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GREECE AND THE LIMITS OF EUROPEAN SOLIDARITY

abstract

This paper examines some recent arguments put forward by economists and philosophers that purport to show that Europeans owe Greece some form of solidarity. The paper distinguishes two different forms of solidarity: justice-based solidarity and remedial solidarity. It argues that Europeans -- working through their institutions -- owe the Greeks only remedial solidarity, but only insofar as they actually harmed the Greeks through imposing upon them a dysfunctional monetary union, an exploitative bailout program, or a damaging form of austerity.

keywords

Solidarity, European Union, Greece, Eurozone Crisis, Austerity

A striking feature of the recent debate over the Greek Crisis is the extent to which participants in the debate appeal to moral terms to justify their claims. Take, for example, the recent Greek Finance Minister Yannis Varoufakis, who protests that he is not, as his critics charge, merely a game theorist motivated by rational self-interest. Rather, his “major influence”, he informs us, “is Immanuel Kant, the German philosopher who taught us that the rational and the free escape the empire of expediency by doing what is right” As Varoufakis goes on to explain:

How do we know that our modest policy agenda, which constitutes our red line, is right in Kant’s terms? We know by looking into the eyes of the hungry in the streets of our cities or contemplating our stressed middle class, or considering the interests of hard-working people in every European village and city within our monetary union (Varoufakis, 2015).

Varoufakis, in other words, clothes his claims in the language of justice. As he sees it, the claims of Greece owe their justification to the needs of the least well-off, the hungry and the stressed, whether in Greece or Europe in general. In believing that Greece’s claims against their creditors – the European Union (EU), the European Central Bank (ECB), and the International Monetary Fund (IMF), in particular – have “right” on their side, Varoufakis finds support from leading economists like Paul Krugman and Joseph Stiglitz. For Stiglitz, Greece’s conflict with “the Troika” is at heart “a morality tale” (Stiglitz 2015a). For Stiglitz, it is immoral not to forgive Greece its debts. Like Varoufakis, Stiglitz emphasizes the relative poverty of the Greeks. “Greece is”, as he puts it, “among the poorest of the European family. Part of the basis of the success of the European project is a sense of social solidarity, which entails coming to the assistance of those who are less fortunate” (Stiglitz 2012). In addition to this appeal to, what might be termed, *justice-based solidarity* – an appeal grounded in the relative poverty of the Greeks, a sense that they are among Europe’s least well-off – Stiglitz also appeals to another grounds for showing solidarity with the Greeks: to remedy the harm inflicted on them by “the Troika” over the last few years. Stiglitz notes, first, the flawed structure of the EMU, which denies Greece the flexibility to devalue its currency; second, the privileged treatment afforded to Europe’s largest banks, which in 2010 were bailed out at the expense of the Greeks; and third, the misguided policies – especially, the very strict form of austerity – that the Troika forced on the Greeks (Stiglitz 2012, 2015a, 2015b).

The notion that Greece deserves some form of, what might be termed, *remedial solidarity* is widely-held, even while the precise nature of the harm (who caused it, how, and when) is a matter of some disagreement. The underlying thought is that to the extent that Europeans (acting through their institutions) are responsible for Greece's current plight, so Europeans must be held responsible for coming to the aid of the Greeks. A consequence of this line of thinking is that it leads to something of "a blame game", a constant effort to assess how much responsibility the Greeks (acting through their own institutions) are themselves responsible for their current economic problems and to what extent the responsibility lies elsewhere (Dixon 2015). To a greater extent than *justice-based solidarity*, this latter form of *remedial-solidarity* presupposes some empirically-informed historical account of how and why Greece has ended up in its current parlous condition. Absent some such plausible account, we cannot draw any conclusions about what Europe actually owes the Greeks in terms of solidarity and support.

My aim in this paper is to weigh the merits of *justice-based solidarity* and *remedial-solidarity* with respect to Greece and its fellow Eurozone members. What, in other words, do Europeans owe the Greeks in terms of solidarity? What new institutions and policies should they adopt? And what current policies and institutions should they abandon?

My argument proceeds in three sections. Section One goes into greater detail about the nature of solidarity. This is a term that figures prominently in current debates about Europe, even if it is not a term that has generated much attention from contemporary political theorists. Section Two focuses on remedial solidarity and examines a number of the more commonly held charges concerning the alleged harms that the Troika have inflicted upon the Greeks during their unfortunate membership of the Eurozone. Section Three concludes with some remarks about the nature of European solidarity and the difficulties of achieving it in the current context of a Europe where the nation-State remains the principal unit of allegiance, socialization, and democratic representation. If European solidarity is to be effective, so I argue, it must appeal to the prudential interests of the individual rather than moral duties to others.

The term solidarity figures prominently in many of the founding treaties of the European Union (EU). The Schuman Declaration, for instance, famously stated that: "Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a *de facto* solidarity". The early architects of the EU pinned their hopes on a virtuous cycle of successful cooperation *leading to* solidarity *leading to* further cooperation *leading to* wider and deeper solidarity. This is to say that they realized that there was no European-wide solidarity, but hoped it would develop as Europeans reaped the economic benefits of mutual cooperation under common institutions.

