% of GDP for a 2% threshold). For the genuine EUBS variants, the schemes with the biggest financing needs are those with a *long duration* (0.43% of GDP for a genuine EUBS with a 12-month duration) and *high replacement rates* (0.32% of GDP for a scheme with a replacement rate of 60% of the last gross wage).

The stabilisation effect of the EUBS is captured by its impact on the *level and growth rate of GDP*. Table 1 shows the impact on the level of GDP in 2009 for EMU. In 2009, EA-19 GDP fell sharply. If an EUBS had been in place over 1995-2013, GDP would have been up to 0.2% higher in the EA-19 in 2009 (the trough of the recession). These results reflect also the assumption that the EUBS would be more generous than current national UBS.<sup>5</sup>

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<sup>3</sup> Note that the higher payments at the supranational level would to some extent be offset by reduced payments at the national level, e.g. reduced payments on national unemployment benefits or social assistance.

<sup>4</sup> These numbers refer to the share of whole period GDP.

<sup>5</sup> An estimate of the stabilisation effect due to enhanced unemployment benefits can be found in Dolls et al. (2016), "An Unemployment Insurance Scheme for the Euro Area? A Comparison of Different Alternatives using Micro Data", CESifo Working Paper No. 5581 (revised).

Table 1. Summary metrics of three EUBS variants applied to EA-19 and their stabilisation effect

	Scale: Spending 1995-2013 as % of GDP	GDP impact in EA19 in 2009: Deviation from actual GDP level in %
<b>Equivalent schemes</b>		
High macro threshold to trigger payment	0.05	0.09
Low macro threshold to trigger payment	0.13	0.21
<b>Genuine scheme</b>		
No waiting period before benefit payment starts	0.43	0.18

The table shows that *equivalent EUBS have a stronger stabilisation effect for a given level of spending*. The equivalent EUBS variants examined in this study are tied to a trigger and therefore are not active all the time but rather are focused on crisis years. An EUBS with a trigger threshold in the range of 1 to 1.5 percentage points appears to strike a good balance between a too low threshold and a too high threshold. An EUBS would be triggered if a country's short-term unemployment rate exceeds its long-term average by this percentage. Genuine schemes, by contrast, operate continuously and thus imply a higher level of spending (0.43% of GDP vs. 0.05% of GDP). For the set of genuine EUBS variants examined in the project, those with strict eligibility conditions, short durations and low replacement rates were found to have a lower stabilisation capacity than their counterparts.

Simulations were also carried out to assess whether an EUBS that was not permitted to issue debt would have a weaker stabilisation effect. In that case, additional contributions would have to be raised from member states in the years of any shortfall of revenues compared to spending by the EUBS. The impact depends on the amount of reserves the EUBS would be allowed to build up before a significant call is made upon its resources. If a no-debt EUBS had been in place over 1995-2013, there would have been a significant stabilisation effect during the 2008-09 crisis because, by then, according to the assumed EUBS design, sufficient reserves would have been built up (in 2008, the no-debt EUBS variant has a surplus of roughly 0.18% of GDP, which goes down to zero in subsequent years).<sup>6</sup>

Another illustration of the stabilisation capacity of the EUBS can be found in Figure 2 and Figure 3, which present actual historical real GDP growth rates for four countries (along with the EMU average for comparison) and the impacts that the three EUBS variants in Table 1 would have had on the growth rate in each year. The four countries experienced relatively large deviations

<sup>6</sup> The no-debt EUBS variant is at zero balance until about 2006 (because it cannot go into debt, and the comparison with the EUBS that can issue debt shows that in those years the non-debt constraint is binding), builds up a surplus of less than 0.25% of GDP by 2008, and runs down that surplus in subsequent years.



in annual GDP growth rates relative to the EMU rate, averaged over 1995-2013.<sup>7</sup> In each case, the middle chart shows the difference to the annual GDP growth rate that the EUBS variants would have brought about, while the lower chart shows the percentage difference in the level of GDP. These impacts reflect the scale and timing of contributions to, and pay-outs from, the EUBS fund. Note that there is a very large difference in scale between the upper chart, on the one hand, and the middle and lower charts on the other: the largest impact is for Latvia in 2009, when GDP growth would have been 0.76 percentage points higher in the presence of a 'high-threshold' EUBS variant, which would have mitigated its decline in GDP in that year from -14.3% to -13.6%.

