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A European Unemployment Subsidy Scheme: the Challenge

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A European Unemployment Subsidy Scheme: the Challenge

1. What?
2. Where?
3. Why?
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1. What?

The consequences of the crisis for the Member States' economies have been twofold:

- First, increasing numbers of workers have been losing their jobs, and this has fuelled demand for support from the state through compensatory income and social protection.

- Second, public finances have been put under severe strain, further reducing the government's ability to intervene. The situation is even worse for those countries which have obliged to adopt cuts in order to reduce their deficit.

- The result is:

    - The decreasing flow of social contributions caused by rising unemployment and lower wages has in many cases increased the pressure on the financial sustainability of national unemployment benefit schemes.

    - Poverty and unequality have increased all over Europe.

    - The crisis has been a testing time for European ideals and for the credibility of both national and European institutions in the eyes of EU citizens.

In this context the proposal of a European Unemployment Subsidy appears (again) as a possible solution for these problems

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1. What?

There are multiple options in order to implement the European Unemployment Subsidy Scheme:

- The classical coordination and harmonization policies.
- The participation of the EU in the financing of national unemployment subsidies schemes.
- The adoption of a complementary European unemployment subsidy
- The combination of two or more of the previous options.
- The substitution of national schemes by a European one.

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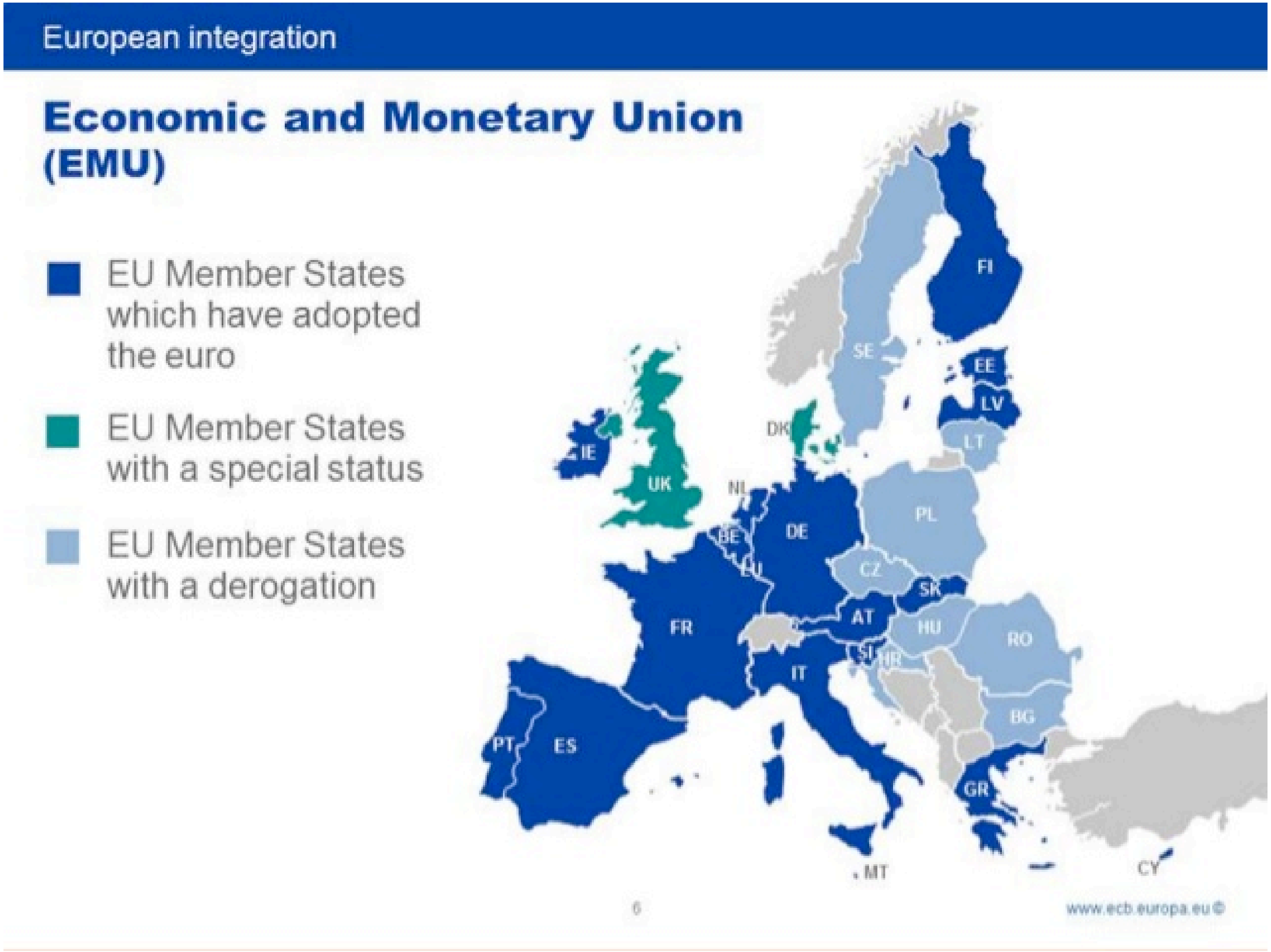
2. Where?



