Ministero dell'Economia e delle Finanze

A European Unemployment Benefit Scheme: Nine Clarifications

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(1) How does the European Unemployment Benefit Scheme work?

The resources transferred to the beneficiary countries would serve the only purpose of supporting the **unemployed**, in full respect of each national model of welfare and labour market. The scheme would support the national labour policies by contributing to the budget of labour national institutions when they will be under pressure due to significant deterioration of the employment outlook. For the recipients, the European unemployment benefits could provide **a basic coverage** in terms of duration and the rate of substitution *vis-à-vis* the salary previously earned (e.g. 6-8 months and 40 percent, respectively). National administrations responsible for disbursing unemployment subsidies would be required to spell out the portion of individual unemployment benefits paid by the scheme. A detailed reporting of the EU support to the unemployed would raise awareness of the most vulnerable citizens on European actions in fighting unemployment, signalling the advantages of a deeper and vital European integration thus reinforcing trust in the European project.

(2) Does EUBS have the objective of reforming national labour market policies?

The only condition set by the EUBS is the use of its resources only for active and passive labour policies already in place at national level. Would the scheme imply any form of conditionality about active and passive policies, the EUBS could be seen as a driver of convergence among labour market institutions in the Euro Area. However, there are already other mechanisms in place for prompting Member States to adopt structural reforms in the labour market, like the country specific recommendations, the macroeconomic imbalance procedure, and the clause for structural reforms. The main objective of the EUBS is – instead – preventing a particularly harmful cyclical trend from negatively affecting employment. Finally, the EUBS would also have an indirect beneficial effect on long-term economic trends since it would limit the risk of a cyclical shock resulting in structural unemployment (hysteresis).

(3) Is there any risk of moral hazard behaviour by Member States?

With the perspective of maximising well-being, a European Unemployment Benefit Scheme could – and actually should – redistribute resources in favour of the weaker layers of the labour market. Also stronger economies would gain from a better social resilience in Europe; this benefit would come at the very controversial cost of transferring resources between countries (a very sensitive issue at present in the European debate). For this reason, **the proposal as it stands excludes permanent transfers between Member States.** The design of the mechanism avoids prolonged or significant unidirectional transfers of resources between countries over time since:

- ✓ The disbursement from the Fund is conditional to **a cyclical shock and it would not happen in case of structural disparities in unemployment rates**. A country with high structural unemployment and weak labour market institutions will not receive any transfer of EU resources unless affected by a cyclical shock, therefore each country remains responsible for addressing its own structural imbalances. In the meanwhile, the mechanism could be triggered in favour of a resilient country that has undertaken structural reforms, but despite low structural unemployment, is dealing with a cyclical shock;
- ✓ Since the mechanism is activated in response to cyclical movements only, and shocks tend to be evenly distributed among countries over the long term, **there will be no net beneficiaries or net contributors for significant amounts over the long term**, as demonstrated by the results of the simulations (see below);
- ✓ The beneficiary member will have to **repay the transfer over time** (see below).

(4) How is the scheme activated, and how is the transfer of resources to the Member State calculated?

The transfer of resources would happen only in the case of a **significant shock** to the employment in countries participating to the scheme. The mechanism would be triggered to mitigate the effects of asymmetric shocks only: should the Euro Area wish to be more ambitious and effective, the coverage could be extended also to tackle symmetric shocks.

Resources transferred to the beneficiary country would be **proportional to the intensity of the shock** and, in any event, **limited to 200% of the contribution paid** by the country. Once reached the threshold, the beneficiary country would have to wait five years accessing the scheme again.

The resources' transfer would be automatic; namely, the Fund manager would have no discretionary power with respect to transfer the resources and the relative amount. The mechanism would be automatically triggered by a formula in which the variable chosen for tracing the performance of the labour market would be assessed against:

1) The trend of the variable **in other Euro Area countries** in the period considered,

and, should the EUBS be extended also to compensate for symmetric shocks,

2) The trend of the variable **over time** for the individual Member State.

