

## Enthusiasm and Resistance to Union in Britain and Germany

### 5.1. UNITED KINGDOM: THE POUND DEBASED TO ADAPT TO THE FRANC?

The international debate on a common European coinage initiated by the formation of the Latin Monetary Union reached the United Kingdom as well as the Continent. The British attitude towards the French and Continental proposals for monetary unification was ambivalent, reflecting the desire to compete on equal terms without being excluded from a Continental monetary union but also the attempt to strengthen the pound as the key international currency. Although some early discussion on international coinage took place in England between 1853 and 1868, attention focused only with the Royal Commission of 1868, followed by the economist W. S. Jevons's intervention. An important debate developed in 1869 when the Chancellor of the Exchequer Lowe decided to change governmental policy and look for an agreement with France.

#### *5.1.1. Decimalization and Internationalization of the Pound*

The growing commercial intercourse of England with the Continent and the international exhibitions of London (1851) and Paris (1855) called for an effort towards the rationalization and the internationalization of the units of measure. The metric system was legalized in the UK in 1862 but did not replace the British units, and reform of the coinage proved even harder. From 1853 to 1859 the pressure for the decimalization of the British currency was very strong, endorsed even by a select committee of the House of Commons, but nothing came of the agitation. The supporters of decimalization presented conflicting proposals. All wanted to reduce the number of monetary units by establishing simple decimal relations between them, in order to simplify calculations and accounting. The 'Pound and Mil' scheme preserved the pound but introduced new decimal division into 100 new pence and 1,000 new farthings. It was the most popular proposal in the 1850s and was eventually implemented in the 1960s. Other schemes based decimalization on the preservation of the pence or of the farthing but introduced new multiples. Thanks to the lack of unity of the reformers, the British government could delay its reply to the request advanced by

the House of Commons in 1855 to adopt the 'Pound and Mil' scheme. Instead a Commission on Decimal Coinage was appointed to enquire into the matter.<sup>1</sup>

The Commission produced a report opposing any change, four years after it had been formed, when the campaign for decimalization had lost momentum. It was argued that the poor would not understand the difficult exchange rates between old and new coins. The existing binary system of coinage was better adapted to the British system of measures and weights, based on 12 or 20 units, than a decimal one would be. The 'Pound and Mil' appeared to be the only acceptable scheme, but it could not 'be looked upon as a well-assured or demonstrated improvement on our present coinage; but must rather be considered as an experiment of very doubtful result, accompanied, beyond all question, by many serious transitional difficulties.'<sup>2</sup> The report on decimalization was written by the only two surviving commissioners, Lord Overstone, a banker, leader of the Currency School and financial adviser to the Liberal governments, and John Hubbard, Governor of the Bank of England and Conservative MP. Both Overstone and Hubbard would play a key role in opposing any monetary change in the following fifteen years. O'Brien described Overstone's role as 'such an effective piece of destruction that what the supporters of decimalism had expected to be a mere completion of their task of achieving official and popular recognition of the rectitude of their case, proved to be the end of decimalism for more than fifty years.'<sup>3</sup> The conclusion of the 1859 report on decimalization anticipated very precisely both the intellectual approach and the final decision of the 1868 Royal Commission on International Coinage.

During the debate on decimalization frequent references were made to the advantages offered to foreign countries by a decimal system, but few to a common international unit of money. G. Oliphant produced the only scheme that decimalized the British currency by equalizing the pound (also known as the sovereign) to 25 French francs, reducing its gold content by 0.88 per cent from the current par of the exchange at 25.22 francs. After a period of transition, Oliphant wished to create a piece of 20 French francs called a 'Queen' as the largest unit of the system, replacing both the old sovereign and the new pound of 25 francs.<sup>4</sup> This Franco-British coin would impose itself as the standard of all international transactions. The proposal was mocked by the Chancellor of the Exchequer, Cornwall Lewis, and ridiculed by the Commons in 1855. 'He [Oliphant] says we ought to adopt the principle of coinage of foreign countries, and he starts on the French system. He proposes that one farthing shall be equal to 2 centimes, 1 lion to 10 farthings, 1 florin to 10 lions, and 1 queen to 10 florins (A laugh).'<sup>5</sup>

Oliphant's proposal of 1855 became a part of the larger scheme for monetary unification advanced in 1863 by the International Statistical Congress of Berlin. After 1865 it was considered the most appropriate way of transforming the Latin Monetary Union into a European monetary union, and of linking the British coinage to the Latin

<sup>1</sup> *Debate on the Decimal Coinage Question in the House of Commons* (1855).

<sup>2</sup> *Decimal Coinage Commissioners* (1859: 3).

<sup>3</sup> O'Brien (1871: i. 52).

<sup>4</sup> Oliphant (1855).

<sup>5</sup> *Debate on the Decimal Coinage Question* (1855: 30).

one. The discussion produced a scheme for the equalization of international coins with 1 new pound = 5 US dollars = 10 Austrian florins = 25 French francs. This scheme far exceeded Oliphant's original idea. It involved more countries and pointed to the advantages of a gold standard with subsidiary silver and bronze coinage.<sup>6</sup>

The main theoretical proponents of monetary unification in England were F. Hendriks, W. S. Jevons, E. Seyd, and L. Levi. The British actuary F. Hendriks launched the debate in England in 1866 with a detailed pamphlet, praised by Parieu, Jevons, and Seyd, and offering a more carefully researched version of Oliphant's plan.<sup>7</sup> Hendriks announced the birth of the Latin Monetary Union, speculated on the French hopes of enlarging the Union with flexible and adaptable arrangements, and proposed a change in the pound (reduction of its weight, through the introduction of a mint fee) which would equalize it to 25 francs. The pound would be decimalized and made equal to ten florins of 2.5 francs each and 1,000 mils of 2.5 centimes each. This proposal was taken as part of the scheme worked out by the International Monetary Conference in Paris in 1867.

A second version of the same idea was elaborated by Prof. Leone Levi, of King's College London, a leading member of the Metric Committee and of the International Association for obtaining a Decimal System of Measures, Weights and Coins. Levi wished to base the new British and international coinage on the 10-franc piece, called a Ducat of 100 pence.<sup>8</sup> He differed from Hendriks only in choosing 10 francs instead of 25 francs as a unit of reference. This version was personally favoured by Parieu, Jevons, Wallenberg, and the Master of the British Mint, Graham. The difference between the '10-franc scheme' and the '25-franc scheme' was small. The latter was more popular because it accommodated the British wish to retain the pound, as well as the requests of delegates from the USA, Austria, and Spain.

The British response to the creation of the LMU was lukewarm, though it was generally acknowledged that monetary union was a positive sign of progress. For the *Edinburgh Review* 'these changes are one of the progressive signs of the age',<sup>9</sup> for *The Times* 'a most important step in the process of European Civilization'<sup>10</sup> and for the *Economist* 'one of the most characteristic treaties of the nineteenth century'.<sup>11</sup> However, most newspapers questioned the possibility of extending the union further. For *The Times* 'we may reasonably expect to see a complete uniformity in weights measures, and currency throughout the whole of what, after the Emperor Napoleon, we may call "the Latin races", of the Continent.' *The Times* expected only Spain to join the monetary union of the Latins, and the rest of Europe to be organized into large but separate monetary areas. The 'German races' should adopt the thaler throughout the new North German Confederation, while southern Germany should join Austria in a

<sup>6</sup> Jevons (1875: 173).

<sup>7</sup> Royal Commission, (1868: 14–26 and 142–8); Parieu (1866*a*). Hendriks had been in contact with Parieu at least since 1858, when he translated Parieu's book on John de Witt.

<sup>8</sup> Levi testified in front of the Commission, Royal Commission (1868: 26–33).

<sup>9</sup> 'International Coinage' (1866: 399).

<sup>10</sup> A column without title nor signature on, *The Times*, 8 Sept. 1866, 8.

<sup>11</sup> 'Monetary convention between France, Belgium, Italy, and Switzerland' (1866: 1077).

separate monetary union. In this way

the European system would be as simple as we can reasonably expect. A universal adoption of the same system is neither to be expected nor, perhaps, desired. The assimilation, for example, of our own coinage, weights, and measures to the French system would not bring us advantages sufficient to compensate for the immense inconvenience of the change. So long as there are a few and well adjusted systems, we shall have all that we can desire . . . We congratulate the four governments who have signed this convention upon having furnished so good a precedent and we trust the example may be speedily imitated.<sup>12</sup>

The *Edinburgh Review*, which supported both unification and decimalization without reservations, had already used the insular nature of Britain as a metaphor for its monetary position: 'Our own country has hitherto stood aloof from any of these combinations, and we are separated from the rest of Europe and America by the duodecimal system of numeration, and by the high value of the unit, the pound, almost as much as by the sea which surrounds these islands.'<sup>13</sup> The *Economist* joined the debate, rejecting union because of the heretic nature of French bimetallism:

[W]e see no reason why each State should have a separate money . . . This [LMU] gold coinage in practice is superior to ours . . . If we adopted it, we might hope that it would become first the sole European money and then the sole money of the civilized world . . . [But the convention] falls into the heresy of the double standard. The English, therefore, though they should regret that they are by inevitable causes excluded from the benefits of this convenient and uniform continental coinage, may yet congratulate themselves that their old standard of value was fixed on principles both wiser and more scientific than this new one.<sup>14</sup>

The official position of the British government at the beginning of 1867, as described in Chapter 2, was close to the positions developed by the *Economist* and *The Times*. Britain had no wish to modify the existing monetary system. The British delegates refused to consider the Conference as anything more than a debating society. Rivers Wilson, representative of the British Treasury, was very dismissive of the whole project.<sup>15</sup>

[T]he English Government, while acknowledging the great and general value of the question, and consenting therefore to take part in the examination of it, instructed its representatives to refrain from any act or opinion which might appear to pledge it to the adoption of any particular course of action. Similar instructions, indeed, seem to have been given by all the other countries to their representatives; the proceedings, therefore, although valuable as ventilating the merits of what might become a measure of far-reaching importance, had merely an academic interest.<sup>16</sup>

Unanimity in favour of the gold standard was a 'singular feature in the deliberations', due exclusively to Parieu's very strong views, as far as France was concerned.

<sup>12</sup> *The Times*, 8 Sept. 1866, 8.

<sup>13</sup> 'International Coinage' (1866: 392–3).

<sup>14</sup> 'Monetary convention between France, Belgium, Italy, and Switzerland' (1866: 1077–9).

<sup>15</sup> Rivers Wilson was a Treasury official, British delegate to the International Monetary Conferences of 1867 and 1892, secretary of the Royal Commission on International Coinage in 1868, and private secretary to the Chancellor of the Exchequer Lowe from 1868 to 1873. He also became Finance Minister of Egypt in the 1870s on behalf of the British bondholders who had lent massively to the Egyptian government.

<sup>16</sup> McAlister (1916: 49).

Rivers Wilson rejected the 25-franc scheme and the two pence reduction of the pound: 'As might have been expected we did not support such an expedient, which would certainly be inadmissible in England, and could only be carried out at the cost of a recoinage of our whole gold currency, estimated at from £80,000,000 to £120,000,000.'<sup>17</sup>

### 5.1.2. *The Royal Commission on International Coinage*

The unanimous conclusions of the International Monetary Conference of 1867, in favour of an international coinage based on the gold standard reopened the debate and required a more articulate response. A Royal Commission was set up by Disraeli to provide an official response to the proposed 'inadmissible expedient' of reducing the weight of the pound to 25 francs. Rivers Wilson was secretary of the Commission and again described it without second thoughts: 'the Commission was appointed really out of compliment to the French government, who had first started the idea of the Conference; and although nothing came and was likely to come out of it, it was of very great interest, owing chiefly to the many able men who took part in it.'<sup>18</sup> The Commission worked fast and after a few months, in July 1868, was able to report that 'we found among the witnesses . . . a general concurrence of opinion in favour of the great advantage, which they anticipate from such a measure [the introduction of an international currency].'<sup>19</sup> Because of the extensive recoinage costs for a temporary reform and the damage it would cause to creditors, the Commission recommended, however, not to adopt the 25-franc coin but 'felt it [their] duty to state the grounds on which, with a view to the general interest of the commerce of the world, the English sovereign and pound might form a convenient basis for an international currency.'<sup>20</sup>

Many witnesses testified to the Commission that a common currency would intensify international competition, to Britain's advantage, by expressing all prices in the same units, and by simplifying accounts and comparisons between different goods. International trade would be enhanced, through the fact that even those not conversant with foreign units would be able to judge the true price of commodities. Smaller firms would be able to compete with larger enterprises without bearing the high fixed cost of clerks specialized in foreign exchange. Various types of transaction cost would be reduced, as would the risk of exchange fluctuations. The chambers of commerce were almost unanimously in favour of monetary unification.<sup>21</sup>

The Commissioners were not impressed and considered that the advantages of monetary union were overrated. They would bear full fruit only after a common system of weights, measures, and coins had been attained. Implicitly the commissioners considered such an event as an impossibility. They stressed the prominent role of uncoined bars of gold as the principal means of discharging international payments, means not affected by monetary unification.<sup>22</sup> The Commission followed Goschen's

<sup>17</sup> McAlister (1916: 50–1).      <sup>18</sup> *Ibid.*

<sup>19</sup> Royal Commission (1868, p. vii). The Commission was presided over by Viscount Halifax, and included the Governor of the Bank of England, the two most important private bankers (Rothschild and Baring), the two former British delegates to the Conference of Paris and several Members of Parliament.

<sup>20</sup> *Ibid.*, p. xviii.

<sup>21</sup> *Ibid.*, p. vii.

<sup>22</sup> *Ibid.*, p. viii.

argument that some exchange costs would remain even after unification. George Goschen was a liberal MP for the City, a former director of the Bank of England and a financier of high reputation. In a speech delivered shortly after he had addressed the Royal Commission, he expressed the feelings of the Commission:

Admitting all the advantages of a uniform system of coinage, I cannot but feel that it is a doubtful matter, seeing how the question affects the National creditor, and, indeed all contracts, whether the immense disadvantage of depreciating the value of the sovereign, as is proposed, be it by ever so little, does not outweigh the benefit of a community of coins. If we could get rid of all fluctuations of Exchange, that would, indeed, be a very agreeable result. But even if the piece of 25 francs were made equal to the Sovereign, and the two coins were absolutely identical—were two Sovereigns in fact—the Sovereign in France would not necessarily be equal to the Sovereign in England. It would still depend upon the balance of trade, upon the demand for Gold for remittance to England, or for remittance to France; you would never get rid of the fractions.<sup>23</sup>

Goschen suggested that unification of the law on Bills of Exchange was far more important for payments to foreign countries than the system of coinage.

One of the members of the Commission was the master of the Mint, the eminent chemist Thomas Graham. He was the second British commissioner in Paris in 1867 and had prepared a report favourable to the ducat, a 10-franc—4-florin gold token coin to be minted for trade with France or, as an alternative proposal, in favour of the adoption of a 25-franc pound.<sup>24</sup> Graham associated internationalization with decimalization and prepared some proof international coins.<sup>25</sup>

The president of the Commission, Lord Halifax, was mainly concerned with the evaluation of the proposal advanced by Hendriks and endorsed by many supporters of union.<sup>26</sup> To avoid compensation and redenomination for all existing contracts for the reduction in weight of the pound, Hendriks had suggested levying a charge for the mintage of coins equal to the reduction of weight in the pound. An individual owning gold bars would bring 25.22 francs of uncoined gold to the mint (equivalent to an old pound) and would receive in exchange a new pound-25-franc gold coin, while the 22 centimes would be held as a tax. The technical name of the tax on coinage was seignorage. It had to be distinguished from *brassage*, which was a mere fee to cover the cost of mintage, also called mint fee (see the Glossary for more details). Hendriks suggested that, so long as France agreed to impose the same tax, at the same level, then the new sovereign of 25 francs + tax of 22 centimes would have the same value as

<sup>23</sup> Seyd (1868: 684–5). Goschen spoke in Liverpool on 7 Feb. 1868.

<sup>24</sup> The report of the English Delegates is in Royal Commission (1868: 190–3).

<sup>25</sup> The mint prepared in 1867–8 several proof coins in gold and silver, according to the specification of the 1867 International Monetary Conference. These coins were (1) the gold unit recommended by the conference, the 'double florin-five francs International', (2) the 10-franc coin supported by Graham and Levi, the 'ducat-100 pence' in gold, (3) a silver coin of '1 franc-10 pence'. In 1857, during the debate on decimalization, Graham had minted some proofs of bronze decimal coins: '5 farthing-10 centimes', 'decimal halfpenny-5 centimes', and 'farthing-2 centimes'. These patterns are preserved in the Coin Department of the British Museum in London. Some of them are reproduced in Josset (1962: 118), and in an Appendix to this work.