In more recent EU Treaties (The Treaty of Lisbon [2009], for example), solidarity is no longer as it was for Schuman something to be created, an ethical-political value that will (eventually) emerge out of successful cooperation. These Treaties now assume solidarity has been achieved; it is already in existence; and European citizens can legitimately expect solidarity of each other. This is how the term figures, for example, in the recent President of the European Council Herman Van Rompuy's claim: "Solidarity is a duty, not a right. Solidarity within the euro area is now a matter of necessity and survival" (Van Rompuy 2012). The interesting feature of this claim, however, is that Rompuy combines both ethical considerations (the language of duties) and prudential considerations (the language of necessity and survival). Rompuy is not alone in using the term solidarity in an ethical sense, a matter of duties. Stiglitz also appeals to the duties of solidarity the European owe the Greeks. "When the Euro was created", he notes,

1. The Idea of Justice-Based Solidarity

many economists worried about the lack of stability-solidarity funds. If Europe had developed a better solidarity and stabilisation framework, then the deficits in the periphery of Europe might have been smaller and they would have been more able to manage them. [...] The EU, the euro, and the premise of European solidarity is being tested again. The measure of Europe will not be in the harshness of its actions, but in the spirit of solidarity that it shows in assisting its neighbor (Stiglitz, 2012).

The argument that Europeans ought to develop a stronger and wider form of solidarity is a strange argument for a modern economist to make. Economic models are usually constructed on the basis of the rational self-interested individual. There is no mention of “solidarity” in Robert Mundel’s canonical work on “optimal currency zones”. Nor did the term “solidarity” figure much in the early discussions of a European Monetary Union. Indeed, if a robust sense of cross-national solidarity were a necessary requirement of a successful monetary union, then in the 1980s, when monetary union was first seriously considered, Europe would not have been thought of as a place where monetary union was likely to succeed.

The notion that solidarity is a necessary feature of a successful union, whether economic or political, marks also a departure from the constitutional teaching of the American Founding Fathers. For Hamilton, Jay and Madison, the glue that was to hold together the new American republic was self-interest tempered by institutions. There is no mention in the Federalist papers of solidarity understood as an ethical term in the way that it figures in contemporary Europe. The term is also absent in Tocqueville’s *Democracy in America*. For Tocqueville, the United States holds together on the basis “self-interest rightly understood”, which itself emerges partly out of a rich associational life (Tocqueville, 1979).

Given the frequency that the term is now used in political debate, it is surprising that the term solidarity has not attracted more philosophical attention. In its most general sense, solidarity means nothing more than *acting together in pursuit of a shared aim or goal*. Often the term seems to have nothing more than an empty rhetorical value – “solidarity for or with the x-ers” means nothing more than “we (ought) support or sympathize or act together with the x-ers”. But sometimes – as is the case in current Eurozone debates – the term solidarity specifies (and purports to justify) a duty or range of duties that we owe to specific others. In this sense of the term, solidarity is a call for Europeans to fulfill their duties to (in the current context) the Greeks in the form of bail-outs, debt-relief, or some other material benefits.

This appeal to solidaristic duties remains, however, rather contentless. It neither tells us what these duties entail nor how we acquired these duties. Indeed, there are two different ways we might interpret the idea of solidaristic duties. In one sense – a more general sense – we express our duties to people by acknowledging and acting upon our duties. In another sense – a more specific or special sense – we have special solidaristic ties to, say, the Greeks and these duties call forth and justify a set of duties. Viewed in this light, solidarity maps onto the familiar philosophical distinction between general and special duties (and general and special rights) (Hart 1955; Goodin 1986). General duties are those duties we owe to all human beings in virtue of our common humanity or in virtue of a basic conception of universal justice. Special duties, in contrast, are those duties that either arise out of a specific prior transaction – such as an agreement, promise, or history of such – or because of a particular relationship, such as that obtaining between family members or fellow countrymen or citizens.

At first glance, it does not seem very promising to represent the solidaristic duties of the Europeans to the Greeks in terms of general duties that arise out of our common humanity. General duties appear to belong to a universalistic framework where individuals can make moral claims upon each other unmediated by culture, language, history, and political membership. But it would be a mistake to dismiss without further thought the idea that

general duties could provide a way of conceptualizing solidaristic duties. Indeed, our general duties might be thought to describe and express our solidarity to each other. This does not entail, however, that general duties cannot allow for the idea that some groups have more responsibility to act upon some general duties than others, because they are better situated to fulfilling that duty. From this perspective, Europeans (acting through their political institutions) might take on different responsibilities to act upon the duty to alleviate hardship and suffering (assuming that there is such a duty). They might find that actions in accordance with this duty are more effective when we focus on hardship and suffering in our own local communities before looking outside those communities.

Nonetheless, even if we allow for the recognition of different responsibilities to act on a general duty, these responsibilities cannot be used as a reason or excuse for ignoring our general duties to humanity. This point comes into play when we reflect upon Stiglitz's use of the term "solidaristic duties" to describe Europe's duties to the Greeks – amongst the poorest of the European family", as he puts it. The problem with this line of thought is that the Greeks are, strictly speaking, neither the poorest of the European family, nor are they very poor at all if we think of the global poor. This very point was made by Christine LaGarde who, as Head of the IMF, has an institutional obligation to look after the global least well-off rather than any regional least well-off. Thus asked by a journalist whether she was concerned about the growing poverty in Greece, she responded as follows:

No, I think more of the little kids from a school in a little village in Niger who get teaching two hours a day, sharing one chair for three of them, and who are very keen to get an education. I have them in my mind all the time. Because I think they need even more help than the people in Athens [...]. As far as Athens is concerned, I also think about all those people who are trying to escape tax all the time. All these people in Greece who are trying to escape tax (LaGarde 2012).