The same variable would be used for identifying the intensity of the shock, and the amount of the transfers.

The **relative weights** of components (1) and (2) reflect the decision of focusing the transfer of resources mainly on asymmetric or symmetric shocks, respectively. As the value of component (2) increases and thus the Fund's role in stabilising symmetric shocks increases, the size of the transfer needed to ensure a sufficient stabilising function also increases. Noticeably, if the objective is to limit the action to asymmetric shocks only, component (2) would not be relevant.

The size of the shift of employment with respect to the two components could be measured **twice a year**, for example, at the time of the European Commission's Spring and Autumn forecasts.

(5) How big will the Fund be once it is completely operational?

The size of the Fund will be equal to **0.5 percent of the Euro Area GDP**, or approximately €50 billion, considering 2015 as the year of reference. This amount of resources would ensure an adequate stabilising function of the economic cycle in the midst of asymmetric shocks. Should there be a decision to extend the EUBS to stabilise the cycle in the midst of symmetric shocks, the amount of resources required could go beyond the aforementioned threshold.

(6) How will the Fund be financed?

The Fund will be financed:

1) **By Member States** (0.5 percent of GDP) **in order to deal with asymmetric shocks,** through resources that the Member States would independently identify within their public budgets;
2) **Through the issuance of bonds**, **should the EUBS be designed to deal with symmetric shocks too.** Such securities would be marked by an extremely low risk profile and thus an extremely limited return. The issuance of bonds would not lead to any assumption of pooling national public debts; instead, it would be justified as a necessary measure for financing a project of common interest among the Euro Area Member States [1].

(7) What about the transition phase?

During the initial period of the Fund's operation (first five years), each country would annually contribute 0.1 percent of its national GDP. If an asymmetric shock would occur during this period, the Fund would transfer to the affected country a portion of the transfer to be paid with a fully operational

[1] According to some experts the balanced budget rule does not prevent the European Union from issuing its own bonds to finance its specific activities. In any event, the issuance of Eurobonds would require the unanimous consent of the Council. Such scenario is innovative, so much so that it would be necessary to limit the liability for the issuance of the Eurobonds needed to finance the fund to only the Member States of the Euro Area.

Fund, namely i/5th (i = 1 to 5)[2]. Once the Fund is fully operational, all Member States would contribute annually an amount equal to 0.5 percent of their GDP growth rate.

(8) Once the transfers occur, how will the Fund be replenished?

During the years following the transfer, the **beneficiary country will gradually and completely repay the resources received**, provided the accomplishment of a more favourable macroeconomic environment (see the simulations for a possible definition).

(9) Does the creation of the Fund require amendments to treaties?

No it does not. Treaties allow for the creation of a European Fund for unemployment benefits applicable to the Euro Area Member States. In effect, the European Union is empowered to set up funds for reinforcing, inter alia, social cohesion, and it can adopt specific actions that prove necessary outside of the existing funds (Article 175, Paragraph 3, Treaty on the Functioning of the European Union). The European Union would proceed with ordinary legislation (therefore, the European Parliament and Council would be co-legislators on perfectly equal footing). The sphere of application of the Fund could be limited to the Member States of the Euro Area pursuant to Article 136, Treaty on the Functioning of the European Union.

In turn, should this construction be considered insufficient to justify the creation of the Fund, the above mentioned provisions could be supplemented by the flexibility clause (Article 352, Treaty on the Functioning of the European Union). In such a case, the Council would vote unanimously subject to the approval of the European Parliament.

[2] It could be envisaged the involvement of the ESM in the financial and administrative management of the fund during the transition phase; this, however, would require the amendment of the international agreement setting up the ESM, whose mandate covers risks originating in one of the Member States for the financial stability of the Euro Area as a whole or its Member States, and in particular, for the sustainability of the public debt of the State affected by ESM intervention (Articles 3 and 13).