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CROATIAN NATIONAL BANK

Early U.S. Struggles with Fiscal Federalism:
Lessons for Europe?

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The European Union's recent struggles to save the euro common currency and resolve the sovereign debt problems of a number of the Union's member states have invited numerous comparisons with other times and other countries. Because the United States of America struggled with similar problems in its founding era more than two centuries ago, many of the efforts involved comparisons and contrasts of the American and European Unions, usually with reference to how the Americans "got things right" and suggestions from the American experience as to what Europe might do now to get things right.

Often the focus of these comparative forays has been on the noted American statesman and financial genius, Alexander Hamilton (1757-1804), who served in President George Washington's cabinet as the new U.S. government's first Secretary of the Treasury from 1789 to 1795. While Treasury Secretary, Hamilton deftly executed a complex program of fiscal reorganization and financial reform that transformed a weak confederation of individual U.S. states into a strong American Union and nation state. Hamilton also designed his program to launch modern economic growth—increases of real GDP per capita of roughly 1 percent or more per annum—in the United States, and that was a happy result of it. What Hamilton and his allies in the first U.S. Congress and federal administration under the Constitution accomplished is of obvious interest to a European Union marked by indecision, seemingly incapable of taking bold actions, and mired in economic recession.

There is, however, another and earlier story of the American founding era that is seldom mentioned in the modern comparative accounts but might prove of equal interest to Europeans. A decade before Hamilton worked his magic, another American leader, Robert Morris (1734-1806) was called by the Confederation Congress in 1781 to become the nation's Superintendent of Finance and asked to carry out much the same agenda that was given to Hamilton in 1789. For the most part, despite heroic efforts, Morris failed. As a consequence, he is little remembered by the world, including even Americans. Morris's failure to achieve most of his goals resulted from the fact that the American Union then, like the European Union now, was racked by indecision, seemingly incapable of taking bold actions, and mired in economic recession.

In this essay I will compare and contrast Morris and Hamilton as finance ministers, delving into some reasons why the former failed and the latter succeeded. There is no doubt that the American Union more than two centuries ago was very different from the European Union now. But the American story of Morris's failures and Hamilton's successes might give us some grounds for considering where Europe is now and where it might possibly be headed if it is to put its current problems behind it.

Robert Morris, Superintendent of Finance, 1781-1784

Some background is necessary to appreciate what Morris during his time as Superintendent of Finance, 1781-1784, and Hamilton as Treasury Secretary, 1789-1795, accomplished. When each assumed his high national office, the United States had none of what I as a financial historian would call the six key components of a modern financial system. These components are suggested by the early histories of leading modern states. The Dutch Republic installed them shortly after 1600, for example. And Great Britain borrowed them from the Dutch and improved on them after 1688. American leaders of the 1780s, especially Hamilton who often referred to them, were aware of those histories, as well as the failed attempt of John Law to accomplish something similar in France during the years 1715-1720. The six components are:

- Stable public finances and public debt management
- A stable money or national currency
- An effective central bank
- A functioning banking system
- Liquid securities markets
- Corporations, financial and non-financial, to organize and extend business enterprise

As finance ministers, Morris and Hamilton would have a direct say in establishing the first three components. Depending on how well public finances, money, and a central bank were managed, the other three components could fill in the system via the actions of other parties, public (e.g., state governments) and private (entrepreneurs).

Morris, perhaps the country's leading merchant, came into office in the spring of 1781, under dire circumstances for the American cause. The War of Independence had already lasted six years and showed no signs of ending. The paper money "Continentals" Congress had issued to help finance the war were so over-issued by 1779 that they had lost almost their entire face value in terms of specie. Congress gave up on them in 1780. States also had issued their own currencies, which also depreciated in value but were buoyed somewhat because they could be used to pay state taxes. Congress had no taxing authority; it could merely requisition contributions from state governments. These were not always paid, and when they were it was often in the form of depreciated currencies that were of limited use in financing continuing operations. Foreign financial and military support, mostly from France, did much to keep American forces in the field. The situation was so dire that Morris demanded two concessions before he would accept his appointment: the right to continue in his private business ventures while serving in public office, and the right to hire and fire at will throughout the national government. Congress had little choice but to grant these demands.

