

Background

The 2008 economic crisis has shown the disruptive power of job loss and material deprivation for cohesion within and between EU countries. However, **the capacity of member states to respond via their unemployment insurance (UI) schemes varies greatly** with regard to replacement rates, entitlement periods and coverage (Figure 1).

While employment rates in the EU are now back on a record-high¹, there is also a window of opportunity to prepare for future crisis and to strengthen the EU's commitment to social protection for all EU citizens. European minimum standards for UI may provide an instrument to achieve this goal.

Arguments for Upwards Convergence

The rationale behind EU minimum standards for UI is multifaceted: Sufficient unemployment benefits with an adequate coverage help **cushioning drops in demand in times of economic crisis, provide income stability to individuals and prevent poverty**. Changing labour market conditions with more unstable forms of work and labour market dualisation underline the need for generous UI systems across Europe in order to **mitigate the effects of atypical working patterns, low wages, frequent job transitions and employment spells**.

Additionally, there is well-established evidence that unemployment insurance **softens the negative effects of job insecurity and unemployment on individuals** with regard to workers' health, well-being, social inclusion and longevity.²³⁴ Minimum standards in the field of unemployment insurance would contribute to realising a fair transition for the most vulnerable groups of the labour force and enforce **Principle 13 of the European Pillar of Social Rights** that asks for "adequate unemployment benefits of reasonable duration" across Europe.

In her agenda for Europe, the president of the European Commission, Ursula von der Leyen, announces the creation of a **"European Unemployment Benefit Reinsurance Scheme"**, an idea that enjoys high popularity among EU citizens.⁵ Minimum standards in unemployment insurance systems could facilitate the transition towards such a scheme, as they address structural differences between national systems and increase comparability beforehand. Finally yet importantly, **common standards for UI systems are crucial in a Single European (labour) market as they scotch unfair competition between member states** and prevent a "race to the bottom" of social standards in the field of UI.

Glossary

Unemployment insurance (UI)

Unemployment insurance systems exist in all EU Member States and rely on contributions. Unlike unemployment assistance, individuals can only claim UI benefits after a certain minimum period in employment with paid contributions.

Net Replacement Rate

Proportion of previous in-work income that is maintained.

Entitlement Period

Time span during which the unemployed person is qualified for receiving UI benefits.

Coverage Rate

Proportion of unemployed individuals actually receiving UI benefits within a certain time span after becoming unemployed.

Active Labour Market Policies (ALMPs)

All social expenditure (other than education) which aims at the improvement of the beneficiaries' prospect of finding gainful employment or to otherwise increase their earnings capacity.

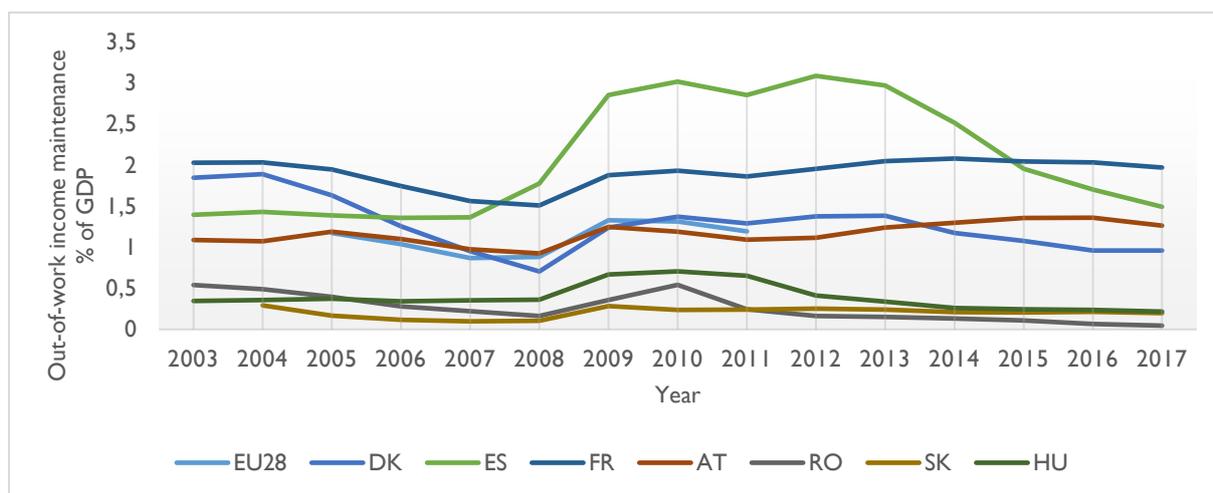


Figure 1: Out-of-work income maintenance and support as % of GDP in selected EU countries. Source: Eurostat, LMP_EXPSUMM.⁶

Standards for active labour market policies

Beside financial support, an important share of support for the unemployed are other types of benefits that support job seekers in their transition towards new employment. **Principle 4 of the European Pillar of Social Rights** mentions the crucial role of such measures⁷ for combatting unemployment. It highlights that "everyone has the right to timely and tailor-made assistance to improve employment or self-employment prospects (...)". In the 2018 guidelines for employment policies, member states agreed that "unemployment and inactivity should be tackled, including through **effective, timely, coordinated and tailor-made assistance based on support for job-search, training, and requalification.**"⁸

For short-term unemployed, the most relevant types of **active labour market measures (ALMPs)** are counselling and job-search assistance. Those measures provide an individualised approach to support: Advice often goes along with vocational training, social support or other measures.

