ABSTRACT
The notion of solidarity has accompanied European integration from the outset. However, it became more tangible since the 1980s, with the launching of cohesion policy leading to transfers, through EC/EU budget structural funds, to the European periphery. With the relatively minor exception of the special “Cohesion fund”, no such countervailing policy was envisaged in the EMU, which is an incomplete monetary union with no fiscal backing of a federal inspiration. The Stability and Growth Pact strict rules and the no bail out clause, meant to address the moral hazard problem, proved inadequate in the 2009-2010 Greek crisis. The ad hoc solution finally attained, with the Spring 2010 rescue package, geared at preventing contagion and generalized financial turmoil in the EMU, reflects “self-interested” solidarity. The necessarily modified future Eurozone architecture, through eventual institutions such as a European Monetary Fund, will involve a delicate balance between sanctions and solidarity.

Key words: cohesion, EMU, eurozone, European integration, Greek crisis, Stability and Growth Pact, solidarity.

1. INTRODUCTION
This paper presents the 2010 Greek debt crisis in the context of European integration. We initially focus on the notion of solidarity in its EU manifestations, with due emphasis on “cohesion”. We subsequently discuss its relevance in the 2010 crisis and what related inherent contradictions emerge in the EMU construction. In this context, we also briefly examine the intergovernmental versus supranational elements in the Spring 2010 rescue package. Finally, we explore directions the EMU experiment seems to be heading and which alternatives incorporate a greater dose of solidarity. In this latter context, we also discuss legal issues and examine linkages between inter-state and intra-state solidarity-i.e. the underlying issue of social conflict and income distribution.

2. SOLIDARITY AND EUROPEAN ECONOMIC INTEGRATION
The notion of solidarity has implicitly or explicitly accompanied European integration from its very beginnings, although its precise forms and extent have not always been very clear. In political terms, there is a tacit sense of “belonging to the same family”, which in theory would
mean some sort of support in cases of emergency, such as external threats. In the more tangible economic sphere, the EEC Treaty (1957) mentioned in its preamble and in Article 2 the broad goal of ensuring the “harmonious development” of the economies of member states. This would be achieved by “reducing the existing differences between the various regions and the backwardness of the less favoured regions”.

In practice, in the first decades of EC trade liberalization, “community preference” had an element of mutual support among member states. However, given the relatively equal level of development, no scheme for weaker partners was envisaged - except in emergency conditions, which never really arose. The exception of underdeveloped Southern Italy was tackled at a national regional policy level. It should be noted here that, in the context of the Organization for European Economic Cooperation (OEEC) negotiations, in the late 1950s, relatively poor European countries voiced their concern that trade liberalization may necessitate some “special treatment” for them. (Ministries of Co-ordination and Foreign Affairs, Hellenic Government, 1959). Such asymmetric non-reciprocal arrangement, with an economic solidarity element, was to be partly implemented in the 1961 Greece-EEC association treaty.

The widening and deepening of the EC, since the accession of three Mediterranean countries in the 1980s, changed the picture. In the context of the Single European Act (1986), the profound liberalization exercise of the Single Market was linked with considerable funding of poorer EC areas. The Structural Funds provided for such transfers from the EC budget, leading to redistribution from the rich to the poor countries. The concept-target behind this was economic and social cohesion, a key notion incorporated ever since in EC/EU vocabulary. It meant effective solidarity, but also tacitly accepted that the liberalized European market, being more profitable for developed economies (such as Germany), may well lead to inequalities. In terms of funding, it was always the economic as opposed to the social cohesion target that absorbed the bulk of the transfers.

The term cohesion was also used, somewhat misleadingly, to name a special fund established following the Maastricht Treaty (1992), to support relatively poorer EU members in their efforts to meet the criteria for joining the EMU. This “hand-out” would chiefly be directed to large-scale environmental and networks infrastructural investments. This is pretty much the end of the story. Neither the Maastricht Treaty, nor the rules of the Stability and Growth Pact (SGP) did provide for any special differentiation in favour of weaker partners.

