Automatic Fiscal Stabiliser: Make it happen!

by Regula Hess and László Andor
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The Five Presidents’ Report, more than any EU document in the recent period, identifies socio-economic divergences between member states as a major problem in the functioning of the Economic and Monetary Union (EMU). Debates took place in recent years about automatic stabilisers, and more specifically about the possibility of introducing an unemployment insurance within the EMU. While the need of some form of fiscal risk-sharing has become a dominant view in expert circles, there has been much less progress among the main political parties and stakeholders.

This study analyses the political feasibility of the adoption of an automatic fiscal stabiliser (AFS) for the eurozone by evaluating actors’ positions towards three distinctive proposals: 1) cyclical shock insurance, 2) reinsurance, 3) a European basic unemployment insurance. It includes an empirical case study of France and Germany as the most relevant players within the intergovernmental bargaining constellation.

Scharpf’s 1 actor-centred institutionalism integrated with Moravcisk’s 2 understanding of the European integration as liberal intergovernmentalism serves as the theoretical framework of this paper. Actors and institutions are studied at the national and the European level. To determine preferences at the national level, actors who participate in the decision-making process have been selected (ministries concerned, social partners, political parties) and interviewed (semi-structured interviews). Governments’ positions at the European level result from the aggregation of actors’ positions at the national level in combination with the intergovernmental bargaining constellation.

The study finds that the adoption of an AFS is currently not politically feasible. The factors that determine this outcome are, firstly, that German actors expect to be net contributors. Secondly, if an AFS is integrated within the social security system, economically left-wing actors will oppose it because they fear harmonisation to a lower standard (race to the bottom), while economically right-wing actors oppose redistribution in the first place. Thirdly, the decision-making institutions at the European level demand a unanimous decision within the European Council so that one country, in this case Germany, is enough to veto adoption. Finally, within the intergovernmental bargaining constellation, France is currently not in the position to negotiate a compromise in the realm of fiscal integration because it cannot credibly commit to a compromise.

However, as political feasibility is contingent on the political context, we urge stakeholders to pursue the discussion, as windows of opportunities can open at any time. As a contribution, the authors lay out the parameters of the most feasible proposal resulting from the empirical analysis: it is closest to the proposal of a reinsurance 3.

Keywords: European integration; fiscal integration; eurozone; Economic and Monetary Union; European Solidarity; European unemployment insurance; Euro crisis; fiscal stability.

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# List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACI</td>
<td>Actor-centred intuitionism</td>
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<td>AFS</td>
<td>Automatic fiscal stabiliser</td>
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<tr>
<td>AfD</td>
<td>Alternative für Deutschland</td>
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<tr>
<td>BDA</td>
<td>Bundesvereinigung der Deutschen Arbeitgeberverbände e. V.</td>
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<td>BK</td>
<td>Bundeskanzleramt</td>
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<td>BMAS</td>
<td>Bundesministerium für Arbeit uns Soziales</td>
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<td>BMF</td>
<td>Bundesministerium der Finanzen</td>
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<tr>
<td>CDU</td>
<td>Christlich Demokratische Union Deutschlands</td>
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<td>CFDT</td>
<td>Confédération française démocratique du travail</td>
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<td>CSI</td>
<td>Cyclical shock insurance</td>
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<td>DGB</td>
<td>Deutscher Gewerkschaftsbund</td>
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<td>DG EMPL</td>
<td>Directorate General Employment, Social Affairs and Inclusion</td>
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<td>ECFIN</td>
<td>European Council of Economic and Financial Affairs</td>
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<tr>
<td>Economie</td>
<td>Ministère de l'Économie, de l'Industrie et du Numérique</td>
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<td>EFSF</td>
<td>European Financial Stability Facility</td>
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<td>Emploi</td>
<td>Ministère du Travail, de l'Emploi, de la Formation professionnelle et du Dialogue social</td>
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<tr>
<td>EMU</td>
<td>Economic and Monetary Union</td>
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<td>EPSCO</td>
<td>European Council of Employment, Social Policy, Health and Consumer Affairs</td>
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<td>ESM</td>
<td>European Stability Mechanism</td>
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<td>EUI</td>
<td>European unemployment insurance</td>
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<td>FN</td>
<td>Front National</td>
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<td>FPR</td>
<td>Five Presidents' Report</td>
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<td>FS</td>
<td>France Stratégie</td>
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<td>Gauche</td>
<td>Front de Gauche</td>
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<td>Grüne</td>
<td>Bündnis 90/ Die Grünen</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>IGM</td>
<td>Industriegewerkschaft Metall</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>Medef</td>
<td>Le Mouvement des entreprises de France</td>
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<tr>
<td>PS</td>
<td>Parti Socialiste</td>
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<tr>
<td>SGP</td>
<td>Stability and Growth Pact</td>
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<tr>
<td>SPD</td>
<td>Sozialdemokratische Partei Deutschland</td>
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<tr>
<td>TFEU</td>
<td>Treaty on the Functioning of the European Union</td>
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<tr>
<td>Trésor</td>
<td>Ministère de l'Économie et des Finances; direction générale du Trésor</td>
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<tr>
<td>UMP</td>
<td>Union pour un Mouvement Populaire</td>
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Part I: Introduction and framework

1 Introduction: policy context

The eurozone recovered much slower than other major economies from the great financial and economic crisis, and in year eight after the beginning of this crisis, it is still struggling. Many attribute these difficulties to the architecture of the Economic and Monetary Union (EMU). Therefore, crisis management in the EU has been coupled with gradual reform of the EMU (see the series of new instruments like the European Financial Stability Facility (EFSF), European Stability Mechanism (ESM), six-pack, two-pack, Banking Union). However, no reform has been introduced yet to effectively combat asymmetric economic developments, even if the eurozone has been diagnosed with serious divergences in a variety of documents, including the Five Presidents’ Report (FPR) in June 2015.

Unfortunately, the FPR was noticed by too few at the time of the Greek storm. Nevertheless, Jean-Claude Juncker, Donald Tusk, Mario Draghi, Jeroen Dijsselbloem, and Martin Schulz outlined in the FPR the key arguments for revamping the EU’s economic and monetary structures. They specifically propose “a common macroeconomic stabilization function to better deal with shocks that cannot be managed at the national level alone”. This proposal is not entirely new, but it has been part of a vivid discussion taking place since 2012.

The Blueprint of the European Commission and the report of the four presidents of the European Institutions Towards a Genuine Economic and Monetary Union already proposed a “fiscal capacity, an EMU-level stabilisation tool to support adjustment to asymmetric shocks, facilitating stronger economic integration and convergence and avoiding the setting up of long-term transfer flows”. In 2013/14, the Commission, especially the Directorate-General for Employment, Social Affairs and Inclusion actively explored specific tools for automatic fiscal stabilisation, including the basic European unemployment insurance (EUI).

Several policy proposals can be subsumed under the label “automatic fiscal stabiliser” (AFS); they all have in common that they allocate contributions and expenditures automatically across member states based on a fiscal rule that insures an anti-cyclical effect. These instruments intend to marginally stabilise the macro-economic conditions within the EMU. Their goal is not to replace the ESM acting as lender in sovereign debt crises, but to act as fiscal stabiliser during ’normal’ business cycles. Broadly speaking, AFS proposals can be classified into three categories:

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9 Furthermore, two conferences organised by the Bertelsmann Foundation in cooperation with DG EMPL (October 2013 and June 2014) developed the analysis of the underlying problems and the available options in great detail. Moreover, the Italian Presidency organised workshops in 2014 (during the informal meetings of the employment and the finance ministers) on the possible introduction of an automatic fiscal stabiliser.
1) cyclical shock insurance of national income (CSI);
2) reinsurance of national unemployment insurance funds, and
3) basic European unemployment insurance (EUI).

