A Tool for the Economic Crisis: A Single European Treasury

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Theme: The economic crisis could open a debate on one of the most passionate and intense issues that Europeans could consider: how to change Europe's institutional structure to move towards the establishment of a Single Treasury for the euro zone countries.

Summary: The current financial crisis offers the opportunity to make clear headway in the process of European integration through the creation of a Single Treasury for the euro zone countries. This would be a clear improvement on the institutional framework for European economic governance, improving the coordination of the stimulus policies implemented by member states, facilitating an end to the crisis and acting as a useful tool to tackle EU financing problems and bad debt.

Analysis:

> '... I pondered how men fight and lose the battle and the thing that they fought for comes about in spite of their defeat and when it comes turns out not to be what they meant, and other men fight for what they meant under another name' (William Morris, quoted by E.P. Thompson).

Great political and economic crises and great wars often give rise to new institutions or act as catalysts for great, historic leaps. For this to happen, those with perspective and more or less clear political or economic programmes must be able to take advantage of the opportunities that history offers them to create new things.

The current recession in the global economy is one of those unique opportunities to push for new movement in stalled processes or to take leaps that only recently were barely imaginable.

It is likely that this crisis will bring about changes that everyone saw coming in recent years; or, just as likely, unforeseen changes will emerge and some of the expected ones will be short-circuited. Among the most likely changes, many point to the fact that, among other things, the global financial capital might move from London and New York to somewhere in South-East Asia, that the world's economic and political centre of gravity could shift to the Pacific and that the hegemony of the US and the dollar might be coming to an end.

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It is therefore strange that what ought to be the most passionate and intense debate that Europeans could be having right now is not on the table: how to change Europe's institutional structure to move towards the establishment of a Single Treasury for the euro zone countries.

1990-1994
A good example of how the deepest crises can lead to striking changes can be seen in the economic difficulties of the early 1990s, beginning with the invasion of Kuwait by Iraq, the Gulf War and the concurrent recession in the US economy.

Although the European recession clearly lagged behind the one in the US, it hit with the greatest force in the very same countries that now have the biggest real estate bubbles (Spain and the UK), and it very nearly brought down the European Monetary System (EMS).

That crisis, nearly forgotten today, reached Spain after the World's Fair in Seville and the Barcelona Olympics, and led to three devaluations of the peseta between 1992 and 1993. In September 1992, the pound sterling and the lira had to be excluded from the EMS and the survival of this exchange mechanism was very much threatened.

The outlook for the European and North American economies could not have been worse at the time. It is interesting to recall the predictions that it would take 25 years for the British real estate sector to return to its former price levels (when, in fact, the UK was again immersed in a real estate bubble only 10 years later). The US economy was also considered stagnant or even in recession (later, it turned out that the recession had ended… in March 1991!) and only a month and a half after the EMS crisis in September 1992, Bill Clinton won the presidential election with the slogan, 'It's the economy, stupid!'.

The situation certainly did not look good. Even the optimism caused by the fall of the Soviet bloc had vanished, and what appeared to be its most obvious result –the so-called 'peace dividend'– had been virtually forgotten.

Who would have dared to predict, say, in September 1992, when the French gave the so-called *le petit oui* to the Maastricht Treaty, that only six years and three months later, the euro zone countries would adopt a single currency?

Anyone who had dared make such a prediction would have been dismissed as senseless, despite the fact that in the years leading up to the EMS crisis there was constant discussion of the possibility of launching this new single currency, which some simply called the ECU and others the 'hard ECU', while still others referred to it as the 'hard basket ECU', according to where they wanted to put the emphasis.

The EMS crisis appeared to punish the hubris of those who wanted to move forward on such a complicated path, while the later implementation of the euro seemed like a prize for the tenacity and visionary conduct of a few political leaders.

In short: the highs and low that led to the adoption of the euro were characteristic of all historical processes, with their alternating moments of depression or euphoria.

