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# **Understanding Fiscal Solidarity in the European Union**

Elder College 20 November 2021

## INTRODUCTION: NEXT GENERATION EU

NextGenerationEU (21 August 2020):

- Euro 390 Bln in grants
  - 85% increase in budget in 2021, 22, 23
- Euro 310 Bln in loans earmarked for pandemic relief
- Important act of fiscal solidarity between the member states

## FISCAL SOLIDARITY IN THE EU

Fiscal solidarity: governments experiencing ‘financial difficulties’ receive financial assistance from other governments

- Direct transfers
- Designated funds, such as for example the EFSF or the ESM
- Endow the Commission with spending power earmarked for fiscal support (which is what happened with NextGenerationEU)

## FISCAL SOLIDARITY IN CANADA

### Canada

- Equalisation payments
- Canada social transfers
- Canada health transfers

# UNDERSTANDING FISCAL SOLIDARITY IN THE EU

## Organisation

1. Why care about fiscal solidarity?
2. More about solidarity
3. Why an expert survey?
4. The structure of the expert survey
5. Logistics and respondents
6. Results
7. Conclusion

## WHY CARE ABOUT FISCAL SOLIDARITY?

“Fiscal solidarity is the theme brought by the pandemic to the center of the attention and debate in the EU. It is the base upon which the EU has to stand and without which it might well have broken down on the occasion of the pandemic. Italian citizens, for example, being among the first ones to be hit by Covid-19, started wondering what the EU was for, if no fiscal solidarity was shown in those difficult moments.”

## WHY CARE ABOUT FISCAL SOLIDARITY?

Broader backdrop. “Asymmetric EMU” (Verdun, 1996): Euro area is a monetary union, but no fiscal union

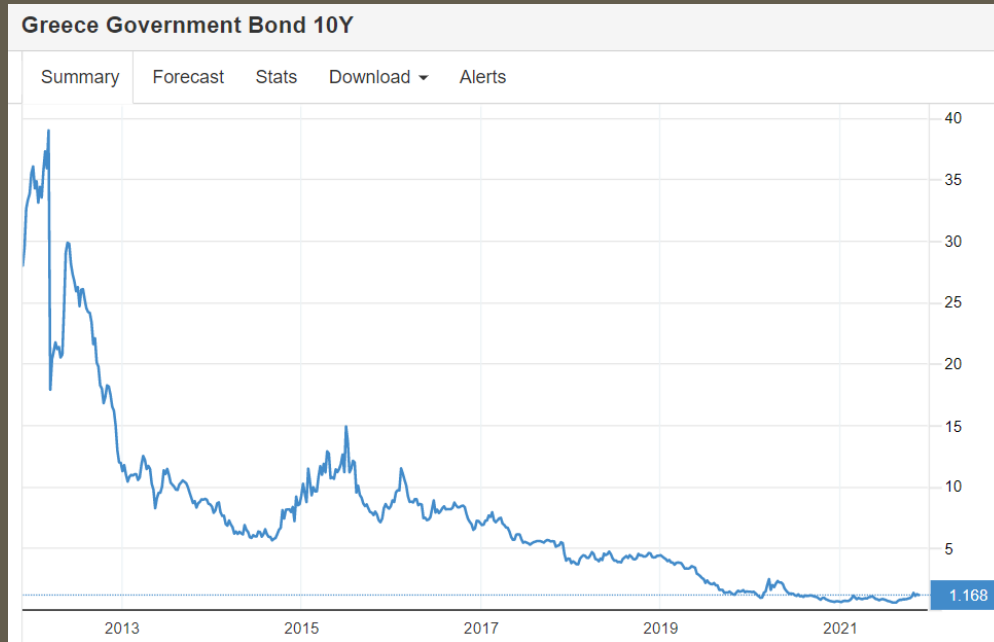
- Efficiency argument for building a fiscal union / OCA literature:
  - Efficient EMU governance structure requires fiscal transfers to address asymmetric shocks.
  - Even without asymmetric shocks there may be quasi-permanent imbalances in the Euro Area.
- Fiscal solidarity is a necessary foundation for a fiscal union

## WHY CARE ABOUT FISCAL SOLIDARITY?

- Financial stability argument for fiscal solidarity
  - With a “firm commitment” to support fellow EU member states....
    - (i) public debt yields stay low, hence (ii) public debt remains affordable
  - Possibly a “firm commitment” is enough: no financial support may be needed in the end because countries purely committed explicitly to help out and this lowers the interest rate.
  - A “firm commitment” seems to suggest an institutional solution (e.g. the European Stability Mechanism, or NextGenerationEU)



# WHY CARE ABOUT FISCAL SOLIDARITY?



- Debt/GDP Ratios: Canada: 118%; Germany: 70%; Greece: 206%;  
Italy: 156%; USA: 128%

## MORE ABOUT SOLIDARITY

Stjernø (2005, p.2): “the preparedness to share resources with others by personal contribution to those in struggle or in need and through taxation and redistribution organised by the state”

Lahusen and Grasso (2018): charity is a form of solidarity, but solidarity is broader. Solidarity differs from charity where it is “tied to the expectations of mutual support, even if these expectations might range from informal to formalized, from voluntary to binding rights and obligations.” (p. 5).

