

# Genuine solidarity: coffee pot or cappuccino?

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Talking across the boundaries of academic communities is not that different from talking across the boundaries of linguistic communities. You need to find a common language, identify the really controversial points, listen carefully to some unfamiliar arguments and then determine whether you need to change the prejudices with which you entered the dialogue.

In discussing as a non-economist this characteristically lucid and enlightening piece by Jacques Drèze, I shall therefore start with a little bit of conceptual clarification, then reformulate in this light the central question raised in the piece and then concentrate on an aspect of that question which is — but, I shall argue, should not have been — set aside in the bulk of Jacques Drèze’s contribution.

## *Three distinctions rather than two*

Three distinctions play a crucial role in the framing of Jacques Drèze’s paper. First, there is the distinction between static and dynamic solidarity. As I understand it, *static solidarity* is backward-looking. It reflects current entitlements and obligations and the derived pattern of transfers, as defined by past agreements, for example those incorporated in the Belgian federal state’s social security and taxation systems. *Dynamic solidarity*, instead, is forward-looking. It is defined by a new deal that will define future entitlements and obligations, possibly entirely devolved to a more decentralized level of government, and the corresponding pattern of transfers.

Secondly, there is the distinction between single-tier and two-tier solidarity. Under a *single-tier* (or single-stage) regime, interpersonal solidarity crosses the borders of regional entities and is organized entirely at the federal level. Under a *two-tier* (or two-stage) regime, interpersonal solidarity is confined to the borders of each region, while inter-regional solidarity operates at the higher level level. The regionalization of solidarity can therefore be understood as a shift from single-tier to two-tier solidarity. Mixed regimes, in which part of the solidarity system remains single-tiered and part of it becomes two-tiered are also conceivable.

Thirdly and most fundamentally, there is the distinction between *ex-ante* (or genuine) *solidarity* and sheer *ex-post solidarity*. While the former redistributes, the latter only insures. While the former needs to rely on a “luck-egalitarian” conception of fairness, the latter need not appeal to more than self-interested efficient risk sharing. In our social security systems, genuinely redistributive social solidarity and compulsory social insurance are inextricably mixed, for example in the shape of earnings-related retirement pensions or unemployment benefits that involve both a floor and a ceiling while being funded in proportion to earnings. There may be good reasons for not separating them institutionally (see Baldwin 1990, Schokkaert & Van Parijs 2003). It is nonetheless crucially important to distinguish them conceptually (see Van Parijs 1996).

All three distinctions are present in Jacques Drèze’s papers, but the third one, it seems is being collapsed into the first one. Dynamic efficiency, he writes (2.), “concerns specific arrangements regarding future risk-sharing”, and arrangements regarding future risk sharing are “a matter of efficiency, not of redistribution” and hence raise no “issue of ‘fairness’”. But surely, there can and (in my view) must also be arrangements concerning the future, and

hence “dynamic solidarity” as I understand it, that reach beyond sheer insurance. Consequently, it cannot be asserted that “the issue of ‘fairness’ under regionalization is entirely contained in the static definition of the initial conditions”, at least if these are understood, as they clearly are in the example of a shift from a federal to a regional pension system (2.), by reference to a system of entitlements and responsibilities that will gradually whither away as the new system takes over.

One could of course decide — as a matter of policy, not of semantics — that dynamic efficiency should go no further than ex-post solidarity. Once this is decided, regionalization entails that inter-regional solidarity transfers can only be triggered by deviation from “expected paths of real regional income per capita” (8.), and not by differences in the current level of per capita regional income or in what the latter can be expected to be in the future in the light of each region’s current assets and handicaps. I am sure that Jacques Drèze does not believe that, in case of regionalization, inter-regional solidarity should be so confined, and I therefore suspect that my imputing this view to his paper rests on my misunderstanding his first distinction. Whatever the terminology adopted, however, my key point that when talking about forward-looking solidarity economists cannot cosily barricade themselves in the discussion of efficient risk sharing. They cannot escape the issue of ex ante redistribution, and hence of distributive fairness. As a philosopher, I shall not complain. What I shall try to do in the following pages is supplement his discussion by exploring the crucial ex ante redistributive side of forward-looking solidarity, which he chose to bracket out.

#### *The question widened: subsidiarity and ex ante solidarity*

After this conceptual gymnastics by way of warming up, I can now state as follows what is or rather (in my view) should be the paper’s central question: in a country like ours, must forward-looking solidarity (*both* ex-post and ex-ante) be single-tiered or two-tiered?