<sup>26</sup> Charles Wood, a former Liberal Chancellor of the Exchequer, was created Lord Halifax in 1866.

the old pound of 25.22 francs minted for free. Therefore old and new coins could circulate together without any adjustment, leaving previous prices and contracts unchanged, making the transition from the old national pound to the new international pound of 25 francs completely imperceptible, at no cost to anyone and with a profit for the Treasury.<sup>27</sup>

Hendriks advanced his proposal with the best of intentions in order to smooth the path of transition to the new monetary system. This proved however a serious mistake. Opponents of monetary unification used the proposal skillfully to show that creditors would be defrauded and to demonstrate the logical flaws of the scheme. No coin on earth could be worth at the same time and in the same place both 25 francs and 25.22 francs. Discussion started with the Commission of 1868 but acquired a greater importance in 1869, as will be seen further on.<sup>28</sup>

Halifax seemed initially favourable to the international proposal. After a long exchange of letters with Lord Overstone, he came round to the latter's view that it would not be right to defraud creditors of 1 per cent of their property. Overstone did not believe that, after the introduction of a 1 per cent seignorage, the British people would accept the reduction of intrinsic gold in sovereigns. He expected some people to prefer bars and refuse sovereigns at their legal value.<sup>29</sup>

After the report of the Commission, which requested a new international monetary conference based on sounder principles, Walter Bagehot, editor of the *Economist*, offered a different plan.<sup>30</sup> Bagehot accepted the necessity of monetary unification, 'Commerce is anywhere identical: buying and selling, lending and borrowing, are alike all the world over, and all matters concerning them ought universally to be alike too.' The existence of different price languages reduced international trade because only expert merchants understood the prices published in foreign gazettes. A single currency would facilitate immensely international transactions, reducing asymmetric information, the cost of exchange, and its uncertainty. Bagehot was worried that 'If things remain as now, [Germany] is sure to adopt the French currency; already there is a proposal in the federal parliament that she should take it. Before long all Europe, save England, will have one money, and England will be left outstanding with another money.'<sup>31</sup> Bagehot refused the franc because of its bimetallic nature. As a counterbalance to the franc zone formed around the Latin Monetary Union, Bagehot planned an Anglo-American currency enlarged to Germany. The pound would be decimalized and divided into 1,000 farthings, increasing its weight by 4.17 per cent, and equalizing it to approximately five dollars.

<sup>27</sup> The seignorage proposed was 0.88%, compared to the French seignorage of 0.21% and 0.5% in the USA. Until then the coinage of gold had been theoretically free in the UK, but in fact holders of gold bullion had to deal with the Bank of England which charged 0.16% as, since the 1840s, the mint had accepted bullion only from the Bank of England.

<sup>28</sup> The discussion was confused by the uncertain definition of the difference between what was the simple cost of coining (mint fee or brassage) and the additional profit imposed by the State for the benefit of the Treasury (called seignorage). Seignorage was the difference between the legal value attributed to the coin and the market value of its metallic content together with brassage.

<sup>29</sup> O'Brien (1971: iii. 1138–47).

<sup>30</sup> Bagehot (1869).

<sup>31</sup> St John-Stevás (1965–86: xi. 65).

No doubt it would not be long before the French and the other nations which have adopted their money would change and adopt the Anglo-Saxon money. But still the mercantile transactions of the English-speaking race are so much greater than those of any other race . . . that in the course of years the Anglo-Saxon money would become the one money . . . Looking to the commercial activity of the teutonic races and the comparative torpor of the Latin races, no doubt the teutonic money would be most frequently preferred.<sup>32</sup>

The modification to the pound proposed by Bagehot was substantially larger than the one suggested by Hendriks which had been turned down for its allegedly ambitious scope. But this time it was England not France which would be at the centre of the new international monetary system. This reflected both Britain's economic importance and a certain prejudice against southern Europe ('the comparative torpor of the Latin races'). Bagehot's plan received no support.

### *5.1.3. Jevons's Intervention, the Gladstone Government, and the Arrival of Lowe to the Exchequer*

Jevons explored the condition of the metallic currency of the United Kingdom, and introduced a new point of view on the question of international coinage.<sup>33</sup> He called the report of the Royal Commission 'ambiguous', the difficulties it advanced 'imaginary', due to 'misapprehension of theory' and to 'prejudice'.<sup>34</sup> The boasted perfection of the British coinage hid a substantial alteration of the standard of value. Thanks to an extensive statistical enquiry conducted with the help of several banks, Jevons demonstrated that 31.5 per cent of the British gold sovereigns were 'light', worn down over the limit tolerated by the law to remain legal currency. Forty-six per cent of the gold half-sovereigns were in the same situation. A general recoinage of the British gold circulation on the basis of a new pound of 25 francs was nothing less than a necessity, 'placing the realization of a world wide money beyond doubt . . . A concurrence of circumstances truly remarkable renders it almost indispensable that we should make the change required . . . Instead of occasioning cost and difficulty the trifling alteration of the sovereign is the only mode by which we can impart practical as well as theoretical perfection to our metallic currency.'<sup>35</sup> Jevons added that

The most formidable of these prejudices [of the Royal Commission] arises from our national pride in the fact that the sovereign is known and respected in nearly all parts of the world . . . If we are not misled by foolish pride, we shall take, while we can do it with good grace, the step of adopting our sovereign to become the new gold currency of the world. I may add that if we place any opposition or obstruction in the way of the International Monetary Convention, they have a most justifiable and powerful weapon ready to ensure our defeat. It is only necessary for the continental nations and the United States to issue, as is already proposed, a piece of 25 frs. in order to supplant the sovereign.<sup>36</sup>

<sup>32</sup> St John-Stevas (xi. 92–3).

<sup>33</sup> Jevons (1868: 426–64). William Stanley Jevons was an English economist, one of the founders of marginalism and of modern mathematical economics. His opinions on currency and finance and on the coal question were highly considered by the Liberal governments.

<sup>34</sup> Jevons (1868: 427).

<sup>35</sup> *Ibid.*

<sup>36</sup> *Ibid.* 428–9.



Jevons confided to his brother that 'I have some hope that when Mr Gladstone is Premier, with a great majority on his back, he may give some attention to the subject.'<sup>37</sup> A few weeks later the large majority indeed materialized and Gladstone occupied 10 Downing Street, appointing Robert Lowe to 11 Downing Street. Gladstone's first government replaced the Disraeli government in December 1868, a few months after the Royal Commission presided over by Lord Halifax had rejected the conclusions of the International Monetary Conference of 1867. Gladstone had already corresponded with Parieu in 1866, explaining that 'undoubtedly as far as England is concerned, the first and most indispensable consideration, in treating of any proposed measures, would be the maintenance of its exclusive gold standard.'<sup>38</sup> No other part of the letter has survived, but Parieu had received the impression that once France had adopted a gold standard an agreement with Gladstone and the Liberals could be possible. The Conservatives seem to have opposed such an agreement outright, judging from Lord Stanley's statements quoted in Chapter 2 and from Hubbard and Disraeli's opinions quoted further in this chapter. In the event it turned out that all the Conservatives who took part in the debate were against the LMU, but not all Liberals favoured it either.

Gladstone did not intervene personally although he was aware of the issue. At the beginning of February 1869, he participated in a debate on seignorage, presided over by Bagehot, at the Political Economy Club, and six days later he read Bagehot's book advocating an Anglo-America coinage.<sup>39</sup>

The initiative was taken by the Chancellor of the Exchequer. Robert Lowe was one of the leaders of the Liberal Party. In 1866 he had sent his own party into opposition, by leading the revolt of the 'Adullamite' faction against an extension of voting rights (the Reform Bill) supported by Gladstone and Russell. After the Conservatives had carried reform even further, Lowe returned to the Liberal fold. Once in the Cabinet, he took to heart his role as the government's watchdog on spending,

<sup>37</sup> 'I have just been in one of my journeys to London, to read a paper to the Statistical Society on the Gold Currency. It is the result of a rather elaborate enquiry during the past nine months, which has proved rather successful, and is likely to prove useful, I think.' Jevons to his brother Herbert, 20 Nov. 1868, (Jevons, 1886: 245).

<sup>38</sup> The Gladstone Diaries indicate that Gladstone wrote to Parieu on 2 March 1866, but the letter is not in Gladstone's letterbook (Matthew 1968-94: vi. 422). We know part of the content from Parieu who quoted a sentence of the letter in 1870. 'M. Gladstone m'a fait l'honneur de m'écrire en 1866' (Conseil Supérieur 1872: i. 109). Parieu had been introduced to Gladstone by Chevalier in 1860. 'Notre confrère de l'Institut, M. de Parieu, Vice Président du Conseil d'État, Ancien Ministre de l'instruction Publique, va passer quelques jours à Londres. Il s'est adonné particulièrement aux finances depuis qu'il a quitté le ministère. Il a composé sur ces délicates matières un ouvrage considérable qui est une mine de renseignements bien digérés. Comme vous êtes notre maître à tous dans cette branche importante de l'administration des États, M. de Parieu s'estimerait heureux de s'en entretenir avec vous.' Chevalier to Gladstone, 14 July 1860, (GPBL, *Correspondence Gladstone-Michel Chevalier*, coll. 44127, fol. 8).

<sup>39</sup> Matthew (1964-94: vii. 22): 24, 11 February 1869 and 5 March 1869: 'Read Bagehot on Univ. Money.' The question debated by the Club at Bagehot's request was 'Ought a government to impose seignorage on coins which are legal tender for an unlimited amount and if it ought, how much should that seignorage be?' Gladstone, Lowe, Bagehot, and Rivers Wilson participated in the debate (Political Economy Club 1921: vi. 89).

aiming at retrenchment and the reduction of the national debt. He did not possess specialist financial experience, but was strongly determined to reduce spending.

Lowe began to enquire into the subject of international coinage and to formulate policy from the beginning of his tenure at the Exchequer, asking the master of the British Mint, Graham, and the former master of the Calcutta Mint, J. B. Smith, to prepare a report on the cost of British coinage. Lowe needed to know the level of seignorage appropriate to cover that cost and to justify the change in the weight of the pound that would equalize the pound to 25 francs. The terms used by Lowe were misleading because he called seignorage (the arbitrary profit by the State on the issue of money) what was in fact brassage or mint fee (the payment by the user of the cost of mintage).<sup>40</sup> This difficulty in distinguishing between the two contributed greatly to obscure the discussion that followed. The report of the Masters was presented on 6 April and stated that, in order to pay the full cost of mintage and of keeping all the coinage at its standard weight through time, a 1.5 per cent charge would be needed if the State bore the cost of recoinage and the loss of gold by wear and tear.<sup>41</sup> On 2 June Lowe prepared a confidential memorandum printed for the Cabinet. All of his arguments were derived from Jevons's paper on the British coinage and from Graham's report on the 1867 International Monetary Conference. Three reasons were advanced for his intervention in favour of reducing the intrinsic gold content of the pound and the introduction of a 1 per cent Mint fee. The first reason was the necessity to stop the drainage of gold coins from England, freely used abroad. The second was the necessity to save on the total recoinage of British gold coins that had lost weight by wear and tear. Jevons had proved this point and the Treasury and the Royal Mint accepted the figures he had advanced. His third reason for modifying the pound was international:

The question of international coinage cannot be disregarded by this country, and it is highly probable from the rapid progress that it is making all over the world, that one system of coinage will within no distant period be almost universally adopted, from which it will be impossible for Great Britain to stand aloof. As a necessary condition to our joining in such a scheme we should be forced to abandon our system of free mintage.<sup>42</sup>

The French government wrote to the British government on 20 June, transmitting the report of the French Commission on the monetary standard, which favoured the

<sup>40</sup> In a memorandum to the Cabinet Lowe talked about 'the imposition of a mint charge', explaining that it was only to cover the cost of minting, 'the charge required to defray all expenses of manufacturing the gold coinage, and maintaining it in a state of constant integrity, would amount to about 1 & 1 : 2 per cent (more or less) on all gold bullion brought to the mint.' Confidential report for the Cabinet, Necessity for imposing a Charge upon the Coinage of Gold Bullion at the Royal Mint, 2 June 1869 (Gladstone Papers, Apr.-July 1869, coll. 44610, fol. 83). In the House of Commons instead Lowe chose to use the threatening term of seignorage: 'A seignorage of one per cent would be sufficient to meet the expense of coinage, and of keeping the coin up to the value.' McLaren (1869: 4).

<sup>41</sup> Memorandum on the mintage necessary to cover the expenses of Establishing and Maintaining the Gold Currency (Gladstone Papers, Apr.-July 1869, coll. 44610, fol. 85).

<sup>42</sup> Confidential report for the Cabinet, Necessity for imposing a Charge upon the Coinage of Gold Bullion at the Royal Mint, 2 June 1869 (Gladstone Papers, Apr.-July 1869, coll. 44610, fol. 83).

adoption of a gold standard.<sup>43</sup> It was one of the periodical circular letters in favour of monetary unification sent to twenty different governments by the French Ministry of Foreign Affairs, following the mandate received in 1867 by the International Monetary Conference. On 29 July Lowe replied expressing his satisfaction and praising the soundness of the arguments, but recalling that

until however these principles have been formally adopted by the French government and sanctioned by legal enactment, no common ground for the negotiation of a system of international coinage between Great Britain and France can exist . . . [the adoption of a single gold standard] will afford to Her Majesty's government the opportunity of considering the question of a common coinage with a fair expectation of a successful result.<sup>44</sup>

Following conventional views Lowe argued that French bimetallism was an alternative standard, not a double standard. Therefore if silver was to displace gold again in France, England would be left with nothing to compare to, not having a fixed relationship between its gold and the French silver. The negotiations would require an agreement for a coinage with a common weight, fineness, brassage and mintage conditions. In a word, Lowe was laying down the basis for a serious negotiation with France.<sup>45</sup>

It does not seem that Lowe discussed the question with Gladstone or any other of his colleagues in the Cabinet before his speech to the Commons.<sup>46</sup> Neither his correspondence with Gladstone nor the Cabinet minutes record any trace of it. Apparently Lowe decided to face the Commons on his own responsibility. Gladstone, busy fighting the Lords on the Irish Church Bill, only read Lowe's speech two weeks after it had been delivered.<sup>47</sup>

<sup>43</sup> AMAE, ADC 616-1 (1869-71), 20 June 1869, fol. 3.

<sup>44</sup> AMAE, ADC 604-2, Convention de 1865 et de 1867 (1869), fol. 208-9.

<sup>45</sup> At the beginning of July 1869 Jevons could savour the excitement of success: 'My sovereign research has been more successful than I expected. The Chancellor of the Exchequer has adopted the notion, and quoted some of my figures in the House of Commons lately; and he has had a report prepared partly based on my figures. I do not know whether he will succeed in carrying any change through, but I shall not wonder if he makes some attempt next session. At present the Irish Church [Bill] stops the way.' Jevons to his brother Herbert (Jevons 1886: 248): 7 June 1869: 248.

<sup>46</sup> On the day of his speech to the Commons, Lowe sent a 3-page note to Gladstone without a reference to coinage. Lowe only advanced the urgent request to change the Secretary of the Treasury and expressed his surprise at the low salaries paid to Irish schoolmasters, 'No wonder they teach Fenianism and Socialism.' Lowe to Gladstone, 6 August 1869 (GPBL, Correspondence Gladstone-Robert Lowe, coll. 44301, fol. 63-4). Lowe had apparently forgotten the good advice offered by Gladstone a few months before about the presentation of measures to the Commons on his own responsibility: 'I believe you will find it very useful to fortify yourself beforehand by calling in the common responsibility of your colleagues in the Cabinet generally. No man wants so much sympathy as the Chancellor of the Exchequer, and—unless human nature has much altered in the last 2 or 3 years—no man gets so little. Nor is any position so lamentable for him as to be defeated in proposing some new charge on the public[,] conceived or adopted by himself. It is like an ancient soldier wounded in the back. Whereas even defeat in resisting the raids of the House of Commons on the public purse is honourable, it always turns out well in the End.' Gladstone to Lowe on the duties and on the risks attached to the position of Chancellor of the Exchequer, 26 Dec. 1868 (GPBL, Correspondence Gladstone-Lowe, coll. 44301, fols. 35-6).

<sup>47</sup> Matthew (1964-94: vii. 118): 21 August 1869. Gladstone read 'Ch. of Exrs Speech on Coinage', fifteen days after the speech. Gladstone was recovering from illness and exhaustion from the Irish Church Bill negotiations, which hit him on 22 July 1869.

#### 5.1.4. Lowe's Speech in the Commons and the Ensuing Public Debate

On 6 August 1869, the liberal MP and free trader J. B. Smith questioned Lowe in the House of Commons about the English coinage and the possibility of joining the countries of the Latin Monetary Union.<sup>48</sup> Lowe, who probably had discussed the question with Smith beforehand, agreed with him about the opportunity of such a move and explained Jevons' findings about the poor state of the gold coinage of the United Kingdom. 'After all our expenses and trouble, 31.5 per cent of our sovereigns and 47 per cent of our half-sovereigns are not a legal tender, because they are light weight; and that, for a country which prides itself above all things upon keeping up its gold standard, and upon having a circulation above all doubt and suspicion, is not only a very great and serious evil but a great reproach and discredit.'<sup>49</sup> In order to pay for complete recoinage of the British gold currency, Lowe proposed to reduce the quantity of gold in the sovereign and to create a mintage fee, which would fund a first recoinage and guarantee in the future the integrity of the coin. *En passant*, this measure would also permit the equalization between pound and 25 francs, provided that France introduced the same mintage fee as well. 'The blessing of one coinage throughout Europe, [is] a great step in civilization.'<sup>50</sup>

With regard to the question of international coinage. If we impose a seignorage of one per cent, and take it from the coin, our sovereign would be identical with the 25-franc piece, which the French government propose to coin. The sovereign would still remain a current coin in this country at exactly the same value as now and it would have the additional advantage of being identical in value with the 25-franc piece.<sup>51</sup>

The speech attempted to present the equalization of the pound with the 25-franc coin as if it was completely incidental, and as if it was not the motive that was pushing the British government towards action. The emphasis Lowe placed on the obligation for Great Britain to join a successful single currency, as shown by the Cabinet memo of 2 June, seems to indicate that savings were not the main motive of the proposed reform. Still Lowe's move to stress the objective of achieving some savings on the currency in order to avoid arousing fears of subservience to French monetary imperialism, ended up revitalizing the old and powerful fear of currency debasement.

