

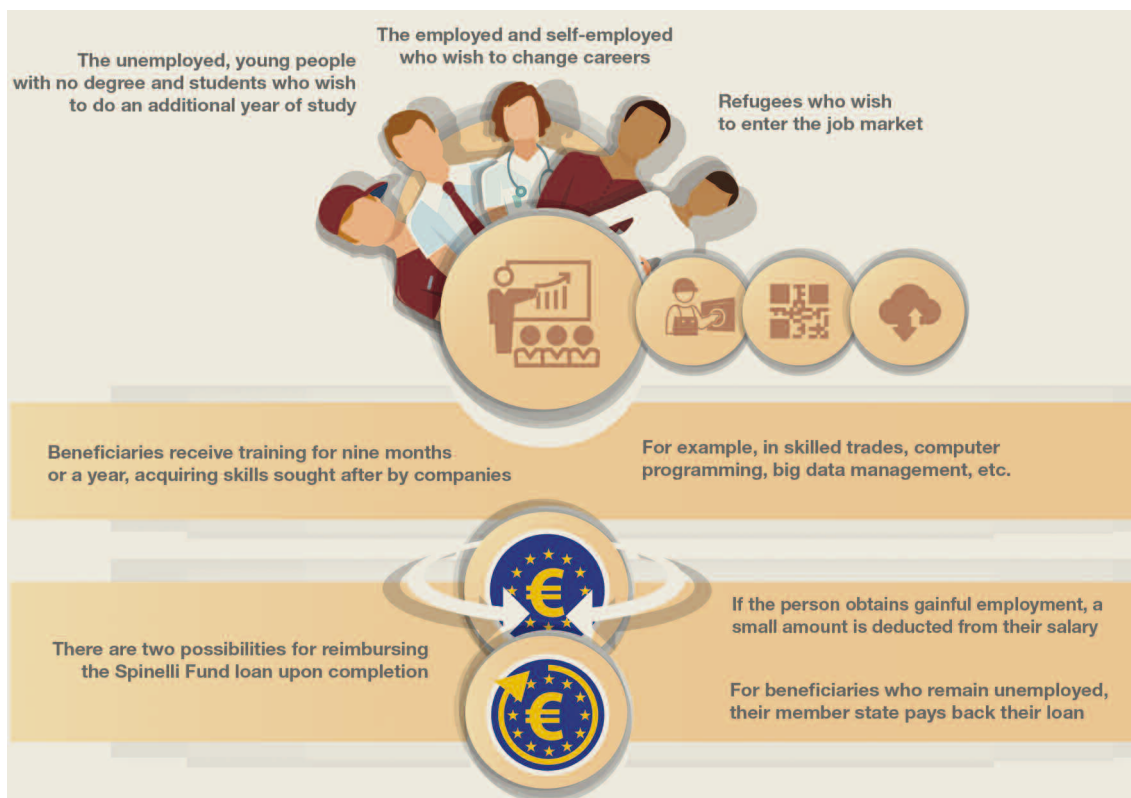


The Spinelli Fund: A European Compact for Skills

Europe's contribution to the future prosperity and equity of our societies can be significant if it successfully encourages long-term investment in human capital. Helping people in a direct and visible way is the only way the European Union can win over the hearts of its citizens. This paper proposes the introduction of a new European lending system to finance vocational training, targeting four types of people: the unemployed and young people with no higher education, students already enrolled in higher education who wish to do an additional year of study, the employed and self-employed who want to retrain and refugees.

The fund that would be created to support this scheme would borrow on the financial markets to directly lend money to the eligible citizens. Training programmes would target occupations that face manpower shortages and specific skills that are in high demand by companies. A list of these jobs and skills would be drawn up country by country. The syllabuses would be defined and regularly reviewed on the basis of the best pedagogical practices. Finally, reimbursement of the loan would be contingent on the beneficiary landing a decently paid job.

