Solidarity in an Enlarged European Union: Political Constraints and Options

Martin Brusis

Introduction
While the enlargement of the European Union has been explained as an act of solidarity with Central and Eastern Europe, its consequences now challenge the institutional framework of solidarity in the Union. This paper is a reflection about these challenges and the policy options to facilitate solidarity in an enlarged EU.

Solidarity denotes a commitment for support that is guided by the norm of "generalized reciprocity", implying that an actor does not make her or his support contingent upon the expectation of immediate or equivalent return. Solidarity can be driven by rationalist and/or altruist motives. The context of the enlarged European Union suggests three notions of solidarity.

First, solidarity is institutionalized among EU member states. This notion is not only embodied in cohesion policies or in the transfers of the EU budget. One can also see the Internal Market and its constitutive commitment of granting the four freedoms of goods, services, capital and movement to all member states as an expression of solidarity.

Second, solidarity refers to a commitment between specific groups of member states, for example between states whose contributions to the EU budget exceed their transfers from the various EU spending policies ("net contributors") and states with surplus revenues ("net beneficiaries"). Enlargement has created the "old" and the "new" member states as distinct groups and is frequently seen as an act of solidarity performed by old member states in favour of new member states.

Third, solidarity can take an interpersonal meaning as a dimension of European citizenship. The Draft Constitutional Treaty includes this meaning as it considers interpersonal solidarity as the basis of the values on which the EU is founded and as a common element of European society (Art. I-2). In contrast, the Treaty on the European Communities in its Nice version only referred to solidarity among member states (Art. 2), and the Treaty on the European Union mentioned solidarity in relation to member states and their peoples (Art. 1).

Traditionally, interpersonal solidarity has been institutionalized in domestic welfare state arrangements. Globalization and individualization trends have reshaped the economic and socio-cultural basis of the welfare state. The completion and deepening of Europe’s Internal Market has reduced the ability of national welfare states to maintain boundaries of eligibility and access.

A transnational solidarity among EU citizens from different member states is usually considered to be limited and much weaker than interpersonal solidarity within nation states since the EU, in contrast with nation states, lacks an underlying common identity.

1 Generalized reciprocity can be defined as a “continuing relationship of exchange that is at any given time unrequited or imbalanced, but that involves mutual expectations that a benefit granted now should be repaid in the future.” (Putnam 1993, 172).
The absence of nation-like ties can explain (1) why the scope of inter-state solidarity among EU member states is restricted (cf. e.g. Hartwig and Nicolaïdis 2004) and (2) why EU arrangements for redistribution among member states are primarily legitimized by efficiency reasons.

Common EU institutions may, as advocates of further integration assume, cultivate inter-state solidarity and thus will, in the long term, nurture an interpersonal solidarity constitutive of a European demos. This effect is supposed to materialize through the experience of received support, increasing the commitment of beneficiaries to provide reciprocal support. The underlying logic of a cooperative game is, however, susceptible to free riding. Assuming this latter logic, critics argue that EU schemes of inter-state solidarity are exploited by beneficiaries or create aid dependency traps. Such effects would destroy the basis of interpersonal solidarity and limit inter-state solidarity. Notably, both logics are based upon assumed interactions between inter-state and interpersonal solidarity.

Enlargement constitutes an act of inter-state solidarity that could, in principle, contribute to transnational interpersonal solidarity as it demonstrates that East and West European states and citizens are part of one community. However, the dominant view is that enlargement has the opposite effect. It shakes not only the carefully balanced EU policy schemes of inter-state solidarity but it also affects interpersonal solidarity arrangements of member states directly. I first discuss the effects on national solidarity arrangements and find that they need to be taken serious despite a limited and ambivalent empirical evidence. In a second step, I ask how institutional reforms and policies on the EU level could encourage solidarity.

Enlargement and National Solidarity Arrangements

In Western Europe, public debate on the consequences of EU enlargement is dominated by three key issues: the loss of jobs to the new member states, tax competition and labour migration. The effects of these processes are more ambiguous than often believed.

First, it is assumed that companies move their production facilities to new member states in order to profit from lower labour costs (cf. e.g. Alber and Standing 2000). This leads to a loss of jobs in high-wage countries such as Germany and increases unemployment. This causal effect is plausible in a micro-economic perspective but the causality is less clear in the macro-economic dimension. Germany, for example, has regularly had a positive balance of trade with Central and Eastern Europe. These trade surpluses are likely to have preserved and created more jobs than the number of jobs lost to Central and Eastern Europe. Germany’s balance of direct investments with the accession countries has been only 0.2% of its GDP in recent years, and its balance was zero in 2003. This seems to indicate that there has so far not been a substantial transfer of the capital stock.  

