

# EU: An Articles of Confederation Moment?

## Introduction:

Though making historical comparisons across nations and time periods is often risky, recently a number of journalists have cited noteworthy parallels between U.S. economic difficulties under our first constitution—the Articles of Confederation—and the economic crises reported daily in the eurozone nations of the EU. Students most likely have studied the reasons for establishing a weak national government following the American Revolution and learned that the Articles of Confederation almost led to the fledgling nation’s downfall. Historians point to Shays’ Rebellion in 1786, an uprising of debtor farmers in Massachusetts, as the tipping point that caused many to fear that the Revolution’s democratic goals were in jeopardy; this event thereby provided a convincing argument that stronger national government was needed.

In this lesson, working in small groups, students read current news articles to identify similarities and differences between the United States under the Articles of Confederation and the current situation among Eurozone nations in the EU. They then conduct online research to gather more information to use in a small group deliberation of the question: *Is this an Articles of Confederation moment for the eurozone and, if so, what are the implications?*

## Objectives:

- Identify similarities and differences between the United States under the Articles of Confederation and the current situation among the eurozone nations in the EU.
- Explain Alexander Hamilton’s proposal for dealing with the debt crisis in the United States post--Revolution.
- Consider the implications of the U.S. analogy for current policy in the EU.

## Materials/Advance Preparation:

- This lesson requires computer access to current news articles about the eurozone. Websites are identified on handout #1. Make enough copies of handout #1.

**Teaching Time:** 2 class periods and homework.

## Procedure:

1. Distribute handout #1, “Troubles Under the Articles of Confederation.” Review with students the form of government that the United States established under the Articles of Confederation, including the difficulties that resulted from the weak central government. Emphasize that a major problem facing the nation was debt—the state governments and the federal government owed huge sums resulting from the American Revolution, and individual Americans were also in debt. As state governments raised taxes in an effort to pay off their debts, citizens’ financial problems got worse. Many farmers faced the possible loss of

their land. Armed conflict broke out rural turmoil in western Massachusetts when thousands of struggling farmers grabbed staves and pitchforks and took to the streets. The uprising became known as Shays' Rebellion after one of its leaders, Daniel Shays, who had formerly served in the militia. Shays became something of a folk hero, but the Massachusetts militia managed to quell the uprising.

Many of the new nation's leaders were shocked, but Alexander Hamilton had some sympathy for the farmers. When the new Constitution was in place, providing for a stronger national government, and Hamilton was appointed the first Secretary of the Treasury, he proposed that the federal government take over state debts left from the war.

2. Ask students: Why should we care about Shays' Rebellion and Alexander Hamilton's proposal today? Does it have any current relevance? (Accept *all answers*.)
3. Tell students that many observers see the crisis under the Articles of Confederation as parallel to the current problems in the eurozone. Explain that the eurozone is an economic and monetary union of 17 member nations of the European Union that have adopted the euro (€) as their common currency. The eurozone currently consists of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. Most other EU states are obliged to join the eurozone once they meet the criteria to do so. Since the financial downturn of 2008, some Eurozone nations have been struggling with serious debt problems; the entire EU has considered ways of dealing with the crisis.
4. Organize the students into small groups and explain that their task is to read the articles, discuss it in their group, and together make a T--chart showing similarities and differences between the U.S. crisis under the Articles of Confederation and the current problem in the eurozone.
5. When small groups have had an opportunity to discuss their articles, invite them to share their findings so you can create a class chart showing similarities and differences between the two periods in question: the U.S. crisis under the Articles of Confederation and the current problem in the eurozone.
6. Tell students that they are going to be taking part in a small group deliberation (a reasoned discussion with the goal of reaching a decision) in which they consider the question: ***Is this an Articles of Confederation moment for the eurozone and, if so, what are the implications?*** Explain that they will have some time to gather additional information to supplement what they have taken from the articles and the previous discussion. Point out the research materials available or assign the research as homework. They should use their T--charts

and other evidence they have gathered from the articles and any additional research they have done.

