Towards EU Unemployment Insurance?

OSE Lunchtime Session – Brussels, 4 June 2014

SUMMARY
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Introduction
The European Social Observatory (OSE) is a research and resource centre on the social dimension of European integration whose goal is to disseminate relevant research among policy makers, academics, and the public at large. Today it is pleased to have present Professor Amy Verdun, a leading expert in the field of Canadian social policy, to discuss what lessons the EU and Canada might learn from each other regarding social policy. The European Commission has often referred to the US unemployment benefit system as a source of inspiration, but given the loose federalism of the Canadian system, a comparison between the EU and Canada could prove even more fruitful.

Amy Verdun, Keynote Speaker
A comparison between Canada and the EU is perhaps not immediately obvious, since the EU does not call itself a federation. Looking at such a wide variety of dimensions, however—from pensions and unemployment to homelessness and postsecondary education—has revealed that these two entities have much in common and could draw important lessons from one another. This OSE session on an EU unemployment insurance, therefore, is part of a much larger thematic.

So, why compare the EU with Canada?

Nature of the political system
- The EU is sui generis—that is, it’s uniquely specific to its own nature. Imagine that the World Trade Organization had to invent a new term to accommodate the EU so that it would be able to join. However, even though it is often afforded its own category, the
EU is actually very similar to the Canadian system in many ways. Both blur the boundaries between a unitary state and a federal state.

- Europe lacks a strong sense of European identity. Whereas Canadians identify themselves as Canadians before Ottawans or British Columbians, Europeans identify themselves as French or British or Bulgarian—they hardly consider themselves European at all. Despite this, Canada (like the EU) is a very loose federation. There are lots of structural similarities between the two—Parliament, Council, courts, laws, and so forth—and Canada shares a lot of the qualities that keep the EU from calling itself a federation.

**Social policy**

- In the EU, many facets of social policy are the prerogative of Member States, and the Member States are wary of letting supranational governance impinge upon their jurisdiction. Nevertheless, there are several social policy elements that are managed on the EU level.
- In Canada, the situation is similar: social policy is often left to the provinces or territories, but there are instances in which the federal government gets involved.

**The Economic and Monetary Union compared to Canada**

- Canada as a nation has an undisputed currency, but the Canadian federal budget is relatively small, roughly 12% of GDP. For most Canadians, having a large federal government is out of the question.
- Similarly, Europe’s single currency means that it has a central bank and strict rules on deficits. The EU spends only 1% of European GDP—so while the models are slightly different, these differences are peripheral, not fundamental.
- Rather than adding another layer of taxes over the top of national taxes, the EU lets the Member States restrict their own spending.

**Crisis in the EU versus the Crisis in Canada**

- The 2009 economic crisis sorely affected Europe, but Canada escaped many of the worst repercussions. In the 1990s, however, it underwent a similar period of severe recession. During this period and especially in the area of social policies, the government started to retract its commitment to spending.

The Open Method of Coordination (OMC) has been fairly effectual in an EU context. The Council and Commission establish common objectives and guidelines and then take them to the Member States, which then implement national reform programs, key indicators, peer reviews, and so forth. Eventually the process begins again, involving a large number of actors in the cycle.

In our research, we have explored the possibility that Canada can learn from the OMC as a way of drawing actors into the decision-making process. In Canada, social policy is administered at the provincial level, and provincial governments are unwilling to cede that part of their power. Similarly, EU Member States are wary of too much EU-level interference in social policy. Canadians who have studied it are attracted to the OMC as a
model that does not promote EU institutions to the role of decision-maker, but rather gives the autonomy to the Member States and allows them to learn from each other.

Forward-thinking architects of the current European Union knew that EMU would one day need to expand to include a social dimension. In this respect, how can the EU learn from the Canadian model?

- Canadian Constitutional amendments in 1940 and 1951 ensured that there would be unemployment benefits and old age pensions at the federal level. Today, they are pan-Canadian arrangement, even though social policy is still mostly provincial.
- The government has moved away from social policy by cutting spending and discharging social obligations onto the provinces. Canada, therefore, has tended toward increased decentralization, not federalization.
- Since the 1940s, equalization policies have redistributed wealth across the board to avoid excessive provincial diversion. This has allowed Canada to minimize the difference between the haves and the have-nots.
- The power to tax and spend is very important in making federal policy a success, provided that the money is well-spent.
- A lack of identity is closely linked with a lack of legitimacy. In Canada, citizens do not resist the transfer of money to other provinces because they have a sense that it is going to help fellow Canadians; in the EU, on the other hand, where people do not identify as European, they see wealth redistribution as a financial drain in the interest of foreigners.
- Canada is experimenting with a ‘Social Union’ of the sort that an EU unemployment benefit scheme would require (Social Union, 1999).

In conclusion, Europeans are concerned that too much federalism is equivalent to a lack of national power. It might be beneficial, however, to consider the Canadian case as they move forward in the decision-making process: Canada is a federal state with two very strong levels of government.