The upper charts in Figure 2 illustrate that both Latvia and Slovakia experienced low GDP growth in 1999, followed by a marked acceleration in growth up to 2007 (in contrast to the EA-19 average). Latvia's recession in 2009 was far more severe than the EA-19 average; Slovakia's was only slightly more severe. The middle charts confirm that the two equivalent EUBS variants would have tended to have somewhat larger growth stabilisation effects (both positive and negative), but their scale is modest.<sup>8</sup> These charts also show how quickly the positive impact on growth in Latvia would have been curtailed under the rules of equivalent schemes (in fact, the level of GDP would have been lower in 2011 in both equivalent schemes, and particularly in the high-threshold version, under the rules assumed for the EUBS).

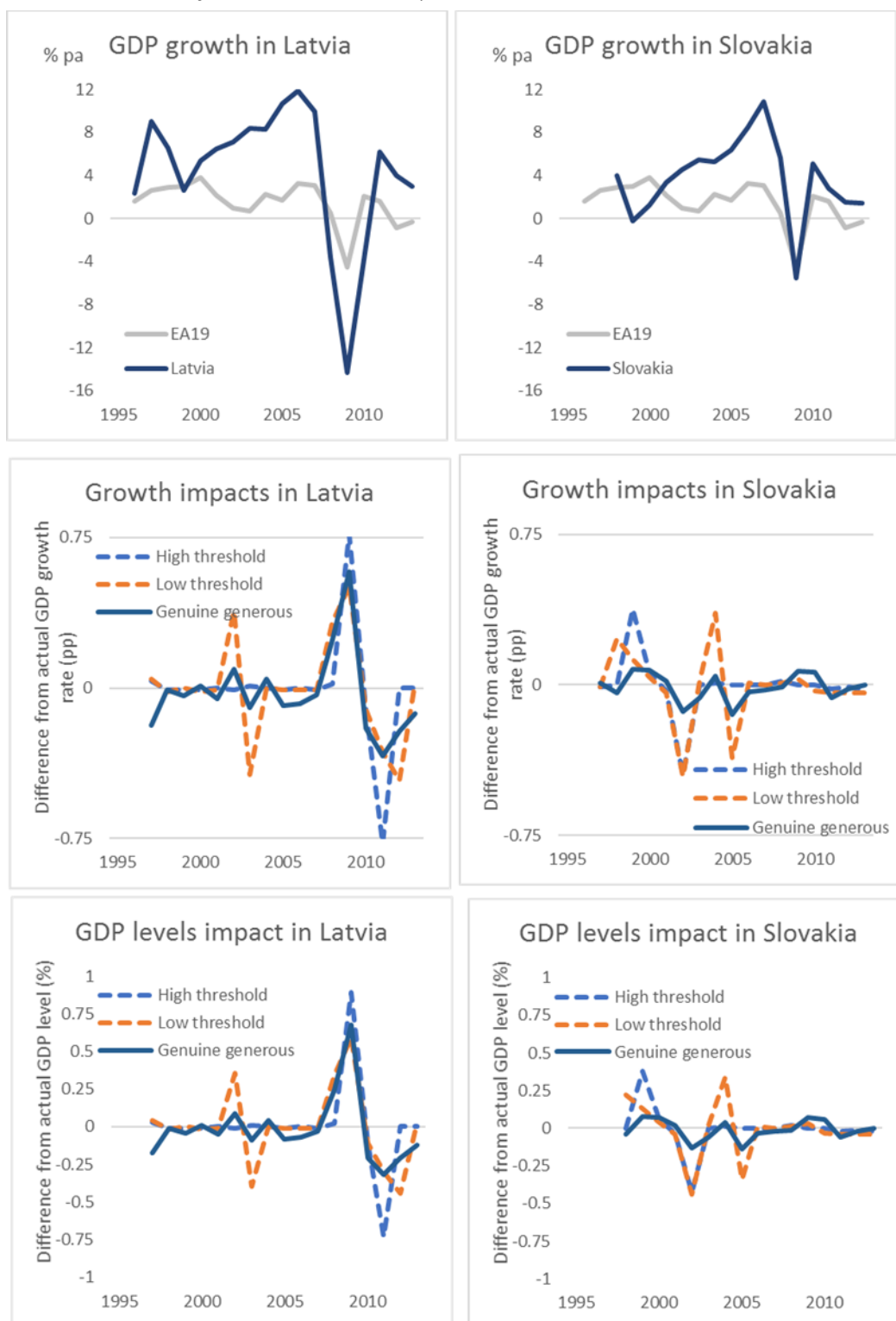
The cases of Greece and Ireland are shown in Figure 3. In these countries, GDP growth was not only more volatile than the EA-19 average, but also incorporated rather different long-term trends. Ireland saw a steady slowdown from the high growth rates in the beginning of the period, and went into recession earlier than the EA-19 average. If the two equivalent EUBS had been in place, the 2009 decline in GDP would have been reduced by about 0.4 percentage points (from -4.6% to -4.2%). For Greece, the scale of the estimated stabilisation impact of the EUBS is much smaller, which reflects the ineligibility of self-employed workers for the European scheme. Moreover, the temporary nature of EUBS support is also clear from the charts: the positive contribution to growth would soon have reversed, even as the recession persisted.

