

# An EU Unemployment Benefit Scheme to Relaunch the European Project

by Davide Ceccanti

Europe's political landscape is in flux. Popular disillusionment towards traditional parties has mounted in the wake of the economic crisis, driven by rising social and economic inequalities, cuts to public spending and growing feelings of detachment between citizens and political elites.

A decade since the outbreak of the economic crisis, socio-economic indicators across Europe have begun to improve, but many challenges lay on the path to full recovery. Chief amongst these is the deepening social and political fragmentation in Europe, the rise of centrifugal forces at both the national and regional levels and the need to rekindle citizen trust in the European project at a time of key international transformations and power shifts.

Efforts to respond to deteriorating geographic and social inequalities connected to the economic crisis and further aggravated by the advent of

globalisation and new technologies are particularly urgent in these domains.<sup>1</sup> As Europe prepares for the upcoming European Parliamentary elections in May, traditional pro-EU parties are in desperate need of new and forceful policies capable of fostering renewed trust and feelings of belonging among citizens.

Against this backdrop, the idea of a European Unemployment Benefit Scheme (EUBS) may go some way towards addressing the present rise of Euroscepticism, breathing new momentum into the EU and pro-integration parties in the process.

Similar proposals have already emerged in various national contexts. In the United States, Bernie Sanders has focused on increasing the minimum wage to 15 US dollars an hour; in Italy,

<sup>1</sup> Joseph E. Stiglitz, *Globalization and Its Discontents Revisited. Anti-Globalization in the Era of Trump*, New York, W.W. Norton, 2017.

*Davide Ceccanti is a Schuman Trainee at the European Parliament and a former intern at the Istituto Affari Internazionali (IAI).*

the populist and anti-establishment Five Star Movement has implemented a controversial “citizen income” law, following through on a key electoral promise that secured the party many votes in Italy’s recent national elections.

At the European level, a EUBS would have provided much respite for struggling EU economies during the economic crisis, particularly in Southern Europe, where unemployment increased and social protection was weaker.<sup>2</sup> This is due to the atypical design of EU governance. While monetary policy is run by a single authority, the European Central Bank, fiscal policy rests at the national level.

When a crisis hits certain countries more than others, a single monetary policy cannot respond adequately. Therefore, the burden is shifted onto national fiscal policies. The problem is that national budgets often cannot sustain this effort, leading to a vicious cycle of rising deficits and cuts to social welfare.

Elements of common fiscal policy, as recognised by the Five Presidents’ Report, could tackle the problem by stepping in to assist single states.<sup>3</sup>

<sup>2</sup> Emanuele Ferragina, Martin Seeleib-Kaiser and Mark Tomlinson, “Unemployment Protection and Family Policy at the Turn of the 21st Century: A Dynamic Approach to Welfare Regime Theory”, in *Social Policy & Administration*, Vol. 47, No. 7 (December 2013), p. 783-805.

<sup>3</sup> Miroslav Beblavý, Karolien Lenaerts and Ilaria Maselli, *A European Unemployment Benefit Scheme. The Rationale and the Challenges Ahead*, Luxembourg, Publications Office of the European Union, January 2017, <https://doi.org/10.2767/435604>; Jean-Claude Juncker et al., *Completing Europe’s Economic and Monetary Union* (Five Presidents’ report), 22 June 2015, <https://europa.eu/!KG69bn>.

According to Dolls et al., a EUBS would have absorbed and mitigated a significant portion of short-term unemployment during the euro crisis.<sup>4</sup>

In practice, different forms of EUBS are being discussed. Options range from a full EU scheme, where workers would pay contributions and receive benefits directly from a European fund, to a reinsurance of national instruments, implying that EU funds step in automatically to supplement national schemes. The latter is already on the table, as the President of the European Commission, Jean-Claude Juncker, recently confirmed that a similar instrument is envisaged in the Commission’s financial planning.<sup>5</sup>

Overall, two dimensions need to be resolved to make EUBS an actionable policy. Firstly, it must be decided whether the scheme would be introduced for the entire EU or for some countries only. Secondly, the risk of free-riding by high-unemployment countries needs to be addressed.

