

Countering divergence through automatic stabilisers in the EMU

Vienna, 11 September 2015

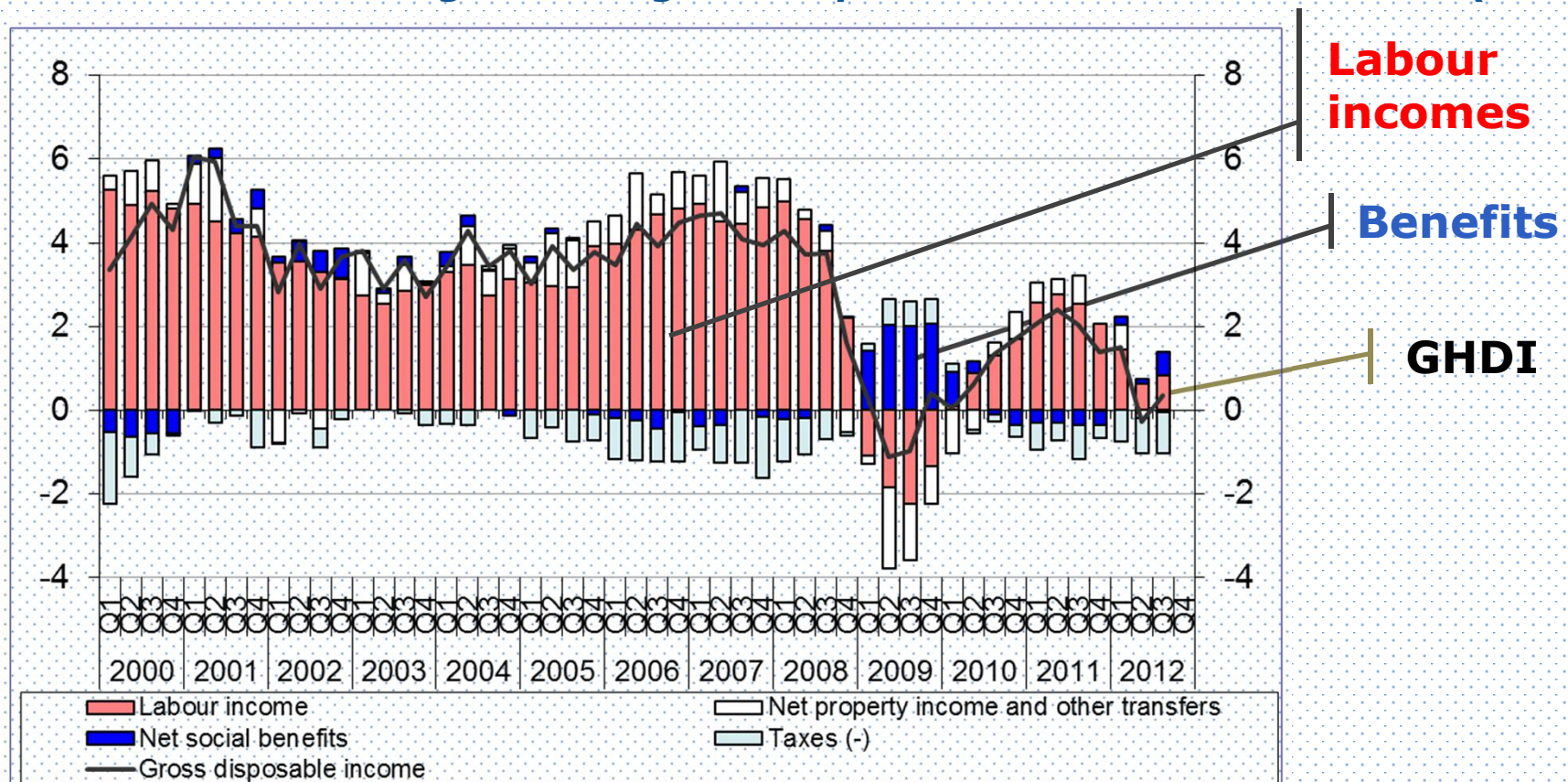
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Weakening of stabilisation of household incomes in the crisis