## MORE ABOUT SOLIDARITY

Ross (2018): solidarity is “primarily tied to identities” (p. 4). A strong group identity can result in an *intrinsic motivation* to help out those who share a common identity, as was the case of the *sodalitates* of ancient Rome.

Balibar (2004) and (2014); Jacobs (2007); Dobson (2012); Guild et al. (2013); Isin and Saward (2013): European solidarity requires the emergence and enactment of European citizenship to help creating a European *demos*, i.e. the perception of being part of the same group

## MORE ABOUT SOLIDARITY

Wittgenstein (1953): words do not mean the same to everybody and solidarity may be a prime example

*Intrinsic*: moral bond among the members of a group, feeling of belonging to the same community, sharing the same values.

- Durkheim: *mechanic* solidarity

*Extrinsic*: recognition of a self-interest

- Durkheim: *organic* solidarity

What is the exact role and form of *mutuality*?

## FISCAL SOLIDARITY IN THE EU

Do we really need a European *demos*?

Delors: “Solidarity mechanisms are not based on pure generosity, but on *enlightened self-interest*”. Same in Habermas (2013) or Frans Timmermans speeches

So *extrinsic solidarity* in the EU then?

- Is the motivation the same across EU member states?
- Solidarity stronger with EU or Euro Area?
- Any conditions for solidarity?

## FISCAL SOLIDARITY IN THE EU

TFEU, Art 122:

2. Where a Member State is in difficulties or is seriously threatened with severe difficulties caused by **natural disasters or exceptional occurrences beyond its control**, the Council, on a proposal from the Commission, may grant, under certain conditions, Union financial assistance to the Member State concerned. The President of the Council shall inform the European Parliament of the decision taken.

So, *fiscal solidarity* possible in case of what is called *unforeseen contingencies* in incomplete contract theory; or *shocks* in macroeconomics

- Rationale for unforeseen contingency clause (presumably): to avoid moral hazard associated with help

## WHY AN EXPERT SURVEY?

This paper: expert survey on fiscal solidarity in the EU

- Positive and normative questions
- Do at least the experts agree?
  - Better informed in a number of ways
    - Would suggest they answer the positive questions the same
    - Normative questions?
  - Experts inform policy makers.
  - So if the experts do not agree...

## THE STRUCTURE OF OUR EXPERT SURVEY

Start and Part F: Demographics

Part A: Benefits of Single Market and Economic and Monetary Union

Part B: 'What Europe?'

Part C: Positive questions on fiscal support

**Part D: Normative questions on fiscal support**

Part E: Political opinions

- Focus on Part D, but many 'controls'
  - mitigate sample selection issues in Della Posta, Schure, Verdun and Verdun (2021)



## LOGISTICS AND RESPONDENTS

- Circulated mid April-August 2021
- Targeted respondents
  - Relevant expertise in governance, fiscal policy, and/or EMU
  - Work for employer in Germany, Italy, the Netherlands, or Portugal
  - Employers: academic institutions, ministries, independent government agencies (such as central banks), research institutes, think tanks
  - Not: EU officials, ECB employees, etc.

## LOGISTICS AND RESPONDENTS

- Around 3650 invitations
  - 2600 academics
  - About 350 Government, 350 Independent government agency, and 350 research institute / think tank
- August 2021
  - 431 respondents started the survey
  - 7 from countries other than DE, IT, PT, NL
  - 76 partial responses
- Sample: 348 respondents

## LOGISTICS AND RESPONDENTS

- Educational background
  - 82 percent has PhD degree
  - 17 percent has Master's degree
  - 1 percent has Bachelor's degree
- Field of education (highest degree)
  - 30 percent Macroeconomics
  - 32 percent Micro, Finance, other Economics
  - 38 percent Law (13%), Political Science (12%), European Studies (3%), Public Admin and Governance (2%), or another field, such as History or Sociology (7%).

