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Making Money: Political Development, the Greenback, and the Euro

by

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Abstract

The creation of Economic and Monetary Union (EMU) in Europe challenges much of what we have come to take for granted about states and the components of sovereignty. What does the willingness of twelve European Union (EU) members to abandon their own currencies mean for the nation-states of Europe? Does the Euro automatically imply further political development at the EU level? To address these questions, this paper parses out the role that national currencies play in statebuilding with reference to the nineteenth century American experience. Just as US federal authorities engaged in a political project to wrest control over money from subnational authorities to the center and unify the currency, so have the dynamics of currency unification in the EU involved important conflicts over the location of the legitimate exercise of control and rule. In particular, I highlight the role of war and market integration in prompting currency consolidation, and the importance of linkages between money and fiscal capacity for statebuilding, and apply the analytical lessons learned from the US experience to the case of the Euro.

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**MAKING MONEY:
*POLITICAL DEVELOPMENT, THE GREENBACK,
AND THE EURO***

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ABSTRACT

The creation of Economic and Monetary Union (EMU) in Europe challenges much of what we have come to take for granted about states and the components of sovereignty. What does the willingness of twelve European Union (EU) members to abandon their own currencies mean for the nation-states of Europe? Does the Euro automatically imply further political development at the EU level? To address these questions, this paper parses out the role that national currencies play in statebuilding with reference to the nineteenth century American experience. Just as US federal authorities engaged in a political project to wrest control over money from subnational authorities to the center and unify the currency, so have the dynamics of currency unification in the EU involved important conflicts over the location of the legitimate exercise of control and rule. In particular, I highlight the role of war and market integration in prompting currency consolidation, and the importance of linkages between money and fiscal capacity for statebuilding, and apply the analytical lessons learned from the US experience to the case of the Euro.

INTRODUCTION

The recent establishment of Economic and Monetary Union (EMU) in Europe challenges much of what we have come to take for granted about states and the components of sovereignty. What does the willingness of twelve European Union (EU) members to abandon their own currencies mean for the nation-states of Europe? Does the Euro automatically imply further political development at the EU level? EMU has typically been studied, and discussed in the policy realm, from perspectives that render it difficult to address these questions. Scholars have understood EMU either as a technical solution to an economic problem, or as an example of an intergovernmental cooperative regime. This paper moves beyond these traditional perspectives to examine the development of the Euro through the comparative historical and theoretical lens of statebuilding.¹ I contend that a study of the processes at work in the historical development of national currencies provides a useful starting point for making sense of contemporary monetary transformations (Gilbert and Helleiner, 1999). National currencies were largely created in the nineteenth century in conjunction with the modern state, a contentious process involving power struggles over the rightful locus of authority and the nature of governance (Tilly, 1975; Poggi, 1978; Cohen, 1998). This politically charged process has much more in common with the contemporary dynamics of European integration than commonly assumed, and may be of help in illustrating mechanisms of political and institutional change in the EU.

One historical case of currency consolidation in particular, the antebellum United States, provides a striking comparative analogy to contemporary Europe. The greenback we carry in our wallets did not appear with the initial founding of the US, but rather its creation during the civil war was part of a long transformation of the American polity from a loose system of autonomous states to a unified sovereign entity. Just as US federal authorities engaged in a political project to wrest control over money from subnational authorities to the center and unify the currency, so have the dynamics of currency unification in the EU involved important conflicts over the location of the legitimate exercise of control and rule. The parallels between the two cases are numerous enough to make the differences extremely informative.

Several sets of lessons stand out. The first is how two key causal factors--war, and national leader's desire to create a single market--have the potential to shape the transition to a single currency and determine its effects on political development. The second lesson concerns the effects of a single currency on statebuilding. Currency consolidation can play a significant role, both functional and symbolic, in strengthening the administrative capacities of the central state while redrawing the lines of collective identity and community. This potential is highly contingent, however. My findings emphasize the importance of linkages between the single currency and other mechanisms of state power, particularly fiscal policy. Applying these insights to the EU case helps

¹ Key works evaluating the EU in terms of states and sovereignty include Sbragia (1992), Caporaso (1996), and Marks (1997). Analyses of the relationship between money and political order include Bensele (1990), Helleiner (1998), Gilbert and Helleiner (1999), Woodruff (1999), and Cohen (1998).

explain why the Euro was created, and how its impact on statebuilding at the EU level might unfold. More generally, the US-EU comparison provides a more nuanced and historically accurate conception of national sovereignty than the 'all or nothing' view standard in most scholarship.² This more refined typology may provide us with a better lens with which to view contemporary states in globalized world of shifting levels of governance.

The paper proceeds as follows. I begin with a comparison of the antebellum US case and today's EU, and then examine the conventional wisdom on why political actors might choose a single money. The next section outlines an alternative perspective drawn from the American political development and European state formation literature, and lays out a new template for understanding the links between currency and statebuilding. I then offer a summary history of the drive towards a single currency in the US, drawing out the role of war and market integration in prompting currency consolidation, and highlighting the importance of monetary-fiscal linkages. I apply the analytical lessons learned to the case of the Euro, and conclude.

COMPARING ANTEBELLUM AMERICA AND TODAY'S EU

Before analyzing the creation of the US greenback, it is necessary to convince the reader that a historical comparison between the antebellum US and today's EU is even possible. Differences in the two cases come readily to mind. While the American states had a common language and shared political tradition, Europe today is composed of states with longstanding and diverse cultures, languages, and political traditions. The EU today is qualitatively and quantitatively more industrialized than the early US, with a modern economy and all its properties. The antebellum US was a set of largely agrarian, economically developing states. And of course, the EU is made up of sovereign nation-states--how can they be compared to the American states of the nineteenth century?