On the face of it, LaGarde's response was quite reasonable. Charitably interpreted, LaGarde's argument amounts to the claim that European solidarity – in particular the solidarity-based obligations of wealthier Northern European countries to poorer Southern European countries – is legitimately constrained by a competing principle of fairness – *a principle of global fairness*, as it might be termed. Solidaristic duties to the Greeks – at least insofar as they are thought of as general or justice-based duties – cannot trump *a principle of global fairness*. If we emphasize poverty as the grounds of our general duty to the Greeks then we immediately must Madame LaGarde's point about the children in Niger (Morgan 2012).

Given this problem with conceptualizing European solidarity as a general or justice-based duty, what about the alternative strategy of conceptualizing them as a special duty. The intuitive idea behind special duties is that there exists some special tie between people, whether that tie arises out of a prior transaction – the signing of a treaty, a promise, a cooperative venture – or out of a particular relationship that obtains between (in this case) Europeans (i.e. members of the EU or Eurozone).

On the face of it, the Europeans might readily be thought to owe each other special duties that arise out of a number of factors that tie them together. Perhaps most importantly, they share a common history – an unfortunate history pockmarked with war and conflict. The EU (as it is now) was established, at least in part, because it offered a solution to interstate conflict. While the EU was initially envisaged solely as an economic association, it has developed into something akin to a supranational polity that plays an important role in a wide range of activities that go on in Europe. For better or worse, the EU has tied European citizens together in ways that permeate much of their daily life. It is not implausible to describe these

ties as establishing a form of solidarity. Nor is it widely implausible to think that this form of solidarity might justify special solidaristic duties, including the duty of wealthier Eurozone countries to poorer Eurozone countries. Nonetheless, before pursuing this idea further it is necessary to note some obstacles to this way of thinking about the EU.

First, the European Constitutional Treaty does not support the claim that the Germans (and other wealthy States) owe the Greeks this form of solidarity. Indeed, the European Monetary Union was – whether for good or ill – established on the basis that wealthier and creditor States would not have to bail out poorer and debtor States. German governments made this very promise in the 1990s to their own citizens, when they sought to persuade them to give up the Deutschmark in favor of the Euro.

Second, the claim that Europeans owe duties to each other on the basis of some particular ties grounded in a common European identity runs into the problem that any such identity is either absent or is too weak to sustain such duties. There might one day be a robust European identity comparable to the national identities present in most European member States. But there is no such common identity at the moment, not least because Europe lacks a common lingua franca, a shared religion, a thick common culture. Furthermore, if solidarity is to be grounded upon these particularistic cultural features, then European solidarity is doomed to lose out to national solidarity. Germans will say that they owe more to their fellow Germans than they owe to Greeks.

The third problem with grounding solidarity on an underlying account of special duties is more specifically related to Greece and the Eurozone Crisis. If European solidarity is to be founded on a conception of special duties that hold between Europeans (or, more narrowly, between Eurozone States), then these special duties must satisfy, what might be termed, a *principle of regional equality*. In other words, regardless of whether we justify the special duties of solidarity obtaining between European States as duties that arise from either a shared identity, promises, or transactions, these are duties are owed to all equally. If Europeans have a duty to rescue Greece in times of crisis, they also have a duty to rescue Latvia and Slovakia in times of crisis. And if it is some threshold level of poverty or distress that triggers our special solidaristic duties as Europeans to Greece, then that same level of poverty or distress in Latvia or Slovakia must trigger the same solidaristic duties.

Yet once we acknowledge the validity of this principle of regional equality – the notion that all European States must be treated as equals – the notion of special solidaristic duties to Greece becomes more problematic. While some commentators emphasize the relative poverty of Greece –among the poorest of the European family”, as Stiglitz puts it – Greece in 2010 was not actually the poorest country either in the Eurozone or in the European Union. Amongst the Eurozone countries, the Baltic Countries and Slovakia were poorer than Greece. The relative affluence of Greece was to prove a sticking point, when the Slovakian government refused to support the 2010 Greek bailout. This issue has continued to complicate support for Greece, because people in Baltic Countries complain that the Greeks have more generous pensions than they do.