## LOGISTICS AND RESPONDENTS

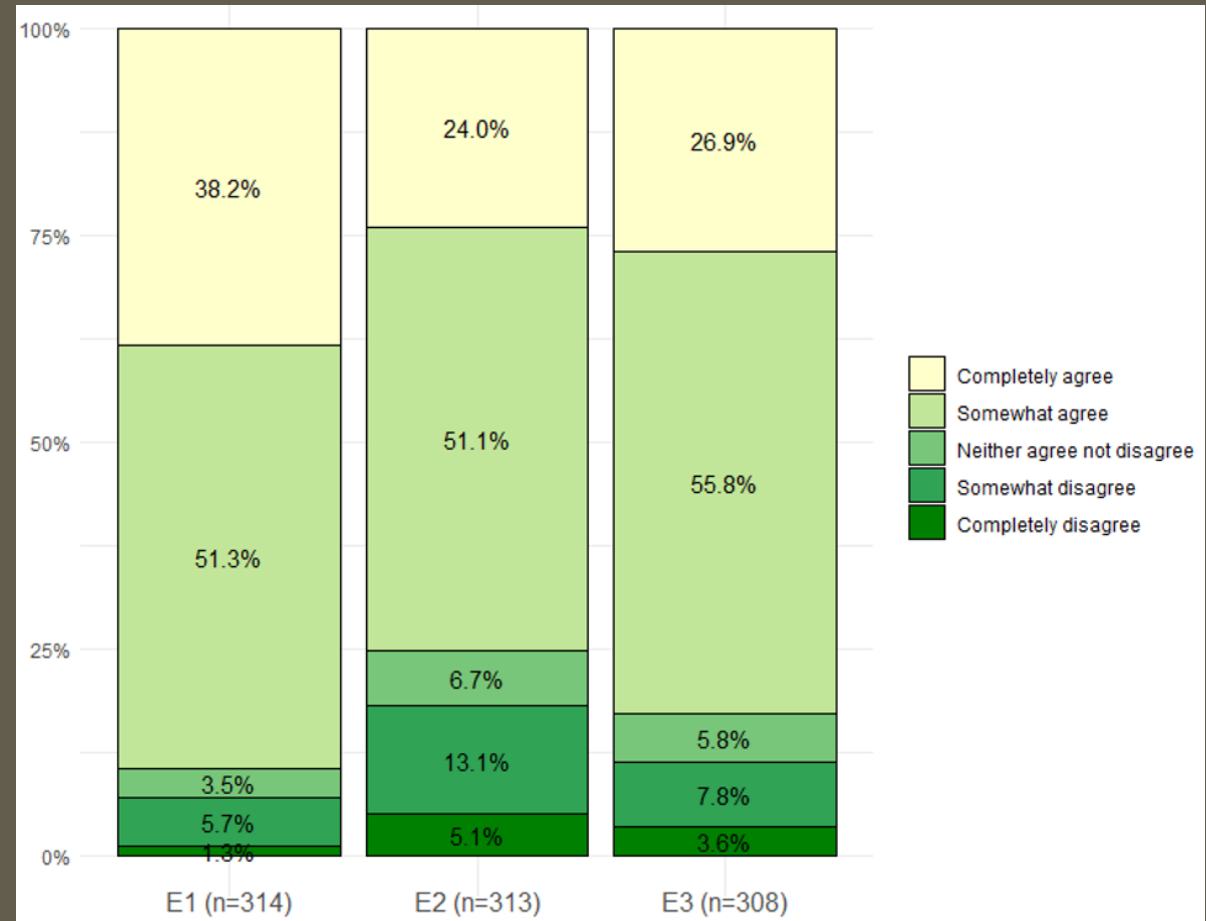
**Table 1: Respondents by employer type and country of work**

<b>Code</b>	<b>Employer type</b>	<b>DE</b>	<b>IT</b>	<b>NL</b>	<b>PT</b>	<b>Total</b>
1	Academic institution/University	46	86	64	57	253
2	Government	3	8	13	6	30
3	Independent Govt Agency, including Natl Central Banks	4	16	13	3	36
4	Research institute or think tank	10	11	3	0	24
5	Other or Not answered	1	0	3	1	5
	<b>Total</b>	<b>64</b>	<b>121</b>	<b>96</b>	<b>67</b>	<b>348</b>

## LOGISTICS AND RESPONDENTS

Countries in the world are poor because of:

- (E1) bad government policies and/or corruption
- (E2) factors beyond the control of governments
- (E3) structural factors that “tend to favour developed nations vis-a-vis developing nations”

