

# Solidarity within the Eurozone: how much, what for, for how long?

Sofia FERNANDES, Eulalia RUBIO

*Foreword by Jacques DELORS*

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## Presentation of the project “A test for European solidarity”

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**H**aving put solidarity at the heart of the European Forum of think tanks held in Barcelona in September 2010, *Notre Europe* has defined a broader project on this theme, which allows it both to publish crosscutting reflection documents as well as Policy Papers covering different sectors.

With the economic and financial crisis having hit European countries in different ways since 2008, the EU is considering how far each country is responsible and what kind of solidarity is needed to overcome this challenge. Europeans have hastily set up solidarity mechanisms that their monetary union was lacking. Questions about legitimacy and the limits of European solidarity are now very much being asked out in the open.

They are all the more crucial as they generate tensions in national public opinions and among European political decision-makers. These tensions are not just about macroeconomic issues but have recently been about solidarity mechanisms put in place in the “Schengen area” and also relate

to the different extents of the other EU interventions, such as in the area of agriculture or energy.

In this context, *Notre Europe*'s work is inspired by the vision of Jacques Delors, who advocates articulating European policies around three key points that are more necessary than ever: "Competition that stimulates, cooperation that strengthens, and solidarity that unites." This vision, which embodied the Single Act, draws inspiration in particular from the 1987 report entitled "Stability, Efficiency, Fairness", in which Tommaso Padoa-Schioppa sets out how to push ahead with European economic and social integration in a balanced way.

## Foreword

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**A**s 2012 gets under way, if we look at the development of the Eurozone over the past two years, we can draw two conclusions from our observations. The sovereign debt crisis has imparted a fresh thrust to the strengthening of the Economic and Monetary Union (EMU), fostering the kind of progress that would have been unthinkable until only shortly before the crisis. Yet despite this progress, the crisis has worsened over time because the responses adopted have been both belated and insufficient.

In the urgency of the moment, the lessons of the past have often been overlooked. Yet they can help us to better understand the issues involved in this crisis and to come up with suitable responses to it. In their analysis of solidarity in the Eurozone, Sofia Fernandes and Eulalia Rubio perform that task in urging us to revisit the past before turning our gaze to the future.

The solidarity and coordination issues implicit in sharing a common currency played a large part in the debates which preceded the establish-



ment of the EMU, and the authors remind us that the considerations of 20 years ago are still valid today. I was one of those, back in the 1990s, who argued that the EMU should be equipped with a strong economic pillar. In particular, I made a proposal in 1997 that the Eurozone be bolstered by an economic policy coordination pact. The idea failed to garner much support at the time, however, and we have had to wait for the sovereign debt crisis to expose the flaws in the EMU's construction for the issue to be added onto the agenda again.

In addition to the need to strengthen economic policy coordination – rather than mere fiscal surveillance –, the errors of the past (both individual and collective) leave us with little choice but to envisage an increase in solidarity if we are to overcome the crisis. The authors remind us that such solidarity is based not on generosity but on the member states' "enlightened self-interest" (if for no other reason than that they are interdependent) and on the defense of a shared project. There is no miracle cure for this crisis, despite what certain people suggest when they recommend that the European Central Bank become the EMU's lender of last resort. The inter-state solidarity required to overcome this crisis comes at a cost, of course, but if the Eurozone were to break up, the cost – and the damage – would be far higher.

With this analysis firmly rooted in solidarity, Sofia Fernandes and Eulalia Rubio offer us a lucid vision of the crisis and make a clear distinction between the short-term and longer-term issues. They assess the potential benefits, as well as the risks, of any solution that involves progress in the crucial solidarity required among the members of the EMU, but at the same time they are quick to point out that greater solidarity cannot exist unless it goes hand in hand with greater responsibility on the part of each member state.

*Jacques Delors, Founding President of Notre Europe*

## Introduction

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Since the start of the Eurozone sovereign debt crisis, the term “solidarity” has come to the fore of European Union (EU) political debates. Yet, there is much confusion with respect to what does solidarity mean in the context of the Economic and Monetary Union (EMU) and how much solidarity has been exercised so far. While some portray the various steps taken since 2010 as a “proof of EU solidarity”, others question the use of this term to define the various measures adopted so far, by pointing out the strict conditions attached to the aid packages and/or at the fact that these rescues packages have not been driven by altruistic motivations but by self-interest calculus. The same confusion reigns with respect to how much solidarity is needed to exit from the crisis: some people consider that we have gone too far and warn on the risks of turning the EMU into a “transfer Union”, whereas others believe that the only way to save the euro is by setting up an explicit and permanent solidaristic mechanism within the EMU countries (be in form of common sovereign bonds or other).

