

## **Hamilton's Menu Approach to Debt Resolution: Implications for Modern Sovereign Debt Relief**

By WILLIAM MILES\*

*Alexander Hamilton proposed a debt conversion plan for the United States in 1790 that allowed different creditors to choose from a list of different (reduced) repayment options. This plan was not, however, adopted by Congress, which instead opted for a one-size fits all scheme. Modern economic models demonstrate that the "menu" approach leads to a lower cost of debt reduction for the borrowing nation than offering one type of debt conversion for all creditors. This aspect of Hamilton's plan has been under-appreciated in the modern debt-relief literature, and the episode contains lessons for sovereign countries currently seeking debt relief.*

JEL Classifications: G02 Financial Crises; G15 International Financial Markets; N2-Economic History, Financial Markets and Institutions

### **I. Introduction**

A level of nominal debt that becomes unsustainably large represents an impediment to growth for any country, whether the early American republic or sovereign countries in the twenty-first century. For some countries, external obligations may inhibit growth through debt overhang, in which the prospect of having returns from investment taxed to repay debt inhibits the very investment and growth that might make more debt repayment feasible. For some poorer countries, there are so many other obstacles to investment that debt overhang may not be important (Rajan, 2005), but for any country, high debt payments divert funds that might otherwise go towards development goals.

While some models suggest that indebted countries repay only out of fear of direct sanctions (Bulow and Rogoff, 1989), perhaps the most important factor motivating repayment is the desire to maintain a solid credit reputation, so that the nations can continue to borrow in the future (Eaton and Gersovitz, 1981). There will be future shocks, both positive and negative, leading to a desire to borrow, and being rationed out of credit markets for insufficient repayment will lower country welfare. For Alexander Hamilton, the need to borrow during future wars appears to be the main motivation for his debt conversion proposal (Garber, 1991).

Thus, debt that both creditors and debtors agree is too high to be repaid in full causes difficulties. Simply reneging on all obligations is not a desirable solution as the damage to a nation's credit reputation would foreclose future borrowing. The difficult balance to strike is to repay enough so that creditors are satisfied, and will lend in the future, but at the same time not divert more resources than necessary into debt conversion as this will mean less funds available for infrastructure, education and other growth-enhancing measures.

The young republic of the United States found itself in such a situation in 1790. Heavy borrowing during the Revolutionary War and its aftermath left the nation clearly unable to repay

---

\*Department of Economics, Wichita State University, 1845 Fairmount, Wichita KS 67260-0078. (E-mail: william.miles@wichita.edu), Phone: (316) 978-7085, Fax: (316) 978-3308.

The author would like to thank Larry Neal and Marc Weidenmier for helpful comments.



all of its nominal obligations. Treasury Secretary Hamilton's main concern in advocating some degree of repayment and debt conversion was the credit reputation of the U.S., so that borrowing would be feasible in times of war (Ferguson, 1961, Garber, 1991). However, unlike the plan eventually adopted by Congress, Hamilton planned to offer creditors a menu of choices. Since creditors are a heterogeneous group, and value different repayment plans differently, each will choose the option with the greatest value to that particular creditor individually. Thus the cost of credit market re-entry is less with a menu than with a one-size-fits-all approach. Claessens and Diwan (1994) document how the menu approach helped debtor nations in the 1990s achieve debt resolution at substantial savings compared to concerted, or non-menu approaches.

Hamilton's plan has implications for modern debt resolution. Among the highly indebted peripheral countries of the Euro-zone, some form of restructuring appears necessary to avoid a messy default in at least the case of Greece, and perhaps for Ireland, Portugal or even Spain (indeed fears have been expressed that the crisis may even spread to Italy or Belgium). Given some historical perspective, this should not be surprising. Reinhart and Rogoff (2009) point out that sovereign defaults are a common occurrence in the wake of harsh recessions such as the 2007-2009 downturn.

Moreover, while many emerging market countries have experienced strong growth and left defaults and crises (temporarily) behind them, leaders of some nations such as Brazil, Ecuador and Peru have called for debt relief for highly indebted poor countries (HIPC) so that funds can be reallocated for infrastructure and other development goals. Debt resolution is thus a topic that will not go away. The purpose of this paper is to show that Hamilton's menu approach allows for debt resolution for modern countries at a lower cost than standard non-menu debt write-downs. We will employ the recent experience of Greece as an example.