Post-Maastricht institutional developments did not alter drastically the picture. The Treaty of Amsterdam (1999) reaffirmed the importance of territorial cohesion of the EU - already mentioned in Title XVII of the Maastricht Treaty. At the same time, in view of enlargement towards Central and Eastern Europe (CEECs), future budgetary flows incorporated assistance to the poorer new member states. The ceiling for the budget of 1.27% of GNP was maintained
and the same applied for the sub-ceiling of 0.46% of GNP for cohesion funding, although it would now cover the entire enlarged EU. (Breuss et al, 2001)

*How much* cohesion funding is needed to counteract market forces, so as to ensure an acceptable regional income distribution or, even more, so as to reach a certain, yet unspecified, threshold from which onwards regions could develop on their own? Here, methodological problems (difficulties of such calculations) meet political considerations (unfeasibility to drastically increase EU budgetary resources). Cohesion proponents have wisely taken appropriate distances from “Centre-Periphery” schools of thought, which border the heretic, by now pretty much outmoded, neo-Marxist development theories of the 1970s. They have instead opted for a pragmatic eclecticism. This is quite telling for both EU/EMU policy formulation and implementation and for the state of academic economics. Such uneasy symbiotic relationship between theory and policy applies in other areas: from the outset, the EMU project, more easily justifiable in political than in economic terms (such as optimum currency area theory-OCA), has raised thorny solidarity/cohesion issues, which have remained wide open. (Barry and Begg, 2003. Begg, 2003). But they are crucial for the viability of the common currency. The 2010 crisis has brought them to the forefront in a way not exactly expected by OCA-asymmetric shocks theorists and enthusiasts.

3. THE GREEK 2010 CRISIS

Throughout the period 1980-2010, after EC accession, Greek public finances have suffered fiscal difficulties culminating to various crises. This is generally attributed to two interlinked deficits: the budgetary one and the current account one –in particular trade flows. As regards public finances, expenditure has consistently been well below revenues. By European standards, as a % of GDP, expenses are close to EU average, but revenues lag behind, mostly because of various forms of tax evasion and the significant size of the “informal” economy. (Stathakis, 2010). In the mid-1980s as well as in the beginning of the 1990s, such problems were tackled by a combination of fiscal and monetary policy (including drachma devaluation). As regards the 1990s, the stabilization plan was part and parcel of efforts to meet the Maastricht criteria for joining the Eurozone. This was conceived to be national goal, which will put an end to the chronic inflation-devaluation vicious circle characterizing the Greek economy.

The acute 2010 crisis is in a way a repetition of past similar difficulties due to well-embedded structural problems of Greek public finances, which persisted during the euro era (2000-2010). But it is also historically unique: it is the first time it occurs with Greece belonging to the eurozone and not having its own independent monetary policy. Furthermore, it is linked to the global 2008-2010 crisis, which led most EMU
members to exceed the 3% threshold prescribed by the GSP for public deficits. However, Greece stands out because public deficit was much higher (13%), public debt among the highest within the EMU (more than 100%), external imbalances considerable and, last but not least, because of the confidence crisis triggered by persistent statistical fraud: such manipulation of figures was particularly acute in the electoral year 2009. Thus, during the first months of 2010, the newly elected Greek government has seen a constant rise of “spreads”, i.e. interest rate differentials between Greek and German Government bonds, culminating to a speculative attack. The options it had, in spring 2010, were either to proceed to some form of default or to accept the *sui generis* support mechanism, installed very much on an *ad hoc* basis with the participation of EU institutions (ECB, Commission, member states) and of the IMF. The terms and conditions of this agreement provide for a gigantic 110 billion € 3-year financial support coming from the IMF and EMU member states, with the *proviso* that the Greek state will proceed to a drastic reduction of its deficit during the 2010-2013 period. This mobilisation reflected European but also U.S. concerns. (Nelson et al, 2010)

4. WAYS OF SEEING: NEOLIBERALISM AND STATISM

The Greek crisis has triggered, at the political, ideological but also academic level different reactions and analyses. The official discourse is that, due its large deficits and debts, in combination to fraudulent statistics, the Greek state lost its credibility. Consequently, markets decided that its bonds constitute a risky investment, forcing the government to the emergency rescue mechanism. This emphasizes public mismanagement-squandering, mixture of clientilism and corporatism, incapacity to raise adequate taxes due to official and unofficial tax evasion. The policy implications are explicitly stated in official documents, including the memorandum signed by the Greek Government. (EC Commission, 2010. European Economy, 2010. IMF, 2010. Moutos, T. and Tsitsikas, C., 2010)

