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European Unemployment Insurance

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EUROPEAN UNEMPLOYMENT INSURANCE: WHAT CITIZENS REALLY THINK



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This brief is based on the report Frank Vandenbroucke, Brian Burgoon, Theresa Kuhn, Francesco Nicoli, Stefano Sacchi, David van der Duin, Sven Hegewald, *Risk Sharing When Unemployment Hits: How Policy Design Influences Citizen Support For European Unemployment Risk Sharing (EURS)*. 2018. AISSR Policy Report 1, December

The European Commission has argued repeatedly that the European Monetary Union (EMU) has to be completed by automatic fiscal stabilisers.¹ Welfare states have built-in automatic stabilisers that cushion economic shocks; for instance, unemployment benefits support the purchasing power of people who lose their job. The argument with regard to EMU is that a monetary union needs mechanisms to buttress or complement the automatic stabilisers of its member states. To achieve this, one of the options would be the re-insurance of national unemployment benefit schemes at the Eurozone level. Another option would be a scheme that supports Member States' public investment capacity when they are hit by a crisis. Risk sharing can indeed be organized in many different ways and a large variety of concrete schemes has been proposed. Their advantages and disadvantages are debated.

However, a crucial question remains unresolved: are EU citizens ready to share the risk of unemployment crises? To shed light on that question, we conducted a survey in 13 Member States, including France.² Our survey takes that large diversity as much as possible into account and translates it to citizens of all

straits of the population in an understandable way. The core idea in all the policy variants we tested is that a new European policy would support unemployment benefits in countries that are in need, due to a significant increase in unemployment. Therefore, we refer to our core idea as 'European Unemployment Risk Sharing' (EURS). Our results show that the specific design of policies, aiming at particular modes of risk sharing, matters for public support among citizens. The most important conclusion is that fundamental opposition to EURS is confined to a relatively small segment of the population. Rather than insurmountable polarization, we observe room for constructive democratic deliberation.

1. An opinion poll that invites citizens to think about alternatives

In order to explore citizens' attitudes with regard to these complex questions, we confronted all individual respondents with three pairs of two alternative policy options (hence, six policy options in total). We thereby asked respondents two sets of questions: for each pair, they had to tell us which of the

1. European Commission, *Reflection Paper on the Deepening of the Economic and Monetary Union*, 31 May 2017 (COM(2017) 291); European Commission, *New budgetary instruments for a stable Euro Area within the Union framework*, Communication from the Commission to the European Parliament, the European Council, the Council and the European Central Bank of 6 December 2017, (COM(2017) 822 final).

2. The survey was implemented in Austria, Belgium, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Netherlands, Poland, and Spain, involving 19.641 respondents. Fieldwork was conducted by means of an online panel by the survey company IPSOS in October and November 2018; it assured a representative sample in each country.

alternative policy options they would prefer; and for each of the six policy options they had also to indicate whether they would strongly oppose it, somewhat oppose, somewhat support it, or strongly support it (or, neither support nor oppose it).

The alternative policy options share a number of features ('the fixed points', see table 1); but they differ importantly across six dimensions ('the moving parts', see table 2).

TABLE 1 ■ The fixed points of the options presented to the participants

The disbursement of European support for a Member State is triggered by significant increases in unemployment in that Member State; the scheme does not generate a permanent cash flow to each Member State.
European support is used to subsidize national unemployment systems.
The scheme sets a common floor to the generosity of unemployment benefit levels in all the participating countries. Participating Member States can provide unemployment benefits that are higher than the common floor, but at their own expense.