Another dimension to this *principle of regional equality* is to be seen in the German government’s emphasis on the idea that the EU and the Eurozone be governed according to a set of transparent and relatively inflexible rules. Whatever assistance is needed to support a country in distress must be governed by an antecedent rule. At the very least, these rules do not allow for any one country to receive special treatment. Thus if Europeans do owe special solidaristic duties to Greece, these duties must derive from a general covering rule that would apply to other European States in comparable circumstances. This point has assumed larger significance in the debate over the Eurozone Crisis, because the Germans are aware that any new rule that afforded a bailout to Greece would entail that the rule also extend to other

potential crisis-prone States like Italy and Spain. Partly out of a fear of the consequences of generalizing the application of any new rule, the Germans (and other Northern Europeans) have been eager to spend as little money as possible on Greece. Yet this desire for parsimony has contributed to the Greek economy experiencing, so critics argue, a severe austerity-induced contraction (Blyth 2015). Certainly, the Greek economy and society has suffered a great deal in the last 5 years. Greek Gross Domestic Product has fallen by 25 per cent; unemployment levels reached 27% in 2013; and there has been widespread social dislocation, poverty, and unrest. For some observers, the economic and social misery of Greece in the last few years stem primarily from Greece's own political and institutional failings (Kalyvas 2014; Yanaiologos 2013). But for others, Greece's problems in recent years are primarily the fault of the Troika's failed policies and the EMU's dysfunctional construction (P. Tsoukalas 2013, 2015; Wolf 2015). If this latter position is correct, then there exists an alternative grounds for justifying special solidaristic duties to Greece: remedial solidarity.

In his influential book on *National Responsibility and Global Justice*, David Miller draws a useful distinction between "outcome responsibility" – which individual and group is responsible for a state of affairs? – and "remedial responsibility" – which individual or group is responsible for remedying that state of affairs? Typically, we think that those who have "outcome responsibility" are also those who have "remedial responsibility". Think here, for example, of the special responsibility that post-war Germany has rightly felt for the Holocaust and the German State's willing to recognize special solidaristic duties towards Israel (Buruma 1998). If we grant that States and multinational institutions can have a special solidaristic duty to remedy the harmful outcomes they have caused, then we have an additional possible ground for the solidaristic duties that Europe owes to the Greeks. In order for this justification to go through, it must, however be the case that Europe and its institutions ("the Troika") have "outcome responsibility" for current Greek problems. More than this, Europe and its institutions must be not only responsible for the outcome; they must have acted illegitimately – whether unjustly, recklessly, negligently or some other unjustified way. Clearly, there exists a difference between legitimate and illegitimate actions that produce a bad outcome for others. As John Stuart Mill notes:

In many cases, an individual, in pursuing a legitimate object, necessarily and therefore legitimately causes pain or loss to others, or intercepts a good which they had a reasonable hope of obtaining. Such oppositions of interest between individuals often arise from bad social institutions, but are unavoidable while those institutions last; and some would be unavoidable under any institutions. Whoever succeeds in an overcrowded profession, or in a competitive examination; whoever is preferred to another in any contest for an object which both desire, reaps benefit from the loss of others, from their wasted exertion and their disappointment. But it is, by common admission, better for the general interest of mankind, that persons should pursue their objects undeterred by this sort of consequences. In other words, society admits no right, either legal or moral, in the disappointed competitors, to immunity from this kind of suffering; and feels called on to interfere, only when means of success have been employed which it is contrary to the general interest to permit—namely, fraud or treachery, and force (Mill, 2008).

Mill's point has special relevance to the current situation in Greece, because many supporters of the Greek position contend that Europe and the Troika have caused not just pain to Greece but illegitimate pain. Europe has, in short, unjustifiably produced a negative outcome in

2. Harms to Greece and Remedial Solidarity

Greece and as such have a duty to remedy the situation.

There appear to be three main arguments advanced in support of the claim that Greece has been illegitimately harmed: (i) The Harm of a Dysfunctional European Monetary Union (EMU); (ii) The Harm of a Controlled Bailout; and (iii) The Harm of Excessive Austerity. Let me consider each briefly in turn.

2.1 The Harm of a Dysfunctional EMU

The EMU was introduced in 1999, despite the fact that many economists suspected that it would not work. The members of the Eurozone, so critics pointed out, did not constitute an “optimal currency zone”, because (a) they lacked much labor mobility – due partially to the linguistic differences between the Eurozone States; (b) they suffered from a relatively high frequency of regional asymmetric shocks, which necessitated different macroeconomic management policies in different countries; and (c) the political culture in Europe did not support a pan-European fiscal transfer program comparable to, say, the US social security system. More problematic still, the EMU was established with a European Central Bank that did not act as a lender of last resort, had no responsibility for unemployment but only for inflation, and lacked the power to regulate domestic. Many leading US economists in the 1990s predicted that the EMU would not be able to survive a major crisis and many of their warnings have proven correct.

Greece was the principal victim of the flawed EMU, because it suffered from the weakest structural economy amongst the Eurozone countries. Very quickly after entering the Eurozone, Greece developed imbalances – a trading imbalance that saw its current account go into double-digit deficits by the 2000s, and a budget deficit that reached more than 10 per cent of GDP by 2007. For Varoufakis, these deficits were structurally determined by the flaws of the EMU. As he puts the argument:

When one nation, or region, is more industrialised than another; when it produces most of the high value added tradable goods while the other concentrates on low yield, low value-added non-tradables; the asymmetry is entrenched. Think not just Greece in relation to Germany. Think also East Germany in relation to West Germany, Missouri in relation to neighbouring Texas, North England in relation to the Greater London area – all cases of trade imbalances with impressive staying power (Varoufakis 2015).

