



# SURE: A QUICK FIX TO BE WELCOMED, IN SEARCH FOR LONG TERM SOLUTIONS



## Summary

On 1st April, European Commission President von der Leyen announced the proposal to create a European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE). This instrument is to provide loans-based financial support to member states facing a sudden increase in public expenditure due to their quest to preserve employment. In this policy brief, the authors argue that SURE is a timely and welcome instrument to support member states as they address the short-term challenges of the Covid-19 crisis.

Yet **SURE also has some limitations and is thus insufficient in the medium to long term for tackling the bleak employment outlook across the EU.** On the one hand, SURE's value added consists of its focus on job protection, its lack of conditionality attached to loans, its smooth application procedure to gain access to financing, and its broad scope to include both short-time work (STW) schemes and similar measures for the self-employed. On the other hand, however, there are also certain limitations apparent in SURE's current design.

1. The first is the limited amount of guarantees, which makes it impossible to increase the size of SURE unless other guarantees are added.
2. The second limitation is related to the fact that SURE is a temporary loans-based vehicle and will therefore inevitably imply an increase in the public debt of countries hit by the crisis.
3. The third limitation is that SURE consists of short-term relief for national budgets, and these will likely be burdened in the long term by increasing unemployment rates.

This therefore suggests that in order to increase its effectiveness in the medium to long term, SURE should be accompanied by complementary measures at European level, such as a European Unemployment Reinsurance Scheme (EURS).

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## A quick fix to be welcomed in the search for long-term solutions

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In its endeavour to deliver a package to respond to the economic fallout from the Covid-19 pandemic, and thus to avoid a complete – and dreaded – political clash, the Eurogroup agreed at its meeting on 10 April to the Commission’s proposal for Support to mitigate Unemployment Risks in an Emergency (SURE) – alongside other measures. This new instrument allows financial assistance up to €100 billion in the form of loans to member states facing a sudden increase in public expenditure due to their quest to preserve employment. Notably, the Commission’s proposal states that “the SURE instrument will act as a second line of defence, supporting short-time work schemes and similar measures, to help Member States protect jobs and thus employees and self-employed against the risk of unemployment and loss of income” (European Commission 2020, p. 2).

### **How should the adoption of SURE be assessed from a progressive perspective?**

Our answer is that SURE is a timely and welcome instrument to support member states in addressing the short-term challenges of the Covid-19 crisis. However, SURE also has major limitations and is thus insufficient in the medium to long term for tackling the bleak employment outlook across the EU.

### **1. A positive move in a politically divisive context**

Politically, the Eurogroup’s endorsement of SURE is not an insignificant victory for the Commission in its struggle to assert the relevance of supranational instruments. Back in 2009-10, crisis management rapidly took an acute intergovernmental turn, with new instruments being created outside the EU legal framework – which left the Commission as a somewhat secondary actor. Against the background of strong verbal confrontation between those leaders calling for more solidarity and those opposing radical innovations in response to the Covid-19 crisis, the adoption of SURE is significant. By focusing on a policy to address a widely-shared crisis across the member states, SURE should be able to showcase the relevance of the EU – and its institutions – through a concrete measure operationalised by the European Commission itself.

From a policy standpoint, SURE has interesting added value on several fronts:

#### **Preserving employment**

By supporting short-time work (STW) schemes, SURE aims at preventing rather than compensating for unemployment. These STW schemes are public programmes that allow firms experiencing economic difficulties to temporarily reduce, partially or totally, the hours worked in their firm, while providing their employees with income also for the hours not worked, using support from the State or other special funds. The aim of STW schemes is twofold: 1) to preserve employment, by encouraging firms to adjust their labour input along the intensive margin (reduction of working hours) rather than along the extensive margin (lay-offs); and 2) to cushion the social consequences of mass redundancies. In doing this, STW schemes have a strong solidarity dimension, since they spread the negative shocks due to economic recession among



workers, and between workers, employers and the government.

From the workers' perspective, STW schemes are used to spread the risks, protecting jobs irrespective of the tenure and wage of the job holders. Moreover, the possibility to work every day, even for shorter hours, is helpful for workers, since this reduces the risk of skill deterioration, preserves workers' job-search ability, and ultimately minimises the risk of being disenfranchised from the labour force. For the firms, STW schemes represent a convenient tool for dealing with transitory shocks without incurring potentially high dismissal costs. They also preserve the human capital specific to the firm. Moreover, by spreading the burden of adjustment between workers with different tenures and wages, the total labour cost would be lower under an STW scheme than it would be if only the less-productive low-wage workers were laid-off.