Debasement of the currency had been a highly profitable activity for most States, which had repeatedly reduced either the weight or the fineness of the coins they issued, imposing each time a legal value superior to the market value of the metallic content. The operation would produce an increase of prices expressed in the new coins, generating what amounted to an inflation tax in favour of the monarch.<sup>52</sup> In England the practice reached its peak under Henry VIII but had been progressively discredited and substituted with a more organized and effective tax system. After the great recoinage

<sup>48</sup> J. B. Smith (–1879) was a veteran of the free trade movement and was associated to the British chambers of commerce. A merchant by profession, he had presided over the Manchester chamber of commerce (1839–41) and was the first Chairman of the Anti-Corn Law League. He was MP for Stockport from 1847 to 1874.

<sup>50</sup> Hansard Parliamentary Papers, 3rd series, 198, 6 Aug. 1869, col. 1421.

<sup>51</sup> McLaren (1869: 6).

<sup>52</sup> Kindleberger (1993: 27–30).

<sup>49</sup> ABoE (1870: 3–4).

of 1696–9, when Newton fixed the value of the English currency, the United Kingdom had no longer experienced this form of abuse.<sup>53</sup> The only event comparable to debasement present in the memory of Lowe's contemporaries, could have been the suspension of specie payments during the Napoleonic Wars.<sup>54</sup> The fear of debasement in 1869 can be explained only by the heterodox financial opinions of Lowe and by a certain prejudice against change.

Lowe had not defined accurately the difference between *brassage* (mint charge) and seignorage in his speech, but the quotations from Adam Smith, Ricardo, Mill, and McCulloch used by him reflected the absence of such a distinction in the minds of most British economists. Lowe claimed that the seignorage levied would increase proportionately with the value of the coin.

Lowe inherited the mistakes made by Hendriks and echoed by Col. Smith, former master of the Calcutta Mint. He tried to show that the change had only positive consequences and refused to face the readjustments and the costs required. The simplicity of the change could have been enhanced if, instead of claiming that the value of debts and credits was unchanged, Lowe had accepted the readjustment of all values in the proportion indicated by Jevons, by 113/112. This would have permitted him to ask for a mint charge that was not exactly equal to the change in the weight of the pound (0.88 per cent). A lower mint charge would have calmed down the opponents of seignorage and those worried by currency debasement. Nevertheless the accusation of altering the standard of value would have remained, and those opposed to any sort of change because they believed in the intrinsic superiority of the British currency would have maintained their pressure.

Although Lowe's speech contained technical and tactical mistakes of some consequence, he had indicated two serious problems: the unsatisfactory state of the British coinage and the need to join an international decimal currency, together with the general lines of a solution. His speech was not meant as a formal proposal to the Commons but as a 'wish to ventilate the subject and give the Honourable Gentlemen and the public at large the means of thinking over this matter'.<sup>55</sup>

*Reactions to Lowe's speech.* The reactions to this speech were mixed, but a strongly hostile mood soon prevailed. Lowe was supported by the academic world, by economists, statisticians, and mint masters, together with the mercantile community which faced international competition in foreign markets. The financial world, the Bank of England, most newspapers, and a degree of popular public opinion opposed Lowe. In part this represented a repetition in the open of the positions expressed in the sessions of the Royal Commission one year earlier, but Lowe's mistake about the introduction of a high mintage fee shifted the debate. Attention was diverted from the general discussion of advantages and disadvantages of a common currency, on which supporters of unification tended to prevail, to technical discussions of Mint regulations, seignorage, *brassage*, and other minutiae, where bullion dealers and bankers excelled, while academics got confused and merchants declined to intervene.

<sup>53</sup> Davies (1994: 244–7). <sup>54</sup> Feavearyear (1963).

<sup>55</sup> Hansard Parliamentary Papers, 3rd series, 198, 6 Aug. 1869, col. 1419.

Many people were outraged both by the insult to the pound produced by its debasement, and by the impoverishment of creditors which would follow. The articles and pamphlets which flourished on the subject rarely referred to the international aspects of the question, except to stress the international role of the pound. Debasing the coinage, even if only by 0.88 per cent, would open the way to future larger introductions of seignorage by the State.

Within fifteen days of Lowe's speech the discussion of minutiae had clouded the question beyond recovery. Every new letter or article was discussed and dissected up to its most irrelevant detail, and controversy sometimes turned into personal insult against Lowe, Jevons, and the two Smiths. *The Times* warned in vain: 'If we might venture to offer a word of advice . . . beware of being lost in a multiplicity of detail.'<sup>56</sup> The *Economist* complained about the scheme's lack of intelligibility, and concluded that 'a plan in England can only be adopted either because everybody understands the reason of it, or because the most respected persons say it is right. But here nobody understands the reason, and the most respected persons do not agree.'<sup>57</sup>

Popular feeling was immediately aroused to defend the sanctity of the pound. According to an anonymous 'bullionist', 'the maintenance of our standard of money is a sacred obligation'.<sup>58</sup> For *Punch*, 'Mr Lowe wants to debase the sovereign . . . to please the French.'<sup>59</sup> In summarizing the controversy, the barrister MacLaren commented on Lowe's proposal: 'These speeches, coming from a Chancellor of the Exchequer, will appear very ominous to all those who are at all familiar with the history of our currency, and they immediately called forth a great amount of criticism.'<sup>60</sup> An anonymous pamphlet violently attacked Lowe's 'irrelevant nonsense', adding that 'These frivolous and most inappropriate and ignorant remarks on our currency are unworthy of a schoolboy' . . . 'Mr Lowe does not understand the currency question . . . every creditor of the nation would be defrauded of one per cent.'<sup>61</sup> J. Aytoun of the *Morning Advertiser* distinguished himself with several attacks of particular violence: Lowe was a 'chartered libertine', falling into 'gross blunders', and issuing 'great absurdity'. 'It is really too bad that the whole trade and commerce of the country should be exposed to injury by the freaks and vanity of a man who, on account of the mere interest of party, has been placed in a situation for which he is totally

<sup>56</sup> *The Times*, 20 Aug. 1869, in Bank of England (1870: 67).

<sup>57</sup> *Economist*, 21 Aug. 1869, in Bank of England (1870: 71).

<sup>58</sup> *The Bullionist*, 14 Aug. 1869, in Bank of England (1870: 42).

<sup>59</sup> *Punch or the London Charivari*, 57, 14 Aug. 1869, 57. *Punch* later added in its usual satirical vein: 'Lowe Jokes. The Conservatives appear to be stunned. They raise little or no outcry against Mr Lowe's proposal to lower the Standard. To be sure your gold is not your paper. But the Chancellor of the Exchequer proposes bringing down the Sovereign. It is however true that he contemplates doing this without prejudice to the Crown' (*Punch*, 57, 21 Aug. 1869, 67). In a full page cartoon, entitled 'Bob and the Bobby, or only his fun', a suspicious John Bull, dressed as a policeman, threatenend Lowe: 'Hullo, young feller! If you're a goin' in for "sweatin" the gold, you'll be gettin' yourself into difficulties.' Exchequer Bob, busy handling a box of gold coins and a bag of the Royal Mint replied 'Lor' bless yer, Mister Bull, why I'm only a makin' the income-tax lighter!' (*Punch*, 57, 16 Oct. 1869, 148).

<sup>60</sup> McLaren (1869: 7).

<sup>61</sup> *A Defence of the British Currency; Showing its Necessity and Utility* (1870: 2-3).

unfitted.<sup>62</sup> *The Bullionist* stated that ‘The proposal is one which deserves to be dismissed simply with a laugh.’<sup>63</sup> To the *Morning Advertiser* Lowe’s plan was a ‘financial crotchet’,<sup>64</sup> to the Liberal MP, Alderman Lawrence, it was a ‘conundrum’, and to the bullion dealer Seyd a ‘hocus pocus.’<sup>65</sup> Aytoun and Hubbard wondered why Lowe did not ‘put himself under the tuition of his colleague Mr Goschen, who was once a Bank director’, to learn something about the currency.<sup>66</sup> To counter the idea of a worn-down British coinage, Hubbard attempted to demolish Jevons’s statistics in *The Times*, and losing his temper on the way, ‘I must distinctly declare that Mr Jevons’s method of calculation in connection with the subject is fallacious, and the conclusions derived from it utterly worthless.’<sup>67</sup> Jevons replied that ‘with a curious propensity to error, which I know not how to characterize, Mr Hubbard has falsified at once the Rule of Three and the facts of the case.’<sup>68</sup> *The Echo*, who supported unification, sarcastically summarized the feelings of the ‘anti-Lowe league’:

It is well known by this time that a conspiracy has been laid to tamper with the beautiful Sovereign—to reduce the shining gold which it contains, and to alter its purity by increasing its alloy. The plot was concocted at Paris at the International Monetary Conference in 1867, but the scene of action has since been transferred to London, and the Chancellor of the Exchequer has placed itself at the head of the conspirators.<sup>69</sup>

A more articulate expression of opposition came from the City. The resistance to the reform was headed by the former Governor of the Bank of England, John G. Hubbard, and by the former president of the decimal coinage commission and main inspirer of the Bank Act of 1844, Lord Overstone. The Bank of England did not offer any official reaction during the debate, but in addition to Hubbard the former Governor Hunt took a decided stance against Lowe. Another experienced director, Norman, expressed his horror in his letters to Overstone, confirming that the Bank was against Lowe’s project. The current Governor of the Bank of England, Crawford, decided to collect all the contributions to the debate in a book.<sup>70</sup> Crawford, who was also a Liberal MP, replied to Lowe’s announcement of the withdrawal of his plan in 1870 that ‘the statement of the right hon. Gentleman had relieved his mind of a great

<sup>62</sup> J. Aytoun, ‘The Chancellor of the Exchequer must be taught political economy’, *Morning Advertiser*, 14 Aug. 1869 (Bank of England 1870: 36).

<sup>63</sup> *The Bullionist*, 25 Sept. 1869 (Bank of England 1870: 224).

<sup>64</sup> Aytoun, ‘Lowe’s Seignorage Scheme’, *Morning Advertiser*, 23 Aug. 1869 (Bank of England 1870: 77).

<sup>65</sup> Seyd, ‘Gold coinage’, *The Times*, 20 Aug. 1869 (Bank of England 1870: 60).

<sup>66</sup> Aytoun, ‘The Chancellor of the Exchequer . . .’ (Bank of England 1870: 36).

<sup>67</sup> J. G. Hubbard, ‘The Gold Coinage’, *The Times*, 20 Aug. 1869 (Bank of England 1870: 59).

<sup>68</sup> Jevons, ‘Gold Coinage’, *The Times*, 24 Aug. 1869 (Bank of England 1870: 84).

<sup>69</sup> ‘The Sovereign’, *The Echo*, 30 Sept. 1869 (Bank of England 1870: 239). This paragraph could be usefully compared with the title of *The Express’s* on 30 Apr. 1997: ‘Major’s rage at Euro plot. Premier attacks arrogant bid to expel UK from world elite.’

<sup>70</sup> Overstone gloated: ‘Of course I am pleased to learn from you that my ideas on the mintage question receive the approval of the Patres Conscripti of Treadneedle Street—nor can I make any objection if the Pontifex Maximus [the governor] really wishes to mingle them with the mass of nonsense which, it appears, he is accumulating for some mysterious process in the dark recess of his temple of Mammon. By this strange chemistry he will produce probably the most powerful soporific yet known to the intellectual world’ (O’ Brien 1971: iii. 1189). The collection of articles is in Bank of England (1870).

weight, and he was sure that many other persons would be gratified to learn that it was not his intention to carry out his proposals.<sup>71</sup> In Overstone's words 'I think there is a danger that Bobby Lowe will get himself and the Country in a serious mess with his rash theories.'<sup>72</sup>

The opposition included Bagehot and the *Economist*, the *Daily Telegraph*, and *The Observer*. The columns of *The Times* were the principal battleground, where forty-one letters and four leading articles in less than three months dissected the issue. *The Times* was torn between loyalty to Lowe, who had been its main contributor until a few months earlier, and its readers, which were generally opposed to any change.

Three main arguments were used:

1. Lowe's claim that seignorage added to the value of the coin was considered erroneous. The old pound of 113 grains of pure gold and 25.22 francs would be replaced by a lighter new pound of 112 grains and 25 francs. If the new and the old pound had a different value in francs abroad, the two could not possibly have the same value in the UK. The standard of value was therefore altered by 0.88 per cent and all debts should be revalued by the same amount so as not to defraud the creditors. The argument was correct, but it was not used to ask for the readjustment of values, rather to portray Lowe's proposal as a theft damaging creditors and an unacceptable alteration of the pound of Newton and Peel. An implicit equation was established in the mind of the reader: alteration = depreciation = debasement = abuse; therefore any alteration must be resisted. In Hubbard's words: 'the prevailing impression in this country [is] that the wisest course to pursue with our own coinage is to leave it alone.'<sup>73</sup> Lord Overstone's highly regarded intervention in *The Times* came to an identical conclusion: 'It is for the interest of justice and the well-being of the community that the value of the pound sterling should continue as nearly as possible invariable, and with this end in view it is our duty to leave it alone.'<sup>74</sup> The *Observer* on 26 September 1869 declared that, in its view, Overstone's intervention against Lowe's plan had solved the dispute.<sup>75</sup>

The opposition of the *Economist* was not merely an example of the frequent low-key conservative idolatry of the pound.<sup>76</sup> The review understood Lowe's concerns for a

<sup>71</sup> Hansard's Parliamentary Papers, 3rd series, 190, 10 Feb. 1870, col. 155. R. W. Crawford (1813–89) was a merchant connected with East India trade and railways, a director of the Bank and its governor in 1869. He was a liberal MP for the City of London from 1857 to 1874.

<sup>72</sup> Overstone to Norman, 18 Aug. 1869 (O' Brian 1971: iii. 1178).

<sup>73</sup> Hubbard, *The Times*, 7 Oct. 1869 (Bank of England 1870: 261).

<sup>74</sup> McLaren (1869: 13).

<sup>75</sup> *The Observer*, 26 Sept. 1869 (Bank of England 1870: 226).

<sup>76</sup> *The Economist* concluded its review of McLaren's book, supporting his views against unification: 'Though the cost of production regulates the price of gold coins as everything else, and to charge a seignorage would add to its value, in the first instance, yet the demand for coin is very variable, and intervals would be of frequent occurrence when the oversupply would cause depreciation, until the cessation of production brought things round again. On this account he [Mc Laren] maintains, a coin on which no seignorage is charged, is more useful, as the oversupply of coin is at once checked by its conversion into bullion, and the consequent depreciation prevented. . . . A very little risk of depreciation, it should be remembered, will be a strong argument against any change, as it can not be said that the present system, which secures us against the risk, costs us anything to speak of in comparison.' Review of McLaren's 'A Brief Review', *Economist*, 27, 25 Dec. (1869), 1531. *The Economist* published on the subject other articles on 14 and 21 Aug. and 11 Sept. 1869.



more flexible form of money, more paper and less bullion, reserving gold to international trade and for the reserves of the Bank of England. Bagehot's 'Lombard Street' would come only four years later, identifying in the Bank of England the supplier of credit of last resort, protecting its stability against crises of liquidity through its gold reserves that should not ordinarily be dispersed in the circulation.<sup>77</sup> Bagehot was not against any modification of the pound; he had indeed proposed to equalize it to 5 dollars, but he opposed a currency area dominated by the franc.

2. Much discussion took place over seignorage. Hubbard and Seyd would concede a mint charge between 0.15 per cent and 0.30 per cent, but declared that anything higher was theft. For Hubbard the charge should be levied by fixing a special amount in addition to the weight of bullion brought to the mint, without a deduction from the weight of the sovereign. 'The pound sterling, our measure of value, is a definite portion of fine gold in the shape of a coin; not a bag of gold dust or a piece of a bar: and we ought not and must not alter this, and take in its place a coin having artificial value.'<sup>78</sup> If a seignorage as high as 0.88 per cent was levied, the pound would become a metallic monster—a coin which would be neither a token nor a standard of value. It would not be a token, for a token is a domestic coin, and it is limited in its legal exchangeability; nor would it be a standard of value, for a standard coin, while unlimited as a legal tender, is, at the same time, exchangeable within the area of civilized commerce at its professed value. The pound sterling has been hitherto a truth; let it not become a sham.<sup>79</sup>

Overstone stressed that the stability of the weight of the pound was the current rule: 'To introduce any other rule is to introduce endless confusion, conflict and injustice, and to afford facility and encouragement to that most dangerous tendency, from which a community is never altogether free, to seek immediate ease, and a state of hollow, factitious prosperity, by the gradual debasement of the standard of value.'<sup>80</sup> In a secret memorandum to Norman, Overstone revealed his true fears: 'if the principal countries of the world can by acting in common accord deduct, say one per cent, from their coins, without injustice to the creditor interest, on account of the asserted undiminished purchasing power of the coins, what limit is there to this process? Why not deduct 10 per cent or 50 per cent of the gold in their coins?'<sup>81</sup>

The bullion trader Ernest Seyd, a German living in Great Britain and author of one of the best manuals of the time on foreign exchange, added that a small mint charge of no more than a third per cent was 'a fair and legitimate charge which can be borne, but

<sup>77</sup> Just a month before Lowe's speech on the pound, *The Economist* praised him for his proposal to introduce a £1 note because it would lead to the concentration of gold coinage in the Bank of England. The Bank could use the gold reserve to pay international balances when need came, without having to collect it from the general circulation and wasting time and credit. The common complaint was that the banknotes took the place of the sovereign, driving it out of circulation 'but all banknotes take the place of coin, and are only valuable because they do so. If £1 banknotes are more successful than other banknotes in replacing the Sovereign, then it means they are better than other banknotes, not worse' ('Mr Lowe on £1 notes', *Economist* 27, 3 July (1869), 772).

