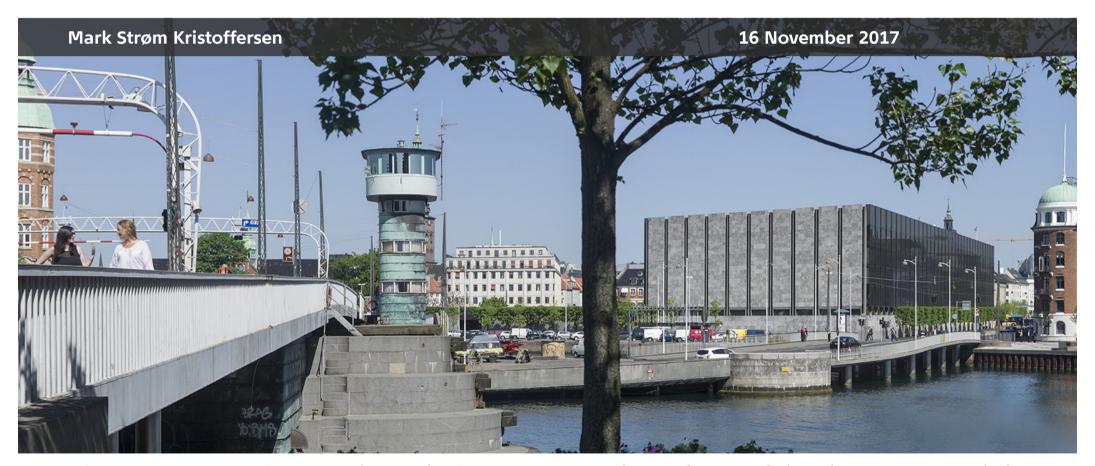
DANMARKS NATIONALBANK

DISCUSSION OF EVALUATING RECENT PROPOSALS FOR A COMMON EUROPEAN UNEMPLOYMENT INSURANCE BY MATHIAS DOLLS, NIKOLAI STÄHLER AND FABIAN WINKLER



Views and conclusions expressed are those of the discussant and do not NATIONALBANK necessarily represent those of Danmarks Nationalbank.

Brief summary

- This paper studies the effects of a common (basic)
 European unemployment insurance
- ...using a two-country New Keynesian model with frictional labour markets.
- Background: common unemployment insurance has been suggested as one of the possible ways to improve the functioning of the Economic and Monetary Union (EMU) through automatic stabilisation
 - e.g. Five Presidents (2015)



Brief summary

- Main results:
 - The recipient (donor) region benefits (suffers) in terms of higher (lower) GDP, consumption and employment.
 - Common UI adds an additional spillover channel, increasing macroeconomic volatility and the welfare cost of business cycles
 - Union-wide welfare may be improved
 - if donor region is not too large
 - if difference in steady-state unemployment is not too large



What is driving the results?

- Does a common UI bring the economy closer to efficiency?
 - The initial equilibrium is (probably) not constrained efficient as the Hosios condition is not fulfilled.
 - What is the "optimal" replacement rate in each of the two countries, and does a common UI bring replacement rates closer to the optimal ones?
 - Are the distortionary effects of UI larger in Core than in Periphery?
- What is the elasticity of unemployment to changes in UI in your calibration?
- Wages are quite rigid.
- No moral hazards of UI since search effort is exogenous
 - main mechanism working through job creation and wages
 - same search intensity for short-term and long-term unemployed

Can this framework be used to shed light on some of the policy issues being discussed?

- Trigger: Short-term unemployment rate or unemployment gap?
- Participation: EU28 or Euro Area only?
- Funding: Labour taxation or national fiscal contribution?
 - In the current setup, the supranational UI agency runs a balanced budget each period
 - This is important when analysing the effects over the business cycle, cf. Andersen and Svarer (2013).
- Implications for other labour-market policies?
 - Workfare: Andersen & Svarer (2014)
 - Monitoring and sanctions: Boone et al. (2007)
 - Reentitlement conditions: Andersen et al. (2015)



Savings and wealth heterogeneity

- Capital accumulation has important consequences for optimal UI (Young, 2004)
- Mukoyama (2013).
 - Allowing for savings and wealth heterogeneity is important for the effects of business cycle dependent unemployment insurance (Costain & Reiter, 2005, Kristoffersen, 2012)



Political economy and monetary-policy aspects

- Public support?
- Introducing a new kind of moral hazards?
- Implications for monetary policy?



Minor comments

- The paper would benefit making it more clear how it contributes to the existing literature.
 - In this respect, it could be worth referring to more of the existing papers on common European UI, e.g. Ábraham et al. (2016), Andor (2016) and Beblavý & Maselli (2014).
- The case for considering the transition path from the current UI schemes to a common UI could be strengthened.
 - Considering the transition dynamics is essential to properly analyze the welfare effect of UI policy reforms according to Mukoyama (2013)



Minor comments

- Would be interesting to include various robustness checks to increase our understading of the results:
 - a more realistic level of worker bargaining power (as mentioned in your footnote 6)
 - importance of assuming full insurance within the households (may be hard to relax this assumption, but its implications could be discussed)
 - alternative financing: using e.g. lump-sum tax to stabilise debt instead of labour-income tax or social-security contributions by firms
 - relax the assumption that wages in new matches are as rigid as wages in existing matches.
 - is the higher vacancy cost in the core than in the periphery in correspondence with the data. What happens if vacancy costs are similar?
 - consider other shocks than technology shocks; e.g. shocks to the job separation rates



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