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Solidarity in the Eurozone: What are we talking about?

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In the context of the European Council meeting, we have again heard commentators and politicians make calls for an increased European solidarity. But what are we referring to when we talk about solidarity in the Economic and Monetary Union (EMU)? And how much more of it do we need to find a way out of the crisis?

In the current debate there is a fair amount of confusion surrounding these questions. Some think that we have already gone too far and warn of the risk of turning EMU into a transfer union with the rich countries permanently subsidising the poor ones. Meanwhile others think that the only way to exit the crisis is with an increased solidarity. But there would be quite a few citizens looking at us in astonishment if they heard us talk about solidarity with reference to the latest rescue plan for Greece.

In part, these disagreements can be put down to some confusion over semantics. The term solidarity is used both to mean a moral imperative to help someone in need and to refer to a functional principle that governs relations between the members of a group. Those who refuse to define the Greek rescue as an act of solidarity are thinking in moral terms but the fact is that, in practice, solidarity between member states of the EU is of the second type. A functional type of solidarity can respond to different motivations. In Europe, throughout history, two different rationales have been behind the creation of solidarity mechanisms. One is the traditional rationale of direct reciprocity: EU countries commit themselves to reciprocal aid in face of a risk that is equally spread among member states. This is the logic of the European Solidarity Fund, which is activated in the event of a natural disaster. In these cases, solidarity is symmetric. All the countries contribute and all are potential beneficiaries.

The other rationale is less clear and is based on "enlightened self-interest": some countries (the richest/strongest) undertake to help other countries (the poorest/weakest) because they understand that, in a group with strong links of interdependence, what happens to one of the members of the group necessarily has repercussions on the others.

Structural funds are a good example of this kind of solidarity. In this case, the benefit of helping another country is less clear and the relationship is asymmetric (it is always the same countries which help and the same ones that receive help). For this reason, this second type of solidarity is difficult to sustain in the long term.

This distinction between the two rationales inspiring inter-state solidarity in the EU may seem irrelevant to understand what is happening in the current crisis. For the moment, all the efforts of solidarity have been of the asymmetric type, with the strong countries or those with triple A credit ratings helping the weak countries.

This is the logic that will continue to prevail in the short term and that is how it should be given that, as things stand at the moment, the only way to avoid the breakup of theEurozone is via an increased asymmetric solidarity. However, this extraordinary effort of “enlightened self-interest” solidarity is not sustainable in the long term. The EMU does not have the vocation to turn into a transfer union.

This does not mean that, in the long run, there are no reasons to exercise solidarity in the EMU. There will be a need to avoid the marked divergences between countries, which implies making more intelligent and effective use of structural funds in the peripheral countries. In addition, the crisis has put the spotlight on a series of vulnerabilities that all the Eurozone countries share. On the one hand, the fact that they do not control the currency in which they issue their debt makes them particularly vulnerable to a liquidity crisis.

On the other hand, the high level of exposure of the banks in the EMU to the debt of their own country and the large size of European banks in relation to the Gross Domestic Product (GDP) of their countries means that there is a strong link between the banking system and governments, which, in the event of a financial crisis, could turn into a vicious cycle (a worsening of the debt of a country weakens its banking system and a domestic banking crisis can easily trigger a sovereign debt crisis).

If we want a sustainable Eurozone that is more resilient to future crises, it will be necessary to protect EMU countries from these two risks by establishing two symmetric solidarity mechanisms: a permanent mechanism to protect countries from liquidity crises (ideally in the form of Eurobonds) and a European fund for banking crises resolution and/or a European fund covering bank deposits.

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