Alternative approaches emphasise the broader picture: (A) internationally, the huge financialisation process of the last decades and the speculative nature of financial capital moves (Lapavitsas et al, 2010. Stockhammer, E., 2010). (B) Within the EMU, persistent heterogeneity and growing imbalance between external surplus countries, such as Germany, and external deficit peripheral countries. (Holinski, 2010). Against this background, the overborrowing to the Greek state is seen more as a systemic syndrome than an endogenous political dysfunction. EMU rules epitomising neoliberalism, the policy conclusion often proposed is unilateral debt restructuring, exit
from the EMU, devaluation (Lapavitsas, 2010.) Alternative proposals, in a less isolatory spirit, are a transformation of the EU/EMU in the direction of fiscal transfers and greater cohesion. (Onaram, 2010)

5. EU/EMU SOLIDARITY IN THE 2010 CRISIS CONTEXT

-The framework

In this crisis context, it is useful to reflect upon the notion of European solidarity. As already mentioned, intra-EU solidarity, through “cohesion”, is absorbing a significant part of EU budget (30-35%). Such “side payment”, in the EMU context, has been the “Cohesion Fund”: it coincided roughly with the reshuffling of the Structural Funds transfers in the direction of the EU new members with lower development and structural difficulties due to transition to market economy. This entailed a gradual shift away from the “old” poor to the “new” ones. The “redistribution” of solidarity was not particularly easy, with the old “South” clinging to the continuation of its funding in a quasi egoistic approach which involved a degree of inertia (path-dependence phenomena). However, by the end of the first decade of the millennium (and the euro), this situation had pretty much stabilized in a new equilibrium. Indicatively, the 2010 crisis found Greece still obtaining a significant, albeit reduced, amount of EU structural funding, of the order of 1-2% of its GDP.

In economic, political, but also symbolic terms, the euro changed the identity of European integration, shifting emphasis from trade to macroeconomic policy issues. However, as opposed to the single market venture, EMU does not have an inbuilt solidarity mechanism. On the contrary, the SGP sets out strict budgetary rules, which furthermore are complemented by an explicit “no bail out” clause. Of course, the EMU has indirectly provided assistance to weaker economies, by allowing them to borrow at lower interest rates than they would have borrowed, had they retained their national currency. The SGP rules try to minimize the abuse of such “free riding” through the excessive deficit procedure, leading to penalties: but it has proved politically unworkable and economically nonsensical to penalise countries already in difficulties.

But up to a point, in practice, some free riding did occur, as exemplified in the case of Greece, which, following EMU accession, suddenly found itself in a position to borrow at unprecedented low interest rates. This “moral hazard” aspect of the EMU rules has been repeatedly highlighted and constitutes the official German version of the crisis: in a nutshell, fiscal rules (especially the deficit 3% threshold) have not been strict enough-especially as regards their implementation. This has raised credibility problems and calls for rectification to
prevent similar situations in the future. Thoughts and proposals of an overhaul of the SGP rules, together with the creation of a European Monetary Fund (EMF) point to such direction.

-To bail or not to bail, that is the question

The Greek debt crisis can be seen as a sort of “stress test” which has highlighted EMU contradictions. The Eurozone edifice allowed weaker partners to take advantage of relaxed current account constraints and enhanced creditworthiness, so as to have budget deficits (Jones, 2003). There were two ways to tackle this danger: A. the excessive deficit procedure, stemming from the SGP and, B., the “no bail out” rule. The former was weakened with the 2005 SGP reform, in the wake of the 2003 recession, which had lead to problems in France and Germany (Glynos, 2010). As regards the explicit no bail out rule, markets did not seem to have taken it seriously: throughout 2009, despite the evident Greek fiscal weaknesses leading to IMF cautioning in June, Greek sovereign bond yields were quite low, around 4,5-4,8%. This means that, for a long time, markets believed the exact opposite of the no bail out rule: i.e. that, given the costs and high risks of domino effects that insolvency would entail, if the situation worsened dramatically, there would be some rescue mechanism. The German legalistically founded hesitation in the first months of 2010 suddenly reversed this climate, leading to avalanche speculation and a dramatic increase in the spreads of Greek bonds (Jones, 2010).