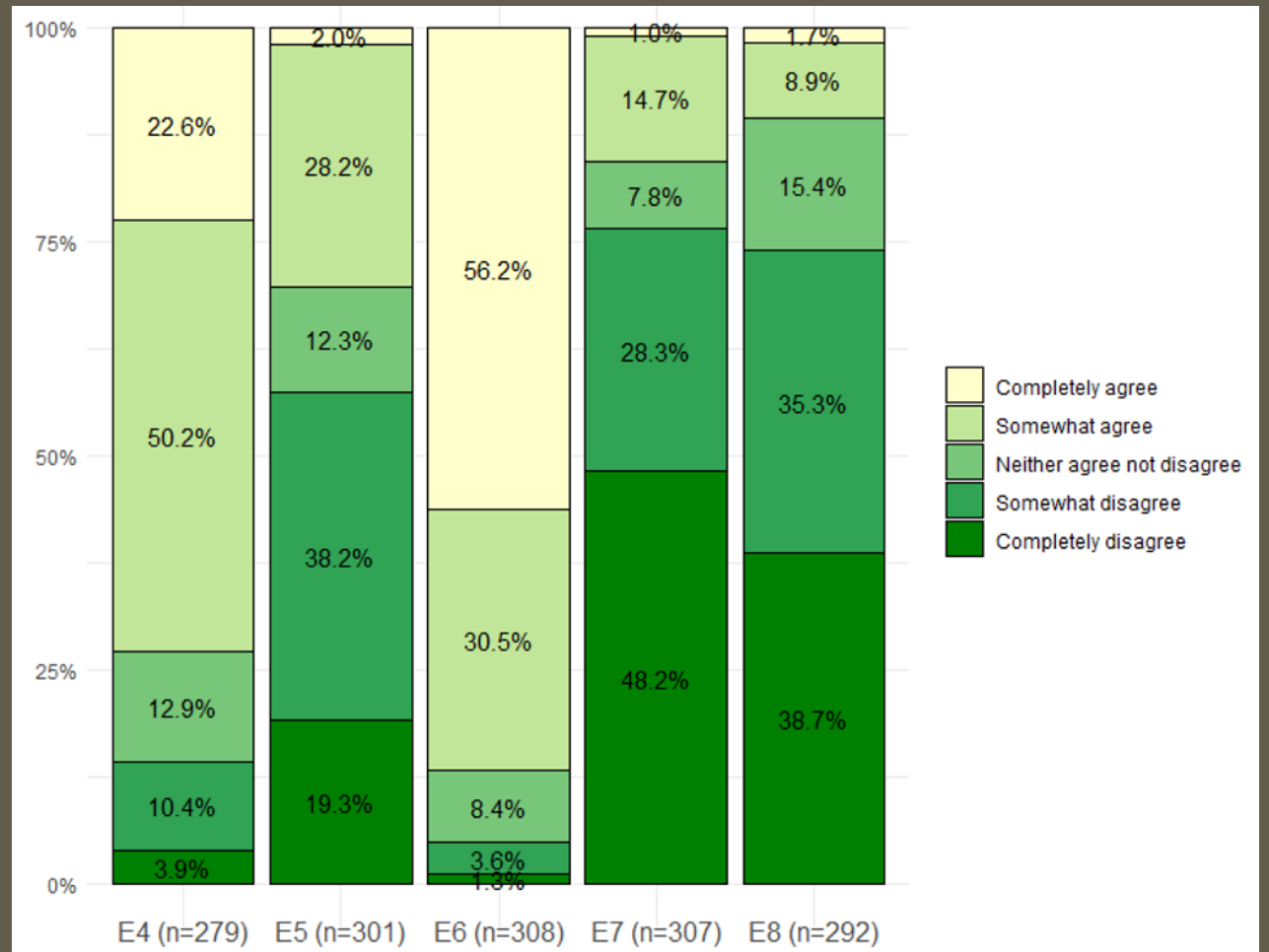


## LOGISTICS AND RESPONDENTS

Political opinion questions:

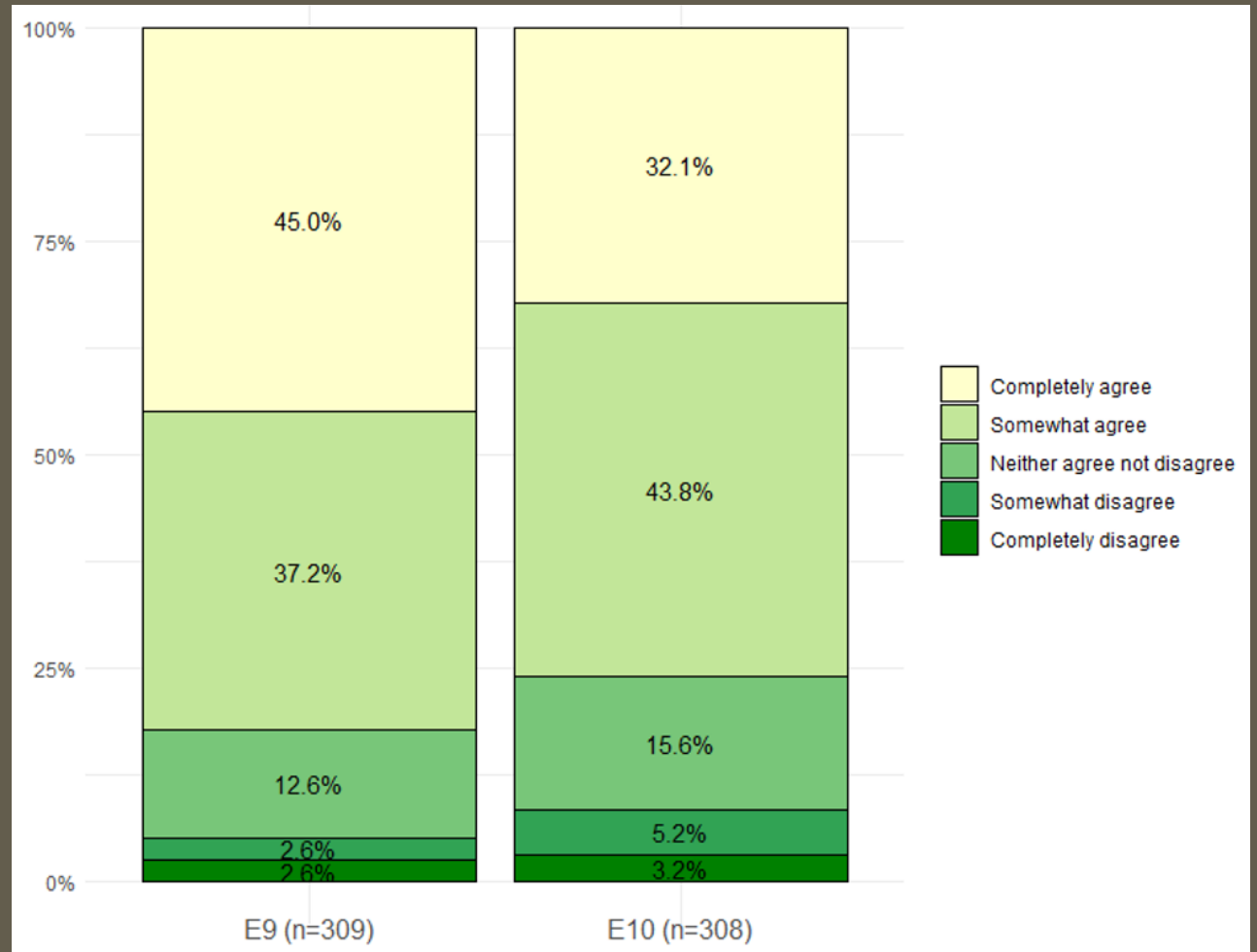
(E5) “People in wealthy EU member states can escape poverty by ‘trying their best’”