In terms of the key components, one of Morris's first actions in May 1781 was to ask Congress to authorize a bank to aid him in his public financial operations. Such a bank had been suggested to Morris in a long letter to him from Hamilton in April 1781, but Morris indicated in his reply that he had already been thinking along the same lines. At the end of the year Congress did charter the Bank of North America (BNA), which in anticipation began organizing in the later months of the year and opened for business at the start of 1782. This was the nation's first modern bank. And it would be the country's only bank until the war was over because Morris requested such a monopoly, Congress agreed to it, and some states—in granting the BNA state charters because they doubted that the Confederation Congress had the authority to charter such a bank—also acquiesced to the monopoly. U.S. states jealously guarded what they regarded as their prerogatives in a weak union of states.

Capitalized at $400 thousand dollars, the BNA had trouble attracting subscriptions to its stock from private investors. As a result, Morris used a timely 1781 loan of specie from France to purchase about two-thirds of the total stock on behalf of the national government. Morris also used proceeds of that loan to help finance the crucial Yorktown campaign of 1781; the American-French victory at Yorktown would effectively end the war in due course, but no one could be sure of that at the time.

The bank performed as expected. It made loans in anticipation of revenues to Morris, and it circulated bank notes convertible into specie, which became a more acceptable currency than the fiat paper issues of state governments and discredited Continentals.

Morris also financed the government by issuing his own notes, so-called Morris notes. His own credit as a merchant was greater than that of the government he served. So Morris notes were accepted, sometimes at varying discounts, by the contractors who supplied American forces and by the public.

Morris's greatest failure was in persuading the Confederation to grant Congress the power to tax. Without certain revenues, the national government could not be a credible borrower, so Morris asked Congress to impose a 5 percent tax, called an impost, on imports to the United States. His plan called for guaranteeing payment only on debts he incurred as the government's financier, and for that purpose it would apply only to debts contracted after 1781. Most states approved the impost, but under the Articles of Confederation the impost could become effective when state approval was unanimous. One state withheld approval at the end of 1782, and the Confederation never managed to establish national tax revenues. Frustrated, Morris resigned his office for good in late 1784.

But Morris had managed to bring about some useful innovations. His BNA marked the advent of American banking and was of substantial use to Morris in 1782 and 1783. With the war coming to an end—the Treaty of Paris granting the United States independence was finally signed in September 1783—Morris sold the government's shares to private investors. The BNA became a private banking corporation serving

Philadelphia instead of a national bank, and two more banks, one in New York and one in Boston, were founded in 1784.

Another Morris accomplishment was establishing the basis for a more stable currency in the form of BNA notes and his Morris notes, both of which were convertible into specie. But this was a limited victory, as state fiat currencies continued to be used and new issues of them were still being made.

Finally, Morris established the principle that the debts of Congress were obligations of the union, not of the states that were members of that union. Toward that end, he supervised the conversion of old debts, many reflecting highly inflated prices during the wartime inflation, into several categories of national securities that were expressed in specie values, and he launched a program of accounting for the total costs of the war and apportioning those costs to each state on the basis of its population. Without national revenues, of course, the Confederation Congress could not service those debts. But they served a purpose. Although some states in the 1780s serviced some of national debts held by their own citizens, most of the national debt reorganized by Morris remained outstanding and became one of the important drivers in the movement for a new constitution to replace the weak Articles of Confederation.