**Discussion: the Canada-EU comparison**

We have entered a moment in which no one argues for more EU governance; indeed, people fear European institutions because they are afraid that EU interference will put undue strain on their national social policies, or that EU-level regulations will be too intrusive. In Canada, there is an equivalent level of distrust of the federal government, so the Canadian model can give us some idea of how social policy and federalism interact. One of the important outcomes of the crisis has been the evidence that nations with strong welfare systems—with strong automatic stabilizers—performed better than those without.

A close examination reveals that the EU has much more in common with Canada than it does with the United States. The primary difference is that while the EU is (slowly) pushing toward centralization, Canada is pushing steadily toward decentralization.
In Canada, active labour market policies fall under the jurisdiction of the provinces and comprise a set of fields that would benefit from some sort of OMC that allows states to collaborate and work together. What failed in one jurisdiction might succeed in another. In Canada, the collecting of data is nearly impossible because the resources are at the federal level, but there is no standardization about what sort of data the provinces should collect—a deficiency of too much devolution.

Even though the idea of an OMC does not threaten provincial sovereignty, nothing of the sort has developed in the Canadian system. Given Canada’s devolution over recent years, the federal government has not taken an active role to facilitate communication between high-level province officials. The individual provinces do not take the initiative to organize such a program themselves because the federal government has withdrawn funds that support civil society. The current federal government knows that if it facilitates talks between the provinces, the provinces will ask for money to implement new programs. It creates a complete disincentive on all sides for provinces to engage in discussions about policy measures and learn from each other. However, it could save significant time, energy, and money if the provinces were to learn from each other’s mistakes and successes.

**Convergence and Harmonization**
EU Member States work toward convergence, but they fear harmonization. Are labour market institutions (like labour law, public employment services, and wage-setting systems) very different across Canadian provinces? It depends on who you talk to. Labour markets are often the competence of the province, so citizens who are dissatisfied at the provincial level lack a recourse with more authority. The Canadian internal market is in some respects less integrated than that of the EU, so some things are not harmonized across the provinces. There are elements in which this system works well and others in which it does not.

**Federal right to spend**
If subsidiarity—by definition, the devolution of governance to the lowest, least-centralized level—is impossible, we must strive for solidarity. The EU does not ask for full centralization, but it is a concept we must keep in mind as we move forward. To organize any sort of conversation, we must begin with stable building blocks.

**Taxation**
Taxes in Canada are structured so that, while citizens know which portion of their taxes goes to which level of government, they are filed and collected at the same time. This method has created a sense of inclusiveness and national identity. Young Canadians are dismissive about the traditional institution of the province, but they respond positively when asked what they are getting out of their government, whether from the federal or provincial level. They distinguish themselves from American youths by their universal healthcare, which is considered a Canadian concept.

**The modest scope of an EU unemployment benefit scheme**
Our EU unemployment benefit scheme does not at the moment address the problem of youth unemployment. Frankly, the current proposal – recently published by the the is a modest one; with such institutional changes, progress must be modest or it will fail. We cannot try to take over active labour market policies at the EU level. Therefore, trying to address other problems, like structural youth unemployment, is out of reach for the time being. Active labour market policies must remain in the domain of the Member States.

It is important to discuss the extent to which membership in the unemployment benefit scheme should be conditional. Should states only become part of it if they guarantee that they will continue to pursue active labour market policies? The trouble arises in that an unemployment benefit scheme addresses long-term problems and will take effect over a large time span. Other considerations, like the youth guarantee and high youth unemployment, are more pressing and immediate and require different measures.

**Political feasibility**

In both Canada and the EU, the relationship between the *haves* and the *have-nots* has been changing overtime—take the new German economic model of success and the reversal that Ottawa has undergone in recent years as examples. In order to achieve success, there are several things that an EU unemployment benefit scheme should not do:

- Create incentives to remain unemployed
- Create an EU-level administrative bureaucracy; instead, it should rest on the existing bureaucracies of the Member States
- Allow permanent transfers in any direction

Our unemployment benefit scheme would aim to fix only cyclical unemployment, not long-term structural unemployment; including the latter would make the model political infeasible. It is not intended to tackle the problems introduced by the crisis; rather, it is about prevention, stabilization, and synchronization, not correction. The goal is a more stable Eurozone with better growth perspectives, but it is a politically ambitious project that infringes on cherished zones of Member-State sovereignty. In order to achieve it, Europe must develop a European identity so that it can claim the same level of solidarity found in Canada.

**A European identity—or a global identity?**

The issues we have encountered today are typical integrated interdisciplinary challenges and can only be managed through new global governance. Why only a *European Social Observatory*? Why not a *Global Social Observatory* that joins the increasing number of global initiatives doing more or less the same thing? A single person or organization will be unable to achieve it: we must go beyond competition and toward cooperation.

If we are true believers in mankind, we should not respond to global boundaries. Morally, the reinforcement of a strong global sphere should always be considered the noblest goal. Unfortunately, however, we have yet to develop a global government. As long as we do not have a system that will take responsibility for everyone, a state system is the next best
thing. The EU, in a sense, is transcending the traditional institution of the nation-state—in a sense, transcending national identity. This is where Canada should look to the EU; if twenty-eight countries can sacrifice a little sovereignty, come together, and reach an accord, it is really an achievement to aspire to. Baby steps are essential. For now, we only have the EU, but maybe later we will reach a global form of governance.

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