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<sup>7</sup> Estonia, Latvia and Lithuania stand out as having recorded by far the largest difference in annual growth rates over 1995-2013 compared with the EA-19 rate. Because their experience was broadly similar, Latvia is shown here as broadly representative of all three cases, to allow the figures to present some contrasting cases.

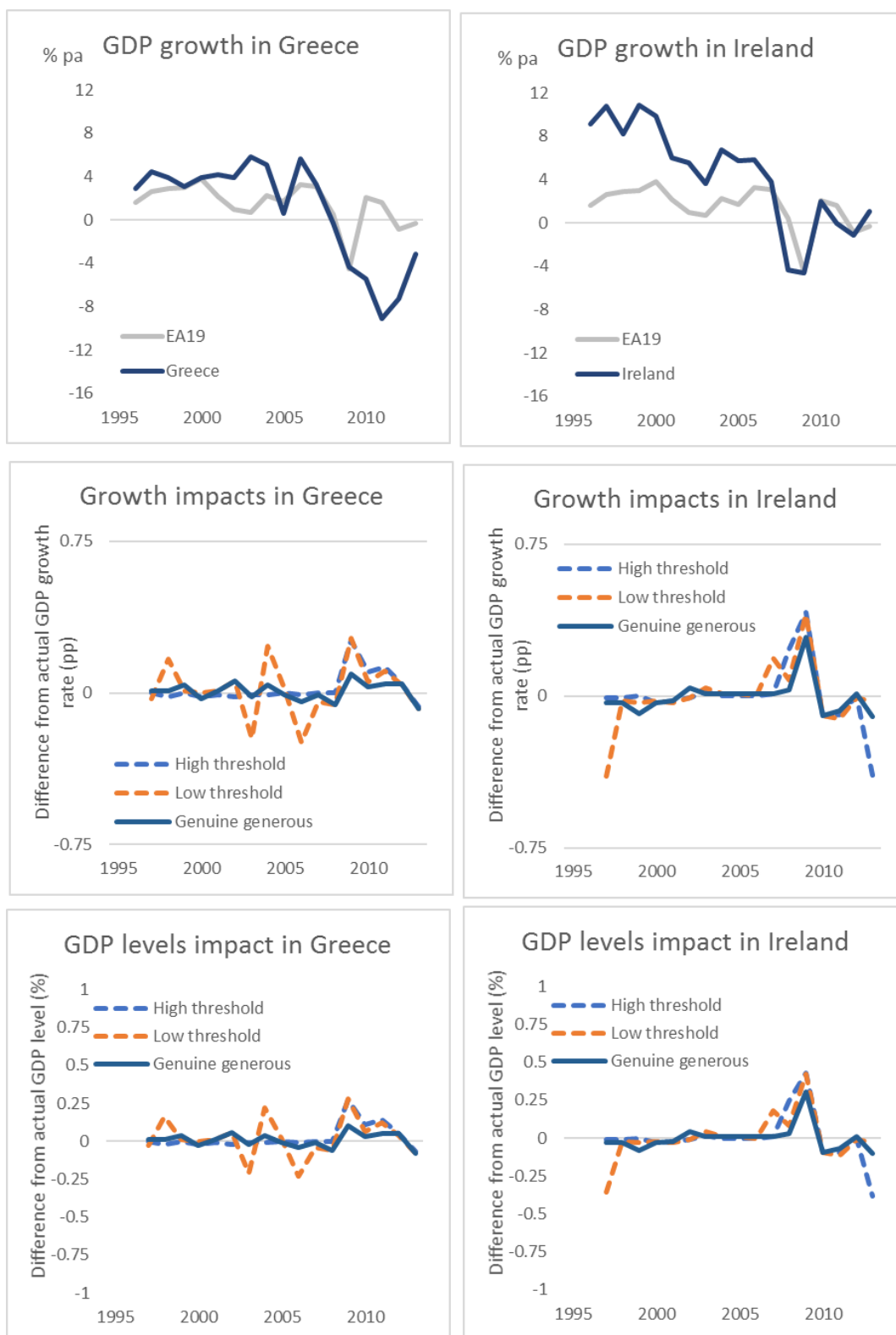
<sup>8</sup> The negligible impact in Slovakia during the recession reflects the fact that the increase in short-term unemployment was far smaller in Slovakia than in Latvia, and in Slovakia, the short-term unemployment rate remained below the high levels seen over 1999-2004. Consequently, even the 'low' threshold to trigger payments under an equivalent scheme was not crossed.