There are striking, if subtle, similarities in the two cases, however. First, although more culturally homogenous than the EU, antebellum US was marked by deep cultural and political divides, violently expressed in the civil war but felt long before and after. Language of the time reflected this sense of separateness: the US was referred to in the plural, as in 'the United States are' and only became 'the United States is' after the civil war (McPherson, 1991, viii). These divides extended beyond the North-South cleavages to secessionist movements in the mid-West region and Western expansion states (Bensel, 1990, 62). The American colonies may have had a shared political history in the war of independence, but the bonds across the colonies and with the new states of the union had by no means assumed political inevitability in the antebellum period.

In terms of the structure of their political economies, both today's EU and the US of the nineteenth century can be described as custom unions with rapidly integrating single markets. They both encompass states at varying levels of economic development. In both cases of the antebellum US and today's EU, local political units follow(ed)

² Philpott (2001) provides an overview of recent scholarship on sovereignty. See also Caporaso (2000).

independent fiscal policies with few interstate fiscal mechanisms to promote redistribution or encourage political solidarity across the union. Moreover, in terms of political structure, both the EU and the antebellum US cases constitute very loose federal structures with central control limited to a few key areas. The balance between local autonomy and central state power was highly contested and always uneasy in the US case, as it is the EU as demonstrated in debates over the legitimacy of Brussels today.³

More generally, both the antebellum US and today's EU challenge our standard categories of political units, and blur the accepted division between the anarchic model of the sovereign state system, and the hierarchical model of internal order and authority within the nation-state. While most observers today see the US as a clearly delineated sovereign state, Deudney (1995) argues that the American state system before the civil war actually constitutes an alternative form of governance, not captured by standard conceptualizations of international relations or comparative politics theory. Instead, the early US 'Philadelphian system' mixes anarchical elements with political order more akin to domestic rule.⁴ Observers have likewise struggled to agree on the descriptive category within which to place the EU: clearly not a state, but clearly more than an intergovernmental agreement. Both the EU of today, and the pre-civil war US, may be better seen as cases encompassing multiple and contested levels of authority with different powers being located at difference levels.⁵

This sort of tension across levels of governance and the contestation of sovereign control was evident in the monetary order of the early US. Before the American Civil War, foreign currencies as well as multiple versions of the dollar circulated widely, and state-based banks issued notes which functioned locally as paper money. There was no national central bank and little in the way of federal mechanisms for control. Individual American states jealously guarded their policy prerogatives while debates raged over the merits of the centralization of political authority in the realm of money. The American greenback was created and competing paper currencies abolished at the same time as states vehemently resisted further forays into other aspects of their sovereignty. Today, multiple European currencies previously circulating across Europe have likewise been unified, through an exercise of immense political will, into a single currency, while other components of governance, such as social policy and taxation, remain at the EU member state level.

As summarized in Figure 1, below, as Europe today is a collection of divergent polities and economies seeking some balance between collective governance and local sovereignty, and so was the antebellum US. The act of consolidating monetary authority over a single paper currency was consequential for this precarious balance of power in both cases. Understood in this way, comparisons of political processes across these two

³ In fact, compliance with European level (European Court of Justice) law may be higher today than antebellum compliance was with federal US law (Goldstein, 1997).

⁴ See also Sprinkle (1999).

⁵ On the EU, see Caporaso (1996), Hooghe and Marks (2001) and Banchoff and Smith (1999); on the US, McPherson (1991).

cases might in fact be very instructive for understanding the implications of the Euro for political development in Europe.

Figure 1:
Comparing Antebellum America and Today's EU

| | <i>European Union</i> | <i>Antebellum U.S</i> |
|----------------------------|--|---|
| <i>Culture</i> | Divergent | Divergent |
| <i>Political Structure</i> | Decentralized | Decentralized |
| <i>Economy</i> | Industrialized | Agrarian & industrializing |
| | Single market & Customs union | Single market & Customs union |
| <i>Currency</i> | Multiple currencies Euro in 1999-2002 | Thousands of currencies Greenback in 1861-62 |

WHY A SINGLE CURRENCY?

Having cleared the ground for a comparison of currency unification in the US and the EU, we now can begin our analysis with a very general question. Why might political actors consolidate different monies into a single unified currency? There are two conventional lines of analysis which tackle this question: economic approaches and international regime approaches. Although valuable, because these approaches lack attention to the connections between political development and currency unification, I argue that they can answer this question only incompletely.

Economic Approaches

Economists have approached the question of currency unification largely through the lens of economic costs and benefits. The benefits are intuitive: if there is substantial trade and investment activity across an area, a single currency should ease economic interactions by eliminating the transaction costs of doing business in many currencies and eliminating the risks associated with fluctuating currencies. Moving to a single currency creates two policy effects, however, which could be costly: first, it eliminates the ability to modify exchange rates vis à vis others within the new monetary union; and second, in a larger monetary union, monetary policy cannot be directed solely towards an individual region's economic situation but must be collectively decided for the whole of the union.

To determine the extent to which such policy trade-offs would be beneficial or costly, Optimum Currency Area (OCA) theory was developed (Mundell, 1961; McKinnon, 1963; Kenen, 1969). The value of the OCA approach is that it sets out a clear guide to evaluating the costs and benefits of currency reorganization and therefore can be used to prescribe the ideal economic boundaries for a single currency. The drawback is that the OCA predictions bear little resemblance to the real world of currency areas. Economists have compared the US and the EU and have found that both fail on economic terms as likely candidates for a single currency (Bini-Smaghi and Vori, 1992; Eichengreen, 1992). While such purely economic analyses suggest some of the pitfalls and promises of moving to a single currency, we need to look elsewhere to understand its foundations in practice.

Political scientists have pursued an alternative economic-based argument, focusing not on aggregate efficiency as in the OCA analysis but rather on the distributional consequences of currency unification (Frieden, 1991; Oatley, 1997). For example, Frieden (1991) argues that the push for monetary union in Europe came from particular sectoral interests in society, such as multinational exporters, which might gain from reduced currency instability and lowered transaction costs.⁶ While this sectoral interests approach goes further than the purely economic one by parsing out the societal winners and losers from a single currency, because it is silent on the political and institutional environment, it too cannot address the issues that concern us here, the broader political consequences of the move to a unified currency.

