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THE ROLE OF EU UNEMPLOYMENT REINSURANCE SYSTEM FOR STRONGER FISCAL INTEGRATION IN THE EURO AREA

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Abstract:
In particular, during the period of recession, the EU needs mechanisms that act as automatic stabilizers. Given the many EU-wide agreements and contracts that emphasize solidarity and social and economic cohesion, the reinsurance system for the event of unemployment in the EU (RSUEU) would be a good solution both for reducing asymmetric financial and economic shocks, as well as for economic integration between members. Since 2008, there has been an increase of disparity in the level of unemployment among EU countries and age groups. Boeri and Jimeno (2016) argue that the reason for these differences is related to the labour market institutions, especially considering the interaction of the latter with the scale and nature of the shocks in the context of major recession and the Eurozone debt crisis. The authors also argue that by introducing such a reinsurance system for the event of unemployment, the EU would get the first joint institution. They argue that without common institutions, the EU cannot be a federation of countries, such as, for example, USA.

Keywords: unemployment reinsurance, fiscal integration, labour market, EURO area

1. INTRODACTION

In the EU, it would be wise to introduce a reinsurance system for the event of unemployment. RSUEU – as support of state insurance for the event of unemployment – would cover expenditure related to increased unemployment, and on the other hand, the states budgets would retain more money to stabilize the states economies in the recession. Authors of already finished researches (Buti et al. 2002; Dullien 2012; Epaulard 2014; European Commission 2014) found that the reinsurance system for the event of unemployment directly affects the level of consumption, as it increases the income of the unemployed, and also alleviates the fall in production in the crisis. Institutional reforms are necessary in the euro area, as the monetary union is reducing the scope of macroeconomic stabilization policies at the national level. EU members did not use fiscal policies to ease the recession, and the reinsurance system for the event of unemployment, acting as an automatic stabilizer, would accomplish just that. We believe that the recession reinforces the need for an automatic stabilizer.

The basis of the model derives from the doctoral dissertation (Trunk, 2018):
–   heterogeneity of countries in the EU (various dynamics of economic growth and unemployment) enables the establishment of the RSUEU. The different characteristics of countries are important for the functioning of the RSUEU, which is based on heterogeneity. We analysed receipts and expenditures of the EU 20 (2003-2013) and identified the countries in which balanced insurance for the event of unemployment was set,

–   The RSUEU would contribute to a better protection of income with a direct impact on the income of the unemployed and would at the same time function as an automatic stabilizer of the economy,

–   in the USA, the reinsurance system for the event of unemployment affects the development of risky industries, since such a system provides a certain degree of certainty. Workers are therefore easier compelled to opt for high-paying jobs and a high risk of unemployment, and in parallel, the system enables businesses to create high-quality jobs with high wages and a higher risk of unemployment.

By model simulation and by evaluating the operation of the model with which we will simulate RSUEU performance, we will achieve the purpose of the research. We will upgrade the existing RSUEU model (Trunk, 2018), where the essential changes will be: (i) a longer study period; (ii) a larger number of countries involved in RSUEU; and (iii) examining an additional aspect – the impact of RSUEU on maintaining the number of employed population.

2.   PROBLEM IDENTIFICATION

The research problem is to examine the appropriateness of possible reinsurance for the event of unemployment in the countries of the European Union in terms of maintaining the level of consumption of the unemployed, promoting economic efficiency and preserving the number of employed population. We will address the research problem in terms of the needs and capabilities of establishing a reinsurance system. We will explore possible advantages and disadvantages of introducing a reinsurance system for the event of unemployment in the EU.

Picture 1: Cash flow RSUEU
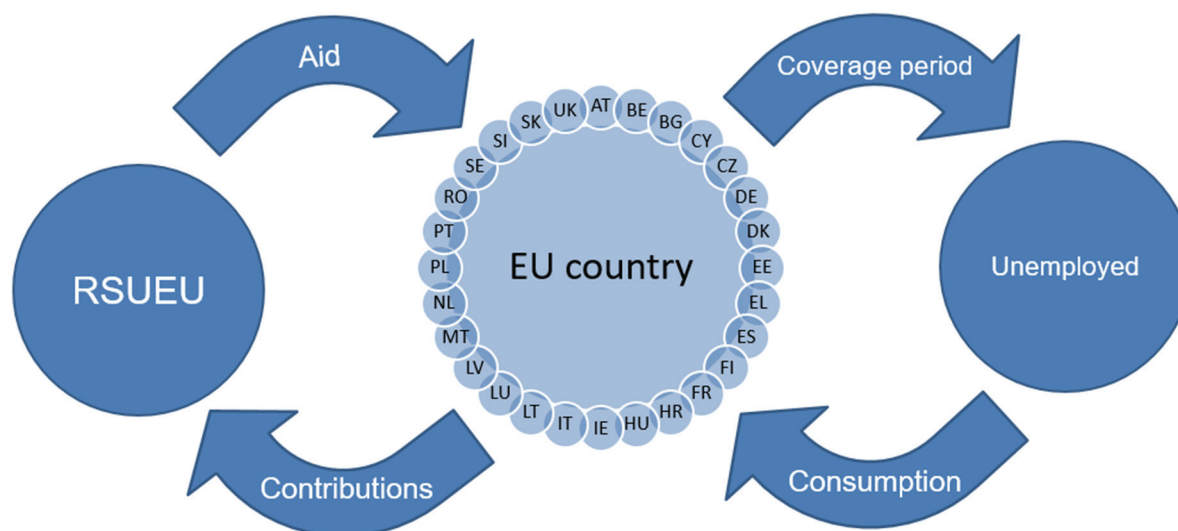
Source: own figure

