Policy paper 51

Extract from:
Sofia Fernandes, Eulalia Rubio,
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Foreword

As 2012 gets under way, if we look at the development of the euro zone 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 interstate 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.

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