Alexander Hamilton, Secretary of the Treasury, 1789-1795

Hamilton in 1789 picked up where Morris left off in 1784. The new Congress under the Constitution in 1789 used that document's grant of taxing powers to pass something akin to the impost that Morris had tried and failed to get earlier in the decade. It then asked Hamilton to formulate a plan for establishing public credit, that is, for servicing the national debt. Hamilton reported his bold plan in January 1790. It included not only an exchange of old debt at par for a package of three issues of newly issued U.S. government bonds—a 6 percent bond, a 6 percent "deferred" bond that would pay no interest (a "zero") for ten years and then 6 percent, and a 3 percent bond. The package would pay an effective interest yield of 4 percent instead of the 6 percent promised but almost never actually paid on the old debt. The interest write-down represented Hamilton's recognition that federal tax revenues were both uncertain and likely to be limited politically. Further, Hamilton proposed assuming the debts of the states into the national debt, on the ground that like Congress's debt, the state debts had been incurred for the common cause of American independence. Assumption of state debts was controversial and almost failed of enactment, but in the end Hamilton used his political skills to prevail on the issue. Congress enacted Hamilton's recommendations in July 1790; they included both assumption of state debts and the ability to service foreign debts by taking out new loans in foreign capital markets. Interest in hard money or its equivalent commenced on the national debt as of 1791, and on assumed state debts as of 1792. By the time Hamilton left office in 1795, virtually all of the old national and state debts had been converted into the three new securities authorized in 1790. And foreign debts had been paid entirely by means of new loans issued in Dutch capital markets.

Successful with his debt restructuring program, Hamilton in his December 1790 Report on a National Bank proposed that Congress charter a national bank capitalized at $10 million for twenty years. Congress enacted the proposal in February 1791, but only after heated controversies over the constitutionality of the measure. The controversies may have been more about politics and horse-trading than principle, but Hamilton again prevailed. The Bank of the United States (BUS) had a successful, oversubscribed stock offering in mid-1791 and opened for business at the end of the year. It proved of even more help to Hamilton than the BNA had proved to Morris; by the time Hamilton left office the BUS had provided the Treasury with some $6 million in loans.

In January 1791, as the BUS bill was debated in Congress, Hamilton submitted his Report on a Mint. It was a rather technical document that defined the U.S. dollar in terms of gold and silver as the monetary base of the country, and it called for establishing a mint to coin various fractions and multiples of the dollar unit. Congress enacted Hamilton's proposals a year later.

In the barely two years, Hamilton had prevailed upon Congress to establish three of the six key components of a modern financial system: tax revenues adequate to fund a national debt enlarged by the assumption of state debts, a central bank, and a stable dollar currency. That prompted other parties to establish the other components. Public debt securities and BUS stock promoted active securities markets in leading cities of the country; the New York Stock Exchange, which traces its origins to a brokers' agreement of May 1792, is one example. Further, state governments, with the example of the BUS before them, began to charter more state banks and corporations. Where there were three state banks in 1790, by 1795 there 25, and they were joined by five offices of the BUS. Where there were but a handful of corporations in 1790, some 300 would be created during the decade 1791-1800. The overall program of financial modernization enacted in 1790 and 1791 would make the U.S. economy quite a different entity after those years than it had been before them. It was one of the most important and still underappreciated developments in the entire history of the United States.

Comparing Morris and Hamilton

Let us now compare the roles, interactions, and effects of the two great financial planners of the founding era of the United States. Robert Morris, Congress's Superintendent of Finance from 1781 to 1784, failed in his efforts to reform and put on a sound basis the finances of the Confederation. In contrast, Alexander Hamilton, Secretary of the Treasury from 1789 to 1795, succeeded in doing just about everything Morris had tried to do, in the changed circumstances of the new national government under the Constitution.

What accounts for the different results of two financial programs that had much in common? The question was raised in the enigmatic last paragraph of American historian Clarence Ver Steeg's study of Morris more than half a century ago:

> [O]ne fact is certain. Morris attempted to incorporate a financial program into the Confederation which Hamilton later succeeded in incorporating into the new government; and after the Financier's program had matured during the course of his administration, the two programs were similar in every significant detail…. But when the precocious, colorful, youthful Hamilton held the spotlight on the Federalist stage and repeated the identical play line by line, the audience on the whole responded with an accolade which still echoes down through the decades. Why the difference in the reaction to the two programs? Were the gesticulations of the leading actor the moving force? Was it the new theater in which he performed? Perhaps the acoustics lent resonance to his voice, or the lighting and staging affected his audience. Or had the audience itself changed? … [O]ne conclusion is obvious. The play, in this case, is not the thing; only its reception is important.[1]

Rephrasing Ver Steeg, were the different outcomes the result of Hamilton's greater skills as a financial statesman? Or was it all the result of the change in the framework of government during 1787-1789? Might it have come from changes in economic and other conditions in America between the Morris and Hamilton eras? Or

[1] Clarence L. Ver Steeg, *Robert Morris, Revolutionary Financier* (Philadelphia: University of Pennsylvania Press, 1954), p. 199.

were there changes in the attitudes of the American people? Finally, challenging Ver Steeg's assumption, can we really accept that "the two programs were similar in every significant detail"? Answers to questions such as these need not be, and indeed are unlikely to be, mutually exclusive. Let me take them up briefly, but in a different order.