International Regime Approaches

Alternatively, the development of a single currency is viewed by some international relations scholars as example of international cooperation in line with the literature on international regimes. Most theorists start from the assumption that relations among states occur in an anarchic setting which differs markedly from the domestic political realm, as there is no single legitimate source of order and governance. Intergovernmental cooperative arrangements are therefore most likely to arise along issue specific lines, as functionally appropriate. States will enter into monetary regimes, be they ad hoc as in the G-7, or formalized and binding arrangements such as the Euro, in order to achieve goals not reachable unilaterally. From this perspective, states retain their essential sovereignty and power as governance does not meaningfully shift with currency consolidation. Instead, certain functions are merely delegated as they can be more effectively executed at the supranational level. Moravcsik (1998) offers such an account of EMU, assuming, as do most international regime scholars, that there is a sharp distinction between the domestic political arena where interest groups formulate policy, and the international or EU setting, where national political leaders bargain. Although Moravcsik's account does much to illuminate the dynamics of EMU negotiations, as it is

⁶ Empirical work in this area has cast doubt on the priority placed by businesses on currency union and failed to establish linkages between the initiatives to move forward with the Euro and lobbying efforts on the part of businesses (McNamara, 1998, ch. 2; Jabko, 2000).

squarely within the sovereign state paradigm it does not allow us to draw out the dynamics of the single currency in terms of its effects on governance more broadly.

To assess the potential for political development at the EU level, therefore, we must look elsewhere, beyond strict economic analyses or the international relations literature.

MODELS OF POLITICAL DEVELOPMENT

The comparative political development literature offers an alternative answer to the question of 'why a single currency?' by linking it to the process of statebuilding. Instead of focusing only on the transaction costs of multiple currencies, or on the benefits of delegating monetary authority to other actors, this perspective places political control over money within its larger political and institutional framework. Below, I sketch out the broad premises of the statebuilding literature before moving on to offer my analysis of the more specific role currency consolidation plays in statebuilding.

Statebuilding implies the internal consolidation and institutionalization of political power and policymaking capacity at the center of a bounded geographical territory and population.⁷ For most theorists, the modern Western state is characterized as having a unique, distinct, independent power of rule with a unity of state territory, bounded by geographically defensible borders. Components of modern states generally (but not always) include a unified fiscal system; a single, often imposed, national language; a unified legal system; and most important for our purposes here, a single currency (Poggi, 1978, 93). All Western states in the nineteenth century pursued these basic goals "self-consciously and explicitly..." with greater or lesser success (Poggi, 1978, 93). Statebuilding is related to but distinct from nation building: the latter implies the creation of a political community and common identity. Statebuilding entails the concrete manifestations of bureaucratic capacity, whereas nation building can be conceptualized as the dynamic process linking a government's institutions and its citizens. Nation building can be a critical enabling foundation for state power and capacity, however.

How does the process of statebuilding unfold, and how might we know it when we see it? Scholars have attempted to offer a generalized trajectory of political development which identifies the sequence and timing of the stages of statebuilding. The fact that this process is historically contingent has prompted divergent models, however, drawn from different empirical cases. From the European experience, Huntington proposed a three stage stylized model of statebuilding (Huntington, 1968). First, state power is extended and centralized, and authority is rationalized throughout the nation at the same time as decentralized institutions which might contest authority are dismantled. This process is marked by internal struggles over the relative balance of power and over

⁷ On the development of states in Western Europe, see Tilly (1975); Poggi (1978); and Evans, Rueschemeyer, and Skocpol (1985). Centano (1997) provides an astute critique of the universality of these experiences with reference to Latin America. The US experience is explored in the American Political Development literature. See Burnham (1970); Skowronek (1982); Bense (1990); and Friedberg (2000).

the content and direction of the powers of rule (Poggi, 1978). Second, the national bureaucracy is increasingly specialized; new political functions are differentiated and institutions are designed to perform them. Finally, in conjunction with these new state capacities comes an increase in political participation and attention to democratic accountability issues.

Political development in the US case is generally agreed to have had a different trajectory. Most clearly, the broadening of political participation came first, not last, in the American case, before the development of a consolidated central state. The centralization of state power and creation of an extended and highly differentiated bureaucracy lagged behind the European model. In the US, rule occurred through the law: while in 17th century Europe, the state itself was the fundamental source of political authority, in America, the law played the role of ultimate authority and arbitrator. As will be clear in the historical account of the American greenback, sovereignty was widely dispersed across institutions and society in antebellum America. Likewise, the development of political capacity at the EU level has been more reflective of the American experience than the stylized European model, with a relatively weak centralization of power in Brussels, but a strong role for law through the European Court of Justice, and early attention to the needs of democratic participation. However, as in both the nineteenth century US and European experiences, today's EU has been marked by profound struggles over the legitimate location of political authority and policy capacity.

What are the general factors that have the potential to push forward statebuilding? The first is war, as summed up in Tilly's succinct phrase, "War made the state and the state made war" (Tilly, 1975, 42). The requirements for effective mobilization for war have proved a comprehensive spur to the development of the modern state, as state bureaucracy increases to meet the demands of war, revenue extraction deepens, and governments become involved in a wide array of activities within the economy (Porter, 1994). Second, theorists have emphasized the interactions between the dynamic evolution of capitalism and statebuilding (Poggi, 1978). As economic activity becomes more integrated and complex, authority must be centralized in order to stabilize and regulate markets against the volatility inherent in their growth. Others emphasize the role of class conflict in the context of market building, as the interclass struggle between labor and capital, and the struggles among capitalists themselves, demand the increasing capacity of the state to either mediate or suppress such conflict (Skowronek 1991, 10-12). As will be discussed below, the twin roles of war and capitalist development do indeed appear to be crucial motors behind the development of the national currency in the US case, highlighting their component role in statebuilding.