This scheme, which would be permanently instituted across the EU, would spur growth and foster social justice. Named after one of the founding fathers of the EU, the Italian Altiero Spinelli, the fund would also be an excellent instrument for macroeconomic stabilisation of the eurozone. Member states would be able to decide to substantially increase the scope of vocational training in a country faced with a severe economic downturn. This injection of public funds in a recessionary economy would contribute to stabilising it in the short term while increasing potential growth by improving citizens' skills. Moreover, by favouring macroeconomic convergence between countries, the Spinelli Fund would reinforce the stability of the single currency.



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INTRODUCTION

In the wake of 10 years of economic turmoil, the EU's member states are today confronted with increasing distrust on the part of their populations, even in those countries where growth has returned and unemployment is low. A full 60 years after the Treaty of Rome, a growing share of the population feels left behind and no longer believes in the European promise of a brighter future. This is manifest in the rise across Europe of Eurosceptic political parties and the British vote in favour of Brexit.

It is within this context that member states begin new negotiations for the post-2020 European budget. These negotiations will take place in a politically tense climate and will be further complicated by the fact they will have to factor in the exit of the United Kingdom, a net contributor to the Union's budget.

With its average annual budget of €155 billion over the 2014-20 period (i.e. 0.98% of EU GDP), Brussels finances quality policies related employment, innovation, the environment, social cohesion and development, but the general public is for the large part not aware of them. As the designated "guardian of the treaties", the European Commission is often perceived by citizens as being only concerned with keeping deficits low and ensuring the rules are followed. Restoring trust in Brussels presupposes, at the very least, developing and implementing EU policies that have a direct and visible impact on citizens' daily lives.

However, making European policies more visible is not an easy task. Indeed, European action is in most cases co-funded with states or regions as per the subsidiarity principle. As a result, citizens are not aware of the role played by the EU in the policies they benefit from. The Common Agricultural Policy and the European Research Programme are two notable exceptions, but they target specific segments of the population. The Erasmus programme is another exception, which enjoys considerable success by fostering mobility and cultural exchanges across the continent, creating a strong connection to Europe among the students who benefit from it. This example should serve as inspiration: European public policies should create a connection between citizens and the European Union while remaining targeted at areas where its action is the most efficient.

Education and vocational training are areas where the need for increased investment is undeniable. In a world where international competition is fierce and digital transformation is underway, the jobs of today and tomorrow require better trained individuals to bolster innovation and

enhance competitiveness in terms of both cost and quality. More generally, improving citizens' level of education contributes to their overall well-being and improves how society functions. What's more, developing a knowledge economy creates positive externalities that more than justify broad public support.

A EUROPEAN PROGRAMME OF INDIVIDUAL LOANS FOR VOCATIONAL TRAINING

A scheme open to everyone but targeted and optimized

To help citizens feel more connected to Europe, the EU could finance a loan to anyone who wishes to further their education to improve their job prospects. This scheme would target as a priority four types of people:

- The unemployed and young people with no academic degree, with financing for a period of nine months to one year
- Students already enrolled in higher education who want to finance an additional year of studies
- The employed and self-employed who want vocational training to change their career path or access a higher-skilled job
- Refugees who need to acquire specific skills to enter the labour market

First, the training would target basic skills, whose shortage hinders the employment of certain people. It should be noted that 20% of the workforce in Europe have low writing and arithmetic skills, and 25% do not meet the standards skills needed to effectively use basic digital tools, according to the OECD's Survey of Adult Skills (PIAAC). Second, it would focus on mastering social norms and interpersonal relations that is often a hindrance to hiring. Finally, training should ultimately target jobs that are in short supply and skills that are sought after by companies. Some examples include skilled factory jobs, computer programming and managing big data.

The list of jobs and skills sought after would be drawn up country by country in order to better meet national and local needs. The training needs would be constantly reassessed by national institutions in charge of overseeing the adequacy between jobs and skills. These institutions would work as a network at the European level and would be made more effective through the sharing of good practices, tools and methods.

