

Comments on

"Early U.S. Struggles with Fiscal Federalism: Lessons for Europe?" by Richard Sylla

Christian Kopf, Spinnaker Capital 19th Dubrovnik Economic Conference June 13, 2013

From hagiography ...

- "La crise de l'eurozone, les États-Unis et l'introuvable M. Hamilton" by Clément Pimor
- Conference speeches by Richard Cooper, Ron McKinnon, Robert Mundell

... to analysis

	Morris (1781-1784)	Hamilton (1789-1975)
Stable public finances	No federal taxation	✓
Stable national currency		~
Central Bank		~
Functioning banking system	Weak (BNA)	Strong (BUS)
Liquid securities market		V
Thriving private corporations		V

Comparative study

"Hamilton's Paradoxes" (J. Rodden)

- Maria Reynolds
- Aaron Barr
- Edmund Burke

Was Hamilton a Federalist?

"The fundamental principle on which it rests, that the empire is a community of sovereigns, that the diet is a representation of sovereigns and that the laws are addressed to sovereigns, renders the empire a nerveless body, incapable of regulating its own members, insecure against external dangers, and agitated with unceasing fermentations in its own bowels."

James Madison and Alexander Hamilton, "The Insufficiency of the Present Confederation to Preserve the Union", *Independent Journal*, December 8, 1787 (The Federalist No. 19)

Was Hamilton a Federalist?

	Un	Unitary		Federal		Confederal
Decision- making units	Individuals	Elected district reps that do <i>not</i> correspond to territory govts.	Elected district reps that correspond to territory govts.	Elected district reps that correspond to territory govts.	District reps that are appointed by territory govts.	District reps that are appointed by territory govts.
Apportionment of districts	n.a.	one person one vote	one person one vote	mal- apportionment	mal- apportionment	mal- apportionment
Requirement for policy change	simple majority	simple majority	simple majority	simple majority	simple majority	Qualified- or super-majority
Example	town meeting	UK Parliament	Italian upper chamber	United States Senate	German Bundesrat	EU Council of Ministers

Was Hamilton successful?

- Mutualisation of state debt, but inadequate federal institutions
- Charter of First Bank of the United States lapsed in 1811
- State defaults of 1840s
- Lack of burden-sharing mechanism for "legacy losses" (compensation for slave owners) led to civil war

Implications for Europe

- Problem of debt overhang
- Insurance against sudden stops vs. debt mutualisation
- Short cuts or slow steps to fiscal federalism?