Many of the recent historical developments in the European Union (EU) can be ascribed to the existence of an economic divide between a high income core and a low income periphery. This was the case of the recent sovereign debt crisis, which has been interpreted as a moral tale of Nordic "saints" and Southern "sinners". This kind of divide is actually commonplace among federations. Many studies have focused on the dilemmas faced by developing countries: is it better to invest in laggard regions or rather to impose hard budget constraints on them?

The EU however, is a different beast due to its economic wealth and its peculiar ontology. Especially given the latter, there are few federations from which we can draw a direct analogy. The United States is considered to be one of them, due to the "bottom up" nature of its federative process. Today, the United States largely relies on fiscal transfers to produce a certain level of homogeneity in states' fiscal capacities. This, however, was not always the case: the developmental path toward America's fiscal union has been long, patchy and troublesome. What lessons can be learned from it? The first part of the article will consider how territorial solidarity emerged in the US. In the second part, we will consider an analogous development in the EU.

1787–1840, United States

The American Revolutionary War left the US coffers empty and the public finances severely strained. The attempt, by single states, to restore their finances by means of general taxation led to revolts and civil unrest. This provided the opportunity to argue in favour of federal taxation, as the Federalists did. In 1788, the newly-approved Constitution deprived the states of their power to tax imports and exports, and their power to issue money; the result was that most of the states' debt was assumed by the federation, regardless of their status: debtors were relieved, while creditors were paid in income-yielding federal securities. Most relevantly, a fiscal union was created.

The question was not settled yet. Decades later, many states started a wide programme of public investment to create a basic infrastructure to sustain industry. Such expenditures were generally financed by public debt: hence the period's definition of "taxless finance". The bill came due in 1840, when the US economy entered recession after the so-called panic of 1837. The event put in motion a nation-wide movement which pleaded for federal assumption of states' debts. The senate fiercely opposed the notion from the start: "Such assumption would be unjust, unwise, impolitic, and dangerous, compelling the non-indebted states to incur

burdens for others which they have refused to incur for themselves" (Senator Benton of Missouri, 1839).

When Franklin D. Roosevelt was elected president in 1932, different sets of economic ideas started to emerge. Among others, the underconsumptionist critique denounced the paradox of "poverty in the midst of plenty".

To the fiscal orthodoxy, the assumption movement replied "that confidence will not be restored; that industry … will not thrive; that general prosperity will not return and abide … unless Congress extends its aid" (Rep. William Johnson, Chair of the House Select Committee, 1843). In the end, the notion that the federal government would become lender of last resort in the event of a state's default was rejected. Ultimately this created a *de facto* hard budget constraint at state level.

1930, United States

At the onset of the Great Depression, the tide turned once again. The crisis originated outside the public sector, yet it spread rapidly to affect states' public finances. However, not all states were equally stirred: since social welfare was a state prerogative, the crisis affected the US unevenly, following the intricacy of social expenditure items that different states had. The mechanism was quite straightforward: while the crisis made fiscal revenues go down, welfare costs increased. To pay for rising expenditures, states with more advanced social schemes became more and more indebted. In the meanwhile, the federal government's response was feeble at best, counterproductive at worst: this time, by applying fiscal orthodoxy, the rising taxation pushed the economy further down in the slumps, by aggravating the existing deflation.

When Franklin D. Roosevelt was elected president in 1932, different sets of economic ideas started to emerge. Among others, the underconsumptionist critique denounced the paradox of "poverty in the midst of plenty": the industrial economy had created abundance, yet few Americans were benefitting from it. The explanation, according to this critique, was in the low

purchasing power of the American middle class. Hence the solution: to put more money in the pockets of Americans. The Roosevelt administration acted on two fronts. The first one was at the federal level: in 1935 the Social Security Act was approved, consisting in provisions for the unemployed (Title III) and the elderly, namely a pension system (Title II) and an assistance fund for deprived elders (Title I). While Title I and III were directly managed by the states, Title II, was handled by the federal government. Many saw this as an insufferable intrusion in states' prerogatives, but the situation in a way justified it. As the Governor of Connecticut argued, "in the emergency I am ready to lay aside the unsubstantial ghost of state sovereignty".

