

Abstract

The American system of unemployment insurance (UI) is often cited as a model for potential European unemployment re-insurance schemes. While oversimplified comparisons are to be avoided, there are lessons Europe can learn from US federal-state relations regarding UI. We distinguish three aspects of the US system: first, in the 1930s the federal government was able to solve a collective action problem that impeded the development of state-level UI programs; second, during the 1950s Congress enacted a federal backstop for depleted state UI trust funds that are used to finance regular UI benefits; third, in the 1970s the federal government added an extra layer of UI to the state system, based on an intergovernmental co-financing of benefits which intensifies during crises and thus reinforces protection and stabilization where and when it is most needed. The second and third aspects now exercise European interest, which is about buttressing national systems with a supranational layer of insurance. The American experience shows that federal-state cooperation has overcome problems of collective action and enhanced stabilization. It proved to be of great importance in the Great Recession to effectively expand the protection of unemployed workers and to backstop state UI programs in a period of high and rising unemployment and thereby to contribute in a relevant way to the stabilization efforts of the Obama Administration. However, there are also some structural weaknesses in the American system. With a view to what might be developed in the EU, we identify two risks when an extra layer of unemployment protection is added at the supranational level. First, depending on the set-up of the system, federal-level financing of UI can lead to retrenchment of state-level efforts in terms of UI schemes and macroeconomic stabilization. Second, state-level retrenchment can lead to divergence between state UI programs. The US UI model is vulnerable to these two risks, although this may not be its main current challenge. Simultaneously, these risks – and the other problems besetting the American model – are not insurmountable. We draw both positive and cautionary lessons from the American experience. A lesson is that minimum requirements regarding generosity and coverage levels of UI programs are fundamental prerequisites for any supranational re-insurance.

Keywords: Unemployment insurance, European unemployment re-insurance, macroeconomic stabilization, fiscal federalism