The syllabuses for the training courses would be determined and regularly reassessed according to detailed speci-



fications based on the best pedagogical practices and would make the most of digital technologies.¹ Given the main objective is to create jobs, companies would be heavily involved in defining the training courses. The organisations that deliver the training courses would be selected through a European public tender, which would be renewed on a regular basis in each member state.

An exam would be established and organised at the European level to certify the skills acquired. This EU endorsement would lend the courses credibility and attractiveness while fostering worker mobility across the Union.

An original and incentivizing financing mechanism

The European Union would not fund these expenditures via fiscal spending but rather through individual loans, whose reimbursement would be contingent on beneficiaries securing a job with a decent wage. Furthermore, the organisations providing the training would be paid only if students pass the final exam.

This setup presents several advantages. First, the training organisations would be encouraged to select motivated individuals who stand a good chance of passing the final exam. Second, as students have to bear the cost of their training if they get a job, they for their part are encouraged to be both motivated and convinced of their course's usefulness for their future carrier. This provision deters individuals who are already well qualified from applying since they would choose the job market rather than doing a course that does not enhance their career perspectives, as they will have ultimately to bear the cost.

Thanks to this combination of good incentives, individuals who enter the scheme will be the ones who will benefit the most from it, i.e. low-skilled individuals or people whose skills do not match the available jobs.

Third, the fact that reimbursement is contingent on access to a job would encourage risk-adverse people in need of training but who fear indebtedness and insolvency. Moreover, this would prevent a deterioration of the finances of people who undergo training and do not get a job in spite of it.

Last of all, choosing contingent lending creates an important leverage effect since the net cost in terms of public spending would be minimal for the European budget. It could even be lowered more by the member state providing some kind of collateral in the event of non-reimbursement by the individual (see below).

Concretely, this scheme could use the European Investment Fund as a model, with the creation of an EU fund for

job training, which could be named after the European founding father Altiero Spinelli.² It would borrow on financial markets and issue bonds – like the European Investment Bank (EIB) – to finance training loans. The fund would directly lend to citizens instead of using local financial intermediaries as does the EIF. National employment agencies, companies, institutions working with young people or training organisations could orient potential beneficiaries. The Spinelli Fund would verify *ex ante* that the person has not accumulated too much debt already to avoid fuelling over-indebtedness.

This original type of funding would redress the failures of the student-loan market, allowing people with no financial assets or limited social capital to access funding for training to get a chance to change their career path.

Reimbursing loans and other operational details

Reimbursement would take place through a tax of 20% of the share of the individual's income above a given threshold. This threshold could be defined country by country in order to correspond to a uniform living standard, for example, in the case of France a full-time salary at minimum wage. The recipient would reimburse nothing if they get less than the minimum wage, but for each euro above the minimum wage they would reimburse 20 cents.

If the person has accumulated rights to vocational training in their country – for instance, in France through the *Compte Personnel de Formation* (Individual Training Account) – these rights could be directly converted to the Spinelli Fund by the relevant national authority once the training is completed and therefore deducted from the sum the person has to reimburse.

In addition to covering the training cost, the Spinelli Fund could also dispense funds to grant people an additional monetary allowance for the duration of their training. Nonetheless, this allowance would not supersede existing social benefits in each country. If the member states wish, this allowance could be calibrated to increase social benefits up to a threshold amount. It would remain optional, regardless.

Given that following their training certain people would not be able to reimburse all the money borrowed, the Spinelli Fund would need to renew its equity capital over time. The total, or a fraction of this amount, could come from the current European Social Fund (ESF). The Spinelli Fund could finance the training of 600 000 people a year across the EU if the ESF were to mobilise 10% of its €1.1 billion annual budget to cover a default rate equal to 15%.³ If the leverage is deemed to be insufficient, one could ima-

1. IGAS, *La transformation digitale de la formation professionnelle continue*, ("The digital transformation of continuing education"), March 2017.

2. The EIF, of which the BEI is the main shareholder, provides credit lines and guarantees to financial institutions to help finance SMEs.