If average risk aversion is the same in the various regions, single-tier and two-tier solidarity could, under some assumptions such as the absence of inter-regional externalities (7.b), generate the same distribution of post-transfer income (4.). For various reasons hinted at by Jacques Drèze, the principle of subsidiarity pulls in the direction of two-tiered (or indeed multi-tiered) solidarity: a more decentralized set up can better track local features (among them different average degrees of risk tolerance) and make both public officials and the population more accountable. But the *subsidiarity principle* is simply a presumption in favour of the lowest level of government compatible with the efficient discharging of a particular public responsibility. It can be reversed by the weight of countervailing factors such as significant economies of scale or externalities. If such weighty factors exist in matters of (ex post or ex ante) solidarity, then there is a case for maintaining the institutions of solidarity, or some of them, at the federal level in Belgium, and for lifting them to the supra-national level in Europe.

As Jacques Drèze repeatedly emphasizes (1.,7.), which of the two opposing sets of considerations carries a greater weight, and hence whether a single-tier or a two-tier regime is to be preferred once subsidiarity is taken on board, depends on empirical facts, some of which are simply not known. But granted that the “dynamic solidarity” to be conceived and implemented must cover genuine or ex-ante solidarity no less than sheer ex-post solidarity, the answer also hinges on value judgements less trivial than what is encapsulated in the desirability of Pareto improvements. More specifically, one needs to specify, be it roughly, a criterion of distributive justice and the scale at which it is supposed to operate.

#### *Justice between peoples versus justice across peoples*

For some, from Michael Walzer (1982) or John Rawls (1999) to Bart De Wever (2008), there is a fundamental difference between what social justice requires by way of transfers

between individual people within a particular national community and what justice requires by way of transfers between distinct national communities. For example, whereas Rawls's conception of social justice, more specifically his *difference principle*, requires that the worst off class of a society should be made as well off as is sustainable, his conception of international justice requires no more than (1) fair cooperation for mutual advantage and (2) residual assistance by affluent societies to "burdened" societies, i.e. societies so destitute that they cannot sustain just domestic institutions.

In such a perspective, a two-tier regime is self-evident and is by no means supposed to yield an outcome approximately equivalent to a single-tier solidarity regime. Whereas domestic distributive justice, as specified for example by the difference principle, demands far more than mutually beneficial insurance, international distributive justice hardly reaches beyond efficient risk sharing, indeed stops precisely there among societies that are as far from being "burdened" as are most member-states of the Europe Union and as are no doubt Flanders and Wallonia too.

According to others, however, this dualistic conception of justice no longer makes sense in today's world. Distributive justice must now be thought about straight away at the global level, between all individual members, present and future, of the human species. The states and the national communities they shelter and help create may be valuable in all sorts of ways, but they have no fundamental ethical status. They do not form an intangible moral landscape within which the issue of justice needs to be framed. They are merely modifiable instruments to be shaped and empowered as best fits the ideal of global justice. In a world that is ever more characterized by transnational migration and communication, by global economic interdependence and local cultural diversity, this second approach makes far more sense than the first one. If we want to think about solidarity for the 21st century rather than the 20<sup>th</sup> or the 19<sup>th</sup>, the question of global justice, in a sense no longer reducible to justice between nations, must be our starting point. I happen to share this second perspective. This is not the place to motivate it more than I just did. Here, I shall simply take it for granted. (See Rawls & Van Parijs 2004 and Van Parijs 2007 for a less sketchy discussion.)

### ***Why genuine solidarity should be two-tiered***

Does the adoption of this second perspective, and hence the rejection of a dualistic conception of justice, entail that one should also resolutely reject moving from a single-tier to a two-tier organization of solidarity? Not necessarily. It is of course true that for the sake of ex-ante-redistributive solidarity (in the perspective adopted here, in contrast to the dualistic perspective rejected above) just as for solidarity as sheer insurance, there is a strong presumption in favour of making the population covered as large as possible. If all that is at stake is insurance without ex ante redistribution, the larger the pool of people insured, the better insured we can be. And if justice requires equalizing people's opportunities worldwide, the less remote we are from including the whole of mankind in our solidarity institutions, the less unjust our world will be. But the question is not about the size of the population to be covered, but about whether solidarity between all members of this population should ideally be organized in a single tier or rather in two (or several nested) tiers, say through international and/or inter-regional transfers coupled with inter-individual solidarity organized at a more decentralized level.

Some considerations adduced by Jacques Drèze in connection with efficient risk-sharing happily extend to ex-ante solidarity. It is not only the degree of risk tolerance that may differ, on average, from one region or country to another, but also the views about how the risks to be covered should be characterized and about the way in which and extent to which they should be covered. Between the majority views in Flanders and Wallonia, for example, there may be some disagreements about whether, under what conditions and to what extent social solidarity should cover infertility treatment, so-called therapeutic harassment or organ transplant to the elderly. If this is the case, it will not be because of deep cultural difference

rooted in some features of their respective languages, but simply because distinct native languages tend to be associated with exposure to distinct medias and hence to distinct patterns of information and argument. While being in principle fully consistent with the same level of country-wide solidarity, two-tier solidarity in health care would make it possible to track such differences in solidarity-relevant “tastes” more finely than a one-tier regime could (see Van Parijs 2004).