A research project led by the Centre of European Policy Studies and sponsored by the EU\textsuperscript{10} aims to evaluate the feasibility and added value of these different policy proposals. The added value is evaluated on the dimensions of macro-economic stabilisation and social outcomes, whereas the feasibility is assessed in legal and practical terms. The present study adds an additional dimension to the quest for an AFS; the political feasibility. The research question therefore reads as follows:

**Which factors determine the political feasibility of the adoption of an automatic fiscal stabiliser for the eurozone?**

While some authors have speculated about whether the policy proposals are politically feasible, no one has provided structured evidence for their conclusions. Yet the political feasibility is of major importance for any policy analysis. In Meltsner’s words: “Analysis should lead to policies that can be implemented, and the study of political feasibility is one way of bridging the gap between the desirable and the possible”\textsuperscript{11}.

In order to determine the political feasibility of an AFS, this paper provides a comparative case study of Germany and France\textsuperscript{12} (empirical analysis). Part I of this paper starts with a theoretical framework of the empirical analysis. Part II presents the results of the empirical analysis covering actor’s positions, their arguments and the discussion of hypotheses. Part III sets the results in a broader context and puts forward the characteristics of a proposal that — based on the empirical analysis — has the highest chance of being adopted.

## 2 Theoretical framework

### 2.1 Political feasibility

Political feasibility is defined as the probability that a policy proposal will be formally adopted. The study of political feasibility is part of the study of public policy.

So far, explicit conceptualisation of political feasibility has been rare. The most prominent exception is Meltsner\textsuperscript{13}, who introduced a comprehensive framework for studying political feasibility. Even though Meltsner’s framework is still taught in manuals for public policy\textsuperscript{14}, new insights have been developed,

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\textsuperscript{11} Meltsner, A. J. (1972). Political feasibility and policy analysis, 32(6), 859–867.

\textsuperscript{12} For the case selection, refer to section 3.1.

\textsuperscript{13} Meltsner, A. J. (1972). Political feasibility and policy analysis, 32(6), 859–867.

such as, among others\textsuperscript{15}, the advocacy coalition framework developed in the late 1980s by Sabatier and Jenkins-Smith\textsuperscript{16} and the actor-centred intuitionalism (ACI) established by Scharpf\textsuperscript{17} in the 1990s. For the conceptual framework, this study mostly draws on the latter since Scharpf’s concept of actor constellations (cf. below) focuses on single actors like this analysis does\textsuperscript{18}. Moreover, Scharpf himself links his framework to the study of political feasibility: “The primary business of interaction-oriented policy research within the framework of actor-centred institutionalism is to […] produce systematic knowledge that may be useful for developing political feasible policy recommendations”\textsuperscript{19}.

The following paragraphs serve to summarise the theoretical framework of actor-centred institutionalism.

\textit{Mixed Approach: Institutionalism and Rational Choice}

Actor-centred institutionalism integrates two important public policy paradigms: rational choice and institutionalism. It states that actors are not determined but influenced (probabilistic effect) by institutions\textsuperscript{20} (referring to institutionalism), preserving idiosyncratic interests based on intrinsic perceptions and preferences (referring to rational choice). From this follows that studying the “purposive actors”\textsuperscript{21} and their interactive strategies is as important as analysing the institutional setting that enables and constraints specific strategies and models of interaction.

\textit{Actors}

Actors play a central role in Scharpf’s framework. To understand the characteristics of specific actors, we need to know “their specific capabilities, specific perceptions and specific preferences”\textsuperscript{22}. Capabilities refer to the resources at actors’ disposal to have an impact on the outcome through action. The most important resources in public policy are action resources created by institutions: the definition of competencies and the rights to participate, to veto or to make autonomous decisions. Additionally, personal properties, technological capabilities, physical resources and privileged access to information matter.

The preferences and perceptions denoted as actor orientation are relatively stable but can be modified through learning and persuasion. “[T]hey will be activated and specified by a stimulus provided by a particular policy problem or issue, and they will refer to the desirable or undesirable nature of the status quo, to the cause of a perceived problem, to the efficacy and desirability of perceived courses of action, and to the outcomes associated with these”\textsuperscript{23}. Scharpf further divides the complex preferences of actors into three components: Basic self-interest, normative role orientation and identity\textsuperscript{24}.

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\textsuperscript{15} Other frameworks e.g. the institutional analysis and development framework developed by Ostrom (2011) have been considered and inform the framework used here.


\textsuperscript{18} Contrarily the advocacy coalition framework focuses on policy sub-systems.

\textsuperscript{19} \textit{Ibid}. p. 43.

\textsuperscript{20} Institutions are defined as „system of rules that structure the course of actions that a set of actors may choose” (Scharpf, 1997b, p. 39). It includes legal and social rules.

\textsuperscript{21} \textit{Ibid} p. 36

\textsuperscript{22} \textit{Ibid} p. 43

\textsuperscript{23} \textit{Ibid}, pp.43-44

\textsuperscript{24} cf. \textit{Ibid}, pp.63-66
Next to single actors, the actor constellation matters. The constellation denotes “the plurality of actors that are involved in policy interaction”\textsuperscript{25}.

\subsection*{2.2 European integration and governance}

To study the actors, institutions and the policy process relevant to the adoption of an AFS, as well as the likely outcome of the bargaining process, we need a better understanding of European integration and governance.

\subsubsection*{2.2.1 The adoption of an AFS from the perspective of European Integration Theory}

The introduction of an AFS would be another (small) step towards European integration. It can be considered as integration because more fiscal competencies are transferred to the European level. Therefore, it would also require treaty change (cf. Appendix 1).

Thus, theories about European integration help to understand the policy process that the adoption of an AFS is part of. Theories about European integration departed from the opposition between intergovernmentalism and neo-functionalism in the 1960s. Neo-functionalism is mainly attributed to Haas\textsuperscript{26} and starts from a liberal understanding of international relations. For neo-functionalists, once integration had begun, ‘spill-overs’ from one policy field into another reinforce the integration process undermining the sovereign state in the long run. Contrarily, intergovernmentalism\textsuperscript{27} is based on a more realist understanding of international relations, as it perceives governments as uniquely powerful and rational actors that pursue integration if it best serves their interest. Both major theories understand interdependence as the driving force for integration because it makes integration the preferable strategy.

Liberal intergovernmentalism\textsuperscript{28} agrees that the rational state is the main actor in control of the integration process but introduces a more liberal understanding of national preference formation. Building on Putnam’s\textsuperscript{29} two-level game, Moravcsik describes the integration process in two steps. First, national governments aggregate interests – of which economic interests are estimated to be the most important – within their polity. Then, national governments defend their interest during the intergovernmental bargaining process among member states. Throughout that process, relatively powerful states\textsuperscript{30} have the most influence over the decision. Liberal intergovernmentalism therefore attributes little decision-making power to supranational institutions such as the European Commission or the European Parliament. However, it sees institutions as a way for governments to make credible commitments. Governments hand power to institutions to implement and enforce their commitments.

\textsuperscript{25}Ibid, p.44
\textsuperscript{30}Relative power in intergovernmental bargaining depends on many factors. Moravcsik (1993, pp. 499) explicitly mentions three factors: “Unilateral alternatives and threats of non-agreement; alternative coalitions and the threat of exclusion; compromise, side-payments and linkage at the margin”.

25 Ibid, p.44
30 Relative power in intergovernmental bargaining depends on many factors. Moravcsik (1993, pp. 499) explicitly mentions three factors: “Unilateral alternatives and threats of non-agreement; alternative coalitions and the threat of exclusion; compromise, side-payments and linkage at the margin”.

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One of the criticisms of liberal intergovernmentalism is that it ignores the effect of being part of the EU on the actors themselves. New institutionalism therefore addresses the issue of how institutions affect actors. Actor-centred institutionalism, as described above, is part of that literature; more specifically it is part of rational choice institutionalism. Within the European context, rational choice institutionalism is mainly interested in how European institutions structure the preferences of individual actors and how collective-action problems can be solved through institutions and strategic action.

The broad framework of this research therefore draws on liberal intergovernmentalism to understand the political process to adopt an AFS. Liberal intergovernmentalism is appropriate because national governments are the most important actors in the final decision-making process, while EU institutions like the European Commission and European Parliament only play a marginal role. So the process leading to a decision can be characterised as intergovernmental bargaining. This understanding is supported by Schimmelfennig. He convincingly shows how liberal intergovernmentalism is an adequate framework to study the political resolution of the eurozone crisis, and that institutions of financial assistance have been adopted in a logic of intergovernmental bargaining. While liberal intergovernmentalism is the broad setting, actor-centred institutionalism helps us to understand the preference formation at the national level, at the origin of the intergovernmental bargaining positions.