3. This is assuming a distribution key of funded training based on the share of each country in the unemployment level of the European Union.

gine increasing it by member states providing ex ante a financial guarantee on the borrowed funds. For instance, if the member states were to cover two-thirds of the default rate, 1.8 million people could be trained annually across the EU for the same amount of money coming from the ESF.

The government body in charge of levying income tax in the country of residence would be tasked with collecting the payments drawn on the income of the recipients. It would ensure recovery at low administrative costs. If the recipient were to move across the EU, the tax authorities in the new residence country would then be in charge of recovery, which would limit risks of non-repayment. A person who leaves the EU would remain bound by the loan agreement, and a repayment schedule adapted to their income would be formalized by contract with their home country.

CONTRIBUTING TO THE MACROECONOMIC STABILISATION OF THE EUROZONE

Fostering economic convergence

In the wake of the 2008-09 financial crisis and the 2010-12 relapse, the eurozone has been deeply reformed, with the remodelling of the Stability and Growth Pact, the creation of the European Stability Mechanism and the establishment of the Banking Union and Capital Markets Union. The aim was to fix the flaws in the architecture of the eurozone, which had been exposed by the crisis.

However, the root causes of the poor management of the financial crisis – which subsequently sparked the eurozone crisis – have been insufficiently addressed. The absence of a positive aggregate fiscal stance for the eurozone is a blatant example. It led to premature and disorganised budget restrictions, which were implemented by member states as soon as the spectre of the financial crisis began to fade. This lack of coordination pushed the eurozone back into recession, precipitating Portugal and Spain to the brink of default and causing a partial Greek default.⁴ The consequences were dramatic: several million additional unemployed people and hundreds of billions in additional public debt, which now weighs heavily on most of the economies of the zone.

This public debt excess makes finalising the Banking Union difficult, even though member states have collectively agreed on its various components they held necessary to ensure the durability of the single currency. More generally, it constitutes a major impediment to establish in

the medium term a coherent and stable architecture for the eurozone.⁵

A joint fiscal mechanism, such as the Spinelli Fund, can be very useful in a monetary union, even if no severe crisis causes a member state to lose access to the bond market. There are two main reasons for this.⁶ First, it can foster macroeconomic convergence between economies. In the EU, structural funds and projects funded by the EIB act in favour of convergence. But this need for convergence is even stronger in the eurozone since persistent competitiveness-related divergences between countries that share a currency cannot be corrected through exchange rate adjustments. In the long term, these divergences create a risk of dislocation in the absence of permanent transfers similar to the ones existing between regions of the same countries. The Spinelli Fund can form a complementary macroeconomic convergence mechanism and as such contribute to reinforcing the stability of the single currency. To expand the fund's scope in the eurozone, member states could increase their guarantee to the fund's contingent loans, enhancing the leverage effect.

Creating an instrument for stabilization in the event of a crisis

Second, a joint fiscal capability would provide the eurozone with a macroeconomic stabilisation instrument, reducing both the amplitude of national economic cycles and their cost to public finances. If properly weighted, it could reduce public debt in each country and as a consequence for the zone as a whole, including the cost of the common budget.

Indeed, when a recession hits the zone, each country strives to limit public expenditure as it knows that it will later have to face the consequences of its debt increase by itself. For this reason, member states are faced with the prisoner's dilemma: self-interest pushes each country to take advantage of other countries' spending spillovers while reining in their own, when the collective interest would be better served by economic stabilizers playing their part so as to not deepen the crisis and build up budget deficits.⁷

The most frequently discussed proposal today to set up a cyclical stabilisation instrument at the eurozone level consists of the introduction of a European unemployment insurance scheme, inspired by what exists in the US, where each state's plan is backed at the federal level. This mechanism, which triggered an additional expenditure equivalent to 0.5% points of US GDP in 2009 and 2010,

4. Mahfouz S. and Pisani-Ferry J. (2016), *À qui la faute ?* (Laying the Blame), Paris: Fayard.

5. Aussilloux V., Cases M., Gouardo C. and Lenglard F. (2017), Dealing with Legacy Debt in the Euro Area, Policy Brief N°62, France Stratégie.

