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A Eurozone Reinsurance Union to tackle inequality? SURE as a pathway through fiscal solidarity hurdles

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1 Introduction

The Covid-19 pandemic and the resulting lockdown hit European labour markets and European workers asymmetrically. According to Eurostat, the GDP contraction varied across countries, with Spain experiencing a decline of around 11%, Italy around 9%, and France around 8%, against about 3% in Denmark or Finland. Not only were European economies unequally hit; these were also unequally prepared to absorb this shock. To address the divergence in pre-existing shock absorption capabilities, the European Union swiftly introduced the SURE programme. SURE stands for Support to mitigate Unemployment Risks in an Emergency and was designed to protect workers most at risk of unemployment in those countries most affected by the pandemic. Thus, by granting close to 100 billion Euros of financial assistance to 19 member states to finance short-time work schemes (STW) and similar measures, SURE helped preventing – according to the Commission estimates – 1.5 million people from becoming unemployed (European Commission 2023).

For it addressed both inequality *between* and *within* states and societies, SURE has been widely praised as an explicit sign of European solidarity (Vandenbroucke et al. 2020). SURE first tackles between states solidarity via its financing. The support to national STW schemes via EU borrowing indeed is backed by irrevocable, unconditional and callable guarantees from member states, meaning that if one member state fails to honour a call on time, all the others will be called up. EU solidarity is also visible in the redistributive nature of the programme. SURE indeed benefits mainly two groups of member states: first, high debt-to-GDP ratio countries (mostly Southern), which benefit from SURE's lower yields; second, small local debt markets (mostly from Central and Eastern Europe) that profited from the longer maturity of SURE bonds. But the programme also helped expand the scope of beneficiaries of short-term work schemes in some EU countries (Ebbinghaus and Lehner 2022), thereby helping to address inequality between labour market insiders and outsiders *within* national societies.

To appraise the novelty of the new instrument, SURE should be put in the broader debate on the political economy underlying reforms of the socio-economic governance of the European Union. In fact, SURE represents the very first step

in the direction of a European central stabilization function with the explicit aim to support employment, and – as put by the Commission itself – the very first operationalization of a European Unemployment Reinsurance Scheme (EURS). The EURS has been long object of the academic and political debate, yet without ever materializing into a concrete policy proposal. To justify the lack of progress on the EURS, political economy scholars have pointed to the unconcealable positions of fiscal transfers’ supporters and advocates of fiscal discipline, freezing camps both within the Council and the European Parliament (Lehner and Wasserfallen 2019). Setting minimum standards on national unemployment schemes also meant entering the domestic realm of ‘core state powers’, which are subject to a more contentious politics than the kind of regulatory integration characteristic of earlier phases (Genschel and Jachtenfuchs 2018).

From this perspective, the adoption of SURE, after years of unfruitful debate on the possibility to adopt any kind of European stabilization capacity, appears as particularly puzzling. The swift adoption of SURE thus questions why and how EU member states decided to finally consent to the creation of a central fiscal stabilization function meant to back up national unemployment systems. How this instrument came about is despite historical reluctance by some member states to engage in cross-border solidarity is the object of this chapter.

To trace back the origins of this instrument, the chapter proceeds as follows. First, we showcase the novelty of EU intervention in the case of SURE by contrasting its design to those previously conceived by EU member states and the European Commission in a decade of negotiations on the contours of a politically acceptable EURS (Section 2). We then retrace the invention of SURE in the peculiar context of the Covid-19 pandemic by showing how the Commission deployed ideological, political and technical opportunism to propose an instrument bringing the Eurozone closer to serving as a (re)insurance union (Section 3). By way of conclusion, Section 4 assesses the effects of SURE and discuss how turning the Economic and Monetary Union (EMU) into a ‘holding environment’ for national welfare states could contribute to further substantiating new, EU-wide, social rights codified in the European Pillar of Social Rights. Empirically, we rely on an extensive documents’ analysis of the EC official documents, 44 national position papers submitted during the debate on the Commission’s Five Presidents’ Report, as well as 17 elite interviews with EU and national policymakers. The latter interviews notably served to identify the most contentious points linked to SURE adoption and the position of member states.