TABLE 2 ■ The moving parts of the options presented to the participants

GENEROSITY	Concerns the generosity of European support when a country is in need, and – intrinsically related to this – the level of the common floor for unemployment benefits that is set in all the participating countries. Three levels of generosity were tested.
TRAINING AND EDUCATION	Concerns the presence (or absence) of a condition that countries must fulfill to obtain support: (i) either there is no condition to obtain support, or (ii) the participating countries must offer training and education opportunities to all their unemployed citizens.
BETWEEN-COUNTRY REDISTRIBUTION	Refers to the following question: may some countries, in the long run, receive more support from the scheme than they pay into it? Here, we make a distinction between (i) a 'pure insurance' scheme, whereby in the long run countries cannot receive more support from the scheme than they paid into the scheme (no between-country redistribution in the long run); (ii) a 'tolerant' scheme, which allows any kind of between-country redistribution that might emerge in the long run; (iii) a 'redistributive' scheme: next to insurance against severe unemployment shocks, it deliberately generates distribution from rich to poor countries.
TAXATION	Concerns the long-run impact on levels of taxation in the respondents' own country. Three scenarios are tabled: (i) no long-run impact on levels taxation; (ii) taxes will increase with 0,5% of income for everyone in the country; (iii) taxes will increase with 1% of income, only for the rich in the country.
ADMINISTRATION	Distinguishes schemes that are (i) administered by the European Union and schemes that are (ii) administered by the national governments. One may interpret this as a distinction between a 'genuine European unemployment benefit scheme' (whereby an EU fund would cash out benefits directly to individual European citizens) and a 're-insurance' scheme (whereby an EU fund disburses lump sum budgetary transfers to Member States, but the whole unemployment benefit system remains national); but the survey does not go into that level of detail, and tests the general sensitivity of respondents to 'European' versus 'national' administration of such a scheme.
JOB SEARCH EFFORT	Concerns conditions applying to individual unemployed people. We distinguish three scenarios: (i) there are no conditions for unemployed people; (ii) the unemployed must accept any suitable job or lose the benefit; (iii) the unemployed must apply for at least one job per week, and accept any suitable job offer, or lose the benefit.

These ‘moving parts’ generate 324 different combinations of policy options: all 324 alternative policy packages organize cross-border risk-sharing, but each policy package does it in a different way. Each respondent has been confronted with 6 packages, drawn randomly from the total set of 324 alternative policy packages.³

2. Framing the question: a careful approach

We did not nudge the respondents by referring to the potential positive outcomes of risk-sharing schemes, or to potential pitfalls. The positive outcome expected from cross-border risk-sharing is more stability everywhere, and, as a consequence, less unemployment and lower social security contributions in the long run. We do not mention this to our respondents, which means that we undersell the proposal: it is presented in terms of principles of ‘need’ (across countries) and solidarity (implicitly, not using the word). Neither do we mention potential pitfalls related to moral hazard: countries may become less worried about the risk of severe unemployment crises, and therefore less pro-active in their overall policies, when there is some insurance against severe crises; the incentives for individuals to avoid unemployment (or to find a new job as soon as possible) may diminish when the upshot of the scheme is that benefits become more generous. However, in our ‘moving parts’, the *education and training dimension* and the *job search effort dimension* can obviously be interpreted by respondents as remedies to moral hazard, both at the level of national policies and at the level of individual behavior by benefit recipients. In this sense, the problem of moral hazard is present in the survey’s design, and these questions may nudge respondents to think about the risk of moral hazard.

³ It is important not to misunderstand the nature of our ‘moving parts’. For instance with regard to the taxation dimension, we are not saying that implementing cross-border risk sharing would imply either no tax increases or tax increases equivalent to 0,5% of incomes. These figures are meant to indicate to respondents that some packages come with extra contributions for unemployment insurance whilst other packages may not imply extra contributions; ‘0,5%’ and ‘1%’ are simple figures that convey that message, nothing more.

3. Limited fundamental opposition and differences across countries

Fundamental opposition to cross-border risk-sharing is limited: less than 10% of the respondents rejects the majority of the six packages they reviewed (whereby ‘reject’ means: somewhat oppose or strongly oppose). We also considered the converse pattern, the share of respondents who positively support (somewhat or strongly support) three or more of the six packages they saw: this share is equal to 66%. One should note that this concerns *all* the packages seen by the respondents, including packages that are far less popular than other packages.

Levels of support however differ across countries. In France, only 52,6% of the respondents support three or more of the six packages they had to judge. In the Netherlands, this holds for 61,6% of the respondents; in Spain the share is 69,5%, in Hungary it is 75,7% and in Ireland it even amounts to 77,4%. The pattern that emerges is that mean support is lower in most of the richer countries with mature welfare states (notably France, Germany, Belgium, Denmark, the Netherlands). It is considerably higher in the poorer member states, with less developed welfare states (such as Estonia and Hungary), and in member states that have been hit hardest by the Eurozone crisis (in our sample: Italy, Spain, Ireland).