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Even more so considering the fact that these policy instruments had an implicit distribution that favoured poorer states. The second policy action was the creation of civil infrastructures under the Works Progress Administration, with the stated aim to provide work relief and support industrial development. One of the symbols of this era, the Hoover Dam, provided electricity to seven southern states, which formed an interstate compact to create and manage the infrastructure. The idea to bring modernity to the rural South was central; as the Secretary of Labour Frances Perkins, unintentionally humorous, declared, "social revolution would take place if shoes were put on the people of the South". Southerners laughed at the idea of a shoeless South ("Why, even the mules of the South wear shoes!"), but ultimately the New Deal largess was widely accepted.

1970–1988, European Economic Community (EEC)

The idea to promote cohesion in underdeveloped areas of the EEC was first introduced with

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the Treaty of Rome in 1957. Notwithstanding this, little action followed: the community operated under a division of work between the common market, which would create economic wealth and the member states, which would redistribute such wealth. Things started to change after the two oil crises in the mid-seventies. Member states started to acknowledge the growing interdependence of their economies, resulting in the emergence of a "neighbourhood community".

Three practical principles undergirded the nascent community: economic, social and territorial cohesion. The first two principles meant that high differentials in the economic wealth and social benefits of the neighbouring states were detrimental both to the aggregate wealth of the community and to its economic, social and political stability as well. The third one was the recognition that, while "hard" borders were disappearing, regions once divided were now able to cooperate in promoting territorial, economic and social development. The first substantial implementation of these principles occurred in 1988, with the creation of a cohesion policy. On the one hand, economic and social development in laggard regions was fostered through the concentration principle; on the other hand, neighbouring regions started to cooperate under the auspices of cross-border cooperation projects, such as INTERREG I.

2008–2013, European Union

In 1999, the Economic and Monetary Union (EMU) came to completion; the degree of integration of the European economies, both within and outside the EMU, reached levels never previously seen. Meanwhile, the cohesion policy became the first item in the EU budget to support both EMU and the first eastward enlargement. The 2008 financial crisis and the recent sovereign debt crisis of 2010 ruffled some feathers. The same economic integration that was celebrated earlier was now scorned: the economic instability of southern European member states, coupled with the lower social standards of the new eastern members, created instability in the whole union; core member states were not immune. The policy response was mainly based on austerity and respect of hard budget constraints by the member states.

At the same time, however, the EU cultivated some policies that are analogous to the New Deal experience: in particular, cross-border cooperation among regions

and territorial redistribution. Even in the absence of a fiscal union, this could be the engine for economic recovery and the development of laggard regions.

Cohesion policy was presented after the 2013 reform as the “investment arm” of the union, to create development in the peripheral regions. Neither was this policy, however, safe from the fiscal orthodoxy. In 2010, a European Central Bank paper suggested making the policy strictly conditional on the respect of the aforementioned budgetary constraints. Accordingly, in the making of the reform, the EU Council was divided into three groups, roughly corresponding to the core-periphery divide: on the one hand “friends of cohesion”, composed of eastern member states, on the other hand “friends of better spending”, consisting of core states; finally, the less organised group of southern European members laying somewhere in between. In the final reform, a conspicuous (and strictly monitored) budget was traded by the “friends of better spending” in exchange for the conditionality which was accepted by the “friends of cohesion”, thus providing the “saints” with something to “blackmail’” the “sinners”.

The US and the EU compared

In terms of territorial solidarity, the EU and US historical experiences have some comparable aspects. The US created a fiscal union very early as a counterpart to the cession of powers to the federation in terms of market taxation and money creation. They went on by introducing hard budget constraints in 1840; this established a repartition of competences between the federation and the states. Such repartition was somehow insufficient: the uneven distribution of wealth between states came under critique after the Great Depression: redistribution of wealth between territories and cooperation among states informed some of the New Deal policies.

The EU, on the other hand, never created a fiscal union, even after the creation of the EMU and the single market, which substantially reduced member states’ power both on monetary policy and on market regulation; the policy answer to asymmetric shocks, then, was mainly based on fiscal orthodoxy, with the creation of hard budget constraints. At the same time, however, the EU cultivated some policies that are analogous to the New Deal experience: in particular, cross-border cooperation among regions and territorial redistribution. Even in the

absence of a fiscal union, this could be the engine for economic recovery and the development of laggard regions—provided that the settings of the existing instruments hit the sweet point where cohesion policy would effectively attain its goals.

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