The European Commission’s SURE initiative and euro area unemployment re-insurance

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The European Commission proposes a pan-European support for short-time work arrangements (SURE). This column discusses the relationship between this proposal and the idea of a European unemployment re-insurance scheme, to which the Commission also refers in its Communication on SURE. It sketches the merits of SURE and signals some caveats.

Nearly all existing monetary unions are true 'insurance unions'. They not only centralise risk management with regard to banks; they also centralise, at least to some degree, unemployment insurance. Historically, the European Economic and Monetary Union (EMU) was the one exception. In the aftermath of the euro area crisis, the European Commission started arguing that EMU needs both a fully-fledged Banking Union and automatic fiscal stabilisers. One of the options for establishing automatic fiscal stabilisers, suggested by the Commission, would be the re-insurance of national unemployment benefit schemes at the euro area level. Another option, which the European Commission formulated in 2017, would be a scheme that supports member states' public investment capacity when they are hit by a crisis and have to cope with reduced revenue and increased spending on unemployment benefits (European Commission 2017a, 2017b). In fact, both options share a common insight, to wit, that it is that member states' automatic stabilisers should play their role in times of crisis whilst simultaneously protecting their public investment capacity. Alas, no progress has been made with regard to the implementation of such proposals. Today, triggered by the economic fall-out of the COVID-19 pandemic, the European Commission launches what seems a third variant of the same generic idea, that a monetary union must act as an insurance union when confronted with severe economic or financial shocks: a new instrument, labelled SURE (temporary Support to mitigate Unemployment Risks in an Emergency), will provide financial assistance, in the form of loans granted on favourable terms from the EU to member states, of up to €100 billion in total. These loans will assist member states to address sudden increases in public expenditure to preserve employment. Specifically, these loans will help member states to cover the costs directly related to the creation or extension of national short-time work schemes, and other similar measures they have put in place for the self-employed, as a response to the current crisis (European Commission, 2020). The Commission communication adds that "this temporary instrument should be seen as an emergency operationalisation of a European Unemployment Re-insurance Scheme in the specific context of the COVID-19 crisis, without prejudice to the possible subsequent establishment of a permanent instrument under a different legal basis in the TFEU." (European Commission, 2020, p. 3).

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We will first return to the debate on a euro area re-insurance of national unemployment benefit schemes (indicating, in passing, that this might be more popular than many hesitant European leaders have thought), and then position SURE within that broader debate. In order to avoid any misunderstanding, our argument is not that SURE or re-insurance of unemployment benefit schemes can be the main component – let alone, the only component – of the EU's response to the corona-crisis: a much broader and massive intervention is needed. But risk-sharing in the domain of oyment should be part and parcel of a more encompassing European relief initiative. Hence,

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the question is to what extent SURE fits the bill and how it relates to further work on a European unemployment re-insurance scheme, as also envisaged by the current Commission.

European unemployment re-insurance: Rational arguments and public opinion

The reference to unemployment insurance in debates about automatic fiscal stabilisers for the euro area is not happenstance. Unemployment insurance supports purchasing power of citizens in an economic downturn, and is therefore an automatic stabiliser par excellence. Existing monetary unions either opt for a downright centralisation of unemployment insurance (as was historically the case in Canada or in Germany), or they demand some convergence in the organisation of unemployment insurance and provide a degree of re-insurance and centralisation when the need is really high (as in the US, which combine centralisation and decentralisation in unemployment insurance, notably when a deep recession hits). Both economic arguments and arguments related to political legitimacy are relevant in this debate (Andor, 2016). From an economic point of view, re-insurance is a rational policy option for more than one reason.

First, without automatic fiscal stabilisers a monetary union is inherently fragile. We need not rehearse this 'fragility argument' (De Grauwe, 2018, notably pp. 140-141), but one aspect of the underlying analysis is important in the current situation. While the advantage of risk pooling in the face of asymmetric shocks has often been the main argument in support of automatic fiscal stabilisers (with a view to the interregional smoothing of such shocks), there is quite broad consensus that an effective European scheme that organizes interregional smoothing must be able to also organize intertemporal smoothing – that is, the scheme must be able to issue debt at the euro area level. Interregional smoothing and intertemporal smoothing must be combined. Next, it is crucial that the system is set up ex ante (rather than negotiated ex post, when a crisis has hit) and functions in an automatic way: its mere existence should change the expectations of all economic agents with regard to the fall-out of an economic shock, when a shock occurs. In a nutshell and leaving aside all the technicalities, the ex ante commitment of re-insurance means that member states are assured that they will receive budgetary support from a European fund when they are confronted with a sudden and severe increase in unemployment.