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3. Why?

«There is now significant divergence across the euro area. In some countries, unemployment is at record lows, while in others it is at record highs; in some, fiscal policy can be used counter-cyclically, in others fiscal space will take years of consolidation to recover.» (5 Presidents Report). They suggest the guarantee of a "social protection floor"

«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» (5 Presidents Report).

«Experience shows that the current functioning of the European Monetary Union has been suboptimal first of all for economic growth. This is why the European Parliament considers that employment and social outcomes are among the decisive factors for the sustainability and legitimacy of the monetary union, and that in particular automatic stabilizers could certainly play an important role» (European Parliament, 2013)

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3. **Why?**

The main reason is based on the concept “asymetric shock”:

1. Shocks of this kind happen when some countries in a monetary union experience a crisis while others continue to boom.
2. The reasons why these shocks happen might be different (e.g. because production is collapsing in a single country or an incident is affecting one country but not another), but basically they cause capital to be moved from the affected region into those which are experiencing a boom, and this cannot be balanced out by the realignment of exchange rates (because the monetary policy has been transfered to a Central Bank).
3. The result might be a cyclical trend with countries in crisis being pushed even deeper into recession while the booming ones overheat and might develop bubbles.
4. In theory, the common budget should enable transfer from the booming regions to those in crisis. For example, unemployment subsidies transfer funds from ones to others. This explains why economists refer to taxes and social expenditure as automatic stabilisers.

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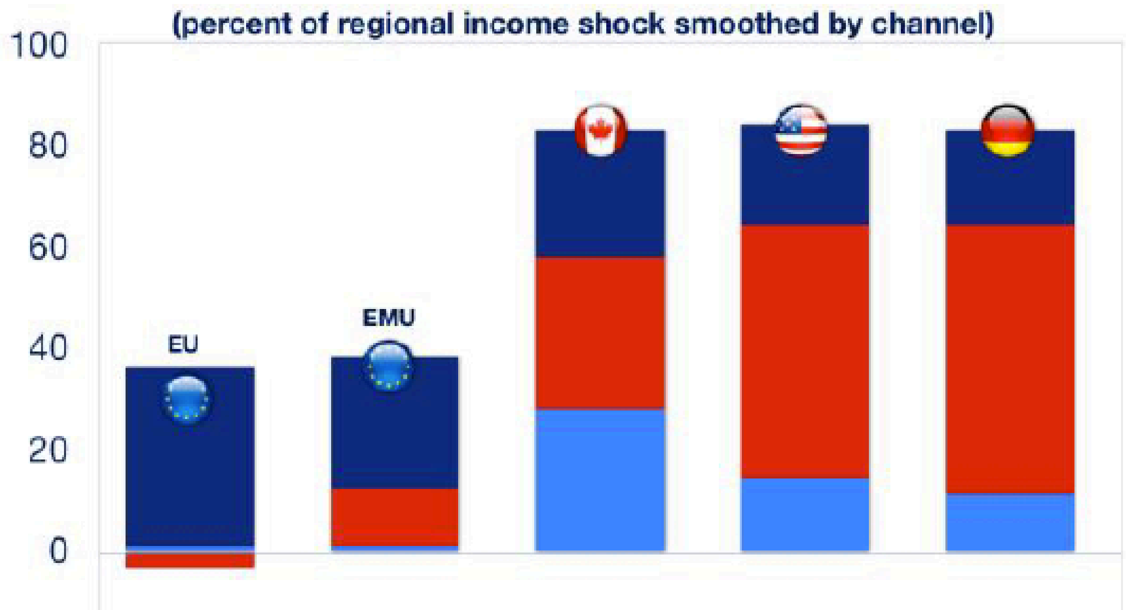
3. Why?

Figure 4: Risk-sharing / insurance against income shocks in EMU remains low[15]



Indeed, the 2009 crisis has revealed deficiencies in the current design of the monetary union and has magnified the economic and social consequences of rising unemployment. Insufficient income insurance in the event of unemployment increases the social costs of joblessness, but also has reinforced the downturn via its effect on consumption and aggregate demand.

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4. How?

One of the examples taken into consideration is the “American model”. Its main characteristics are:

- The US unemployment insurance cover operates at state level. States remain free to decide eligibility conditions, benefit amounts and duration.
- BUT, Congress can put in place temporary programmes for extending allocations, as was the case in 2002 and 2008. This happens via the **extended** and **emergency benefits**, with the former being partially and the latter completely financed at the federal level. This allows the unemployed to continue to receive unemployment allocations even beyond the statutory period, which corresponds on average to 26 weeks.
- Consequently, States pay unemployment benefits during normal business cycles while federal sources intervene to provide support during economic downturns.
- During downturns, two different schemes exist; one which is automatically triggered and another which requires a political decision to be activated.