Second, it can be shown that new member states impose substantially lower corporate taxes. Thus, one can argue that they attract investment from old member states and force the latter into a tax-cutting race to the bottom that erodes the revenue basis of their welfare states. Again, this assumed causal effect rests on weak empirical evidence (Bönker 2003, 532). The average share of taxes (including obligatory social security contributions) in percent of GDP in OECD countries decreased from 37.2 (2000) to 36.3 % (2002), but

---

2 DIW Wochenbericht 17/2004, 22.4.04.
seemed to remain constant in 2003. Revenues from corporate taxes have constantly amounted to approximately three per cent of GDP, and the reduction of tax exemptions has increased corporate tax revenues. Countries that are more integrated into the World market raise higher capital taxes than less integrated countries (Genschel 2002).

Third, it is assumed that labour migrants from the new EU member states exacerbate competition on the labour market and reduce the chances of job seekers from old member states. This effect and its related socioeconomic conflict potential is taken very seriously by the old member states, since most of them insisted on a phased implementation of the freedom of movement in the accession negotiations (Kvist 2004). But on balance, labour migration is likely to exert positive effects on welfare states.

From the viewpoint of solidarity arrangements, the effects of migration on redistribution profiles of welfare regimes may be more important. It has been argued that continental European and Scandinavian welfare regimes with a relatively large scope of redistribution are particularly challenged by migration since they would attract low-income groups, i.e. the potential net beneficiaries of redistributive policies (Sinn and Ochel 2003). Migration guided by prospective welfare benefits would induce these welfare regimes to reduce transfers to low-income groups.

One may well doubt whether the generosity of welfare benefits de facto constitutes an important motive of immigration. To reduce the scope of redistribution, however, the public perception of a ‘welfare tourism’ might be sufficient (Kvist 2004). Welfare tourism has become an issue on the political agenda not only due to populist campaigning, but also because the European Court of Justice has rendered the boundaries of national welfare states more permeable in recent years. The Court’s jurisdiction on the freedom of services and on non-discrimination has eroded the capacity of member states to define social citizenship autonomously. A new EU directive has further strengthened the rights of intra- EU migrants, granting them a right of residence for up to five years if they have comprehensive health insurance coverage and sufficient resources not to become a burden on the social assistance system of the host member state. After this period, they are entitled to reside permanently even if they do not have sufficient resources. In effect, national welfare states can no longer limit social services and benefits to their citizens, they can no longer limit the consumption of benefits to their territory, and they can no longer determine the social entitlements of immigrants exclusively (Leibfried and Pierson 2000).

Stephan Leibfried and Paul Pierson have argued that this “(...) seems to prioritize two polarized trajectories: core welfare state components (redistribution, pay-as-you-go,....) remain ‘intervention-free’ to the extent that they are ‘pure’ welfare; but the more these functions are provided by market-based services, the more the welfare state (in whole or in parts) tilts towards the sphere of ‘economic action’, thus becoming subject to market regimes. Thereby the welfare state could gradually be submerged in a single European ‘security’ market” (Leibfried and Pierson 2000, 283).

---

3 Frankfurter Allgemeine Zeitung, 21.10.04.
4 Information given by an EU Commission official, Frankfurter Allgemeine Zeitung, 1.6.04
Policy Options for EU Solidarity Arrangements

Thus, it seems to be the combination of enlargement with deeper economic integration that challenges domestic solidarity arrangements and may further erode the popular, permissive consensus on which European integration has been based. Given this challenge, I argue that there are three basic strategies of institutional reform: (1) positive integration, i.e. agreeing common social standards; (2) limiting negative integration, i.e. protecting more generous national solidarity arrangements against regulatory competition within the EU; (3) supporting the upward convergence of new member states. All three strategies focus on the inter-state dimension of solidarity.

Positive Integration

Enlargement but also the more general trends of globalization and demographic ageing have confronted EU member states with similar problems and have strengthened the basis of common action irrespective of the national welfare regimes and cultures. These developments have led EU member states to agree on more social cohesion as a common aim and part of a knowledge-based, competitive economy. The so-called Lisbon process, which has meanwhile been extended from employment policy to pension systems and social inclusion, documents the emergence of an EU-wide consensus concerning the goals of an activating and modernizing social policy.

The key instrument of the Lisbon process is the Open Method of Coordination, a mutual and voluntary process of learning and exchanging best practice. As part of this process, EU member states agree on common objectives, indicators and guidelines. Their implementation is regularly monitored and evaluated by the Commission and the member states (Borrás and Jacobsson 2004; Schulte 2002).

A recent review by a “High Level Group” of independent public figures appointed by the Commission has, however, noted that “[t]he open method of coordination has fallen far short of expectations. If Member States do not enter the spirit of mutual benchmarking, little or nothing happens.” (42) Substantially wider income disparities among member states in an enlarged EU put into question the two implicit success conditions of the Open Method of Coordination: namely that member states have sufficient administrative and financial capacities to adopt successful policies from their peers and that member states are interested in adopting successful policies even if they may, in the short term, be detrimental to their competitiveness (Vobruba 2003).