Even after the entry into force of the rescue package, in Spring 2010, the “no-bail out” rule with its interpretations, generous or not, remains very much a grey area. Abolishing it would send a signal to potential “free rider” EMU members. Retaining it as it stands would not be credible. The way out presently discussed would be its effective incorporation in a wider scheme, such as a European Monetary Fund (EMF).

- A European Monetary Fund (EMF): punitive solidarity?

In the aftermath of the 2010 rescue package and its generalization with the creation of an even greater 750bil.€ plan, always on an ad hoc, quasi-institutionalized basis, discussion has started in both academic and political circles about the eventual formation of a EMF. This would tackle the moral hazard problem, despite the extreme neoliberal objection that any mutualisation of risks blunts market signals and is therefore to be avoided. In this context, markets and their violent swings in appetite are approached with due suspicion. (De Grawe, 2010). The present state of the discussion is the following:

One variant envisages a fund to be financed by penalties imposed on member states running deficits and debts over the Maastricht criteria (3% and 60% respectively). In case of a debt...
crisis, predictably hitting them and not the “virtuous” ones, EMF funds could be used to purchase their government bonds – at least up to a certain point, such as the 60% threshold. This proposal also suggests sanctions such as barring access to EU structural funds: this means that cohesion policy may become indirectly a bargaining chip and a means of exerting pressure on the EMU periphery. In extremis, the proposal envisages an orderly default procedure, which would try to minimize systemic financial instabilities. The latter can possibly entail exit from the EMU - for which, at present, there is no provision in the Treaties. (Gros and Mayer, 2010. Athanassiou, 2009)

Another proposal resembles more the IMF model. All EMU members pay a contribution as a function of their GDP. In case of sovereign debt crises, loans from the EMF are available, subject to a strict adjustment plan. This softer version combines solidarity and conditionality, but is considered to lack solidity, since it does not cogently address the free rider-bail out issue. (Busch, 2010)

Letter and spirit: interpreting TFEU Articles

The proposed EMF could theoretically be implemented in the framework of the enhanced cooperation provisions (Art. 20 TEU, Art. 326 TFEU), upon the condition that there is no breaching of primary law. In its “strict” version, EMF is in line with Art. 126 TFEU concerning budgetary discipline. But it is questionable whether further sanctions, over and above the ones mentioned in this article, can be allowed - let alone that the excessive deficit procedure has no automaticity, but presupposes a formal political decision to penalize.

As regards bailout, the crucial provision is laid in Article 125 TFEU, excluding both the Union and Member States from liability for commitments of other Member States. On the other hand, Article 122 TFEU calls for political and financial solidarity to a Member State in severe difficulties due to natural disasters or exceptional occurrences beyond its control. Whereas a self-inflicted debt crisis due to “irresponsibility” cannot match this criterion, a huge global financial turmoil leading to “loss in control” could be interpreted to meet the requirement. The Greek rescue package, as well as the greater scheme, was actually based on this Article.

These two articles reflect diverging philosophies and represent, schematically, the interests of the strong (Art. 125) and of the weaker (Art. 122). As on other occasions in the history of European integration, the negotiation process lead to such a compromise – involving, predictably, a grey area. (Glynos, 2010. Hade, 2010.)

-Self-interested solidarity?
How do we evaluate, in solidarity terms, the precise 2010 Greek rescue package, involving the ECB, the Commission, member states and the IMF? In this context we could coin the term self-interested solidarity. Letting aside the crucial “fire brigade” emergency characteristics of the agreement, the crux of the matter is the following: EMU member states, together with the ECB, have in practice by-passed the bailout rule. In so doing, they have saved the Greek state from imminent bankruptcy in May 2010, while, at the same time, they safeguarded the interests of institutions (especially in Germany and France) holding Greek bonds. More generally, they have avoided domino effects (e.g. Portugal, Spain coming next), which would have jeopardized the credibility and viability of the common currency.