The Constitution ("the new theater") obviously made a large difference. The Confederation government did not have the authority to levy national taxes. It could only *request* financial backing from the states—hence, these revenues were termed "requisitions." States had an obligation to pay these requisitions, but there was no enforcement mechanism.

Nationalist leaders, Robert Morris foremost among them, tried to change this situation by getting the states to agree to a national impost—a 5% levy on imports—and to other national taxes. Morris in his report on public credit of July 29, 1782, assumed that the impost was about to be approved. As the impost alone would be inadequate in providing revenues for his program of funding the nation's debts, he further recommended a land tax, a poll tax, and an excise tax on spirits.[2] But the impost was not approved. Under the Articles of Confederation, the constitution of the United States before *the* Constitution, an impost required amending the constitution and that required the approval of every state. One state, Rhode Island, proved recalcitrant. By the end of 1782 the impost was dead.

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[2] *Papers of Robert Morris (PRM)*, E. J. Ferguson, ed. (x,x. 19xx). vol. 6, 36-84, including editors' introduction and endnotes. The editors' refer to this report as "the keynote document in this edition," and quote Ver Steeg's description of it as "the most important single [American] state paper on public credit ever written prior to Hamilton's First Report on Public Credit" (p. 36).

Morris also got nowhere with his other tax recommendations. His frustrations led him in January 1783 to his tactic of resigning—for the first time, as he later agreed to stay on—from his position.

Much more fortunate was Alexander Hamilton. When he became the nation's chief financial officer in September 1789, Congress, using the Constitution's mandate, had already approved a tariff similar to the impost Morris and others had sought eight years earlier, and Congress would approve also his request for excise taxes. Hamilton, of course, had to set up the procedures for collecting these revenues, which he did in a competent way. Morris was not given that opportunity, but there is little reason to doubt that he could have done just about as well. Like Hamilton, he possessed considerable administrative talent.

There is more to the story, however, than Hamilton's good fortune and Morris's bad fortune. As much as any American of his era, Hamilton had created the new constitutional "theater" in which he acted as Treasury Secretary. He was among the first, if not the first, to pinpoint the fatal weaknesses of the Confederation and to call for a convention of the states to give the national government the powers it obtained with adoption of the Constitution. He said this in his letters to James Duane, a New York delegate to the Continental Congress, in 1780, and to Robert Morris in 1781. The letter to Duane recommended that Morris be put in charge of the nation's finances, a step Congress took a few months later. In his letter to Morris, Hamilton wrote, "I wish to see a convention of all the states, with full power to alter & amend finally and irrevocably the present futile and senseless confederation."[3] Strengthening the powers of the national government was the grand theme of his *Continentalist* essays of 1781-1782, as well as of his efforts as a member of the Confederation Congress during 1782-1783, at the Annapolis convention in 1786, the Philadelphia convention in 1787, in the *Federalist Papers* of 1787-1788, and at the New York State ratification convention in 1788. Hamilton foresaw the frustrations that would befall Morris as Superintendent of Finance because he saw that the whole framework of government in which they found themselves was defective. Morris, in contrast, was content to work within the framework of the Confederation. He maintained hopes—until they were dashed—that financial and other reforms within that framework were possible. In that sense, Morris was like most European leaders today. Still, like the good soldier that he was, Hamilton supported Morris's efforts as much as anyone and in every way he could—as an essayist, letter writer, Continental tax collector, and member of the Confederation Congress—only to see his initial pessimism confirmed.