Common Policy

It is striking that in this time of economic and political troubles, there has not already been public debate on the adoption of a common economic policy for the euro zone or even for the EU zone as a whole. In fact, the possibility of such a common policy has been mentioned in recent months, but only to be immediately dismissed among laments about the difficulty involved in coordinating such diverse national policies.

At the same time –and no one is surprised by this– all European governments have been approving very similar policies, ranging from measures aimed at reactivating the economy to emergency plans to save the banking system from 'ultimate collapse'.

The climate of economic crisis has taken precedence over any other consideration and those who were most reluctant to increase public spending to spur renewed economic growth (Angela Merkel) have ended up embarking on vast spending plans, and those who defied public opinion by refusing to save their banks with public money (the Bank of England) have finally had to partially nationalise their financial system.

As the Apostle Paul would have said, there are no Jews or Gentiles here, nor conservatives or social democrats. Neither have there been Spaniards or Germans: while powerful Germany had the dubious distinction of being the home of the first banks to collapse in this crisis (IKB) and the English financial system had the questionable honour of experiencing the only true panic since the Great Depression, neither France, nor Benelux or Italy were left unscathed. Spain is also unlikely to avoid the fallout, given the size of its real estate problems, as the governor of the Bank of Spain acknowledged recently. However, in Spain's case, if the potential crisis does indeed arrive, it will happen at a slower pace and will be more dependent on specific conditions, making it essentially a crisis in the real economy (albeit an economy based on the fanciful folly of producing as many homes as the US or the entire EU for several years).

Nevertheless, discussion of the need to coordinate the economic policies of the euro zone countries has amounted to little more than grumbling and complaints. Little or nothing has been said about how this frustrating situation could be corrected. And yet, never in recent times has the economic situation been so alarming, making discussion about policy coordination so important.

A Stimulating Comparison

However, there is no lack of inspiring examples. In fact, these examples are brought up again and again, but there seems to be a desire not to draw the full conclusions from them.

Every time the European Central Bank (ECB) and its statutes are discussed, the point is made that what distinguishes it from the Federal Reserve is that while the Fed's aim is to keep prices stable and maintain full employment, the ECB's role is simply to keep inflation under control.

When the comparison is limited this way, the fact is overlooked that, while independent, the Federal Reserve acts (except for nuances involving the Office of Comptroller of the Currency) in coordination with a government partner that establishes the essential features of economic and financial regulations: the Treasury. The importance of the coordination between the two institutions has been made clear repeatedly in recent months, given the fact that each and every time the US Congress and Senate have discussed the crisis, both Ben Bernanke and Henry Paulson have been called, either together or separately, to appear before them to explain the measures that each is responsible for.

It seems that most European political leaders and commentators are comfortable with a comparison of existing institutions (the central banks on both sides of the Atlantic), but are unwilling to go any further. It seems reasonable to them that Jean-Claude Trichet should appear before the European Parliament, but they dismiss the idea of the 16 euro zone Finance Ministers doing the same as something impossible to manage.

Another Comparison
However, things are happening quickly and central banks all around the world are beginning to take new steps to try to first contain, and then reverse, the rapid economic contraction.

The most important of these steps is known as quantitative easing (which has been translated vaguely but correctly enough into Spanish as *política cuantitativa*).

This policy consists of expanding the central bank's balance sheet to whatever size may be necessary, simply by writing in the desired number on the bank's liabilities side and with this, financing the corresponding amount of public debt or private fixed-income securities, which then represents an equivalent amount on the assets side.

Following the Federal Reserve's apparent willingness to implement this monetary policy as a way of overcoming the obstacle of interbank rates set at or near zero, the Bank of England recently announced its willingness to implement a similar policy.

What will the ECB do when it finds itself in a similar situation? Its statutes may not allow it to take such action, in which case it would be necessary to amend them. Or else a lax interpretation may indeed allow this, in which case the public debt that the ECB would end up buying would be proportional to the size of the respective economies or conditioned by the financial needs of the different countries (an area into which the ECB would be unlikely to venture).