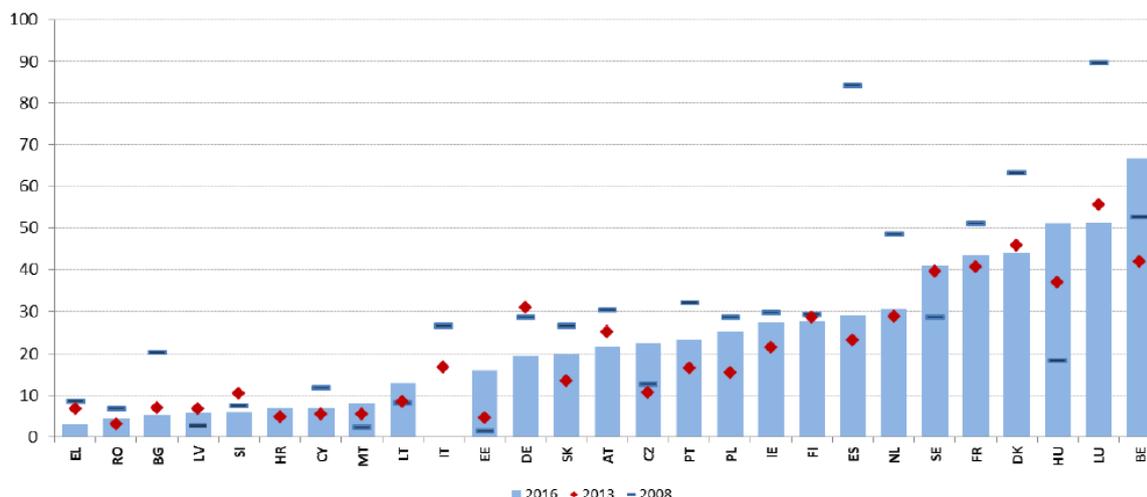


Figure 2: Participants in ALMPs per 100 persons wanting to work. Eurostat, LMP database and LFS. No recent data available for UK; no figures for 2016 for IT. Cited from: European Commission (2019). Joint Employment Report. Brussels, p.66.

Most ALMPs are closely tied to the UI with regard to eligibility, financing and administrative rules. Access to ALMPs is hence conditional on being a current beneficiary of unemployment insurance benefits. With this conditionality, it is necessary to focus on the quality of measures, but also on the question of **access and coverage**. According to the Joint Employment

Report 2019, the **average coverage of ALMPs among unemployed in the EU** – expressed by the indicator "Participants in ALMPs per 100 persons wanting to work" – is **comparatively low** (Figure 2). Additionally, this number has not shown convergence over the last years, and **the percentage of ALMP participants varies between member states between less than 10 up to up to 40 percent. Developing target figures for minimum ALMP coverage would address this discrepancy**, taking into account especially the coverage among UI benefit recipients.

Uneven tendencies between member states also characterise public investment in ALMPs. Here, the latest data presented in the Joint Employment Report 2019 shows that spending on labour market services and measures varies from 1.5 percent of GDP to less than 0.1 percent (Figure 3). While this number may be subject to cyclical fluctuations, **minimum standards for spending could include a minimum ALMP budget per unemployed person or long-term average spending goals.**

A final aspect to take into account would be **an evaluation of the quality of services provided in the field of ALMPs.** However, such an evaluation might be very difficult to undertake in order to define "minimum quality standards". Soft coordination and best practice exchange might be a helpful tool in this context. The Commission has already launched an initiative in this context: In 2015, the European Network of Public Employment Services entered in a "Benchlearning" process in order to learn from each other and exchange best practices.⁹ **At some later stage, it could also be plausible to include quality indicators as minimum standard in this process.**