2.2.2 European Institutions and the likeliness of adopting social policies

With regards to policy substance, an AFS is a fiscal instrument with at least short-time redistributive implications. Moreover, some kinds of AFSs proposed are integrated with national social policies. An AFS is thus often seen as an instrument to advance ‘Social Europe’. This section sums up the literature essential to studying the interaction between European institutions and the specific policy substance of redistributive and social policies. The relevant strand of literature is interested in European governance and thus treats the EU as the independent variable, studying its impact on national and European policy-making.

Two lines of argument are most relevant to an AFS: first, Majone suggests that the EU is institutionally better equipped to regulate than to redistribute. Regulation can be achieved without a large budget and regulations are often less conflict-ridden than redistributive policies, because the winners and losers are less explicit. Moreover, based on the assumption of a democratic deficit of the EU, Majone suggests that the EU should focus on regulations that are (close to) Pareto efficient instead of redistributive policies, because the former can be based on a “non-majoritarian source of legitimacy” (Majone, 1998, p. 28). He concludes: “The evidence I have presented strongly suggests that the 'Social Europe' of the future [...] will be, not a supranational welfare state, but an increasingly rich space of social-regulatory policies and institutions.”

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32 ibid.
Second, Scharpf\textsuperscript{38} has developed an argument about positive and negative integration, based on his insights into the “joint decision trap” (Scharpf, 1988). Negative integration is defined as common market integration by decreasing national constraints on markets, whereas positive integration designates common policies that shape the conditions under which the European market operates\textsuperscript{39}.

Scharpf argues that positive integration in the realm of social and welfare policies is rare because the adoption of such policies require a qualified majority or unanimity in the Council. Hence, decisions can only be reached under specific actor constellations. Yet, when studying the actor constellation with regards to social policies, Scharpf concludes that an agreement will not be reached because national welfare states differ too much. Richer countries, for instance, systematically spend higher percentages of their national income on social protection than poorer countries do. Thus, richer countries fear that a compromise at the European level would lead to harmonisation at a lower level, whereas poorer countries fear losing their relative competitive advantage when harmonisation is reached at higher levels.

In conclusion, both Majone and Scharpf argue that EU institutions are not conducive to the establishment of redistributive social policies. Following their theoretical argument, the adoption of an AFS is highly unlikely, especially if it is highly redistributive and integrated with national welfare states.

3 Design of this study

In accordance with the theoretical framework presented above, this study looks at the preference formation at the national level and the intergovernmental bargaining constellation to determine the likely outcome of negotiations. The formation of national preferences from the positions of national actors will be at the centre of the empirical inquiry. This section presents the case selection, the selection of actors studied and proposes hypotheses that guide the empirical analysis.

3.1 Selection of cases: France and Germany

As this research is about political feasibility, analysing the member states with the largest capabilities is most relevant. France and Germany have the largest capabilities in terms of economic and demographic weight. Together they produced 49.96% of the GDP (2013 current market prices\textsuperscript{40} within the eurozone and represent 43.8% of the population\textsuperscript{41}. Politically, the importance of France and Germany for advancing the European integration process has been widely acknowledged.


3.2 Units of observation: actors forming national preferences

Political actors playing a decisive part in the formulation of national preferences are the units of observation. The selection follows Scharpf’s concept of actor constellation that includes the primary actors involved in the policy-making process42. Thus, actors selected include political parties, unions, employer associations, the Ministry of Labour, the Ministry of Finance and the President/Chancellor. These observations depend on one another.

3.3 Overview of levels of analysis, institutions and actors

Figure 2 provides an overview for a better understanding of how actors (circles) are situated within the institutional context of Germany. Two circles of the same colour connected with a line refer to the same actor, but in another function; e.g. the Ministry of Finance is part of the national government and the ECFIN. Arrows reflect relationships between institutions.

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3.4 Formation of actors' positions

This study is interested in the subjective causal model of each actor, i.e., it investigates the action orientation of each actor (hereafter called actor position) as well as the main reasons explaining this position (cf. Figure 3).

Actors’ positions towards the introduction of an AFS are categorised according to the degree of their approval:

1) total rejection,
2) reluctant openness,
3) conditional approval,
4) unconditional approval.

Section 6 will explain these categories in more detail.

To further study the nature of actors’ positions, the different policy proposals on AFSs have been broken down into their substantive structural dimensions. During the interviews, actors were confronted with these dimensions to define the set of conditions that would make their approval most likely. A sample of these dimensions are presented in Table 3 while the full list is provided in Appendix 2. The underlying reasons for the actors’ positions include factors such as economic interests, political identity, preference of constituency etc. The hypotheses in the following section serve as a framework of analysis to identify which of these reasons are the driving factors of the actor’s position. Additionally, an analysis of institutions at the national level helped to guide the analysis of each actor.

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43 Policy proposals always have some characteristics, here called ‘dimension’. For instance, income tax can vary according to the taxable income. Hence, we could call this dimension ‘variation of tax rate’. If we now study different income tax proposals, we need to have a criterion that shows how each proposal ranks on this dimension. We could ask: “How does the tax rate vary in relation to taxable income?” The possible answers to this question are the values an observation can take on in this dimension. In this case, the possible values are: regressive, flat, progressive. This process has been done for the AFS proposals that have been studied.
3.5 **Hypotheses**

3.5.1 *National preferences: actors’ positions at the national level*

From the theoretical framework and design of this study, the following hypotheses for actors at the national level can be deduced:

- **H1**: Actors, who expect to be net contributors, will be relatively more opposed to the introduction of an AFS (prevalence of economic preferences\(^{44}\)).
- **H2**: Actors, who ideologically belong more to the centre-right and generally oppose increases of redistribution at the national level, will be more opposed to an AFS than actors commonly favouring more redistributive policies (centre-left with regards to welfare policies). This hypothesis refers to the importance of identity in an actor’s position\(^{45}\).
- **H3**: Actors favouring more redistributive policies oppose suggestions that imply the harmonisation of national welfare systems since they fear a harmonisation to a lower standard\(^{46}\). Additionally, they fear the loss of power, if a competence like unemployment insurance would be transferred to the European level.

Taken together, these hypotheses suggest that German actors are generally more hostile towards an AFS because they expect to be net contributors (H1). Yet, both in France and Germany, left-wing actors should generally be more open to the proposal of an AFS in comparison to their national right-wing counterparts (H2). Nevertheless, they object proposals that affect national unemployment insurance schemes (H3).

3.5.2 *Intergovernmental bargaining: actor constellation at the European level*

Aggregating preferences to the European level as proposed by Moravcsik\(^{47}\), combining it with the insights from the literature on European integration and governance and the specific actor constellation, the following hypotheses have been established:

- **Ha**: Due to the capacities and decision-making procedures at the European level, in combination with redistributive and welfare-related implications of an AFS, an adoption is very unlikely\(^{48}\).
- **Hb**: Aggregating from the actor level, Germany as a whole is an expected net contributor (at least in the short run), whereas France’s contributions would more or less balance out so that they could benefit from increased macro-economic stability in the eurozone without contributing much. Therefore, Germany will oppose an AFS whereas France will (partly) support it.
- **Hc**: The intergovernmental bargaining constellation results in a third hypothesis that aggregates all insights from previous hypotheses: France would favour fiscal integration because they could potentially profit from it, while Germany demands obedience to fiscal

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rules since fiscal discipline reduces its expected future costs of integration. This hypothesis suggests that France and Germany could link their demands so that both advance with regard to their fiscal preference. Given that the present inquiry departs from suggestions for more fiscal integration, German actors are expected to demand the obedience of fiscal rules and the commitment to structural reforms in exchange for future fiscal integration.