<sup>78</sup> Attributed to Hubbard by McLaren (1869: 9).

<sup>79</sup> Hubbard, 'The Gold coinage', *The Times*, 17 Aug. 1869, in Bank of England (1870).

<sup>80</sup> McLaren (1869: 15). <sup>81</sup> O'Brien (1971: iii. 1180).

anything above this charge takes the character of seignorage, and in that character it is nothing but a sham, against which logic, commerce and the common sense of the people will rebel, and this rebellion, in spite of political authority, will be successful in the end.<sup>82</sup>

What makes this harsh statement so interesting is that Seyd was a supporter of unification before Lowe's speech and again after Lowe's proposal was withdrawn. He had warmly endorsed the reduction of the pound to the weight of 25 francs in his manual of foreign exchange published one year earlier. 'Even we in England, however strongly we may be attached to our pound sterling system, if we desire to share in the benefits sure to result from the general introduction of uniform currency, must make up our minds to assimilate our coinage to that of France.'<sup>83</sup> Seyd was in favour of universal coinage based on a bimetallist system, a rare case in the United Kingdom. But he was also a dealer in precious metals, a business which flourished thanks to currency arbitrage, remelting and exporting–importing metal in coins or bars.<sup>84</sup> This trade would have been severely affected by the introduction of a tax. This tax however, would have had more important general consequences for foreign exchange. Trade of gold and silver, between the UK and France, implied transportation costs, handling, bags, and insurance costs. The total reached approximately 0.4–0.5 per cent of the value of a large shipment. Shipment of metals from one country to the other took place when the exchange rate had moved up or down from the gold or silver parity (relation between the pure content of metal of the coins of two countries in question) by more than the transportation costs. These upper and lower limits constituted the gold points, or effective margin of currency fluctuation in a gold standard. With the introduction of a 1 per cent Mint charge, the fluctuation of exchange rates that made arbitration profitable would have to increase by 1 per cent to keep the same opportunities of profitable arbitrage. It is likely that this would have been a source of increased fluctuations of exchange rate and of the relative price of silver and gold.<sup>85</sup>

<sup>82</sup> Letters to *The Times* by E. Seyd on Aug. 13, 20, 28, and Sept. 13 (*A Defence of the British Currency* (1870: 34)).

<sup>83</sup> Seyd (1868: 682).

<sup>84</sup> Once the ground was cleared from the defective details of Lowe's proposal, Seyd reintroduced the question of unification under a different light. He described Britain as having lost ground to France in international banking operation in the last twenty years because 'we neglect to hold bill claims (a form of disposable capital) on foreign nations, and in the event of a crisis, we are pushed back upon our own discounts and investments, which, by themselves, cannot bring bullion to us, whilst we are driven to squeeze them to the utmost for gold. At other times, when money is abundant, we are induced to encourage local discounts beyond what is strictly prudent. We foster local speculation' (Seyd 1870: 48). France instead has created a large protective portfolio of claims over England that could be mobilized in case of need (as it happened after the Franco-Prussian War) and thus stabilize its financial situation. 'The London market for foreign exchanges, in spite of its productiveness in continental bills, instead of leading the rates, has become a passive one, operated upon principally by French bankers to their profit. Paris rules the exchanges, instead of London' (*ibid.* 49). To accept monetary unification would make British bankers more readily available to deal with foreign bills and exchanges and not just endorse them as they currently did, while the French perform exchange arbitration (*ibid.*).

<sup>85</sup> Hubbard had perceived this, when he declared that a large seignorage would 'obstruct the free circulation of gold acting as the adjuster of international balances of trade, enlarge the scale of variation of exchange, and, by increasing the uncertainties of commerce, enhance the price of commodities' (Hubbard, *The Times*, 16 Aug. 1869, in Bank of England 1870).

3. The status of the pound in international payments was another important argument against change. The pound was the main international currency for the Empire and China and was legal tender in such countries as Portugal and Brazil. For Sir J. Herschel, former master of the London Mint, the pound was a real and tangible thing, namely a coin with a fixed weight of fine gold. 'All our public acts and arrangements from Sir R. Peel's Act of 1819 downward . . . have been based on this definition.'<sup>86</sup> Public faith in the value of the pound both internally and internationally required its stability.

Much less attention was devoted to the discussion of the effects of a common currency on trade, but the usual argument was that international coinage was not worth the effort of change. A few stressed that exchange rates and transaction costs would remain even after unification, as Robert Lowe himself had declared when he was opposing Samuel Brown and the Decimal Association in 1855. Even 'if different countries should adopt the same coins, the variation in the rate of exchange would render them of different value.'<sup>87</sup> Therefore unification was pointless. The balance of trade, the interest rates, and the general conditions of the economy would continue to fluctuate and determine the exchange rate of banknotes and bills. It was added that 'no exporter, unless for some peculiar operation, would ship sovereigns if he could purchase bar gold'.<sup>88</sup> The different perception of the relative importance of bars, coins, banknotes, and bank drafts between the United Kingdom and Continental Europe depended in part on the different financial structure of the pound zone and the franc zone.

The supporters of a European monetary unification had already exposed their arguments between 1866 and 1869. Lowe having laid down the arguments for unification in a very peculiar and indirect way, the initiative rested with his opponents and the debate was not on the issues of free trade, growing international transactions and comparative costs favoured by the internationalists. The former master of the Calcutta Mint, Col. J. T. Smith, the Liberal MP J. B. Smith, the economists W. S. Jevons and Leone Levi, the statisticians Hendriks and Farr, and many merchants and chambers of commerce supported Lowe.<sup>89</sup>

The two Smiths were the most ardent defenders of every detail of Lowe's plan, while Levi in the *Daily Telegraph* and Jevons in *The Times* attempted to familiarize the public with the wider debate taking place on the Continent about the opportunity to achieve monetary unification, explaining the larger context. Hendriks campaigned from the columns of the *Economist*. An anonymous merchant B<sup>90</sup> stated the commercial point of view:

A universal measure of value would remove an artificial difficulty from international transactions, be they great or small, and would direct trade to that country which offers the greatest

<sup>86</sup> McLaren (1869: 11). <sup>87</sup> *Debate on the Decimal Coinage Question* (1855: 24).

<sup>88</sup> T. Hankey, *The Times*, 10 Aug. 1869 (Bank of England 1870: 27).

<sup>89</sup> Farr (1870); Hendriks (1869: 1191–3).

<sup>90</sup> Mr B. was probably J. Behrens, an international merchant established in Manchester and Bradford, who had testified in front of the Royal Commission, using the same words employed in the letter to the *Economist*, Royal Commission (1868: 6).

*natural* advantages. There can not be a doubt that, all things being equal, *England is that country*; but we must not forget that steam, telegraphs and the accumulation of wealth abroad, have deprived England of the most exclusive monopoly of the world's trade which she once possessed, and that she can not afford to stand still while all the world is moving and moving in concert. Already now English merchants and manufacturers have to struggle hard to maintain their positions against a competition which is daily getting more formidable, and they therefore hail with satisfaction the prospects of obtaining by means of Mr Lowe's scheme a chance of meeting their foreign competitors on equal terms in neutral markets.<sup>91</sup>

### 5.1.5. *Governmental Discussion and International Reactions*

The deluge of criticism that followed Lowe's speech was also echoed inside the Cabinet. The War Secretary E. Cardwell accused Lowe of debasing the currency and altering the standard of value. The Prime Minister Gladstone was 'astonished' at Lowe's proposal, the President of the Poor Law Board, G. Goschen considered the whole attempt useless. Goschen is likely to have objected to Lowe's plan, judging from his speech already quoted and from his statement to the Royal Commission of the previous year.

Lowe tried to explain his reasons in a detailed letter to Cardwell on 7 September, printed confidentially for the Cabinet a few days later, insisting on the importance of the change and fighting back against the accusations. Lowe excused his previous silence 'I did not like to trouble you with my coinage questions, but as you have started the subject, I will put the case to you.' Lowe explained the real state of the worn-down British currency, specifying that light coins, theoretically illegal:

circulate without depreciation; and nobody, except the Bank of England, troubles itself about sovereigns below legal tender, because they will circulate as well as the legal tender sovereign. If the value of the sovereign did depend upon its weight, the nuisance of our present system would be utterly unbearable, and no one could give or receive change without a pair of scales to determine the amount of depreciation . . . I think it follows from this that there is no necessary connection between the diminution in the weight of a sovereign and its depreciation.<sup>92</sup>  
[underlined by Gladstone]

Lowe then discussed what was the standard of value in England;

It is not the quantity of gold actually contained in the sovereign . . . Those who think as I do that a banknote discharges the office of money, and is not a mere instrument of credit, will be disposed to hold that the value of money does not depend at all primarily on the material of which it is made . . . Sir Robert Peel defined a pound to be 'a certain definite quantity of gold with a mark upon it to determine its weight and fineness', from which it follows that the only standard we have is a new sovereign of full weight—a definition which would condemn every

<sup>91</sup> Letter by B. on Mr Lowe and the coinage, *Economist*, 27, 21 Aug. (1869), 1074–5.

<sup>92</sup> Report printed for the Cabinet, 'Mr Lowe to Mr Cardwell', dated 7 Sept. 1869, printed 13 Sept. 1869 (GPBL, coll. 44611, fol. 54, p. 1). It was customary in the Gladstone government that letters exchanged between two ministers, of some importance for the discussion of policy, would be confidentially printed for the whole Cabinet, to enlarge the discussion.

metallic currency, unless it were made of indestructible materials . . . The truth is that the value of a currency depends far more on its quantity than on its quality.<sup>93</sup>

Lowe emphasized the archaic character of the conception of money displayed by his opponents, who refused to acknowledge banknotes as a form of money, and denied pursuing any alteration of the standard or debasement of the currency. Lowe was defending a conception of money as a public good managed by the State with a deliberate policy against the conception of money as a private good, 'a commodity like everything else' for Goschen.<sup>94</sup> Cardwell reacted, calling Gladstone's attention to the matter:

I was very sorry to see that Lowe had given way to what seems to me a mischievous fallacy about the sovereign and I thought it only a friendly act to give him a hint of it. This brought a printed indication of his views, which, in case you had not seen it, I enclose. It was far from my intentions to occupy the opposite side to his in a controversy.

If I were residing in Paris, deriving an income of £1,000 a year from the English Funds, and I suddenly found that the payment was made in sovereigns, not equal as now to 25 francs 4 sous, but to 25 francs 0 sous, it seems to me that, non-obstante the enclosure, I should consider the English currency to have been depreciated—and the standard of value altered, quo ad the National Debt.<sup>95</sup>

Gladstone's reply is partially illegible, 'Many thanks for your advice. I am also in favour of a Mint charge, but am no f.a to Lowe and I am astonished.'<sup>96</sup>

Lowe later wrote to Gladstone proposing new reforms at the Mint, abolishing the position of Master, reducing the degree of error tolerance in the weight of coins and delays in minting.<sup>97</sup> Gladstone sent to Lowe an unusually imperious note, ordering him to suspend action on the Mint. 'Be quite understood about the Mint that I do nothing until the question of the [unreadable: sovereign's weight?] has been disposed of.'<sup>98</sup> The note could be interpreted as an order to stop any further discussion on the alteration of the weight of the sovereign, but could also have referred to the appointment of a new master after the death of Graham or to the conflict between Lowe and the Commissioner of Public Works, Ayrton, about the construction of the new Mint building.

In November 1869 Lowe printed for the Cabinet a confidential memorandum by J. B. Smith, suggesting that he wanted to go ahead with the project despite all the criticism. Col. Smith explained that the pound had several defects, which would be solved by the introduction of seignorage.<sup>99</sup> In the final page of the memorandum, Smith suggested what would amount to a gold exchange standard; a circulation of banknotes backed by gold reserves, held mainly in the form of bullion bars by the

<sup>93</sup> 'Mr Lowe to Mr Cardwell.', 1                    <sup>94</sup> Royal Commission (1868: 125).

<sup>95</sup> Cardwell to Gladstone, 19 Sept. 1869 (GPBL, Correspondence Gladstone–Cardwell, coll. 44119, fol. 66).

<sup>96</sup> Gladstone to Cardwell, 20 Sept. 1869 (GPBL, Letter Book, coll. 44537, fol. 66).

<sup>97</sup> Lowe to Gladstone, 11 Oct. 1869 (GPBL, Correspondence Gladstone–Lowe, coll. 44301, fol. 85 bis).

<sup>98</sup> Gladstone to Lowe, 12 Oct. 1869 (GPBL, Letter Book, coll. 44537, fol. 92).

<sup>99</sup> J. T. Smith, *Remarks on the Currency*, dated 12 Nov. 1869, printed 26 Nov. 1869, (GPBL, Official Papers, Aug.–Nov. 1869, coll. 44611, fol. 146, p. 7).

Central Bank.<sup>100</sup> A managed currency with a larger proportion of banknotes now became Lowe's objective and in 1870 and 1872 he proposed the demonetization of the gold half-sovereign and the concentration of gold sovereigns in the vaults of the Bank of England, replaced by new £1 banknotes.

Seen from Continental Europe Lowe's proposal was appreciated by the supporters of the programme like Parieu and Feer-Herzog, because it indicated some degree of willingness by Great Britain to participate in the creation of an international money. Nevertheless Lowe's mistake about the seignorage was well understood.<sup>101</sup> Feer-Herzog, Swiss representative at all monetary conferences of the period, commented on Lowe's plan:

From an international point of view, it presents a difficulty consisting in the fact that monetary unification supposes that participating States agree on the Mint fee, or as the English say *seignorage*, and that the latter can not be calculated by some governments *inside* and by others *outside* the coin. Even if Mr Lowe is right to say that the costs of production and maintenance of the coin can fully be considered as part of its value, he should not forget that a seignorage of 1 per cent paid today in France in addition to a 25-franc coin is not the same thing as 25 francs of a future system from which 1 per cent of mint fee has been deducted.<sup>102</sup>

Feer-Herzog proposed instead three steps; (i) reduce the pound to 25 francs, transform all debts by 113/112, in order not to defraud any creditor, (ii) Mint all coins according to the 1867 convention and (iii) accept for a transitional period the old pound in the Monetary Union for eight years, at the fixed value of 25 francs, provided that the single coin is not excessively worn.

Lowe was not willing to accept such suggestions as his speech to the Commons had shown. He anticipated that any complication would make the plan enormously unpopular.<sup>103</sup>

The reaction of the French government to Lowe's offer was disappointing: the Minister of Foreign Affairs, la Tour d'Auvergne, defined the communication 'très importante' and pressed his colleague at the Finance Ministry for the introduction in France of the gold standard, as requested by Lowe and the International Conference. Magne temporized and his delaying tactic prevented the Quai d'Orsay from accepting Lowe's proposals.

<sup>100</sup> 'If we were to reverse the "currency system", and instead of the great bulk of our currency consisting of gold coins, and an exceptional part of notes, the greater part of it were composed of notes and the smaller of gold bullion and coin, it might be possible to arrange a system equally convenient and safe with the present one, and a considerable saving to the public. One method of effecting this would be to adopt Mr Ricardo's proposal as to the redemption of notes; and to issue notes of the lower denominations, 3£ and 2£ only . . . The number of sovereigns left in circulation might be, in great measure, regulated by orders from time to time to the Bank authorities requiring them to issue, on average, certain proportions of notes and coins' (Smith, *Remarks on the Currency*, 8–9).

<sup>102</sup> Feer-Herzog (1870: 18–20).

<sup>103</sup> 'Nobody is more opposed than I to any attempt to tamper with the current value of the sovereign. Anything which would alter the current value of the sovereign—that is the value of the sovereign wherever it is legal tender—and oblige a man to make calculations how much more he should pay or receive for the sovereign than he is accustomed to pay or receive, would be impossible to enforce in this country' (Hansard's Parliamentary Papers, 3rd ser., 198, 6 Aug. 1869, col. 1417).

When the House of Commons reassembled after the recess, Lowe moved on 10 February 1870 a new Coinage Bill to abolish the office of Master of the Mint and to consolidate all the mint regulations and laws in a single text. In the meantime, he announced that the question of international coinage could not be brought with any profit before the House for a time, because France had further delayed any decision on the adoption of the gold standard and the Emperor had appointed a new commission to enquire into the question. 'Consequently, as a single gold standard is indispensable for the advancement of a scheme of international coinage, the matter must stand over until the French government shall have arrived to a conclusion on that all important subject.'<sup>104</sup> That was the last word heard in the Commons about the French project of monetary unification in the nineteenth century. Lowe, however had not yet given up his idea and the British chambers of commerce were still lobbying him on the subject. The Chancellor of the Exchequer had simply decided to wait for further developments in France before resuming the matter.<sup>105</sup>

Lowe was not interested in international money for its own sake. He was not a keen francophile and did not favour in any way French expansionism, nor England coming to the rescue of France against Prussia, as is clear from his reaction to the French defeat at Sedan in September 1870. He wrote to Gladstone to discourage him from attempting any intervention in the war: 'I don't think the stupendous catastrophe of France imposes a new duty on us. It is quite clear that Germans would bitterly resent and be slow to forgive and certain to disregard any advice from us and France[,] if we [secure] concessions sufficient to ensure peace[,] would always look upon us [as] having been parties to their humiliation.'<sup>106</sup> With Lady Derby, Lowe was even more explicit than with Gladstone: 'I always hated the Emperor [Napoleon III] who seemed

<sup>104</sup> Hansard's Parliamentary Papers, 3rd ser., 199, 10 Feb. 1870, col. 153.