This fragility argument is key. However, there is in addition a second reason why a degree of centralisation of unemployment insurance is useful for countries that are economically highly integrated. This second argument can be compared to well-known arguments about vaccination. National insurance systems create a positive externality: a country that properly insures itself, also helps its neighbours (as individuals do with regard to their neighbours when they vaccinate themselves against infectious diseases). Because of that positive externality, it is a matter of common concern that all members of the monetary union dispose of an effective stabilisation capacity.

Simultaneously, as with any good with a positive externality, there is a risk of insufficient, sub-optimal provision of that good, if it is not promoted or supported in one or other way (think again about vaccination, which is promoted by public authorities and/or made compulsory). The effectiveness of the stabilisation capacity of member states depends on a whole cluster of policy principles: sufficiently generous unemployment benefits; sufficient coverage rates of unemployment benefit schemes; no labour market segmentation that leaves part of the labour force poorly insured against unemployment; no proliferation of employment relations that are not integrated into systems of social insurance; effective activation of unemployed individuals; and the constitution of budgetary buffers in good times, so that the automatic stabilisers can do their work in bad times. The implementation of such a cluster of principles in each member state of the monetary union is a matter of common concern. Whether or not unemployment risks are shared at the euro area level, the implementation of such common 'stability-supporting' domestic principles would benefit the euro area as a whole.

The argument in favour of EU support for national unemployment benefit schemes is that a European support scheme would contribute to the national implementation of these domestic principles (think about the subsidisation of vaccination by public authorities). Conversely, it is plausible that these stability-supporting domestic principles become a fortiori imperative should the euro area be equipped with re-insurance of national unemployment insurance systems: surely European countries would not agree to support each other's unemployment benefit system, if national governments – in exchange for this support – cannot guarantee that their national system function adequately.

Wrapping up the whole argument, the quality of domestic policies and cross-border risk sharing are
ally related, whereby the latter should support the former and the former conditions the
t least, that is a plausible approach to the development of risk-sharing in the domain of


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unemployment in the EU (for further discussion of the normative argument at play here, see Vandenbroucke 2020).

It is also a plausible approach, if one wants to gather sufficient public support. Indeed, such public support is crucial to any broadly democratic reckoning of EU initiatives. To be sure, the mutual relationship between the quality of domestic policies and cross-border risk sharing is not present in all policy scenarios published over the last years. But it has inspired a survey experiment organized on public support for European unemployment re-insurance, in which 19500 respondents in 13 EU member states had to judge different specific designs of such re-insurance. These specific designs varied in terms of the minimum generosity of unemployment benefits that member states had to guarantee, in terms of conditions with regard to the education and training programmes provided to the unemployed, conditions with regard to activation policies. The results of this survey show that fundamental opposition to cross-border risk-sharing when unemployment hits is confined to a small segment of the European population, contrary to what one might think when listening to the political debate about this over the last 10 years. In all countries in our sample, there are potential majorities for specific policy packages that organise unemployment re-insurance. The conditions associated with these packages – conditions referring to the quality of the national programmes – are key to gather sufficient support (Vandenbroucke et al. 2018, Burgoon et al. 2020).

The role of short-time work schemes

Short-time work schemes provide a subsidy for temporary reductions in the number of hours worked in firms affected by temporary shocks; this allows employers who experience temporary drops in demand or production to reduce their employees' hours instead of laying them off. Employees receive from the government a subsidy proportional to the reduction in hours. Thus, deteriorating of work skills is mitigated, firing and future hiring costs are reduced, networks are kept alive, and so on. Giupponi and Landais (2020) explain convincingly why the sharp contraction caused by the public-health response to COVID-19 is a textbook case for the use of short-time work: in this context, short-time work can be much more effective than other forms of insurance such as unemployment insurance or universal transfers, and more efficient than other forms of wage subsidies. Moreover, the case for collective action at the EU level to support short-time work is very strong. Both reasons for collective action mentioned in the previous section apply (the fragility of a monetary union without fiscal stabilisers; and the positive externalities of adequate national unemployment benefit schemes, cf. the vaccination metaphor). The second argument even gains in force. Admittedly, in the context of normal business cycle movements, the actual empirical weight of the 'vaccination argument' might be questioned, since the cross-border externalities of adequate unemployment benefit schemes might be relatively limited. But when economic disruption destroys existing matches of human capital and supply chains on a large-scale in some national economies, the external impact on other national economies can be huge. Hence, 'vaccinating' national economies against such disruption is a matter of common concern for all economies in the Single Market.