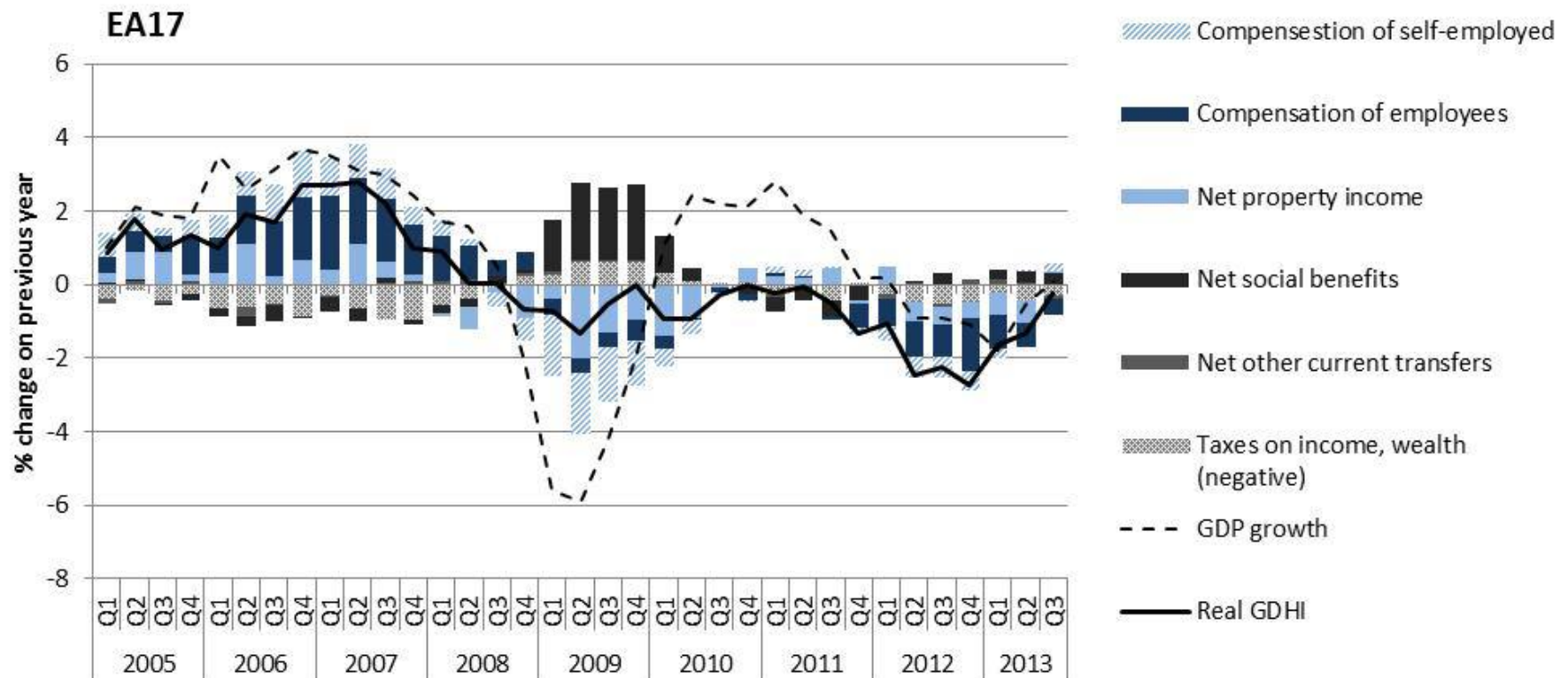
Contributions to nominal growth of gross disposable income of households (EA 17)



Source: Eurostat and ECB.