The process of state building has historically been attenuated, open ended, and circuitous, with different groups using different justifications for political centralization at different times, without consensus on the desirability of an overarching and explicit design (Poggi 1978; Spruyt, 1994). Clearly, not all wars lead to statebuilding (Centano, 1997). Neither will market integration always be a spur to governance capacity. Statebuilding can fail or be reversed. This is an important caveat to keep in mind when

attempting to project the future path of the EU based on historical experience of other states. Nonetheless, such comparison allows us to identify the mechanisms at work and generalize their potential for importance across various cases. Figure 2, below, presents a schematic overview of the potential relationship between statebuilding, war and market integration, as drawn from the literature on political development.

Figure 2: Theorizing Political Development

| | | <i>Threat of War</i> | |
|---------------------------|------|---------------------------------|---------------------------------|
| | | Low | High |
| <i>Market Integration</i> | Low | No Statebuilding | Uneven Statebuilding |
| | High | Uneven Statebuilding | High Statebuilding |

What role for a national currency?

Monetary consolidation and the creation of a national currency has been assumed to be a component part of the state building process, yet few authors writing in this tradition have explicitly focused on currencies per se. This is curious, for control over money on the part of political leaders institutionalizes the power to rule and control, and is generally "hard-won, the culmination of a process of organized coercion and political negotiation similar to those that resulted in the other powers defining the modern nation-state" (Woodruff, 1999, 3). Below, I propose a template for thinking about the reciprocal connections between currency unification and statebuilding, focusing on how a national money can bolster administrative and bureaucratic capacity, and how it may shape national identity.⁸

A single currency directly contributes to the administrative and bureaucratic development of the state, as responsibility for its management moves to the national level. This task is often initially housed inside preexisting treasury or finance departments or ministries and then spawns new and more highly differentiated bureaucracies in conjunction with a national bank system, and ultimately, a national

⁸ This template owes intellectual debts to Helleiner (1998), Gilbert and Helleiner (1999), Woodruff (1999), and Cohen (1998).

central bank. In so doing, policymaking capabilities come under purview of central authorities, moving power to the national level government and providing the instruments for its effective use. In particular, a national currency can play a key role in the development of a national fiscal system. Once a paper currency is created and delinked from traditional metallic standards, it loosens the ties on government spending. The ability to run deficits and issue national public debt greatly enhances the capacities of states, and a national currency makes it easier both to raise and organize public debt, as well as tax more effectively. In the American case, as we shall see, nationalizing the currency enhanced the growth and efficiency of private financial markets as well, which were critical to the war fighting and reconstruction plans of the Union government (Bensel, 1990). In addition, a single currency can have direct and important impact on national revenues through seignorage gains.

A second way a single currency can promote statebuilding is through its impact on the creation of national identity (Helleiner, 1998; 1999; Risse et al, 1999). Currencies have a powerful symbolic value, and leaders may promote the consolidation of monetary authority so as to encourage a sense of collectivity or community (Cohen, 1998, 34). Money is unique among government activities because it creates a tangible link between citizens and the state, and its daily and universal use reminds its users that they are part of a collectivity, promoting a shared identity in the same way a common language might. Paper money, such as the US greenback, has certain properties which give it a striking intersubjective, social quality which can shape identity formation. Because a national paper currency does not have any intrinsic metallic worth, unlike a gold coin, such money is a social construct, entirely dependent on intersubjective understandings of value. As a lever of the state, then, money has a reciprocal role to play. If a national currency maintains its value, it shores up the state, yet the state itself plays a large part in shaping perceptions of the value of that money. Trust amongst the holders of the national money is critical: for a currency to perform both its role as a transaction device and a store of value, it must have the faith of its users. Therefore it creates a bond between individual citizens in their transactions with each other, and between the state and its citizens that renders it a powerful component of nation building (Woodruff, 1997, pp. 15-17).

In summary, national currencies can be important components of statebuilding that provide states with powerful tools for governance. The next section examines the antebellum US case and asks two questions. First, what conditions prompted the reorganization of monetary authority? Second, what were the consequences for statebuilding? The final section then takes these lessons and applies them to the case of the Euro.

THE DEVELOPMENT OF A SINGLE AMERICAN CURRENCY

Early American monetary history was dominated by fierce battles over who should have authority to regulate money--the federal government or individual American states.⁹ A single American currency was politically taboo for the first century after the adoption of the US Constitution--instead, people made do with metallic coins, both

⁹ McNamara (2002) examines the American in detail.

domestic and foreign, and thousands of different local paper currencies circulated across the US states. In this period, political battles were focused on the chartering of a national bank, charged not with issuing a national currency but instead with the task of overseeing the regulation of multiple local paper currencies. The road to the greenback was long and bumpy, as power shifted back and forth between those who firmly believed that the US could not survive without a strong state supported by levers of governance concentrated at the center, and those who just as firmly wanted to hold on to the right to rule over money at the state level. In the end, the fiscal needs of war fighting, and the political desire to create an integrated single American market, pushed Northern Republicans to consolidate monetary authority and establish a single paper currency. The section below provides the historical background to the moment of the greenback's creation, focusing on political divisions over federal control and the multitude of competing forms of currency, and then outlines the role of war and market integration in the creation of the greenback.

Early and Antebellum Monetary History

At the founding of the United States of America, there was no legal or political agreement about the role of a national currency or federal monetary authority. The US Constitution simply stated that Congress has the power to coin money and regulate its value, and there is no specific legal outline for a single currency or central bank (Hurst 1973). The assumption was that a self-adjusting metallic standard would be the basis for monetary governance, avoiding the need for political authority over money at the center of the union. The amount of gold mined largely determined the overall money supply, augmented only by foreign coins, such as Mexican pesos, which circulated within the US as well (Cohen, 1998). The costs of the specie standard were high, however, in terms of basic logistics of storing and transferring gold. Paper money promised a more efficient method of payment, but it also implied the need for active oversight and public regulation to ensure stability. Paper monies began to be used in earnest in the late eighteenth century in tandem with the development of a commercial banking system, with three state banks chartered by Congress along with a national level First Bank of the United States in 1791. These state banks issued paper notes to be used locally for payment with the national bank having the potential to serve as the overseer and stabilizer of the system.

