

Lessons for the Euro from History



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Incomplete EMU

- Article 2 on the objectives of the European System of Central Banks
- First draft: “support the general economic policy of the Community”
- Treaty text: “support the general economic policies in the Community”

Not enough rules?

- Fiscal Rules?
- Common Banking supervision and regulation?

The Hamiltonian model

- “When the credit of a country is in any degree questionable, it never fails to give an extravagant premium upon all the loans it has occasion to make.”
- Assumption of debt through federation “the powerful cement of our union”

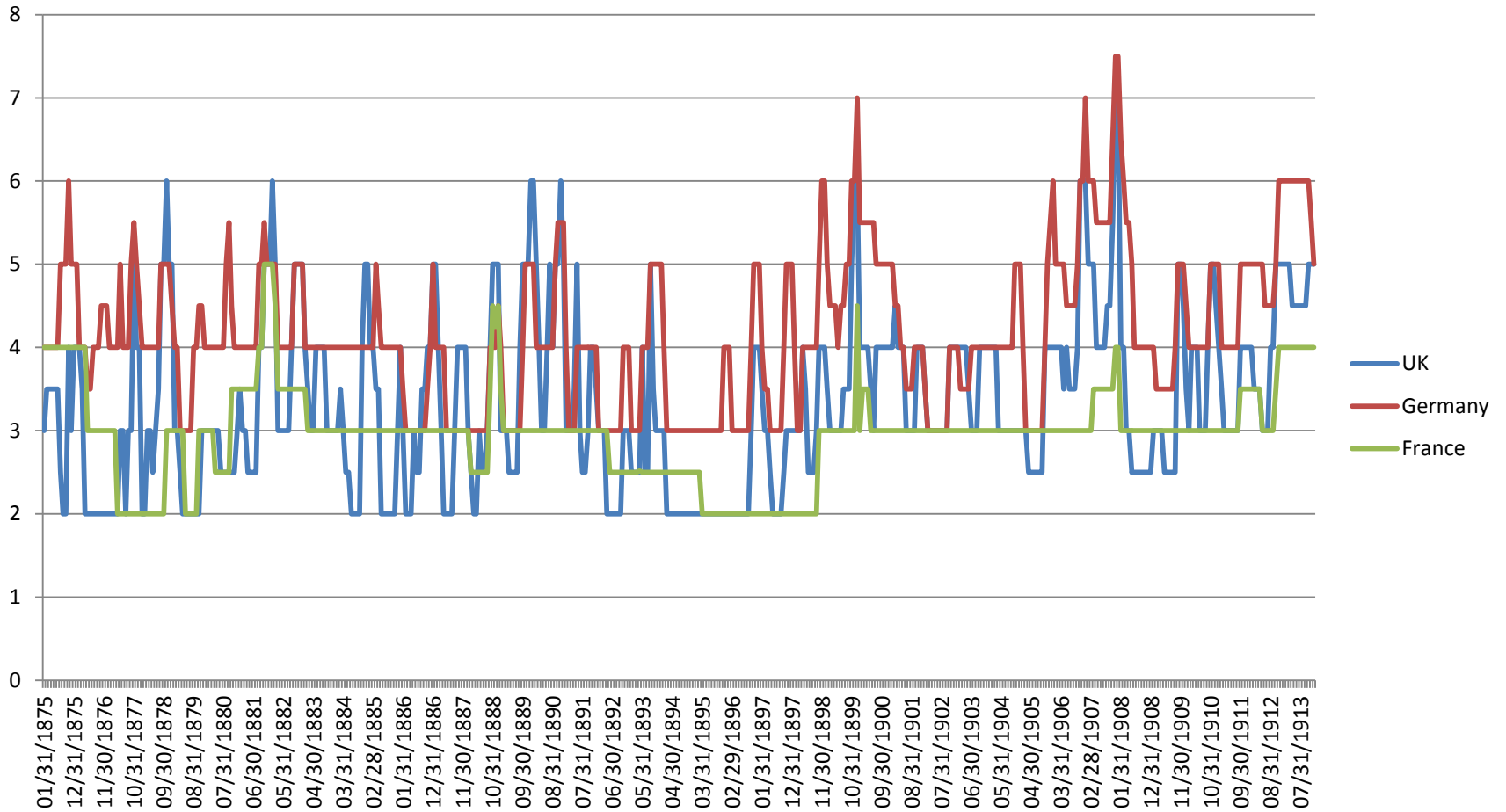
Left unfinished

- Banking reform: joint stock banking
- National bank of issue/central bank
- Over-borrowing by states and post-1837 defaults

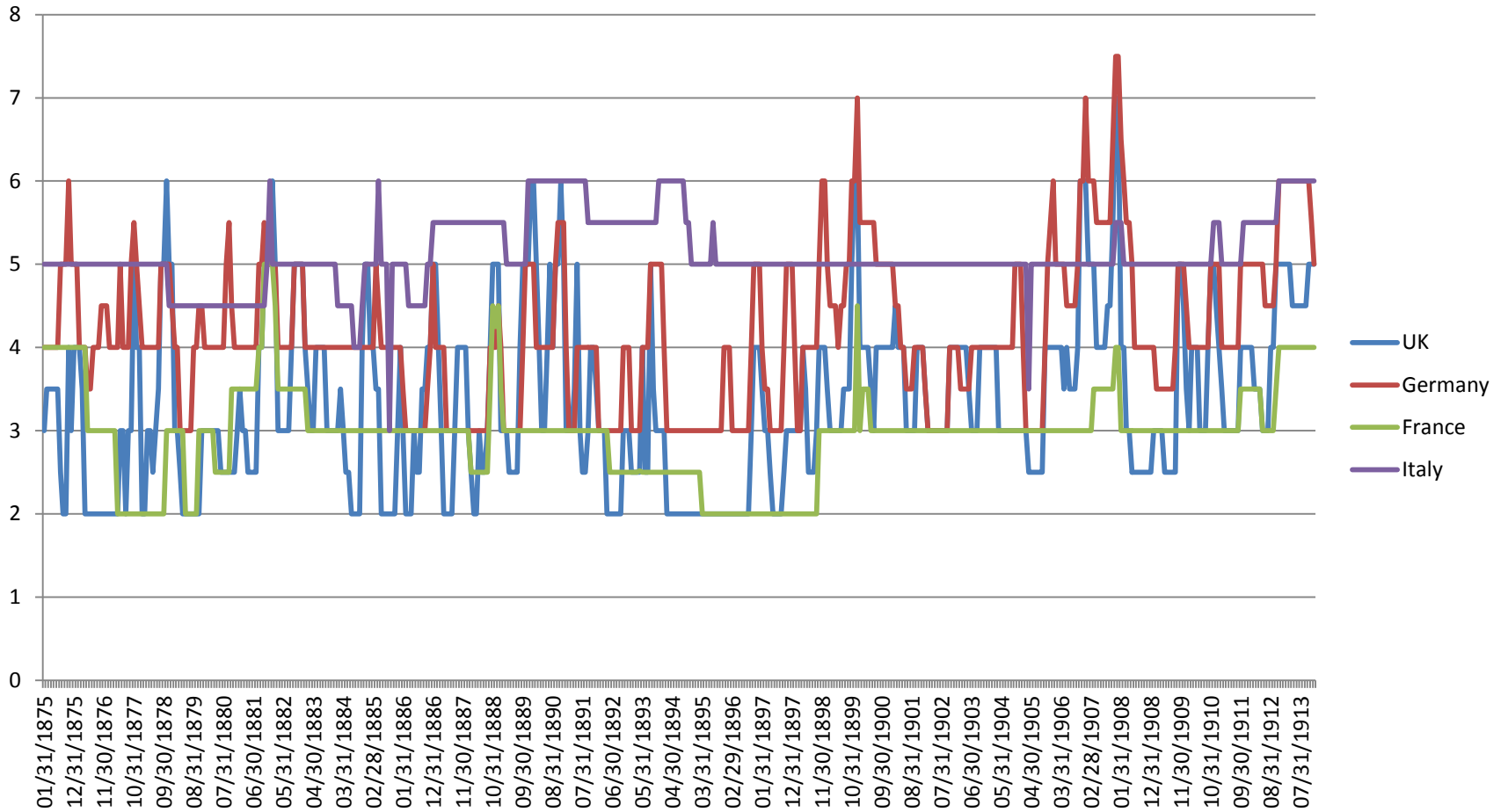
Not enough flexibility?