Together, these hypotheses suggest that an adoption of an AFS is very unlikely in any event (Ha), that the veto of Germany will make it impossible (Hb) and that the only possibility that Germany’s position could change in the future is linked to the willingness of France (and other southern European countries) to credibly commit to fiscal rules and national structural reforms that would lower Germany’s anticipated costs (Hc).

3.6 Methods of evidence collection and analysis

Evidence has been collected through 24 semi-structured in-depth interviews with representatives of each selected actor\(^{49}\) (cf. Section 3.2) (elite interviews). The interviews lasted approximately 60 minutes and took place in the first quarter of 2015. Further evidence has been gained at the CEPS Ideas Lab in Brussels in February 2015, where a workshop on the topic was held.

Internet-based research completed the evidence collection. For example, for political parties, manifestos for the elections of the European Parliament in 2014 and other policy documents have been analysed. Moreover, official proceedings and reports of national and local parliaments have been consulted. Hence, next to the interviews, primary and secondary sources have been accessed and analysed using atlas.ti.

\(^ {49}\) Due to problems of access, no formal interview took place with a representative of the Elysée.
Part II: Empirical analysis

The analysis proceeds in five steps: First, the policy proposals on the basis of the empirical analysis are introduced. Then the positions of actors are described. The third step entails a discussion of actors’ arguments. Fourth, the reasons underlying actors’ positions are examined along the hypotheses. Finally, parameters of the most feasible proposal are lined out in Part III.

4 Three types of policy proposals

The empirical investigation starts with three policy proposals. The Cyclical Shock Insurance (CSI), the reinsurance of national unemployment insurance funds mainly developed by CEPS and the basic European unemployment insurance (EUI) developed by Sebastian Dullien.

The CSI is a purely macroeconomic instrument proposing automatic transfers from member states that are above the EMU-wide average position within business cycles to member states that are below the average based on the output gap. The reinsurance is a supranational insurance for large unemployment shocks with a fixed deductible for member states paying yearly premiums. The EUI proposes a basic unemployment insurance at the eurozone level that could be supplemented by national schemes.

All proposals simulate how contributions and payouts would have been in the past. However, the simulations are influenced by the many assumptions they are based on and do not take into account the endogenous effect of the instrument on growth and employment. Therefore, results from the simulations will not be presented here. What matters for the present study is that during the last years, France would have profited more from any of the proposed instruments than Germany. Hence, Germany expects to be a relatively larger net contributor in the short run.

4.1 Actors’ position in comparison

The position of actors was sorted into four categories (cf. Figure 4). All actors opposing any kind if AFS are in the category ‘total rejection’. When it comes to the main reason of their opposition, two groups can be distinguished; on the one hand, there is the group of conservative/business-friendly actors who believe the current problems of the EMU to result from structural problems at the national level, whereas the weaknesses at the EMU level have been resolved by recent reforms. Their main objection to an AFS is that it would create moral hazard for national governments to further postpone national structural reforms. On the other hand, there are the...
Eurosceptic parties who reject any kind of AFS because they think that the challenges of the eurozone cannot be solved by deeper integration but by dissolving the eurozone.

The group of actors within the category ‘reluctant openness’ is the largest and the most heterogeneous. Their common ground is that they generally agree that the eurozone requires some sort of fiscal instrument to fully live up to its potential. Yet, no proposal has convinced them so far, or they have different priorities. What separates the actors within this category from those in ‘conditional approval’ is that they will not actively propose an AFS. Yet, a small chance exists that they would passively agree if a specific proposal meets their interest.

The category ‘conditional approval’ includes actors that are in favour of an AFS but would not agree to any proposal. Some of the actors in this category have very clear ideas about how an AFS should look like. For example the Confédération française démocratique du travail (CFDT) favours a proposal similar to the reinsurance while Ministère de l’Économie, de l’Industrie et du Numérique (Economie) favours an EUI. Others, like the Parti Socialiste (PS) are waiting for a suitable proposal. Actors in this category show active support. For instance, the PS has published its support of an AFS before the elections of the European Parliament in 2014.

Only one actor falls within the category of ‘unconditional approval’. Even though the Trésor prefers an EUI, they are so convinced that the eurozone needs a budgetary capacity, including an automatic stabiliser, that they would agree to other proposals as long as they represent a change in the right direction.

When looking at Figure 4 it is evident that the vast majority of actors is situated in the lower half. These actors will not actively pursue an AFS. Importantly, some of the most powerful actors are found in this lower half, such as the Bundeskanzleramt (BK), Bundesministerium der Finanzen (BMF), Christlich Demokratische Union Deutschlands (CDU), Union pour un Mouvement Populaire (UMP) and Sozialdemokratische Partei Deutschland (SPD).

Concerning the position of the different actors, one can observe some general patterns: German actors are on average more sceptical towards an AFS than their French counterparts, while actors on the political right are more sceptical than left-wing actors.

Apart from the position itself, several actors referred to the relative salience of the issue. For instance, the BK, BMF Economie and CDU indicated that they thought the issue is not high up on the European agenda. French government actors (Economie, Trésor, Ministère du Travail, de l’Emploi, de la Formation professionnelle et du Dialogue social (Emploi)) mentioned that their respective minister does not consider it to be a priority. Additionally, French Economy Minister Emmanuel Macron stated publically that in the short run the focus lies on investments and reforms, while the issue of fiscal solidarity should follow later. Similarly, many actors (SPD, Industriegewerkschaft Metall (IGM), Deutscher Gewerkschaftsbund (DGB) and CFDT indicated that their immediate goal is to end austerity and to increase investment.

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55 The label of an actor in italics indicates that the information is based on the respective interview.
57 Ministries are assigned to the political left or right depending on the party affiliation of the current minister.
To sum up, due to the opposition (BK, CDU, BMF) or only very weak support (UMP, SPD) of key actors and the relatively low importance attributed to the issue, Figure 4 indicates that the adoption of an AFS is currently not feasible. The following sections, especially the discussion of the hypotheses, will provide further evidence.

**Figure 4: Actors’ Position**

<table>
<thead>
<tr>
<th>Unconditional approval</th>
<th>Trésor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conditional approval</td>
<td>CFDT, PS, Economie, Grüne</td>
</tr>
<tr>
<td>Reluctant Openness</td>
<td>UMP, Emploi, Medef, IGM, DGB, BMAS, SPD, LINKE</td>
</tr>
<tr>
<td>Total rejection</td>
<td>BDA, GM, BK, BMF, CDU, AFD, FN</td>
</tr>
</tbody>
</table>

French actors  | Left-leaning actors  | Political parties
German actors | Right-leaning actors | Social partners
              | Eurosceptic actors  | Ministries

*Source: own compilation*

59 Abbreviations in italics within a bracket indicate that the preceding statement was confirmed by the actor mentioned in that bracket.
5 Arguments justifying the actors’ positions

The following sections cover arguments brought forward by the actors in support of their position.

5.1 Arguments applying to AFS in general

The main argument in support of AFS is the acknowledgment that the EMU requires an anti-cyclical fiscal capacity to be fully functioning, and more specifically, ready to deal with asymmetric shocks (CFDT, Medef, Economie, Emploi, PS, Trésor, UMP, Bundesministerium für Arbeit und Soziales (BMAS), DGB, and SPD). This argument is based on the acknowledgement of a spill-over effect (cf. neo-functionalism) from a single monetary policy to more integrated fiscal policies. In the words of the Bündnis90/Die Grünen (Grüne), this support reads as follows: "We support an instrument with a stabilising effect on European economies and labour market: An unemployment insurance could be one of several stabilisation instruments that could contribute to smoothing overheated business cycles, reduce bubbles and cushion acute crisis situations."60,61 Or, as a representative of the PS said: “An AFS is needed for the viability, cohesion and unity of the eurozone". Two of the French actors (Emploi, PS) indicated that the French political establishment acknowledges that a fiscal union is required. Even the French employer association Medef thinks that a discussion about fiscal transfers is needed.62

60 All citations form German and French actors are translations from the original language by the author.
62 On 31 March 2015, the Medef’s Director-General publically stated its support of an EUI. As the information could not been reconfirmed before the deadline, it was not taken into consideration (Knuf, 2015).
However, some actors, while acknowledging the theoretical desirability of an AFS, stress the preconditions under which such a mechanism would be acceptable. The preconditions mostly relate to fair framework conditions, which imply a level playing field for fiscal and social policies to prevent social and fiscal dumping (IGM, DGB, BMAS, UMP, SPD). To illustrate that point, a representative of the SPD explained that it is difficult to defend transfers to, for instance, Ireland. Voters would point out that many companies are registered in Ireland due to low corporate taxation. As long as the Irish do not show solidarity on fiscal policies, German voters would reject support. Therefore, the BMAS pointed out that an AFS would come at the end and not at the beginning of a process of policy harmonisation. The BK added that they would not exclude a fiscal mechanism in the long run if preconditions would be built in the AFS. Yet, in their opinion, there seems to be no intention to do so.