However, acrimonious debates over whether there should indeed be a national US bank at all indicated that there was little agreement on the desired balance between national political authority and local control of money. The First Bank was not anything close to a modern day national central bank nor did it oversee a national currency standard. Nonetheless, it served as a lightning rod for those opposed to the increased power of the federal state. To its key designer, Alexander Hamilton, the goal of the First Bank was to allow for the funding of public debt to promote national growth, and eventually one day, to oversee the development of a single currency.¹⁰ The First National Bank acted as a fairly large scale creditor and debtor, and set the terms of its

¹⁰ Hamilton argued in 1781, "A national debt if it is not excessive will be to us a national blessing: it will be a powerful cement of our union" (Higginbotham 1977, 294, quoted in Savage 1988, 70).

currency transactions with private banks with an eye to the national need for credit restraint or ease (Timberlake 1978, 10). However, when it came time for renewal of the Bank's charter in 1810, the political strength of those against an overly centralized political authority, combined with state banks' desire to take over government deposits, doomed its chances.

After a period of state level control over banking, a Second National Bank was established in 1816 but it too struck only a temporary and precarious balance between federal power and state sovereignty.¹¹ In part, the Bank's founding was spearheaded by Congressional members concerned with strengthening the union and national capacities in the wake of the War of 1812 (Hammond 1957). The lack of federal fiscal and monetary control was thought to have been damaging to American efforts in prosecuting the war against Britain. The "War Hawks" sought to shore up what they saw as the weaknesses of the component parts of the US state, and the rechartering of the Bank met their goals of solidifying powers at the center, and more urgently, housing the interest-bearing government debt incurred during the war.

With the inauguration of the Jackson administration in 1828, a series of congressional inquiries into the Second National Bank began. The central issue for many was whether Congress could and should exercise powers not enumerated in the Constitution, and thus potentially reserved for the states. Some political leaders viewed the chartering of a national corporation and establishment of an institution with the capacity to significantly consolidate economic powers at the federal level as unacceptable. After years of often heated congressional dialogues over the bank and its fate, the second National Bank's charter ended without renewal in 1836.

Despite the lack of a national bank, the American economy developed and modernized in the period before the Civil War; unsurprisingly, however, its monetary system was highly decentralized and often chaotic. The federal government issued specie money, gold and silver coins, which were used as "outside money" to settle accounts (Sheridan, 1996). But a variety of paper currencies, not created by the federal government, circulated as "inside monies." Basically, inside money is an IOU by a bank to pay outside money. These bank notes were the most common form of money circulating in antebellum US (Ritter, 1997, 66). In fact, Helleiner states that before the Civil War, approximately 7000 different kinds of bank notes were in circulation and, to further complicate matters, probably fifty percent of those in circulation were counterfeit. "To cope with this chaos, merchants were forced to consult monthly bank note 'detectors' which informed them of the relative value of each note" (Helleiner 1999, 320). State governments were charged with overseeing these local banks after the demise of the Second National Bank, but a large variation existed in the extent and effectiveness to which they did so, however.

¹¹ There is disagreement among historians over the degree to which the Second Bank centralized powers and functioned as a proto national central bank. See Timberlake (1978, 1993), Fraas (1974), Hammond (1957), Catterall (1902), and Smith (1953).

To further the confusion, local bank notes also were traded across state borders, like national currencies today, and these paper currencies would rise or fall in value based on the assessment of the credibility of the commitment to exchange the note for outside money. While some state bank systems were sound, such as those of New York and Louisiana, "others, particularly those along the Western frontier, were unstable and poorly managed. Since bank notes were often of uncertain value, they were heavily discounted by eastern banks." (Ritter, 1997, 66). So the actual value, in practice, of state dollars often varied. As holding bank notes was risky unless there was some credibility on the part of the banks to pay out an equivalence in specie money, financial intermediaries would test the willingness of the banks to redeem notes, and by the mid-1860s, clearinghouses were set up in major cities to facilitate this process. In essence, the antebellum US had a system of floating exchange rates and multiple currencies not unlike the European exchange rate system of the 1980s and 1990s (Sheridan, 1996).

THE BIRTH OF THE GREENBACK

A single American paper currency finally became a reality only with the onset of the Civil War. The Civil War, more than the end of British colonial rule, is viewed by some scholars as "the true foundational moment in American political development." (Bensel, 1990, 10; McPherson, 1991). On one hand, it is peculiar that an important and strongly centralizing step like currency unification would be taken at a moment of such political disunity. On the other hand, the greenback can be seen as directly arising out of crisis as political leaders in the North struggled to find ways to meet the compelling threat presented by Southern succession. The single currency, based on a paper standard not tied to metal, promised a way to increase revenues and build fiscal capacities to deal with the practical financing needs of war fighting. It also might improve the chances of lasting political union by providing a potent national symbol and bolstering an integrated national market.

The Role of War

As discussed above, war has featured prominently in the work of scholars of comparative political development. Hintze states it baldly: "All state organization was originally military organization, organization for war." (Hintze 1975, 181). Building up the capacity to fight requires extraordinary political efforts, revenue raising being the first necessity. This organizational capacity has inevitably "produced arrangements which could deliver resources to the government for other purposes. Thus almost all the major European taxes began as "extraordinary levies" earmarked for particular wars, and became routine sources of governmental revenues (Tilly, 1975, 42). The prosecution of war promoted territorial consolidation, institutional centralization, the differentiation of the instruments of government and strengthened the position of the state as the monopolist in the use of coercion.