Under a floating exchange rate, Greece could have devalued its currency and remained competitive on the international market. In a fixed monetary system like the EMU, devaluation is impossible, so Greece only had the option of deflation, a policy of lowering its wages and domestic product prices in an effort to improve its unit labour costs relative to its international competitors. The EMU, however, facilitated an additional burden on the Greek economy: monetary imbalances. As Varoufakis puts this issue:

A German trade surplus over Greece generates a transfer of euros from Greece to Germany. By definition. This is precisely what was happening during the good ol’ times – before the crisis. Euros earned by German companies in Greece, and elsewhere in the Periphery, amassed in the Frankfurt banks. This money increased Germany’s money supply lowering the price of money. And what is the price of money? The interest rate! This is why interest rates in Germany were so low relative to other Eurozone member-States. Suddenly, the Northern banks had a reason to lend their reserves back to the Greeks, to the Irish, to the Spanish – to nations where the interest rate was considerably higher as capital is always scarcer in a monetary union’s deficit regions. And so it was that a tsunami of debt flowed from Frankfurt, from the Netherlands, from

Paris – to Athens, to Dublin, to Madrid, unconcerned by the prospect of a drachma or lira devaluation, as we all share the euro, and lured by the fantasy of riskless risk (Varoufakis 2015).

The conclusion Varoufakis draws from these failings of the EMU supports the claim, so he believes, that Europe shares the responsibility for Greece’s problems.

We built an asymmetrical monetary union with rules that guaranteed the generation of unsustainable debt. This is how we built it. We are all responsible for it. Jointly. Collectively. As Europeans. And we are all responsible for fixing it. Collectively. As Europeans. Without pointing fingers at one another. Without recriminations (Varoufakis 2015).

For many critics of Troika policies, the 2010 Bailout and the subsequent Memorandum of Understanding not only were injurious to Greece, but were nothing more than an effort to save French and German banks at the expense of Greece (Blyth 2015; Tsoukalas 2013, 2014, Whelen 2015). This argument is made frequently by Greek political leaders. Indeed, the current Greek Parliament has launched an investigation into the transfer of money in 2010 and how that money benefitted French and German banks rather than Greece. Mark Blyth (2015) provides a clear statement of this position, where he argues (in much the same way as Varoufakis above) that EMU set in motion a credit boom, which led to French and German banks accumulating a large amount of Greek and other European periphery assets. When Greece first ran into financing private-market financing difficulties in early 2010, there were a number of possible solutions. One solution was for Greece to seek some form of debt restructure or default; the other option was for Greece to seek a bailout from the EU, ECB and IMF. The European authorities chose the latter option, at least in part, so it is claimed, because they feared that French and German banks might collapse if Greece defaulted. The May 2010 bailout, which provided Greece with a 140 billion Euro loan in return for strict forms of austerity (budget cuts) and conditionality (loans conditional on structural reforms) was less a bailout of Greece than a bailout of French and German banks, since much of the money that went to Greece was returned more or less immediately in loan and interest payments to non-Greek institutions. As Blyth puts it: “Greece was a mere conduit for a bailout. It was not a recipient of funds in any significant way, despite what is constantly repeated in the media” (Blyth 2015).

If this charge is correct, then the European authorities treated Greece as a mere means to their own ends (Davies 2015). They used the Greeks to protect their own banks. The money they offered in support of Greece was, in actuality, money for their own banks. It was convenient to represent this money as going to the Greeks, because it was too politically embarrassing for the Europeans to acknowledge that they were using public money to bailout private financial institutions.

The Greeks were used.

Greece has received two bailouts – 110 billion euros in 2010 and then 130 billion euros in 2012. It will likely need another bailout in 2015. The money provided to Greece in these bailouts came from three main institutions (EU, ECB, and IMF) and was delivered to Greece in a complicated form of loans and direct assistance. Two features of these bailouts were especially controversial: (i) they required the Greek State to cut its public expenditure and raise taxes – to pursue “austerity” in other words, and (ii) the loans to Greece were conditional on the Greek State enacting various structural reforms and adopting specific policies approved by the Troika.

2.2 The Harm of the 2010 Conditional Bailout

2.3 The Harm of Excessive Austerity

While both austerity and conditionality have proven controversial in Greece, the policy of austerity is especially problematic if only because it has led, so its critics argue, to an economic depression and social misery. Identifying the agents causally responsible for these harms is, however, somewhat more complicated than many critics acknowledge. By 2010, Greece was bankrupt. It was running a ten percent primary budget deficit and it was locked out of the private international bond markets. Bluntly stated, it was spending more than it took in taxes and no one was willing to fund the gap. If no external agency had come to Greece's aid in 2010, then the Greek government would have faced the prospect of slashing ten percent of its government expenditure very quickly. Such an effort would most probably have led to an economic slump and social misery. The Troika came to Greece's aid with a bailout that allowed them to make these cuts more slowly. Between 2010 and 2014, the Troika contributed 90 billion euros to Greece (Bulow and Rogoff 2015). Nonetheless, many critics contend that these funds were inadequate and forced Greece to endure a crippling round of public expenditure cuts and tax rises – in effect to pursue a pro-cyclical policy – that led to a deep economic slump that in some respects is worse than that experienced in the US during the Great Depression. Since there are so many different versions of this critique, I will use as an illustrative example Amartya Sen's version of this position. Sen contends that the European authorities are making the same mistakes with respect to Greece that they made with respect to Germany in the aftermath of the First World War. He argues that a policy of austerity is self-defeating, because it diminishes GDP growth more rapidly than it diminishes debt, thereby leaving the country in question with a worse debt-GDP ratio. Sen thinks that this problem could have been remedied by pursuing a Keynesian counter-cyclical policy of demand expansion. Greece should have been allowed to have run a deficit until its economy had recovered. He wonders why this did not happen and pins the blame on:

