



Thinking ahead for Europe



Design of a European unemployment benefits scheme and its dimensions: What is examined in the pilot project?

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Introduction:

The purpose of this presentation is to introduce the main design recommendations resulting from the research project conducted by our consortium in the last 18 months
They will also be analysed in more detail in the following presentations

So this is a really really long and big amuse-bouche 😊



EUBS as a concept:



EUBS can be conceptually separated into **three main components**:

1. Enhancement of national unemployment benefits schemes through the introduction of minimum standards. The purpose of such an act is to strengthen the counter-cyclical capacity of national unemployment benefits schemes and their contribution to macro-economic stabilisation and improved social outcomes. Strong minimum requirements on national schemes are *politically and economically difficult or even unrealistic* without some type of backstop and external funding source.



EUBS as a concept (cont.):



2. Spatial insurance refers to the reallocation of resources across Member States within the same period. It does not require the ability to raise the debt because it only entails the distribution of available resources. Spatial insurance works well at covering the asymmetric shocks in small and medium-sized countries but effectiveness in cases of both symmetric and asymmetric shocks in a significant proportion of EU economy is quite limited.

3. Inter-temporal insurance involves a reallocation of resources across the time. The ways of achieving this is either in debt-issuing or allowing the supranational fund to go into deficit in recession times while compensating in good times. Inter-temporal insurance is particularly important in dealing with major symmetric or extended downturns.



Benefits of the EUBS:



1. **Contribution to macro-economic stabilisation** through three channels – *higher counter-cyclicality, harmonisation of national schemes by minimum requirements and the possibility of using debt-issuing option.*
2. **Contribution to the upward convergence** due to stimulation of Member States to align their national schemes with EUBS in order to assure smooth transitions between schemes.
3. **Strengthening the EU's social dimensions** and the development of the European Pillar of Social Rights. Additionally, EUBS could be seen as a sign of solidarity among citizens.
4. Last but not least, EUBS **focuses attention on unemployment** which became one of the most often discussed topic after financial crisis and also could help to labour mobility.



Costs of the EUBS:



1. Loss of policy flexibility (flip side of minimum standards)

- Inability to proportionately distribute fiscal retrenchment costs
- Inability to take into account specific features of national labour market or the economic and social model and their interaction with common system.

2. Increased public expenditure

- At the EU level, based on a combination of the following factors: administration costs, reserve building and the effects of higher standards of unemployment benefits compared to no-EUBS.
- Net transfers of individual Member States depend on presence of permanent transfers to/from other Member States, related to the fact that some Member States make more extensive use of the EUBS than others. Both backward- and forward-looking simulation analyses suggested that in long-term period, no state belongs to net contributor or net donors only.



EUBS – the key design decision:



EUBS has many different potential forms (18 in the project) which vary in several attributes but the most important distinction lies between equivalent and genuine schemes.

Equivalent (also called reinsurance) schemes are those in which financial transfers from the EUBS occur only from and towards Member States and which are only triggered by an adverse event. Thus they do not replace national schemes, but “reinsure” them.

Genuine schemes are planned in a way that financial transfers fund the target unemployed individuals directly and therefore, contributions are collected from employers and employees. Thus they partially or completely replace national schemes.

Result: Both types of schemes have their advantages and limitations, and the choice for one of them is a political one.



EUBS detailed design: What to avoid?



4 key questions:

1. Is the EUBS under consideration actually an insurance scheme or is it something else (a transfer system or a loan system masquerading as insurance)?
2. Does the scheme offer a measurable contribution to stabilisation in real need?
3. Does it have internal consistency and coherence?
4. Is it legally, administratively and operationally feasible?



EUBS detailed design: 10 things to avoid:



1. Options that have a limited stabilisation capacity due to the **duration of benefits**.
2. Options that have a limited stabilisation capacity due to the **benefit amount paid out**.
3. Options **without common minimum standards**.
4. Options **without the ability to issue debt**.
5. Options that are designed as a **top-up**.
6. Options with **eligibility conditions stricter** than the EU average before the creation of the EUBS.
7. Options that **include claw-back**, particularly if they also comprise experience rating.
8. Options **that include automatic cyclical variability** (i.e. EUBS features linked to the cycle)
9. In case of equivalent EUBS, options with **excessively low or high trigger thresholds**.
10. In case of genuine EUBS, options **that involve multiple changes between the European and the national schemes for individual claimants**.



What should the EUBS look like – Main design features common to all schemes:

1. **Common minimum standards** for the unemployment insurance systems (see the next slide).
2. **Experience rating (probably without claw-back)** to prevent permanent transfers, but retain the insurance nature of the scheme.
3. **The ability to raise debt to provide backstop in crisis** and ex ante build up of reserves for reinsurance.
4. **Ability to change parameters during recessions** (but based on discretionary decisions).
5. **Reinsurance schemes** would have a **trigger** with a threshold in **the range of 1% to 1.5%.**



What should the EUBS look like – additional design issues:

1. **Duration:** It is recommended to **start the EUBS immediately after becoming unemployed** with sufficiently long **duration (9-12 months) without a waiting period.**
2. **Replacement rate** could be set to **50%-60%** range similarly to the Member States.
3. **Capping** is important as well, it has several effects in combination with replacement rate, the best range is considered to be at **50%-100% of the average wage** as it matches with reality in most of the Member States.
4. **Eligibility: employment of 3 out of last 12 months** (typically higher than that of the national unemployment insurance schemes).





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