James Madison, Hamilton's political ally in the 1780s and his political opponent thereafter, recognized Hamilton's key role in bringing about the "change in our government." In an 1805 letter to Noah Webster after Hamilton was dead, he ascribed that change to "a series of causes" and "the participation of many," but added specifically, "The discernment of General Hamilton must have rendered him an early patron of the idea."[4]

[3] Hamilton to James Duane, Sept. 3, 1780, *Papers of Alexander Hamilton (PAH)*, H. C. Syrett, ed. (New York: Columbia University Press, 196), vol. II, 401-418; Hamilton to Robert Morris, April 30, 1781, *Ibid.*, 604-35, and *PRM*, 1, 31-60.
[4] James Madison to Noah Webster, as cited in Harlow Giles Unger, *The Life and Times of Noah Webster, An American Patriot* (New York: John Wiley & Sons, 1998), p. 85.

I conclude that, yes, Hamilton was more fortunate than Morris as the nation's chief financial officer. But he had worked incredibly hard to put himself in that position after his early recognition that the national government under the Articles of Confederation was unlikely to achieve a more perfect union.

Returning to Ver Steeg's other questions, were economic and other conditions ("the acoustics," "the lighting and the stage") more favorable for Hamilton in 1789 than for Morris in 1781. To some extent. There is not much evidence that the U.S. economy overall was more prosperous in 1789 than in 1781; if anything, the entire decade of the 1780s seems to have been an economic mess, for varying reasons at different times. But at least there was no war going on in 1789. Hamilton in 1789 and Morris in 1781 had to deal with major financial problems, but those facing the Secretary of the Treasury seem to have been less immediate and intense than those confronted by the Superintendent of Finance. Of course, the dramatic American-French victory of October 1781, which Morris did much to finance in his first months as Superintendent of Finance, marked a turning point, as it caused the British to reassess their position and enter peace negotiations. The War of American Independence was coming to an end. That helped Morris because the financial demands of war declined. But it also hurt his program of reform because it made it seem less urgent to the U.S. states.

What about the attitudes of the American people ("the audience")? Had they changed much from 1781 to 1789? I doubt it, at least in any way that mattered for a finance minister. Earlier in the decade, some states refused to approve the impost; later in the decade, some states refused to approve the Constitution. The national government had more power later in the decade than earlier. But it was all on paper—hardly a reality.

Popular resentment of centralized governmental power had not changed much between 1781 and 1789. There is, moreover, a similarity in the negative popular and political reactions to measures put forward by Morris and Hamilton early in their terms. What had changed from early to late in the decade is that fundamental change itself no longer required the unanimity of the states. This was key.

I turn now to what I consider the more important issues raised by Ver Steeg, the skills of Morris and Hamilton as financial statesmen, and the related question of whether their "two programs were similar in every significant detail." The key components approach to defining a modern financial system offers a way to address these questions.

As I read the records of the founding era, Hamilton had a far deeper understanding than Morris of the components of a modern financial system and the manifold ways in which they fit together and reinforce one another. Along with his financial insights, Hamilton had a certain political steadfastness coupled with the ability to compromise on minor goals in order to achieve major ones. As a result, in the short span of two to three years as Treasury Secretary, he had each of the six components of a financial system up and running in a vigorous manner, reinforced by developments in the other components. It was a remarkable achievement.

The Morris and Hamilton programs were not, contrary to Ver Steeg, similar in every significant detail. The key components of Morris's program, in sequence, were the Bank of North America, the issue of Morris notes, and plan for funding public debts. The bank was a success, but hardly in the way Morris had intended. It was termed a "national bank," but it was too limited in scope to fulfill that function. Moreover, Morris intended its capital to be entirely subscribed by private investors, but to launch it he had to resort to the expedient of having the government buy the majority of its shares. After one year of operation, the bank essentially severed whatever relationship it had with the government, which paid off its loans from the bank by returning government-owned shares in it. From then on it was just an ordinary commercial bank serving Philadelphia. Morris missed an opportunity to build links of banking and securities market development when he advised the bank not to lend on public securities collateral. Hamilton in contrast built such links into his plan, and there appears to be no reason why Morris also could not have done so. Still, to Morris's historical credit—the Bank of North America was the first modern bank in country.