an odd confusion in policy thinking between the real need for institutional reform in Europe and the imagined need for austerity – two quite different things. There can be little doubt that Europe has needed, for quite some time, many serious institutional reforms – from the avoidance of tax evasion and the fixing of more reasonable retiring ages to sensible working hours and the elimination of institutional rigidities, including those in the labour markets. But the real (and strong) case for institutional reform has to be distinguished from an imagined case for indiscriminate austerity, which does not do anything to change a system while hugely inflicting pain. Through the bundling of the two together as a kind of chemical compound, it became very difficult to advocate reform without simultaneously cutting public expenditure all around. And this did not serve the cause of reform at all.

We were in effect being told that if you want economic reform then you must also have, along with it, economic austerity, although there is absolutely no reason whatsoever why the two must be put together as a chemical compound. For example, having sensible retiring ages, which many European countries do not (a much-needed institutional reform), is not similar to cutting severely the pensions on which the lives of the working poor may depend (a favourite of austeritarians). The compounding of the two – not least in the demands made on Greece – has made it much harder to pursue institutional reforms. And the shrinking of the Greek economy under the influence mainly of austerity has created the most unfavourable circumstances possible for bold institutional reforms (Sen 2015).

In essence, Sen's argument is that the European authorities (the Troika) made a huge and damaging cognitive error in linking austerity and conditionality. They should have been more

generous – i.e. provided more funds – to Greece to sustain a budget deficit, while seeking reforms through a more democratic and persuasive manner. On this point, Sen is in agreement with Varoufakis, who singles out austerity as the policy that destroyed the Greek economy. For Varoufakis, the harm is to be seen in the primary budget surpluses (i.e. the budget surplus excluding debt servicing charges) sought by the Troika. “Our creditors’ insistence on greater austerity”, he writes,

can be found in their demand that Greece maintain unsustainably high primary surpluses (more than 2% of GDP in 2016 and exceeding 2.5%, or even 3%, for every year thereafter). To achieve this, we are supposed to increase the overall burden of value-added tax on the private sector, cut already diminished pensions across the board; and compensate for low privatization proceeds[...] with “equivalent” fiscal consolidation measures (Varoufakis 2015).

To additional fuel to the fire of Sen and Varoufakis’s attack on the Troika-induced austerity policies inflicted on Greece after the first bailout, the IMF itself subsequently conceded that they had miscalculated the likely economic impact of the policy they had initially endorsed. They underestimated the multiplier effect of the cuts and their policies contributed to Greek economic collapse.

For the purposes of this paper, it is unnecessary to review in any great details the merits of these three different arguments about the harms done to Greece. We will assume that these harms were illegitimate and sufficiently injurious to impose upon the European authorities remedial solidaristic duties towards the Greeks. If space allowed, we could calculate the financial cost of some of these harmful policies. Once we have arrived at a rough estimate of these costs, we would be in a better position to identify the specific duties necessary to remedy these costs. Absent this more precise figure, we can only sketch out the range of possible policies that the European authorities might have adopted towards Greece once that country had gone bankrupt in 2010.

Broadly stated, there are four main options here:

- 1) Voluntary Solidaristic Grexit
- 2) Maximum European Solidarity (Debt-Forgiveness and Unconditional Loans)
- 3) Fiscally-Extractive Conditional Solidarity.
- 4) Debt-Forgiving Conditional Solidarity

Let me consider each briefly in turn.

1. *Voluntary Solidaristic Grexit (Greece exits the Eurozone)*

It has long been rumoured that the German Finance Minister has favoured that Greece exit the Eurozone. Apparently, he thinks that Greece has neither the productive capacity nor the political culture to survive in the Eurozone. There is, however, an important distinction between forced Grexit – which was Schauble’s preference – and Voluntary Solidaristic Grexit, which would be offered as an option to the Greeks and would include a sizable transfer of funds to compensate for post-Grexit economic problems.

On the face of it, Grexit would be very disadvantageous to the Greeks, since the drachma would devalue against the Euro and the Greeks would still face the problem of furnishing their debts to the Troika and of purchasing those imports that they could not easily substitute domestically. Since Greece lacks an advanced pharmaceutical industry, some crucial drugs might become too costly for Greeks to purchase. If Grexit were to be a genuinely solidaristic act, the European authorities would have to ensure that Greece received sufficient

compensation to fare financially at least as well outside the Eurozone as it has done within. In some respects, this is a low hurdle to meet, since the last 5 years have proven so disastrous for Greeks. It is not, however, clear *ex ante* how much this option would cost European States. Nonetheless, Solidaristic Grexit, while a logically possible option, is not a genuine option, since the Greeks overwhelmingly wish to remain as members of both the Eurozone and the EU.