This paper proceeds as follows. The menu approach and its superiority over conventional debt resolution are presented in section 2. The specifics of Hamilton's plan are presented in section 3. The controversy over modern debt resolution, and the improvements that could be brought to bear by following a menu approach, with Greece's proposed menu details presented as an example, are discussed in section 4. Section 5 concludes.

## II. Debt Reduction and the Menu Approach

Once debt becomes so large relative to resources available that both debtors and creditors recognize it cannot fully be repaid, some kind of write-down, conversion or other resolution is desirable; otherwise the obligations will be detrimental to the country's growth and creditors won't be any better off. As austerity measures have been imposed in debtor Euro nations, political opposition has arisen, which can lead to an "internal transfer" constraint on the level of repayments. Another prominently cited difficulty for borrowing nations is the debt overhang problem (Sachs, 1989, Krugman, 1988). In this situation, investment, which would lead to greater growth and hence capacity for debt service, is deterred, as investors understand that returns will be taxed to pay the external obligations of the country. This leads to a "Debt Laffer Curve," where, beyond a certain level, a higher debt face value actually leads to a *decline* in the total market value of outstanding obligations. Thus in this situation, both lenders and borrowers would clearly be better off if there was some sort of debt resolution.

Debt overhang may not be that relevant a problem for some indebted countries, especially the most impoverished. Rajan (2005) points out that for these heavily indebted nations, other impediments to investment may be much more important than external obligations. Poor institutions,



corruption and other endemic problems may be the greater obstacles to capital formation in such nations. However, excessive debt can still divert resources from other uses, such as infrastructure, education and other development goals, and some form of debt resolution may get debt service down to more manageable levels.

Given the costs of excessive debt, nations of course have an incentive to default. Indeed, the very incentive to default raises the question of why any rational lender would provide credit to a sovereign debtor, in the absence of international bankruptcy courts. As noted, Bulow and Rogoff (1989) developed a model in which countries repay out of fear of direct sanctions. The ability to impose direct sanctions thus allows for sovereign lending to exist. Mitchener and Weidenmier (2010) find that direct sanctions, indeed "supersanctions" such as military pressure, gunboat diplomacy, external control over fiscal policy and trade sanctions were successfully employed during the classical gold standard period.

On the other hand, direct sanctions are often difficult to impose. Kletzer and Wright (2000) and Wright (2002) cast doubt on the idea that direct sanctions can successfully explain much sovereign lending. Instead, perhaps the most important difficulty that excessive debt presents is the damage debt crises do to a country's reputation until there is a resolution. A country with a poor credit reputation will be unable to borrow in the future against future shocks and opportunities. This will lead to an inability to smooth future consumption and a decrease in country welfare. Eaton and Gersovitz (1981) present a model in which lending exists only because of reputational concerns on the part of borrowers, rather than due to any direct sanctions that lenders can impose. Investigating the impact of default on subsequent market access, Obstfeld and Taylor (2004) find that prior defaults raise the cost of capital only slightly. Alternatively, Fuentes and Saravia (2010) find that defaulting nations do pay a reputational price in terms of lower access to future direct investment. Garber (1991) points out that concern for future borrowing, particularly to finance war efforts, was the main motivation for Hamilton.

Thus some form of debt resolution is desirable. This often involves exchanging old claims, which cannot be fully serviced, for new obligations. The latter have a lower face value, but can (hopefully) be paid in full.

The literature on sovereign debt has greatly increased our understanding of some important issues, such as how such lending can exist in the absence of international bankruptcy courts, and some of the consequences of default for debtor nations. One shortcoming of the existing literature is that little attention has been paid to the methods of debt resolution once default has occurred. One notable exception is Claessens and Diwan (1994).

Indebted nations owe a number of different creditors, and these different creditors are diverse in their valuation of the countries' obligations. One (non-menu) possibility for debt resolution is to offer all creditors the same "haircut", or the same decrease on their nominal claims. The hope is that the amount offered by the debtor nation will be sufficient to satisfy creditors and allow renewed borrowing. Claessens and Diwan (1994) point out, however, that the incentives facing each creditor make such an effort problematic. Any benefits from debt resolution will accrue to all of the debtholders, so each individual creditor has an incentive to free-ride and demand higher repayment than that currently offered. This could lead to demands from creditors for a level of repayment so high that the debtor nation no longer benefits from the restructuring. Hence a resolution that may have mutually benefited lenders and borrowers may be unattainable due to this coordination failure.