### **Economic stabilisation**

A second function of SURE is to provide macroeconomic stabilisation in the EU, especially in the euro area, by reinsuring national STW schemes. Indeed, for the governments, STW schemes act as fiscal stabilisers in times of economic recession. Since employers and workers maintain their relationship under an STW scheme, the recovery process after an economic downturn should be quicker and less costly for the state budget than it would be if the unemployed workforce had to be reactivated. Currently, almost all member states have national public STW schemes in place and most EU member states have therefore decided to resort to these schemes in response to the Covid-19 crisis. Both Germany and Italy have thus already allocated €10 billion to reinforce their *Kurzarbeitergeld* and *Cassa integrazione guadagni* respectively. A similar approach has

been followed in France and Spain for their *chômage partiel* and *ERTE* (*Expediente de regulación temporal de empleo*) respectively.

Clearly, SURE's stabilisation capacity is highly dependent on country-specific configurations. In particular, economies with larger firing costs and collective wage bargaining can expect higher STW take-up rates and, consequently, stronger stabilisation effects from STW schemes, when compared to those economies with low firing costs and weak (or non-existent) collective wage bargaining, which generate incentives for employers to opt for lay-offs. Other important factors affecting the stabilisation capacity of STW schemes are coverage (namely how many workers are covered by such schemes), the degree of fragmentation of the labour market and the number of employment relationships not covered by social security systems. We can therefore see that the long-term trend towards the deregulation of labour markets has made national economies more vulnerable to the upcoming recession. This is particularly true for Southern Europe, which thus poses a greater challenge in terms of upward convergence. If accompanied by a soft guideline with best practices, SURE could help tackle this issue, albeit to a limited extent.<sup>1</sup>

### **Wide coverage**

A third important feature of SURE is that it explicitly extends its coverage to the self-employed. The number of self-employed in the European Union has increased significantly over the past few years – and especially so in Greece, Italy, Poland, Romania, the Netherlands and Spain, where the share of self-employment is above 15% of the total employed population aged 15-64. In the member states most hit by the Covid-19 crisis, ad hoc measures have been adopted to support self-employed workers, who are not

<sup>1</sup> For a similar argument, see also Fernandes and Vandenbroucke (2020).



usually covered by STW schemes. In Spain for example, a monthly allowance of €660 is now provided for self-employed workers who can demonstrate that their income has been significantly reduced due to confinement. In Italy, the government introduced a one-off compensation payment – at least for now – of €600 for the month of March for the self-employed. Similar measures have been adopted in the Netherlands, where a temporary bridging measure for self-employed professionals has been created to provide income support up to a maximum of €1,500 (net) for self-employed professionals hit by the Covid-19 crisis. Everywhere, these measures are a burden weighing on national budgets. It is therefore key for SURE to complement national efforts to protect the self-employed too, as they are not usually covered by STW schemes.

### **No conditionality**

Unlike previous instruments adopted under Article 122(2) of the Treaty on the Functioning of the European Union (TFEU), such as the European Financial Stabilisation Mechanism (EFSM), the proposed SURE covers all EU member states, not only those of the euro area. It is also unconditional. No memorandum of understanding needs to be signed by a beneficiary member state, but resources have to be earmarked. The procedure for receiving financial assistance under SURE is not automatic and involves two steps. First, the member state requests activation of the SURE instrument from the Commission, which is the only direct manager of the scheme. Once the member state's fulfilment of the prudential rules has been verified, the Commission makes a proposal for an agreement on the financial assistance, which the Council then formally approves with a qualified majority vote. The agreement between the Commission and the beneficiary member state concerns provisions regarding controls and audits that guarantee that the financing provided has been properly

used to support STW work schemes. The (hopefully smooth) supervision by the Commission without any conditionality attached should thus avoid the asymmetric power struggles – if not effective asymmetric economic sovereignty – associated with the EFSM and, later, with the European Stability Mechanism, which have fuelled so much political bitterness and resentment over the past ten years.



## 2. The limitations of SURE and why it cannot replace a European unemployment reinsurance scheme

### Extent and nature of funding

The Commission's proposal for SURE foresees a lending scheme up to €100 billion, underpinned by a system of credible, irrevocable and callable guarantees to the Union from member states. While this lending capacity is certainly significant and can be enough to address the current expenditure planned by member states on STW schemes and similar measures for the self-employed (Grund et al. 2020), it is not yet known how the Covid-19 crisis will evolve over the next few months. A protracted lockdown and a large number of member states applying for SURE may quickly exhaust the funds available. On this front, the limited amount of guarantees makes it impossible to increase the size of SURE, unless other guarantees are added<sup>2</sup>. As concerns the nature of the guarantees, the Eurogroup conclusions mention that the loans granted through SURE should be "building on the EU budget as much as possible" and on "guarantees provided by Member States to the EU budget" only as a secondary source of funding. This proposal is certainly interesting and should be welcomed since it would increase the autonomy of SURE, by avoiding the risk of member state vetoes. Indeed, according to the current Commission proposal (Art. 12), SURE would be available after *all* member states have contributed to it with their guarantees for an amount representing at least 25 % of €100 billion.

