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The time has come for an EU-wide unemployment insurance scheme

The Young European Federalists Germany...

Automatic stabilisers reinforce the ECB's monetary policy and smooth cyclical fluctuations

- a. *realise* that economic shocks affect different parts of the Eurozone in different ways, with certain Member States in the grip of a recession while others are booming;
- b. *are concerned* because the different member states of the currency union are unable to react to these asymmetric shocks because they have no independent monetary policy and because their fiscal policies are constrained by refinancing problems or common fiscal rules, thereby harming the prospects for economic stabilisation;
- c. *remind* that, in the early 2000s, real estate bubbles were growing in Southern Europe while Germany's economy was in the doldrums, a situation that has been reversed since the Euro crisis began in 2008, when the southern European states were hit by a massive recession while northern European countries have hardly been affected;
- d. *emphasise* that these differing cyclical fluctuations cause divergences in the optimal interest rates of the countries concerned, reducing the effectiveness of the ECB's monetary arsenal;
- e. *point out* that similar asymmetric shocks within nation-states are dampened by interregional stabilisers such as fiscal and social systems, which provide for automatic financial transfers from boom regions to crisis regions;
- f. *underline* that it is precisely the automatic nature of these transfers that ensures that the effectiveness of interregional stabilisers does not depend on ad-hoc political decisions during crises, thereby diminishing the risk of moral hazard and increasing political legitimacy; and
- g. *call for* such an automatic interregional stabiliser to be implemented in the Eurozone, too.

A cyclical adjustment insurance fund will fail due to shortcomings in the way it is calculated

- h. *welcome* the debate on a cyclical adjustment insurance fund as a variation on an interregional stabiliser, such as the one proposed by the Padoa-Schioppa Group;
- i. *warn*, however, that this model can only work if the potential output of national economies can be calculated accurately, yet no reliable econometric methods to do so exist to date;
- j. *warn* that, moreover, a wrong calculation could negate the effects of the fund or even reverse them; and
- k. *consider* that a cyclical adjustment insurance fund cannot be implemented effectively until the potential output can be calculated reliably.

EU-wide unemployment insurance scheme: Levying charges on labour to hedge against short-term unemployment on the European level

- l. *support* instead the proposal for a European minimum unemployment insurance scheme, which would be financed by non-wage labour costs and partially replace existing national short-term unemployment insurance schemes;
- m. *propose* a model under which employees liable to social security contributions (respectively their companies) pay a certain percentage (e.g. 2%) of their gross wages into the social insurance fund. In return, if they are unemployed, they are entitled to unemployment benefits for a value dependent on their last income (e.g. 50% of their last gross salary) for a certain period (e.g. 12 months maximum). Member States could finance these insurance schemes from tax revenue instead of from non-wage labour costs;
- n. *indicate* that such a European insurance would dampen asymmetric shocks among Member States by providing for automatic transfers from states with lower unemployment to those with higher short-term unemployment. Therefore, it mitigates the fall in income and demand in crisis-ridden countries while reducing the likelihood of asset bubbles forming in boom states;
- o. *also point out* that these interstate transfers are only cyclical in nature, so that the net balance for any given Member State is approximately neutral over the entire economic cycle;
- p. *are aware* that downturns usually have a lagged effect on unemployment, so the direct monetary effects of an EU-wide unemployment insurance scheme would be somewhat delayed;

- q. *nevertheless believe* that, in the event of asymmetric shocks, EU-wide unemployment insurance would have a stabilising effect on the economic situation of crisis countries, because it would have a positive impact on expected future demand;
- r. *consider it important* that, insofar these resources are put on the European level, they cannot be used for other purposes by national governments;
- s. *support* a system under which the European unemployment insurance scheme can borrow credits, so that it can pay out unemployment benefits in the event that payments during an EU-wide recession temporarily exceed the total sums of the contributions and reserves;
- t. *indicate* that this borrowing would be backed by future contributions and therefore carry little risk of default or moral hazard;
- u. *stress* that the European minimum unemployment insurance would only have a secondary role and therefore would not reduce the ability of Member States to continue running their own insurance schemes, which could pay out higher or lower benefits than the one on the European level;
- v. *point out* that, because of the partial Europeanisation of unemployment insurance, the cyclical surpluses and deficits of the national insurance schemes would be reduced, thereby diminishing also the danger that these resources are siphoned off and used for other things during the good times, leaving reserves depleted for their intended purpose;
- w. *indicate* that the administrative expenses associated with a European unemployment insurance scheme would be small, as the collection of insurance contributions and the payment of benefits could be run by the same Member State social security authorities that fulfil these tasks as part of existing national insurance schemes;
- x. *are nevertheless aware* that a common insurance scheme requires reliable unemployment statistics in all Member States, since inaccurate statistics in a given country also affect the citizens of other Member States;
- y. *therefore call for* better supervision rights for the statistical arm of the EU (Eurostat);
and
- z. *hope* that this introduction of a tangible example of solidarity among EU citizens will also strengthen the European identity and the common debate.