Moreover, two-tier solidarity offers a way of tracking collective moral hazard unavailable to single-track solidarity. This is far from being trivial in a context in which decentralized entities have been endowed with powers whose exercise affects the risks to be covered by solidarity on a scale comprising several of them. For example, with a given level of GDP per capita, one regional government may exercise its educational competences in such a way that the incidence of poverty is lower, or it may manage town planning and housing policies in such a way that people are less isolated and hence mental illness less frequent, or it may develop public transport and road safety policies that result in less injuries from car accidents. Whereas single-tier solidarity would automatically “reward” the regions that settle for lousy policies with increased net transfers, two-tier solidarity would make it possible for the more virtuous or clever governments to reap the benefits of their policies, thereby providing better incentives.

This provides a strong incentive-based case for a two-tier (or multi-tier) solidarity regime in those cases in which a legitimate concern for subsidiarity has led to shifting to regional authorities — as is the case in Belgium — or to maintaining at the level of national authorities — as is the case in the EU — competences with a great potential impact on the incidence of risks. Of course, at the collective no less than the individual level, we face the standard question of whether higher risks and lower incomes can really be ascribed, whether directly or indirectly, to the policies adopted rather than to exogenous factors. In addition, even in those cases in which there is no doubt about the divergence between regional performances being caused by divergence between regional policies, it is not obviously fair to make the whole population of the region, let alone a particularly vulnerable subset of it, pay for sloppy policies which they had no role in choosing. Some of them may have voted systematically at every single election against the government that implemented them. One must therefore be particularly weary of blaming the population of a particular region for the latter’s inferior performance or of asserting self-righteously that it “deserves” only a lower level of social benefits. Yet, it remains the case that a two-tier regime offers ways of “responsabilizing” autonomous regional authorities which are not available under a single-tier regime.

### *Why genuine solidarity should not be two-tiered*

Greater sensitiveness to local preferences and circumstances and better incentives for decision-makers: the case for a two-tier regime seems overwhelming. And yet it is far from decisive because of a number of considerations that support a unified regime, some of which hold very generally while some hold with particular force in the Belgian case. Among the former, there is, most obviously, the possibility of significant economies of scale in the organization of a solidarity regime. To run an efficient health care system, in particular, the indispensable constant reassessment and readjustment of what needs to be covered and how requires a considerable level of expensive expertise whose duplication or triplication would be wasteful (see, for example, Closon, Marchand & Van Parijs 1997).

A more subtle general argument against a two-tier regime is that it encourages a perception of social transfers that fits most easily into the dualistic conception of justice which I rejected above. The frequently uttered claim that shifting to such a two-tier regime for all aspects of Belgium’s social security would enhance the “transparency” of the transfers only makes sense on the dualistic assumption that transfers across peoples and transfers within a particular people are of a fundamentally different ethical nature. If they are not, as I have sketchily

argued is the case, a two-tier regime is not more but less “transparent” and can only be justified instrumentally as a way of achieving finer calibration or of creating more efficient incentives. Hence, precisely because of the misleading “transparency” it involves, a two-tier regime can hinder the political sustainability of generous trans-regional solidarity, which can too easily be assimilated to charity dispensed at the discretion of the “donor” government and under the conditions it fancies imposing, in sharp contrast to the distributive fairness that governs inter-personal transfers.

The main impediment to Belgium’s solidarity system moving significantly in a two-tier direction, however, is independent of these two general arguments. It relates specifically to situations such as the Belgian one where the second tier is pitched at the level of entities between which there is considerable level of actual and potential mobility, whether in the form of migration or of commuting. A tiny central area comprising less than 2% of Belgium’s territory produces about one third of the country’s wealth and is shared by the three regions. It consists in the region of Brussels-Capital and the immediately adjacent richest part of the richest province of each of the other two regions. If mobility in and out of this tiny territory and between its three regional components could be ignored, inter-regional mobility would provide no major obstacle to the regional devolution of inter-personal solidarity. But given the weight of this tiny area in the country’s economy, it obviously cannot. Indeed, it provides the most formidable obstacle to a significant move to a two-tier regime. Why?