7. Poll the groups to find out how they decided the question. Conclude the lesson with a brief discussion of whether students think their deliberations illustrate the usefulness or the dangers of applying “lessons” from history.

## Troubles Under The Articles of Confederation

Shays' Rebellion and the government's response demonstrated the weakness of the Articles of Confederation and was a key event that led to the Philadelphia Convention. To some scholars Shay's Rebellion was the last battle of the American Revolution – a period when our experiment in democracy hung in the balance.



Some scholars believe that Alexander Hamilton's political and financial talent and intelligence, the U.S. might not have survived our early years.

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(Following the Revolutionary War) money problems pervaded all others...America was virtually bankrupt as the federal and state governments found it impossible to retire the gargantuan debt inherited from the Revolution. On European securities exchanges, investors expressed skepticism about America's survival by trading its securities at a small fraction of their face values....

Many Americans were as debt-ridden as their legislatures...rural turmoil erupted in western Massachusetts as thousands of indebted farmers, struggling with soaring taxes and foreclosures on their lands, grabbed staves and pitchforks, shut down courthouses, and thwarted land seizures by force. As Alexander Hamilton had feared, after eight years of war, violent protest against authority had become habitual. The farmers' uprising was dubbed Shay's Rebellion after one of its leaders, Daniel Shays, a former militia captain and suddenly a folk hero. At moments it looked like a reprise of the American Revolution now reenacted as a civil war.

...the state militia squashed the disorder, but its influence lingered when Massachusetts passed debt relief legislation. Many creditors were disturbed by the mounting power of state governments and dismayed by the impotent federal government....The uprising shocked many who wondered just how far the rebels would go. "Good God!" Washington proclaimed of the rebellion, aghast that some protesters regarded America's land "to be the common property of all." James Madison confessed to a similar trepidation about the rebels to his father: "They profess to aim only at a reform of the constitution and of certain abuses in the public administration, but an abolition of debts public and private and a new division of property are strongly suspected in contemplation"

Hamilton was initially mute about the Shay's Rebellion. He kept silent because he sympathized with the farmers' grievances, however much he despised their methods. Hamilton wanted the federal government to take over state debts left from the war. Instead, Massachusetts, by trying to settle its own debt, had crushed the farmers with onerous taxes...The rural uprising vindicated his sense that the federal government had to distribute the tax burden equitably across the states. Many Americans wondered whether the fragile confederation could withstand the accumulated strains between rich and poor, creditors and debtors.

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Permission pending: The above passage excerpted from: Chernow, Ron. *Alexander Hamilton*. New York: Penguin Press, 2004, p. 224-26.

## **DELIBERATION QUESTION:**

### **IS THIS AN ARTICLES OF CONFEDERATION MOMENT FOR THE EUROPEAN UNION?**

Several journalists have cited noteworthy parallels between U.S. economic difficulties under our first constitution—the Articles of Confederation—and the economic crises reported daily in the eurozone nations of the EU.

In addition to the articles cited below, try to find more current articles in which the U.S. under the Articles of Confederation is compared to the eurozone network.

#### **1. Trichet’s Role Model: Alexander Hamilton?**

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Ron Chernow’s 2004 biography of Alexander Hamilton has found an intriguing audience of late: European central bankers, including European Central Bank President Jean-Claude Trichet. They have been passing the book around as they search for insight into Europe’s own fiscal woes, according to people familiar with their reading.

Mr. Hamilton was an author of the U.S. constitution and the Federalist Papers, the nation’s first Treasury Secretary and chief architect of its financial foundations. Mr. Chernow’s chapter on how Mr. Hamilton handled the federal government’s assumption of state debt after the revolutionary war is getting particular attention in European financial circles.

Many U.S. states were overburdened by debt and were struggling to pay soldiers after the revolutionary war against Britain. The federal government was new, weak and struggling to establish its place among states with competing interests and varying conditions of fiscal health. Mr. Hamilton was an adopted New Yorker and a federalist who wanted a strong federal government. His powerful rivals included Thomas Jefferson and James Madison, Virginians who didn’t want too much power in the hands of the federal government.