<sup>105</sup> On 22 Feb. 1870 the Assembly of the British chambers of commerce had decided not to endorse the 25-franc scheme, despite a favourable report by a committee presided by Lloyd and composed of Behrens, and two liberal MPs, Akroyd and Whitwell. The opposition of the Bristol chamber of commerce led to a compromise, endorsing the report of the Royal Commission of 1868 but appointing a 'deputation to wait upon the Chancellor of the Exchequer, urging him . . . in order that an agreement might be arrived at for an international system of coinage' (*The Times*, 23 Feb. 1870, 12). On 25 Feb. 1869, the delegation, led by the president of the English chambers of commerce, the supporter of the 25-franc pound, Samuel Lloyd, paid a visit to the Chancellor of the Exchequer. Lowe's response was sent by Lloyd to Parieu, who transmitted it to the French Monetary Commission. 'M. Lowe n'est pas personnellement favorable à l'idée d'une conférence internationale. On a déjà beaucoup parlementé sur ce sujet, et les choses n'ont pas marché. Le rapport des Commissaires royaux conclut à la conservation du souverain anglais actuel, et la seule chose qu'ils semblent recommander c'est une conférence. Mais comment se présenter à une conférence avec l'idée bien arrêtée de ne pas changer le souverain. Les autres nations peuvent aussi très justement faire de semblables réserves. La France paraît vouloir conserver son étalon et il semble qu'il est inutile d'ouvrir des négociations avec elle si on n'est pas prête à s'entendre sur quelque point. Le mieux serait donc de déterminer les concessions qu'on peut faire et de négocier avec chaque pays séparément; tant qu'on n'aura pas fait cela, cette conférence serait condamnée à l'avortement. Les journaux ont prétendu qu'il (M. Lowe) a changé d'opinion sur la question, mais il n'en est rien. Il pense donc que le meilleur parti à suivre est d'attendre le moment d'entrer en arrangement avec la France, qui semble près de mettre en circulation une pièce de 25 francs, ce qui ferait faire un pas à la question.' Conseil Supérieur du Commerce (1872 : i. 178).

<sup>106</sup> Lowe to Gladstone, 3 Sept. 1870 (GPBL, Correspondence Gladstone-Lowe, coll. 44301, fol. 152).

to me the incarnation of the worst ends sought by the worst means, and shall regard his fall as a clearing of the moral atmosphere.<sup>107</sup>

It was clear that Lowe saw international coinage as an external imposition, inescapable if the rest of the world adopted it but of no particular need otherwise, just as many countries regard EMU today. As soon as the Prussian victory ended French hegemony on the Continent and defeat blocked the process of monetary unification, Lowe dropped from his currency plans any reference to international coinage. In 1873 Bagehot described the change: 'Since the Franco-German War, we [the British] may be said to keep the European reserve [of gold] . . . Formerly for many purposes Paris was a European settling-house, but now it has ceased to be so.'<sup>108</sup> The bitter view on the other side of the channel was: 'before the fatal date of July 1870, France was seriously competing with England for the pre-eminence in great financial operations . . . now there is only one cosmopolitan clearing house left, it is in London.'<sup>109</sup>

Lowe, who was still convinced of the necessity of reforming the coinage and of restricting the use of gold coins, turned to the idea of a larger issue of paper money, with new notes of small denomination. He wanted the State to acquire a monopoly of issue in the UK, by discontinuing the banknote issue of the Bank of England and of the Scottish, Irish and English provincial banks. This new struggle with the Bank of England was even less successful than the previous one, and Lowe was not even able to inform Parliament or the press about his plans before they were blocked by the Cabinet at the end of 1872. In 1873 Gladstone even decided to remove Lowe from the Treasury, and took it over himself. Scottish and Irish banknotes have survived to this day, but Lowe's project of a centralized public control over the issue of paper money in England was achieved in 1946 with the nationalization of the Bank of England.

The Gladstone government was defeated in the elections at the beginning of 1874 and replaced by a Conservative government headed by Disraeli. Disraeli considered the International Monetary Conference of 1867 as the 'fons et origo malorum' of the 'great disturbance and immense fluctuation' deriving from the French and Belgian desire to move to the gold standard, cause of the depreciation of silver, despite the 'very beautiful idea of cosmopolitan philanthropy'.<sup>110</sup> For Disraeli, England was not a European power but an international power turned towards its Empire, which should not focus on European questions. Something of this approach still survives in today's perception of Europe. Realizing that the race towards the gold standard by all European powers was exacerbating the competition to hoard the limited quantities of gold available and threatening the stability of the British reserves, Britain under Disraeli became a supporter of bimetallism outside its own frontiers. In 1878 the British position was 'We considered that, while a universal double standard was a utopian impossibility, a single gold standard throughout the world would be a false utopia, and

<sup>107</sup> Burghclere (1933: 275): 13 Aug. 1870.

<sup>108</sup> St John-Stevas (1965–86: ix, 63).

<sup>109</sup> 'Avant la date funeste de juillet 1870, la France commençait à disputer sérieusement à l'Angleterre la prééminence des grandes opérations de crédit . . . [désormais] Il n'y a plus qu'une *clearing house* cosmopolite, elle est à Londres' (Menier 1873: 3–4).

<sup>110</sup> Quoted from Hendriks, (1874: 129–131).



that further steps in that direction might tend to produce incalculable disasters to the commerce of the world.'<sup>111</sup>

In the 1850s and 1860s, the pound survived all proposals for decimalization, internationalization, and reform, to become the major international currency of the age of the classical gold standard. Universal money could come to life only with British participation. Canada was willing to participate provided that the USA would participate; the USA and Portugal wanted to participate provided that Britain would participate as well. Therefore Great Britain held the key to North American participation, as well as that of India and the other British colonies. Universal money without the English-speaking world could have been a Continental European money. This hypothesis came close to realization but required the agreement of some of the German States. The persistent Franco-Prussian tensions in 1866–70 ensured that no real progress could be expected in that direction and that the threat of a monetary and financial domination of Europe by France could be effectively countered by an undeclared Anglo-Prussian alliance, dictated by converging interests.

The British financial establishment opposed monetary unification by defending the national standard and its own monetary practices as much as its French counterpart did. In one country bimetallism was the focus of resistance, in the other it was the sacred nature of the pound. In both countries all changes were intensely resented, making general reforms impossible. Change was left to the natural evolution of the monetary system, determined by exogenous shocks (wars and forced paper currencies) and endogenous transformation (the diversification of the forms of money permitted by a growing banking system).

## 5.2. THE GERMAN INFLUENCE

### 5.2.1. *The Impact of the Paris Conference of 1867 in Germany*

*The need for unification.* The proponents of monetary unification understood the central role of the attitude of the German-speaking countries for the final success or failure of their initiative. This section analyses how the French proposals were received in Germany, emphasizing the distinction between Prussia and south Germany and between some particular pressure groups (financial and commercial interests). The evolution of the monetary discussion reflected very closely the political path to national unification. The archival resources used here are predominantly French; they report carefully all developments and translate parliamentary discussions but they also reflect French hopes and prejudices, later shattered by defeat at Sedan. The selection of the authors to be translated was biased in favour of the supporters of unification, but opponent's views were also presented and they have been integrated here with other German pamphlets and speeches.

The monetary fragmentation of Germany had already attracted the attention of the commercial interests and of the governments before the creation of the Latin

<sup>111</sup> *Report of the Commissioners appointed to represent Her Majesty's Government at the Monetary Conference* (1878: 6). Goschen was the British Chief Commissioner at the International Monetary Conference of 1878.

Monetary Union. The *Münzverein* (monetary union of the thirty-five German States and of Austria) of 1857 had simplified the situation but not achieved unification. With the annexation of Hanover, Nassau, Frankfurt, and other small States by Prussia in 1866 and the creation of the North German Confederation, the Prussian thaler had expanded its circulation. Its partial adoption by the south German States since 1857 had already marked its prominence, but all forms of resistance to its becoming the German national currency had not been vanquished. The three main German currencies persisted: the north German (Prussian) thaler, the south German gulden, and the Austrian florin. These currencies were linked by a simple fixed exchange rate implicit in their silver content, 1 to 1.5 and 1.75.<sup>112</sup> Separate currencies were employed by the free mercantile cities of Hamburg and Bremen. The thaler itself was not a homogeneous currency throughout the North German Confederation. It had a variety of different divisions: it was worth 360 pfennig in Prussia, 480 in Hamburg, and 300 in Saxony.<sup>113</sup> Elsewhere it was divided in a variable number of groschen, schellings or kreuzers, adding to the general confusion. A variety of older and foreign currencies circulated. In Frankfurt for example fourteen different types of currencies still circulated in the late 1860s.<sup>114</sup>

Economic transformation and international trade had particularly modified the circulation of the small southern States, exposed to French, Swiss, and Austrian coinage. Particularly important was the circulation of foreign gold coins, mainly 20-franc French coins. The influx of gold into Europe and the growing scale of business transactions had spread the commercial use of this metal, regardless of the official silver monometallism. An example of the situation is the estimate of the composition of the monetary circulation employed by large companies in Württemberg in 1868: 38.3 per cent of it was composed of paper money, 31 per cent of gold coins, and 30.7 per cent of silver coins. The gold coinage was mainly French, while the silver coinage was composed of south German gulden for 42 per cent, north German and south German thalers for 37 per cent, Austrian florins for 17 per cent, and foreign coins for 4 per cent.<sup>115</sup> When Bismarck himself ventured on the battlefield of Königgrätz-Sadowa in 1866, he carried with him a hoard of coins to be used in case of emergency, composed of more Austrian and French coins than Prussian.<sup>116</sup>

The growing use of gold coins, deprived of a fixed relation with German silver coins, was a substantial burden in ordinary transactions. This was exacerbated by exchange costs and by the risk associated with the depreciation of the silver currency in relation to

<sup>112</sup> Holtferich (1989: 224).      <sup>113</sup> Hellferich (1969: 147).

<sup>114</sup> French Consulate in Frankfurt to French Minister of Foreign Affairs Moustier, 2 Feb. 1867 (AMAE, ADC 600, fol. 28).

<sup>115</sup> French Consulate in Frankfurt to French Minister of Foreign Affairs, 5 Dec. 1868 (AMAE, ADC 604–1 bis, fol. 203). The divisionary silver coins (Scheide münze) have not been considered. Many of the thalers of the north German valuation circulating in the south had been issued by the south German States themselves. More than a third of the monetary issue in the south between 1837 and 1867 was in thalers (Soetbeer 1869: 79). Holtferich believes that after 1857 90% of the monetary issue in Germany was in thalers, but he did not consider the particular situation of the southern States.

<sup>116</sup> The banker Bleichröder had given him 1,000 thalers composed of German silver for 29%, of French gold for 27%, of Austrian gold for 16%, and of old Prussian gold for 28% (Stern 1977: 88).

gold, even if the depreciation of silver was more imagined than real in the 1860s. Furthermore it was impossible to use silver coins for the kind of large payments frequently needed for merchants. 20,000 francs required 100 kilos of silver coins and would pay two months of the salary of the British Chancellor of the Exchequer (or eight months of a French senator). The alternative was a growing use of banknotes which in turn was intensely disliked by economists and publicists (but apparently not by the public) because of the untrustworthiness of paper money in times of crisis. Runs on the banking system to convert banknotes into specie generated financial crisis. The argument was not just economic; the German tradition of national economics placed at the centre of its attention the interest of the State in having a solid currency during periods of war. Economists willingly accepted that the mobilization of the Prussian army should not be hampered by a rush of the population to exchange its paper money into specie.<sup>117</sup>

*Economists and chambers of commerce shift towards a gold franc.* The result of such a situation was a unanimous call by business circles and by economists for a single German currency as a relief from this untenable backwardness in the payment system. The German chambers of commerce had already discussed the issue of national monetary unification before the International Conference of 1867. The Handelstag (German Commercial Diet or Congress) had recognized the need for a reform of German currency based on the adoption of a single type, the thaler, decimalized in its subdivisions, and for the introduction of the gold standard. These recommendations to the various German governments had been advanced in 1861 and repeated in 1865. Decimalization and the introduction of the gold standard retained the favour of the large majority of chambers of commerce and of economists throughout the debate. Their opinion wavered only on which type of currency was more suited to accomplish unification, decimalization, and abolition of silver. The unanimous votes of the International Monetary Conference of Paris, French diplomatic initiatives, and Parieu's publications succeeded in 1867–70 in promoting in Germany the franc side by side with gold. Through the efforts of Prof. Adolf Soetbeer, a highly reputed economist and statistician, specialized in currency matters and a leading supporter of the gold standard, the chambers of commerce came to advocate in 1868 a German system organically integrated into an international system based on the franc.<sup>118</sup> Soetbeer had

<sup>117</sup> Prof. Tellkampff declared in 1868 to the German society of political economists in Berlin that gold helped the defence of the State, while paper damaged it: 'Cela peut paraître un paradoxe, mais il est certain que le retrait du papier monnaie et son remplacement par l'or et l'argent auraient pour conséquence une augmentation de la puissance du pays. En effet le papier monnaie de 1, de 5 et de 10 thalers, dominant dans les relations journalières écartent l'or et l'argent. Ce papier monnaie se trouve habituellement entre les mains de gens peu aisés qui, dans les moments de dangers, se hâtent de l'échanger contre des monnaies sonnantes.' Therefore in times of war paper money flows back in the coffers of the State which is unable to employ it. Prof. Soetbeer shared this view (French Embassy in Prussia to Moustier, Berlin, 13 Nov. 1868, AMAE, ADC 604–1 bis, fol. 151).

<sup>118</sup> The Belgian economist Mertens argued that 'Soetbeer s'attachait avec toute sa compétence et son infatigable activité à ce problème et devint le champion de l'étalon-or. Son influence sur l'évolution monétaire de l'Allemagne fut décisive' (Mertens 1994: 117). The fourth congress of the Handelstag (association of German Chambers of Commerce) voted on 20 Oct. 1868 (French Consulate in Cologne, 22 Oct. 1868, AMAE, ADC 604–1 bis, fol. 89).

already succeeded in August 1867 in convincing the German Congress of economists in Hamburg to declare its support for German monetary unification based on the French gold currency with a subsidiary silver divisionary coinage in marks, derived from the Prussian thaler. These deliberations, aimed at convincing the politicians, were not without effect and were followed by similar resolutions adopted in 1868 by the Reichstag (Parliament of the North German Confederation) and in 1869 by the *Zollparlament* (the customs parliament of the *Zollverein*, which included the south German States as well).<sup>119</sup> The official motion stated that ‘the *Zollparlament* invites the governments of the States represented in this assembly to agree as soon as possible on the adoption of a purely decimal monetary system presenting as much as possible all the conditions needed to be accepted by all civilized nations as the universal system.’<sup>120</sup>

Two main schemes for a joint national and international unification were competing for the favour of the public. Both were taken into consideration by the Reichstag when it launched its monetary enquiry in 1869.<sup>121</sup> Soetbeer’s proposal was a more orthodox interpretation of the conclusions of the Conference of Paris of 1867. He wanted the introduction of a German gold thaler of 5 francs, with the 25-franc pound as its multiple.<sup>122</sup> A second scheme was proposed by the secretary of the chamber of commerce of Cologne, Weibezahn. He introduced a gold gulden of 2.5 francs, identical to the new Austrian florin and more in touch with German traditions. Ten gulden would form a 25-franc piece.<sup>123</sup>

Some chambers of commerce of the Rhineland and Württemberg, more closely connected to France, Belgium, and Switzerland, had expressed the desire for even closer monetary integration by the adoption of the entire French system. The Cologne chamber of commerce had stated in 1865 ‘We are keen to maintain that the straightforward and simple accession to the French monetary system seems to us to be dictated by logic and common sense, and we will be the first to defend this point of view before the government.’<sup>124</sup> The chambers of commerce of Stuttgart, Ulm, Frankfurt, and Mainz advanced the same request. The publicist Carl Schultz defended the option of adopting the franc, wished northern and southern Germany to join the LMU, and attacked nationalist critics: ‘Does Mr Grote feel disturbed by the fact that the franc originates from our political rivals, the French, and that our national honour might thereby be threatened! I think we have been above such concerns since 1866.’<sup>125</sup>

<sup>119</sup> See also Mertens (1944: 113–35); Hellferich (1969: 152).

<sup>120</sup> The Handelstag had petitioned the *Zollparlament* to introduce a common currency, decimalized, universal, and based on the gold standard (French Consulate in Frankfurt to French Minister of Foreign Affairs La Valette, 25 June 1869, AMAE, ADC 604–2, fol. 64).

<sup>121</sup> French Consul in Cologne Tolhausen to French Minister of Foreign Affairs la Tour d’Auvergne, 24 Dec. 1869 (AMAE, ADC 604–2, fols. 284–90).

<sup>122</sup> The ninth congress of political economy met in Hamburg and deliberated on Soetbeer’s impulse on 28 Aug. 1867 (French Embassy in Prussia to Moustier, Berlin 31 Aug. 1867, AMAE, ADC 600 bis-3, fol. 111).

<sup>123</sup> A summary of a pamphlet on monetary reform by Weibezahn is sent by the French Consulate in Cologne to the French Minister of Foreign Affairs, 1 Oct. 1868 (AMAE, ADC 604–1 bis, fol. 13). For a later statement of Weibezahn’s persistent support for the 25-franc scheme see Weibezahn (1871).

<sup>124</sup> French Consulate in Cologne to Moustier, 8 May 1867 (AMAE, ADC 600, fol. 173).

<sup>125</sup> Schultz (1869: 14).