Whereas the first argument is based on the economic rationale and the goal of fiscal stability within the eurozone, other actors support an AFS (especially an EUI) because they think it could increase solidarity and a stronger identification of citizens with the EU/eurozone (SPD, CFDT, Trésor, Economie, Grüne). The Economie pointed out that the EUI would be in the spirit of the “Europe des citoyens”. However, all actors agreed that economic and fiscal stability is the principal goal of an AFS.

The main argument against an AFS is moral hazard induced by any kind of insurance mechanism (CDU, IGM, Gesamtmetal (GM), Bundesvereinigung der Deutschen Arbeitgeberverbände (BDA) BK, BMF, BK, BMAS, Medef, SPD, UMP, Trésor). It implies that member states would act less responsibly if they think they do not have to bear the whole costs of potential (national) crises. Moreover, in times of crises, they would invest less to decrease unemployment rapidly since member states bear the costs of active labour market policies but only part of the cost of passive labour market policies.

Closely related to the argument of moral hazard is the perception that the main problems in the eurozone are not of a cyclical but of a structural nature. For example, many actors mentioned that a large part of unemployment in member states with economic difficulties is structural and not cyclical (BDA, GM). Therefore, any instrument that could dissuade member states to implement structural reforms is harmful. Wrong incentives induced by moral hazard would weigh heavily since structural reforms of labour markets are politically unpopular. Some actors doubted whether Germany would have implemented such wide-reaching reforms at the beginning of the years 2000 if an AFS had been in place at the time (BDA, BK, CDU).

Actors also oppose mechanisms that lead to permanent transfers between member states because they would create a eurozone of net recipients and net contributors in the long run (SPD, Grüne, BMAS, PS, Front National (FS)), resulting in political tensions. High permanent transfers would be problematic both for recipients and contributors. In Germany, some actors made a comparison with the “Länderfinanzausgleich” and explained how visible transfers create tensions (BMAS, IGM).

Some German actors explicitly oppose an AFS because they expect Germany will be a net contributor to the scheme (BK, CDU, IGM). For instance, BK suggests that the German government has to protect German taxpayers. The representative of the CDU goes one step further and calls any suggestion similar to the AFS an instrument that will be used by Italy, France and other countries to get German funds.
The expectation of being a net contributor seems to be connected to the public opinion of the core constituency. At present, the mainstream popular opinion in Germany as expressed by the media opposes transfers towards other member states. The main perception in Germany is that they have gone through painful reforms in the past and therefore should not pay for those who did not do their “homework” (BDA, CDU). The population concurs with the dominant discourse of the Chancellor and the Minister of Finance about fiscal consolidation. Actors who do not share this view have not yet found a way to influence the public discourse significantly. Both the Grüne and the SPD expressed concerns that even though net contribution is not necessarily a problem according to the party’s point of view, it is for their voters. To give some examples; a representative of the SPD explained that he has major problems explaining to voters the long-term benefits for Germany of transfers on the EU level (such as the structural funds). The same is true for the IGM; they observed that many of their members voted for the Eurosceptic Alternative für Deutschland (AfD) in the last elections for the European Parliament.

Eurosceptic forces develop a somewhat different argument. They oppose an AFS because it would be an instrument of the eurozone. The Eurosceptic forces in France, including the Front National and parts of the Front de Gauche (Gauche) (far-left party), perceive the euro as an “instrument serving an ultra-liberal, globalisation-friendly ideology and the interest of the financial sector”\(^{64}\). In their understanding, the euro mostly serves Germany as it benefits from the weak exchange rate. Simultaneously, Germany has “killed the eurozone” (Gauche) with its policies of keeping wages low alongside the current account surplus. The difference between the extreme right and the extreme left in France is that the right opposes the EU in toto and wants to abolish it. The left on the other hand supports deeper integration but thinks that the preconditions for a functioning EMU are not in place and that there is no political will to put them in place. As the EMU is dysfunctional it should be abandoned. The AfD expressed similar, yet somewhat different opposition to the euro since it relates most of its criticism to the policies undertaken during the euro crisis. The AfD explicitly opposes an EUI\(^ {65}\).

While some of the actors agree that cyclical problems, especially in case of asymmetric developments, can be problematic, they point to different solutions. The first one is that those problems could be tackled by national anti-cyclical fiscal policies/automatic stabilisers (BMF, GM). The second solution is that, rather than through transfers, shocks could also be absorbed by labour and capital mobility (BDA, BK).

On the legal side, politicians fear the likely required treaty change. Both German and French actors perceive such change as politically inopportune (Trésor, CDU, GM, BK).

Looking forward, actors think that the focus on investment is more politically opportune at present (SPD, IGM, DGB, UMP, PS, Economie, BK). Especially for the left-wing actors, the end of austerity and the fostering of investment is the most important priority. So they prefer to use their political capital to promote investment rather than actively support an AFS.

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5.2 Arguments particular to one of the three policy proposals

Among those that expressed an explicit preference, DGB, CFDT, PS and SPD favour a reinsurance while the Trésor and Economie have a preference for the EUI. In this section, more detailed accounts of the arguments for and against specific proposals are presented.

European Unemployment Insurance

The main advantage of the EUI is its expected impact on macro-economic stabilisation since it directly stabilises demand (BMAS, Emploi). Moreover, the EUI is the most visible instrument that could foster solidarity among EU citizens (Grüne, Economie, PS, Emploi, Trésor). An EUI could also contribute to the creation of a European social model, as it generates incentives to align national policies (Trésor). It could be a first step towards a European social welfare regime (Grüne).

Yet, most actors perceive this pressure for harmonisation as the main disadvantage of an EUI (SPD, IGM, GM, BMF, BMAS, BDA, Emploi, FS, CFDT, BK CDU, DIE LINKE (Linke)). National unemployment insurances differ from one member state to another, on many dimensions: contribution, eligibility rules, replacement rates, duration, etc. The involvement of social partners in governance also varies. Additionally, active labour market policies differ greatly, for instance with regards to obligations of the unemployed towards the public employment services. Again, other member states use “Kurzarbeit” as a passive labour market policy. Employment protection policies also influence labour market risks by creating distinct practices of hiring and firing. Adding the differences in the degree of integration of unemployment insurance, health and invalid insurance, pension schemes, education systems and the general inequalities between the economic structures of various member states, it becomes clear that the risk covered by one national unemployment insurance scheme is very particular. Therefore, the CFDT concluded that an EUI would only come at the end of a convergence process. However, not all actors agree that this convergence is even desirable and some fear that convergence implies convergence to a lower standard (Grüne, CFDT, IGM, Linke).

Likewise, trade unions and leftist actors fear that the EUI could be an excuse to lower the unemployment insurance standards (CFDT, Grüne, IGM, Linke, SPD). As the EUI provides a benchmark, employers could create pressure to lower the national standard to the basic EUI to create a level playing field within the EMU (CFDT).

Some actors (SPD, Emploi, CFDT) point out that the goal of the EUI is very different from the goal of national unemployment insurance schemes. The latter insures the income stream of employees against the risk of unemployment, targeting the micro level. As the primary goal of the EUI is economic stabilisation at the macro level, they argue that it should not be called EUI nor be integrated in national unemployment insurance schemes. The two preceding arguments are in line with Scharpf’s hypotheses about the opposition of left-wing actors to integrate social policies.

