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Protecting employment in the time of coronavirus:

What is the EU's €100 billion going to buy?

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Abstract

This paper briefly analyses the proposal by the European Commission to establish SURE, the 'European instrument for temporary support to mitigate unemployment risks in an emergency'.

The SURE facility would borrow up to €100 billion on the financial markets, lend it to member states to finance short-time work schemes and similar measures, using guarantees from the member states themselves.

The analysis makes the point that the scheme should be seen, first and foremost, as a proof of European solidarity to counter hostile propaganda from Russia and China about the EU's ineffectiveness. It can also have an impact on national policies to deal with the coronavirus and to assist the most damaged and/or fiscally weak member states, but this effect is likely to be limited. Potentially, the most important feature of SURE is that it explicitly refers to itself as the forerunner of a future European Unemployment Insurance scheme.

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The European Commission has recently presented a proposal for SURE, the 'European instrument for temporary support to mitigate unemployment risks in an emergency', its principal new fiscal instrument to address the coronavirus pandemic. The proposal was discussed by the Eurogroup on 7-9th April as part of the overall economic package related to the virus. According to the published reports, SURE encountered no real opposition, but became hostage to more contentious elements of the package, such as coronabonds and conditions for use of the European Stability Mechanism (ESM).

The SURE facility would borrow up to €100 billion on the financial markets, using guarantees from member states. It would then lend them to member states, based on individual applications, to finance "sudden increases in public expenditure for the preservation of employment… supporting short-time work schemes and similar measures… [defined as] public programmes that allow firms experiencing economic difficulties to temporarily reduce the hours worked while providing their employees, with income support from the State for the hours not worked." (EC 2020).

Such schemes are generally called *Kurzarbeit,* or short-time. Since the German system is the most well-known and traditionally the biggest, I will use this term here.

In this brief analysis, I evaluate four potential rationales and impacts of the SURE facility, based on the proposal published by the Commission on April 2nd.[1]

1. Proof of European solidarity to counter hostile propaganda

The strongest argument for the adoption of SURE is that it is a demonstration of European solidarity at a time of crisis. This might sound more like excuse than rationale, but experience shows that the impact of the crisis – and the impact of propaganda from Russia and China, should not be underestimated.

As the European External Action Service noted,

> "The coronavirus is a relentless and daily topic in pro-Kremlin media, including state-owned outlets. These [coronavirus disinformation] messages are characteristic of the Kremlin's well-established strategy of using disinformation to amplify divisions, sow distrust and chaos, and exacerbate crisis situations and issues of public concern… RT Spanish persistently remains among the top-20 most engaged with sources online (on Twitter, Facebook and Reddit) when it comes to coronavirus-related information, ranking as high as the 12th most popular domain." (EEAS 2020)

According to polling in Italy, 88% of Italians stated that the EU was not helping them. Support for the EU has fallen rapidly. Despite the fact that Russia has provided zero assistance, 25% of Slovaks think that Russia *did* help, which is a higher percentage than for the European Union. In the same poll, China scored higher than any other state.

[1] It builds on a previous analysis published by Alcidi and Corti, CEPS Commentary, 6 April 2020.

The political imperative should not therefore be underestimated. Given the weakness of the European Union in areas of health policy, which is essentially a national competence, social and economic assistance could be the area where it proves its mettle to EU citizens.

2. Improve national policy in dealing with the coronavirus

The next potentially powerful argument for SURE is that it can improve national policy by pushing governments to adopt *Kurzarbeit*-type work schemes, thus containing the economic and social damage of the coronavirus and preventing negative cross-border spillovers of national crises.

Is it right to put such an emphasis on *Kurzarbeit* as the dominant response to the current crisis? The crisis is likely to have also structural consequences, and 'freezing' people in jobs could slow down the reallocation of labour and capital resources, for example. However, there is a broad agreement among economists that *Kurzarbeit* has a significant role to play.