2 SURE as a novel EU solidarity function in an entrenched ‘Insurance Union’ battlefield

Social policy scholars concerned with the political economy of the welfare state generally grant this institution three core functions (Barr 2020; Hemerijck and Huguenot-Noël 2022): Social policy is first about *Robin Hood* solidarity, that is, poverty relief based on redistributing income and wealth to reduce social exclusion. In contrast to this function which prevails in the foundations of the Beveridgean

welfare state, Bismarckian welfare states generally abided instead to *Piggy Bank* solidarity – which alludes to social insurance over the life course, based on contributions and earnings. To address new social risks characteristic of the knowledge economy, social investment welfare state research complements Nicholas Barr's twin set with a third type, referred to as *Stepping Stone* solidarity. This approach emphasizes the need for modern welfare states to also provide for 'fertile functionings', beyond income protection, in the areas of health, housing and human capital.

This *solidarity trypic* distinguishing between the redistributive, insurance and capacitating functions of social policy is seldom mentioned in discussions about the relatively nascent European Social Union. If in other terms, Social Europe scholars yet frequently point out a historical bias in EU polity-making towards the third, capacitating, form of solidarity (Crespy 2022). The EU's dedication to enhancing economic and social participation has deep historical roots. Since the inception of the EMU, EU institutions have aimed to tackle barriers to workers' mobility and boost the competitiveness of its economy – as many objectives that could benefit from the collective provision of *Stepping Stone* interventions. Conversely, in a Union of unequal member states redistribution and insurance-based forms of solidarity proved more contentious, due to their inherent risk-sharing aspect which readily invoked concerns over the EU evolving into a perpetual Transfer Union. Besides, while the idea is well-known that social transfers in a crisis may serve as an 'automatic stabiliser' for the Union as a whole, national policymakers generally preferred keeping the credit for such programmes to the domestic realm.

Over the past decade, EU intervention has yet gradually shifted towards new forms of solidarity. Following the inception of the European Pillar of Social Rights, EU regulatory powers in the social field were not only rediscovered; the revival of the EU social agenda also embraced a more inclusive profile (Huguenot-Noël and Corti 2023). Meanwhile, EU's financial instruments have increasingly supported national welfare systems during economic downturns (Miró et al. 2023). The potential for EU institutions to foster social citizenship rights through reforms of the EMU now remains so far underexplored. SURE, in embracing the Union's insurance-based rationale while also embracing redistributive goals, epitomizes this shift towards a more holistic vision of EU solidarity.

To highlight the innovative character of SURE and better comprehend constraints historically standing on its way, this section traces back a decade of debates on proposals to adopt central fiscal stabilization instruments in the EMU.

The rationale for the Eurozone to transform into an 'Insurance Union' for European welfare states has been subject to much debate in the European political economy literature (Hemerijck and Huguenot-Noël 2022: 91–120). Because it is composed of heterogenous economies, the European EMU was long criticized for failing to meet the ideal type of an 'optimal currency area' (Mundel 1961).¹ Turning this logic upside down, Waltraud Schelkle's (2014; 2017) ground-breaking work showed that the economic diversity of the Eurozone yet also presented major benefits, by allowing for risk sharing (reducing the overall vulnerability to a sudden shock) and facilitating shock absorption (e.g. by granting the possibility of transfer from non-affected to affected entities). However, because giving up

monetary sovereignty and entering a single market with free movement of capital, labour, service and goods induced other risks, political economists advocated for the EMU to dispose of a central fiscal capacity able to stabilize and reinsure national economies against new shocks (De Grauwe 2020). Converting the notion of the Eurozone as an Insurance Union into a tangible political agenda required more than theoretical endorsement; it meant elevating the issue's importance amid national politicians often preoccupied with other priorities, ensuring that EMU reforms garnered the attention they deserved.

Since the 1970s, several attempts were made to grant the EMU with a fiscal stabilization tool at the central level. An appeal to a community initiative in the unemployment field appeared in the Marjolin Report published in 1975, which proposed the creation of a community unemployment insurance fund, as an independent administrative body, managed together with social partners and financed by employers and employees' contributions. The debate revamped in the 1990s at the time of the creation of the EMU with the works of Majocchi, Rey, Italianer and Vanheukelen. The agenda yet only gained proper political visibility in the early 2010s, when national politicians were forced to face the national consequences (financial markets instability, trade reductions linked to wages depression) of an incomplete EMU. Now, it is also in these times that, initially under the leadership of the then Commissioner for Employment, Social Affairs and Inclusion (2010–2014) László Andor, and later with the publication of the so-called *Five Presidents' Report*, the Commission decided to invest further political capital.