6. Gouardo C. and Aussilloux V. (2016), "What model for the future of the eurozone?", Critical Actions 2017-2027, France Stratégie, December.

7. Pisani-Ferry J. (2015), "Rebalancing the governance of the euro area", Working Paper N°2015-02, France Stratégie, May.



played a key role in limiting the extent of the crisis and bringing about the return of growth.⁸ If such a mechanism were to be implemented in the eurozone, it would present the right characteristics to counter a recession since it would allow an increase in public expenditure during the trough and target the most disadvantaged individuals in these circumstances.⁹ The discussion among member states on this topic still runs up against the fact that a large part of public opinion in countries with low unemployment is persuaded that this mechanism would create permanent transfers between countries at their expense.¹⁰

Other proposals focus on the creation of a mechanism to protect public investment, which is often the first expenditure slashed during a recession. The difficulty is this would protect pre-planned spending but does not allow for a rapid increase in the event of a crisis, not to mention that in many countries it is the local and regional authorities that make the largest share of public investments, making it difficult to coordinate the stimulus.

Here again the Spinelli Fund would be an excellent way of introducing a cyclical stabilisation instrument for the eurozone. Indeed, in the event of a severe economic downturn in a country, member states could choose to increase financing for training for the country's beleaguered citizens via the Spinelli Fund. Providing training in a crisis injects public funds into the economy in order to stabilize it in the short term while improving human capital, thus bolstering potential growth in the medium and long terms.

Apart from the four types of individuals typically targeted by the fund (students, the unemployed and young people with no higher degree or basic education, employees and the self-employed undergoing a professional transition, and refugees), the funds could also benefit salaried employees of companies who face a temporary payroll surplus due to reduced orders during a downturn. This component would work like the German Kurzarbeit (i.e. part-time unemployment coupled with training, financed partly by taxpayers), which was allowed the country to weather the crisis.

Triggering the fund and ensuring solvency

The Spinelli Fund could be deployed in a few months to its full scale to help stabilise a slowdown in the economy as the mechanism would be set up and fully operational before the onset of the crisis. This is a crucial advantage

over other stimulus policies, which take longer to implement on the ground. Indeed, training can be quickly increased by mobilizing teachers and making use of learning facilities over extended periods. New staff can also be hired and new training organisations made use of to further expand training. Conversely, the choice of renting new equipment and facilities when at full speed would allow the programme to be scaled back once the economy picks up.

The increase in funding for a country experiencing an economic downturn could be automatic, for instance, if GDP declines for two quarters over a one-year period. Alternatively, the Council of European Ministers could trigger it on the basis of a European Commission recommendation deeming the situation of one or several countries critical enough to justify activation of the fund. This would make it in effect a "rainy day fund", in line with the European Commission's recommendation in its reflection paper on the deepening of economic and monetary union.¹¹

Furthermore, triggering an emergency policy for the benefit of a country could be made in conditions where the country concerned bears almost exclusively the cost to the public purse. It would suffice to decide that the country is the sole guarantor for the training loans delivered to its citizens. Thus, the country would guarantee the default of payment for those who do not enter the labour market under satisfactory conditions. But this cost would be incurred several years later, once the extent of the outstanding loans has been determined. The joint guarantee of the other member states would not kick in unless a country is unable to fulfil its commitments to the fund. Thanks to this reimbursement mechanism, the minimum contribution to the fund on the part of the member states and their guarantee, the fund would be able to borrow on the markets at the best interest rates, benefitting individuals being trained without weighing on member states' finances in the short term.

A quantitative example

The following hypotheses for an economy representative of the eurozone (roughly the same size as France) illustrate the macroeconomic effects of drawing on the Spinelli fund¹³: €14 000 in training per year per person (which is the current average cost of a year's worth of higher education in France), which will be adjusted in line with purchasing power in each country.