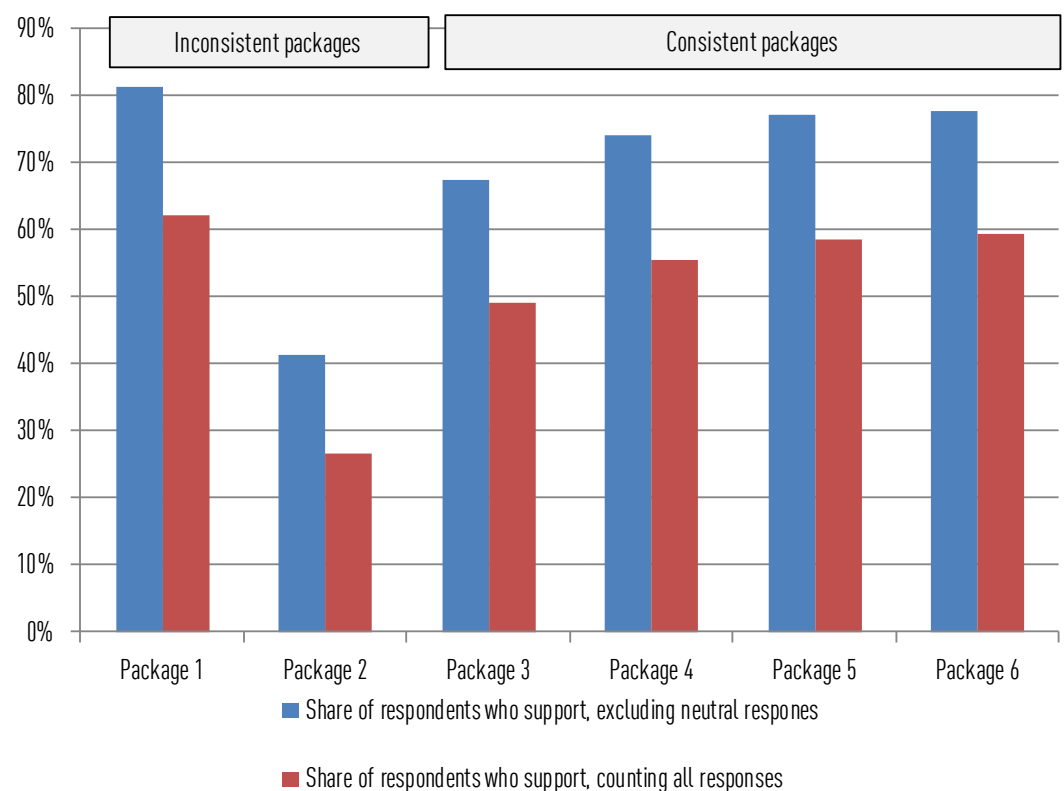
Respondents are sensitive to the design of the scheme. They generally tend to prefer packages that are more generous, that require countries to offer education and training to their unemployed, that entail no increased tax burden, and that require individual beneficiaries to fulfill at least some conditions (e.g. accept a suitable job offer). However, interestingly, this sensitivity differs across countries.

4. Potential majorities in each country

Our survey allows us to *predict* levels of support for specific packages, as if a vote would have been cast. Figure 1 shows predicted levels of support when all countries are pooled, as if an (imaginary) supranational vote would take place.⁴ The *blue bars* capture the share of voters who somewhat or strongly support a specific EURS package (whereby EURS stands for ‘European Unemployment Risk Sharing’), relative to those who declared

either support or opposition. In other words, the blue bars assume that ‘neutral’ answers (‘neither in favour nor against’) are not voting, or, when forced to vote in favour or against, would split in a proportional way between the support and oppose camps. The *red bars* show the share of support assuming that all ‘neutral’ respondents would turn against the package when the vote is cast. Thus, the blue bars and the red bars indicate an upper and a lower bound.

FIGURE 1 ■ Predicted vote for specific packages, pooled sample (13 countries)



PACKAGE 1	MOST POPULAR (but not consistent)
PACKAGE 2	LEAST POPULAR (but not consistent)
PACKAGE 3	LOW FLOOR
PACKAGE 4	HIGH FLOOR (+ extra taxation) & NO REDISTRIBUTION
PACKAGE 5	HIGH FLOOR (+ extra taxation) & DOMESTIC REDISTRIBUTION
PACKAGE 6	HIGH FLOOR (+ extra taxation) & DOMESTIC AND BETWEEN-COUNTRY REDISTRIBUTION

(see Table 1 in the appendix for more detail)

⁴ Obviously, one should be cautious when deriving ‘predicted votes’ from survey results. Our respondents considered questions which we framed in terms of countries in need and individuals having lost their job. We are fully aware that these results cannot predict the result of an actual vote after a real political campaign, which can radically change the framing in which opinions are formed. We return to this caveat later.

Figure 1 focuses on six EURS packages. The first two packages are only interesting in theory: the first (starting from the far left of the graph) is the 'most popular' and the second is the 'least popular' package. Both are internally inconsistent and clearly not viable as political projects. The most popular package (more than 80% of the vote, excluding neutrals) is a 'free lunch' where respondents want the most generous assistance without having to pay anything extra for the assistance. The least popular (somewhat more than 40% of the vote, but no majority) is also inconsistent, since it combines a low common floor for the benefits with a general increase in taxation, whilst such a low common floor does not require an increase in taxation. Its lack of popularity is due to the increase in taxes and the low level of generosity, and the fact that no conditions apply to participating countries and their unemployed citizens.