In the *Five Presidents' Report*, the Commission endorsed for the first time the idea of EU automatic fiscal stabilizers to absorb large macroeconomic shocks (Corti 2022). National reactions to the Commission 2015 consultation on how to reform the EMU provides an idea of the political dynamics surrounding the idea to grant the EU further stabilization capacity. Back then some governments were supportive of the proposal to create a European fiscal stabilizer (Spain, Cyprus) and even explicitly endorsed a EURS (Italy, Slovakia, Portugal, France). Others were sceptical but open to discuss the possibility to create a Euro area fiscal capacity to absorb asymmetric shocks in the long term and only under strict conditionality to avoid moral hazard (Austria, Belgium, Ireland, Slovenia, Czech Republic, Poland). Finally, whereas some countries were not interested given the Eurozone scope of the proposal (Sweden, Croatia, Hungary, Romania), others were fiercely opposed to any such fiscal stabilization function (Denmark, Bulgaria, Estonia, Finland, Latvia, Lithuania, the Netherlands, Germany). The conventional political economy and welfare Euroscepticism literatures commonly depict sceptical countries' opposition as being primarily motivated by 'moral hazard' concerns. An automatic stabilizer, this argument suggests, would risk incentivizing opportunistic behaviour, leading countries with structurally high unemployment rates to count of the (repeated) support of EU best performers.

This cleavage in the 'loud politics' (Culpepper 2011) surrounding EMU reforms however risks overshadowing the inherently *multidimensional* nature of policy conflicts of this debate, which is best revealed by studying fault lines on the various dimensions of an instrument's design. In Table 11.1 (scenario 1), we illustrate the

common minimum denominator that results from the positioning of EU member states on the 2015 EC proposal. As we observe, policy conflicts at the heart of the *design* of an automatic fiscal stabilizer pertained to the type of support (grants or loans), the size of the shock to be absorbed (all amplitudes or only significant ones) and the preferred fiscal balance rules (no fiscal rule, annual balance or balanced over the economic cycle). Besides, additional concerns were related to the kind, if any, of conditionality to be attached to the financial assistance, how to finance the scheme (within or outside the EU budget) and who should be responsible for management (the Commission or the Member States).

While the concerns of sceptical countries at first largely shaped the Commission's view of what would be a 'second best solution, this position changed in 2017 with the publication of a Reflection Paper entitled *Deepening the Economic and Monetary Union*, in which, for the first time, the Commission advanced the option of creating a *European Unemployment Reinsurance Scheme*' (European Commission 2017: 26). Opposition to the proposed EURS proved yet unequivocal. The renowned 'Non-paper for paving the way towards a Stability Union', shared by the then-German Finance Minister Wolfgang Schäuble, thus stated:

A macroeconomic stabilisation function e.g. through a new fiscal capacity or unemployment insurance is economically not necessary for a stable monetary union. Countercyclical public spending is never in time and a Euro zone-wide unemployment insurance would have to deal with very different income levels in the Euro area.

(Schäuble 2017)

Few months later, in March 2018, a group of eight member states, known as the 'New Hanseatic League', led by the Dutch finance minister signalled that 'further deepening of the EMU should stress real added-value, not far-reaching transfers of competence to the European level'.²

After the election of Emmanuel Macron on a voluntarist pro-EU agenda and its strong commitment to reform the EMU expressed in the Sorbonne Speech, the mood started changing in Brussels. Jumping on the new window of opportunity, the Commission presented in May 2018 a legislative proposal for a European Investment Stabilization Function (EISF), which clearly marks a shift in its conception of an acceptable compromise. In Scenario 2 of Table 11.1 below, we build on the EISF design to summarize the main characteristics of the new Commission perspective. Predictably, the proposal for an EISF was rejected by the same member states that earlier positioned against any further EMU deepening. The original eight countries of the 'new Hanseatic League' mentioned above, which opposed wide ranging development of EMU in March 2018, had grown to 12 three months later. In the meantime, however, the balance of power started changing in the Council. After the election of Olaf Scholz, the new positioning of Germany³ materialized with the French-German Meseberg declaration issued in June 2018 where the government supported the creation of a counter-cyclical 'solidarity-based' reinsurance fund.

A most decisive step forward in the debate on a European fiscal capacity and stabilization function, however, came with the 2019 European Parliament elections. In their campaigns, both the Party of European Socialists (PES) and the European Green Party included the creation of a EURS in their elections manifesto. And while the Greens/EFA parliamentary group initially did not support the Von der Leyen Commission, the Socialists and Democrats explicitly made their support to the new Commission President-elect conditional to the proposal for a ‘fully-fledged and meaningful counter-cyclical stabilisation function in the form of a European unemployment re-insurance scheme’.⁴ On 16 July 2019, the EURS proposal figured among the priorities of the political guidelines of the candidate for the presidency of the European Commission, Ursula von der Leyen, with the objective to ‘protect citizens and reduce the pressure on public finances during external shocks’. Then Commissioners-elect for Jobs and Skills, Nicolas Schmitt, and for the Economy, Paolo Gentiloni, were tasked to design the EURS instrument in their mission letters, while a working group including Commission officials from DG ECFIN, DG EMPL and SECGEN was already created in the summer with the aim to present a proposal by the end of 2020.