2. *Maximum European Solidarity (Debt-Forgiveness through Transfers).*

This policy represents the most generous policy imaginable that the EU and ECB could now offer the Greeks. Following this set of policies would entail cancelling all but 50 percent of Greek debts. Why 50%? Because 60% per cent is the maximum allowed under the European Stability and Growth Pact. Since Greek Debt is currently valued at about 320 billion euros, this would entail some form of transfer from the European authorities of roughly 160 billion euros. This could take place either as a direct one-time transfer funded from the general budget of other Eurozone countries; or it could be funded by a bond that the European States would guarantee and service. At a minimum, the European authorities would buy out Greece's current loans from the IMF – loans that come with onerous conditionality features attached. The big advantage of this approach is that it would allow the Greek government to return to the private bond markets to fund a small budget deficit. The Greek government would thereby have the fiscal space to borrow up to 10 per cent more from private markets so that they could pursue, when necessary, countercyclical policies, while still remaining within the 60 % limit of the European Stability and Growth Pact.

In keeping with the idea of Maximum European Solidarity, the European States would not impose any conditionality on their loans. The Greeks would be free to set their own policies and priorities; their governments would have full rein to follow the democratic mandate of their own voters. These governments would be free to embrace structural reform or not.

3. *Fiscally Extractive Conditional European Solidarity*

This policy describes the current status quo approach to Greece. It involves various bailout loans (110 billion euros in 2010; 130 billion euros in 2012; and 85 billion euros in 2015) to Greece that have come from the Troika under various different auspices. These loans have been offered at a variety of different interest rates and at a variety of different loan durations. As a crude generalization, the loan program in 2010 was quite unfavorable to Greece in terms of interest rates and loan periods; while the loan programs after 2012 have been quite generous. Indeed by 2014, the Greeks were paying 4.3% of their GDP servicing their debts at an average interest rate of 2.3% – rates much more favorable than those paid by Italy, for example (Watt 2014). The more controversial feature of these current bailouts come in the form of the austerity and conditionality programs described above. The austerity programs, so it is argued, have proven to be self-defeating in correcting Greece's economic programs. These austerity programs are fiscally-extractive in the sense that they require Greece to operate a primary budget surplus out of which they repay the loans. The conditionality programs are controversial, because they require a level of external supervision of Greek government and administration that entails an affront to Greek democracy and its national dignity.

In defense of these current programs, the European authorities maintain that both austerity and conditionality constitute necessary control mechanisms to ensure that Greece makes the structural reforms to avoid the same economic problems reoccurring in the future. In the absence of these control mechanisms, the Greeks would have no incentive to reform. Indeed, they would take the loans and come back for more in the future. European taxpayers would be constantly exposed to Greek problems, while having no control over Greek actions. From this perspective, European solidarity for the Greeks is necessary but is limited.

4. Debt-Forgiving Conditional Solidarity

This option is similar to the previous one, but slightly more generous. Europeans would show their solidarity to the Greeks by first absorbing all of Greece's debts from the IMF, so that all 320 billion euros of the debt would be held by official European authorities. But then they would forgive the debts in, say, five-year tranches in return for Greece meeting certain conditional benchmarks of reform. These benchmarks need not entail the level of micromanagement in the 2010, 2012, and 2015 Programs; they could simply require Greece to, say, move up the scale of the OECD Doing Business or similar scale. Nor does this Debt-Forgiving Conditional Solidarity require any specific austerity policies. Greece could have the fiscal space to run counter-cyclical policies. It must be conceded, however, that this policy option would prove expensive and would require an open admission to national domestic voters that money the taxpayer money involved in the loans would not be returned. Having described these options, it remains only to point out that the idea of remedial solidarity for the Greeks requires an economic assessment of both the harm caused by Europe to Greece *and* the cost of remedial measures. While these economic assessments would not be easy, they are not impossible. At this point, however, one cannot start to wonder whether this approach to solidarity is really compatible with a healthy future for the project of European Integration. Are Europeans to be linked together by nothing more than a history and cost assessment of mutual harm?

At the start of this paper, we noted that solidarity might be viewed as *acting together in pursuit of a shared aim or goal*. The shared aim or goal might involve a private good – a good that can be enjoyed separately as an individual (wealth, for example) – or it might involve public or goods – i.e. goods that are non-rival in consumption and non-excludable (national security and clean air, for example). There is no obvious reason why solidarity cannot apply to private goods. Often it is the case that we will need to cooperate with others to secure the conditions that make the enjoyment of wealth possible. Thus I might pay my taxes and urge others to do the same out of a sense of solidarity (acting jointly with others) even if the ultimate purpose of this action is for me to enjoy a level of wealth and comfort that I will consume largely privately. Regardless of whether the goal to be attained is private or public in this sense, the reasons that individuals can have for acting together can be quite diverse. To list some examples:

- (i) individuals act together out of selfish calculations of personal gain; such calculations do not necessarily preclude reliable long-term commitments;
- (ii) individuals will act together, because such action is traditionally sanctioned—“it is the done thing”, as they say;
- (iii) individuals will act together to express a commitment to an ideational goal or shared identity; and
- (iv) individuals act together, because past experience has taught them to trust each other, that by acting together they are most likely to secure their own private goals.

This abbreviated typology of the reasons individuals might have for acting together with others serves to underscore the wide range of actions that might be undertaken out of solidarity with others. Many of these actions do not need to rely upon a sense of moral duty to others, but flow out of self-interested, traditional, expressive, and learned patterns of behavior.

With the exception of self-interested motivations for solidaristic action, these other three forms of solidaristic action flourish in the context of durable social and political institutions.