Despite the broad consensus expressed in the Lisbon strategy, there has been only limited EU discretion in formulating social policy rules and this discretion has referred more to areas close to the Internal Market than to the core areas of the welfare state. In this respect, the draft Constitutional Treaty leaves an ambivalent impression (Brusis forthcoming). Truly, social values, goals and principles range more prominently among the values and goals of the EU. Solidarity, justice and non-discrimination have been added to the values of the EU. But when the promoters of a social Europe tried to operational-

---

ize these general terms with respect to competences and procedures of the EU, many government representatives and in particular the British government began to block.

The biggest deficiency of the Constitutional Treaty is that the Convention and the ensuing Intergovernmental Conference failed to define the EU’s social policy powers (Art. III-210) more precisely so that the qualified majority decision rule could have been applied to the entire article. The biggest success will perhaps be the constitutionalization of the Charter of Fundamental Rights with its solidarity title, although the Charter neither establishes new powers nor new tasks for the EU. It could become a success because the creation of such a reference basis in the Treaty could enable the European Court of Justice to further develop the social dimension of European integration in its jurisdiction.

Limiting negative integration

Welfare-induced migration and tax competition can be seen as processes that remove barriers to market-based competition and thus promote ‘negative integration’. They expose member states to adaptation pressures leading to the more uniform, dualistic welfare regime described by Leibfried and Pearson. While EU citizens and member states are the main drivers in these processes, the Commission and the European Court of Justice have contributed to the removal of market barriers by their excessive application of EU competition rules. In the framework of the state aid regime, the Commission and the Court decide whether public services can be classified as serving a “general economic interest” and are eligible for public subsidization. This prerogative can be used to liberalize the protected public welfare sectors retained by continental European and Scandinavian member states as part of their relatively inclusive and comprehensive welfare regimes. In effect, this would exert a downsizing pressure on such welfare regimes which represent legitimate choices of citizens and carefully balanced compromises among social interests (Scharpf 2002).

I confine myself to discussing strategies aimed at limiting the excessive application of EU competition law and at preventing ruinous tax competition.

Excessive competition policy: member states have urged to limit the Commission’s discretion over state aid policies of the member states. They have seen the Commission’s control of state aid as an infringement of their sovereign right of determining the size of their public tasks. The draft Constitutional Treaty has rebalanced this conflict between state aid control and public services. The Treaty contains a horizontal clause on the social values and goals of the EU which enables the European Court of Justice to take social norms into account when it decides about conflicts between EU state aid rules and services of general economic interest (Vandenbroucke 2002). In addition, the Treaty establishes a new legislative competence to establish principles and conditions for services of general economic interest (Art. III-122 ECT). Thus, member states seeking to limit the EU’s influence in this field have to form a qualified majority coalition with other member states or to rely on the European Court of Justice.

Tax competition: the German and the French government decided to ask the Commission to propose a homogenized basis for corporate taxes.\(^7\) In a second step, Germany and France intended to introduce a fix band width for corporate taxes, similar to the

\(^7\) Frankfurter Allgemeine Zeitung,, 12 March 2004.
band width for VAT and energy taxes. A harmonization of direct taxes, however, can only be decided unanimously. Such a decision appears highly unlikely as several member states have strictly refused any moves towards a tax harmonization. Therefore the Commission, Germany and France considered beginning an enhanced cooperation on tax harmonization. According to the Nice Treaty, initiating an enhanced cooperation does no longer require unanimity. This strategy makes sense with respect to a unified tax basis, since it yields obvious savings for companies which no longer have to adapt to 25 different national taxation regimes. If a group of member states agreed on unified tax rates in the format of an enhanced cooperation, however, they would lack incentives or sanctions to induce neighbouring low-tax countries to adjust their rates. Thus, this form of inter-state solidarity appears to be susceptible to the free riding problem mentioned above.

**Supporting upward convergence**

Redistributive social policy has traditionally been an exclusive domain of the member states. Reflecting this predisposition, the EU’s large spending programs – the Common Agricultural Policy (CAP) and the cohesion policy – are officially legitimized with their market-stabilizing and allocative efficiency effects, not as a compensatory redistribution. The EU’s financial instruments for supporting the convergence of its poorer member states are substantially smaller than the domestic resources used by member states to support cohesion and convergence. Nevertheless, they amount to four percent of gross national income in cohesion countries and have contributed to accelerating socio-economic convergence.8

Recent reforms of the EU’s two major spending policies, however, indicate a strengthening of redistributive orientations and rationales. The Commission wants to align the cohesion policy with the objectives of the Lisbon process, thus relating it to the productivist concept of social policy underlying the Lisbon strategy.9 This broadly agreed concept could provide a new rationale for cohesion policy spending, particularly if cohesion policy is attacked for its limited effectiveness in terms of improved allocative efficiency and convergence. Critics of the Commission’s approach have argued that this linkage would lead to a gradual communitarization of social and employment policies. They insist that these core policies of the Lisbon process should remain the prerogative of the member states, and that the EU should not be equipped with major redistributive instruments in these policy areas.