Regarding the first issue, technical and political needs suggest that a EUBS would initially be limited to the euro area.<sup>6</sup> Legally, this process can take

<sup>4</sup> Mathias Dolls et al., “An Unemployment Insurance Scheme for the Euro Area? A Comparison of Different Alternatives using Microdata”, in *International Tax and Public Finance*, Vol. 25, No. 1 (February 2018), p. 273-309.

<sup>5</sup> European Commission, *Clarification Regarding Press Reports on President Juncker Comments on a European Unemployment Insurance*, 5 January 2019, [http://europa.eu/rapid/press-release\\_IP-19-141\\_en.htm](http://europa.eu/rapid/press-release_IP-19-141_en.htm).

<sup>6</sup> László Andor and Paolo Pasimeni, “An Unemployment Benefit Scheme for the Eurozone”, in *Vox*, 13 December 2013, <https://voxeu.org/node/61350>.

place under enhanced cooperation rules included in the Treaty on the Functioning of the European Union (TFEU) that allow a subset of EU countries to advance integration and/or cooperation in specific areas while other member states are not involved.

Concerning the second issue, that of moral hazard, a solution is to make access subject to strict conditionality. However, this could result in some countries delaying their participation in the scheme, thus undermining its risk-sharing rationale.<sup>7</sup>

An alternative lies in establishing specific thresholds for both the automatic activation of the scheme and the needed disbursements by participating members. National quotas to fund the scheme could be based on the annual unemployment rate weighted by GDP and population.<sup>8</sup> This would avoid free-riding while preserving the redistribution function of the scheme.

Aside from the technical domain, it is the potential benefits a EUBS can have on perceptions and public opinion that deserves further scrutiny.

European integration has come to be portrayed in many countries as a race to the bottom, rather than a force for

social justice. The Commission has tried to contrast this by launching a series of employment and social initiatives under the European Social Model concept.

Concrete results are still dubious and lack recognition among the public, however. The idea of a EUBS, if managed properly, could represent an easily identifiable EU policy programme with significant implications for everyday citizens across multiple countries.

Moreover, a EUBS can effectively address two of the main criticisms levelled again the EU and European social policy: welfare tourism and the perceived lack of democratic legitimacy for EU institutions.

The TFEU grants European citizens the right to move and reside freely in other EU states. Coupled with the portability of welfare entitlements for EU citizens, these regulations have increased concern about welfare tourism, that is the idea that EU citizens could migrate to take advantage of more generous welfare states, particularly in Northern Europe.

Yet, the phenomenon of welfare tourism is more of a perception issue than a financial one. In the UK, for example, studies have shown how EU migrants are 43 per cent less likely than nationals to receive state benefits and contribute more in taxes than they receive in benefits.<sup>9</sup>

<sup>7</sup> Italian Ministry of Economy and Finance, *European Unemployment Benefit Scheme*, August 2016, [http://www.mef.gov.it/inevidenza/documenti/Unemployment\\_benefit\\_scheme\\_rev\\_2016.pdf](http://www.mef.gov.it/inevidenza/documenti/Unemployment_benefit_scheme_rev_2016.pdf).

<sup>8</sup> Miroslav Beblavý, Karolien Lenaerts and Ilaria Maselli, "Design of a European Unemployment Benefit Scheme", in *CEPS Research Reports*, No. 2017/04 (February 2017), <https://www.ceps.eu/node/12263>.

<sup>9</sup> Carmen Juravle et al., *A Fact Finding Analysis on the Impact on the Member States' Social Security Systems of the Entitlements of Non-Active Intra-EU Migrants...*, Report by ICF GHK and Milieu Ltd for the European Commission, 14

A functioning EUBS could address these perception issues in two ways. First, it would provide an incentive for citizens in weaker welfare states to stay home. Second, a EUBS with limited conditionality and adequate activation policies would help boost consumption and stimulate employment in poorer regions.

A further critique is related to the lack of democratic legitimacy of the EU. European integration has generally been top-down, brought about by European Court of Justice rulings that have prioritised the elimination of barriers and standardisation as opposed to the promotion of new common standards and rights.

A EUBS could set a new and ambitious common denominator across Europe, giving new substance to the ideal of a European social citizenship. This could result in positive spill-over effects, particularly among low and middle-income individuals who would benefit the most from the scheme, but also richer countries and workers who would feel less threatened by free-riding or welfare tourism.