The present Policy Paper aims at shedding light on current discussions on the exercise of solidarity within the EMU. It starts in section 1 by clarifying the various rationales for inter-state solidarity within EU member states. The rest of the paper focuses on solidarity within the EMU. In section 2, we review how the issue of solidarity and coordination were discussed at the moment of creating the EMU and how they were practiced before the crisis. In section 3, we analyse the way solidarity has been exercised since the start of the crisis. Grounded on the analysis from sections 2 and 3, we then put forward some reflections and proposals on the type and amount of solidarity needed to exit from the current crisis as well as to build-up a sustainable and well-functioning EMU in the long term.

## 1. The different rationales for inter-state solidarity in the EU

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The concept of solidarity is ambiguous. It can be used to refer to a moral value (the moral imperative to help someone in need) or to a contractual promise of mutual assistance linking the members of a community. This ambiguity is also present in the EU Treaties: while art. 2 of the Treaty of Lisbon cites solidarity as one of the EU's values, in other parts of the Treaty there are references to "mutual solidarity" and fair sharing of responsibility as a principle which has to govern relations between member states in certain domains (see i.e. art. 24 TEU<sup>1</sup> on external and security policies or art. 67 TFEU on freedom, security and justice)<sup>2</sup>.

This dual meaning of solidarity captures the existence of two ways of conceiving solidarity within a group. These two conceptions of solidarity are well expressed in Durkheim's classical distinction between "mechanic"

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1. TEU stands for Treaty on European Union and TFEU for Treaty on the functioning of the European Union.

2. For a discussion of the meaning of solidarity in the EU see Fabry, Elvire, "European solidarity: Where Do We Stand? Should We Foster It and How?", 2010 European Forum of Think Tanks, *Synthesis, Notre Europe*, June 2011.

and “organic” solidarity<sup>3</sup>. According to Durkheim, traditional societies are held together by “mechanic solidarity”. Because these societies are small and homogeneous, members are all socialised in the same patterns and hold common values. Solidarity hence is emotional, and grounded on a shared identity (on the moral imperative of helping “one of us”). Modern societies, on the other hand, are held together by “organic solidarity”. In these societies, members perform different roles, have a variety of experiences and hold different values. However, because they are interdependent, they must rely on one another if their society is to function effectively. In these societies, solidarity is functional rather than emotional. Members commit to mutual assistance because they know their fate is dependent on the others’ fate. From this perspective, solidarity is not an act of altruism but a rational act driven by self-interest.

Inter-state solidarity in the EU is better understood in terms of Durkheim’s “organic solidarity”. In effect, while EU countries hold some common values, it is the awareness of being intimately connected and mutually responsible for the preservation of a common project that has prompted the development of inter-state solidarity arrangements all over the history of European integration. The existence of self-interest can be more or less easy to recognise. In this respect, a distinction can be made between two different rationales inspiring inter-state solidarity in the EU: a rationale based on direct reciprocity (I help the others so that they will help me in the future in case of need) and a rationale based on “enlightened self-interest” (I help the others because I know that acting in the interest of other EU members or in the interests of the EU as a whole ultimately serves my own self-interest).

The first (*direct reciprocity*) is the rationale inspiring the classical insurance-type schemes. Examples of this type of scheme at the EU level are the EU Solidarity Fund (which comes to the aid of any member state

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3. Durkheim, Emile, *The Division of Labor in Society* [1893], New York: Free Press, 1997.

affected by a natural disaster) or the Lisbon Treaty’s “solidarity clause” (according to which member states “shall act jointly in a spirit of solidarity if a member state is the object of a terrorist attack or the victim of a natural or man-made disaster”, art. 222 TFEU). Through these schemes, EU countries commit themselves to reciprocal aid in face of a risk that is equally spread among member states. All EU countries are thus potential givers and receivers of help. The interest of those providing aid is clear and based on direct reciprocity (as the risk occurs randomly, today’s provider of help can be tomorrow’s beneficiary).

The second (*enlightened self-interest*) is the rationale inspiring the EU cohesion policy. In this case, solidarity is driven by the donor EU countries’ conviction that helping the recipient countries ultimately benefits them. In particular, richer EU countries help poorer EU countries to develop their economies in exchange of their engagement to the process of economic integration – which in the short term reports more benefits for richer than for poorer economies – and because they realise the development of the poorer EU economies has positive economic returns for them (in terms of growing exports, growing investment opportunities or decreasing population inflows among others).

There are various aspects that distinguish these two logics of solidarity. In the first case (insurance-type schemes), the need for solidarity stems from the similarity within the members of the group – they are all confronted to the same risk. In the second case, solidarity is driven by the difference – the stronger/richer EU member states realise they need to help the weaker/poorer ones to secure the stability of the group and/or the viability of the common project. Insurance-type schemes are conceived as “last resort” instruments, to be activated only in exceptional circumstances when a country is affected by a negative event that is not under its own control (exogenous risk). Solidarity schemes based on enlightened self-interest do not necessary work in this way. In particular, the countries

receiving help are not necessarily seen as irresponsible from the cause of neediness that entitles them to receive help. Based on direct reciprocity, insurance-type arrangements are widely accepted by the members of the group. The exercise of enlightened self-interest solidarity, on the contrary, might be politically difficult, as national public opinions might have difficulties to see the benefits from helping other countries. Indeed, one might argue that the political support to exercise enlightened self-interest solidarity is ensured as far as the help is conceived as temporary: thus, for instance, support to EU cohesion policy is maintained because it is not seen as a permanent transfer of wealth within regions but as an instrument to help poorer countries in their efforts to converge to the levels of richer countries (thus reducing the need for solidarity in the future).