Most economists did support gold, discussing exclusively the means to obtain reform and the speed of transition.<sup>126</sup> Tolhausen, French Consul in Cologne, reported 'high commerce vigorously demands gold coinage as an intermediary instrument for an immense development of business. This is a truth which has become an axiom even in Germany.'<sup>127</sup> Gold had become a status symbol, identified closely to wealth through Britain: 'gold is the currency of rich nations'<sup>128</sup> and 'the choice of modernity and progress'.<sup>129</sup> Furthermore 'gold coinage . . . has the advantage of creating a barrier against excessive issue of paper money.'<sup>130</sup> J. S. Mill and M. Chevalier were the most popular authorities quoted in favour of gold monometallism. The great concern was how to acquire and keep a sufficient stock of gold for the German circulation without having to pay a disproportionate price. If France adopted the gold standard before Germany or did it in reaction to the latter's decision, then the price of silver would fall and the transformation would become excessively expensive.<sup>131</sup> The refusal to drop depreciating silver would however mean a net impoverishment of Germany in comparison to Britain and France. According to the leading German monetary economist Soetbeer, if gold proved to be insufficient for an adequate monetary supply, then banking developments would increase the velocity of circulation of money avoiding deflation.

However, some economists did support bimetallism, including Prince Smith, president of the German Political Economy Society as well as Wiss and Mohl.<sup>132</sup> Their concern was the fall in the price of silver caused by its general demise as a monetary instrument. Price instability would be the outcome of the demise of bimetallism. The attempt to sell German silver to France was recognized as an impossibility, as France would close its mints in response. It was much better to collaborate with the Latin Monetary Union for an international bimetallism which would guarantee the stability of prices by the sheer extension of the use of the two metals, while permitting the introduction of gold where it was not already circulating.<sup>133</sup> When in need of a theoretical framework, German economists referred to the French publications of Wolowski, who had been developing his scientific defence of bimetallism in the heat of the Parisian discussions of 1866–70. For Michaelis, financial counsellor of Bismarck, 'considering all these difficulties, we must thank Mr Wolowski to have been courageous enough to oppose the doctrine of the single gold standard, so common

<sup>126</sup> Lefebvre de Bécarrine compiled a report with large translations of the discussions of the Society of Political Economy (French Embassy in Prussia to Moustier, Berlin, 13 Nov. 1868, AMAE, ADC 604–1 bis, fol. 143).

<sup>127</sup> French Consul in Cologne Tolhausen to la Tour d'Auvergne, 24 Dec. 1869 (AMAE, ADC 604–2, fol. 288).

<sup>128</sup> Ibid. <sup>129</sup> James (1997: 8).

<sup>130</sup> Chamber of commerce of Frankfurt in French Consulate in Frankfurt to Moustier, 2 Feb. 1867 (AMAE, ADC 600, fol. 34).

<sup>131</sup> French Consulate in Frankfurt to la Tour d'Auvergne, 13 July 1869 (AMAE, ADC 604–2, fol. 108).

<sup>132</sup> French Consulate in Stettin (Prussia) to la Tour d'Auvergne, 21 July 1869 (AMAE, ADC 604–2, fols. 180–3).

<sup>133</sup> Prince Smith published an article in the *Correspondence of Political Economy*, a German review published by Dr Wiss. The text is translated in the letter sent by the French Embassy in Prussia to la Valette, 5 Jan. 1869 (AMAE, ADC 604–2, fol. 2).

today.<sup>134</sup> Michaelis recognized the need for gold but warned the public about the difficulty of selling several hundred million silver thalers (450 million in Soetbeer's estimate). His ambiguous conclusion was that 'the continuation of the silver standard however will isolate our financial market and might provoke serious embarrassment. It is therefore necessary to accept some sacrifices.'<sup>135</sup> No one defended openly the single silver standard after 1867. The question was whether gold should be added to silver as a legal standard or whether it should replace silver altogether. In contrast with bimetallist bankers, politician or civil servants, bimetallist economists were usually not against unification, as in the case of Prince Smith who proposed the 5-franc gold thaler as national and international currency, or the economist from Württemberg Moritz Mohl or the bullion dealer Ernest Seyd. Nevertheless many of the complaints against the difficulty of transition to gold were aimed simply at discouraging the introduction of the French monetary system in Germany under the cover of international currency.

The shift of part of the German public opinion towards the French-LMU monetary system was not dictated by a belief in its intrinsic superiority or by an unflinching support for international money. It was simply perceived to be the most likely solution to the problem of national monetary unity, which was otherwise prevented by persistent domestic political divisions. The southern States were defending actively their monetary independence from northern German encroachments, just as they defended their political independence from Prussia. In 1868-70 German unification was not advancing anymore. The opportunistic support for international money was not deeply rooted, reversible as soon as other roads to national monetary unification appeared to guarantee a faster success.

*The resistance of the financial world to monetary integration.* Two different types of opposition to the introduction of the gold standard and to monetary unification came from the world of finance. One was originated by the Bank of Prussia, which feared the end of its local privileged position and the 'globalization' of banking operations brought by new international capital flows. The Bank of Prussia anticipated the destabilization of the domestic market brought by fluctuating interest rates introduced by the need to compete with London for capital denominated in gold. As the French consul in Cologne wrote:

The discount rate [of the Bank of Prussia] never falls below 4 per cent. What the Bank seems to fear above anything else is that once Germany will have the same standard as the other States, capital will flow from Paris and London, where it is less well remunerated, to Berlin, in order to take advantage of the higher rate offered in Prussia . . . The Bank of Berlin also fears that under the influence of a universal monetary standard Germany would be involved more than in the past in the great commercial crises which periodically disrupt the old and the new world. Attracted by the appeal of the high discount rates offered in France and England, German capital . . . will look to these countries for higher returns than they can find domestically, causing an equivalent increase in the Prussian discount rate. This is the cause of its secret opposition to monetary innovations.<sup>136</sup>

<sup>134</sup> French Embassy in Prussia to Moustier, Berlin, 13 Nov. 1868 (AMAE, ADC 604-1 bis, fol. 157).

<sup>135</sup> Ibid.

<sup>136</sup> French Consul in Cologne Tolhausen to Moustier, 30 Oct. 1868 (AMAE, ADC 604-1 bis, fols. 98-9).

The Bank of France and the Bank of Holland shared the Prussian worries about the destabilizing influence of the British money market.<sup>137</sup> Private bankers like Bleichröder, personal adviser of Bismarck, also expressed their reservations about the gold standard.<sup>138</sup> He claimed that diversity in monetary units but especially in metallic standards had permitted until then a higher degree of independence of the domestic monetary conditions of Prussia, isolated from what was perceived to be foreign financial instability. Bleichröder feared that a gold standard in comparison to bimetallism would increase the cyclical tendencies in the money supply. It would increase interest rates during periods of recession when the Reichsbank would have to defend its monometallic reserves from excessive withdrawal and from increases in the Bank of England interest rate. German companies, Bleichröder claimed, in contrast to their British counterparts, did not have access to a great amount of capital but were dependent on bank credit and would suffer from a fluctuating interest rate, which increased the difficulty in purchasing credit in difficult times.

It is likely however that the banks were attributing to the monetary system an excessive share of the responsibility for an instability largely due to industrialization and stronger economic growth. The Bank was mounting a defence of old and rigid practices, which lead to dear credit in ordinary periods and only partially lower discount rates in periods of crisis.<sup>139</sup> Furthermore, the emphasis on the independence of domestic markets was overstated, as Parieu claimed (see Chapter 3). A certain degree of interdependence existed even without unity in monetary standards and there was no explicit monetary policy to reduce the effects of instability.<sup>140</sup> From the 1840s to the

<sup>137</sup> The use of discount rate in a gold standard regime to raid each other's gold reserves was highlighted by the President of the Bank of Netherlands Mees, who confirmed in 1883 his views of 1867, to the Italian economist Luigi Luzzati. 'Sull'Olanda come e più che sul Belgio si abbattono alla ricerca dell'oro Tedeschi e Inglesi, sottraendolo coi cambi e cogli arbitraggi. Da ciò la necessità dei frequenti rialzi della ragione dello sconto che tanto dispiacciono al commercio e che pure sono indispensabili per non lasciar scendere le riserve dell'oro oltre certi limiti. Il Mees . . . dolevasi meco che in tal guisa si riscuotesse troppo spesso una imposta a favore degli azionisti della Banca e a carico dei commercianti' (Luzzati 1883: 540–1).

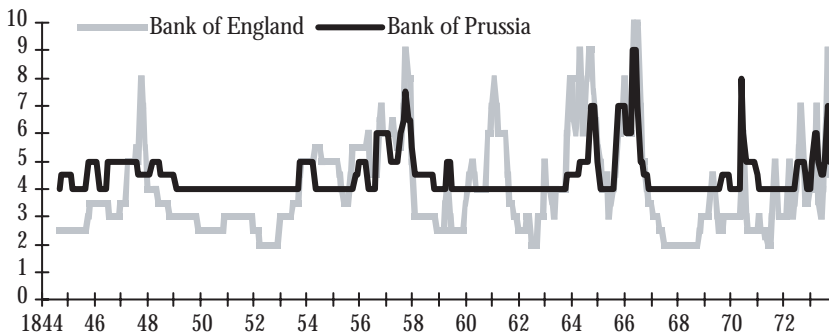
<sup>138</sup> 'By making money dearer, the gold standard would threaten industry.' In his opinion a broader bullion basis, consistent with bimetallism, was therefore desirable, and until 1876 Bleichröder warned Bismarck against demonetization of silver (Stern 1977: 179–81).

<sup>139</sup> The same conclusions are reached if one uses the German private discount rate instead of the official rate of the Bank. Nevertheless the phenomena of relatively dear credit during periods of calm (4%) is weakened. The market rate shadowed the official discount rate when it was over 4%, in troubled times, but declined further than 4% otherwise, remaining usually higher than the London rate but only slightly. Data given by Marc Flandreau and used for Flandreau (1994).

<sup>140</sup> In the 1860s, when the private national banks (not yet transformed into public central banks) used their discount rate to influence the economy, they did not do so to influence the price level or the level of economic growth. They acted exclusively to protect their gold or silver reserves, increasing the discount rate to call back loans and discourage new applications for credit, in order to preserve the convertibility of their banknotes in coins and prevent suspension of cash payments (see Plessis 1985*b*). Only indirectly could they be said to aim at a stable price level, considering that inconvertibility implied a fall in confidence and the depreciation of the value of paper money, therefore increasing prices. The British policy of frequent manipulation of the discount rate followed this rule. In times of financial and commercial distress or even panic, the Bank of England increased the discount rate to prevent the complete withdrawal of its gold reserves in exchange for credit or of banknotes (see Andreades 1909). Today most economists would argue that increasing interest rates in periods of economic recession or of financial crisis would deepen the

1870s the 'normal' level of the official discount rate in good times was around 3 per cent in England, between 3 and 4 per cent in France, and 4 per cent in Prussia. In 1866 the Bank of England kept its rate at 10 per cent for three months during the Overend–Gurney crisis. The Bank of Prussia was partially forced to follow, even more so than during the previous financial crises of 1857 and 1864 (see Graph 5.1).

The Bank of Prussia was of course concerned about its private interests as well, foreseeing losses of profits and reductions in dividends caused by the change to the gold standard and an increase in international competition. The French consul Tolhausen had gathered from private conversations and from the debates of the *Handelstag* that 'the Bank of Prussia feels attacked in its vital interests. It is well known that the organization of the Bank of Berlin is entirely based on the silver standard and that the metallic reserve of this institution is exclusively composed of silver bars.' The Bank anticipated a reduction of the dividends for its shareholders in case of introduction of the gold standard and demonetization of its stocks of silver. 'Finally the bankers of Berlin see a threat to the monopoly they currently share with Hamburg and Amsterdam to serve as financial intermediaries between Northern Germany and the gold standard countries connected with the *Zollverein* by commercial relations.'<sup>141</sup> Another reason for the defence of the silver standard by the Bank of Prussia was the profits accruing from the issue of paper money. An economist from Bremen, Boehmert, could contrast the moderate increase in the issue of paper money by the Bank of England, restrained by the gold standard, to the multiplication of paper of the Bank of Prussia, fuelled by the need to replace silver with a more portable form of currency. The British paper circulation had increased by a mere 12 per cent between



Graph 5.1. Discount rate in London and Berlin between 1844 and 1873

Source: Seyd (1874).

recession or the financial crisis. High interest rates discourage investment and deprive sound companies going through a liquidity crisis of the support they need to overcome a temporary liquidity crisis. The advice of the nineteenth-century continental bankers seems from that point of view more in line with twentieth-century practice, in opposition to the policy of the Bank of England (Gallarotti 1995).

<sup>141</sup> French Consul in Cologne Tolhausen to Moustier, 30 Oct. 1868 (AMAE, ADC 604-1 bis, fols. 98-100).



1848 and 1862 while the paper issue of the Bank of Prussia had increased by 220 per cent between 1856 and 1863.<sup>142</sup> Gold was seen as a disciplinary factor in the monetary circulation, preventing a paper inflation which was in turn facilitated by the bulky nature of a silver currency. The diffusion of gold would also reduce excessive issue of paper money by small States and by unregulated private banks.<sup>143</sup>

Financial interests in Frankfurt expressed the opposite type of concern, when they were incorporated in the North German Confederation. They expected their integration in the thaler zone to separate them from their natural markets of southern Germany and Austria.<sup>144</sup> They had already suffered in 1848 from being cut off from the Swiss financial market, largely financed by Frankfurt until then, by the decision of the Helvetic Confederation to adopt the franc as national currency. A report of the Chancellor of the French consulate, Petit-Pierre, explained the position of Frankfurt. The Senate and the Chamber of Commerce of the city opposed the introduction of the Prussian thaler in the old free city recently annexed by the North German Confederation. Berlin was decided to 'assimilate in financial terms the territories annexed to the other parts of the kingdom'. The city resisted because the bulk of its trade and of its financial dealings was with southern Germany, in south German currency, 'bills of exchange are drawn via Frankfurt in florins and the same unit is used to denominate foreign deposits in the banks of the city. Prussian coins circulate with difficulty, while Prussian banknotes and subsidiary coins do not circulate at all. The southern States, the railroad companies, industrial and commercial businesses have borrowed in florins.' Coupons and dividends were in florins (*gulden*), making the reduction in thalers difficult. The change of currency would break the commercial relations with southern Germany according to the chamber of commerce. The stock exchange would lose its role. Frankfurt used to be the banker of the Swiss industrialists because

<sup>142</sup> French Embassy in Prussia to Moustier, 12 Nov. 1866 (AMAE, ADC 603–2, fol. 19).

<sup>143</sup> In fact the increase of the paper money issue in Germany reflected largely the increase in output and exchanges caused by industrialization. The growing need for instruments of exchange had been met in France by the large flows of Australian and American gold discoveries, in Great Britain by improvements in the banking system, and in Germany by banknotes, due to an insufficient output of silver. The controversy did not die out in the 1870s. In 1879, when Bismarck suspended the demonetization of silver in Germany (required by the law of 1873 introducing the gold standard in the German Reich), the president of the Reichsbank, Von Deckend, defended Bismarck's decision against the gold monometallists Delbrück and Bamberger. Soetbeer 'avvertì tra il brusco ed il dolce Bismarck di non prendere le sue ispirazioni dal presidente della Banca Imperiale, e sostenendo che l'oro caccia i biglietti di banca, mentre l'argento ne estende e provoca la circolazione, mette in sospetto il patriottismo disinteressato del Von Deckend, il quale suggerirebbe al Gran Cancelliere la riabilitazione funzionale dell'argento per accrescere la circolazione dei biglietti della Banca a beneficio dei suoi azionisti e a danno della nazione tedesca' (Luzzati 1881: 257).

<sup>144</sup> 'Les chefs des principales maisons de banque de Francfort ne semblent pas partager la satisfaction que le vote du Handelstag cause au commerce de la ville et dans les États du midi de l'Allemagne. Ils affectent de ne pas attacher d'importance à cette motion et laissent entendre qu'une assemblée comptant dans son sein plus de théoriciens que d'hommes d'affaires, n'est pas apte à résoudre des questions de cette gravité.' Frankfurt's financial world 'son intérêt particulier lui fait désirer le maintien de l'état de choses actuel qui lui assure dans les opérations de banque des bénéfices certains. Il pense du reste que le gouvernement Prussien montrera de sérieuses difficultés le jour où il voudra changer sans système monétaire et passer sans transition de l'étalon d'argent à l'étalon d'or' (French Consulate in Frankfurt to Moustier, 15 Nov. 1868, AMAE, ADC 604–1 bis, fol. 166–67).

the south German gulden was commonly accepted for 1.5 old Swiss francs, but after the adoption by Switzerland of the French franc, with the reform of 1848 everything had changed:

[S]ince the adoption of the French monetary system by Switzerland, the situation has completely changed: Paris has replaced Frankfurt, Swiss commercial movements have been concentrated towards France, the florin circulates in Switzerland only at a heavy loss and all efforts attempted by Frankfurt bankers to preserve their relations with Swiss merchants have remained fruitless. In Frankfurt these facts are considered as a lesson for the future and when the time will come to establish monetary uniformity in Germany, commerce will declare itself in favour of a radical reform and all its efforts will aim at the adoption of the franc as monetary unit. A reform in this direction, it is hoped, will re-establish Frankfurt on an equal footing with Paris, permitting the regaining of the ancient positions towards Switzerland.<sup>145</sup>

### *5.2.2. The Attitude of the German Governments*

France had already regrouped a dozen European countries around its currency by 1868–9, including Italy, Belgium, Switzerland, Greece, Spain, Austria-Hungary, Romania, the Pontifical State, Sweden, Luxembourg, San Marino, and Monaco. It needed only British or German support to achieve the critical mass necessary to ensure the success of its European currency programme. The German position was therefore essential and would ultimately be decided by the governments. German economic conditions of the time required monetary unification, but was such a need stronger in the late 1860s than in the previous decades? The main change was the take-off of industrialization and economic growth, together with the multiplication of international exchanges favoured by the new free trade of the 1860s. Such a need could be fulfilled either through a national or through an international solution. The international solution would have been more welcomed by commercial and industrial interests, but not by banking interests. The national solution still suited everyone. The conflicting aims of commerce and finance meant that there was no obvious solution to the monetary question in Germany. It was political leadership which would turn the balance towards a gold standard without a supranational system of coinage. Bismarck decided the course of events even if he let a banker politician like Bamberger influence the detail of the new German legislation between 1871 and 1875.