Figure 2. Historical real GDP growth rates and stabilisation impact of selected EUBS schemes on Latvia and Slovakia, if the schemes had operated over 1995-2013



Note: The three variants shown in the figure correspond to the variants reported in Table 1.

Figure 3. Historical real GDP growth rates and stabilisation impact of selected EUBS schemes on Greece and Ireland, if the schemes had operated over 1995-2013



Note: The three variants shown in the figure correspond to the variants reported in Table 1.

While the contribution to macroeconomic stabilisation would have been limited (depending on the characteristics of the scheme), an EUBS can have other advantages. To deal with the issue of moral hazard (weaker incentives to improve labour market policies and a possible incentive for national governments to support people by the EUBS rather than through national social protection/assistance systems – see below), an EUBS would require convergence of labour market policies and institutional capacity. This precondition could be an opportunity for improving labour market policies and enhancing the protection of the unemployed in those member states where it is insufficient and where people face a high risk of falling into poverty when they lose their job.

An EUBS could therefore also strengthen the social dimension of EMU and support social cohesion, in line with the idea of a *European Pillar of Social Rights*, even though it should be acknowledged that this could also be pursued through soft or hard law initiatives or policy coordination processes not related to an EUBS. Simulations conducted for this project reveal that under the most generous genuine EUBS variant studied, the proportion of people at risk of poverty<sup>9</sup> in the monetary union could be reduced by 0.35 percentage points on average in the presence of an EUBS (in the hypothetical forward-looking simulations in the year with the deepest recession; the rate for the EU is currently around 17%). Finally, an EUBS could be designed to *facilitate job searches* across Europe by making EUBS benefits portable, thus contributing to a more integrated European labour market.

#### 4. How to finance a European unemployment benefits scheme?

A European unemployment benefits scheme would be financed by contributions from countries, or workers and employers, into the supranational fund. To the extent that an EUBS enhances the protection of the unemployed in some member states, it will increase *public expenditure* by as much as 0.3% of GDP in countries with the least developed NUBS (Malta, Estonia). An EUBS aligned with the countries that have the least developed unemployment benefits would severely limit its effectiveness as a stabiliser, and without a common minimum level of benefits to be covered by the EUBS, countries would achieve very different levels of stabilisation after having experienced a shock of the same magnitude.