Claessens and Diwan illustrate this point with the following example. Let  $p_0$  be the pre-conversion market value of a unit of debt. Once there is some sort of debt resolution, the value of



any outstanding shares will rise from  $p_0$  to  $p_1$ , where  $p_0 < p_1$  as after the conversion there is a greater probability that what obligations remain will be serviced. Unfortunately, as Bulow and Rogoff (1989) and Dooley (1989) point out, rational creditors will not accept a conversion price of less than  $p_1$ .

The problem is that  $p_1$  may be too high for the country to benefit. There could be some intermediate price,  $p$ , such that  $p_0 < p < p_1$  that many creditors would be willing to accept, but again the coordination failure will not allow this outcome with a one-size-fits-all debt reduction approach. Any offer of price  $p$  will not be accepted, as each individual creditor has an incentive to free ride and seek more.

On the other hand, Claessens and Diwan posit that the menu approach could overcome this free rider problem. The goal is to provide different instruments that appeal to a heterogeneous set of creditors. Some may prefer stretched out payments, others to give up some interest, or principle in exchange for fresh loans, and so on. With a menu, each creditor will choose the option they most highly value. As a result, the total amount of debt to be repaid is less than under the one-size-fits-all approach.

Claessens and Diwan evaluate the menu approach employed for the Brady Plan in the late 1980s and early 1990s for six countries—Argentina, Costa Rica, Mexico, The Philippines, Uruguay and Venezuela. Debt was owed to many different banks in different countries, each with different regulatory constraints and capital requirements. For about six years, attempts to deal with the debt crisis floundered, “as the interests of banks diverged” (p. 203). However, in November 1988 Brazil came up with the first menu of options for its creditors. Then between 1989 and 1992 the other five nations proposed menu-based approaches to resolve their debt problems. By 1991, capital was again flowing to Latin America.

The menu approach was thus beneficial to developing countries in that their debt problems were resolved, and they were soon able to attract new funds. Creditors also benefited, as they also presumably wanted resolution and each could choose the option that it most highly valued. But an important feature of the menu approach was that the countries were able to regain market access at a lower cost than a one-size-fits-all approach. Claessens and Diwan estimate that the six countries saved an estimated 22.4 percent with their menu approaches. Thus the menu approach allowed for resources to be (potentially) freed for development purposes.

The early years of the American republic were also witness to such stresses for the young government. Garber (p. 88) details the heavy pressures that foreign loans would place on state finances were no action taken. These loans, obtained primarily from France and the Netherlands, were, during the early 1780s, extended by the creditors for political, rather than commercial reasons, being that they were part of war finance. However, later loans, starting in 1784, were made as business decisions, and at high interest rates. Dutch loans commanded 6.65 per cent yields, for example. The terms on these borrowings were “particularly burdensome”, in the author’s words. Moreover, the loans to France were due between 1785 and 1795, and of course by 1790 payments had been missed and the arrears were gathering interest. The Holland loans would be coming due in the mid-to-late 1790s. The picture presented is one in which the country would have problems not just repaying principle, but in servicing interest on a continuous basis as well.

Hamilton was thus faced with an unsustainable level of debt but also a desire to maintain a creditworthy reputation and access to future borrowing. Certain aspects of his proposal, such as the assumption of state debts and nondiscrimination between secondary and original holders of government bonds have made Hamilton seem to be almost fanatical on the issue of repayment



and solid financial standing. However, Swanson and Trout (1992) point out that in order to refund debt as best as could be done, Hamilton believed that the face value of the obligations and debt service had to be reduced from their nominal levels. According to the authors, Hamilton was aware that tax revenues, as projected, would not be sufficient to service the debt. Raising taxes to fix the situation would result in a level of taxation that would be excessive. An "internal transfer" problem presented itself to the young republic, in which the government found it infeasible to marshal domestic resources to service all the debt coming due.

