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# Automatic Economic Stabilizers for the Euro Area - EU Unemployment Reinsurance System

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## Abstract

*A few months in, it is still hard to grasp the scale and scope of COVID-19's global impact. A third of the world population is under some sort of "lockdown." Over 200 countries are affected, and the number of new cases and deaths in many places are still growing exponentially. All the while, a second crisis, in the form of an economic recession, is underway (Schwab and Vanham 2020). During the recession, EU members did not use fiscal policies to ease the recession, 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 (Trunk and Stubelj, 2019).*

*Researches has already been conducted in the area; since 2008, there has been an increase in the level of unemployment among EU countries and by age groups. Boeri and Jimeno (2016) argue that the reason for these differences is related to labor market institutions, even if their interaction with the scale and nature of the shocks of the major recession and debt crisis in the euro area are taken into account. They present macro- and microdoxes that emphasize the importance of these interactions in explaining the differences between countries in adapting the labor market to the aforementioned shocks. Following the definition of labor market institutions that are responsible for this increase in the unemployment gap, they discuss what can be done at EU level to promote institutional convergence. In particular, they examined the "positive conditioning" approach, which could work well in good times, and not only during the period of recession, when conditionality is strong. At the same time, they warn of the adverse effects that can be caused by these reforms.*

*Regular exchanges of labor market information between EMU members can lead to the existence of reinsurance in the event of unemployment. The general problem of unemployment insurance is moral hazard - in the form of less intensive job search and receiving compensation in informal employment (Tatsiramos and van Ours 2014). In addition, the functioning of the labor market and related institutions within the EU is very diverse (heterogeneous). As a solution for the regular exchange of information between EMU members, Boeri and Jimena (2016) propose the introduction of unemployment* *reinsurance at EU level and the introduction of individual accounts that could transfer compensation within the EMU (aggregation of the EMU employment period) and which would act as complement the already existing forms of unemployment insurance in individual countries.*

*The attractiveness of reinsurance for EMU unemployment would be its simplicity. Unemployment reinsurance would be modeled on the model of public unemployment systems that are known to citizens in most countries. The reinsurance system for unemployment would have a real character of reinsurance. The contributions would be determined on the basis of the current income with a certain threshold, after an individual contributing the reinsurance contributions for a sufficient number of months, he would be entitled to compensation in proportion to the amount of contributions previously paid.*

**Keywords**: Labour market, EU, unemployment reinsurance, automatic stabilizers, model, Covid19

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