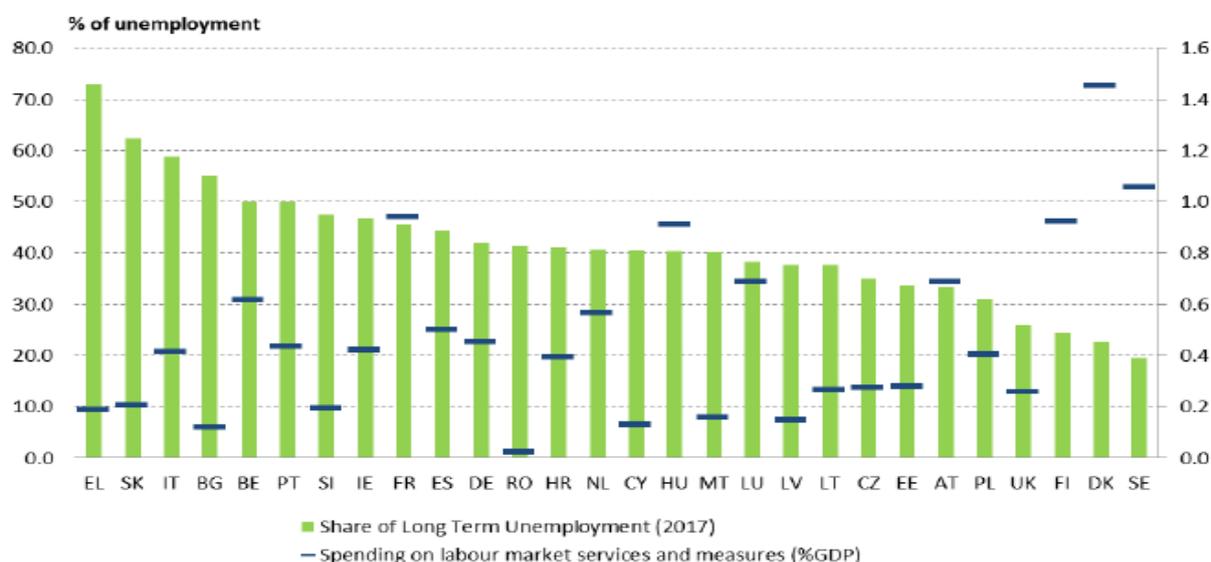


Figure 3: Spending on labour market services and measures (2016) and share of long-term unemployed (2017). Cited from: European Commission (2019). Joint Employment Report. Brussels, p.66

Relevance of UI for labour mobility

Although the first rules on social security coordination have been in place since 1958, the **rights of mobile EU citizens with regard to unemployment support have reached neither perfect portability of benefits nor a comparable level of protection in different member states.**¹⁰ The differences that generally affect mobile workers relate to both "passive" and "active" support in the case of unemployment (Figure 4). In addition, individual entitlements to UI benefits in another EU country are conditional on specific factors, such as the length of employment, the rules in the country of residence and the type of employment.¹¹ A Commission proposal to facilitate access to benefits for

mobile workers failed in March 2019, with structural differences between national systems still being the main hurdle for better coordination.¹²¹³

It is noteworthy that **insufficient levels of unemployment protection negatively affect not only social protection abroad but also the job seekers' capability to find a job abroad in the first place**, as low and UI benefits of short duration limit most job seekers' capability to search for work in a different member state. Setting minimum standards for unemployment insurance would also follow the rationale of facilitating labour mobility and paving the way towards full cross-border social protection.

| Type | "Passive" support | "Active" support | Countries |
|------------------------|--|---|--|
| Nordic | The UI benefit system is generous with regard to entitlement conditions and income support. | Strict activation policies ALMP well-developed | DK, FI, NL, SE |
| Continental | The UI benefit system is generous with regard to entitlement conditions and income support, but entitlement periods are shorter. | Activation policies medium-developed Standard ALMP measures | AT, BE, DE, FR |
| Southern | The generosity of the UI benefit system varies widely between different groups of workers. Entitlement conditions are strict. | Few activation policies ALMP well-developed | ES, IT, PT |
| Anglo-Saxon | UI benefits are meagre with regard to entitlement conditions and income support | Strict activation policies ALMP underdeveloped | IE, UK |
| Central-Eastern | The UI benefit system provides generous income support, but entitlement conditions and entitlement periods are strict | Strict activation policies Standard ALMP measures | BG, CZ, EE, EL, HU, LT, PO, SK, SI |

Figure 4: Taxonomy of unemployment benefit systems¹⁴

Rationale for binding minimum standards

Since 2017, the commitment of EU bodies to social policy goals has significantly increased as Commission, Parliament and the Council launched the European Pillar of Social Rights. The implementation of the principles of the Pillar has made considerable progress, driven by the creative use of different policy instruments. For **UI minimum standards, a similar approach with non-binding and binding measures seems to be promising approach to combine short- and long-term ambitions. However, binding measures can be expected to be inevitable** in the long run.