While mitigating the risk of moral hazard, a common level of minimum benefits limits member states' flexibility to adjust their national schemes to national preferences. This is an issue especially when a genuine EUBS variant is introduced, as it would (at least partly) replace the existing national scheme. Equivalent EUBS variants could be introduced without any restrictions on how the government can spend the funds received. A scenario in which governments have to use the money in the same way as in the genuine EUBS variants could also be envisaged.

The effect of an EUBS on *total public expenditure at all levels* is more difficult to assess. Whereas the scheme's administrative costs are likely to be modest, and the building up of reserves within

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<sup>9</sup> People are considered at risk of poverty if their disposable household income (adjusted for household size and composition) is below 60% of the median income in their member state.

the scheme is limited, minimum standards for national unemployment benefits schemes could increase spending, especially in member states with less generous systems. Nevertheless, minimum requirements are important, particularly for equivalent EUBS variants, to prevent member states from cutting back their national schemes to save funds in difficult economic times.

## 5. Can permanent transfers be avoided?

The study confirms that a European unemployment benefits scheme could be set up in such a way that permanent transfers are avoided. To this end, the scheme would have to be equipped with an experience-rating mechanism. *Experience rating* is a mechanism that connects the pay-in into the EUBS to the use of the EUBS by demanding higher contributions from countries that are likely to use the scheme more (based on their past experience with unemployment in a genuine EUBS or the actual number of times the EUBS was used in an equivalent EUBS). In addition, a *claw-back* mechanism could also be considered to collect additional contributions from a member state that has built up a persistent deficit *vis-à-vis* the EUBS. Then, either the pay-in of the member state would be raised (equivalent EUBS) or the member state would be subject to supplementary contributions (genuine EUBS). While experience rating is an automatic mechanism, the study argues that claw-back should be discretionary. The reason is that if a claw-back is activated, the member state could still be in a prolonged downturn or just recovering from it.

## 6. How can institutional moral hazard be mitigated?

Experience rating and claw-back are also essential to avoiding institutional moral hazard (by creating a link between the pay-in into the EUBS and the use of the EUBS). *Institutional moral hazard* refers to a situation in which two levels of government deal with a social risk, one level covering this risk, while the other level can influence the risk. In the context of unemployment insurance, one can imagine a situation in which a country's federal government is responsible for the financing and payment of unemployment benefits, whereas the activation of the unemployed and related policies are left to the lower levels of government. The behaviour of the lower levels of government has an impact on the federal level. For example, if (regional or local) activation policies are poorly designed or implemented, they may be less effective in eradicating unemployment, and thus push up the costs of unemployment benefits at the federal level, or in the case of an EUBS, from the national to the European level.

This study considered the issue of institutional moral hazard in countries with a multi-tiered unemployment insurance scheme: Australia, Austria, Belgium, Canada, Denmark, Germany, Switzerland and the United States. Institutional moral hazard is embedded in any multi-tiered insurance system, and different solutions towards its mitigation have been proposed in the countries examined, e.g. minimum standards, financial incentives. At the same time, the adverse effects of institutional moral hazard and the costs of mitigating it, have to be weighed

against the benefits of insurance, including economic stabilisation, redistribution, social cohesion and growth.

## 7. What legal and operational concerns would need to be addressed if an EUBS were to be adopted?

### 7.1 At the national level

Genuine EUBS variants pose greater challenges than equivalent variants as they partially replace the existing national unemployment benefits schemes and leave little flexibility to the member states. When introduced, a genuine EUBS would necessitate amendments to the *national legislation* governing unemployment insurance, labour market regulation and related domains in all member states. Moreover, in some member states, e.g. France, collective agreements would have to be adapted as well. Furthermore, while adapting national organisational and financing frameworks to the genuine EUBS would be less problematic in member states where the existing NUBS is based on the social insurance principle, in member states where the NUBS is very different from the EUBS, e.g. in terms of financing or administration, there would be substantial impediments ahead if a genuine EUBS were to be introduced, e.g. in Scandinavia.

