A European Jobs Union

Agnès Bénassy-Quéré

After Monetary Union, Banking Union, and Capital Markets Union, what is still missing for the Eurozone to function well? Some suggest a Eurozone budget, others some form of debt mutualisation, and finally some argue for a European unemployment insurance scheme. These various ideas are highly relevant in substance but hardly acceptable to some member states. The German side fears that any form of mutual insurance, be it for debts or workers, would pave the way for moral hazard. Such a concern is not completely misplaced.

One possible way forward would be to link the fiscal union with a common agenda of structural reforms. After all, the European Resolution Fund for the banking sector came together with a complete reshuffling of bank surveillance and resolution; likewise, the emergency assistance supplied by the European Stability Mechanism is tightly linked to adjustment programmes that include some structural reforms on top of fiscal adjustment. Strikingly, though, structural reforms of labour markets are still conceived on a country-by-country basis, through the European semester process that ends in country-specific recommendations. This approach is sometimes counterproductive since it confines the European Commission to a role of sermoniser instead of being the conductor of a common future.

In practice, the fiscal union issue could be thought of within the broader framework of a jobs union – a union for jobs and career opportunities. This ambitious project could rely on three pillars.

The first pillar would occur in the form of labour market convergence between the countries of the Eurozone. It would of course not be about the harmonisation of the innumerable diverging characteristics of national labour markets. Rather, it would define criteria ensuring the effective functioning of national labour markets, such as a limited use of precarious contracts, a minimal protection of workers, an efficient system of vocational training, a minimum wage, and so on. Any impetus for solidarity is doomed to fail as long as significant discrepancies remain between the performances of the different labour markets. However, a balance will have to be found in order to avoid both moral hazard (related to persistent structural divergence) and another intrusion of 'Brussels' into national affairs. A starting point could be the 20 principles of social rights proposed by the Commission on 26 April 2017. These are organised under three headings – equal opportunities (in particular education, training, assistance to job search), fair working conditions (including wage level), and social protection (including unemployment insurance) – but also cover other issues, such a gender balance or minimum income, that may not be directly relevant to a jobs union.

The second pillar would be a single European labour market: effective recognition of diplomas (possibly through a system of EU labelling), full and transparent portability of workers' rights (training, unemployment insurance, pensions), mobility aids, and modern tools to fight social fraud, for example in the area of displaced workers (Aussilloux et al. 2017). This second pillar would also include a European investment effort in initial and lifelong training, paying particular attention to the skills experiencing shortages across Europe.

Finally, the third pillar would be about solidarity. According to Cernat and Mustili (2017), the European Globalization Adjustment Fund (EGF) – which is supposed to support EU workers who have lost their jobs due to relocation – helped a total of 142,578 workers over the 2007-2016 period, representing a mere 0.05% of the EU workforce. The Fund has suffered from rather restrictive access conditions and from long approval procedures. Meanwhile, over 2007-2014, the European Social Fund (ESF), which has a broader scope, claims to have helped "almost 10 million Europeans to find a job" (i.e. 4% of the labour force), but with pre-allocated national envelopes. The EGF could be reshaped and renamed in order to support employment areas hit hard by unemployment, whatever the origin of this mass unemployment, through a swift process that would not need case-by-case approval by the European Parliament. Such a transformation would rely on a partial reallocation of ESF funds (which total €83 billion for the 2014-2020 period, compared with the €150 million maximum budget for the EGF over the same period) and would involve moving away from the national pre-allocation logic.

As a complement, a US-style unemployment scheme could be introduced, whereby a European worker would benefit from a temporary extension of her benefits when the national employment situation deteriorates significantly. The US system allows for a targeted income transfer to those who need it most – those who cannot borrow to maintain their level of consumption. This intervention is therefore both visible to individuals and effective in terms of macroeconomic stabilisation. As for moral hazard, it is limited by the fact that the federal level intervenes only temporarily, following a sharp rise in unemployment.

In the US, the states are in charge of unemployment insurance; eligibility criteria, replacement rates, and the duration of compensation all vary across states. The federal government intervenes only if unemployment increases sharply in a state, by co-financing a temporary extension of the duration of compensation. At the height of the crisis, this federal support amounted on average to 0.5% GDP for the states – a considerable 'macroeconomic' sum. The annual contribution amounts to 0.6% of the first $7,000 of each employee's annual wage, i.e. a maximum of $42 per worker. With a total of 145 million non-farm employees, and assuming that the cap of $42 is reached for all of them, the annual budget is around $6 billion, or 0.03% of US GDP. The federal scheme, which only intervenes in case of very bad weather, thus represents a very small budget – less than the ESF, whose cost is approximately 0.08% of EU GDP per year. It could be introduced in Europe as a dedicated fund based on automatic (or semi-automatic) rules, and managed by the European Stability Mechanism (or a subsidiary of it), which would only require an amendment of the inter-governmental ESM treaty.

This third pillar of the jobs union will unlikely be accepted by countries with low unemployment rates unless the first two pillars are effective. Otherwise, they will fear that more protection of workers would degenerate into permanent transfers to countries unable or unwilling to reform their labour markets.

A jobs union may seem overly ambitious. However, by setting long-term objectives (say, ten years) with stages and criteria, as the EU already knows how to proceed, it would actually help to get out of the rut. It would also be a concrete project, likely to change the lives of workers, as Erasmus has achieved for the students. In a services economy where skills and mobility are more important than ever, such a project would also contribute to restoring robust growth.

References

Aussilloux, V, A Bénassy-Quéré, C Fuest and G. Wolff (2017), "Making the best of the single market", *Note of the French Council of Economic Analysis* No. 38, February.

Cernat, L and F Mustilli (2017), "Trade and labour adjustment in Europe: what role for the European Globalisation Adjustment Fund ?", European Commission, DG Trade, Chief Economist Note, Issue 2, May.