3. Solidarity, Security, and European Integration

In the modern world, these social and political institutions tend to be embedded in the modern nation-State. Much of our action from childhood, through early and secondary education, job-training, occupational practices, welfare systems, democratic representation are given a distinctive stamp by the laws and customs of the nation-State. Through growing-up in a particular nation-State, the individual learns what it means to act according to tradition; what it means to trust, who and why. All of this is to say that the nation-State, its institutions and quotidian way of life define an educational culture that makes possible the forms of solidarity described above.

The omnipresence of the European nation-State complicates efforts to prescribe solidarity at the European level. The root of this problem lies in two different facts. First, the Europe of nation-States – i.e. a Europe divided into twenty eight or more national States – is no Hobbesian state of nature. True, there are problems, but *omnium bellum contra omnes* is not one of them. Nor is a Europe of nation-States as dysfunctional as was America under the Articles of Confederation. In short, there is no obvious need to abolish Europe's nation-States, to transfer sovereignty to a Federal European Superstate. The second fact is that the justifications offered in support of European integration in the period 1957 until 2005 have lost much of their appeal. The central justification involved a story about warfare. Europeans needed to integrate, so they were told, to escape the history of warfare that had disfigured their continent in the first half of the twentieth century. To a younger generation of Europeans, this story has lost much of its persuasive power. Europe is in this respect a victim of its own success.

Now it might be objected that the European Union has surmounted these problems and is already an established feature of the European social and political landscape. But even while this is true, the fact remains that solidaristic action is more robust at the national than the European level. Furthermore, there always remains the danger that European integration might serve only to destroy the national institutions that sustain solidarity without replacing them with comparable institutions at the European level. In the worst of all possible worlds, Europeans would find themselves in disintegrated national States without an integrated Europe (Bartolini 2005).

In some respects, the EMU has produced this worst possible world. This is certainly how many Greeks would describe their plight. The Bailout packages of 2010, 2012, and 2015 have required them to cut social services and increase taxes. But since the EMU lacks a fiscal and transfer union, the Greeks now lack the supporting mechanisms such as health care and unemployment benefits needed to sustain them. Their only hope, so Stiglitz and others have argued, is to call upon European solidarity to establish the fiscal and transfer unions that sustain Americans or Canadians in their federal political unions.

For Stiglitz, as we have seen, solidarity is a moral duty owed by the richer European States to the poorer States. It is not obvious, however, that this duty can justify the establishment of a European-wide fiscal and transfer union, particularly when we bear in mind the high level of transfers that might be necessary between rich and poor States. A more plausible, if somewhat less direct, justification for a European fiscal and transfer union appeals to the need of individual Europeans for security (Morgan 2007).

While European nation-States are unlikely to go to war with each other, individual Europeans still face threats to their own personal security from the wider world. Europe is not immune to great power conflict (United States, Russia, China); nor is Europe free from the consequences of failed States on its borders. For much of the post-war period, the European nation-States have provided for the security of their individual citizens by way of an asymmetrical alliance with the United States (formalized as the North Atlantic Treaty Organization). This alliance is rapidly losing effectiveness, because the United States is growing increasingly unwilling

to support Europe, especially at a time when the US is preoccupied with Asia and the rise of China. Europe faces the challenge of defending itself, a challenge it is ill-equipped to meet, partly because of the low-level of its military expenditure but mainly because its military forces are not integrated into a single European wide force structure. Absent military integration Europe will remain weak and dependent on foreign powers: and absent a great deal more political integration, it is difficult to conceive of military integration. This is the strongest justification for the shift from a Europe of nation-States to a European Union. A European fiscal and transfer union must be seen in the context of this wider aim. If Europeans are to be secure – free from foreign military threats and asymmetrical dependence of foreign powers – Europe needs much greater political integration. This does not mean the immediate abolition of Europe’s national States, which sustain much of our capacity for solidarity. But it does require a lot more institution-building at the European level. At the moment, European economic integration has outrun European social and political integration. The EU is a target of resentment by Eurosceptics partly for this reason. Europe needs to build support by delivering more social and economic benefits to ordinary citizens. Perhaps the most useful contribution here would be to establish a European unemployment benefit system. If the principal weakness of the EMU is its tendency to reward efficient high-export economies (like Germany) at the expense of inefficient low-export economies (like Greece) coupled with the impossibility of devaluation for the inefficient economy, then an unemployment benefit system seems a useful corrective. Indeed, the great merit of such a system is that it would act as an automatic stabilizer, transferring money to those regions in Europe where unemployment is high. A well-designed system would transfer money while avoiding problems of moral hazard (Claeys 2014).

We need not consider in any detail how such an unemployment system might work. The important point to recognize is that such a system does not depend for its justification on any appeal to solidarity as a moral duty. Rather this system rests upon the desire of individual Europeans to live in a secure and prosperous world. The individual can support a fiscal and transfer union, of which an unemployment benefit system is a component, out of prudential solidarity with others. The individual can support new European-wide programs, if he or she can be persuaded such programs contribute to such basic components of individual well-being as security and wealth. This is the ground upon which appeals to European solidarity need to be pitched. If Europeans are to support Greeks with new social programs, they need to be convinced that these programs are good not merely for Greeks but for all individual Europeans who seek a secure and prosperous Europe.

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