The Prussian policy towards international money had been cautiously negative since 1866. Prussia hoped to realize a single German currency on its own terms, imposing the thaler. The Bismarckian declaration of non-committed favour for monetary unification, expressed to the French at the end of 1866, can be compared to analogous declarations on the compensations France hoped to receive for the Prussian annexations after Sadowa. It was all part of Bismarck's strategy to 'leave the French statesmen in their peculiar illusions as long as that is possible without expressing any consent, even a verbal one'.<sup>146</sup> The diplomatic despatches on the matter were

<sup>145</sup> Ibid. 12 Feb. 1868 (AMAE, ADC 604–1, fols. 77–81).

<sup>146</sup> Bismarck in Herre (1992: 265). Another letter written in October 1866 reiterated the concept: 'The French must retain hope and especially faith in our goodwill without our giving them definite commitments,' wrote Bismarck on 22 Oct. 1866 (Pflanze 1990: i. 374).

deliberately misleading.<sup>147</sup> The Prussian delegate at the Conference of Paris, the Privy Councillor for finances Meinecke, had declared 'in Prussia we are satisfied of the silver standard; the monetary circulation on which it is based is excellent, and we have no urgent reason to introduce any change.'<sup>148</sup> But he declared that the question would be carefully studied if the conference agreed on gold. He personally voted for gold and considered sufficient the unity of metal, allied with easily convertible national gold coins of the Union. No complete identity of coinage for silver, bronze, or paper was necessary in his view.<sup>149</sup>

The Prussian government was internally divided about the relative merits of silver, gold, and bimetallism. The Prussian Finance Minister, Ludolf Camphausen, and the Councillor for Financial Affairs in the Federal Chancellor's Office, Michaelis, opposed the gold standard while Rudolf von Delbrück, President of the Federal Chancellor's office of the North German Confederation, supported it.<sup>150</sup> Furthermore the Prussians were restrained by the resistance of other German governments.

The thaler was not as dominant in the *Münzverein* after 1857 as some authors claimed, nor is it possible to say that monetary unification preceded political unification as Holtfrerich argues.<sup>151</sup> After ten years of intense issue, the *vereinsthaler* (thaler of the union) represented only a fraction of the silver coinage of the south. The thaler's role was growing but it was an open situation which could evolve in any direction. In politics not to go forward is to go backwards, and with the stalling of political unity new alternatives acquired credibility. Not only some commercial interests in the regions bordering France asked to adopt purely and simply the French franc and gold, but the influence of Austria in the decisions of the Germans after 1866 was more important on currency matters than could be expected. Austria had not been expelled from the *Münzverein* as a result of its military defeat in 1866, but it had acquired the right to negotiate an eventual withdrawal from it. Austria decided to make use of this right in 1867, as a consequence of the French offer to join the Latin Monetary Union. Austria decided to reform its currency equalizing its florins to 2.5 francs, inscribing both national and international value on its coins, and adopting a gold standard. Such

<sup>147</sup> Bismarck's deputy reassured the French diplomats about Prussian favour: 'Mr de Philipsborn, que j'ai vu récemment, m'a dit que dans son opinion la question recevrait la solution que nous proposons et qui répond à l'intérêt général. Toutefois il pense qu'il sera nécessaire au préalable de travailler l'opinion et, en tous cas, il ne prévoit pas qu'il soit possible au gouvernement Prussien, surchargé en ce moment d'une tâche très lourde, de préparer pour ce qui concerne la Confédération du Nord l'arrangement spécial dont il s'agit avant le printemps de l'année prochaine' (French Embassy in Prussia to Moustier, 2 Sept. 1867, AMAE, ADC 600 bis-3, fols. 115-6). The official newspaper of Bismarck, the *North German Gazette*, of Berlin had informally presented the Prussian position as recognizing the chances of success of the French manoeuvre but warning against excessive ambition: 'la création d'une grande monnaie universelle (*Weltmünze*) suffit pour satisfaire aux besoins des échanges internationaux, mais que l'unification des monnaies destinées à la circulation intérieure est une question à part qui doit rester étrangère au grand problème, puisque ces monnaies, toutes locales, sont sujettes à la loi des échanges journaliers et des transactions du marché. Il serait à regretter qu'en élargissant outre mesure le cercle de la réforme, on la fit avorter' (French Consulate in Cologne to Moustier, 8 May 1867, AMAE, ADC 600, fol. 172).

<sup>148</sup> Royal Commission on International Coinage (1868: 166).

<sup>149</sup> *Ibid.* 176-7.

<sup>150</sup> Zucker (1975: 64).

<sup>151</sup> Holtfrerich (1989: 224).

an international gold currency, based on the south German tradition of the gulden, became an attractive model for some Germans, particularly in the south, an alternative to the thaler, favourably viewed by France. A banker from Stuttgart, Mr Dreyfuss, summarized the monetary debate in Württemberg and a translation of his text was transmitted to Paris.

Thanks to the Austrian accession to the Monetary Convention, the French system has achieved a victory with incalculable consequences . . . If southern Germany's participation was still not possible, held back exclusively by Prussia, it will be inevitable once the effects produced by the convention with Austria will become tangible and southern and northern Germany will be encircled by the States which have adopted the universal system.<sup>152</sup>

An international florin of 2.5 francs was attractive because, as the Master of the Stuttgart Mint, Friederich Xeller, put it, 'our own monetary system is untenable since Austria has left the *Münzverein* area, so that we are even weaker . . . while the thaler foot like a conqueror keeps penetrating further into southern Germany.'<sup>153</sup>

The southern German States defended actively their monetary sovereignty. Bavaria, Württemberg, Baden, and Hesse were not included in the North German Confederation and struggled to maintain their political independence, especially Bavaria and Württemberg. South Germany had a certain degree of commercial and monetary integration through the *Zollverein* and the *Münzverein*, it had pledged to adopt the Prussian military organization and to surrender the command of its armies to the Prussian General Staff in case of war. These commitments were strong but the governments of Bavaria, Württemberg, and Hesse wished to preserve their full sovereignty and to keep the Prussians at arm's length. They had agreed to the military alliance only to avoid annexation of territory or the payment of heavy indemnities after losing the war against Prussia in 1866. The south German populations had fought the military reforms imposed by Prussia, particularly the three years' military service, the increase in military spending (and therefore of taxation), and the Prussian military discipline. Refusing to see South Germany transformed in a Prussian barrack, ruled by a Protestant regime, socially aristocratic and politically authoritarian, the opponents of German unification had recovered the upper hand after the disaster of 1866. Catholics, progressives, and particularists joined forces and won the elections for the *Zollparlament* and the local Parliaments in Bavaria and Württemberg in 1868 and in 1869, and achieved the majority of votes but not of seats in Baden, where the ducal government had chosen to apply for membership of the North German Confederation.<sup>154</sup> The French government, busy organizing an alliance with Austria and possibly with Italy, against Prussia, offered political support to the south. France had weakened its position by asking for the Bavarian Palatinate in 1866 as a compensation for the Prussian expansion in North Germany. The south German States at times evoked the

<sup>152</sup> Annexe to the despatch of the French Legation in Württemberg to Moustier, 11 Sept. 1867 (AMAE, ADC 600 bis-3, fols. 149-50).

<sup>153</sup> Xeller (1869: 150).

<sup>154</sup> Pflanze (1990: i. 367-409).

possibility of asking for a French intervention in case of a Bismarckian attack, but never entirely trusted Napoleon III either.<sup>155</sup>

The diplomatic postures of the south German governments on monetary unification reflected this political situation. They declined to join the LMU in 1866 because they were already tied to the German coinage union (*Münzverein*) of 1857, but agreed to the principles of the Paris Conference of 1867 even if they repeatedly stressed that they could not act alone, without a common decision of the *Zollverein*. A substantial literature in favour of monetary unification on the basis of the outcome of the Conference flourished between 1867 and 1870, supported by the *Handelstag*.<sup>156</sup> The head of the government and Foreign Affairs Minister of Württemberg, Varnbühler, was extremely francophile in tone, entertaining French hopes in order to maintain a useful ally, but without taking any practical action or committing himself to anything. His words could never be taken entirely at face value. The French Prime Minister of 1870, Emile Ollivier, later referred to him as the 'the weathercock of Württemberg', directing his policy following the direction of the strongest wind.<sup>157</sup> The historian Pflanze described him as a pragmatic politician, accepting Prussian leadership as unavoidable but attempting to preserve as much freedom of action as possible. In 1867 Varnbühler declared to the French diplomats his personal support for the French project of monetary union.<sup>158</sup> In 1868 he confirmed his favour and explained his refusal to accept to discuss the matter in the *Zollparlament* by the necessity of preventing Prussia from taking over all economic and monetary powers in Germany through the illegitimate extension of the attribution of the trade Parliament.<sup>159</sup> He resisted

<sup>155</sup> 'On August 10 [1866] Edouard Lefebvre de Béhaine [later author of many diplomatic dispatches on the German debate on monetary unification] was told by Dalwigk [Chief Minister of Hesse-Darmstadt] that in the event of war with Prussia French troops would be welcome in southern Germany' (Pflanze 1990: i. 370).

<sup>156</sup> The Swiss politician and economist Feer Herzog listed the works on monetary union which had appeared in Germany between 1867 and 1870. He counted eleven publications in favour of a system connected to the franc (Soetbeer, Lammers, Weibezahn, Augspurg, Xeller, Prince-Smith, Schultz, and others), one favourable to a unit close to the US dollar (Augspurg changed his mind seeing that France was not dropping bimetalism) and two supporting the old German crown of the *Münzverein* (Nothomb and Mosle) (Feer-Herzog 1870: 40–2).

<sup>157</sup> Ollivier summarized the attitude of the southern German States during the summer of 1870 and the crisis which led to the Franco-Prussian War: 'Les États allemands ne nous accordèrent pas l'assistance que Gramont attendait d'eux. Il démontrèrent une fois de plus combien était aveugle la politique qui faisait un dogme de leur défense et ils commencèrent dès lors à nous tourner le dos. La girouette du Wurtemberg, Varnbühler, dont Saint Vallier [French diplomat posted in Stuttgart] partageait trop docilement les impressions, commença à tourner' Ollivier, (1917: 99).

<sup>158</sup> Announcing in 1867 the participation of Württemberg in the International Monetary Conference of Paris, Varnbühler flattered the French: 'il ne m'a pas caché que son opinion personnelle était parfaitement arrêtée en faveur de notre système décimal, dont la supériorité était incontestable et qui devrait, selon lui, être adopté dans toute ses branches. Mr de Varnbühler est en conséquence décidé à faire tout ce qui dépendra de lui pour seconder les intentions du gouvernement de l'Empereur' (French Legation in Württemberg to Moustier, 3 June 1867, AMAE, ADC 600 bis-2, fol. 47).

<sup>159</sup> The French despatches indicated how favourably the conclusions of the conference of Paris had been received in Stuttgart by 'le Gouvernement, les hommes éclairés, le commerce et l'industrie secondaire du Wurtemberg'. Nevertheless 'Mr Varnbühler n'avait aucunement l'intention de soulever la question [de l'unification monétaire] à Berlin: non seulement le ministre Wurtembergeois se gardera de prendre l'initiative à ce sujet, mais encore si elle est prise vis-à-vis de lui, il déclinera l'ouverture et s'efforcera

monetary unification with the north to resist political unification. In 1869 Varnbühler announced to the French diplomats (described as excessively credulous by Ollivier himself)<sup>160</sup> that the whole government of Württemberg wished for the adoption of the franc system in Germany and would act in favour of such solution. Varnbühler argued that

[I]f Württemberg was not linked to the German States by the treaties forming the *Zollverein*, [Varnbühler] would not hesitate to adopt immediately the decimal system and the monetary unit of the franc; he would foresee considerable advantages for commercial transactions; he would be following the wishes expressed repeatedly by the intelligent class of the country and would advance in the direction of progress.<sup>161</sup>

The Bavarian government did not open its heart to the French ambassadors as ostensibly as Varnbühler did, but it expressed its dislike of seeing silver disappear, resisted Prussian ouvertures, and called for French support in 1870 when a new attempt was made to involve the south in a Prussian-led German monetary unification.<sup>162</sup>

An economic basis for the southern German desire to participate in a monetary union with France, Switzerland, and Austria-Hungary existed because of a large frontier trade. But once diplomatic thrills and decorations were set aside, political reality revealed a circular game: after 1867 France wanted to use the south German States to weaken Prussia's hold on the *Zollverein*. In the meantime the southern German States attempted to use France as a shield from Prussian pressures for unification, just as much as they wanted to use Prussia's military might to be protected from French expansionism. Finally Bismarck provoked France to declare war, using the French aggression to force the southern governments to join the German Empire, 'kicking and screaming'. The Franco-Prussian War was the tragic result of this perilous diplomatic acrobatic feat.

d'obtenir que les pourparlers sur cette matière soient renvoyés à plus tard, tout au moins après la session du parlement douanier. Mr de Taube ne m'a point caché que la crainte seule de donner un prétexte à de nouvelles tentatives pour entraîner l'assemblée douanière au delà de la sphère de ses attributions, motivait la résolution de Mr de Varnbühler' (French Legation in Württemberg (Chateaubernard) to Moustier, Stuttgart, 11 May 1868, AMAE, ADC 604-1, fols. 130-1).

<sup>160</sup> Ollivier (1917: 99).

<sup>161</sup> Varnbühler declined to express his opinion about which metallic standard should be employed but 'il a tenu à me dire de vive voix, en son nom et au nom de tout le ministère, qu'il souhaitait vivement voir établir en Allemagne le système décimal et métrique; qu'il savait que tel était le voeu de toutes les personnes instruites et intelligentes qui s'occupent d'affaires, soit dans la banque, soit dans l'industrie ou le commerce.' He was unable to progress without the consent of the rest of Germany but he attempted to push it in the direction desired by the French. Varnbühler was 'radicalement opposé à la pièce de 25 francs qui ne lui paraît pas conséquente avec le système décimal.' The Quai d'Orsay passed this last piece of information to Parieu, but not to the Ministry of Finance (marginal notes fol. 71) (French Legation in Württemberg to the French Minister of Foreign Affairs La Valette, Stuttgart, 1 July 1869, AMAE, ADC 604-2, fols. 69-71).

<sup>162</sup> Bavaria expressed its willingness to be represented at the Paris Conference but confirmed it was linked to the *Munzverein* until 1878 and 'verrait le plus grave inconvénient à l'adoption de l'étalon d'or, qui aurait pour conséquence de faire disparaître la monnaie d'argent' (French Embassy in Bavaria to Moustier, Munich, 2 June 1867, AMAE, ADC 600 bis-2, fol. 2). See also the evidence presented in the chapter about the French dilemma.

### 5.2.3. National Unification Against International Unification

The development of cosmopolitan ideas of money had produced a strong enthusiasm and such enthusiasm had carried away many economists, merchants, industrialists, and intellectuals. But the enthusiasm for ideas which did not produce rapid tangible results declined rapidly. The resistance of the southern States to the extension of the powers of the *Zollparlament* to monetary questions, coupled with the Prussian refusal to accept a franc-based currency had paralysed all institutional opportunities for the reform movement. Furthermore, French uncertainties about the adoption of the gold standard made that country less likely to satisfy the longing for gold of German commercial circles. The British refusal to participate in a common currency showed that universal money was not likely to extend further than Continental Europe, reducing its appeal. Support for a franc-based international money began to weaken in Germany in 1869, at a speed perceived by the French diplomatic corps. In July 1869 the French Embassy in Prussia reported to Paris the adoption of the French metric system by the North German Confederation together with some reassuring declarations by Delbrück concerning coinage. The French diplomat added a warning: 'I would like to emphasize that the special monetary unification of Germany is at the moment much closer to the heart of German publicists than the solution of the problem of international or universal monetary unification.'<sup>163</sup> The French consul in Bremen signalled that: 'the unanimous opinion which had some time ago still prevailed among German economists in what concerns international monetary union, has unfortunately lost some of its strength.' Those who had enthusiastically supported the franc at the congress of economists had cooled down since,

reflecting on the real difficulties appearing from all sides, they have, even if they did not modify completely their opinion, at least acquired the conviction that for the moment it would be better to be content with partial reforms and wait until a not too distant future, when a wider knowledge of economic science in the public and the administration will permit a resumption of this task with more success and carry it to a positive conclusion.<sup>164</sup>

The nationalist position was also expressed in some pamphlets: for Mosle 'coinage unification would be an excellent way to subject these so-called justified idiosyncrasies of the different branches and random partitions of our great tribe to a melting process.' An international coin based on the franc was an illusion but furthermore 'our flourishing national consciousness would have to suffer from . . . continued frenchification'.<sup>165</sup> The French Consulate in Frankfurt indicated in December that despite the unanimity of the economists in support of the international coinage and their invitation to the southern States to seize the initiative, the lack of action by the latter was modifying the position of the former. 'They wish the task of elaborating a project of monetary reform would now be entrusted to the Prussian Finance Minister, and then

<sup>163</sup> The French Embassy in Prussia (Lefebvre de Béhaigne) to la Tour d'Auvergne, 19 July 1869 (AMAE, ADC 604-2, fols. 176-7).