One of the biggest challenges for the EU and the euro area is to promote further structural reforms for economic convergence. At the same time, the EU should seriously consider introducing a fiscal union. This can mean that the EU budget must be higher than it is today. After all, the main feature of any fiscal union is the ability to spend and, consequently, affect economic performance. Given that business cycles are not uniform in the case of the euro area, such a shift will be an important step in the right direction. It is important to note that the EU budget today is about one percent of gross domestic product (GDP) – in the USA, the federal budget revolves around 37 percent of GDP (Schelkle 2017). In terms of geography, political systems, national support and economic foundations, the EU is a diverse region. Northern Europe is richer, technologically and administratively more advanced than the peripheral countries in the south. Countries in the north would want a stronger currency, while the countries in the south would like a weaker currency to be more competitive abroad. This diversity of the EU greatly complicates efforts for a political and fiscal union.

Reinsurance for the event of unemployment also affects the maintenance of the number of employed population, as the faster recovery of the economy also means that companies are laying off fewer workers than they would, if the economy would remain in recession for a long time or would recover slower. An important aspect of maintaining the number of employed population is related to lowering company costs and maintaining quality. When there is no layoffs, good workers remain in the company. On the other hand, in the case of layoffs, the unemployed find a new job, and the company that has laid them off has to find new employees and re-train them when the need for recruitment arises again, which naturally entails additional costs. Vroman (2010) examined the labour market in the USA and found that, in the Great Recession, regular unemployment benefits in the federal states increased employment by 1.05 million jobs, and additional unemployment benefits financed by the federation increased employment by 0.748 million jobs. Vroman (2010) also evaluated the increase in employment.

3. OBJECTIVE OF THE PROPOSED RESEARCH

We will explore options for establishing a reinsurance system for unemployment in the EU (RSUEU). Such a system would complement public unemployment insurance schemes and contribute to increasing their efficiency. Public systems contribute to the protection of income and thus to maintaining the level of consumption of the unemployed, and they also act as automatic stabilizers at the aggregate level and maintain the number of employees. With the additional money that the reinsurance system would contribute to state systems during the recession, the reinsurance system would strengthen the effects of state systems and eliminate their shortcomings, as they are often faced with deficits during the recession, and therefore with an inability to increase the cost of unemployment benefits. We will conceptualize and present the basic principles of such a RSUEU model and, on the basis of the model simulation of historical data (2003-2018), will try to determine the benefits that would be brought about by the introduction of RSUEU. To analyze the model, we will use the SWOT analysis (strengths, weaknesses, opportunities, threats).

RSUEU - to help state unemployment insurance - would cover expenditure related to increasing unemployment. This would leave more money in state budgets to stabilize state economies in the recession. Buti idr. (2002), Dullien (2012), Epaulard (2014) and the European Commission (2014) note that it would be rational for the EU to introduce a reinsurance system in the event of unemployment. During the recession, EU members did not use fiscal policies to ease the recession (Coenen, Straub and Trabandt 2012), while the reinsurance system in the case of unemployment would achieve exactly this as it acts as an automatic stabilizer. We believe that the need for an automatic stabilizer, such as, for example, reinsurance in the case of unemployment, has shown even more so precisely because of the recession. Existing unemployment insurance in bad times is canceled as they do not have enough accumulated stocks to pay compensation. The reasons are, in particular, the following: (i) several recipients; (ii) a lower percentage of the covered period of unemployment - the length of unemployment increases, only a smaller part is covered; (iii) generating large losses.

The EU reinsurance system in the EU would act as an automatic stabilizer, as it contributes to a reduction in the inflation gap in the recession. The inflation gap is the distance between the current level of real GDP and the level of GDP in full and long-term equilibrium employment. The inflation gap is so named because the increase in the consumption of the economy leads to an increase in real GDP, which in the long run affects the rise in prices (Cogley, Primiceri and Sargent 2010). The reinsurance system in the case of unemployment would contribute to maintaining the number of employees and improving the protection of income, and thus to maintaining the level of consumption of the unemployed, which will help countries in recession, as the system would contribute to the financing of unemployment benefits during the period of sudden and deep recession. In periods of weak economic activity, the remuneration of the reinsurance system in the case of unemployment is reduced as the number of employees and contributions paid are reduced, and on the other hand expenditures are increased without the need for a new state action. On the contrary, it acts in the event of an increased economic activity when expenditure is reduced and revenue increases (Dullien 2012). As a result of an increase in economic activity, expenditure on the reinsurance system in the case of unemployment (eg the amount and number of recipients of compensation, the period of receipt of compensation) is automatically reduced while the receipts increase. Such a move is helping to stabilize economic activity in the future. In the United States, such a system has been operating for a long time and is well undergoing periods of recession, as it acts as an automatic stabilizer (Chimerine, Black and Coffey 1999; Asdrubali, Sorensen and Yosha 1996; US Department of Labor 2012).

4. CONCLUSIONS

The purpose of the study is to examine the possibilities of setting up the RSUEU and to design and test the RSUEU model. We will perform the model simulation using different parameters. The study aims to examine whether the reinsurance system for the event of unemployment would contribute to the stability and efficiency of EU members, and hence the entire EU, and what role it would have as an automatic stabilizer and in maintaining the number of employed population. At the same time, we want to consider the costs of setting up and operating the proposed system.

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