Household income in the crisis: weakening of national automatic fiscal stabilisers since 2010

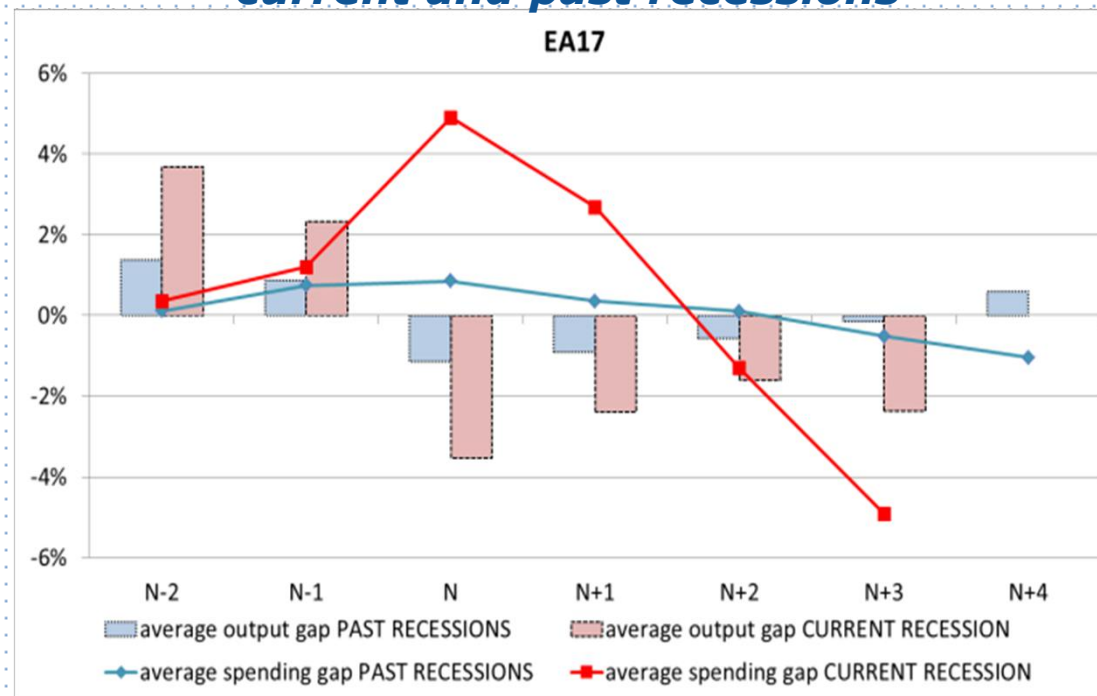
Real GDHI growth, EA17, 2005-2013



Source: Eurostat, National Accounts

Weakening of automatic stabilisation: 2011 and 2012

Public social expenditure and GDP: deviation from trend during current and past recessions



Source : Eurostat, National Accounts, DG EMPL calculations

Note: 2012 data are estimated based on quarterly data from the first 3 quarters. In the current recession, N is year 2009. Estimates of the deviation from the trend in social protection expenditures are based on a standard Hodrick-Prescott filter. Reading notes : in the year of the recession, in the current crisis, social expenditure were around 5% above their trend in Europe, while the GDP was about 4% below its potential (output gap of -4%). Averages are unweighted country averages (since countries do not always experience a recession the same year).

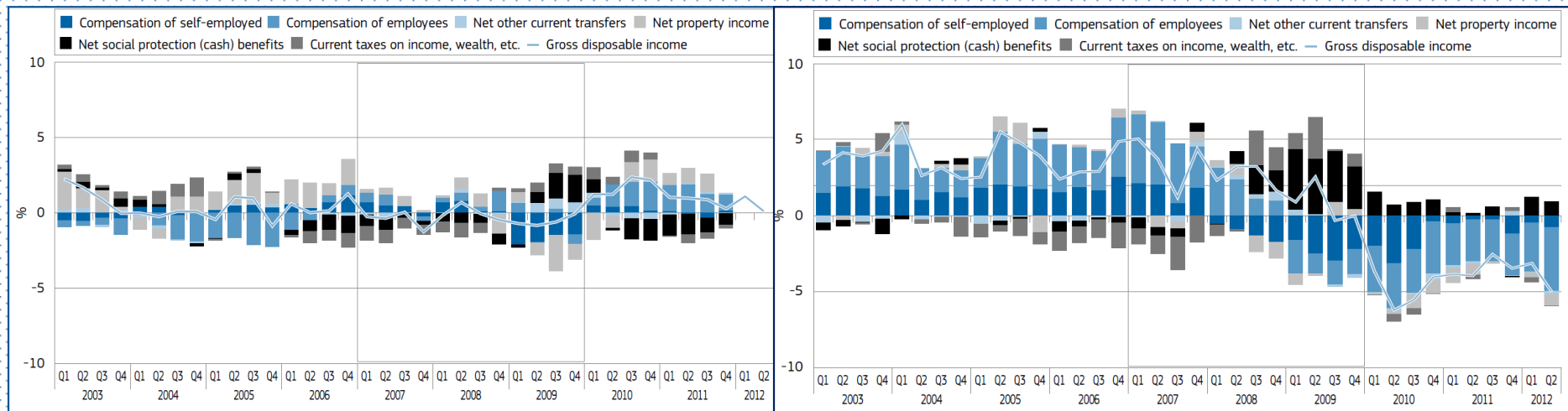
Development of household income in Germany and Spain