Single European Treasury
The way that the treasuries of other countries coordinate their policies with their respective central banks leads to the inevitable conclusion that a Single European Treasury is needed to properly coordinate the struggle to control the economic crisis. Furthermore, everyone knows that such a step is pending business for the countries that have adopted the common currency, and that it was already pending business for the EU even before the euro was launched. The difficulties with acknowledging this pending goal have to do with something that was discussed in the past and with the years that have since gone by without discussing it: tax harmonisation.

Is it possible to achieve the goal of a common Treasury without prior tax harmonisation? The answer is unquestionably 'yes'. In fact, Spain already has a common economic policy set by the government and a Finance Ministry that co-exists with regional finance ministries and with different tax regimes applicable to different cases, ranging from the tax on capital to special purpose taxes such as the *céntimo sanitario* fuel tax.

Therefore, while not denying the importance of moving towards tax harmonisation, it must be emphasised that it is not an obstacle to establishing a common Finance Ministry. And, of course, this raises the need for another, more complicated step in the future: European government.

Is This Easy to Imagine?
Establishing a Single Treasury poses many minor difficulties, but only three major ones:

(1) What percentage of tax income would go to this common Treasury? At the start, it should not be less than 7% of combined income in order to finance the counter-cyclical plan, accompanied by a detailed schedule for taking on new responsibilities and reaching a higher percentage of tax collection.
(2) What process would be used by the different euro zone states to approve such a transfer?
(3) What supervisory and decision-making mechanisms would be used?

Although it may arrive a little late to coordinate the different national economic reactivation policies that are already underway (for example the €200 billion 'Barroso Plan'), its clearest task would be to manage a trans-European reactivation programme that would include projects necessary for the different countries and that could be brought together for a common goal: for example, new common infrastructure projects (or projects to connect existing infrastructure), projects to increase energy independence in the euro zone and projects to develop/implement new technologies.

A Single Treasury would help overcome the reasonable fears that governments have of launching over-ambitious national reactivation programmes that could end up tilting the trade balance in favour of the countries that provide their imports. It would also facilitate the rescue of teetering banks and would limit suspicions that they are receiving hidden subsidies.

Fighting the economic crisis is not proving easy for anyone. It will be even less so for Europe if, when a member state needs help there is no central body to give it, an institution able to issue public debt, one that can guarantee the debt of a state in difficulties, one that is the centre for inter-territorial compensation, and one through which, in short, a giant leap can be taken toward developing a European conscience and sense of common nationality.

Conclusion

The Political Sphere
Naturally, the creation of a Single Treasury is a political decision that is urgently needed amid an economic crisis like the current one. It is not valid to use technical arguments against this political decision, since such difficulties can always be overcome.

Neither is it valid to argue that this issue has not been debated enough. In fact, it was debated intensely with the euro in 1989-91, but this debate was forgotten when the time came to launch the euro (also, there was something superstructural and artificial about the debate: a survey sent in 1991 by the General Director of the Treasury at the time, Manuel Conthe, to 200 people in high places in the financial world and in Spanish universities resulted in a total of two responses!).

The sticking point in this discussion is the lack of political will. Or, to be more precise, the lack of political will on the part of Germany. But if Germany had the political vision to push for the launching of the euro despite the difficulties it faced in the 90s –immersed as it was in the process of unifying the two Germanys under a single government– what could prevent it now from embracing (or even leading) a move towards a Single European Treasury?

As long as no one suggests the idea, all this remains hypothetical. It is strange that neither Nicolas Sarkozy nor José Luis Rodríguez Zapatero have made any moves in this direction, especially when another debate that only three months ago would have seemed unthinkable is now being heard: the possibility of the UK joining the euro zone. Who was the first to suggest the latter? Who wants to be the last to suggest the former?

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