For all these reasons, the Commission's current focus on short-time work and schemes that avoid lay-offs is well-taken. In fact, rather than an 'unemployment (re)insurance scheme', the proposal envisages, in its first-order effect, a 'job insurance scheme'. The distinction between an unemployment benefit scheme and such a job insurance scheme is meaningful, and the Commission might as well have labelled it as such. Nevertheless, it is likely to be true that if SURE helps lowering the number of actual unemployed, the national unemployment benefit schemes will cope better.

It is crucial that the Commission initiative promises a significant volume of support (€100 billion) – volume is key for stabilisation. It is equally important and positive that SURE will be based on Art 122 and funded as a European instrument. By not using the ESM, the Commission avoids interference with the (divisive) debate on whether or not the ESM should be the vehicle for European solidarity in the corona crisis. To ensure that sufficient finances are available even when all countries are hit at the same time, SURE will be able to borrow from financial markets; the underlying logic of SURE is therefore close to the functioning of the original European Financial Stabilisation Mechanism (EFSM), but almost double the firepower (€100 billion versus €60 billion). Another interesting feature of SURE, is that it introduces intertemporal smoothing (cf. supra, the need to combine interregional and intertemporal smoothing).

Having identified a range of reasons to support the core features of SURE, one must also keep in mind some important caveats, next to the caveat on the actual volume that will be disbursed (cf. supra). First, the Commission proposes support in the form of loans to the member states that are in need. Support in the form of soft loans is better than no support, but without a broader EU initiative ids sharply increasing levels of public debt in countries like Italy and Spain, soft loans will do educe the looming risk of debt unsustainability in those countries.

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Second, Giupponi and Langlais also list a number of concrete guidelines for the best implementation of short-time work schemes in the current context. These guidelines are well-taken, but this list also signals a difficult policy trade-off for the European Commission. On the one hand, the current situation and the policy legacies in the member states are very heterogeneous, and there is no time to lose; hence, the Commission should not try to impose detailed conditions on how short-time is implemented. The Commission rightly allows a broad range of measures: SURE will cover "the costs directly related to the creation or extension of national short-time work schemes, and other similar measures they have put in place for the self-employed, as a response to the current crisis." On the other hand, some guidance is indicated. As already said in the previous section: the quality of domestic policies and cross-border risk sharing should support each other. But, discussing and imposing relatively detailed conditions will imply delays, which one cannot afford in this emergency context.

Third, schemes that avoid lay-offs for a certain period of time cannot be the only solution in the domain of unemployment, as Giupponi and Langlais also underscore. Inevitably, workers are already and will be laid off: hence, in all member states, there should be sufficiently generous unemployment insurance for the laid-off and for those ineligible for short-time work. The number of unemployed is also bound to rise given the significant number of people with temporary contracts in many of the affected sectors: if these contracts are not renewed, people end up in unemployment without being dismissed either de facto or de jure. On a more general note, the lacunae in the coverage of self-employed workers and precarious workers in many member states underscore the urgent need to establish universal access to adequate social insurance, including unemployment insurance, to all workers in the EU, in whatever type of employment relationship, sector or activity they earn their living. This is one of the key principles of the European Pillar of Social Rights, which was proclaimed in 2017. A (soft) Council Recommendation on access to social protection for all was agreed in 2019; its effective implementation is badly needed. Implementing this principle in all member states should feature prominently in a roadmap towards an effective euro area unemployment re-insurance scheme. Establishing SURE is an important step forward in the organisation of European solidarity, but it does not dispense us of making progress towards a fully-fledged European unemployment insurance scheme.

Fourth, whilst SURE will be operated on the basis of requests by member states and the disbursement of support will depend on bilateral agreements and discretionary decision-making in the Council, a European unemployment insurance scheme, for it to function effectively and to have impact on expectations, must be based on ex ante solidarity and entail as much automaticity as possible. In a sense, SURE can be seen as a complement to 'normal' unemployment insurance: it adds 'job insurance' in the context of a specific temporary emergency, created by a large-scale and exogenous disaster. So conceived, it might one day be a specific 'plug-in' to an encompassing European unemployment insurance scheme, ready to be installed immediately in the context of such exceptional emergencies.

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