According to Miller (1959), Hamilton wanted to refund the debt as fully as possible, but believed that creditors would understand the situation. While full repayment would be preferable, it would require taxes so high as not to be to the bondholders' true advantage. "Those who are most commonly creditors of a nation are generally speaking, enlightened men,...When a candid and fair appeal is made to them, they will understand their true interest too well to refuse their concurrence in such modifications of their claims as any real necessity may demand," (Hamilton quoted in Miller, p. 237). This was the case because full repayment required "the extension of taxation to a degree and to objects which the true interest of public creditors forbids" (p. 236). Thus, Hamilton sought to convert the debt into new securities, whose amortization costs the young nation could cover.

All of Hamilton's proposed repayment plans are based on one hundred dollars of outstanding debt. Option one was an annuity of \$66.67, paying 6 percent, plus \$33.33 in land, at twenty cents per acre. The second choice was a \$100 dollar annuity paying 4 percent, plus \$15.80 in land. The third option was a \$66.67 annuity paying 6 percent, and a ten-year deferred annuity paying 6 percent. The fourth possibility was a \$100 annuity, deferred by at least ten years, paying 4 percent. The fifth alternative was the same as the fourth except that payment was deferred until the death of the older of two persons. The sixth option was a \$100 annuity paying 5 percent, which could be purchased with half specie and half old debt securities. The seventh possibility was a \$100 instrument called a tontine, which is yet to be described. Note that all annuities are perpetual, except for the fourth and fifth options, which were life annuities.

Clearly, Hamilton presented creditors with a large menu from which to choose their repayments. Again, his goal was to regain access to the credit market for the country, but to do so at as low a cost as possible. The aforementioned Bulow and Rogoff model, in which the fear of direct sanctions (rather than reputational considerations) is the main motivation for repayment, is likely not as relevant for this episode as the Eaton and Gersovitz framework. However, the Bulow-Rogoff model did contain an important insight- the higher the expected repayments, the greater the cost of debt resolution. And Hamilton's plan cost less to the Treasury than that approved by Congress, due to the menu of options it offered.

How did Hamilton settle on the specific set of refunding plans? Again, the overriding principle was to regain credit market access, but at a low cost. The different programs amounted to reducing the interest payable from 6 percent to 4 percent. Despite the fact that federal and state debts traded at very large discounts of fifteen to twenty cents on the dollar (again, from which it may be inferred that full repayment was not considered a realistic prospect to most at the time), this aspect of the plan generated vociferous opposition. The reduction in interest was based on the expectation that market rates *would* fall to 4 percent. It was noted that rates had not yet fallen, and worries were expressed aloud that they would not drop that low for some time. The Dailey Advertiser of New York printed a letter denouncing the entire plan as "robbing" creditors of half their property.



Ferguson (1961, p. 326) speculates that Hamilton settled on 4 percent after "much reflection, for there is reason to believe he could not have gone lower without offending loyal supporters of the regime". Some had argued for 3 percent. Had Hamilton gone this low, the country would have benefitted from lower interest costs. But it would, in Hamilton's mind, have a less than acceptable credit reputation, and be unable to obtain desired borrowing in an emergency. Reputation meant a willingness to suffer and bear the costs of feasible repayment.

Hamilton, as noted by Ferguson, thought that his plan was sufficient to reestablish the borrowing reputation of the United States. Part of the evidence that the proposal was enhancing the credit standing of the country comes from the secondary market prices of government debt. Garber details the rise in price of different categories of state and federal bonds. State securities, for example, were selling for ten dollars per one hundred dollars par value in February of 1790, just as debate over the various plans were getting underway. By October of that year, they were selling for forty dollars.

Thus the Treasury Secretary was able to establish reputation. But the second part of his goal-to do so at as low a cost as possible- was subverted by Congress. All of the options offered by Hamilton were swept aside, save for a modified version of the third. Two aspects of the plan that had generated much controversy-assumption of state debts and no discrimination between secondary debtholders and original purchasers-passed, and Hamilton thought these necessary to successful market re-entry. The actual remuneration that was passed into legislation was the following, based on one hundred dollars of debt: Domestic creditors got a \$66.67 annuity at a 6 percent interest rate, as well as a \$33.33 ten-year deferred annuity at the same rate. Those who were owed unpaid interest received a one-hundred dollar annuity at 3 percent. Those who were owed debt by the states received a \$44.44 annuity at 6 percent, a \$22.22 annuity at 6 percent, deferred for ten years, and a \$33.33 annuity at 3 percent. Swanson and Trout go on to estimate that the third option put forth by Hamilton would have lowered the face value of the debt by 33.3 percent, whereas the plan adopted by Congress lowered obligations by only 15.8 percent. The other options Hamilton wanted to make available reduced debt in a manner similar to option three.