(E6) “Governments in wealthy EU member states should generally do more to reduce income inequality.”



## LOGISTICS AND RESPONDENTS

Political opinion questions:  
The country in which I work  
“is made a better place” by  
Immigration from  
(E9) elsewhere in the EU  
(E10) outside of the EU



## RESULTS

- Benefits from the Euro
  - Group identity and motivations for fiscal solidarity
  - The reason for the identified need
  - Help conditionally?
- 
- Two lenses when looking at the data
    - Country of residence
    - Political opinion



## BENEFITS FROM THE EURO

343 respondents answered both A10 and A11.		A11: How would you compare the overall benefits of EMU for Germany and Italy?						
		DE had a substantially higher benefit (lower cost) than IT (=92)	DE had a somewhat higher benefit (lower cost) than IT (=126)	Overall benefits (costs) of EMU for DE and IT were about the same (=60)	IT had a somewhat higher benefit (lower cost) than DE (=21)	IT had a substantially higher benefit (lower cost) than DE (=9)	The comparison cannot be made (=21)	I have no opinion on this statement (=14)
A10: Has EMU overall benefitted the Euro Area as a whole?	Yes, substantially (=150)	27**	58	35	9	6	10	5
	Yes, somewhat (=127)	38	53	21	7	1	3	4
	Benefits/costs have been insignificant (=9)	3	2	2	1	0	1	0
	No, benefits have been somewhat negative (=22)	10	4	2	3	1	1	1
	No, benefits have been substantially negative (=13)	8	0	0	1	0	4	0
	It is unclear (=18)	5	9	0	0	1	2	1
	I have no opinion in this (=4)	1	0	0	0	0	0	3

\*\* Of the 150 respondents who chose response 1 in A10, 27 chose response 1 in A11.

