

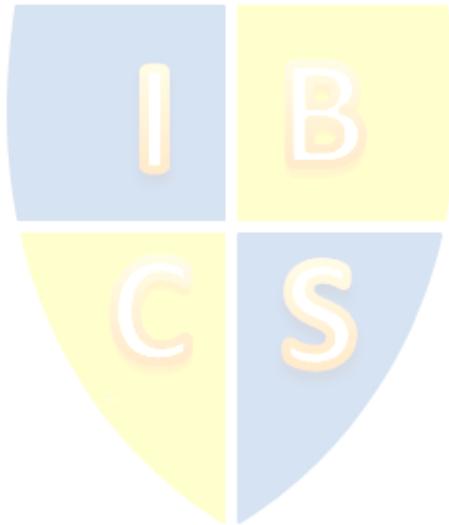
## **A more perfect union: Lessons that America's history has for modern Europe**

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### **ABSTRACT**

An analysis of the form and function of the European Union in comparison with the form and function the federal government of the United States of America. A historical treatment of the origins of the Republic structure in America from 1790 to 1830 and its subsequent fiscal development under Alexander Hamilton and the policies and measures to be taken from history.

Keywords: Euro Federalism Banking Finance America History



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## **INTRODUCTION**

January, 1999 the European Union introduced a new currency into the world called the Euro. The Euro was a corner stone of the Economic and Political organization of the European Union, a body designed to lower barriers to trade on the European continent and allow Europe to compete with the United States, China, and other large economic powers as a single entity rather than as individual states. The following member states of the European Union have the Euro as their currency; Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. These states were required to meet certain criteria and despite loose interpretation of these standards each of these members adopted the currency in turn meeting all or some of these standards. Many of the member states narrowly ratified approval of the Euro via the Maastricht Treaty. Germany had reservations about sacrificing its stable currency in the Deutsch Mark, and Denmark refused to sign the treaty ratifying the Creation of the Euro without a provision to opt out of the currency as had the United Kingdom. (Financial Times 2001)

This early dysfunction was a prelude to the current fiasco involving the Euro, the idea of a single European currency had been a goal of policy makers since the conclusion of the Second World War. Such harmony in Europe has never been achieved under the pretenses of voluntary participation, Europe has been unified only a few times and always by force; the Romans, the French, and the Germans all have endeavored to form an Empire encompassing large swaths of the Europe Continent, even an Islamic Empire spread as far as France before being turned away by Charles Martel the Grandfather of Charlemagne. Europe's dysfunction and factionalism was and remains so potent that it spread across the world via colonization and imperialism from the Age of Discovery starting in the 1600s till the 1900s when Imperialism began its death throes at Versailles . Only one of Europe's contested colonies has become a stable and capable political and economic force. Africa, Asia, and South America all bear deep scars of European domination, these places were kept eternally dependent on their rulers in Europe. The exception to this policy is North America and specifically the United States of America.

America owes its exceptional status to the nature of the age in which it was founded, these ideas that originated in Europe came to the Colonies and found fertile soil in the people of the American Colonies. While the story of American exceptional-ism has many different facets, our focus will be on the economic and monetary policies and trends that, allowed America to stand above all others and become the world's dominant power that the policy makers in Europe thought the Euro-Zone could, and might still become. This paper seeks to explain how the events that consist America's economic History and its unique societal, geographical, and political conditions forged the nation, and how Europe could utilize these same forces to their advantage.

## **THE STRUCTURE OF A FEDERAL REPUBLIC IN AMERICA AND THE EUROPEAN UNION**

America was established as a republic with a multi-tiered federal system of governance, this was crucial to unite the thirteen colonies into one single nation. However the nature of this federal relationship between states and the nation has always been a tenuous and contested affair. For the first 76 years of United States history, the states had always been members of the United States of America making the Federal government subservient to the member states. While the government was never explicitly designed this way it was exercised in such a manner as the

individual sovereignty of the states was not challenged in any significant way until the end of the 19<sup>th</sup> century in the American Civil War. This dichotomy, inherent in federal republic, between the several states and the federal government is one of the cornerstones of America's history.