8. Albrizio S., Berganza J. C. and Kataryniuk I. (2017), "Federal unemployment insurance in the United States", Economic Bulletin, N°2-2017, Banco de España.

9. Dolls M. (2016), "Chances and risks of a European unemployment benefit scheme", ZEW Policy Brief N°7.

10. Provisions exist to limit this risk; see the extensive literature review on this subject in "Feasibility and Added Value of a European Unemployment Benefits Scheme", CEPS (2017).

11. European Commission (2017), "Reflection Paper on the Deepening of the Economic and Monetary Union".

12. For salaried workers in a company, this allowance could be completed by the employer to make up for the temporary wage loss.

13. The macroeconomic simulations were carried out with the aid of a dynamic stochastic general equilibrium model. The main economic mechanisms are presented in a calibrated model, with characteristics close to those of France Stratégie. For more details on the simulation, cf. Aussilloux V., Le Hir B., Leclerc H. and Vermandel G. (2017), "Étude d'impact du Fonds Spinelli par un modèle DSGE", working paper.

In the event of an economic crisis similar to the one experienced from 2008-09, the Spinelli Fund could finance training for a maximum of 2.5% of the working population at any given time (i.e. approximately 750 000 people in France). Training for nine months would increase the productivity of beneficiaries close to 8% on average. Under these hypotheses, the budget stimulus at its peak would be equivalent to 0.5% of GDP in the given country. This additional spending would not weigh on the national budget and would significantly contribute to the stabilisation of the country.

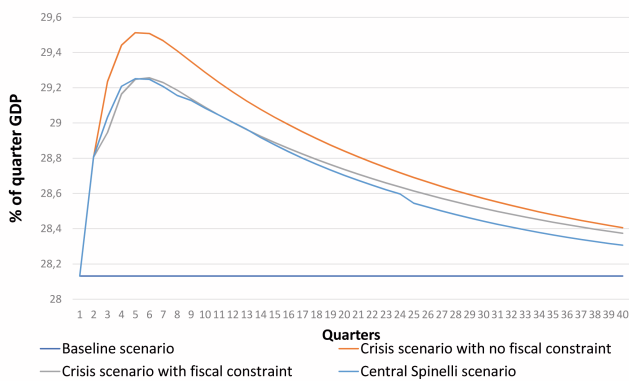
The simulations show that if used the fund would contribute to the reduction of the magnitude of an economic recession. The unemployment rate would be automatically reduced due to unemployed people leaving the labour market to train, but it would also be reduced by an additional half a point thanks to a Keynesian stimulus effect. In total the Spinelli Fund would reduce unemployment by 3.0% at its peak and by 1.5% on average over a three-year period following a crisis. Over the fund's three years of activity, 1.6 million would benefit (assuming training of

nine months on average). The average additional activity would be equivalent to 0.3% of GDP annually over the first three years and 0.07% of GDP annually over the next seven years. Over 10 years the country's debt would be down 0.4% of GDP.

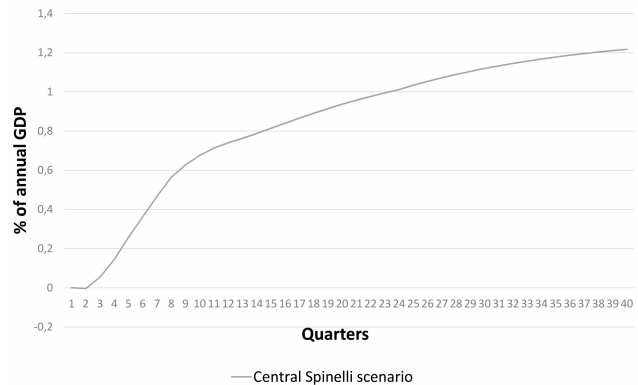
In the event of a crisis or a major budget constraint, the Spinelli Fund could also cover a stipend for living expenses during training. It could replace in part welfare payments, and the member state would reimburse the Spinelli Fund once the country has weathered the downturn. For a payment of €800 per month, which could be complemented by national unemployment insurance, there could be a close to 0.8% fiscal stimulus if the country were constrained by the 3.0% public deficit ceiling. This temporary aid on the European level would allow countries get out of the trough while avoiding cutting spending so as to respect the fiscal rules of the European treaties. In this case, the average annual surplus of activity over three years would be close to 0.4% of GDP and 0.04% over the following seven years, with debt declining 0.8% after a year and 0.1% after a decade.