## GROUP IDENTITY AND MOTIVATIONS FOR FS

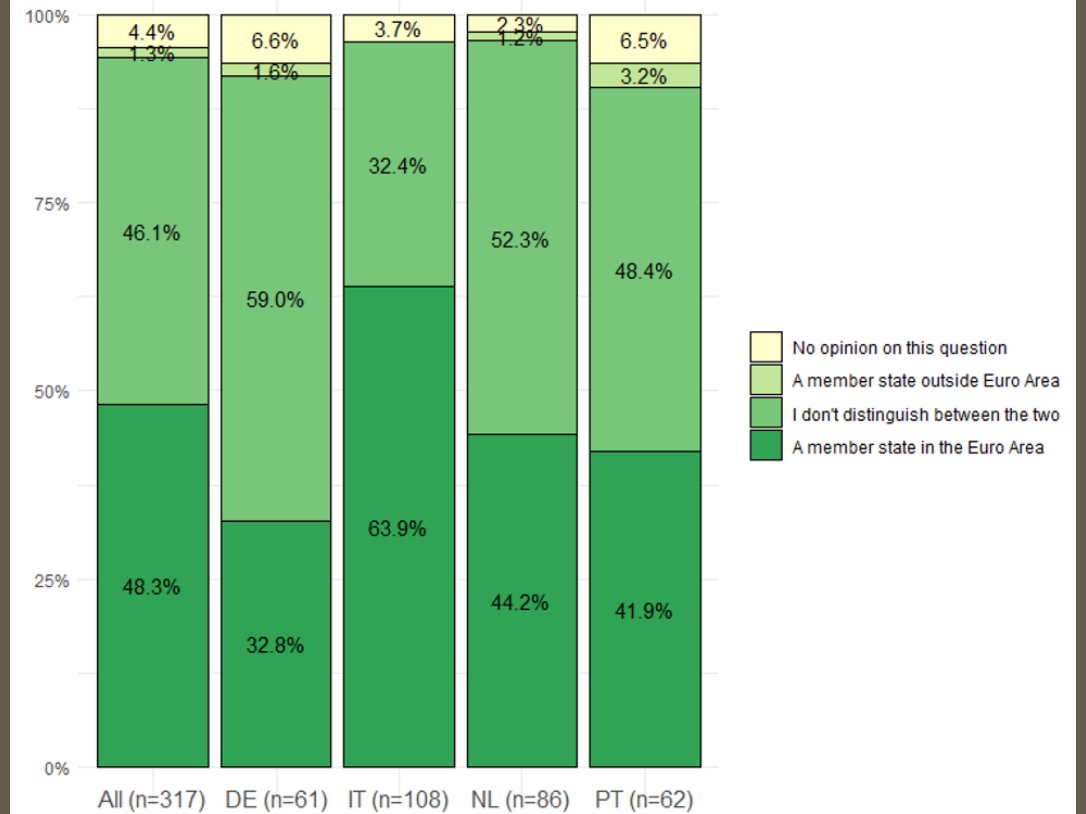
In each of the next two questions we ask you to assume there are two hypothetical countries that are both 'in difficulties or are seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond their control' (TFEU Art. 122).

The question will be whether you feel there is a stronger case to fiscally support one of these hypothetical countries. Please, answer assuming all other things equal, that is assume the countries are in equally large difficulties, there are equal spillovers on your own country, and equal hypothetical other considerations (like, for example, historical ties). Also, please answer independently of whether or not you are in favour or against providing fiscal support.

D7. All other things equal, I would be more inclined to fiscally support...

- ... a member state in the Euro Area.
- ... an EU member state outside the Euro Area.
- I do not fundamentally distinguish between these two potential recipients, but would look at their needs, past behaviour, conditionality, etc.
- I have no opinion on this question.

Feel free to add a comment on this question or your answer here:



## GROUP IDENTITY AND MOTIVATIONS FOR FS

**Table D1\_Country:** Percentage of responses to Question D1 broken down by the country in which the respondent works. The question was "In your opinion, which of the cases below would represent valid justifications for EMU member states to *consider* granting fiscal support to a certain EMU member state? *Please, select ALL applicable answer options below.*"

Country of work (Qn 8) → ↓ Answer to Question D1	All (n=318)	DE (n=60)	IT (n=108)	NL (n=87)	PT (n=63)
Preventing a humanitarian crisis	86%	95%	73%	97%	87%
Preventing a financial crisis even if it does not affect your own country much	71%	70%	79%	62%	73%
Preventing a financial crisis if it is expected to affect your own country	71%	85%	56%	89%	57%
Preventing failure of European project	65%	58%	73%	63%	59%
It delivers on an implicit commitment made with the adoption of the euro	33%	18%	38%	32%	38%
It corrects macroeconomic imbalances, which are a consequence of EMU	47%	42%	50%	46%	51%
Another justification, namely...	2%	2%	2%	3%	0%
None of these are valid justifications for considering fiscal support of a member state	1%	2%	3%	0%	0%

## GROUP IDENTITY AND MOTIVATIONS FOR FS

**Table D1\_IncomeDistrn (E6):** Percentage of responses to Question D1 broken down by the political orientation of the respondent, as proxied by their answer to Question E6: "Governments in wealthy EU member states should generally do more to reduce income inequality." Question D1 was: "In your opinion, which of the cases below would represent valid justifications for EMU member states to *consider* granting fiscal support to a certain EMU member state? *Please, select ALL applicable answer options below.*"

Answer to Question E6 → ↓ Answer to Question D1	Completely agree (n=172)	Somewhat Agree (n=94)	Neither agree nor disagree (n=26)	Disagree (n=15)	Unclear / no opinion. (n=10)
Preventing a humanitarian crisis	86%	89%	77%	87%	90%
Preventing a financial crisis even if it does not affect your own country much	77%	72%	58%	40%	50%
Preventing a financial crisis if it is expected to affect your own country	73%	72%	62%	67%	60%
Preventing failure of European project	70%	61%	62%	53%	30%
It delivers on an implicit commitment made with the adoption of the euro	40%	28%	8%	20%	30%
It corrects macroeconomic imbalances, which are a consequence of EMU	58%	46%	8%	27%	20%
Another justification, namely...	2%	1%	4%	7%	0%
None of these are valid justifications for considering fiscal support of a MS	1%	0%	4%	13%	0%