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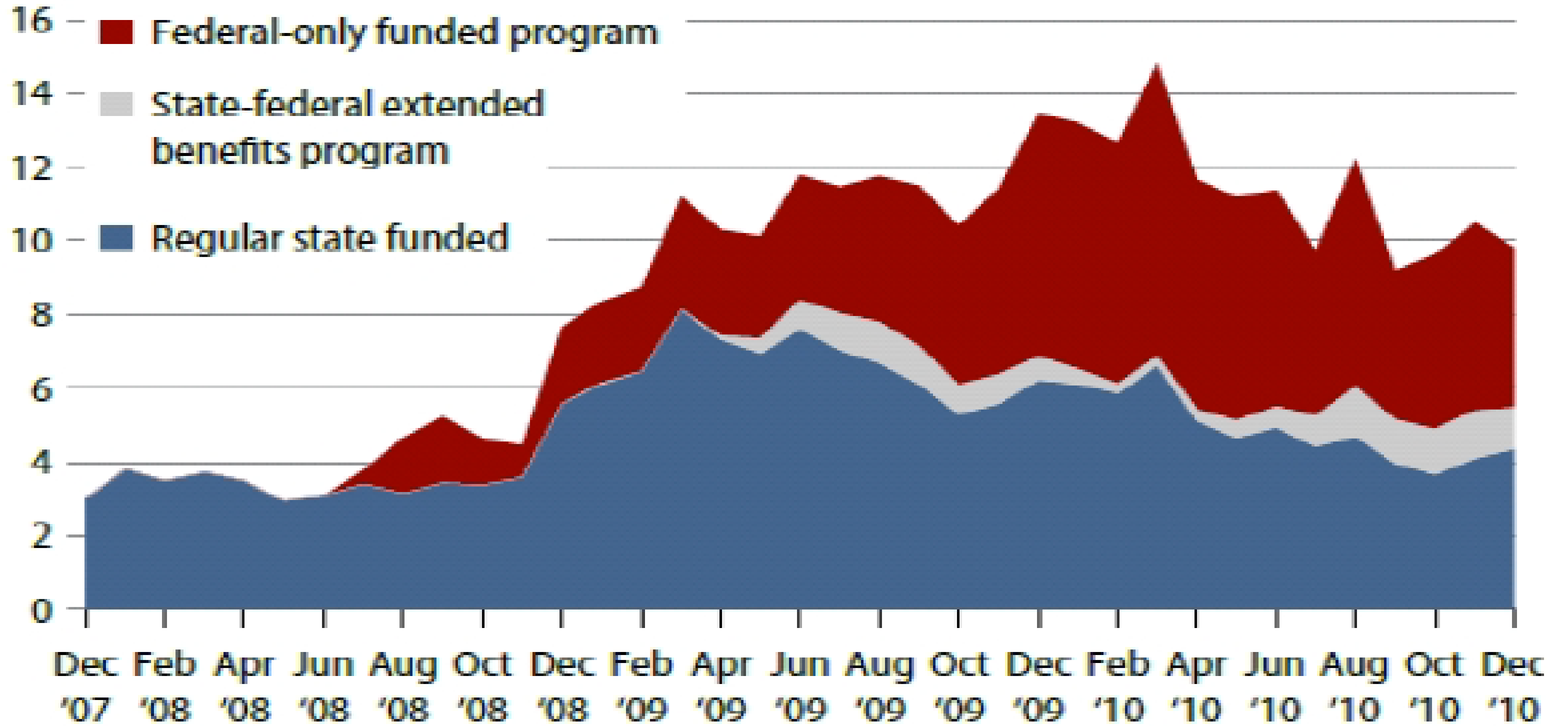
4. How?

Figure 6: Total unemployment insurance benefits paid by month and type of programme in the US[17]



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4. Conclusions

As we have studied previously, according to the settled case-law of the Court, **the system introduced by Regulation No 1408/71 is based on mere coordination of national laws** in the field of social security and is not intended to harmonise them. This coordination is based on rules of attachment analogous to those applying in private international law.

As we have seen previously in cases concerning the payment of family benefits seem to indicate **a relaxation of the Court's case-law regarding the strict application of the principle that the legislation of only one Member State is applicable**. This relaxation is based on requirements mentioned above.

The problem is that this second alternative cannot be applied here, because Dutch law, as Nicola has already explained, requires not only the residence, but not to be under other legislation. However, it is obvious that, under this regulation, by exercising their right to freedom of movement, the parties found themselves in a situation which was more unfavourable than that of a worker who had spent his entire working life in a single Member State.

THANK YOU

Grazas

Gracias

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