The creation of the American greenback illustrates the reciprocal relationship between war fighting, currency consolidation, and statebuilding. The stakes for the future of the American state could not have been higher: political divisions went beyond

the North-South divide, and if the Union could not either repress or coerce the south to stay in, a number of secessionist regions might take leave. Disintegration into a very loose confederation would have been the result: "...the choice for the North posed by southern secession was never between one nation and two but between one nation and many" (Bensel 1990, 62). The US government was extremely weak, centered on "a very few functions such as the collection of customs duties and delivery of the mail" (Bensel, 1990, 85). Lincoln and his Republican party's war effort was dependent in part on active financial markets and industrial production--encouraged in no small part by the creation of a newly standardized monetary system based on the greenback.

The monetary reforms undertaken, many of which were contained in the 1863 National Bank Act, linked to statebuilding through three channels: nationalization of the banking system; federal debt creation; and an increase in policy capacity with the greenback (Bensel 1990, 14). First, the reforms created a national bank system that abolished locally chartered banks and effectively nationalized the currency. This underlined the primacy of the federal authority over financial flows, facilitating the collection of revenues and control of the monetary system. Second, the Union permanently placed a large part of the national debt with finance capitalists through the nationalized banking system. The federal government did this by forcing private banks which issued newly standardized and recognized 'national bank' notes to hold government bonds and "thus created an instant market for these bonds which could finance its spending requirements" (Helleiner 1999, 325). Finally, the Northern Republicans abandoned the domestic specie or gold standard and conferred legal tender status on greenbacks, the new dollar paper currency issued in the winter of 1861-2. This significantly increased the Union government's policy flexibility in financing of the war absent a personal income tax system. As the greenback did not need to be matched by gold or silver reserves, it gave leeway to the government to print money to raise revenues, in addition to raising funds through federal bonds, as long as authorities could maintain credibility over the worth of the paper currency.

The single currency was consequential for US political development in more subtle ways as well. The centralization of money forged important new links between the state and powerful societal actors. Substituting greenbacks for gold redeemable bank notes "effectively nationalized the payment clauses of private and public contracts in the northern economy and tied these agreements to the future financial policy of the central state." (Bensel 1990, 162). The explosion of government bonds served to create a client group and social base of support for the federal government by establishing their enduring interest in the health of the state. On a symbolic level, as well, the greenback promoted a more homogenous, unified and collective vision of the American state. Whereas the notes issued by private banks before 1863 had been elaborately decorated, "the images had been overwhelmingly of local landmarks, personalities and historical events" (Helleiner 1999, 329). In contrast, Treasury officials carefully chose nationalist imagery for National Bank notes in 1863 to promote unity at a time of great strife.

A Single Market

The civil war created the conditions under which Lincoln could go forward with a program of nationalization of the currency but the roots of the move had been established long before the civil war itself. The transformation of the US from agrarian to industrial economy was also pushing political leaders to develop the American political infrastructure. The statebuilding literature surveyed earlier highlighted the powerful and reciprocal relationships between capitalism and state power, as political elites have sought to regulate and profit from market integration at the same time as private actors have both sought and resisted government action to stabilize markets (Tilly 1975, 30). Increasing capitalist production dominated nineteenth century state development: however, market imperatives translated into varied political outcomes (Dobbin, 1994). Like war, market integration did not necessitate a single currency, rather it created political opportunities for action.

An American market economy was in rapid ascendance in the nineteenth century as interregional trade began taking off starting in the 1790s.¹² Growing income from Southern cotton exports financed demand for western foodstuffs and Northeastern services and manufactures in the antebellum period (North, 1966, 68). Transportation advances, both waterways and rail, promoted the expansion and integration of the US economy while government intervention and the exercise of political authority shaped the new market. Federal judges used their independence and authority to create laws that reduced the uncertainty of interstate business by more clearly specifying the rights and obligations of parties to contracts, particularly regarding the negotiability of bills of credit (Freyer, 1979). Although private actors had devised ways to cope with multitudes of paper and metallic currencies circulating in the antebellum period, American political elites saw a standardized medium of exchange as facilitating trade and investment across the US while simultaneously shoring up the goal of political unification after the war's end. Hurst argues that while financing of the war effort was central to the currency reform, "it was urged in part, also, as a means to create a desirable uniformity in the form and sources of paper currency" and rescue citizens and business people from the "bewildering variation" in monies (Hurst, 1973, 37).

The connections between statebuilding and the single market were more contingent and potentially perverse than for war fighting, however. By making an integrated national market the cornerstone of the political project, particularly in the reconstruction era and beyond, American leaders limited the nature and extent of the state building process. The development of a single currency, a single market, and a federal debt underpinned by integrated financial markets permanently changed the relationship of the central state to societal elites, as noted above. Financial elites were "both enticed and coerced into becoming agents of Union fiscal policy and subsequently cooperating with the Treasury in marketing government debt securities and managing the circulation and value of Union currency" (Bensel 1990, 238). After the civil war, however, many of these financial elites sought to rollback federal authority over money by linking once

¹² See North (1966, 32-36 and 101-121), and Schmidt (1939).

again to the gold standard, and favored substantial retrenchment of the federal government's involvement in the economy overall. Having created societal partners in statebuilding through the greenback, it would prove difficult to unwind these new coalitional constraints on federal action.

The era of the pure greenback standard ended with the resumption of the gold standard on January 2, 1879. Paper dollars became gold-backed, or redeemable into gold; one greenback dollar was equal to the bullion in one gold dollar. This link to gold limited the monetary freedom of the government, and proved to be the source of fierce political battles over the next several decades (Ritter, 1997). The civil war era reforms had given the American state a single currency and an emergent political control over money, but these reforms ushered in a new era of debate over monetary organization which did not end with the eventual establishment of the US Federal Reserve Bank in 1913. Nonetheless, the US now had a single national currency and the centralizing and statebuilding processes were set in motion as the federal institutions managing the dollar gained authority, and the greenback became entrenched as a symbol of nationhood.