The reform of the CAP strengthens the redistributive orientation of the CAP by decoupling subsidies from agricultural market price developments. Subsidies are no dependent on the This reform path transforms the CAP into a redistributive policy based upon a rationale of interpersonal solidarity. In this respect, there is a clear tendency towards an EU social policy with a redistributive dimension.

There have also been proposals to establish an EU-wide basic income as a visible act of interpersonal solidarity within the EU (Schmitter and Bauer 2001). The “Strauss-Kahn Group” of advisors to the president of the Commission has suggested to create, inter

---

9 See, for example, the Commission proposal on the new EU budget structure reflecting the Lisbon goals (COM (2004) 101 of 10 February 2004).
alia, a European minimum income as an identifiable element of a European welfare state.10 But these proposals have so far not been seriously considered by political actors in the EU.

Rather, the political debate in net contributor countries is dominated by proposals for a more far-reaching nationalization of EU expenditure policies. It was, for example, suggested to replace the EU cohesion policy by a horizontal fiscal equalization scheme through which richer member states allocate transfers directly to the poorer member states (Heinemann 2003; Maurer, Schroff, and Ehl 2004, 14). Such a scheme would expose inter-state transfers to public scrutiny and pose substantially higher burdens on contributor and recipient governments to legitimize their spending. In the Agenda 2007 negotiations, the main net contributor states (Germany, United Kingdom, Netherlands, France, Finnnland, Sweden and Austria) have advocated limiting the own resources ceiling to one percent of the EU’s gross national income. This policy attaches less priority to a faster upward convergence than to budgetary restraint and national spending policies.

Conclusion

The discussion of institutional reform strategies for the EU system has shown that the policy constraints tend to outweigh the options. Strategies to agree common standards are limited by the increasing income disparity among member states and the unanimity requirements of decision-making (Scharpf 2002). Strategies against regulatory competition require a qualified majority, are susceptible to free riding or contingent upon a judgement of the European Court of Justice. Redistributive strategies to support the upward convergence of new member states presuppose transfers among member states and the support of the (prospective) net contributors.

Inter-state solidarity arrangements in the EU represent the extent of solidarity that member state governments are willing and able to grant in view of their perceived domestic limits of public acceptance and their perceived opportunity costs associated with less solidarity. Enlargement limits the scope of policy options to develop inter-state solidarity arrangements, particularly because pan-European interests are weakly institutionalized in the political process. In addition, solidarity-generating policies can not rely on grand bargains such as the Internal Market or the Economic and Monetary Union that induced member states in previous negotiations to accept commitments without expecting a guaranteed immediate or equivalent benefit. The weakening of inter-state solidarity in the EU is likely to contribute to weaker bonds of interpersonal solidarity among EU citizens that may in turn facilitate the dismantling of inter-state solidarity arrangements.

One way to strengthen the solidarity-generating arrangements in the EU is to disclose the interrelations among the strategies and policy areas highlighted here. If politicians from the new member states view their entitlement to EU cohesion support as separated from any harmonization of taxes, they ignore the indirect and perceptual effects of enlargement. A more intense competition does not only lead to an erosion of revenues in contributor countries, but also to an erosion of interpersonal solidarity arrangements. If, on the other hand, leading German politicians argue that the new EU member states

should not abuse EU cohesion transfers to engage in tax dumping, then this claim can be too easily identified as particularistic. Their linkage between cohesion support and taxation takes no account of the fact that the richer EU member states want to curtail the volume of the EU budget, have already reserved a large share of EU spending for the Common Agricultural Policy; and can mobilize larger fiscal resources to grant subsidies that may undermine the convergence effects of the EU’s cohesion policy.

A more justifiable approach would have to link the regulation of tax competition with state aid rules, EU cohesion support and national redistributive policies in a flexible, income-dependent framework. Member states with (per capita gross) national incomes below the EU average would be entitled to improve their comparative advantages by reducing their tax burden and public spending to certain minimum levels, subsidizing their growth industries and benefiting from EU cohesion support. Once a member state improves its relative income position, it would subsequently lose access to the cohesion and structural funds, be subject to stricter state aid rules and would have to sustain an increasing level of tax revenues and social protection spending. Such an integrated approach would be based on normatively defensible principles of fairness and solidarity. It could generate a mutually reinforcing dynamic of inter-state and interpersonal solidarity.

References


11 Frankfurter Allgemeine Zeitung, 19 April 2004