The remaining four packages represent mixes that are *prima facie* internally consistent. Our respondents tend to prefer that participating countries provide training and education for their unemployed; that administration be at the national (rather than European) level; and that individual beneficiaries should be required to at least accept a suitable job offer. Hence we keep these three features constant. But we differentiate along three dimensions:

- *generosity*: a package that subsidizes 40% of the last wage versus a package that subsidizes 70% up the last wage (for 6 months);
- *between-country redistribution*: a package that does not allow between-country redistribution in the long run, in contrast to a package that tolerates between-country redistribution;

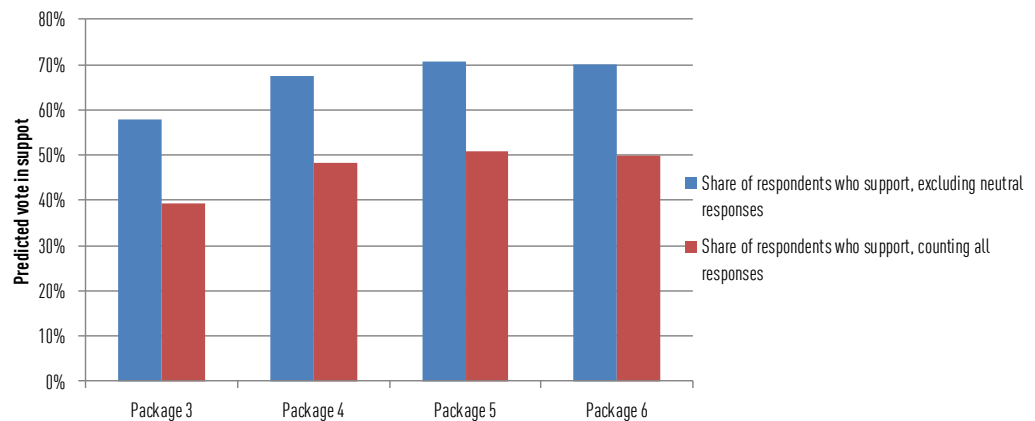
- *taxation*: a package that implies no extra taxation in the respondent's country in the long run, a package that implies a long-run increase of taxation of 0,5% of income for everybody in the respondent's country, and a package whereby taxes only increase for the rich (by 1%).

Packages 3, 4, 5 and 6 are roughly ascending in generosity and character of domestic and between-country redistribution. Table 1, in the Appendix, summarizes the features of these packages.

Across these internally consistent packages, Figure 1 displays a quite clear pattern of Europeans tending to prefer packages that are more generous and entail more redistribution – particularly within countries through progressive taxation, but also between countries by allowing participating countries to draw on more from the insurance facility than they pay in. Package 3 (*LOW FLOOR*) has the least predicted support: 65% when 'neutrals' are excluded, but just under 50% should one assume all neutrals vote against the package. The remaining, more generous and redistributive packages are above the 50% threshold, even if one assumes that all neutrals would vote against. The package that our models predict would receive the most voter support is that which combines a generous replacement of last wages with redistribution within countries and tolerance for distribution between countries in the long run.

Political deliberation on a European unemployment risk sharing will not be based on a supranational vote, but on decision-making in the European Council. Therefore, the country-specific patterns are also important. Figure 2 shows the results for France, which is the most 'skeptical' country in our sample.

FIGURE 2 ■ Predicted vote for consistent packages, France



The blue bar shows that Package 3 (*LOW FLOOR*) is supported by 58% of the French respondents, if ‘neutral’ respondents (neither in favour nor against) are not voting; Package 3 is supported by 39% of French respondents if all ‘neutral’ respondents would turn against this Package when the vote is cast. The *LOW FLOOR* package clearly has less support in France than Package 4 (*HIGH FLOOR*), even if the latter implies an increase in taxation.

Our survey reveals important country-specific patterns. In most countries, citizens prefer more generous and more redistributive programs. But there are two countries, Ireland and Italy, that prefer (modestly) less generous insurance. Additionally, a number of countries are not particularly more enthusiastic about packages that have domestic redistribution (compared to an across-the-board modest tax burden to pay for the programme). This applies to Belgium, Ireland, Poland – but is most marked in the Netherlands. Finally, compared to the pattern in the pooled Figure 1, a number of countries are substantially more or less enthusiastic about both domestic and between-country redistribution. The countries that are particularly enthusiastic about this redistributive combination are Poland, Estonia, Ireland and Spain. And the countries that are substantially less enthusiastic about such cross-country and domestic redistribu-

tion include Austria, Belgium, Denmark, Germany and the Netherlands. This is, of course, a predictable split in terms Euro-zone political economy and net debtor and creditor status, and the pattern comports with earlier studies suggesting very divided support in Europe for particularly cross-nationally redistributive European schemes.