After 2010

Germany: Market income increases with recovery; benefits no longer needed

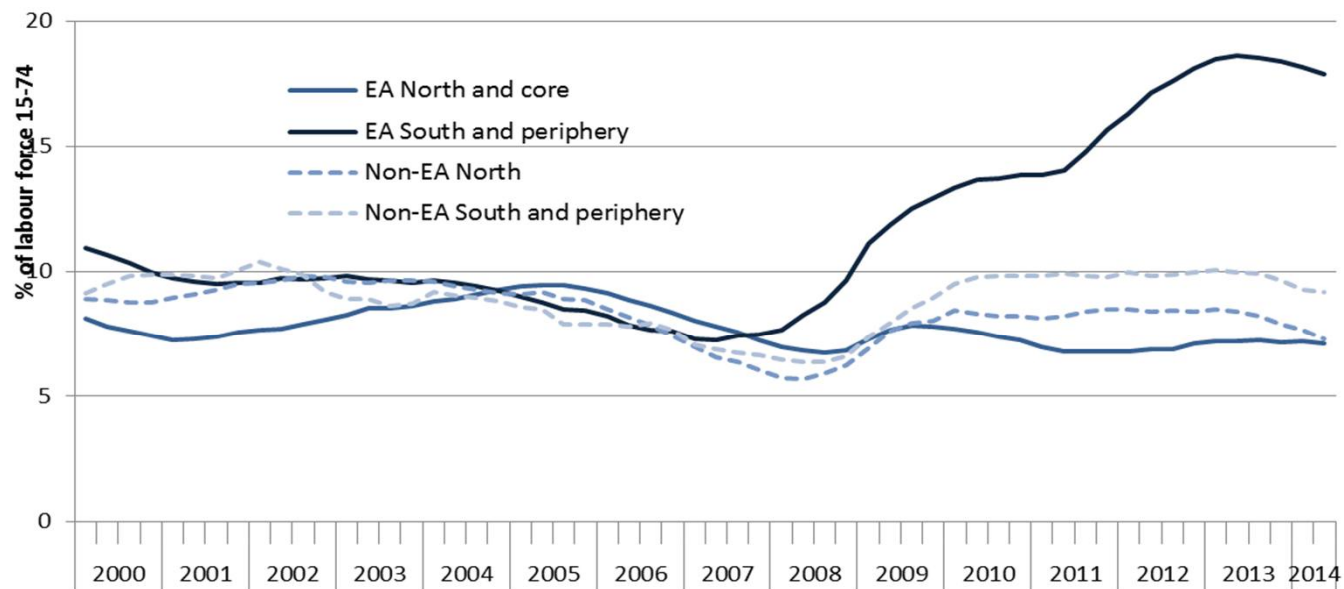
After 2010

Spain: Weakened social benefits do not compensate for fall in market income



Divergence in unemployment rates

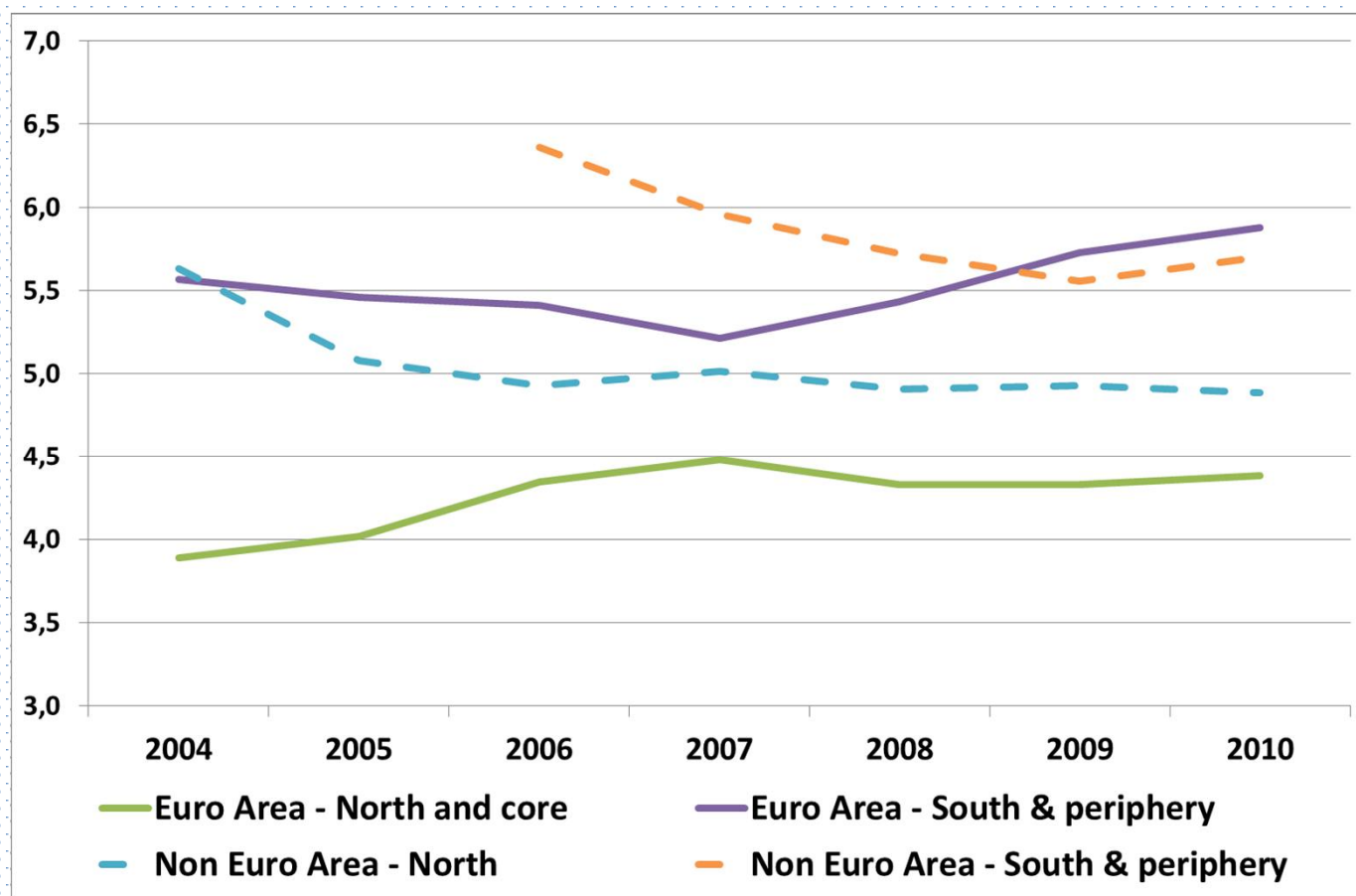
Unemployment rates: divergence greater within Euro area



Source: Eurostat, Labour Force Survey

EA North and core is AT BE DE FI FR LU NL,
EA South and periphery is CY EE EL ES IE IT LV MT PT SI SK,
Non-EA North is CZ DK PL SE UK,
Non-EA South and periphery is BG HR HU LT RO.

