

The price of solidarity

For years Germany and the Netherlands have resisted any idea that the EU should borrow money together and spend it in the poorer areas of its territory. They wanted a currency union but not a benefits union, a monetary union but not a transfer union.

The dollar area or the sterling area are currency unions backed by self governing states. In each there are large transfers of money from the richer parts of the area to the poorer parts. These take the form of grants to local government from central taxation, grants to individuals through the benefits system based on need, and common taxation raising more from the places where incomes are higher. As a city or county that suffers relatively low incomes cannot devalue against the richer places, it needs the grants to get its living standards closer to the national average.

Last week Germany and France came to an Agreement. They propose a Euro 500bn fund for the EU, to spend on recovery from the pandemic. The money will be borrowed by the EU as a whole, where each state stands behind the loans in proportion to the size of its economy. If the EU decides to spend proportionately more in the distressed areas of its territory, then it would have some mild element of redistribution about it.

Time will tell whether this is the first step on the full road to a transfer union, or whether this is a one off gesture soon to be watered down by delays in getting the money and by an approach that all states should have prizes in the lottery draw for the funds.

I have always thought those in the EU who argue they need a transfer union to complete their monetary union are right. The problem is the true price of solidarity and more equal standards will be very high for German and Dutch taxpayers. Is this a saleable proposition to them?