What about interest rates? It is difficult to tell at what rate the Greek public would have been able to borrow at the markets in Spring 2010, but it is widely estimated that they would have probably exceeded 8%. Interestingly enough, the interest rate charged by the IMF is significantly lower than what Greece has to pay to its EMU partners (3% versus 5% roughly). This does not reflect “greater” solidarity on behalf of the IMF, which just applies its standard rules. As regards European countries, their logic is to put forward the message that “there is no free meal”, so as to appease the “no-bail out” critiques as well as public opinion (esp. in Germany). Last but not least, their concern has been not to create a precedent in case other peripheral “mischievers” were to be helped out in the future. In other words, they had to improvise, to strike a balance, to find the “appropriate” dosology, their point being that, in any case, 5% is better than the 8%+ Greece would otherwise have to pay.

Burden sharing: Costly drama, ghostly drachma

The rescue package with its conditions involving significant budgetary cuts has predictably triggered social tensions as well as certain calls for debt restructuring and exit from the EMU. The question lurking behind this is the distribution of such stabilization costs in Greek society. Public sector wages and pensions have been slashed and the 2010-2011 recession means higher unemployment, facilitated by a relaxation of labor market rules. All this, in combination with higher indirect taxation, leads to much lower real income of the working population-and the unemployed. On the other hand, direct income taxation, together with measures against persistent tax evasion do have some progressive element. Overall, however, the redistributive impact will be at the expense of labor. Would exit from the EMU and return to a promptly devaluated national currency mean a better deal, as regards living standards? Probably not: it would have necessitated even lower public spending, together with inflationary pressures, leading to a price-wage spiral. Furthermore, access to international markets as well as EU cohesion funding would be closed for a long time. Even if “internal” solidarity, in the form of income distribution, is somewhat improved, the overall income-i.e.
the “pie” to be distributed, would be drastically reduced. Not to mention various other negative externalities such as isolationist-nationalist consequences (Lapavitsas, 2010. Pesmazoglou, 2010)

*Intergovernmentalist and supranational dimensions*

The 2010 crisis has triggered intense intergovernmental bargaining: a petty version is France linking its support to Greece with selling military equipment- a rather contradictory move, in austerity conditions. A grander version is the ongoing debate, chiefly between France and Germany, about the extent and nature of EMU economic governance. Parallelly, in a more “neo-functionalist” spirit, the ECB, a *par excellence* supranational institution, has taken the controversial initiative to start buying Greek bonds, irrespective of their dubious rating - which proved immensely helpful as regards both liquidity and overall “atmospherics”. Thus, the usual coexistence of these two distinct trends in European integration has persisted, although future solutions, such as a EMF, shall chiefly involve intergovernmental bargaining.

*The interface of interstate and social elements*

As pointed out by many analysts, EMU imbalances could be partly redressed by a German expansory policy, which would boost domestic demand and imports of goods and services and lead to a reduction of its trade surpluses. This can take the form of outright wage increases, which seems implausible in the present German political constellation, or of a reduction of indirect taxes, which would effectively increase real disposable income. Such a prospect, away from a rigidly dogmatic respect of the 3% budgetary rule, sheds new light on the solidarity issue: it combines the necessary help to deficit prone peripheral EMU members with an income redistribution in favor of German labor. Thus, the broader EMU rebalancing policy goes hand in hand with improving living standards in major core countries, redressing the present “ants vs. grasshoppers relation” (Wolf, 2010). Interestingly enough, even the present German Government partly insinuated such practice in a rather symbolic gesture, by suggesting that Germans spend their holiday time (and money) in Greece. But as regards opposition forces, this approach can be seen in a clear and systematic manner in publications such as the ones of the Friedrich Ebert Stiftung Research Centre (Busch, 2010. Fricke, 2010)

*The “inner” and “outer” periphery*
Due to the Greek crisis, the outer European periphery, comprising new EU members, has indirectly suffered a negative “demonstration effect”. Their prospect for joining the eurozone has been jeopardized and most probably delayed, given the circumstances. This happened because it clearly transpired that similar problems might arise with their weak economies, thus creating a further need of support. Furthermore, an eventual “federalist” deepening of the existing EMU, involving fiscal transfers to weaker members, is tantamount to a two-speed Europe, beneficial only to the “inner poor”.