## THE REASON FOR THE IDENTIFIED NEED

**Table D2\_Country:** Percentage of responses to Question D2 broken down by the country in which the respondent works. The question was: "Suppose that a member state is 'in difficulties or is seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control' (TFEU Art. 122). In this case, would you find it reasonable that donor countries provide fiscal support *conditional on the prior behaviour* of this member state? *Please, select ALL applicable answer options below.*"

Country of work (Qn 8) → ↓ Answer to Question D2	All (n=314)	DE (n=60)	IT (n=107)	NL (n=85)	PT (n=62)
No condition	59%	60%	62%	47%	68%
Yes, respect for TEU Art.2	34%	35%	30%	41%	31%
Yes, fiscally responsible behavior	17%	22%	11%	24%	13%
Yes, solidary with others in past	13%	12%	12%	14%	15%
Yes, other condition on past behavior	1%	0%	1%	1%	2%
No opinion	3%	2%	3%	7%	0%

## THE REASON FOR THE IDENTIFIED NEED

**Table D3\_Country:** Percentage of responses to Question D3 broken down by the country in which the respondent works. The question was: "Suppose that it becomes clear that the level of the public debt of a member state becomes unsustainable. In this case, would you find it reasonable that donor countries provide fiscal support *conditional on the prior behaviour* of this member state? *Please, select ALL applicable answer options below.*"

Country of work (Qn 8) → ↓ Answer to Question D3	All (n=305)	DE (n=57)	IT (n=101)	NL (n=84)	PT (n=63)
No condition	28%	23%	35%	23%	29%
Yes, respect for TEU Art.2	51%	53%	43%	56%	57%
Yes, fiscally responsible behavior	39%	44%	27%	45%	44%
Yes, solidary with others in past	19%	25%	17%	17%	22%
Yes, other condition on past behavior	2%	0%	2%	1%	3%
No opinion	5%	5%	5%	8%	0%

## THE REASON FOR THE IDENTIFIED NEED

**Table D2\_ IncomeDistrn (E6):** Percentage of responses to Question D2 broken down by the political orientation of the respondent, as proxied by their answer to Question E6: "Governments in wealthy EU member states should generally do more to reduce income inequality." Question D2 was: "Suppose that a member state is 'in difficulties or is seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control' (TFEU Art. 122). In this case, would you find it reasonable if donor countries provided fiscal support *conditional on the prior behaviour* of this member state? *Please, select ALL applicable answer options below.*"

Answer to Question E6 → ↓ Answer to Question D2	Completely agree (n=172)	Somewhat Agree (n=92)	Neither agree nor disagree (n=25)	Disagree (n=15)	Unclear / no opinion. (n=9)
No condition	61%	55%	44%	67%	67%
Yes, respect for TEU Art.2	34%	35%	36%	33%	33%
Yes, fiscally responsible behavior	10%	20%	52%	20%	11%
Yes, solidary with others in past	13%	12%	20%	13%	0%
Yes, other condition on past behavior	1%	1%	0%	0%	0%
No opinion	3%	5%	0%	0%	0%

## THE REASON FOR THE IDENTIFIED NEED

**Table D3\_ IncomeDistrn (E6):** Percentage of responses to Question D3 broken down by the political orientation of the respondent, as proxied by their answer to Question E6: "Governments in wealthy EU member states should generally do more to reduce income inequality." Question D3 was: "Suppose that it becomes clear that the level of the public debt of a member state becomes unsustainable. In this case, would you find it reasonable if donor countries provided fiscal support *conditional on the prior behaviour* of this member state? Please, select ALL applicable answer options below."

Answer to Question E6 → ↓ Answer to Question D3	Completely agree (n=167)	Somewhat Agree (n=89)	Neither agree nor disagree (n=23)	Disagree (n=15)	Unclear / no opinion. (n=10)
No condition	30%	26%	30%	13%	30%
Yes, respect for TEU Art.2	51%	53%	39%	53%	50%
Yes, fiscally responsible behavior	31%	47%	52%	67%	30%
Yes, solidary with others in past	23%	10%	26%	27%	10%
Yes, other condition on past behavior	2%	1%	0%	0%	0%
No opinion	5%	2%	9%	13%	10%



## HELP CONDITIONALLY?

**Table D4\_Country:** Percentage of responses to Question D4 broken down by the country in which the respondent works. The question was: "Suppose that a member state is 'in difficulties or is seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control' (TFEU Art. 122). In this case, would you find it reasonable if donor countries provided fiscal support only if the recipient member state agreed to certain conditions? *Please, select ALL applicable answer options below.*"

Country of work (Qn 8) → ↓ Answer to Question D4	All (n=315)	DE (n=60)	IT (n=106)	NL (n=87)	PT (n=62)
No conditionality	58%	53%	60%	54%	65%
Yes, to pay 'fair interest rate'	23%	25%	20%	23%	24%
Yes, to implement structural reforms	26%	28%	22%	29%	29%
Yes, to commit to austerity measures	6%	5%	4%	9%	8%
Yes, other form of conditionality	8%	5%	8%	10%	5%
No opinion	3%	2%	6%	5%	0%