For some of the left-wing actors (SPD, Grüne, Linke, DGB) it is also questionable whether the cost of the macro-economic stabilisation of the EMU should be carried by those who pay social security contributions, meaning the lower and middle classes (due to a lower assessment ceiling, contributions to unemployment insurance are relatively more regressive in Germany).

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66 “Kurzarbeit’ offers companies the possibility to temporarily cut the hours of their employees instead of firing them. As employees work fewer hours, their salaries shrink. Part of this loss is covered by the unemployment insurance.

Reinsurance

So far, actors have discussed the proposal of a reinsurance less intensively. However, many actors that either knew about the proposal or grasped the concept after a short explanation by the interviewer reacted positively to the suggestion. For many it seems to be a more acceptable solution since the flows and stocks of transfers are smaller (CFDT, Emploi) and as it is only activated during times of crisis (Grüne, PS, DGB, SPD). Hence, the resources needed to reach the same effect of stabilisation are lower (CFDT). Help in times of crisis is also more acceptable to citizens (SPD) than permanent money flows.

As it is not directly integrated with national unemployment insurance schemes, the necessary degree of harmonisation seems smaller (PS, CFDT, FS, DGB, Grüne). For the actors favouring an EUI in the long term, the reinsurance could be further developed, acting as a stepping stone (Economie, Trésor, Grüne).

Yet, the proposal also has some major disadvantages. First, during good times, a large sum of money could be accumulated. Actors are suspicious about whether politicians will refrain from diverting the funds to other purposes (GM, Emploi, FS). Moreover, the threshold creates a time lag (BMAS) as the scheme is only activated once a certain level of crisis is reached. Acting immediately at the beginning of a developing crisis could be cheaper than reacting later.

Cyclical Shock Insurance

The CSI is the lesser-known proposal and nobody has expressed a preference for the CSI. The most prominent critique relates to the indicator (output gap) the instrument is based on (GM, IGM, BMAS, DGB, Trésor, PS, Emploi, Eco, FS, CFDT). These actors mentioned that the output gap already led to discussions at the EU level in relation to the SGP. The problem relates to the definition of potential output, which is very difficult to assess, especially in times of crisis. The second major objection to the CSI is its potential to have pro-cyclical effects due to its reaction to symmetric shocks or the indicator it is based on (GM, DGB, BMAS, Trésor). Actors in favour of an AFS also argue that the CSI is a very limited instrument since it does not include a social dimension and therefore lacks visibility (Trésor, PS).

6 Discussion of hypotheses

The discussion confirms or disproves the hypotheses. It first looks at the hypotheses at the actor level and at the main reasons for their positions. In line with Moravcsik’s liberal intergovernmentalism, these positions are aggregated at the national level to understand the European bargaining constellation. Moreover, according to Scharpf’s actor-centred institutionalism, institutions at the European level also influence the bargain process. The bargaining at the European level is discussed by the second set of hypotheses.

6.1 Discuss hypotheses about actor orientation of single actors

- **H1: Actors who expect to be net contributors will be more opposed to the introduction of an AFS.**

  **Confirmed:** In the short run, German actors expect to be net contributors, while French actors would potentially benefit, or would not contribute that much. Thus, the general pattern that actors who expect to be net contributors more often oppose an AFS is very apparent. Whereas
some actors explicitly mention that their opposition is related to their expectation of being a net contributor (BK, CDU, IGM), others only implicitly mention it (SPD, Grüne). Furthermore, unions oppose an EUI because their constituency would bear the costs (IGM, DGB). The French actors did not bring up this argument because they generally do not expect to be important net contributors.

- **H2:** Actors that belong to the centre-right and generally oppose increases of redistribution at the national level will be more opposed than actors that favour more redistributive policies (centre-left with regards to welfare policies).

  **Confirmed:** In both countries, right-wing parties and employer associations are more sceptical towards an AFS than left-oriented actors. This confirms Scharpf’s observation that actors’ preferences are to some degree formed by the identity. In Germany, the Linke slightly deviates from this pattern; even though they are further on the left than the Greens, they are only “reluctantly open” to the proposal. This exception is explained by the next hypothesis. Moreover, the AfD does not fit neatly into the pattern because the identity-related element of being Eurosceptic trumps the right-left cleavage.

- **H3:** Actors favouring more redistributive policies oppose suggestions implying a harmonisation of national welfare systems since they fear a harmonisation to a lower standard and a loss of power.

  **Confirmed:** Most left-wing actors, especially unions, directly expressed their fear of harmonisation (CFDT, DGB, Grüne, Linke, SPD). For example, the SPD opposes an EUI because they oppose harmonisation of national unemployment insurance schemes and social and labour policies more generally. With regards to an EUI, CFDT mentioned that opposition among unions against an EUI seems widespread. The hypothesis is further supported by the fact that the mentioned actors favour the proposal of a

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reinsurance that is less invasive to national social security systems (SPD, CFDT, DGB). Finally, the preference for an instrument that is not directly integrated with national unemployment insurance schemes also reflects the fact that social partners in both countries are involved in the governance of the unemployment insurance schemes and would therefore lose some of their power if they were to be organised at the European level.

6.2 Discuss hypotheses at the intergovernmental bargaining level

- **Ha**: Due to the capacities and decision-making procedures at the European level in combination with the redistributive and welfare-related implications of an AFS, an adoption is very unlikely.

**Confirmed**: As the decision to introduce an AFS would need to be taken unanimously within the European Council\(^{69}\), a veto by Germany could prevent the adoption. The same is true for other countries such as Finland, the Netherlands or Austria. It is clear that the discussion would take on a different dynamic if decisions would be taken by majority voting. The widespread opposition to proposals that touch upon unemployment insurance confirms the hypothesis that countries with advanced social welfare systems fear integration of social policies because it could lead to convergence at a lower level. Taken together, the evidence confirms Majone’s\(^{70}\) (1993) and Scharpf’s\(^{71}\) hypotheses that the EU is badly equipped to advance redistributive and welfare policies.

- **Hb**: Germany will oppose an AFS whereas France will (partly) support it due to expected net contributions.

**Partly Confirmed**: Based on the actors’ positions at the national level, this is certainly true, especially for Germany. For the BMF, an AFS is not a necessary element for the stability of the eurozone. Instead, national fiscal capacities would be able to deal with cyclical economic developments. This line of argument shows that Germany is not willing to share part of the financial burden resulting from asymmetric cyclical developments. The BK added that they have to protect the German taxpayers.

France presents a more nuanced picture. Most calculations estimate that, in the past, France would neither have been a large net contributor nor a large net receiver. The relatively smaller financial burden partially explains the French attitude. Yet, it does not entirely justify the rather positive position as reflected in the evidence presented above and in several reports\(^{72}\). Moreover, all ministries (Economie, Trésor, Emploi) indicated that their minister would be open for discussion. Generally, the risk of being a net contributor seems less threatening to France than it does to Germany.

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69 A discussion of the legal adoption process is included in the longer version.


The different economic schools of thought in Germany and France could also explain why France’s position somewhat diverges from its immediate financial interests. While Ordoliberalism – the German variant of social liberalism – is more predominant in Germany, while French economists tend to favour Keynesian economic thinking. Additionally, a somewhat different understanding of European integration is dominant in France, as expressed by the president’s vision for the “intégration solidaire”. It implies that each step of economic integration must come with more financial solidarity. This perception is absent in Germany. However, even though it can be said that France generally supports an AFS, the interviewees also made clear that the introduction of an AFS is no immediate priority for the ministers, nor does it seem to be a priority for the president. Thus, priorities might better reflect France’s financial interest than its theoretical position. As France presents a mixed picture, this hypothesis is only partly confirmed.

- **Hc:** This hypothesis suggests that France and Germany could link their demands with regards to their fiscal preferences. Yet, the current political context prevents a compromise.

**Confirmed:** The evidence shows that the priority for the majority of German actors is the implementation of structural reforms and fiscal consolidation. By contrast, French actors are generally supportive of more fiscal integration or even an AFS.