- “1992 program” creates single capital market and hence the argument for a single monetary policy
- Indivisibility and centralization of monetary policy
- One size fits all

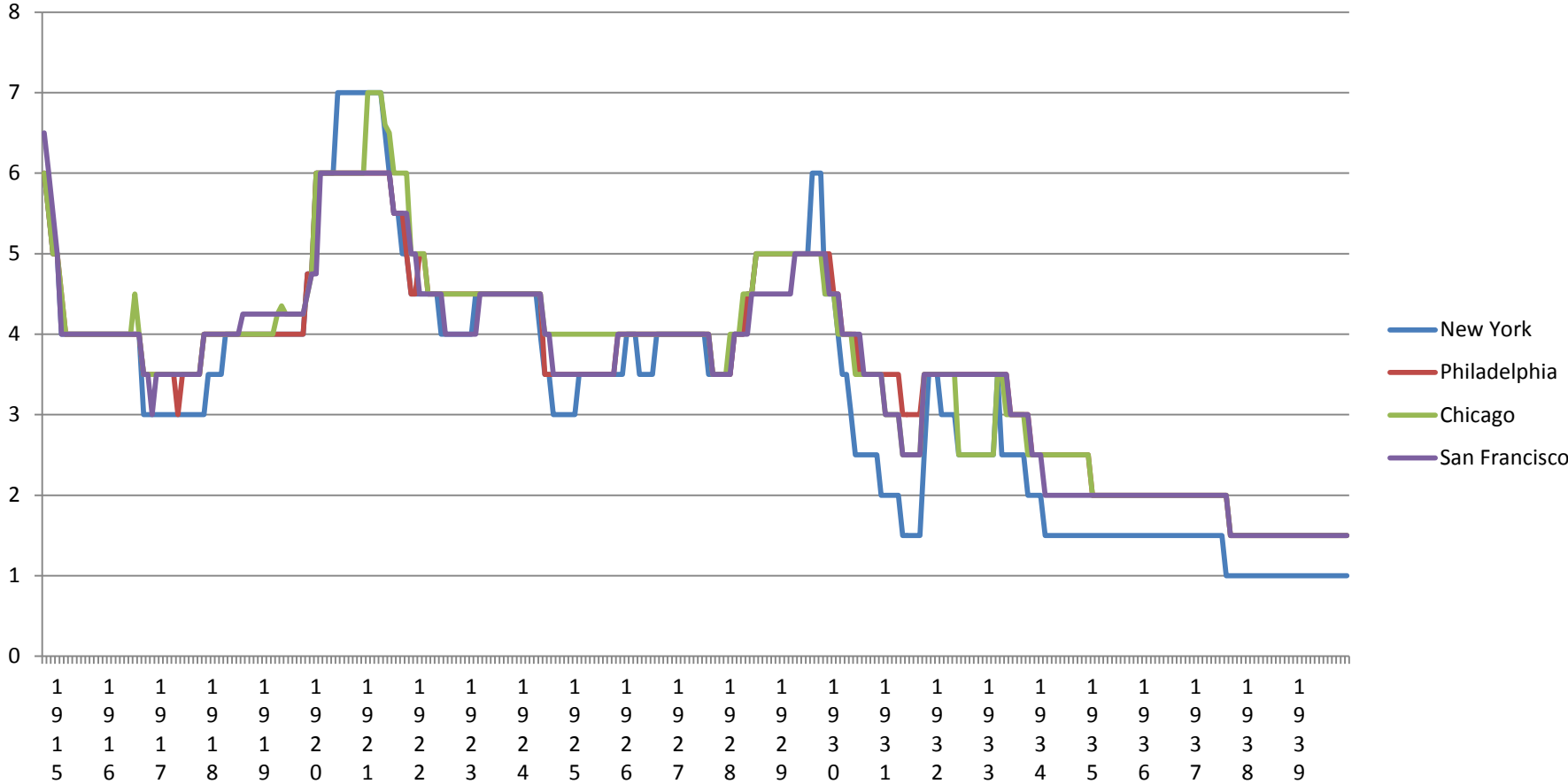
Gold Standard Discount Rates 1875-1913



(with Italy)