The Morris notes were a temporary currency backed by Morris's private credit, which was better than the credit of the nation he represented. They mixed the concept of a fiat paper money to be retired by tax payments—Morris's intended outcome--with concept of a paper currency convertible into precious metals. These large-denomination notes had limitations as an ordinary currency, a fact communicated to Morris by Hamilton, and they furthermore suffered from significant discounts to par value the further they circulated from Philadelphia. Some were payable on demand (called "Short Bobs" in honor of Robert M.) and others in time ("Long Bobs"), another complication.

Morris's plan for debt funding bore some broad similarities to Hamilton's 1790 plan, but with much less in the way of detailed recommendations, alternatives for Congress to consider, and persuasive argumentation. These differences might have resulted from the fact that Morris could not count on national revenues (although he at first thought he could), whereas Hamilton could count on such revenues, barely adequate though they were at first. There was a major difference. Hamilton made national assumption of state debts a key part of his plan, whereas Morris only suggested assumption, as an afterthought prompted by a related suggestion of Congressman James Madison, some eight months after delivering to Congress his own funding plan. The plan itself, as we know, got nowhere. Hamilton's assumption of state debts into the U.S. national debt, controversial as it was, in fact greatly alleviated the financial problems of U.S. states after 1790 and minimized the earlier tensions between state and national governments. The larger national debt also added to the initially shaky support for the new federal government by creating an enlarged creditor class that looked to that government for interest payments on its bond holdings.

With national revenues assured, Hamilton placed debt funding and assumption at the top of his agenda. In getting the plan of January 1790 approved, Hamilton showed willingness to compromise politically that Morris seemed to lack as Superintendent of Finance, though not as a U.S. senator in 1790. Morris did not like Hamilton's plan—in modern terms, a "haircut—to reduce the effective rate of interest U.S. debt holders would receive to 4 percent, less than the 6 percent to which many debt holders felt entitled. But Morris came around to Hamilton's position when Hamilton consented to the famous compromise that moved the capital from New York to Morris's Philadelphia for ten years. The compromise of 1790 also gained the support of Virginians, who had been adamantly opposed to the assumption of state debts, because it would move the capital in ten years to a site on the Potomac, the future Washington, D.C.

Hamilton's Bank of the United States, his central bank, the next key component of his plan, unveiled in December 1790, was far grander than Morris's bank. Its capital was $10 million, in contrast to Morris's $400 thousand for the Bank of North America.

Moreover, Hamilton’s Bank plan contained an up-front provision for nationwide branches, although Hamilton advised going slow on establishing branches because he foresaw potential managerial problems. Unlike Morris, and unlike the Bank of England precedent that he is often said to have copied, Hamilton implemented a feature of all of his national-bank proposals of 1779-1781, cementing the tie of the Bank to the government by having the government own a fifth of its stock. Government debt securities from the funding plan could be tendered in payment for three-fourths of the privately held Bank shares, a clever linking of the Bank and the securities markets quite in contrast to Morris’s thinking as Financier. The result was that the Bank’s initial public offering (IPO) in 1791 was a resounding success, particularly in comparison with the far smaller BNA IPO a decade earlier. In Hamilton’s plan, the Bank, the public debt, and the securities markets reinforced one another.

Hamilton’s Mint Report of February 1791 defined the U.S. dollar as the country’s monetary base and proposed a government mint to produce coins of various denominations. The plan, which Congress enacted, drew on precedents set forth by Jefferson in the Confederation era. Hamilton followed Jefferson in using the Spanish peso or “dollar,” the coin most familiar to Americans, as a model, and he adopted Jefferson’s innovative idea of decimal coinage. Hamilton’s monetary plan was simpler than the complicated coinage and base-money plan that Morris drew up as Superintendent. It did embody a possibly unwarranted faith in bimetallism, but from that time forward the country had a unit of account easily understood in domestic and international markets.