**TABLE 1. TWO TYPES OF INTER-STATE SOLIDARITY IN THE EU**

<b>RATIONALE FOR INTER-STATE EU SOLIDARITY</b>	<b>ULTIMATE PURPOSE OF THE SOLIDARITY ARRANGEMENT</b>	<b>NATURE OF THE SOLIDARITY RELATIONSHIP</b>	<b>PRACTICAL AND POLITICAL IMPLICATIONS</b>
DIRECT RECIPROCITY	POOLING A RISK EVENLY SPREAD ACROSS ALL THE EU MEMBER STATES	EQUAL – ALL EU COUNTRIES ARE POTENTIAL GIVERS AND RECEIVERS OF HELP	TEND TO BE PERMANENT  TO BE EXERCISED IN EXCEPTIONAL CIRCUMSTANCES, ONLY WHEN A COUNTRY IS AFFECTED BY SOME NEGATIVE EVENT THAT IS NOT UNDER ITS OWN CONTROL (EXOGENOUS RISK)
ENLIGHTENED SELF-INTEREST	HELPING WEAKER/POORER EU COUNTRIES IN ORDER TO GUARANTEE THE COHESION AND STABILITY OF THE WHOLE GROUP AND/OR TO ENSURE THE LATTER'S ENGAGEMENT IN THE PROCESS OF ECONOMIC INTEGRATION	UNEQUAL – THE STRONGER/RICHER EU COUNTRIES HELP THE WEAKER/POORER ONES	TEND TO BE TEMPORARY  COUNTRIES RECEIVING HELP ARE NOT NECESSARILY SEEN AS IRRESPONSIBLE FROM THE CAUSE OF NEEDINESS THAT ENTITLES THEM TO RECEIVE HELP

**SOURCE: SOFIA FERNANDES, EULALIA RUBIO.**

The distinction between two logics of solidarity might seem irrelevant to understand what happens in the current crisis. Indeed, until now, all solidarity efforts have been driven by the logic of enlightened self-interest, with the “strong” EMU countries having a triple A debt helping weaker EMU countries. However, this might change in the coming future, as the crisis spreads to the core of the Eurozone and becomes more difficult to distinguish between “strong” and “weak” EMU member states. More importantly, the crisis has bluntly exposed how vulnerable all EMU countries are vis-à-vis the financial market as well as the limited capacity they all have to stabilise their economies, thus re-opening old debates on the appropriateness of putting into place an EMU insurance-type scheme.

In the coming sections, we will explore how these two logics of solidarity were discussed and analysed prior to the crisis and how and to which extent are they relevant in the current context. Before that, it is important to highlight two other general points concerning the exercise of inter-state solidarity in the EU.

The first concerns the relationship between solidarity and responsibility. As noted by Vignon<sup>4</sup>, any solidarity act has as counter-part an element of responsibility from the country receiving the aid. In practice, this responsibility is assured through the establishment of some conditionality attached to the use of the aid. Conditionality serves two different, partly contradictory purposes: a constructive purpose (guaranteeing the most effective use of the aid deployed and inducing the country to undertake the necessary parallel reforms to get out from the situation of neediness) and a punitive purpose (making the aid provided as unattractive as possible to reduce the risk of moral hazard. i.e, the risk the recipient country behave irresponsibly in the future on the belief that it will be again helped in case of need). The success of a solidarity action depends very much on finding a right equi-

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4. Vignon, Jérôme, “Solidarity and responsibility in the European Union”, *Notre Europe Policy Brief*, No. 26, June 2011.



librium between these two logics of conditionality. In particular, punitive conditions attached to the aid should not be as high as to endanger the ultimate aim of the solidarity; that is, to help the country redress from a negative situation.

The second point concerns the relationship between two basic principles governing relations within the members of a group, solidarity and coordination. To a certain extent, one might argue that there is an inverse relationship between these two logics of action. In the case of insurance-type arrangements, coordination can help reduce the incidence of some risks therefore reducing the need to activate the insurance mechanism. Thus, for instance, more and better coordination in the fight against terrorism reduces the odds of a terrorist attack in an EU country, and thus the need to activate the Lisbon Treaty's "solidarity clause". In the case of solidarity based on enlightened self-interest, coordination can serve to diagnose, prevent and redress divergences within a group, thus reducing the need for solidarity-based-on-difference. As we will see in the following sections, this latter point is of particular relevance in the context of current discussions on solidarity within EMU countries, as current demands of solidarity partially stem from the lack of effective coordination in the years preceding the crisis.