Their competing views of the new nation came into conflict in a fractious debate over what to do about \$25 million in state debt. Mr. Hamilton wanted the federal government to pay off — in full — the burdensome war debts of the states, including weak ones like Massachusetts and South Carolina which were struggling to repay. He saw it as imperative to building a stronger union and as needed to put the new nation on sounder financial footing. Virginia had paid off most of its debts

and Mr. Jefferson and Mr. Madison didn't want it to bear the burdens of other fiscally weak states after they had managed their own finances responsibly.

Mr. Hamilton won the "assumption" debate as part of a messy compromise. He got assumption, but the Virginians got to locate the nation's new capital, in what would become Washington, D.C., near their home. The compromise turned out to be a turning point for the new federal government. The Treasury emerged empowered, with more authority over the nation's finances and the states sacrificed some of their own fiscal autonomy in the process.

The parallels to Europe are tantalizing. Greece, Ireland and Portugal are struggling to service their debts, as South Carolina and Massachusetts did then. The response of their neighbors, most notably Germany, will shape the future of the broader

European Union, much as a reluctant Virginia did then. A resolution could involve the weak EU countries sacrificing their fiscal autonomy to a centralized power and giving up something to the financially healthier neighbor, Germany.

Philipp Hildebrand, chairman of the Swiss National Bank, has been drawing on the comparison. "Going forward in reforming the institutional set up of the EU, the core question is to what degree EU member states are ready to further relinquish sovereignty. How centralised or federal should the EU be? This discussion bears remarkable resemblance to the early years of the United States," he said in a speech last year in which he referred to the Chernow book. Mr. Trichet, an American history buff, has been reading the book more recently, according to people familiar with the matter

## 2. A Hamiltonian Solution For Europe

**Source:** Matthew Yglesias, Think Progress blog , June 19, 2011. This material was created by the Center for American Progress Action Fund (<http://www.americanprogressaction.org>).

Historical analogies are a dangerous tool, but reading about the founding era while watching the European sovereign debt situation unfold it's hard to avoid being struck by parallels. The Articles of Confederation were, like the European Union, a form of supranational entity that was more than a treaty but less than a state. The Confederation Congress lacked taxing power and had a cumbersome decision-making structure. And under the Articles, the United States was troubled by a variety of sovereign debt problems that were eventually resolved by the adoption of the US Constitution and the enactment of Alexander Hamilton's debt assumption plan. And while a Hamiltonian solution to Europe's current woes is extremely unlikely, I think it would work economically.

What would that look like?

It would start with the recognition that Greece is insolvent. It can't pay the money it owes. One or two or maybe three other countries also may be insolvent. And the existence of solvency problems in some states is creating liquidity problems for other larger states. So there's some insolvency, and even though the insolvency is concentrated in a relatively small number of small states it's a problem for a much broader set of European people. At the same time, if you look at the *total amount of sovereign debt in Europe* and compare it to the Eurozone's total fiscal capacity, the debt is very manageable. The Eurozone as a whole is a very solvent, creditworthy entity. So in principle you could consolidate all that outstanding European debt into a single Eurozone-wide debt financed by a modest European Solidarity VAT Surcharge. Then you'd have to severely curtail (if not eliminate) the EU member states' ability to engage in deficit spending, limiting them to some kind of authority to borrow from a central European entity. The EU itself would become a debt-issuing, taxing entity like a real country.

This would be hugely beneficial as an economic matter, taking a problem that's currently totally intractable and resolving it at extremely modest cost to taxpayers. What's more, the thinking of the Founding Fathers of the Eurozone appears to have been that the monetary union would be but one step on a path of "ever-closer union." But obviously to enact my scheme, Nicholas Sarkozy would have to be willing to sign his name to the end of France as an independent nation state. And lather, rinse, repeat for Portugal, Spain, Italy, Finland, Ireland, etc. And as you can imagine, this isn't going to happen, so....

