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
Federal Reserve Discount Rates on Eligible Paper

- New York
- Philadelphia
- Chicago
- San Francisco
More Flexibility after Crises?

- August 1993 solution to EMS crisis in wider bands: FF/DM rate
French Frank/Deutschemark Rate
1987-1998

July 31, 1993 Monetary Committee meeting
Presidential election
Bimetallism: silver currency as local currency

Picciolo

Florin