<sup>2</sup> In this respect, we should also consider that the maximum lending amount to the three member states that will benefit from the largest amount has been set by the Commission at €60 billion.

This said, in the case of SURE relying on loans granted through the EU budget, it remains – at this stage – unclear how this will articulate with the EU budget 2020, and especially with the next 2021-2027 multiannual financial framework, which is still under negotiation<sup>3</sup>. In the – very likely – event of the EU's budget not being increased enough to take into account all the needs linked to the response to the Covid-19 crisis, there is a risk that this would either encroach significantly on established social categories of expenditure (e.g. the European Social Fund) or that it would limit the funding via the EU's budget considerably. This scenario should be avoided, and it is therefore of the utmost importance that progressive forces from all countries monitor and push for an ambitious EU budget that meets the expectations of citizens.

### Loans mean more debt

A second limitation of SURE is that it is based on loans<sup>4</sup>. This means that the public debt of beneficiary countries will continue to increase. While for some governments – such as Italy and Spain – it is more reassuring to have the EU as creditor than financial markets in turbulent times, debt has to be paid back and the burden will remain for years. While we acknowledge that, given the constraints imposed by the Treaties and the urgency for a response, a loans-based instrument was certainly the only feasible and quick solution that could have been put in place to address the emergency situation within the EU law framework, we maintain that a more ambitious initiative is nonetheless needed to avoid the level of national public debt increasing even more and becoming unsustainable – especially in those

<sup>3</sup> A new proposal from the Commission is expected by the end of April.

<sup>4</sup> For a similar argument, see Alcidi, C. and Corti, F. (2020).



countries hit hard by the crisis and with already high debts.

Several proposals have therefore been advanced by economists on how the EU could finance member state expenditure to address the current crisis. Giavazzi and Tabellini (2020), for example, have suggested issuing irredeemable or very long maturity Eurobonds, backed by the ECB, to keep the financing burden low. Codogno and van den Noord (2020) have meanwhile proposed the introduction of a “European safe asset” issued by the European institutions and backed by a European taxation scheme or compulsory transfers from member states to the centre, with the aim of finally creating a centralised fiscal capacity for the Eurozone. Landais, Saez and Zucman (2020) have in turn proposed the creation of a time-limited, European-wide progressive wealth tax assessed on the net worth of the top 1% richest individuals, the revenues of which could be dedicated to the repayment of common European bonds issued during the Covid-19 crisis (for instance, EU bonds to finance national STW schemes) or could be dedicated to funding a common rescue fund. A more ambitious proposal, however, has been launched by Botta, Caverzasi and Russo (2020), who propose that the ECB monetise (either cancel or forgive at maturity) bonds issued by national governments during the emergency.

We deem it of the utmost importance that progressive forces push for a genuine debate on such measures to take place in the coming weeks. Instead of leaving key decisions in the hands of the Eurogroup, this debate should involve the member states, the European Commission, the European Parliament and the European Central Bank.

<sup>5</sup> A European Unemployment Reinsurance Scheme is a variant of the European Unemployment Benefit Scheme. For more details, see [“Feasibility and](#)

### **The link with a European Unemployment Reinsurance Scheme**

Several commentators have associated this new SURE measure with the idea of a European Unemployment Reinsurance Scheme (EURS)<sup>5</sup>, which was announced in January 2020 and is expected to be presented by the end of this year. While the two instruments share the objective of supporting income stabilisation in large downturns, they target different groups: employers, employees and the self-employed are targeted by SURE; and the unemployed by a EURS. The two instruments are also designed in different ways: SURE is a temporary loans-based, not automatic, vehicle; while a EURS is a permanent automatic transfer mechanism. Designed in this way, a EURS fulfils three functions. Firstly, it reallocates resources across member states within a given period (“geographical insurance”). Member states first pool resources according to commonly accepted rules and then distribute these resources to those in greatest financial need. Secondly, a EURS reallocates resources across time (“intertemporal insurance”). This can be achieved through issuing debt or allowing the supranational fund to go into deficit in times of recession while compensating it in good times. Thirdly, a EURS allows for the “enhancement of national unemployment insurance schemes” through the introduction of common minimum standards that would improve the coverage and stabilisation capacity of national unemployment insurance schemes, and that might contribute to an upward convergence. SURE, however, fulfils only the second of these functions.