The link between SURE and the EURS are most clearly evidenced by the communication on a coordinated economic response to the Covid-19 Outbreak of the 13 March 2020, in which the Commission explicitly states that it would ‘accelerate the preparation of the legislative proposal for a European Unemployment Reinsurance Scheme aiming at supporting Member State policies that preserve jobs and skills’ (COM(2020) 112 final: 7). Shortly after the President of the Commission issued its mission letters, a working group was set up to define the contours of the EURS proposal. The Covid-19 pandemic yet hit Europe as EU officials were still debating the design and the target of the instrument. The same group working on the EURS was thus tasked to develop the proposal for SURE. When the SURE proposal was formally published on 2 April 2020, the Commission presented it as an ‘emergency operationalisation of a European Unemployment Reinsurance Scheme (EURS) in the specific context of the Covid-19 crisis’ (COM(2020) 139 final).

How does the SURE regulation stand with regards to the set of alternative options on the table? Our reconstruction of the pre-pandemic debate shows that SURE is not just a ‘minimalist option’, that is: one which could have been expected to result from the Commission acting as simple agent of national principles. By contrast, as illustrated in the last column of Table 11.1, the design of SURE appears as an initiative building upon previous experiences, in particular the EISF. As it helped pool together financial guarantees of member states to support national unemployment systems under stress, SURE modestly contributes to addressing functional flaws identified by the Optimum Currency Area (OCA) and fiscal federalism literature.

But the main innovation triggered by SURE lies elsewhere. As observed in Table 11.1, SURE final design also accounts for national preferences and reserves expressed by member states historically opposed to EU intervention in the social field: SURE does not directly intervene in national unemployment insurance regulations;

Table 11.1 Controversial dimensions and policy options for EU central stabilisation tool before the pandemic under three different scenarios

<i>Dimensions</i>	<i>Design options</i>	<i>Scenario 1: Member States perspective</i>	<i>Scenario 2: European Commission perspective</i>	<i>SURE regulation</i>
Target	Unemployment systems / investments	Investments	Investments, including social investment	Short-time work schemes
Size of the shock	All amplitudes/only significant shocks	Only significant shocks	All amplitudes	Only significant shocks
Type of support	Grants/loans	Loans	Loans/grants	Loans
Conditionality	Macroeconomic conditionality/ social conditionality/ minimum standards	Macroeconomic conditionality	Macroeconomic conditionality	Social conditionality
Fiscal balance	Annual fiscal balance/fiscal balance over the cycle/no fiscal balance	Annual fiscal balance	Fiscal balance over the cycle	Fiscal balance over the cycle
Duration	Temporary/ permanent	Temporary	Permanent	Temporary
Financing	EU budget/outside the EU budget	Outside EU budget	EU budget	EU budget (via external assigned revenues)
Activation	Automatic/ discretionary	Discretionary	Semi-automatic	Semi-automatic

instead, it provides back-up support to those regimes whose viability may be threatened by ‘sudden increases in public expenditure for the preservation of employment’ (European Commission 2020). As it aims to benefit individual citizens largely *indirectly*, SURE thus participates to a newly emerging process of institution-building, propelling EU intervention as a ‘reinsurance polity’ (Schelkle 2017; Freudlsperger 2024: 2–3). In this literature, scholars propose to ‘look at the EU as reinsuring members’ welfare states, as the ultimate social insurers of citizens, when crises overwhelm national policy capacities in a systemic crisis or a common shock like a pandemic’ (Schelkle 2023: 126). The emerging scholarship on European Reinsurance adequately portrays how this notion recently gained traction across EU policies. Authors yet also acknowledge that we still know too little today about the politics of (EU) Reinsurance. The next section accordingly seeks to understand why EU action to safeguard jobs and income during the pandemic led it to act as a Reinsurance Union and how proponents of this approach navigated existing opposition.

3 Beyond legal and fiscal constraints, zooming in on the Commission's 'purposeful opportunism' in SURE adoption

SURE was an explicit step towards deepening the EMU with a clear element of organized fiscal solidarity in its financial construction – an element which could have exposed the Commission to a high degree of criticism. Why would the Commission subject itself to such political risks, especially in the midst of a pandemic? Conversely, to the extent that it proved able to overcome member states' resistance, why would the Commission not instigate a full implementation of a EURS?