While debates continue, there are good reasons to be optimistic. The electoral manifesto of the Party of European Socialists has called for a similar mechanism and even the finance minister of Germany came out in favour of a EUBS.<sup>10</sup>

October 2013, <https://europa.eu/!bd63mV>; and Christian Dustmann and Tommaso Frattini, "The Fiscal Effects of Immigration to the UK", in *Economic Journal*, Vol. 124, No. 580 (November 2014), p. 593-564.

<sup>10</sup> Party of European Socialists, *A New*

Ultimately, one should remember what T.H. Marshall wrote in his 1950 seminal essay "Citizenship and social class": an incomplete promotion of social rights is linked to a weakening of political rights.<sup>11</sup> Only stronger democratic legitimacy and control can hope to reconnect European citizens with the European project and its goal of an "ever closer Union".

A European Unemployment Benefit Scheme, while not enough to resolve the EU's many challenges, would contribute to macroeconomic stability and signal a much welcome effort by EU institutions to respond to popular grievances, intervening in areas that are most felt by ordinary citizens and most affected by the crisis: personal or family income and social protection.

In this sense, a functioning EUBS could represent a valuable flagship policy to relaunch the EU project, rekindling citizen trust in European institutions and politics while helping to address and mitigate social and economic inequalities across Europe, strengthening EU integration and citizenship in the process.

6 April 2019

*Social Contract for Europe. PES Manifesto 2019*, February 2019, <https://www.pes.eu/en/manifesto2019>; and Justin Huggler, "German Finance Minister Pushes for EU-wide Unemployment Scheme", in *The Telegraph*, 17 October 2018, <https://www.telegraph.co.uk/news/2018/10/17/german-finance-minister-pushes-eu-wide-unemployment-scheme>.

<sup>11</sup> T.H. Marshall, *Citizenship and Social Class and Other Essays*, London/New York, Cambridge University Press, 1950.

## Istituto Affari Internazionali (IAI)

The Istituto Affari Internazionali (IAI) is a private, independent non-profit think tank, founded in 1965 on the initiative of Altiero Spinelli. IAI seeks to promote awareness of international politics and to contribute to the advancement of European integration and multilateral cooperation. Its focus embraces topics of strategic relevance such as European integration, security and defence, international economics and global governance, energy, climate and Italian foreign policy; as well as the dynamics of cooperation and conflict in key geographical regions such as the Mediterranean and Middle East, Asia, Eurasia, Africa and the Americas. IAI publishes an English-language quarterly (*The International Spectator*), an online webzine (*Affarinternazionali*), two book series (*Quaderni IAI* and *IAI Research Studies*) and some papers' series related to IAI research projects (*Documenti IAI*, *IAI Papers*, etc.).

Via Angelo Brunetti, 9 - I-00186 Rome, Italy

T +39 06 3224360

F + 39 06 3224363

[iai@iai.it](mailto:iai@iai.it)

[www.iai.it](http://www.iai.it)

## Latest IAI COMMENTARIES

Director: Andrea Dessì ([a.dessi@iai.it](mailto:a.dessi@iai.it))

- 19 | 26 Davide Ceccanti, *An EU Unemployment Benefit Scheme to Relaunch the European Project*
- 19 | 25 Davide Cancarini, *China, India and the Crossroads of 21st Century Infrastructure Competition*
- 19 | 24 Lorenzo Kamel, *"Stabilising" the Middle East: A Historical Perspective*
- 19 | 23 Sinan Ekim, *Turkey's Local Elections: Why Do They Matter?*
- 19 | 22 Walter Posch, *Iran's Islamic Revolution at 40: On the Way to a Post-Revolutionary Society*
- 19 | 21 Riccardo Alcaro, *On Speaking Terms: Europe-Iran Dialogue on Regional Flashpoints*
- 19 | 20 Gianni Bonvicini, *Italian Populists Scramble in Search of Allies for the European Election*
- 19 | 19 Nicholas Westcott, *The International Impact of Brexit*
- 19 | 18 Harry Tzimitras, *Eastern Mediterranean Hydrocarbons Prospects: In Need of a Pragmatic Geopolitical Assessment*
- 19 | 17 Mustafa Ergün Olgun, *Can Hydrocarbons Catalyse New Out of the Box Thinking on Cyprus? A Turkish Cypriot Perspective*