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

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Views and conclusions expressed are those of the discussant and do not 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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