Enshrining minimum standards for UI in the European Semester might provide a first step to help member states addressing the weaknesses of their respective insurance systems – via monitoring. The 2018 European Semester included for the first time a **benchmarking framework** on unemployment benefits and active labour market policies.¹⁵ A comparative analysis of specific design features and performance as well as country reports focussing on these aspects are included in the Joint Employment Report 2018.¹⁶ The **new Social Scoreboard** includes the indicators "General government expenditure in social protection" and "Labour market policies participants per 100 persons wanting to work", with the latter aspect focussing mainly on active labour market policies (ALMP).¹⁷ Introducing further and more detailed indicators could establish minimum standards along a number of fixed goals with regard to coverage¹⁸, benefit length and amount.

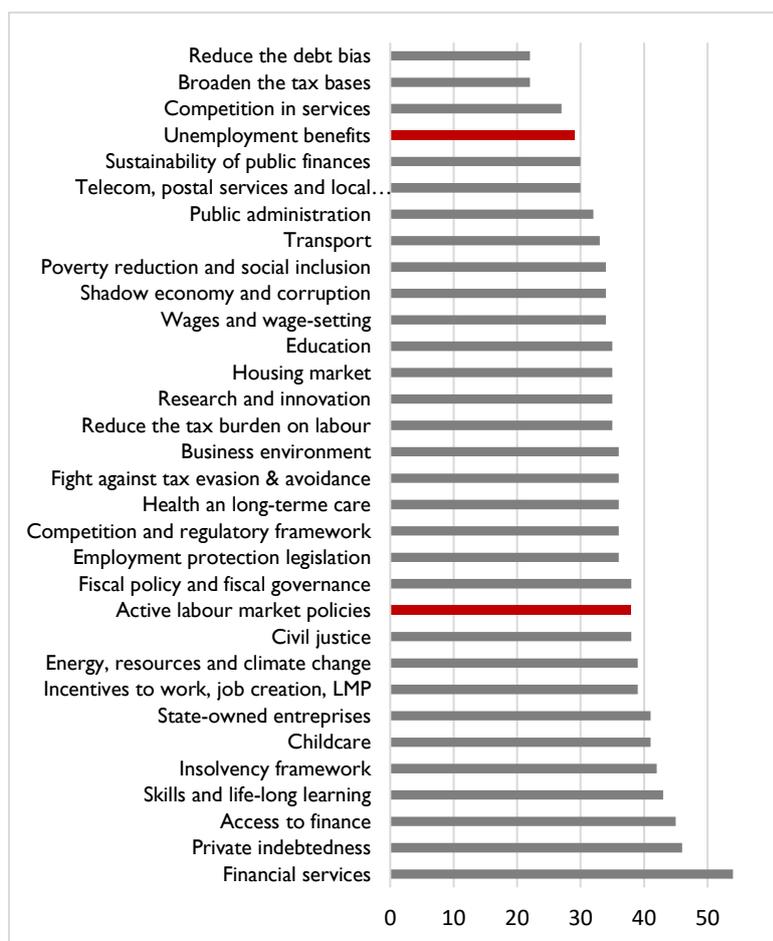


Figure 5: Average implementation score of social CSR subparts by policy area (2013 – 2017). Source: Efstathiou & Wolff (2018)

In spite of this, a true success of European Semester "soft measures" is questionable. Evidence on the effectiveness of the Social Scoreboard and a systematic evaluation of benchmarking exercises are not available yet. However, it is a well-known fact that the recommendations made by the Commission in the context of the European Semester have a rather weak effect on Member States' political action (Figure 5). Evidence shows that, since the introduction of the Semester in 2010, Member States have complied with less than 50 percent of the country-specific recommendations. Numbers are even lower in the field of political 'tinderbox' issues such as employment and social affairs.¹⁹ With the exception of ALMP measures that face a comparatively

high probability of implementation, recommendations on the UI benefits as such are among those measures least likely to be followed (Figure 1).²⁰ Additionally, general compliance with recommendations in the context of the European Semester has even faced a **downwards trend in recent years**, especially (but not only) in countries with economic imbalances.²¹ While the reasons for these developments remain to be explored in depth, an important takeaway is that **UI upwards convergence is likely to face similar difficulties when it comes to reaching thresholds.**

Recommendations

Decisive action will be necessary to achieve convergence between UI systems in the EU:

- The EU should **agree on minimum standards for UI in the form of target figures** with regard to replacement rate, coverage and entitlement period for the unemployed.
- The role of **active labour market policies is crucial for achieving full-fledged convergence**: A set of minimum standards should incorporate **ALMP coverage and spending**. Indicators for incorporating the **quality** of ALMP measures in target figures may equally be developed.
- A **combination of non-binding and binding** instruments could most effectively serve to achieve these target figures and promote upwards convergence of UI protection in the EU. The implementation could follow a **three-step approach**: **A regular monitoring in the framework of the European semester, a Council recommendation and binding legislation on minimum standards.**

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- ⁷ OECD (2002): Active Labour Market Programmes. Available at: <https://stats.oecd.org/glossary/detail.asp?ID=28> (Last access: 21/10/19)
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