Equivalent EUBS variants would not require as many changes, unless their pay-outs would be earmarked for spending on employment measures and unemployment benefits. Nevertheless, for a few member states, conflicts with national constitutional law are possible or likely for both variants, e.g. Germany. If constitutional amendments were required, these typically can only be made through a demanding, lengthy and complex process, which could impede the introduction of an equivalent EUBS.

A genuine EUBS is also *operationally* more challenging than an equivalent variant, due to the frequent interactions involved between the European and the national schemes. If an EUBS were to be introduced, the most fundamental changes would be required in countries with a so-called 'Ghent system' (Denmark, Finland and Sweden, where unemployment insurance is voluntary and run by social partners) or a liberal welfare system (Ireland, Malta, Poland and the UK, where benefits typically are flat-rated). The EUBS could make use of the existing national structures, and its implementation would largely be decentralised. However, the institutional capacity of the existing bodies may have to be increased in some member states.

Moreover, when the EUBS benefit expires, the NUBS or national social assistance might (re)start. Frequent switching between multiple schemes would cause major administrative and operational challenges (with errors and delays as a result) and would be associated with huge fluctuations in the amount that someone receives.

In many member states, *social partners* play a major role in the design and management of the national unemployment benefits schemes. In the context of an EUBS, the role of the social partners is therefore also an important factor to take into account. Social partners weigh heavily on the *design of the NUBS* in Austria, Belgium, Bulgaria, Germany, Finland, France,

Luxembourg, the Netherlands, Portugal and Slovenia. In Croatia, Denmark, Estonia, Italy, Lithuania, Latvia, Poland, Romania, Sweden and Slovakia, they have a more limited role. Social partners are strongly involved in the *management of the NUBS* in four member states (Belgium, Denmark, Finland and Sweden) and moderately involved in eight of them (Austria, Estonia, France, Italy, Lithuania, Latvia, Portugal and Romania).

## 7.2 At the European level

In addition to the legal and operational challenges at the national level, the project examined the legal barriers to an EUBS from the European perspective. A European unemployment benefits scheme could be established *outside of the boundaries of the existing EU legal framework*, through an intergovernmental agreement which could, for example, apply to only a subset of member states. In the view of the authors of this study, however, there might also be options for establishing an EUBS (both of a genuine or equivalent nature) *within the boundaries of the existing Treaties*, albeit not for all of the 18 EUBS variants examined. For some variants, a Treaty change would be required.

To establish an EUBS within the existing EU framework, three legal acts would be needed: a legal act establishing the *financing side* of the scheme, a legal act establishing the *payments side* of the scheme and a legal act setting *minimum requirements for activation and the regulation of the national schemes*.<sup>10</sup> Separate legal acts are needed where the payment side and the financing side must have different legal bases. Moreover, since minimum requirements can only be established on the basis of Article 153 TFEU, which is different from the possible legal bases for the payment and/or the financing side, they have to be introduced in a separate legal act.

The study examined several options for each of these legal acts and arrived at the following conclusions. The *financing side of the EUBS* could be established within or outside of the EU budget on the basis of Article 352(1) TFEU. If set up within the EU budget, the Article allows the raising of contributions from member states as well as from individuals; the revenue would have to be earmarked for exclusive use by the EUBS. If, instead, the financing side is set up outside of the EU budget, there are two options: either an EUBS agency is set up on the basis of Article 352(1) TFEU or a separate fund could be established on the basis of an intergovernmental agreement. The *payments side of the EUBS* could be based on Article 352(1) TFEU for the equivalent EUBS variants (only two of the four examined) and a combination of Articles 175(3) and 352(1) TFEU for the genuine EUBS variants (nine of the 14 variants). In both cases, the EUBS would fall within the scope of the ‘no bail-out’ clause (embedded in Article 125(1) TFEU). Under this clause, the EU may grant assistance to member states if this promotes structural reforms and sound budgetary policies. Compliance with Article 125(1) TFEU can be achieved by a combination of experience rating, claw-back, and minimum requirements for

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<sup>10</sup> The regulation of the national schemes (which could be adopted on the basis of Article 153(2)(b) TFEU) ensures a smooth transition from the EUBS to the NUBS in case of the genuine EUBS variants and the specification of the lump sum transferred from the EUSB to the NUBS in the equivalent case.

activation measures. In the absence of these mechanisms, EUBS variants would violate the no bail-out clause and therefore cannot be established within the legal framework.