Divergence in income inequality (S80/S20)



Source: Eurostat, DG EMPL calculations – Years refer to income reference years

Social divergence in the Economic and Monetary Union

- EMU with serious design flaws:
- --**uniform fiscal (and centralised monetary) policy without risk sharing or transnational fiscal transfers**
- --social problems generate spill-over effects on other members of euro area (e.g. falling demand)
- --deterioration of human capital, loss of competitiveness and risk of destabilisation and disintegration
- Need to **restore socio-economic convergence** in EMU, e.g. Youth Guarantee and Youth Employment Initiative

Stronger social dimension of the EMU

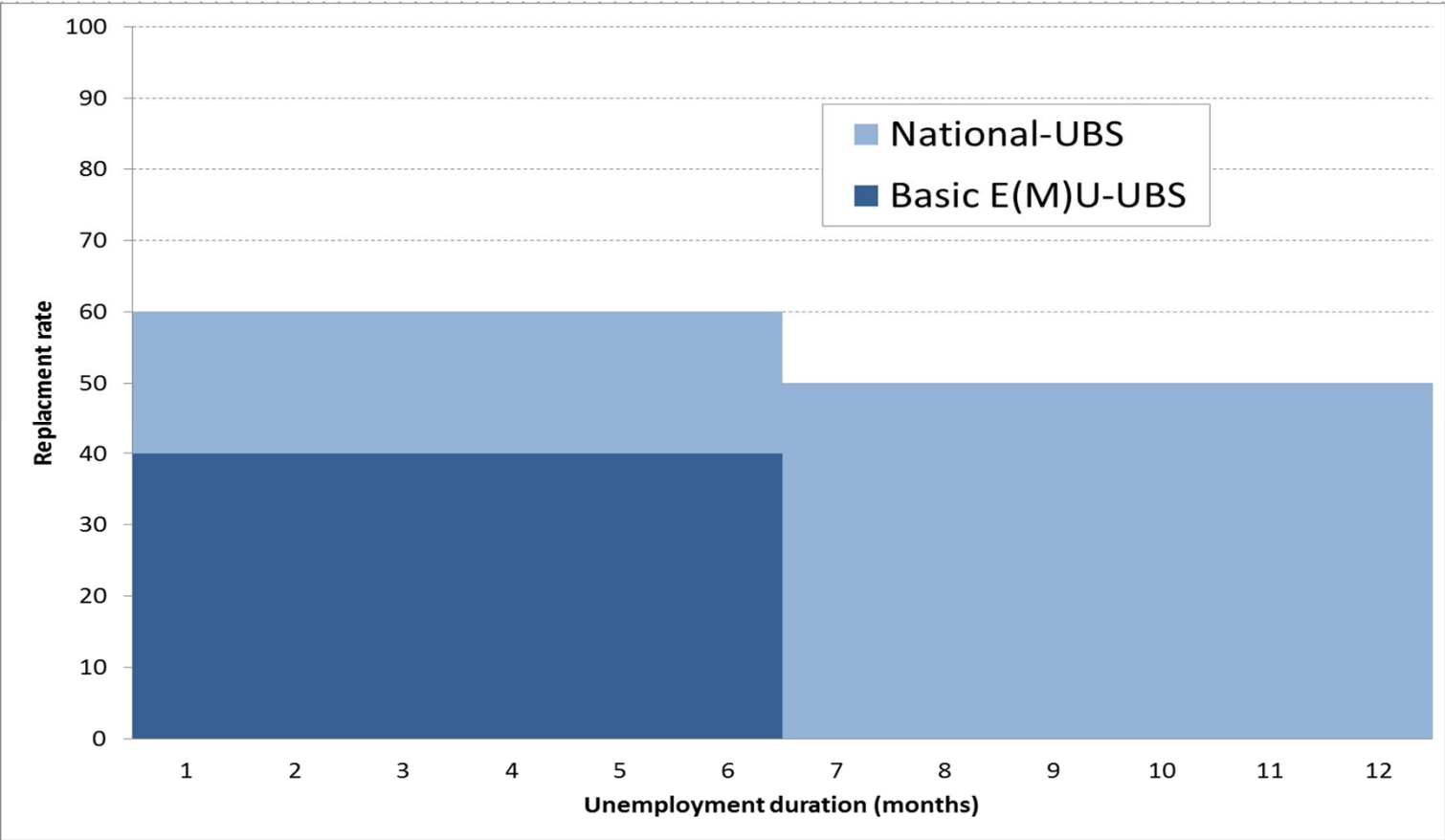
Ability of economic governance mechanisms & policy instruments to anticipate, take into account & address problematic developments & challenges related to employment & social policies in the EMU; helping all MS to realize their growth & employment potential & improve social cohesion