What was attractive about Hamilton's options that would have induced creditors to accept lower repayments? Again, the menu of different plans from which to choose would allow creditors to choose the programs that each valued most highly. It is important to remember that by some estimates, the majority of the debt was held by Europeans. Thus many of Hamilton's proposals were made with this kind of clientele in mind. Dunbar (1888, p. 40) describes the different aspects of Hamilton's proposal as "adapted to the habits and wants of an old community", by which the author means the continent. Oddly enough, Dunbar intended this as a criticism, unaware that offering options popular to debtholders could save the new Treasury substantially on debt reduction costs.

Life annuities, for instance, which were part of Hamilton's menu, were common on the continent. The aforementioned author points out that England employed them for government borrowing starting with William the Third, and the Dutch had used them prior to that. Here, an investor paid a given amount of principal and received interest payments until death, at which time payments ceased. The purchaser could also nominate someone else as the beneficiary, and the designated beneficiaries' death signaled the end of remittance. These securities were part of options four and five.

A variation on this scheme that Hamilton proposed was option seven; a tontine. The instrument gets its name from its originator, Lorenzo Tonti, who tried to persuade the French



government to adopt it in 1650. While Tonti was originally unsuccessful, France eventually did employ his plan forty years later as a part of war finance. The security was sold to a group of investors. When one member of the group died, survivors shared in the income the deceased would have received. The English government launched its first Tontine in 1692. The issue went poorly as the use of actuarial analysis was ignored. Usually, a tontine had progressive interest rates for older groups of purchasers. This made actuarial sense since older people lived less on average and so could be compensated with higher interest payments. The security offered by England had a fixed rate for all age groups, and was not well subscribed (see Jennings, Swanson, and Trout, 1988, pp. 111-112 for more details). In addition to the French and the English, the Dutch also employed these instruments.

The British government learned from its mistake in 1692, and under the guidance of Prime Minister William Pitt issued a new tontine in 1789 to help pay off its war debts. It was this use of the instrument that inspired Hamilton. While only 40 percent of the loan was subscribed, Jennings Swanson and Trout (p. 112) judge the issue "no abject failure". However, this less-than-expected subscription rate may have led Hamilton to offer slightly higher overall rates on his proposal than had been available in England (Dunbar, p. 41). On the other hand, rates were still low enough for older investors that Hamilton probably could not have expected many people over sixty to be enticed by this particular option.

As Swanson and Trout point out, another possibility that creditors would have had if the Treasury Secretary prevailed completely was the option to obtain public lands. The young government had a lot of land, and, according to the authors, bondholders who chose this option, at twenty cents an acre, were it possible, would have gotten it at a bargain price.

These alternatives that Hamilton presented to creditors were meant to be "fair equivalents," or compensation for the fact that interest on new instruments would be 4 percent rather than the 6 percent originally contracted. The final aspect of Hamilton's menu that would have induced some debtholders to voluntarily accept new instruments was limited redeemability. The U. S. debt outstanding was callable at the preference of the government. According to Swanson and Trout, once the Treasury's finances improved, it may well have redeemed the securities. The holder would now have to search for another investment opportunity, and these were relatively few in this financially under-developed age. Thus the reduction in interest was repaid with the assurance that the bond could not be called instantly. The secretary's plan forbids calling any new obligation for a third of a century.

The authors believe that this menu choice was aimed, again, at Europeans. Dunbar (p. 39) points out that limited redeemability was a common feature of English government consols. For instance, 3 percent consols were redeemable with a years' notice, while 4 percents required ten years announcement prior to redemption and 5 percents were irredeemable for thirty years. Dunbar says that Hamilton's limited redeemability proposals "remind us strongly of the English precedents" (p. 38).