This *quid pro quo* approach can be illustrated by the words of the German chancellor: “A logic is imbedded within this proposal, the logic that an element of solidarity, in other words an element of integration is coupled with an element of control and stronger commitment”. When compared to the French president’s vision of “intégration solidaire” it becomes clear that both leaders set different priorities: Merkel emphasizes control, while Hollande stresses solidarity. The *Trésor* understood this logic and mentioned that the exchange between more solidarity and more structural reforms is “À l’air du temps” in Europe. The representative of the PS expressed similarly: “We must exchange the fiscal discipline for a transfer/solidarity mechanism.”

Yet, even though both countries and their leaders acknowledge the possibility of a compromise, the current political context does not allow it. Due to economic difficulties in recent years, France is not seen as being in a position equal to that of Germany. There is also a clear commitment problem: France has previously assured and even signed the Fiscal Compact, but has yet to comply with fiscal rules. As not even a treaty has made France follow the rules, any further promise would face a credibility deficit at this moment. France first needs to comply with the rules to regain Germany’s confidence before it can ask for a compromise. In sum, even though there is


77 The Commission first rejected France’s budget proposal for 2015. On February 25, after long negotiations, France received an extension until 2017 before they have to comply with the EU fiscal rules (“EU gives France to 2017 to cut deficit, Italy, Belgium in clear ??,” 2015)

an intention to find a compromise in the realm of fiscal integration, a variety of factors makes it hard to reach it at the moment.

7 Conclusion of the empirical analysis

The conclusion from the empirical analysis is that in the current political context, a proposal for an AFS would not meet an overall favourable environment in France and Germany, and therefore it would not be politically feasible at the EMU-level either.

Several factors explain why the political context is not conducive to major initiatives in this respect. First, German actors and Germany as a whole expect that they will be net contributors. This expectation is based on the current relatively better state of the German economy. Moreover, German actors assume that an ASF would introduce moral hazard and delay national structural reforms. This delay is expected to make Germany’s net contribution more likely in the future. Second, if an AFS is integrated with national social security systems, left-wing actors will question it because they fear harmonisation to a lower standard, while right-wing actors oppose more redistribution in the first place. Third, the decision-making process at the European level demand a unanimous decision by the European Council, which means that the veto of one country is enough to prevent the proposal from being adopted. However, current opposition of one or some member states/s does not necessarily mean a death sentence for a policy proposal. As always in politics, several policies that on their own would not find an approval could be linked to others to reach a compromise. Yet, at the intergovernmental bargaining table, France is currently not in the position to negotiate a compromise in the realm of fiscal integration. France is weakened by its economic conditions, the low public support of the president and the government and the inability to comply with EMU fiscal rules.
PART III: Make it happen! The outlook beyond immediate constraints

8 Eurozone politics beyond Germany and France

It is evident, that one of the main constraints of this analysis is its geographic limitation. Therefore, this section looks beyond France and Germany to put the empirical findings into context.

Currently, there does not seem to be a clear pattern of polarisation within the EMU that would allow to generally assign member states to different groups that share either the French or the German position on AFS, or that would have a homogenous third stand on that issue. However, it is no surprise, that the first finance minister who started to campaign for EU is Pier Carlo Padoan of Italy. Centrist politicians from Luxembourg or Belgium have also supported debt mutualisation, while some political leaders from mainstream parties in periphery countries are faithfully following the policies of the Troika and the so-called Berlin consensus. Hence, we cannot make a final judgment about different political camps within the EMU on that issue.

Looking beyond national political parties to the European political families, federalists among the European People’s Party and the Liberal and Democrats for Europe group, as well as progressives among the Social Democrats (together with the entire Green group) are in favour of deepening and rebalancing the EMU, though they may still differ in terms of key directions and details. Even though the European Parliament does not have any formal power in the decision-making process, its members influence national policy-making. Documents like the Five Presidents’ Report may help to develop more agreement at the EU level, as it is written by the most powerful EU politicians, all from varying political backgrounds.

Last but not least, the political feasibility of the AFS is highly contingent on the European political context and momentum. The hostility surrounding bailout programmes and their conditionality have not created a good atmosphere in which more solidarity could be easily promoted in Europe, especially if it involves various forms of fiscal transfers (or debt relief). Other issues, like the refugee crisis or terrorism may keep EMU reform on the back burner.

However, as we know from experience during the eurozone crisis, some reforms that just months before hardly seemed imaginable (ESM, Banking Union etc.), can very quickly became part of the consensus. However, it should not be overlooked that introducing an AFS is different from the European Stability Mechanism or the Banking Union. It does not solve an immediate financial problem. Instead, the AFS solves a creeping policy problem, which will become ever more dangerous as the divergence between the eurozone members persists and increases.

Hence, from a purely financial perspective, AFS may not be the first choice, even if it could be an instrument that brings us closer to reinstating a no-bailout principle and practice, and helps restore citizens’ confidence in the EU project. If an AFS has to compete with the completion of the Banking Union (deposit insurance) on the reform agenda, it is very likely that the second will prevail, while both are indispensable for a prosperous and sustainable EMU.

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To sum up, even though some unexpected supporters can be found, the overall context seems little conducive to a swift adoption of an AFS.

9 Features of a more feasible model

The empirical analysis so far has found the prospects on an AFS to be adopted in the near future to be rather gloomy. This result is disappointing, as the authors share the assumption that divergence in the eurozone is a destabilising factors and that some kind of AFS is needed for the sake of sustainability, a greater growth potential, and a more balanced distribution of the benefits of the EMU (see Dolls et.al. 2014, Brandolini et.al. 2014). The question is what elements of the alternative models need to be highlighted or strengthened to design a proposal that can gather more support. As a contribution to the process to create an acceptable solution for as many stakeholders as possible, this last section discusses the key features that could bring any kind of AFS closer to feasibility.

The interviews conducted contained a section that questioned the actors on their preferences concerning the different dimensions of the proposals (cf. Appendix 2). The answers to these questions serve to determine the most feasible proposal, which is represented in Figure 7.

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81 However, the weakness of this part of the analysis is that most actors in the category 'total rejection' did not answer these questions because they would not even enter this stage of the conversation. Hence, this section presents the most feasible proposition from the point of view of the actors that are at least reluctantly open to the proposal.
As mentioned in section 7, some supportive actors reject a EUI based on the interference with national unemployment insurance schemes and instead prefer a reinsurance mechanism (CFDT, SPD, parts of the Grüne, DGB). Moreover, those that support a EUI (Trésor, Economie) indicated that they would not oppose a reinsurance. Nearly all actors opposed the CSI. Hence, the most feasible proposal is based on the reinsurance, reflecting the following arguments about the dimensions of the proposal:

- Payments are linked to short-term (cyclical) unemployment. Payments should be calculated on the basis of a common indicator of short-term unemployment.
- The instrument should result in the counter-cyclical redistribution of funds over time and between member states. This implies temporary debt issuance.
- Permanent transfers should be avoided. A claw-back mechanism should minimise permanent transfers and avoid a sharp divergence between net contributors and net recipients in the long run, and combat moral hazard.
- Clear rules have to define the management of monetary stocks and flows. These rules also include a provision to prevent long-term indebtedness of the instrument as a whole.
- Funding the scheme is a key question, but it is a relatively open one. We therefore suggest that, if the chosen scheme allows for it, each member state should be free to define how to raise its annual contributions.
- The support for direct payments to the national unemployment insurance fund is relatively strong, yet actors also showed some opposition to proposals that are integrated with national unemployment insurances. Thus, some flexibility should be tested. (For instance, rather than handing payments directly to national unemployment insurance funds, they could be earmarked for specific purposes that stabilise demand, such as social benefits, cutting taxes on low wages, etc.)
- Though we speak about automatic stabilisers, control over and oversight of the scheme remains important. A body composed by representatives of member states and European institutions could monitor implementation. Monitoring would include, among others, the oversight of the reported data of short-term unemployment and the determining of when the threshold is reached, and checking whether the spending is in accordance with predefined criteria. Social partners at the EU level could be involved, or member states should be encouraged to involve social partners’ representatives at national level. The EP should be represented with the capacity of democratic oversight.  
- An AFS has a better chance of being adopted if it is promoted as part of the EMU fiscal reform, as opposed to the social agenda. In the political discourse, the instrument needs to set apart from national social security systems. Discussing an ‘automatic fiscal stabiliser’ (AFS) can open more hearts and minds than a ‘European unemployment insurance’ (EUI).

