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Executive summary

The first ten years of EMU passed by with no major debate on the solidarity implications of creating a common currency. Since 2010, however, the Eurozone debt crisis has forced member states to make some steps in the exercise of solidarity that were unimaginable just some years ago. This has prompted a sharp debate on what solidarity means in the context of the EMU and how much solidarity is needed to get out of the crisis. The aim of this Policy Paper is to shed light on these issues.

It starts by proposing a **conceptual distinction between two logics** driving solidarity within EU countries (section 1), **a logic based on reciprocity and a logic based on enlightened self-interest**, and by **discussing the interactions solidarity-responsibility and solidarity-cooperation**.

With the help of these conceptual tools, this Policy Paper then reviews **how the issues of solidarity were discussed at the moment of creating the EMU and how solidarity and coordination were practiced before the crisis** (section 2).

It then analyses (section 3) the **way solidarity has been exercised during this crisis. Various factors are identified as severely hampering** the efficacy of the EU solidarity efforts:

- the fact that the “enlightened self-interest” of helping other EMU countries was not evident at first glance,
- the absence of ready-to-use instruments to provide financial assistance to EMU countries in need,
- the existence of false ideas on the costs of solidarity influencing national public opinions,
- the dominant interpretation of the crisis as a result of individual countries’ faults and mistakes (which has influenced the way of applying conditionality as well as debates on the reform of EMU governance),
- the failure to understand the systemic causes of the crisis,
- and the lack of a credible commitment to do “whatever necessary” to avoid an EMU country make default and thus an Eurozone break-up.

The Policy Paper finally puts forward some **reflections and proposals on the type and amount of solidarity needed** in the years ahead (section 4). A distinction is made between short-term and long-term solidarity challenges.

In the short term there is no magic, cost-free solution to the Eurozone’s debt crisis. Neither a massive ECB intervention nor the private sector involvement into potential EMU debt restructuring is the easy, cost-free solution some want to believe. The first faces enormous legal and political obstacles and the attempts to apply the second have aggravated rather than resolved the crisis. The only way to get out of the crisis is by accepting that, during a certain period of time, there is a **need to make an extraordinary effort of “enlightened self-interest” solidarity**, with richer EMU countries helping the most distressed ones. This solidarity effort should be comprehensive, combining **measures to stabilise debt markets** (a credible “deterrent”, such as the issuance of Eurobonds) with **action to help weaker**

EMU countries resume growth. Equally important, it should be credible at the eyes of the financial markets: the latter should be convinced that EMU governments are ready to do whatever necessary to prevent a Euro break up and that they have the means to do so.

Once the things will calm down, we should put an end to this extraordinary exercise of non-reciprocal solidarity. The EMU is not intended to be a permanent “transfer” Union, in which richer members transfer resources to the poorer ones on a regular basis. To prevent this to happen, however, it is essential to avoid pronounced intra-EMU structural imbalances in the future. This requires **re-visiting the conditionality and functioning of the EU cohesion and structural funds.** Apart from that, the EMU would be more resilient to new crisis if endowed with a **capacity to develop a concerted discretionary fiscal action** in exceptional circumstances as well as if equipped with **two EMU-wide insurance mechanisms:** an insurance mechanism protecting EMU countries from the risk of liquidity crisis and an EMU-wide insurance fund covering bank deposits. Concerning the first (an EMU liquidity mechanism), the Policy Paper argues that a well-designed system of Eurobonds could be an effective insurance arrangement covering all EMU countries from liquidity crisis, but that the latter is only possible under the hypothesis that all EMU countries significantly reduce their debt-to-GDP ratios in a medium term horizon and credibly commit to conduct responsible fiscal policies. As regards the second (an EMU bank insurance), the best option seems to be an insurance mechanism funded through premiums paid by the EMU banks and backed by a joint public guarantee from all EMU governments.