More importantly, it seems that national governments have already moved or are moving in the direction of coronavirus *Kurzarbeit* schemes even without prompting from Brussels. In addition to the German system, France, Spain, Italy and Austria have all substantially modified and expanded their existing systems to cover similar situations (*chômage partiel* in France, ERTE in Spain, CIG in Italy, and *Kurzarbeit* in Austria). Nordic countries have also announced similar measures and in several countries – where previously no such features existed (e.g. in the Czech Republic and Slovakia), or where they were considered complicated and inaccessible (the Netherlands), they have now implemented large-scale short-time -type systems.

In other words, SURE does not appear to be necessary for governments to move forward with *Kurzarbeit.* One might therefore expect SURE to be used to bring these schemes into line with best practice. But this is unlikely, for two reasons.

First, there is no obvious best practice because countries have very different systems, depending on their national history of social insurance and industrial relations. There is no strong argument to export, for example, the features of the German system into the Spanish environment.

Second, SURE funding is to be used retrospectively, after the Commission negotiates a proposal with the member state in question, which goes to the Council for approval. By the time this takes place, the national schemes will already have spent much of the money allocated by national governments to *Kurzarbeit*. So the Commission will not have much leverage over the details, only a choice of whether to refund it or not.

3. Financial assistance for the most damaged and/or fiscally weak member states

Another possible positive impact of the SURE mechanism could be to financially help those member states that are most damaged by the virus or that are fiscally the weakest.

SURE limits the three largest recipients to 60% of the total fund. Back-of-the-envelope calculations suggest that if Italy, France and Spain drew all of the possible funding, this would amount to €60 billion, or 1% of their GDP. If they drew on the fund proportionally to their GDP, it would come to 0.6% of GDP.

The table below shows how much these three countries spent on unemployment in 2017, the last year for which OECD provides such data.

Table 1. Public spending on unemployment and employment

	Cash assistance to the unemployed (% of GDP)	Employment issues overall (% of GDP)
France	1.62	2.85
Italy	1.00	1.79
Spain	2.02	2.19

Source: author based on "Society at a Glance, Social Indicators 2019", OECD.

We can see that 0.6-1% of GDP would be a considerable but not massive addition to the fiscal firepower available for employment issues in the three countries. It is equal to or smaller than overall packages announced by the three national governments to directly assist business.

Cash is fungible so it can be moved by national governments from one area to another. A more important question therefore is whether SURE can increase the overall financial envelope available to national governments.

Given that it is a loan, not a grant, SURE does not improve solvency (compared to borrowing on the market), so it does not substantially affect access to cash for national governments, especially as the ECB's Pandemic Emergency Purchase Programme (PEPP) underpins the liquidity of the market in government debt at the moment.

SURE also contains a subsidy since it will borrow cheaply – underpinned by guarantees from the member states. However, even under the most optimistic assumptions (that hard-hit countries will borrow to the maximum and that the EU will borrow as cheaply as Germany), the subsidy to Italy would be 0.02% of GDP and probably much lower (0.005-0.01%)

Nevertheless, SURE could be much more important if the financial environment changed, for instance if there were limitations on PEPP or a dramatic rise in funding costs for Italy or Spain.

4. Harbinger of future European Unemployment Insurance

The proposed SURE regulation states that "[t]his temporary instrument should be seen as an emergency operationalisation of a European Unemployment Reinsurance Scheme in the specific context of the COVID-19 crisis." (EC 2020). It is possible, therefore, that the most significant impact of SURE will be in what it presages.

The idea of European unemployment insurance has been around for decades, but it gathered momentum after the 2008-09 financial and economic crisis.

While there is broad agreement in policy circles that an economic and monetary union needs some kind of 'insurance' union – not just for the financial system but also for labour markets and individuals, actual proposals have not yet materialised, primarily due to the resistance of national governments. If the current crisis and SURE break this deadlock, then establishing a permanent unemployment insurance system at the European level could indeed be the most important and visible legacy of SURE.

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