Recent scholarship on the EU response to the Covid-19 pandemic overwhelmingly emphasizes structural explanations, pointing to the crisis as a new 'policy window' to advance an integration agenda. Admittedly, the pandemic, a crisis 'lifting expectations of community to the grand transnational scale in the name of solidarity' (Genschel and Jachtenfuchs 2021: 350), represented an opportune moment 'for advocates of proposals to push their pet solutions, or to push attention to their special problems' (Kingdon 1995: 203). SURE can be best traced back as such a pet solution. As the pandemic kicked in, the Commission was already internally working on proposals to 'operationalise the EURS'. It was therefore keen to present it as a solution to the problems both national policy makers and citizens wanted to address, namely protecting employment and supporting households' income amid this new shock. To do so, however, the Commission had to overcome political opposition to both horizontal and vertical forms of redistribution promoted by EU intervention.

For all their merits, such structuralist explanations tend to neglect the importance of historical dynamics in explaining the nature of policy responses favoured in sudden junctures. Historical institutionalist explanations provide useful insights to remedy this blind spot: As novel as it may be, SURE was not a rabbit suddenly pulled out of a hat. Rather, it should be seen as a refined version of a series of previously abandoned proposals drawn from a garbage can (Cohen et al. 1972) and as the outcome of a long series of (both positive and negative) policy feedbacks generated by a decade of political bargaining on the proposal to create a EURS. As we showed in the previous section, growing ownership around the need for a central stabilization function for the EU cannot alone explain the adoption of SURE. Beyond the support of political 'champions', significant reforms required policy brokers to usher them to completion.

To better comprehend the underlying politics of SURE adoption, we build on the concept of 'purposeful opportunism' (PO) (Cram 1994) which posits that the Commission is 'an organisation which has a notion of its overall objectives and aims but is quite flexible as to the means of achieving them' (Cram 1994: 214). Specifically, our reconstruction shows that the Commission strategically used the reappraisal of solidarity concerns triggered by the pandemic as a means to overcome historical barriers standing on the way of an EMU stabilization tool. To assess the 'opportunistic' dimension involves analysing how these actors used policy windows to advance this agenda. To further operationalize Cram's concept, we propose to focus on three main vectors: ideas, political flair and technique.

Ideological opportunism first denotes the strategic decision to frame problems and develop policy solution in a way to gain the attention and support of a larger audience and legitimize a certain course of action. *Political opportunism* then refers to the choice to design a new policy proposal in a way which reflects the existing balance of power necessary for a smooth approval. *Technical opportunism* finally pertains to the Commission's strategic decision to design policies in a way to exploit – as 'process manager' (Ross 1995) – its substantive expertise of the policy process and content to creatively use 'bend' existing rules to overcome financial and legal constraints (as per the so-called 'treaty-based game' used by Rhodes 1995).

3.1 *Ideological opportunism: framing EU intervention as a necessary reinsurance*

The Covid-19 pandemic context provided a particularly favourable ground for the Commission to act as an ideological opportunist. This crisis constituted an immediate existential threat to health in nearly every country, spurring a collective reassessment of values and aspirations. After struggling to keep up the pace with the multiplication of national health responses and the closing of borders, a policy window opened for the Commission to propel SURE as a necessary sign of EU solidarity. But to achieve *transnational* solidarity required more than the reappraisal of the welfare state.

A main challenge concerned the issue of credit-claiming for member states historically entrenched in a battlefield emphasizing 'risk-sharing' vs. 'risk-reduction' strategies (European Parliament 2017). Risks heightened as emerging narratives (notably used by Dutch Prime Minister Mark Rutte) seemed to revived the debate between 'Northern Saints' and Southern 'Sinners' observed in the Euro debt crisis. In response, EU policymakers successfully framed the pandemic and the resulting lockdown as an external *exogenous* symmetric shock with asymmetric impact, against alternative narratives. In practice, however, the debate was still open within the Commission's EURES working group on whether the central stabilization function should support national *unemployment* benefit schemes or mainly protect employment. When the crisis erupted, different policy responses were actively discussed in the Council, including using the European Stability Mechanism without conditionality or introducing a more fully-fledged EURES. As observed above, insuring national unemployment systems via transnational solidarity mechanisms remained a priority for some countries, yet a highly controversial issue for others. The Commission official communication issued in April 2020 reflects the institution's carefully crafted narrative (Commission 2020): On the one hand, the communication stresses that the programme adoption 'in no way precludes the establishment of a future permanent unemployment reinsurance scheme'. Meanwhile, to avoid being accused of competence creep, the Commission guaranteed that the SURE would act as a 'second line of defence', that is: not infringing upon national prerogatives.