### 7.3 Administrative burden

The main operational barriers to a genuine EUBS would emerge at the member state level. The EUBS would be highly demanding for the bodies responsible for unemployment insurance, because the parallel operation of the EUBS and NUBS would pose major challenges. The more divergent the current NUBS and the EUBS are, the more numerous the operational obstacles if an EUBS would be envisaged. These obstacles would be related to the aim and personal scope of the scheme, differences in entitlement conditions, e.g. the nature of unemployment, assimilated periods and household composition, differences in the calculation bases and methods, and other factors. At the national level, the administrative burden would be huge. This would call for good information, communication and data collection and exchange channels, more and well-trained staff, updated computer systems, arrangements for collecting in the contributions and disbursing the pay-outs, etc.



## Annex 1. About the project

In July 2014, the European Commission issued a call for tender entitled “Feasibility and Added Value of a European Unemployment Benefit Scheme” for a pilot project requested by the European Parliament. The tender was awarded to a consortium of research institutions which is led by CEPS and further composed of Eftheia, Cambridge Econometrics, the Institute for Social and Economic Research (ISER), the Zentrum für Europäische Wirtschaftsforschung (ZEW), Erasmus University Rotterdam and the Catholic University of Leuven (KUL). The project was launched in February 2015.

The objective of the project was to assess, in a comprehensive and consistent manner, the feasibility and value added of introducing a European unemployment benefits scheme. To this end, the project comprises five main tasks that cover the economic, legal and operational dimensions of an EUBS.

A first task was to carry out a literature review of existing realities in federations both within and outside of the EU, a review of the existing proposals for an EUBS, and an in-depth analysis of the features determining the design of a potential EUBS. More precisely, 18 scheme variants were examined.

The second task was to investigate the legal and operational feasibility of different EUBS forms, both at the national and the European level. Feasibility was assessed in terms of compatibility with national legislation and practices and with the EU legal framework.

The third task was to assess the value added of each of the 18 EUBS, in terms of stabilisation and social outcomes, through microeconomic and macroeconomic simulations. These analyses cover the individual member states, the EU level and the EMU level.

The two other tasks consisted of consultations with representatives of the member states and independent experts, and the organisation of a high-level conference where the main findings of the project were presented and debated.

## Annex 2. The EUBS variants considered

The 18 EUBS variants examined in this study can be divided into four equivalent and 14 genuine schemes, which are characterised by a partially overlapping set of features. Variations in these features determine the 18 different EUBS variants (V). This implies that each of the 18 forms is closely linked to the others, as each of them is a combination of different versions of these features.

Among the 18 EUBS considered in this study, four are reinsurance and 14 genuine schemes. The former are presented in Table A1, the latter are described in Table A2. In its most basic form, an equivalent EUBS is characterised by experience rating, claw-back and debt-issuing. The equivalent EUBS differ in terms of the design of the trigger, experience rating, claw-back and debt-issuing (Table 2). The most important difference lies in the trigger, which is defined in a similar way across the variants (V) but has different threshold levels (cut-offs): 0.1% (in V2 and V3), 1% (in V1) and 2% (in V4). The EUBS is triggered when the short-term unemployment rate in the quarter exceeds the average short-term unemployment rate over the last 40 quarters plus a certain percentage. This percentage is equal to 0.1%, 1% or 2%. A cut-off of 0.1% is very low, which means that EUBS transfers are frequently triggered. This is the ‘rainy day’ scenario. It covers nearly all shocks. The ‘stormy day’ scenario, with its cut-off of 1%, covers fewer shocks but is still activated relatively frequently. The highest cut-off of 2% would mean that only very severe recessions are covered. Other notable differences between the analysed equivalent EUBS are that V1 does not have experience rating, V4 does not have claw-back, and V3 and V4 do not allow for debt-issuing in case of short-term imbalances.