82 This suggestion leads to the problem that the European Parliament includes members from all EU member states and not only the eurozone.
Table 3 (see below) shows how the features of the most feasible policy proposal correspond to the guiding principles set out in the FPR. It indicates that these features meet all the criteria of the FPR.

<table>
<thead>
<tr>
<th>Guiding principles set out in the FPR (Juncker, 2015, p. 15)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No permanent transfers</td>
<td>✔</td>
</tr>
<tr>
<td>Not meant to equalise incomes</td>
<td>✔</td>
</tr>
<tr>
<td>Not undermining incentives for sound fiscal policies and addressing structural weaknesses</td>
<td>✔</td>
</tr>
<tr>
<td>Linked to broad EU governance framework</td>
<td>Must be developed</td>
</tr>
<tr>
<td>Developed within the framework of the EU</td>
<td>treaty change is likely</td>
</tr>
<tr>
<td>Open &amp; transparent for all member states</td>
<td>✔</td>
</tr>
<tr>
<td>Improve economic resilience and prevent crises</td>
<td>✔</td>
</tr>
</tbody>
</table>

Perhaps the most feasible model is not the same as the most powerful one drawn up by experts in recent years, but it would already make a difference. Economically it would help to rebalance and make the European economy more sustainable, politically it would signal the commitment of the EU to maintain the single currency, and from a social point of view it would signal solidarity with those whose jobs and living conditions have been undermined by reckless financial practices and the failure of political leaders to prepare the single currency for major shocks.

The dramatic momentum needed for a sudden paradigm shift may not be here at the moment. But the time is certainly right for a serious and deep reflection among stakeholders, political forces and EU member states. In fact, this might be the last time that the road towards a better functioning EMU is still open. If this opportunity is missed, and divergence and asymmetries are not dealt with, continuing economic stagnation could turn even greater shares of the electorate against the euro, and demands for more growth and jobs will be coupled with suggestions to abolish the single currency. This paper aimed to support leaders and their experts to work together towards genuine reforms, as long as public support can be mobilised for the completion of the EMU.

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Appendices

Appendix 1: Legal considerations - Under which procedures could an AFS be adopted?

To study political feasibility, we need to understand the legal procedures set in place for the adoption of an AFS. This section therefore provides an overview of the legal ways an AFS could be adopted:

Most (conservative) scholars agree that the adoption of an AFS requires treaty change\textsuperscript{83}. In this case, unanimity within the Council – composed of the heads of state or government – and ratification by national parliaments is required. However, other scholars argue that some specific models of the EUI could be based on Art. 153 TFEU\textsuperscript{84}. Or, some aspects of a fiscal capacity could be based on Art. 352 TFEU combined with enhanced cooperation by the participating member states\textsuperscript{85}. Yet, both options imply limitations on the possible design of an AFS. Thus, the implementation of an AFS that best serves its own purpose, rather than being designed to fit within the existing Treaties, most likely requires treaty change. However, as EU legislators have been inventive in the past, possibilities of an adoption under primary law still need to be discussed; Art. 153 TFEU demands unanimity in the Council, whereas a solution on the basis of Art. 352 TFEU requires unanimity among member states participating in the enhanced cooperation: neither requires ratification by national parliaments. Hence, if a satisfactory proposal could be designed that falls under either art. 153 or Art. 352 TFEU only the European level has to explicitly agree. With regards to the European Parliament, its role is limited in any case. The European Parliament has no decision-making power in case of treaty change. Art. 352 only demands the consent (the so-called assent procedure) of the European Parliament, while Art. 153 requires the Council to consult the parliament.

In sum, a decision to adopt an AFS must be taken unanimously by the Council. In case of treaty change, national parliaments have to ratify the change while the European Parliament has no decision-making power. In case an AFS could be designed to fall under current primary law, the European Parliament would only have very limited power.

\textsuperscript{84} Repasi, R. (2012). A study on the legal feasibility of perspectives of reforms towards a genuine European economic and monetary union. Brantner, Franziska; Giegold Sven, pp.75.
\textsuperscript{85} Repasi, R. (2013). Legal options for an additional EMU fiscal capacity.
Appendix 2: Dimensions of policy proposals

To analyse actors’ specific positions they were not only asked about their opinion on policy proposals but they were also confronted with the dimensions that are relevant to the proposals. This allowed isolating specific preferences independent of a proposal to determine the parameters for the most feasible proposal.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Criteria</th>
<th>Possible Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Possibility of debt issuance</td>
<td>Can the European fund issue debt?</td>
<td>Yes; No</td>
</tr>
<tr>
<td>Nature of economic shock absorbed (amplitude)</td>
<td>Does the amplitude of the shock matter whether or not payment is triggered?</td>
<td>Yes; No</td>
</tr>
<tr>
<td>Nature of economic shock absorbed (evenness across economies)</td>
<td>Does the instrument capture exclusively asymmetric shocks?</td>
<td>Yes; No</td>
</tr>
<tr>
<td>Nature of payments rates among member states</td>
<td>Are relative payments equal among member states?</td>
<td>Homogenous payment rate; heterogeneous payment rate (=claw-back mechanism)</td>
</tr>
<tr>
<td></td>
<td>(E.g. do all employees/employers pay the same percentage of wages into the fund? Do all states pay the same percentage of GDP into the fund?)</td>
<td></td>
</tr>
<tr>
<td>Recipients of disbursement</td>
<td>Who is the recipient of the funds?</td>
<td>member states; employees</td>
</tr>
<tr>
<td>Source of funding</td>
<td>Who provides the funds?</td>
<td>member states; employees &amp; employers</td>
</tr>
<tr>
<td>Indicator triggering/defining money flow</td>
<td>What indicator is the money flow based on?</td>
<td>Employment status; output gap</td>
</tr>
<tr>
<td>Governance: implementation</td>
<td>Who makes the day-to-day decisions? Who administrates the European fund?</td>
<td>ECB; COM; Member States; technical agency; social partners (Several values possible)</td>
</tr>
<tr>
<td>Governance: democratic oversight</td>
<td>How is democratic oversight guaranteed?</td>
<td>National parliaments; European parliament; European social partners; national government; (Several values possible)</td>
</tr>
</tbody>
</table>
Appendix 3: Interview Guide

The following interview guide is the raw guide that served as a basis for the interviews, which were tailored to each actor.

1. Have you in your function ever come across a proposal of an AFS for the eurozone? Could you please describe me your work related to it?
2. Within your organisation, have you already established an official position vis-à-vis any proposals of an AFS?
3. How did you come to that conclusion/What do you base your conclusion on?
4. Within your organisation, have you discussed different proposals of an AFS? Do you prefer any of the suggestions – on what grounds?
   a. EUI
   b. CSI
   c. Reinsurance
   d. Others?

Transition: Analysing the different proposals, several questions arise with regards to the fundamental elements of such proposals. For instance, should an AFS be able to issue debt? Or, should permanent transfers be minimised through a claw-back mechanism? I am going to ask you about these fundamental elements. Please indicate if these elements are crucial for your approval/disapproval and what your preference would be.

◊ Can the European fund issue debt?
◊ Does the amplitude of the shock matter whether or not payment is triggered? (payment in times of crisis or continuous smoothing)
◊ Does the instrument capture exclusively asymmetric shocks?
◊ Are relative payments equal among member states? (claw-back mechanism)
◊ Who is the recipient of the funds?
◊ Who provides the funds?
◊ What indicator is the money flow based on?
◊ Who makes the day-to-day decisions?
◊ Who administers the European fund?
◊ How is democratic oversight guaranteed?

5. Do you prefer other macro-economic reforms within the EMU to the AFS?
6. If the national economy would enter into a recession later this year, would your voters/members hold you accountable for it?
7. If the EMU economy would enter into a recession later this year, would your voters/members hold you accountable for it? Would European voters hold you accountable for it?
8. Would you like to add anything?