Besides, an important dimension of the Commission's narrative was to portray SURE as a *positive sum game* intervention relying on effects of scale. In the wake

of the Great Financial Crisis, the idea of an EU scheme building on the *Kurzarbeit* experience – which represented a keystone of Germany’s response – had long been discussed in EU circles. Yet, as critiques accused the EU of favouring (again) social programmes existing in some (influential) countries but not others, developed files had first been put back on the shelf. This issue remained at first since, at the onset of the Covid-19 crisis, only 15 EU countries immediately used short-time work schemes, six provided a wage subsidy scheme and six provided both (Müller et al. 2022). Yet when the pandemic broke out, some member states amended the institutional design of existing schemes, by (i) loosening conditions or enabling quicker access to the instruments, (ii) raising subsidies (e.g. by increasing the replacement rate for workers, or reducing employers’ costs), and (iii) extending the maximum duration of job retention and protecting workers against dismissal after the exhaustion of the subsidy. In addition, several member states introduced new schemes to guarantee income support for self-employed and non-standard workers, the spread of STW schemes.⁵ As this phenomenon emerged, Commission officials at DG EMPL used the opportunity to frame SURE as a *collective* instrument funded by and provided to *all* EU countries.⁶

3.2 *Political opportunism: internalizing divides and preparing a compromise*

Growing consensus on EU’s legitimacy in acting as a second line of defence did not yet discard risks of political deadlocks. A wide variety of positions were held in the Council in terms of the content of measures to be supported, the nature of the guarantee required for the EU to raise funds, and the means whereby which an effective use of the funds would be monitored. Besides a ‘traditional’ divide between contributors and recipients linked to the duration of the programme and the nature of financial guarantee, some member states (Hungary) wished for support to specifically target healthcare needs rather than mere job-related issues, others (Finland), stressed the importance to respect the rule of law and EU values, when still others stressed the importance of avoiding any kind of harmonization or interference with existing STW schemes’ implementation practices. How did the Commission deal with national concerns on design options susceptible to block the adoption of the programme as a whole?

Many of the constraints had in fact been preemptively *internalized* by supranational actors, who themselves stressed the importance of proposing a design aimed at overcoming political opposition known to exist in the European Parliament while reaching a large enough consensus among member states. The Commission’s political opportunism emerged in the choice for a loans-based instrument that would not touch upon national schemes design and administration. To accommodate concerns of a ‘transfer Union’ among SURE main contributors, a sunset clause was introduced in negotiations with the Council on 31 December 2022. Article 122, however, left open the possibility to extend the period of availability should the severe economic disturbance persist. In an initial phase of the debate, some member states had advanced the possibility to attach to EU financial support

a ‘light conditionality’ consisting in guidelines on how national job retention schemes should look like. These provisions notably referred to the contexts under which national or EU supported could be activated, the criteria or qualifications an individual (employee) must meet in order to be eligible for benefits or participation in the scheme or the level of protection granted. Such possibility was however quickly dismissed as the Commission realized that such guidelines would require finding an agreement on ‘minimum standards’ – a red line raised by a majority of member states raising subsidiarity concerns.

The Commission yet most significantly served as an able ‘compromise broker’ on the controversial issue of ‘moral hazard’. To protect the use of EU funds, countries known as ‘fiscal hawks’ first proposed to condition SURE disbursement on the fulfilment of EU fiscal and other macroeconomic objectives. Yet unusually siding with Southern countries, especially Italy who explicitly rejected the introduction of European Stability Mechanism-like tools, the Commission did *not* require EU financial assistance to be made conditional on the undertaking of economic reforms (Croonenborghs 2022). Instead, the disbursement of SURE was *de facto* solely conditioned on the funds being used for the only purpose of financing STW schemes and similar measures. Meanwhile, as some member states, notably the Netherlands, feared that creating an instrument solely targeting employment-related measures would resemble too much the (domestically rejected) EURS, the scope of the programme was extended to also include health measures at the workplace.

3.3 *Technical opportunism: beyond the legal base game*

In its pursuit to transform the EU into a Re-insurance Union, it was yet the Commission’s managerial and technical prowess that emerged as the most distinct feature of its purposeful opportunism.

