ABSTRACT:

Nearly all monetary unions are true ‘insurance unions’: they not only centralize risk management with regard to banks, they also centralize unemployment insurance. The European Economic and Monetary Union is the one exception, but it is gradually developing policies driven by the need for mutual insurance, notably in its progress towards a Banking Union.

This paper focuses on unemployment insurance; it sketches the rationale for a degree of centralization that would create a lean insurance union, addressing the risk of large economic shocks. I apply a ‘vaccination metaphor’, which signals two policy conclusions.

The first conclusion is congenial to the argument that vaccination should be compulsory: resilience in the face of economic shocks must be a feature of all Eurozone member states; resilience requires sufficiently generous and universal unemployment insurance and adequate activation policies for the unemployed. In itself, this first conclusion is significant; it underscores the importance of a number of principles set out in the European Commission’s proposal for a Pillar of Social Rights, independently of the creation of Eurozone stabilizers.

The second conclusion is congenial to the argument that vaccination must be subsidized to reach its optimal level: in the case of large shocks, fiscal support for member states in dire straits is necessary, to keep the vaccination program affordable. If such a mechanism is set up ex ante, risk reduction and risk sharing reinforce each other.

Reinsurance, rather than genuine European Unemployment Benefit Scheme, promises the best approach to attain that dual goal.

http://link.springer.com/article/10.1007/s10272-017-0665-8