Table A2 presents the genuine EUBS and their main features, as they are defined in this project. The standard genuine scheme is V5 (represented in the first row of the table). V5 is a basic genuine EUBS that pays out unemployment benefits to all the unemployed who have worked as employees during at least three out of the last 12 months. These individuals are entitled to unemployment benefits equal to 50% of their last gross wage, capped at 150% of the national average wage. Benefits are paid out for a period of nine months, from the start of the fourth month until the end of the 12th month of unemployment (M3-M12). V5 is further characterised by experience rating, claw-back and debt-issuing, but it does not allow for cyclical variability (which means that certain features of the scheme can be adjusted in severe circumstances). The 13 other variants are all based on V5. In fact, they are identical to V5 with the exception of one feature, for which they take a different value. The nine features to take into account are: basic or top-up (V6 top-up, where the unemployed are guaranteed a minimum benefit and the EUBS only intervenes when the national benefit does not meet this minimum), benefit duration (V7 M0-M12, V8 M3-M6), replacement rate (V9 is set at 35%, V10 60%), eligibility criteria (V11 3M out of 6M, V12 12M out of 24M), capping (V13 100%, V14 50%), cyclical variability (V15 yes), experience rating (V16 no), claw-back (V17 no) and debt-issuing (V18 no).

Table A1. An overview of the reinsurance systems examined in the project

	Trigger	Experience rating	Claw-back	Debt
<b>V1</b>	$UR_{t,i} - \overline{UR}_{i,t-40 \dots t-1} > 1\%$	No	Yes	Yes
<b>V2</b>	$UR_{t,i} - \overline{UR}_{i,t-40 \dots t-1} > 0.1\%$	Yes	Yes	Yes
<b>V3</b>	$UR_{t,i} - \overline{UR}_{i,t-40 \dots t-1} > 0.1\%$	Yes	Yes	No
<b>V4</b>	$UR_{t,i} - \overline{UR}_{i,t-40, \dots, t-1} > 2\%$	Yes	No	No

Table A2. An overview of the genuine systems examined in the project

	Basic or top-up	Duration	Replacement rate	Eligibility	Capping	Cyclical variability	Experience rating	Claw-back	Debt
<b>V5</b>	Basic	M3-M12	50%	3M out of 12M	150%	No	Yes	Yes	Yes
<b>V6</b>	Top-up	M3-M12	50%	3M out of 12M	150%	No	Yes	Yes	Yes
<b>V7</b>	Basic	M0-M12	50%	3M out of 12M	150%	No	Yes	Yes	Yes
<b>V8</b>	Basic	M3-M6	50%	3M out of 12M	150%	No	Yes	Yes	Yes
<b>V9</b>	Basic	M3-M12	35%	3M out of 12M	150%	No	Yes	Yes	Yes
<b>V10</b>	Basic	M3-M12	60%	3M out of 12M	150%	No	Yes	Yes	Yes
<b>V11</b>	Basic	M3-M12	50%	3M out of 6M	150%	No	Yes	Yes	Yes
<b>V12</b>	Basic	M3-M12	50%	12M out of 24M	150%	No	Yes	Yes	Yes
<b>V13</b>	Basic	M3-M12	50%	3M out of 12M	100%	No	Yes	Yes	Yes
<b>V14</b>	Basic	M3-M12	50%	3M out of 12M	50%	No	Yes	Yes	Yes
<b>V15</b>	Basic	M3-M12	50%	3M out of 12M	150%	Yes	Yes	Yes	Yes
<b>V16</b>	Basic	M3-M12	50%	3M out of 12M	150%	No	No	Yes	Yes
<b>V17</b>	Basic	M3-M12	50%	3M out of 12M	150%	No	Yes	No	Yes
<b>V18</b>	Basic	M3-M12	50%	3M out of 12M	150%	No	Yes	Yes	No



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