This sovereignty of member states in the European Union is the most prominent contention when discussing a unified centralized European government or organization. Europe had existed in a state of perpetual warfare for about 500 years prior to 1945, subsequently the notion of a voluntary union of European states emerged at that same time. However the divisions between the many European nations are deep as many have been at war with one another at many points in the past. This resentment fuels the argument that any European Union of any significance would be dominated by the larger more affluent nations of the continent. (Volkery 2012) This has effectively hamstrung these nations forcing them to sit on their hands rather than be seen as demagogues, and by the same virtue shackled the European Union to be ineffective in responding to a substantive financial crisis. This political paralysis caused by paranoia has prevented the Europeans from realizing the real strength of their Union.

America faced this same contention when framing the Constitution in regards of equal and apportioned representation respecting the several states. Under the Articles of Confederation, America's first government. The allocation between the several states was a system of proportional representation in the legislature which allowed for as few as two and as many as seven representatives for each state. Europe's apportionment is a contrived system that lacks an important level of transparency, the representation is set out in treaties that are approved by the member states; states are given more or less representation based on relative measures and a contrived apportionment system modified and designed in a myriad of treaties signed whenever a new member joins the Union. (CVEC 1999)

A European Government structured like America's would require the Nations of Europe to become more like states in a larger Federal Union. To maintain national sovereignty the new "Nation-States" would retain all the rights that American States have and allow the European Union to adopt many of the powers granted to congress in the United States Constitution. The Several European States would retain all the duties, powers and structure of their respective governments. The Exception being the powers granted to the Federal Government of Europe, in truth the EU already has a great deal of influence over the economic functions of Europe from a national perspective including the right to place imposts and tariffs, mint a common currency (the Euro), and regulation of commerce within the Union and internationally. These are all already instruments of the European Union however despite these powers the European Union is still incomplete Politically and Economically.

## **THE FINANCIAL STRUCTURE OF A FEDERALIZED EUROPE**

So far this paper has illustrated how the European Union might look as a federal republic, however the looming question is how the Union could effectively and properly manage its affairs when there is a financial crisis. First in order to strengthen the authority of the region, the European Union must consolidate the combined debts of all its member states into one "European Debt." This "Federal Debt" would take pressure off the beleaguered economies of the Nation-States and mandate proper austerity measures to manage fiscal affairs in Europe. The consolidation of debts in the formation of a Union was proposed by Alexander Hamilton in his *First Report on the Public Credit* in 1790 in it Hamilton stated; "That an *adequate* provision for the support of the Public Credit, is a matter of high importance to the honor and prosperity of the

United States.” Hamilton posited that a reasonable amount of public debt would serve as a powerful cement to bind up the nation. The issue that would confound the assumption of European debt would be the incredible size of the accumulated debts of member states in the Union, in fact the European Union as of 2012 has a debt equal to 60% of its gross domestic product. By comparison the revolutionary war debt of the United States only totaled 66 million dollars. (Chitwood 1961) Such a large debt might cause even an economy the size of the European Union to flounder under the strain unless it was effectively managed.

The second initiative that will serve to alleviate the sovereign debt crisis is the strengthening of the European Central Bank. A strong and capable central bank would be essential to manage an economy the size and scale of the European Union. At current the Bank relies on largess from other member states to extend credit within the Union, this can be a tenuous affair requiring strident political risks for member Nations. However, if the ECB were allowed to issue “Euro-Bonds” to raise revenue and manage the Euro effectively, capital would be readily available to fund various “rescues” and “bailouts” as needed.

### **A FUTURE FOR THE EUROPEAN UNION?**

The likelihood of these measures and institutions being implemented in Europe are more than remote. However they are necessary and proper if the European Union is to act as a capable and coherent economic force in the world. The road to this level of unification is a daunting gauntlet of tenuous negotiations and impossible integration. It is far more likely that the European Union will fracture or divide itself according to a regional or economic dichotomy, more affluent nations disowning weaker performers, or smaller countries rejecting the oppressive austerity placed on them by the Union and return to independence outside the Union. Whether or not the Euro can effectively unite the continent remains to be seen however with every economy that falters and weakens the power of the currency its grip on unity lessens. If history can lend insight into the likelihood of a unified Europe the prospects are certainly grim, but the economic benefits of a single Unified Federal European State could embolden the members of the EU to bear up under the strain and become the economic and political force it was designed to be.

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