

ÚVODNÝ PRÍHOVOR MINISTRA FINANCIÍ SR
EUROPEAN UNEMPLOYMENT BENEFITS SCHEME
CEPS - SK PRES KONFERENCIA
11.júl 2016

My fellow Ministers,
Dear Commissioners and Members of Parliament,
Ladies and gentlemen,

It is a great pleasure to be here today with you. I am very happy that so many of you decided to accept our invitation to this conference organized by the Slovak presidency, together with the European Commission and the CEPS think tank, on the topic - the European Unemployment Benefits Scheme.

We are meeting here at a moment which recalls that famous curse: may you live in interesting times! Recently, one EU Member State decided to leave the Union. This has triggered a storm of opinions and ideas what to do now with EU integration. I fear that all too often, attitudes towards further integration seem to be taken on instinct.

“More Europe” versus “less Europe”, Eurosceptic Member States versus Euro Optimistic Member States. As the Slovak Presidency, we would like to strike a balance here. There are those who believe that “integration has gone too far” – they are the ones who celebrated a victory recently in Britain. There are others, who think that greater centralisation in Brussels is always good. We, as a country, and as a Presidency, believe in compromise. We think that it’s not a question of “either national governments, or Brussels”. We do believe in the basic principle of the EU, which is subsidiarity. It means that there should be complementarity, not conflict. Let us do on the national level everything that is possible. And let us do together at the European level anything that is necessary. So, it is not “more Europe” versus “less Europe” for us. We simply want “better smart Europe”.

An illustration of such better Europe is, in my view, a common unemployment insurance scheme for the European countries. We think it is precisely such middle way between, on the one hand, having no common macro stabilization function at all. And on the other hand, a discretionary centralised budget. It is a middle way, because it would be a common automatic stabilizer. It would do something that cannot be done at the national level, but without creating more discretionary power at the centre. As Presidency, we believe that a debate on automatic stabilisers for the Eurozone is necessary, almost inevitable. Let me try to explain why.

History knows many examples of currency unions. But only some of them survived in the long run. There are basically only two types that managed it. Either the currency union is a grouping around a single dominant country, like the former colonial power, or it is a currency union that created common fiscal mechanisms. I think none of us wants the Eurozone to break up, or to come under dominant influence of a single country, which implies that we should try to make real progress towards a fiscal union. This is in fact not completely new – some elements of fiscal union already exist in the EU.

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In functioning monetary unions with common fiscal mechanisms, fiscal policy plays essentially three different roles: redistribution function, insurance function for asymmetric shocks and stabilisation function for symmetric shocks. And we do have the redistribution function in the European Union, in the form of the Cohesion Policy. But it is important to stress that the Structural Funds are not responsive to cyclical fluctuations. In other words, we do not have the insurance against asymmetric shocks, and we do not have stabilisation for symmetric shocks. As the experience of the crisis demonstrated, these functions within the monetary union are actually very important. It needs to be stressed in this context that while the economy of the Eurozone may be emerging from the crisis. Both asymmetric and symmetric shocks can be expected in the future. We cannot abolish the business cycle, so there will be ups and downs, or in other words, shocks.

In this forum, I would like to concentrate on the asymmetric shocks. What happens when one part of the currency union experiences a boom, while another is hit by a recession? By definition, single monetary policy cannot solve the problems of countries in different stages of their economic cycles. At the same time, if countries have to undertake fiscal consolidation during the crisis difficult times, this limits fiscal policy tools and capacity at the national level. But even if all countries were structurally balanced, and kept the rules of the Stability and Growth Pact, national fiscal policy would not be enough. For a single country, a single closed economy, it would work. A single country with zero structural deficit could allow free play of its own national automatic stabilisers. But a monetary union is different. In a monetary union, fiscal consolidation, as well as fiscal expansion, have spillover effects on the other countries. And there is no exchange rate to act as an adjustment channel. If the single monetary policy cannot help, and national fiscal policies cannot help sufficiently, then we simply must look for another mechanism at the European level. This is what economic theory tells us, and this is what was confirmed by practical experience during the crisis.

Now, Slovakia is proud of its record of observance of the fiscal rules. We promote reforms as well as discipline in all countries of the Eurozone. But we do realise that getting through the crisis was only partly thanks to our own actions. There is at present no guarantee that a small Member State such as ourselves will be so lucky again. That is why we see our future in a united, coherent, and prosperous European Union. A European Union which includes a completed Eurozone. And the coherence and stability of the EU is especially important for small open economies, which are more vulnerable to shocks. We can understand why some of the larger countries may not see fiscal stabilisation of the Eurozone as such an important issue as we see. They are able to cope with shocks on their own but there are actually many small open economies in the Eurozone, such as ours. In a currency union, we are all bound together, what happens to one can affect all of us. So we see this very much as a European issue.

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Now, for shock absorbers, we need some form of common fiscal capacity. This doesn't have to be an explicit Eurozone budget, even though this could be part of our toolbox in the future. This would be very difficult to agree politically but the economic essence can be embodied in less demanding legal forms. That's why my country, Slovakia, wants to lead a debate on fiscal mechanisms in the form of automatic stabilisers, to avoid complex, political discussions and to be honest, as I said before – also to avoid too much discretionary decision making. Explicit fiscal and political union would also be very ambitious. And to be more serious about it, there would be difficult questions about the transfer of sovereignty because my country, Slovakia, is a pro-European country and we are in favour of smart integration. But similarly to other Central Eastern European countries, our historical experience of foreign domination makes us very sensitive to giving up too much national sovereignty. That's why we prefer solutions based on subsidiarity so there basically wouldn't be a transfer of sovereignty to the European level but a creation of new European mechanisms for those tasks which are not performed at the national level, because they cannot be performed at the national level, such as precisely temporary transfers between countries.

The European Unemployment Insurance scheme would be one way of creating an asymmetric shock absorber, without discretionary powers in the centre. The scheme would redistribute resources from 'healthy' countries to those that are 'ill'. But because the payments would be directly to the unemployed, it would avoid the politically sensitive intergovernmental transfers so I want to make it clear that the idea is not to replace the national schemes and create a single centralised system in Brussels. We would like to see a scheme which would be complementary to national ones, not a replacement, but a top up, so that the national level and the European level act in tandem. It would also allow Member States to adjust their national level of unemployment benefits, to keep the total benefit – national plus European – at the level in accordance with the national political consensus. We see this as the middle course. We do not agree with those who claim that there is no need for a common shock absorbing mechanism – because that is bad economics. We also do not agree with those who want to see centralisation at any cost - because that is bad politics.

Talking about politics, we think that common European unemployment insurance would have political advantages because people, citizens would feel that they are getting something back from the European Union. And I want to stress that this would apply to all Member States, not just those in the South, or in the East, or Up, or Down. The system has to be designed to be fiscally neutral in the medium term. Of course, fiscal neutrality in the medium term means that at some point in time, people everywhere would have the experience of receiving European support. And we very much need people to feel that they are getting something back from the EU. Especially now, after the Brexit referendum so aside from the stabilising effect, the system would also strengthen European identity. It would be in countries experiencing difficulties where the popularity of the EU declines due to unfavourable economic and social conditions.

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Ladies and gentlemen,

I realise that many people have doubts about whether fiscal capacity is a good thing. I believe so, but I accept that there are different opinions. What I hope to convince you is that this is a discussion we need to have and that is our goal as the Presidency. We are far too small a country to be telling others what to do but we hope to listen to others and we hope others will have things to say. This conference is a part of that discussion so let me wish all the best, fruitful discussion - may it be a success.