LESSONS FOR EUROPE TODAY

Specifying the causal dynamics of currency consolidation and their relationship to statebuilding in the American case allows us to analyze the present day European case with a new set of conceptual tools. The Euro, like the greenback, will have important consequences for the unfolding of political development in Europe, but the trajectory of change is far from predetermined. The US case suggests some of the contradictions and limits to such development which will have to be overcome before we see the full evolution of authority upwards to the European level. To preview my conclusions, Figure 3, below, summarizes my findings regarding the causal relationship between market integration, the threat of war, and currency consolidation.

Figure 3: Comparing Historical Outcomes of Currency Consolidation

| | | <i>Threat of War</i> | |
|---------------------------|------|------------------------------|--------------------------------|
| | | Low | High |
| <i>Market Integration</i> | Low | (Multiple Currencies) | (?) |
| | High | Euro but no fiscal authority | Greenback and fiscal authority |

Below, I assess the two major causes of the greenback's creation, the role of warfare and the single integrated market, in relation to the EU case, and discuss their consequences for statebuilding in the EU.

War and the Euro

War clearly has played a very different role in the creation of the Euro than it did in the US case. The Euro was created in the shadow of war, not in its crucible, and therefore the impact of war has been fainter and more attenuated than in the US case. Southern secession and the outbreak of war brought immediate and pressing financing needs in the US case, leading to the imposition of the greenback by the ruling political party. In Europe, war's impact on EU statebuilding has been less direct and therefore less potent. The desire to minimize the potential for a revival of hostilities among the great powers was a critical original motivation for European integration, expressed in the European Coal and Steel Community (ECSC) in 1952 and the signing of the Treaty of Rome in 1957 (Dinan, 1994, 9-38). The continued deepening of the EU project over the following decades has been understood by many as an attempt to solve the 'German problem' by binding Germany tightly together with its former enemies in a quasi-federal union. To further this end, a single money was promoted by various political actors and agreed to by European leaders as early as 1969 (Tsoukalis, 1977).

However, Europe only moved decisively towards the Euro in 1992 with the signing of the Maastricht Treaty, which outlined the rules governing EMU, the European Central Bank and the Euro. The decision at Maastricht was not incidental in its timing. In the cauldron of uncertainty surrounding the end of the cold war, the fall of the Berlin wall in 1989, and the reunification of Germany, European leaders, particularly French President Mitterrand and German Chancellor Helmut Kohl, saw the binding of European nation-states with Germany in a cooperative union with a single currency as an important goal (Sandholtz, 1993; Dyson and Featherstone, 1999).¹³ A European single currency might have the potential to glue Europe together so that secession from the EU and the peaceful community of states would be less likely, just as the Northern Republicans hoped the dollar would help reengineer the American union. Thus, the end of the cold war can be argued to be a catalyzing event for a longstanding interest in monetary integration in Europe, as the civil war was for the US.

While EU and US leaders shared the desire to lock in unity, the level and immediacy of threat was not the same, however. Europe faced the end of an external cold war in partnership with a reformed Germany, not the mobilization for a bloody civil war as in the US case. The greenback was imposed on the South in an exercise of power by the winning Northern states. In Europe, EMU was agreed to, not coerced, among states of legally equal status. Thus, the US decision to go forward with the development of a single currency and to develop strong and integrated financial markets was taken at a time of political division which makes European cleavages seem mild by comparison. The difference in the levels of threat between the two cases may account for the different effects so far in terms of statebuilding. Most importantly, the pragmatic and pressing

¹³ See Moravcsik (1998) for an opposing view.

need to finance war fighting expenditures is missing from the contemporary European context. While the development of the greenback had decisive impacts on statebuilding in part because it was intimately linked to the need for public financing of the civil war and the development of new revenue raising possibilities on the part of the federal state, the low level of threat has prompted very little in the way of fiscal capacity at the EU level.

In fact, the EU is severely constrained in the fiscal area. It is prohibited by its own laws from borrowing to balance its budget and must operate entirely within its revenues (Laffen, 1997). It cannot impose direct taxation on EU citizens and strict limitations are placed on EU expenditures as a proportion of the overall European GNP. Although such expenditures have grown over the 1990s, the current EU budget runs at less than two percent of total EU GNP, a fraction of the 30 to 50 percent spent by national governments as a proportion of their economies. The largest part of EU revenue itself comes from value added taxes, collected at a harmonized rate across the EU, which in 1999 was limited to 1 percent of EU GNP. The next largest source is GNP-based 'own resources,' which are national contributions to the EU budget determined annually as a proportion of national GNP. Finally, a diminishing amount of revenue is derived from agricultural levies and customs duties on imported products (Hix, 1999, 244-48).

The truncated nature of EU revenue extraction and expenditure has meant that the EU must rely on administrative rule making as the chief means of policy development and on the European Court of Justice and the national administrations of the member states for implementation and enforcement (Majone 1993). There is today very little publicly voiced support for increased public financing at the EU level, although privately, many high level EU and national officials argue that the single currency can only function effectively if it is joined with fiscal policy capacity.¹⁴ Given the lessons from the US case, it will take a severe crisis, military, economic or social, to move fiscal capacity to Brussels, but such an outcome is now more feasible and, perhaps, more likely with the single currency in place.

The Single European Market

Market integration in the EU may be the causal factor which more closely parallels the US greenback case. A key goal of the EU's founding constitution, the Treaty of Rome, was the creation of a single European market, with free flows of people, goods, capital and services. This goal was given a tremendous boost by the 1985 Single European Act, which strove to remove all barriers to commerce across the EU by 1992 (Sandholtz and Zysman, 1989; Moravcsik, 1998; Green Cowles, 1995). The single market, in turn, was cited as a key reason for the drive to a single currency by EU and national officials alike. The European Commission actively promoted this view, codified in a often cited report, *One Market, One Money*, which made the case that the EU's market necessitated a single currency (Emerson and Gros, 1992).