The technical opportunism of the Commission emerged first in the legal construction of SURE. Provisions of the Treaty on the Functioning of the European Union (TFEU) contained several options for the Commission to propose the lending component of SURE, notably including the articles 175 (the legal base of Cohesion Policy) or 352 (a ‘flexibility clause’ enabling EU action in areas not currently foreseen by the Treaties). Choosing instead to use Art. 122.2 as the legal base of the SURE programme now conferred the Commission with several advantages. First, Article 122.2 allowed the SURE Council Regulation to be voted by Qualified Majority Voting, thus avoiding the unanimity requirement (needed for Art. 352) which had long constrained the adoption of the EURS. Second, Art. 122 TFEU granted the possibility for the file to be adopted without the involvement of the Parliament under the ordinary legislative procedure (needed for Art. 175), which would not only have delayed (and possibly threatened) the adoption of the file, but would also have significantly slowed down the implementation of SURE. Finally, by contrast to other financial instruments, like the European Stability Mechanism, Art. 122 TFEU did not require the funding to be linked to contentious macroeconomic conditionality provisions (Huguenot-Noël 2023), which helped guarantee a higher uptake of the funds by its potential beneficiaries.

With respect to the financial construction of SURE, a clear innovation regards the original establishment of a guarantee-system based on Article 122.1 TFEU underpinning funds borrowed by the EU to provide financial assistance to member states. When SURE was prepared, the EU budget margins remaining to cover the contingent liabilities and allow the Commission borrowing on behalf of the Union were almost entirely used for already existing financial assistance programmes, like the Balance of Payments or the European Financial Stability Mechanism. Under these circumstances, a mere ‘agent’ acting on behalf of member states’ principals could reasonably have been expected to drop the proposal. In fact, options to scale down on original ambitions were quickly considered, such as limiting the size of SURE financial assistance to stay within the payment appropriations margins. Yet, the Commission eventually succeeded in securing support for its national-guarantees system proposal. To do so, DG ECFIN officials used their technical knowledge as ‘process manager’ while opportunistically using the asymmetric information they held on the margins actually available under the ceilings of the EU budget.

Most notably, the Commission strategically referred to external pressure from the credit agencies to make the case for the 25 billion Euros guarantees. To do this, ECFIN officials argued that guarantees were not only needed to provide sufficient funding capacity to SURE but also necessary for the loans to be granted a AAA credit rating on international capital market – ensuring in turn low interest rates and longer maturities. At the end of the negotiations, member states consented to the required guarantees. In addition, creditors eventually agreed to leave the Commission complete discretion to decide whether to draw on national guarantees or on the margin available under the own-resources ceiling for payment appropriations (Art. 11.4 SURE Regulation), after having first advocated for the Commission to shift this roll-over possibility from the national guarantees to the EU budget.

4 An unfinished business opening new pathways to Social Europe

With the creation of SURE, EU solidarity made an expected come-back during the Covid-19 pandemic. The adoption of SURE is best traced back to the decade-long process of collectively puzzling on the possible designs of a technically feasible and politically acceptable EMU stabilization mechanism. Now, compromises also had to be made on original EURS proposals with the final design introducing new buffers in the EMU’s architecture, but also failing short to provide a more structural response to back up national unemployment insurance systems. How should we then evaluate the overall effect of this new EU intervention?

The first impact of SURE is functional. Three years after its adoption, SURE is widely also regarded as a success story for its swift and effective implementation (European Commission 2023). At the end of 2020, the year of its adoption, EUR 90 billion of the SURE envelope had already been committed, while by May 2021 all requested loans (over 90% of the granted financial assistance) had been disbursed. Additional EUR 8.9 billion were requested by member states and investors’

subscription of bonds of all maturities overrode by about ten times its supply. As a loan-based instrument, SURE also allowed beneficiary countries saving up to 9 billion Euros in interest payments, including 3.8 billion for Italy alone.

SURE's second effect is deeply political. As a financial assistance instrument that support traditional social protection buffers, SURE largely benefits those groups with lower socio-economic as well as educational background in wholesale and retail trade, accommodation and food services and manufacturing sectors that are considered by the bulk of the literature as traditionally more Eurosceptic. As such, the maintenance of such an instrument could represent a venue to increase political support for further social integration and a way to legitimize the EU action in the social field.