All of these options and innovations would lower the cost of debt reduction. Not merely as innovations in themselves, but the fact that there were many to choose from. The menu approach would have allowed for each investor to choose the plan most valuable to that individual. As the estimates presented earlier demonstrate, Congress's rejection of the menu approach led to a greater tax burden for the United States. While the legislature accomplished Hamilton's overriding goal of a return to credit market access, neglecting the menu approach meant it was achieved at a higher cost than necessary.



### III. Implications for Modern Debt Relief Efforts

Hamilton's menu approach worked well for the Brady Plan in the early 1990s, but does it still have relevance? Argentina completed a debt restructuring in 2005 by offering creditors a menu of options. Critics complained that the choices offered constituted too large a "haircut," and that the government of Argentina could have offered more. While the country has experienced strong growth in the near-decade since default, it may be locked out of future borrowing for a long time. However, if this is the case, it is due to Argentina paying back too little overall, and is not a shortcoming of the menu approach.

The Euro-zone's debt problems, in which a potential sovereign default for Greece first came to major public attention in the spring of 2010, threaten a potential wave of defaults. While some, such as European Central Bank president Jean-Claude Trichet insist that no defaults will (or should) occur, analysts such as Kenneth Rogoff have predicted that we will observe a "wave" of debt write-downs in response to current debt problems.

Indeed, the proposal of July 2011 involves write-downs. Whatever its shortcomings, one aspect of the plan that is helpful is that it does make use of the menu approach. In particular, Greek bondholders, which include many beleaguered European banks, have a menu of four possibilities from which to choose. The first option entails bondholders exchanging all debentures in exchange for new thirty-year bonds at par, with an initial interest rate of 4 percent. The rate goes up over time to 5 percent. The second option is the same as the first, save that investors roll over bonds as they come due at maturity. In the third option, creditors accept a 20 percent "haircut" in principal, but then get a thirty year bond with higher interest (6 to 6.8 percent). In the fourth option, investors, as in option three, lose 20 percent, but get a fifteen year bond at 5.9 percent interest.

Again, many European banks hold substantial amounts of Greek debt. These banks face different levels of risk, capital requirements, and have different potential loan losses going forward. These options will thus have different appeal to different institutions. Some will be willing to roll over debt at par, while others will be willing to take a principal loss in exchange for higher interest rates.

It bears emphasizing that this plan may be too small in magnitude, regarding the level of debt reduction, to resolve Greece's difficulties. This does not mean, however, that the menu approach is lacking; it simply indicates that European governments have not yet faced up to the magnitude of the problem. The menu, in fact appears to be yielding benefits. Prior to the announcement of the plan in July 2011, Greek debt had been trading at a 40 percent discount. Thus a pure write-down would have been 40 percent. The Institute of International Finance (IIF), described as a banker's lobby, stated the plan would lower debt on outstanding issues by 21 percent. If it is the case that banks are willing to participate on these terms, then the menu clearly has demonstrated superiority over a pure write-down-less of a loss (21 percent) must be imposed on creditors than a pure write-down (40 percent). Any failure of the plan again reflects the small magnitude, rather than a deficiency in the menu approach.

Moreover, debt relief is still a major topic for some developing countries. In September 2005, G-8 countries agreed in principle to debt relief for forty very poor, heavily indebted nations. Most of these countries are in Africa. The obligations that are to be written off are owed to official lenders, such as the IMF, World Bank and African Development Bank, and the menu approach plays no role. Does the lack of menu-style proposals for these developing countries suggest that the menu approach is now of little usefulness?



Not at all. As the cases of Argentina and Greece indicate, the menu approach is increasingly part of debt resolution between sovereigns and private creditors. Moreover, critics complain that the latest G-8 debt relief plan covers only the poorest countries, and neglects middle income emerging markets. While many such countries, such as Brazil, have currently escaped repayment problems, thanks in part to low world interest rates and high commodity prices, the level of debt in many nations is high.

Some nations may well seek some form of debt reduction in the future. While the Euro crisis has attracted much recent attention, in 2004, government officials in Bolivia, Brazil and Peru called for decreasing some debt payments for highly indebted poor countries, and channeling them into infrastructure improvements. Regardless of the merits of such a case, it is highly likely that, as in the case of Argentina, some poor, middle-income, and now industrialized European countries will again avail themselves of debt restructuring. If debt restructuring is a given, Hamilton's menu approach is the optimal method.