- Better **monitoring** of employment & social dynamics in EMU: scoreboard of five indicators introduced in European Semester
- Better **coordination** of employment & social policies to **collectively ensure timely action**
- Better involvement of EU-level & national **social partners** in EMU governance

Need for automatic stabilisers in EMU

- Countering „asymmetric shocks” and resulting imbalances with rule-based, conditional and temporary fiscal transfers
- Supporting aggregate demand → economic activity → employment → social cohesion in zones of economic downturn (lacking autonomous fiscal/monetary policy)
- Options:
 - --automatic income support (based on „output gap”)
 - --reinsurance of national unemployment insurance funds
 - transfers triggered by major crises
 - --partial pooling of unemployment benefit systems
 - (need for partial harmonisation)

Example of basic European unemployment insurance and a more generous national scheme topping it up



"Do it yourself" European Unemployment Insurance

by *Bruegel*

Grégory Claeys, Simon Ganem, Pia Hüttl and
Thomas Walsh, September 2014

<http://www.bruegel.org/nc/blog/detail/article/143-4-do-it-yourself-european-unemployment-insurance/>

Select Parameters or Objectives of the scheme

Parameters Objectives

Area

Euro Area European Union

Contribution rate

Single Differentiated

Type of insurance

Basic Catastrophic

Replacement rate

50% 60% 70% 80%

Region	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	0.0%	-0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.1%
Belgium	0.0%	0.0%	0.0%	0.1%	0.0%	0.1%	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.1%
Cyprus	0.3%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.2%	0.2%	0.3%	0.4%	0.3%
Estonia	0.3%	0.1%	-0.1%	0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.1%	0.8%	0.5%	0.0%	-0.2%	-0.2%
Finland	0.0%	0.0%	-0.1%	0.0%	-0.1%	-0.2%	-0.2%	-0.2%	-0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
France	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%
Germany	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.0%	-0.1%	-0.1%	0.0%	0.0%	-0.1%	-0.1%	-0.1%
Greece	0.1%	0.0%	0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	0.2%	0.0%
Ireland	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.5%	0.2%	0.0%	-0.1%	-0.1%
Italy	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%
Latvia	0.3%	0.1%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	0.8%	0.3%	-0.1%	-0.1%	-0.4%
Luxembourg	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Netherlands			0.1%	0.1%	0.2%	0.1%	0.0%	-0.1%	-0.1%	0.0%	0.1%	0.1%	0.1%	0.1%
Portugal	0.0%	0.0%	0.1%	0.2%	0.1%	0.1%	0.0%	0.1%	0.0%	0.1%	0.1%	0.2%	0.3%	0.1%
Slovakia	0.5%	0.4%	0.2%	0.1%	0.1%	-0.1%	-0.2%	-0.1%	-0.1%	0.3%	0.2%	0.1%	0.1%	-0.1%
Slovenia	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.2%	0.1%	0.1%	0.1%	0.1%
Spain	0.0%	-0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	0.7%	0.4%	0.2%	0.1%	-0.1%
Annual cash position (%GDP)	0.02%	0.07%	0.00%	-0.03%	-0.05%	-0.03%	0.02%	0.05%	0.00%	-0.14%	-0.08%	-0.03%	-0.05%	-0.01%
Accumulated cash position (%GDP)	0.02%	0.09%	0.10%	0.07%	0.02%	-0.01%	0.01%	0.06%	0.05%	-0.09%	-0.17%	-0.19%	-0.24%	-0.25%
Annual cash position (bn euro)	1.81	5.50	0.20	-2.30	-3.82	-2.30	1.39	4.32	-0.14	-11.95	-6.76	-2.48	-3.91	-1.21
Accumulated cash position (bn euro)	1.81	7.31	7.51	5.20	1.38	-0.92	0.47	4.80	4.66	-7.29	-14.05	-16.53	-20.44	-21.65