But the most important implication of SURE adoption is assuredly ideational. Between the mid-1980s and 2008, there was no common 'shock' to the European economies threatening wide-spread, massive unemployment. In an intellectual environment marked instead by fears of moral hazard, the insurance paradigm accordingly lost in popularity, leaving the EMU to act instead as disciplinary mechanism for national welfare states. By acting as an Reinsurance Union during the pandemic, EU institutions propelled a shift away from this conception, to now take up the role of a 'holding environment' not only acting as a lender of last resort, but also entailing new elements of Keynesian stabilization in the form of fiscal and social backstops. Today, the notion of a 'European reinsurance' may accordingly offer an alternative more attune to the diversity of EU welfare states than the kind of welfare homogenization and streamlining historically advocated for by proponents of the OCA-theory. Even though SURE is a temporary instrument, its successful implementation provides the evidence that EU level stabilization can be established politically and work effectively, against the fears of moral hazard.

This assessment opens both policy and academic discussions. From a policy perspective, the success of SURE will give to the idea of the EU as an Insurance Union some leash on the future, both politically and intellectually. Turning SURE into a permanent mechanism should be the first logical step in that direction. The discussion on a permanent SURE, however, cannot be decoupled by an in-depth reflection on the need of common EU standards on job retention schemes. The stabilization capacity of job retention schemes varies across member states depending on the design of the schemes (i.e. inclusiveness, generosity, financing system and temporal nature) (Corti et al. 2023). A badly designed job retention scheme has a lower stabilization capacity. In addition, it risks leading to resources misallocation (with firms and workers exploiting taxpayers resources dedicated to the schemes) and adverse selection (e.g. by supporting firms unable to maintain employment contracts once the crisis is over). Common EU standards would therefore not only serve to avoid unfair EU competition between EU member states based on lower social standards but would also increase national welfare states' stabilization capacity and increase allocation efficiency. Looking ahead, the debate should also reopen discussions on the need for EU mechanisms to also provide a 'second line of defence' *for the unemployed*. As its term came to an end, a reality is that the Von der Leyen Commission also cynically used SURE success story to

systematically ignore pressure by social actors to put back on the agenda the EURS she had (reluctantly) committed to implement.

From an academic perspective, the adoption of SURE thus opens a wider discussion on the possible pathways to Social Europe. So far, the literature on social standards in the European Union has focused on the limits of the *social acquis* by pointing to the asymmetric treatment of economic freedoms vs. social rights. While EU social regulations plummeted after the adoption of the Social Pillar, legal scholars largely emphasized the need to enhance the *enforcement* of social rights. But the EU's response to the Covid-19 pandemic points to another less appreciated, avenue for EU social integration. With the adoption of the Youth Guarantee and the Child Guarantee, EU institutions had first ventured into a new terrain by positioning the EU as a co-guarantor of social citizenship. Another step was yet reached with the adoption of SURE and the RRF, where EU institutions de facto entered into the *co-production* of new social rights, be them job and income maintenance or access to childcare. While less debated, the creation of new social rights by means of fiscal backing represents a new pathway to *substantiating* the Social Pillar. More, by disconnecting rights from their exclusive national foundations, these developments may open space to the strengthening of a genuine, EU social citizenship, which is tangible to European people.

Notes

- 1 Economic efficiency, so the theory, would be augmented if countries shared certain traits, including labour market mobility, wage and price flexibility, and similar business cycles. Besides, achieving greater levels of (nominal) convergence would bolster the European Central Bank's capacity to react to shocks under a unified policy framework.
- 2 The paper published by the Finance ministers from Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands and Sweden is available at the following link: <https://vm.fi/documents/10623/6305483/Position+EMU+Denmark+Estonia+Finland+Ireland+Latvia+Lithuania+the+Netherlands+and+Sweden.pdf/>.
- 3 In an interview for *Der Spiegel*, then newly appointed finance minister Olaf Scholz manifested its support for a 'European Unemployment Stabilisation Fund (EUSF)': 'I'm in favor of supplementing national systems for unemployment insurance with a reinsurance for the overall eurozone. A country in the midst of an economic crisis that is resulting in significant job losses and placing a heavy burden on its social-security system could borrow from this joint reinsurance fund. Once the recession is over, the country would pay back the funds it borrowed' (Scholz 2018).
- 4 Available here: <https://www.socialistsanddemocrats.eu/sites/default/files/2019-09/SD.LetterUvdL.docx.pdf>.
- 5 A critical factor in this development was the positive feed-backs triggered by the use of Germany's national short-time work scheme during the financial crisis. Unanimously appraised in both academic and policy circles for preserving jobs and domestic demand, the *Kurzarbeit* experience not only helps explain the German government support for establishing an EU instrument aimed at a re-insuring national STW schemes. It also served as a reference for many other national responses.
- 6 These insights were gathered via our interviews and cross-checked across Directorate Generals. The communication by the European Commission in April 2020 also emphasized that 'all Member States already have some form of national short-time work schemes in place', see https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_572

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