However, the take-home message is that the *HIGH FLOOR* packages carry potential majorities in each of the countries under review. Whether or not between-country redistribution further enhances support, or reduces it, depends on the country. In some countries, domestic redistribution of the eventual tax burden (if there would be a tax burden) is necessary to rally sufficient support (France and Finland).⁵ The *domestic* distributive impact of an eventual increase in taxation would obviously be a matter for domestic decision-making, and not something to be decided jointly in the Council.

Obviously, one has to interpret these figures with caution. Although we use the expression ‘predicted vote’, one cannot interpret the figures as the prediction of a real vote after a political campaign. They represent genuine individual attitudes, but captured well before any political discourse intervened. In the context of a political campaign, the framing through which citizens form their opinion mi-

5. The case of France is illustrated in Figure 2: in order to obtain majority support in France, in a pessimistic hypothesis (represented by the red bars), one has to propose a generous formula, funded by redistributive taxation that only affects the richer segment of the population (the level of generosity is higher in packages 4 and 5, as compared to package 3; the redistributive character of the tax increase differentiates package 5 from package 4).

ght be radically different from the framing of our survey. Our respondents had to answer the following question: what do you think about a series of alternative policy proposals that are discussed at the European level, with a view to launching a new European initiative? Notwithstanding the fact that we clearly told our respondents that this was about a new European-level initiative, creating a European scheme of mutual assistance, it is plausible that reactions focused mostly on the social content of the proposals and their concrete specification, and less on the fact that this would anyway constitute a new European initiative. Imagine, for instance, that the central question of a public debate would be 'are you for or against a new EU initiative?', with a virulent campaign of some political parties against the EU: then, the outcome of a real vote might be different. Hence, the central conclusion must not be that public support for European social initiatives is readily available. The conclusion should be that, depending on the orientation and framing of the debate and on the specific policy design that is proposed, majority support for risk sharing is possible. The political struggle is therefore, amongst others, a struggle about the way in which the relevant questions are framed.

5. Pointers for policies

The aim of our report is not to debate the potential benefits and pitfalls of European unemployment risk sharing (EURS) and the intrinsic pro's and con's of specific design features. We focus on what they mean for public support, with the caveat formulated in the previous section. The examination of citizens' attitudes nevertheless leads to some pointers for policy-makers:

- citizens are sensitive to the design of EURS: although this sensitivity differs across countries, they generally tend to prefer packages that are more generous, that require countries to offer education and training to their unemployed, that entail no tax increases, and that require individual beneficiaries to fulfill at least

some conditions (e.g. accept a suitable job offer);

- generous packages can carry majorities in each of the countries in our sample, even if a generous package would require additional taxation (whether that would indeed be the case is not something we discuss). In some countries, domestic redistribution of the eventual tax burden (if there would be a tax burden) is necessary to rally sufficient support;
- in most countries, support is larger if the implementation of EURS is decentralized: this adds to arguments developed elsewhere that one should not try to build a true European benefit scheme but a *re-insurance* scheme that supports national benefit systems with lump sum transfers;
- in all countries, support increases if EURS is associated with *social investment* policies, that is, a good combination of training, education and activation;

A debate that exercises the policy community a lot, i.e. the question how tolerant the scheme should be with regard to between-country redistribution, seems less important for citizens, when they express preferences, than for policymakers.

Appendix ■ Features of the four internally consistent EURS packages under review in Figures 1 and 2

	Package 3	Package 4	Package 5	Package 6
	LOW FLOOR	HIGH FLOOR (+ taxation increases) & NO REDISTRIBUTION	HIGH FLOOR (+ taxation increases) & DOMESTIC REDISTRIBUTION	HIGH FLOOR (+ taxation increases) & DOMESTIC AND (possibly) BETWEEN-COUNTRY REDISTRIBUTION
Generosity	40% of last wage	70% of last wage		
Training and education	The participating countries must educate and train			
Between-country redistribution	No between-country redistribution in the long run			Tolerant: in the long run any between-country redistribution is possible
Taxation	No extra taxation in your country	Everybody pays 0,5% extra in your country	The rich pay 1% extra in your country	
Level of administration	National administration			
Job search effort	Unemployed people must accept any suitable job, or lose the benefit			

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