### 3. The Divided States of Europe

**Source:** Marco Papic, Stratfor Global Intelligence (June 28, 2011), <http://www.stratfor.com/weekly/20110627-divided-states-europe>.

...The best analogy for the contemporary European Union is found not in European history but in American history. This is the period between the successful Revolutionary War in 1783 and the ratification of the U.S. Constitution in 1788. Within that five-year period, the United States was governed by a set of laws drawn up in the Articles of the Confederation. The country had no executive, no government, no real army and no foreign policy. States retained their own armies and many had minor coastal navies. They conducted foreign and trade policy independent of the wishes of the Continental Congress, a supranational body that had less power than even the European Parliament of today (this despite Article VI of the Articles of Confederation, which stipulated that states would not be able to conduct independent foreign policy without the consent of Congress).

Congress was supposed to raise funds from the states to fund such things as a Continental Army, pay benefits to the veterans of the Revolutionary War and pay back loans that European powers gave Americans during the war against the British. States, however, refused to give Congress money, and there was nothing anybody could do about it. Congress was forced to print money, causing the Confederation's currency to become worthless.

With such a loose confederation set-up, the costs of the Revolutionary War were ultimately unbearable for the fledgling nation. The reality of the international system, which pitted the new nation against aggressive European powers looking to subvert America's independence, soon engulfed the ideals of states' independence and limited government. Social, economic and security burdens proved too great for individual states to contain and a powerless Congress to address.

Nothing brought this reality home more than a rebellion in Western Massachusetts led by Daniel Shays in 1787. Shays' Rebellion was, at its heart, an economic crisis. Burdened by European lenders calling for repayment of America's war debt, the states' economies collapsed and with them the livelihoods of many rural farmers, many of whom were veterans of the Revolutionary War who had been promised benefits. Austerity measures — often in the form of land confiscation — were imposed on the rural poor to pay off the European creditors. Shays' Rebellion was put down without the help of the Continental Congress essentially by a local Massachusetts militia acting without any real federal oversight. The rebellion was defeated, but America's impotence was apparent for all to see, both foreign and domestic.



When examining the evolution of the American Confederation into the United States of America, one can find many parallels with the European Union, among others a weak center, independent states, economic crisis and over-indebtedness. The most substantial difference between the United States in the late 18th century and Europe in the 21st century is the level of external threat.

In 1787, Shays' Rebellion impressed upon many Americans — particularly George Washington, who was irked by the crisis — just how weak the country was. If a band of farmers could threaten one of the strongest states in the union, what would the British forces still garrisoned on American soil and in Quebec to the north be able to do?

## 4. Comparing European and American Debt Crises

**Source:** B. Beyer, *Across the Pond* (Bloomington, IN: Indiana University European Union Center, July 5, 2011), <http://iuwest.wordpress.com/2011/07/05/comparing-european-and-american-debt-crises/>

When talking about the euro, commentators cannot help themselves from comparing the euro to the other major currency, the US Dollar. In fact, we examined this tend to compare the two currencies over a year ago in the blog *Comparing the Dollar and the Euro*. Since then, the comparisons have continued, and recently NPR had an interesting one. Simon Johnson, a former chief economist at the IMF and now a professor at MIT talked about how the United State government under the Articles of Confederation was actually very similar to the EU of today.

While the decision making structure of the Articles of Confederation was much simpler than the EU under the Lisbon Treaty, in both cases basically unanimity was required for important decisions. Also, the US government back then could issue currency, but it could not collect taxes, just like the EU now. This offers a cautionary tale for the EU, because the Articles of Confederation lasted only eight years before it was replaced by a much more centralized Constitution. If 13 states quickly decided that it was necessary to transfer many of their powers to a federal government that they had just won through the Revolution, one must wonder about the prospects of the European Debt Crisis creating a more unified Europe.