#### IV. Conclusion

Alexander Hamilton sought to lower the debt burden faced by the young United States, but to do so in a way that would maintain a good credit reputation and allow access to future borrowing. His method of debt resolution would be called in modern times the menu approach. This plan was rejected by Congress, and the cost of resolution was thus higher than it need have been. Perhaps because it was rejected, economic historians have yet to evaluate his proposal in light of the modern "menu-approach" literature (Claessens and Diwan, 1994). Despite this, the menu approach has saved emerging market countries substantial resources through the Brady Plan and most recently Argentina's debt restructuring.

The struggles of peripheral Euro-zone nations such as Greece, Ireland, Portugal (and sadly, perhaps others) continue to weigh on growth and convergence in the single-currency area. Policymakers have seemed in denial over the magnitude of the debt problems. In some ways this is understandable; there has not been a sovereign default in Western Europe for over sixty years. Reinhart and Rogoff (2009) however, make clear that the last sixty years have been somewhat anomalous for this region-national debt crises are a recurring phenomenon. Indeed the authors point out that Greece, until the post-World War II era, has been in a state of "perpetual default" since independence from the Ottoman Empire.

Because of the disagreements among policymakers, proposed solutions have been varied and contradictory. The menu approach, however, which worked well for the indebted Latin American participants in the Brady Plan, and which would have saved the early American republic some of the costs of debt resolution and market re-entry, still has relevance, as indicated by its use in the latest bailout of Greece. A review of Hamilton's menu proposal could be mutually beneficial for both modern debtors and creditors alike.

#### References

- Bulow, J., and K. Rogoff.** 1989. "A Constant Recontracting Model of Sovereign Debt." *Journal of Political Economy*, 97(1): 155-178.
- Claessens, S., and I. Diwan.** 1994. "Recent Experience with Commercial Bank Debt Reduction: Has the 'Menu' Outdone the Market?" *World Development*, 22(2): 201-213.



- Dunbar, C.** 1888. "Some Precedents Followed by Alexander Hamilton." *Quarterly Journal of Economics*, 3(1): 32-59.
- Ferguson, E.** 1961. *The Power of the Purse*. Chapel Hill: University of North Carolina Press.
- Fuentes, M., and D. Saravia.** 2010. "Sovereign Defaulters: Do International Capital Markets Punish Them?" *Journal of Development Economics*, 91(2): 336-347.
- Garber, P.** 1991. "Alexander Hamilton's Market-Based Debt Reduction Plan." *Carnegie-Rochester Series on Public Policy*, 35: 75-104.
- Jennings, R., D. Swanson, and A. Trout.** 1988. "Alexander Hamilton's Tontine Proposal." *William and Mary Quarterly*, 45: 107-115.
- Kletzer, K., and B. Wright.** 2000. "Sovereign Debt as Intertemporal Barter." *American Economic Review*. 90(3): 621-639.
- Krugman, P.** 1988. "Financing versus Forgiving a Debt Overhang." *Journal of Development Economics*, 29(3): 253-268.
- Miller, J.** 1959. *Alexander Hamilton: Portrait in Paradox*, New York: Harper and Brothers.
- Mitchener, K., and M. Weidenmier.** 2010. "Supersanctions and Sovereign Debt Repayment." *Journal of International Money and Finance*, 29(1): 19-36.
- Obstfeld, M., and A. Taylor.** 2004. *Global Capital Markets: Integration, Crises and Growth*, Cambridge: Cambridge University Press.
- Rajan, R.** 2005 "Straight Talk: Debt Relief and Growth." *Finance and Development*, 42: 2.
- Reinhart, C., and K. Rogoff.** 2009. *This Time is Different: Eight Centuries of Financial Folly*, Princeton: Princeton University Press.
- Sachs, J.** 1989. *Developing Country Debt and Economic Performance*, Vol.1, Chicago: University of Chicago Press for NBER.
- Swanson, D., and A. Trout.** 1992. "Alexander Hamilton, Conversion, and Debt Reduction." *Explorations in Economic History*, 29(4): 417-429.
- Wright, M.** 2002. "Reputations and Sovereign Debt." Unpublished, Stanford University