A first challenge arises from the magnitude of the commuting between Brussels and the other two regions. The close positive association between GDP per capita and primary income per capita and the close negative association between level of employment and rate or unemployment, both routinely taken for granted in the reasoning so far, no longer hold. The Belgian region which produces by far the highest GDP per capita is also the region whose taxable income per capita is lowest, and the only Belgian region whose jobs are too numerous for its active population is also the one whose unemployment rate is highest. As a result, the standard simple formulas for incentive-friendly inter-regional solidarity based on GDP per capita no longer make much sense.

More serious still, however, is the challenge that stems from high rates of trans-regional migration, both actual and potential. About 10% of the Brussels population leaves the region every year — mostly towards the provinces of Walloon Brabant and Flemish Brabant, in that order — and is replaced by about 11% moving in from the rest of Belgium and the rest of the world. If each such move were to mean a change in liabilities and entitlements as a result of shifting to another interpersonal solidarity regime, the level of administrative complication would obviously be greatly increased. Red tape, however, is only the more modest of two evils faced by the creation of a second tier under conditions of big actual and potential migration flows.

A two-tier regime implies fiscal autonomy for the regions, each of which can shape its redistributive regime so as to best fit local circumstances and preferences. However, as Jacques Drèze notes (7.b), redistributive systems create externalities by affecting the feasible policy space of neighbouring entities. These externalities are obviously particularly strong when a large proportion of the wealth created and of taxable income is located in a conurbation shared by three fiscally autonomous regions. If one tax base is taxed at a particularly low rate in one entity, it is difficult for the others not to follow suit. Admittedly, a two-tier regime also implies something like a GDP-linked inter-regional transfer system. The anticipation of these transfers reduces the incentive to attract or retain a mobile tax base inside the region. But it does not abolish it. Even in the extreme case in which GDP-per capita would be systematically equalized, governments would arguably retain an incentive to lower taxation on the more mobile economic agents. A fortiori, if moral hazard concerns keep inter-regional transfers far from full equalization, the fiscal autonomy of entities subjected to high mobility pressure, such as Belgium’s three regions, will depress the sustainability of the high levels of intra-regional interpersonal redistribution which social justice demands. (See Roland, Vandeveldel & Van Parijs 2002: §4 and appendix).

### *Cappuccino versus coffee pot*

Bringing in ex-ante redistributive solidarity, as I have been at pains to do all along by way of a friendly complement to (more than a critical comment on) Jacques Drèze's paper, does not alter one of his central messages: whether we should go for a single-tier or a two-tier regime depends on empirical matters which deserve further investigation. The case for a two-tier regime is strengthened if it can be shown, for example, that preferences about the shape of solidarity differ significantly (for reasons other than people's place in the distribution of income), or if evidence reveals the regional policy-makers' responsiveness to the incentive instruments made possible by a two-tier regime. On the other hand, the case for maintaining essentially a one-tier regime would be affected, for example, by estimates of the economies of scale that would be foregone and of the complications that would be created in case of regionalization, or by evidence about the extent to which the inter-regional versus inter-personal framing of trans-regional transfers affects their political sustainability, or again by an assessment of the long-term impact of tax competition between regions whose economic cores are as closely knit together as are those of Belgium's three regions.

The trouble is that we cannot wait for neat and conclusive empirical work to be completed on these many issues before adopting guidelines for promising reform. Relying on incompletely informed guesses, therefore, is not irresponsible. It is wisdom itself. Based on what I have learned from many colleagues from several disciplines over many years, combined with value judgements I am prepared to assert and defend, my own guess at this stage is that the second set of considerations is strong enough for us to want to stick to a single-tier regime for the bulk of our solidarity system, while letting regions (and communes, and firms, and families, etc.) top it up with their own resources and according their own tastes.

This is not a two-tier or two-stage regime, where transfers operate across regions while regions take full responsibility for interpersonal solidarity. Under a two-tier regime, each region prepares its own coffee with its own machine and collects it in its own coffee pot, and before the cups start being filled, the region with the biggest coffee pot (per capita) has to pour some coffee into the pots of the less lucky regions, so that all the cups in all the regions can get filled to a fair extent. The model I propose does involve two (or more) stages, but it contains two (or more) layers. It is rather like a cappuccino. One big machine makes everyone's coffee and pours it in all the cups. But regions can use their own little machines or additional equipment to produce cream and add it on top of the coffee base, and they can of course add sugar, cacao and cinnamon as they please, all with their own money.

Such a cappuccino regime can perform the risk-sharing or pure insurance function on which Jacques Drèze's paper concentrates. But I cannot see any strong reason for believing that it could perform that function any better than the two-tier regime the paper explores. On the other hand, if the need to durably secure genuine or ex ante redistributive solidarity is brought into the picture, as I believe it must, then a new set of arguments comes into play, and something like the cappuccino model I gestured at becomes the front-runner. So at least I would argue had I not been too long already.

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