On banking, Hamilton was more liberal than Morris. Hamilton promoted the concept of a national bank before there were modern banks of any kind in the country, to Morris among others, and he supported Morris's Bank of North America. In 1784, Hamilton helped found the nation's second bank, the Bank of New York, and his Bank of the United States was the nation's fourth and by far largest bank. Hamilton instinctively favored banking competition—the more banks, the merrier—whereas Morris saw reasons why there should be only one bank in a community.[5] In particular circumstances, such as an incipient crisis, in which a new bank might threaten to weaken an existing bank by draining its specie reserves, Hamilton could see practical arguments against competition and in favor of bank cooperation. But his Bank of the United States stimulated a much more rapid growth of state-chartered banking after it appeared in 1791, a result he surely intended when pointed out in his December 1790 Report on a National Bank that the government would likely earn a profit (it did) on its investment in Bank shares. State legislatures got the message; they began to charter more and more banks, and extract state revenues from them in the form of dividends on state-owned shares, bonus charges, and taxes. Therefore, while Morris will always be remembered for founding the first U.S. bank, it is fair to say that Hamilton should be regarded as the founder of the American banking system.

To review and conclude, much more than Morris, Hamilton had a fully articulated conception of what a modern financial system should be, and of how its components fitted together in mutually reinforcing ways. Hamilton no doubt had circumstantial advantages that Morris did not have, such as the Constitution. But, it should be reiterated, he had done as much as anyone to create the advantages he enjoyed. He did

[5] **PRM**, 9, 70ff, 128-30, 237, 667ff.

not simply appear on the scene in 1789 to seize an opportunity that Morris had lacked but that others had made possible.

Hamilton learned a lot from Morris, who was twenty-two years his senior and had a wealth of practical business experience. But Morris while in office learned and afterwards from Hamilton, too. As public men the two were birds of a feather, with similar goals for the country.

Negatively, Hamilton learned from Morris's example that mixing private business and public service could harm one's effectiveness, certainly in public service and quite likely in business as well. But that was an easy lesson, for Hamilton—unlike Morris--did not ever seem to care much about his own wealth. His goals appear to have been building a great nation, or at least the possibility of such a nation in the future, one that would be, in the words of Michael Lind in *Hamilton's Republic*, "safe, well governed, and rich."[6] In return, Hamilton hoped to gain the fame and glory that history might bestow on one contributed so much to the American founding.

In the end, it seems to me, Morris was a person of considerable business and financial talent who in the card game of public life was dealt a rather bad hand, played it as best he could, and then folded. Hamilton was a rarer sort, a person of financial and nation-building genius who changed the game, then played his hand in the new game superbly. His legacy was a modern financial system that would fuel U.S. economic growth and the new nation's rise in the world of empires and nation states. Hamilton executed his plan much more deftly than Morris executed his plan a decade before.

Lessons for Europe?

What can Europe learn from this early U.S. history? There are several possible lessons. One is that a weak central government is not the best way to form a more perfect union of states. That more perfect union probably requires taxing powers at the union level, not merely quotas and requisitions from member states. A second is that assumptions of the sovereign debts of member states by the union can solve many problems. A third is that it helps to have at the union level strong leadership that is capable of executing well-formulated plans. Although the EU today has a lot of things that the American Union lacked in 1790—in context, the EU has a stable euro currency, central bank, a banking system or systems, securities markets, and an established corporate system—it nonetheless bears similarities to the United States under the Articles of Confederation, when the rights of states trumped measures designed to foster a stronger union.

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[6] Michael Lind, *Hamilton's Republic* (New York: The Free Press, 1997), p. xxi.

Europe today could ponder something Alexander Hamilton wrote in his *Continentalist* essay number 6, published on July 4, 1782, the sixth birthday of the American Union when it was still far from clear what the nature of that union would be:

> There is something noble and magnificent in the perspective of a great Federal Republic, closely linked in the pursuit of a common interest,tranquil and prosperous at home, respectable abroad; but there is something proportionably diminutive and contemptible in the prospect of a number of petty states, with the appearance only of union, jarring, jealous and perverse, without any determined direction, fluctuating and unhappy at home, weak and insignificant by their dissensions, in the eyes of other nations. Happy America! If those, to whom thou hast intrusted the guardianship of thy infancy, know how to provide for thy future repose; but miserable and undone, if their negligence or ignorance permits the spirit of discord to erect her banners on the ruins of thy tranquility.[7]

Might Europe see a reflection of itself in this American mirror held up in 1782?

[7] PAH, vol. III, p. 106.