SURE and a EURS are nevertheless not competing instruments but should rather be considered as complementary. Indeed, STW

[Added Value of an Unemployment Benefit Scheme”](#)  
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schemes cannot be an effective tool for responding to persistent cyclical fluctuations. By subsidising wage cuts in declining sectors, short-time public schemes increase the costs of mobility for workers. If STW schemes are used to cushion not temporary but prolonged crises, there would be a risk of smoothing out the effect on job losses, and maintaining high unit labour costs in a time of declining demand. It is therefore important for STW schemes to be used only in the initial period of a crisis. If the crisis persists, the buffer function of supporting workers' loss of income should then be compensated by traditional unemployment benefit schemes. This would mean that in the second part of the Covid-19 crisis, an additional European re-insurance buffer for national unemployment benefits will likely be needed in order to stabilise the economic cycle and avoid excessive financial burdens on the budgets of the member states most hit by the crisis<sup>6</sup>. For this reason, it is important for the Commission to keep working on the proposal for a European Unemployment Reinsurance Scheme.

The fact that the Commission mentioned a EURS in the proposal for the Regulation on SURE is of great importance. Indeed, according to the Commission, the SURE “should be seen as an emergency operationalisation of a European Unemployment Reinsurance Scheme in the specific context of the Covid-19 crisis, without prejudice to the possible subsequent establishment of a permanent instrument under a different legal basis in the TFEU” (European Commission 2020, p.3). Proposing SURE can therefore be seen as a strategic move perhaps foreseeing the switch from SURE to a EURS in a subsequent stage of the crisis. In a way, this would mimic the transformation of the European Financial Stabilisation

Mechanism first into the European Financial Stability Facility and then into the European Stability Mechanism. However, with regard to SURE, the Eurogroup explicitly mentions that “the Member States' position on this emergency instrument does not pre-judge the position on future proposals related to unemployment insurance. Consistent with its legal basis, access to the instrument will be discontinued once the COVID-19 emergency has passed”. In this light, there is also a risk of SURE becoming a sort of fig leaf for insufficient responses to the sheer magnitude of the recession. It is therefore important that progressive forces continue their battle for the adoption of an ambitious European Unemployment Reinsurance Schemes, as promised in the PES electoral manifesto of the 2019 European election.

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<sup>6</sup> For a broader discussion on the SURE initiative and euro area unemployment re-insurance, see Vandenbroucke et al. (2020)



### 3. In need of long-term solutions

In conclusion, the adoption and swift implementation of SURE should be welcomed by all progressives. Anchored in the legal framework, it provides a new tool which will bring important support to national policies that are key to mitigating the effects of the upcoming recession and that are widely shared across the member states. Politically, SURE delivers what European citizens want to see, namely effective common responses to common problems.

More importantly perhaps, in spite of its interesting – and even innovative – aspects, SURE is only meant to be a quick fix. As argued above, it is only one instrument in a toolbox that needs to be much larger in order to pull Europe out of the historic recession that is about to come, and in order to restore the much eroded public confidence in the EU's capacity to act collectively. In the long term, member states' increased debts due to expenditure on STW schemes will represent a significant burden, especially for countries like Italy and Spain. It is therefore of the utmost importance for a European strategy to be planned now in order to overcome the difficulties that are about to come. This raises the question as to how the Stability and Growth Pact (SGP) rules will be addressed once they apply again after their current temporary suspension. It would be wise to exempt member states' expenditure for STW schemes from the relevant debt targets of both the preventive and the corrective arm of the SGP. In the medium and long term, STW schemes will no longer be sufficient and the priority will shift from employment protection to protection of the unemployed. National unemployment insurance schemes, especially in the countries most hit by the Covid-19 crisis, will likely be under severe stress, as well as national budgets. It is therefore important for SURE to be accompanied by a complementary European Unemployment Reinsurance

Scheme. What is more, it is very likely that further instruments involving new sources of funding will be necessary to tackle the effects of the upcoming historic recession effectively. Creating a European compensatory fund financed through EU taxation or compulsory national contributions, or through allowing the ECB to monetise bonds issued by national governments during the emergency, are proposals to be considered to allow the upcoming recession to be addressed beyond quick fixes such as SURE.

As always, the limitations of SURE as a policy instrument are precisely what made its adoption politically possible. However, it is very unlikely that public opinion will forget the verbal confrontation that surrounded the Eurogroup meeting on 10 April. From a democratic point of view, it is a matter of concern to see heads of state or government delegating the brokerage of major political deals to the Eurogroup – a body whose effective decision-making power is inversely proportionate to its political legitimacy. It would thus be extremely disappointing if heads of state or government were now just to rubber stamp the decisions of the Eurogroup instead of brokering major political bargains that can ensure the cohesion – if not the existence – of the EU in the future. Another concern in terms of democratic legitimacy also emerges from the de facto exclusion of the European Parliament from the current management of crisis. The Parliament is thus at risk of remaining only a spectator of a show that is led by the European Commission and the Council. Progressives and especially the S&D group in the European Parliament must therefore make their voice heard, and it is of the utmost importance that their voice be not only as loud as possible, but also unanimous. The progressive family must show that the national divides, which characterise the debate among member states, do not hold true for the social democratic family, who stand united when it comes to European solidarity.



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