¹⁴ Many economists also argue that the single currency must be matched by EU level fiscal federalism, see for example Eichengreen (1990).

However, as in the US case, EU market integration did not by itself necessitate the creation of the Euro. Different national currencies have coexisted with high levels of integration across national borders, as Canada and the US demonstrate. For many observers, the economic risks and downsides of giving up European national currencies as a tool of economic governance outweigh the upside of reducing transaction costs within the single market, making such an economic argument suspect. Rather, the single market-Euro linkage was created as a political strategy by those interested in the goal of further integration, just as in the American case linking the single market to the greenback represented a chance at state and nation building (Jabko, 2000).

The role of market integration in the American case suggests a significant lesson for the future unfolding of European political development. One expert on EU finances argues that "The Union has managed to develop an economic space without a large budget because it is built largely on market liberalization" (Laffen, 1997, 35) But she goes on to warn that political contestation over the purpose of the EU and the role of fiscal federalism will continue as the balance between national and EU policy capacity evolves. The US case suggests that by linking market integration to the creation of the greenback, American leaders significantly limited the nature and extent of the state building process. Creating support for the greenback by building societal coalitions supportive of new national capital markets meant that national wealth redistribution and social protection policies had no natural allies within this political constituency. The public justification for the Euro project, as with the EU integration as a whole, is similarly focused on its supposed market efficiency aspects. Thus, it is perhaps unsurprising that there has been a lack of coalitional support and correspondingly incomplete and uneven development of the policy capacity of the EU, even as a single currency is established.

Finally, what of the lesson from the US case which emphasizes the potential for currencies to assist in the development of a shared political identity, contributing to statebuilding? It is difficult to assess the effect that it will have. There are important differences in the political symbolism of the Euro in comparison to the greenback. Unlike the US currency, which was able to draw on specific historical figures and monuments to unite the American states, the Euro depicts abstract architectural designs, such as columns and gothic windows, and has a theme of "building bridges" across Europe. European leaders did not want to highlight any specific historical references or places for fear of privileging some national traditions over others. The Euro's symbolic value, therefore, will have to be created out of thin air, making the task of creating political community much more difficult and putting to the symbolic meaning of money to a severe test.

CONCLUSION

In an effort to understand the potential impact of the Euro on political development in the EU, this paper has parsed out the role that national currencies play in statebuilding with reference to the American experience. A comparison with the US case

can only be suggestive; more comparative study across a larger sample of states is necessary. However, the merit of this comparison with the US is that it generates new insights by forcing us to evaluate EMU in terms of state and nation building, a proposition that is inconceivable within the standard frameworks of economic and international regime explanations. It also allows us to better specify both the conditions which bring forth single currencies and to articulate the linkages between national currencies and the mechanisms of state power.

In line with the broader literature on statebuilding, the US case suggests the role of war is a key catalyst to a single currency, and ultimately political development, particularly if accompanied by the creation of fiscal capacities at the federal level. The US case also suggests that political leaders' desire to build a national market can also be a potent factor behind a single currency, as a standardized money can rationalize and minimize transactions costs at the same time as it redraws the lines of political community. The trajectory of development in the US case also makes clear the contingency of this process: while a single currency played a critical role in the development of the state, its importance was linked to a host of institutional and political repercussions and fiscal effects rather than being solely situated in the specific act of creating the greenback itself.

The conditions bringing forth the Euro echo but do not replicate the American experience. While the catalyst for the timing of the Euro was related to security concerns, the level of threat was not comparable and the exercise of power nowhere near as unilateral as in the US case. The relationship of the single market to currency creation as part of a larger political project is perhaps a more obvious analogy. In terms of consequences for statebuilding, the American case suggests that we should look beyond the single currency to the development of fiscal responsibility and debt financing for the most potent statebuilding effects. Currently, there is no fiscal federalism at the EU level. The EU must make do with a limited GDP percentage of funds from member states, and cannot run deficits or issue public debt. Even absent fiscal capacity, however, the Euro suggests a relationship between financial interests and authorities that the US experience tells us may shift the locus of financial market power to the European level. If fiscal authority also starts to evolve to Brussels as some believe is likely in the long run, that will signal a decisive transfer of power and conformity to historic models of statebuilding. Figure 4, below, summarizes the relationship between the causes of currency consolidation in the US and EU, and the nature of statebuilding that we have observed in these cases.

Figure 4: Political Development in the US and EU

| | | <i>Threat of War</i> | |
|---------------------------|------|---------------------------|------------------------|
| | | Low | High |
| <i>Market Integration</i> | Low | (No Statebuilding) | (Uneven Statebuilding) |
| | High | EU (Uneven Statebuilding) | US (Statebuilding) |

While I have drawn on the theory and practice of state building in this paper, my goal is to understand the processes by which important shifts occur in the location of legitimate authority and policy capacity, rather than to argue that the EU is or is not becoming a 'state' in the traditional sense. I offer the antebellum US example as a way to productively challenge our conventional division of political forms between the anarchy of sovereign states and the hierarchy of domestic order, and to demonstrate that there is a spectrum of activities and outcomes occurring today in the EU that call for new modes of inquiry. I hope that this exercise is not only of theoretical or historical interest, but rather allows us to better understand and evaluate the contemporary era of currency denationalization and the transformation of monetary authority in the EU.

When the greenback was created in 1871, the development of the US into a unified federal state was by far a foregone conclusion. The complexity and contingency of the US case demonstrates the variety of ways in which sovereignty is expressed and contested, ways that are replicated in today's European Union. This leaves us without a definite answer as to whether the end point of EMU will be a federal Europe or not, but it may direct us to a better set of questions about the process by which polities are developed and consolidated. It also allows us to better appreciate the multiple, overlapping and evolving lines of contemporary authority among states in Europe and beyond.

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