Some have argued that the European Union can’t survive as a mere monetary alliance that shares no more than a currency and a central bank. It needs to be a full-fledged political union, the argument goes, a single European country with both fiscal and monetary powers.

The model often cited for this vision is the United States. Prominent economists have held up Treasury Secretary Alexander Hamilton’s Federalist Financial Revolution as a guide. The Federalists favored a strong central government joined with a strong central bank—not exactly the institutional arrangement currently used in Europe, which has 27 independent member states.

But a careful reading of US history clouds this argument. Peter Rousseau, a Vanderbilt University economist, points out that America’s political and monetary union was not accomplished neatly or easily. As Rousseau sees it, America’s political and monetary unions evolved side by side. And, in a way, that suggests better prospects for the EU than others have predicted.

“The monetary union was, in fact, a work in progress for quite a while following the Federalist Financial Revolution,” Rousseau said. “A bit of optimism would say that if the United States took about a century to form its monetary union after forming its political union, perhaps today’s European Union will find its way in less time.”

**The Federalist recipe**

In 1790, the United States had recently emerged from the Revolutionary War and was saddled with enormous debt. A political union to be sure, the young nation lacked a well-functioning monetary union.

Treasury Secretary Alexander Hamilton famously developed a plan for rescheduling and paying off the nation’s debt and established a single unit of account, the dollar. Soon after, a precursor of the Federal Reserve, the Bank of the United States, was created to serve as the nation’s fiscal agent and to hold government deposits. Along with a banking system, these developments gave the United States the features of a modern financial system.
Moreover, the policies put in place in 1790 are credited with kick-starting growth over the nation’s first 40 years. The system facilitated financial development and established the mechanisms that eventually led to the creation of the Federal Reserve in 1913.

Rousseau’s main point is that it’s misleadingly simple to argue that a political union is a precondition for monetary stability.

Rousseau says that he wants to take “nothing away from Hamilton and the Federalists in the start of putting the nation on the right path for financial and economic development.” But this was hardly the end of the story. The Bank of the United States was seen by some as “top-heavy,” Rousseau says, with its power too concentrated in a narrow Northeastern base. Its charter was allowed to expire in 1811, partly because of these concerns.

Jacksonian ideals

Though the Second Bank of the United States was chartered in 1816, it also came under fire for failing to decentralize the process of money creation. In 1832, President Andrew Jackson vetoed legislation to renew the Second Bank’s charter when it was to expire in 1836. And in 1833 and 1834, he withdrew the government’s deposits from the Second Bank.

Jacksonian ideals led to what was known as the “free banking” period. It saw a significant expansion of banking through free banks (those required to secure notes with government debt) in the Midwest and charter banks (which could back notes with other assets) in the rest of the country.

Rousseau notes that the immediate results of Jackson’s actions were not good for the economy; they led to one of the nation’s most serious financial crises and economic downturns (1837‒43). But they did reflect what we now recognize as an American principle of honoring local authority. Jackson hoped for less-centralized control of reserves and money creation, perhaps because he thought independent lending decisions would be better for economic growth outside the major population centers.

Moreover, Jacksonian principles are evident in the roots of the Federal Reserve. As Rousseau observes, the Fed was formed as a quasi-public bank with power distributed among 12 regional branches (or Reserve Banks, such as the Federal Reserve Bank of Cleveland). At the same time, some Hamiltonian principles were definitely preserved, in that Hamilton had also created branches for the First Bank and avoided the problem of these branches issuing non-uniform currencies.

“The system the Fed inherited was really one that had evolved over time,” Rousseau says. “It wasn’t one where a political union is put in place, monetary union follows, and the path is set from there. It’s one where there is an organic evolution of a system drawing on the best features of the original Federalist vision and the populist democratic vision.”

Implications for the EU

Where does that leave the European Union? Rousseau’s main point is that it’s misleadingly simple to argue that a political union is a precondition for monetary stability. US history shows it was much more complicated than that. Rousseau believes it is likely that Europe will take steps and missteps on the road but will eventually bring about both a monetary and a political union. And, although it probably won’t happen very quickly, it almost certainly will happen in less time than the United States took to reach the same goal.
But the argument in this paper is an expansive one that focuses on the attributes of a monetary, banking, and financial system in a Jacksonian perspective. Roughly speaking, the Jacksonian banking system aimed to “democratize” capital and access to it. It may have taken a “revolutionary” action (or perhaps a “reactionary” force against concentrated capital of the elites) to produce a banking system more accessible to the population within the regions lacking in capital.

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Rousseau provides a reasonable argument in support of the benefits of Jacksonian banking, but he fails to offer the alternative view in a counterexample. In a discussion of a counterfactual question like, What would US banking have looked like if the Second Bank of the United States had been rechartered?, one is hard-pressed to provide evidence on the key points of Rousseau’s argument that western expansion benefited from dispersed and localized banking.

The key differences between the European Monetary Union presently and the United States in the nineteenth century center on timing. In the US, political union—with the exception of 1861–65—was established at the time of the adoption of the monetary unit. In the Euro area, monetary union has taken hold before political union. Rousseau’s perspective that the Euro area will evolve toward a successful monetary and political union is a reasoned one. I would be pleased to see his predictions unfold, but I am less sanguine about the prospects of that outcome.