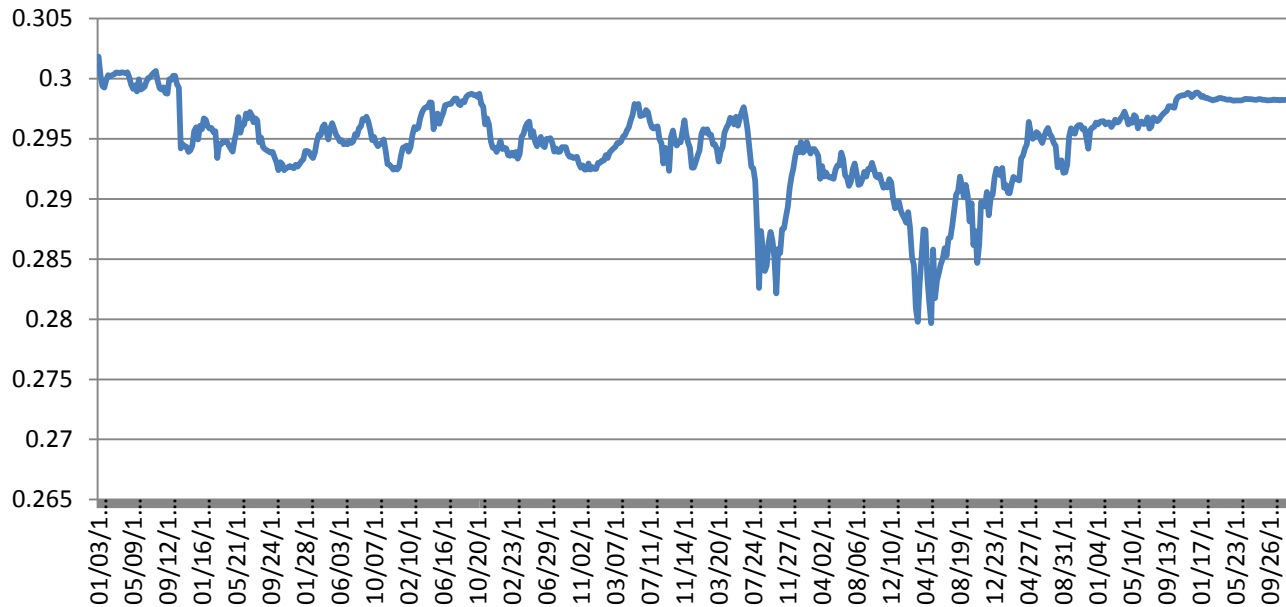


Federal Reserve Discount Rates on Eligible Paper

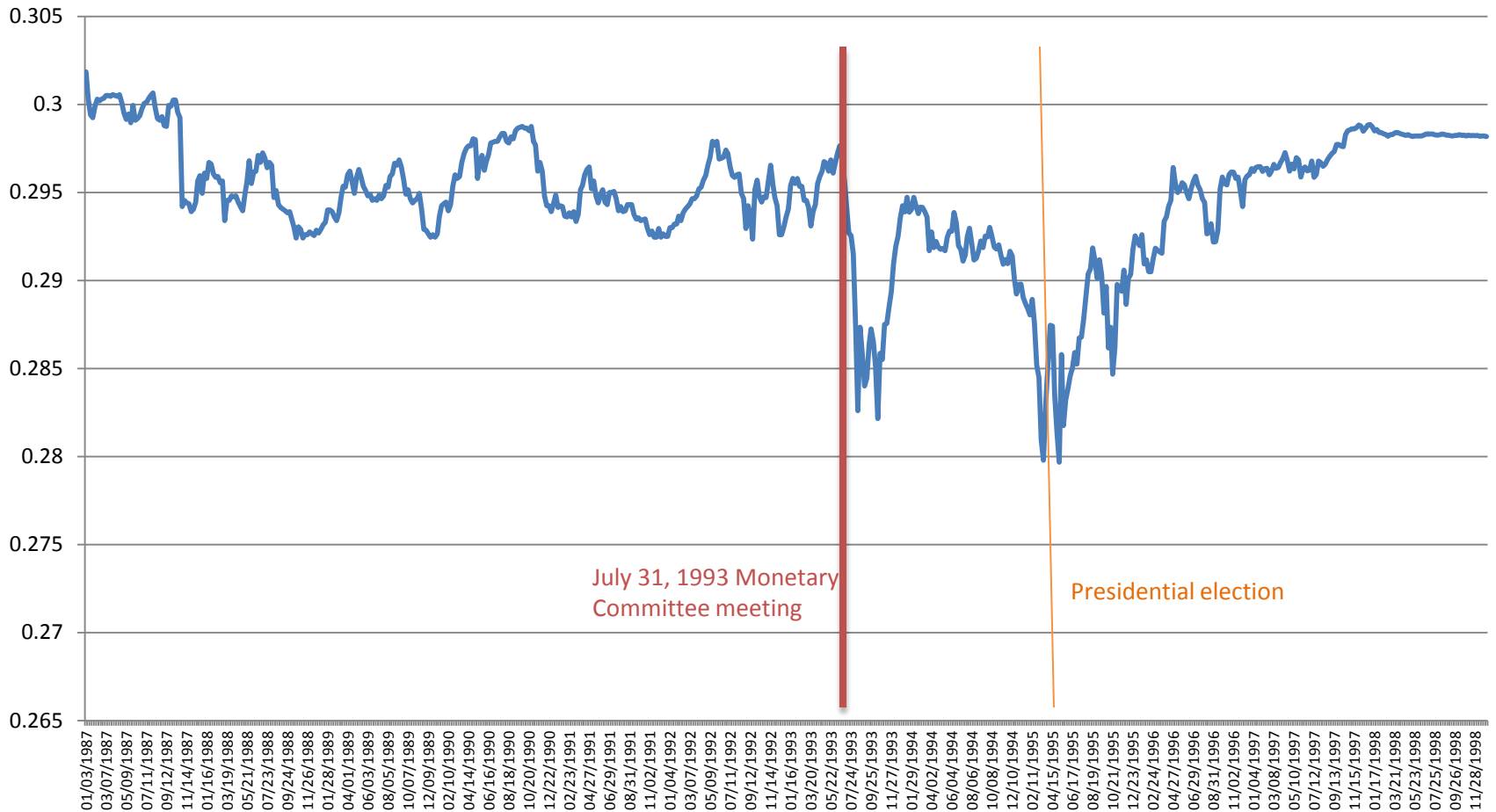


More Flexibility after Crises?

- August 1993 solution to EMS crisis in wider bands: FF/DM rate



French Frank/Deutschemark Rate 1987-1998



Bimetallism: silver currency as local currency

Picciolo



Florin