## HELP CONDITIONALLY?

**Table D5\_Country:** Percentage of responses to Question D5 broken down by the country in which the respondent works. The question was: "Suppose that it becomes clear that the level of the public debt of a member state becomes unsustainable. In this case, would you find it reasonable if donor countries provided fiscal support only if the recipient member state agreed to certain conditions? *Please, select ALL applicable answer options below.*"

Country of work (Qn 8) → ↓ Answer to Question D5	All (n=312)	DE (n=58)	IT (n=106)	NL (n=85)	PT (n=63)
No conditionality	12%	9%	16%	8%	13%
Yes, to pay 'fair interest rate'	37%	43%	30%	28%	52%
Yes, to implement structural reforms	68%	78%	55%	80%	67%
Yes, to commit to austerity measures	24%	26%	10%	34%	32%
Yes, other form of conditionality	8%	10%	9%	7%	5%
No opinion	5%	5%	8%	5%	0%

## HELP CONDITIONALLY?

**Table D4\_ IncomeDistrn (E6):** Percentage of responses to Question D4 broken down by the political orientation of the respondent, as proxied by their answer to Question E6: Governments in wealthy EU member states should generally do more to reduce income inequality." Question D4 was: "Suppose that a member state is 'in difficulties or is seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control' (TFEU Art. 122). In this case, would you find it reasonable if donor countries provided fiscal support only if the recipient member state agreed to certain conditions? *Please, select ALL applicable answer options below.*"

Answer to Question E6 → ↓ Answer to Question D4	Completely agree (n=170)	Somewhat Agree (n=93)	Neither agree nor disagree (n=26)	Disagree (n=15)	Unclear / no opinion. (n=10)
No conditionality	65%	55%	31%	47%	60%
Yes, to pay 'fair interest rate'	21%	20%	35%	40%	20%
Yes, to implement structural reforms	21%	28%	46%	47%	30%
Yes, to commit to austerity measures	4%	9%	15%	13%	0%
Yes, other form of conditionality	5%	10%	23%	7%	0%
No opinion	4%	3%	4%	0%	10%

## HELP CONDITIONALLY?

**Table D5\_ IncomeDistrn (E6):** Percentage of responses to Question D5 broken down by the political orientation of the respondent, as proxied by their answer to Question E6: Governments in wealthy EU member states should generally do more to reduce income inequality." Question D5 was: "Suppose that it becomes clear that the level of the public debt of a member state becomes unsustainable. In this case, would you find it reasonable if donor countries provided fiscal support only if the recipient member state agreed to certain conditions? *Please, select ALL applicable answer options below.*"

Answer to Question E6 → ↓ Answer to Question D4	Completely agree (n=170)	Somewhat Agree (n=91)	Neither agree nor disagree (n=25)	Disagree (n=15)	Unclear / no opinion. (n=10)
No conditionality	15%	9%	4%	7%	20%
Yes, to pay 'fair interest rate'	34%	38%	36%	53%	30%
Yes, to implement structural reforms	62%	74%	84%	87%	60%
Yes, to commit to austerity measures	15%	30%	48%	40%	40%
Yes, other form of conditionality	9%	7%	8%	13%	0%
No opinion	6%	4%	4%	0%	10%

## HOW TO HELP?

**Table D6\_Country:** Percentage of responses to Question D6 broken down by the country in which the respondent works. The question was: "Assuming it has been decided that one or more member states receive fiscal support, then what instrument(s) would be best? *Select ALL applicable answer options below.*"

Country of work (Qn 8) → ↓ Answer to Question D6	All (n=316)	DE (n=61)	IT (n=106)	NL (n=86)	PT (n=63)
Common fund managed by EU Institution.	53%	49%	64%	42%	54%
Common fund managed by independent agency	31%	30%	20%	44%	33%
Common bonds issued by EU Institution	54%	48%	70%	41%	54%
Common bonds issues by independent agency	24%	20%	18%	31%	29%
Direct transfers from donor countries	13%	16%	9%	16%	10%
No opinion	10%	13%	8%	14%	5%

## BRIEF CONCLUSION

- Fiscal solidarity is important for efficiency and stability of the EU
- An expert survey on fiscal solidarity reveals commonalities and differences among experts regarding:
  - *normative questions* related to fiscal solidarity and EMU governance, and
  - *positive questions* related to fiscal solidarity and EMU (this is obviously a more surprising result)

## BRIEF CONCLUSION

- Important antecedents for identity and fiscal solidarity:
  - Country of residence
  - Political opinion
  - Reason why a country arrived in a situation of need
- To be analysed:
  - Other antecedents, including educational background, employer type, seniority
  - The explanations for fiscal solidarity attitudes (regression analysis)