Macroeconomic impacts of the Spinelli Fund on the recipient country

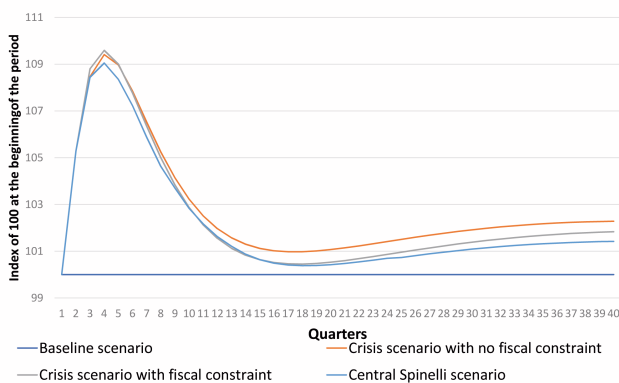
Total public spending*



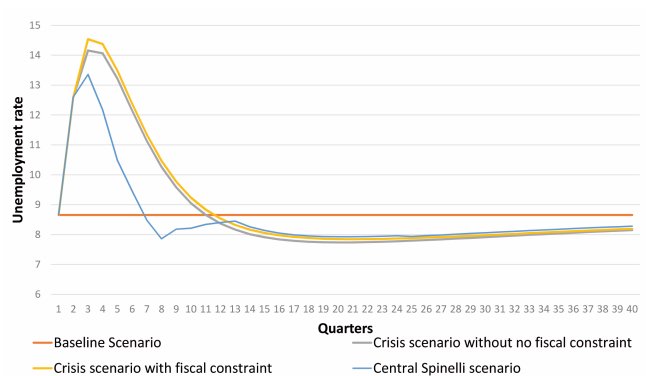
Cumulative GDP gains
Gap with scenario without drawing on the Spinelli Fund



Debt-over-GDP ratio



Unemployment rate
(% of labour force)



(*) Total public spending including unemployment benefits but without other allowances.

Source: France Stratégie, Aussilloux, Le Hir, Leclerc and Vermandel (2017), "Étude d'impact du Fonds Spinelli par un modèle DSGE", working paper.

Macroeconomic effects of the Spinelli Fund
(percentage of GDP)

	Central scenario		
	1 year	3 years	10 years
Total Spinelli expenditure ¹	0.1	0.7	0.7
Cumulated GDP gains ¹	0.1	0.8	1.2
Public spending ²	0.0	0.0	-0.1
Public debt ²	-0.5	0.1	-0.4

1. Non discounted cumulative amount in % of the initial GDP.

2. As a percentage difference with actual GDP.

NB: All figures correspond to the gap between the economy's trajectory with or without using the Spinelli fund. The first two lines present the cumulative effects over the period. The last two lines present the gap at the date.

Source: France Stratégie, working paper Aussilloux, Le Hir, Leclerc and Vermandel (2017).

CONCLUSION

The Spinelli Fund as presented in this note must be understood as a two-tier mechanism. The first component would be permanent and at the European level. It would aim to reinforce growth potential and contribute to macroeconomic convergence in Europe. The second component would be akin to a budgetary instrument of cyclical stabilization. It would lead to increasing investment in professional training during a crisis and would therefore play the role of an economic shock absorber.

The Spinelli Fund could be designed without financial transfers between member states. It could also include a subsidised part, funded by the common European budget. Its implementation would be simple. Lastly, and this is a crucial point, it would have a direct impact on EU citizens' daily lives, opening up the possibility of increased income and better job prospects.

Keywords: European Union, skills, European budget, job training, employability, eurozone.

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