Equally predictably, countries of the “inner” periphery, such as Portugal and Spain, have felt the need to repeatedly stress that they “differ” from Greece, given that the “spreads” on their bonds have also exhibited upward tendencies. This distancing policy has not, nonetheless, stopped the creation of a much larger rescue package, earmarked for them - just in case. As in the past, in the context of EU budget negotiations, this coalition of the “South” seems to be shaky and volatile. (Pagoulatos, 2009. Verney, 2009)

6. IN LIEU OF CONCLUSION: ACADEMIA, POLITICS AND THE CRISIS

The 2008-2010 crisis has been an experience for academic economists and social scientists. While politicians engaged in improvising measures to tackle new problems that history had generously forced upon them, academia found itself in a strange position. They were faced with what we could call the poverty of theory – or rather of theories. This also applies to the “experiment” EMU and the concrete form that its crisis has assumed. There has been an unprecedented proliferation of writing, not always of the usual detached style, where rapid developments had to be taken into account in an uneven contest with time. (Here, high-level journalism obviously also entered the game). But it is an even greater game: the day-to-day behavior of markets but also, and more importantly, the political solutions worked upon lead to a unique input-output process. Academia is literally fed with scenarios of future EMU architecture while, at the same time, its own production is often used to strengthen one approach or the other. Thus, “science” mingles with ideology and political practice in a unique and slippery way. The end result of this process cannot but be a reshuffling of the EMU, which would render it more viable, and possibly more of a political union. (Hodson, 2009. Munchau, 2010). For this to be achieved, some solidarity elements need to be incorporated. The dosology between such solidarity and the greater strictness advocated in certain quarters to minimize moral hazard will depend on the overall balance of political and social forces. Together with an unspecified touch of academia.

REFERENCES


De Grawe, P. (2010)” The Greek Crisis and the future of the Eurozone”

European Commission (2010): The Economic Adjustment Programme for Greece, ECFIN-F3/ARES 396796, 6-7-2010

European Economy, 2010 Programme of economic adjustment for Greece, Occasional paper 61, June

Fricke, T. (2010): “After the Greek disaster: Monetary Union needs fundamental reform”, Euroland put to the Test. Can Monetary Union still be saved?, Friedrich Ebert Stiftung, May


Utrecht school of Economics, Discussion paper, May
Hodson, D. (2009): “EMU and political union: what, if anything, have we learned from the
euro’s first decade?” Journal of European Public Policy, 16:4, June
Political Research, v.42, March
Kosters, W. “Challenges Facing EMU-Rules and assignment or discretion and coordination?”
Interconomics, 2
Lapavitsas et al (2010). Eurozone crisis; beggar thyself and thy neighbour. Research on
Money and Finance, March.
Lapavitsas (2010): “The crisis, debt restructuring and exit from the EMU”, Avgi, 11, 13 July
7 (in Greek)
Mabbett, D. and Schelkle (2010): “Beyond the crisis-The Greek Conundrum and EMU
reform” Interconomics, 2
Matthes, J. “The IMF is better suited than a EMF to deal with potential sovereign defaults in
the Eurozone” Interconomics, 2
The Ministries of Co-ordination and Foreign Affairs of the Royal Hellenic Government
(1959) Greece the EEC and a European Free Trade Area, Athens
Finances, CESIFO working paper n.3098, June
Munchau, W. “Only a closer union can save the eurozone”, FT, June 27.
Congressional Research Service, n 7-5700, April
Onaram, O. (2010) Fiscal Crisis in Europe or a crisis of distribution?, Research on Money and
Finance, discussion paper n. 18. June.
Pisani-Ferry, J. and Sapir, A. “Crisis Resolution in the Euro Area: An alternative to the
European Monetary Fund”, Interconomics, 2
March. (In Greek)
European Society and Politics, vol 14, n.1., March