Even though most commentators had decided that the European integration was probably going to rest on its laurels after the Lisbon Treaty, there is already talk of creating a "European Finance Ministry" in order to create a much more centralized fiscal structure to follow the centralized monetary system of the euro. While this idea is currently not getting much traction in Europe, especially in Germany, Finland, et al, the Greek drama still has a few acts left. From an American point of view, if things do get worse for the euro and fiscal centralization is seriously proposed, does the EU have a James Madison, Alexander Hamilton, and John Jay (i.e. the authors of the Federalist Papers) who can convince European voters that it is necessary? After all, the Constitution had plenty of Anti-Federalists trying to defeat it as well.

## 5. Europe's 'Articles of Confederation' Moment

**Source:** Alex Berezow, Real Clear World blog (October 6, 2011), [http://www.realclearworld.com/articles/2011/10/06/europes\\_articles\\_of\\_confederation\\_moment\\_99707.html](http://www.realclearworld.com/articles/2011/10/06/europes_articles_of_confederation_moment_99707.html).

Imagine the United States not as a single, unified entity consisting of a common people but as a loose association of 50 separate states, with 50 separate histories, 50 different languages and 50 unique cultures. And then imagine that a major crisis challenges the very foundation of this union, and any serious action requires the approval of all 50 states.

How confident would you be that, without significant structural reforms, the union would last? This is roughly equivalent to the challenge the Eurozone faces today. Without strong leadership, the future of the euro – and the European project – is in jeopardy. Thankfully, there is a historical example from which the Europeans can learn.

Before the United States had a Constitution, it was governed by a toothless document called the Articles of Confederation. The central government formed under this agreement was incredibly weak, and major decisions had to be ratified by all 13 states. Lacking the power to tax or govern effectively, the Articles were exposed as insufficient. Something had to be done.

In 1787, an historic convention convened in Philadelphia. After months of deliberation, the delegates created a strong federal government under the auspices of the new U.S. Constitution. It was so expertly crafted that it is still in use to this day.

Just like America's pre-Constitution days, the Eurozone is in a bind. Major decisions require approval from all 17 nations. Finding common ground (and making "European" decisions) is often difficult and unpopular domestically. The current debt crisis has made it abundantly clear that the structure of the European Union is such that it is not a reliable source of decisive leadership.

Thus, the EU faces a choice: It must either strengthen the central governing institutions in Brussels and Frankfurt or face the prospect of the entire European project unraveling. In short, this is Europe's Articles of Confederation moment.

## **Additional articles**

### **1. From Crisis to Closer Union: The Eurozone's U.S. Precedent**

Simon Jeffery, *The Guardian* (September 15, 2011),

<http://www.guardian.co.uk/world/2011/sep/15/eurozone--us--precedent--crisis--union>

### **2. Superpower? Not for the EU**

Ian Garrick Mason, *Philadelphia Inquirer* (September 26, 2004),

[http://www3.sympatico.ca/ian.g.mason/EU\\_NonSuperpower.htm](http://www3.sympatico.ca/ian.g.mason/EU_NonSuperpower.htm)

### **3. Greece, Europe and Alexander Hamilton**

Roger Cohen, *New York Times* (March 2, 2010).

<http://www.nytimes.com/2010/03/02/opinion/02iht--edcohen.html>

### **4. Will Crisis-Ridden Europe Find Its Own Alexander Hamilton?**

Bloomberg News, (July 1, 2011), <http://www.bloomberg.com/news/2011--07--01/will-->

[crisis--ridden--europe--find--its--own--alexander--hamilton--view.html](http://www.bloomberg.com/news/2011--07--01/will--crisis--ridden--europe--find--its--own--alexander--hamilton--view.html)

### **5. Europeans Talk of Sharp Change in Fiscal Affairs**

Louise Story and Matthew Saltmarsh, *New York Times* (September 5, 2011).

<http://www.nytimes.com/2011/09/06/business/global/reluctantly--europe--inches--closer--to--a--fiscal--union.html?pagewanted=all>

### **6. Debt Crisis Will Wash over Our Shores**

*Sacramento Bee* (September 12, 2011),

<http://calopinion.com/2011/editorials3/sacramento--bee--europes--debt--crisis--will--wash--over--our--shores/>