<sup>164</sup> French Consulate in Bremen to la Tour d'Auvergne, 1 Sept. 1869 (AMAE, ADC 604-2, fol. 245-6).

<sup>165</sup> Mosle (1870: 8).

presented to the Bundesrat [Federal Council] which in turn would be called to start negotiations with the southern States, and they express at the same time the opinion that an international agreement might produce the most desirable solution.<sup>166</sup>

Many started to think that the most important advantages of an international currency union would be achieved through the generalized adoption of the gold standard, regardless of the actual diversity in the single coins. Complete unification required a recalculation of all prices, wages, and debts and a modification of the habits of the people. Furthermore, an unwanted solidarity would be established with foreign currencies of uncertain trustworthiness, introducing in Germany coins of unwarranted weight, fineness, and quantity. Some alarming reports about the exactness of the French coinage were deliberately circulated to spread suspicion.<sup>167</sup>

All those dissatisfied with the slow pace of international reform promoted by the French turned to Prussia for the leadership of internal unification. The national liberal politician Bamberger reflected and channelled with his initiatives the changing mood. Ludwig Bamberger's prominent role in Germany's political and monetary history calls for a short biographical notice. He was a Hessian citizen from a family of Jewish bankers of Mainz. As a leader of the local democratic movement during the revolution of 1848–9 he had been forced into exile, spending fifteen years in Paris as a banker. When he returned in his native country in 1866, after the Prussian victory over Austria and the rest of Germany, he became one of the leading south German politicians to advocate national unification under Prussian leadership, subordinating to it his democratic preference. He was elected to the *Zollverein* Parliament as a National Liberal in 1868, for the southern State of Hesse, on an annexionist and pro-Bismarck platform. Mainz had been French for twenty years, during the French Revolution and the Napoleonic period and some pro-French feelings had remained. Bamberger himself continued to live for most of his time in Paris between 1866 and 1870 and 'saw himself as an agent of Franco-German understanding'.<sup>168</sup> Nevertheless he became a close ally of the Chancellor Bismarck and a proponent of a purely national monetary unification, as a consequence of his wider political preference, without conceding anything to his French friends, whom he warned against their illusions about German feelings on unity.<sup>169</sup> In 1869–70 the drive towards political unity seemed stalled. Bamberger loathed south German particularists: 'the Jesuits and democratic phrasemongers have the upper hand. With this pack in the rear how can one uphold German autonomy *vis à vis* France, as long as one is not actually determined to make war.'<sup>170</sup>

The North German Confederation decided at the beginning of 1870 to form a commission to investigate monetary reform.<sup>171</sup> In May 1870 Bamberger called in the *Zollparlament* for the inclusion of the southern States in the enquiry for monetary

<sup>166</sup> The despatch estimated the total amount of silver to be demonetized in Germany to between 1.5 and 1.9 billion francs (French Consulate in Frankfurt to la Tour d'Auvergne, 18 Dec. 1869, AMAE, ADC 604–2, fol. 282).

<sup>169</sup> Bamberger (1868: 8–49, 256–83).

<sup>167</sup> Hellferich (1969: 152–3).

<sup>168</sup> Zucker (1975: 49).

<sup>170</sup> Zucker (1975: 56).

<sup>171</sup> Delbruck announced on 5 March 1870 that the inquiry would concern unification and the selection of a standard. (French Ambassador in Prussia, Benedetti to French Foreign Affairs Minister, Daru, 9 March 1870, AMAE, ADC 616–1, fols. 52–4).



reform. The move was designed to extend the powers of the customs Parliament to currency and force the resistance of the south. The motion was opposed without success by the progressives of Württemberg.<sup>172</sup> Delbrück announced Bismarck's willingness to proceed on these lines, while the National Liberals took the opportunity to warn the south about any attempt to break free from the Prussian hegemony: 'a decision by the *Zollparlament* would not fail to become obligatory for the southern States, that are not any freer to form a monetary union of their own than a political union.'<sup>173</sup>

The French government reacted, but the economic and peaceful approach of the Minister President of the Council of State, Parieu, was overwhelmed by the political hostility to Prussia of the new Foreign Affairs Minister, the long-time French ambassador to Austria, the Duke de Gramont. The French pressure on Bavaria and Württemberg was not entirely deprived of chances of success. Only the government of Baden was committed to closer union with northern Germany, while Varnbühler in Württemberg and Bray in Bavaria intended to defend all the national prerogatives left to their governments. The desire of the Bavarian Foreign Affairs Minister Bray to participate in the Commission to increase the chances of the anti-thaler party and the silence of most other southern States led in June to a further adjournment of the German Monetary Commission.<sup>174</sup>

A few weeks later Bismarck had found the final opportunity to overcome the resistance of south German States to complete unification thanks to the Hohenzollern–Singmaringen candidature to the throne of Spain. Bray advised the French he would not be able to come to their side 'despite the pro-French feelings of the Bavarian population' because the candidature was the wrong issue for war, with Napoleon III posing as the aggressor.<sup>175</sup> After some hesitation Bavaria and Württemberg followed Prussia after France had declared war. Varnbühler was dismissed the same day that news of the French defeat at Sedan broke in Stuttgart and Bray survived a little longer to be voted down by the Bavarian Parliament for having negotiated the incorporation of the Kingdom of Bavaria into the German Reich.

In the end of 1869–70 France had come to be seen as the solution to German internal problems. A war against France or French threats would help to create the political union indispensable to achieve national monetary unification. In the meantime the decision by the French Finance Minister Magne to delay the decision about the gold

<sup>172</sup> French Ambassador in Prussia Benedetti to French Chief Minister Ollivier, interim Foreign Affairs Minister, 6 May 1870 (AMAE, ADC 616–1, fols. 125–6).

<sup>173</sup> Benedetti to Ollivier, 6 May 1870 (AMAE, ADC 616–1, fols. 126).

<sup>174</sup> The inquiry was suspended for the summer, in order to receive the final decision of France on the 25-franc coin and to negotiate the participation of the south to the inquiry (French Consulate in Cologne to Gramont, 22 June 1870, AMAE, ADC 616–1, fol. 149).

<sup>175</sup> Bray declared to the French during the crisis of July 1870 'Vous rendez notre situation fort difficile. J'ai toujours soutenu que les traités d'alliance avaient un caractère défensif; si la Prusse pouvait, avec quelques apparences de raison, vous accuser d'être les agresseurs et que vos armées pénétrassent les premières sur le sol allemand, nous serions obligés de marcher contre vous, ce que je regretterais vivement, car la Bavière n'a jamais eu qu'à se louer de la France, et, de tous les États allemands, c'est celui où le sentiment public vous est le plus favorable' (Ollivier 1917: 99).

standard was seen as an excellent opportunity for Germany to adopt the gold standard and dump all its silver on France, which would be forced to pay for it at a fixed price because of its bimetallic law.<sup>176</sup> Old German silver thalers and florins could be melted, coined into francs in every French mint, and then exchanged for banknotes, which would be used to withdraw gold francs from the Bank of France.

#### 5.2.4. German Monetary Unification and a Confrontational Gold Standard

After the Franco-Prussian War and the creation of the Reich, Bismarck set aside any pretence of being interested in a European currency. German monetary unification did not succeed in the 1860s because it was seen by the south German governments as a step towards political unification. Only when the political unification of Germany had taken place could monetary unification follow without major obstacles. The war removed the political capacity of the southern States to resist Prussia, although they retained individual governments inside the Reich. It also made a mockery of the French pretension to offer its own system to the world. In Bamberger's words 'France, according to its fancy, was imposing on the world one time war, another time brotherly love, and also threw into the world the beautiful ideal of a coinage system common to all civilized nations . . . The French simply said: we want to make an international coinage system, would Europe kindly accept *our* system. They make it very easy for themselves.'<sup>177</sup> The ambiguous policy of Napoleon and German triumphant nationalism cancelled the last hopes. The German victory at Sedan in 1870, the invasion of France, and the long siege of Paris alienated permanently many financial operations located in France during the second Empire, in favour of London, safer from invasions and political instability. The dream of Paris as the major financial centre of Europe vanished together with French prestige and political influence, which helped to create the coalition of States supporting monetary unification. France recovered surprisingly fast a substantial part of its financial power, but proved unable to follow the demographic and industrial growth of a united Germany.

<sup>176</sup> When Magne announced his intention to call for a new monetary enquiry in France before any decision could be taken regarding the introduction of the gold standard, Tolhausen informed Paris of the favourable reception of this decision by the Gazette of Cologne. French indecision would give to Germany the opportunity to sell silver to France at a fixed price and to adopt the gold standard. Germany had already lost an opportunity in 1857–63, when the price of silver was high, if it did not take this second opportunity to get rid of its silver there would not be a third one. 'La décision que vient de prendre la France de surseoir jusqu'à plus ample informé à l'abolition du double étalon et à la démonétisation de l'argent, nous offre de nouveau l'occasion, pourvu que les gouvernements allemands y mettent de l'intelligence et de l'énergie, de mener la réforme monétaire à bonne fin, ou du moins lui frayer des voies, sans nous imposer de sacrifices trop onéreux per rapport au placement de l'argent. Si par incurie ou par indifférence, l'Allemagne laissait encore échapper cette fois-ci l'occasion, qui sait si elle la retrouvera si belle une troisième fois?' The Gazette expected the price of silver to collapse when France would reject it. After a fall in the price of silver it would be difficult to establish an equation to convert in gold contracts denominated in silver and the opposition of debtors and creditors to the adoption of gold would become a major obstacle (French Consulate in Cologne (Tolhausen) to la Tour d'Auvergne, 29 Nov. 1868, AMAE, ADC 604–2, fols. 263–7).

<sup>177</sup> Bamberger (1872: 22–4).

The 5 billion francs indemnity imposed on France also seemed to offer Germany a free ride to the gold standard. The message of Bismarck to the Reichstag in October 1871 when the question came to a final proposal was explicit:

The most important and favourable change in our situation [due to our victory in the last war] derives from the war indemnity which France is paying us. In fact since these payments are carried out mainly in gold, this brings about options on which we could not have relied before to overcome the most difficult obstacle towards a monetary reform, the replacement of the silver standard with the gold standard.<sup>178</sup>

Despite that, France paid in gold only 250 million francs, adding 250 million of silver, employing commercial paper payable in England, Belgium, Holland, and Germany for the rest, a large part of which was paid in silver.<sup>179</sup> Furthermore in the following years the reversal of the exchange ignited a flow of gold returning to France from Germany.<sup>180</sup> The price of silver collapsed in 1873, following the formal adoption of the gold standard by Germany and the retaliation by France and Belgium, which suspended silver mintage in order not to be invaded by demonetized silver thalers. These factors made the adoption of gold much more difficult and expensive than expected in the euphoria of 1871 and some silver thalers continued to circulate in Germany until the beginning of the twentieth century.

Bismarck added to the Reichstag that 'due to serious obstacles the imperial government is obliged to drop for the moment one of the goals it had pursued, and to abandon the idea of preparing an agreement [on monetary union] with foreign countries and especially with France.'<sup>181</sup> A monetary inquiry was declared superfluous on the grounds of unanimity of opinion in favour of gold and of the mark system, confirmed by the Reichstag in June and by an Economic Congress in August 1871.<sup>182</sup> The mark system proposed by Bismarck, Delbrück, and Camphausen was a thinly disguised thaler system, associated with bimetallism.<sup>183</sup> The mark was a third of a thaler and some coins were planned to keep the thaler in circulation, the 15- and 30-gold mark pieces were none other than 5- and 10-thaler coins. The Bavarian economist Prof. Adolf Wagner even suggested calling the 2-mark coin a 'Bismarck'.<sup>184</sup> Bamberger's strong speeches in the Reichstag cleared many of the Prussian hopes.<sup>185</sup>

<sup>178</sup> Message of the Federal Chancellor of the German Empire, translation annexed to the despatch of the French Embassy in Berlin to French Minister of Foreign Affairs, 7 Oct. 1871 (AMAE, ADC 616-1, fol. 204).

<sup>179</sup> Hellferich (1969: 155).

<sup>180</sup> Kindleberger (1993: 237) also records the French minting in Hamburg, in a German valuation, silver bars bought on the market.

<sup>181</sup> French Embassy in Berlin to French Minister of Foreign Affairs, 7 Oct. 1871 (AMAE, ADC 616-1, fol. 206).

<sup>182</sup> Hellferich (1969: 154).

<sup>183</sup> The government had not yet been forced by the Reichstag to accept the gold standard (Mertens 1944: 126-30).

<sup>184</sup> *Stenographische Berichte über die Verhandlungen des Deutschen Reichstages*, Berlin, I Legislatur, II Session (1871), 317.

<sup>185</sup> The 'opportunism' of the supporters of international money was showed by their easy conversion to the mark. Soetbeer for example was quite content to see national unification with the gold standard even without 25-franc units and wrote to Bamberger in 1871 that 'my entire hope rests on your effectiveness in the Reichstag' (Zucker 1975: 84).

The 15 and 30 marks were refused in favour of a more decimal 10 and 20 marks, the provisional bimetallism requested by the government was replaced by an explicit gold standard, and the separate rights of the component States of the Reich were minimized. The cruelly disappointed *Economist* protested: 'That is nothing more nor less than a new international vexation. At present, the principal coinages of Europe contain several coins all but equal to the English sovereign, and yet not equal to it . . . It is simply a new difficulty in international coinage; an unhappy addition to the semi-equivalents which for years have baffled and beaten us.'<sup>186</sup> While the pound was worth 25.22 francs, the 20 marks were worth 24.69 francs and the American half-eagle was worth 25.96 francs.

The French option was not dead for the south of Germany even after the establishment of the Reich and the introduction of the gold coinage bill in the Reichstag. Over 800 petitions were sent to legislators from all over Germany to influence their views. The summary produced by a Parliamentary Committee shows that the chambers of commerce of Frankfurt, Württemberg, and Bavaria still insisted that the German gold coinage had to be based on the international 25-franc coin. The chambers of commerce of Baden even asked to adapt to the French franc–Austrian florin system all gold, silver, and bronze coins.<sup>187</sup> A progressive member of the Reichstag, the economist Moritz Mohl, introduced an amendment in favour of the 25 francs international coinage, supported by other progressives. Mohl insisted on the interest of southern Germany, of trade and travellers in an international currency, and refuted the international claims of the supporters of the mark which he defined 'a great step backwards' giving inconvenience to the south without international unification.

[The] 20-mark piece would be 24.691358 francs. I could continue this decimal fraction for longer. Hence this gold coin will never be current in the French countries and we are isolated from these countries by this gold piece. Now I ask you gentlemen, what kind of international compatibility is this? . . . Two or three years ago, when you were discussing the metrical system, had the government proposed to introduce the French system . . . I believe you would have accepted it, but now gentlemen, we now have had a bloody war . . . Had we lost I would understand such a hate.<sup>188</sup>

Again he insisted 'The most important chambers of commerce . . . like Frankfurt, Strasbourg, Mulhouse, and a whole range of partly southern and partly northern chambers of commerce have asked to have at least the gold coins minted according to the franc system' to facilitate trade and avoid isolation from the monetary systems of the rest of the world.<sup>189</sup>

Bamberger fought and defeated Mohl's proposal. He 'denied that international commerce required an international coin. Rather it was necessary that all currencies were based on the same metal.'<sup>190</sup> Small trade did not need international currencies and large trade was forced anyway to employ the services of the banking system to

<sup>186</sup> 'The grave demerits of the proposed new coinage for Germany' (*Economist* 29: 21 Oct. (1871), 2. Anonymous article probably by Bagehot).

<sup>188</sup> *Ibid.* 245–6.

<sup>189</sup> *Ibid.* 318–9.

<sup>190</sup> Zucker (1975: 66).

<sup>187</sup> *Stenographische Berichte*, 317–18.

send payments abroad, with bank drafts or bills of exchange, as transportation of coins was too expensive on an individual basis.<sup>191</sup> The argument was the same as that of the banker-politicians of France and England, particularly Rouland and Goschen, but to purely economic arguments Bamberger added the new brand of German nationalism:

Mohl . . . has told us what happens in border traffic. Another representative, Prof. Zeelig, I believe, has talked about other borders. Well gentlemen, it is an unavoidable phenomenon that at each border you come in contact with the coin of the neighbouring country, but you would not draw the conclusion from that that we should accept the coins of all bordering countries and have none of our own. This was perhaps to be recommended in a time when we accepted the policy of all foreign countries and had none of our own and that is of course why we were so praised in all countries, as we would also be praised now if we accepted a foreign monetary system.<sup>192</sup>

Bamberger was concerned with an efficient, centralized, and secure gold standard, without loopholes permitting the smuggling of silver by southern States or any sort of peripheral abuses. Nevertheless when his nationalist pressures threatened all concessions either to internationalist or to particularist requests, Bismarck himself had to intervene in defence of some concessions to the south, acknowledging its separate identity.

Is there any stronger pledge of alliance of the German sovereigns to the Reich than the coinage as it has been suggested? If his majesty the King of Bavaria has minted on one side his portrait and on the other side the Imperial crest of the Reich, is there any more obvious and substantial way of confessing 'I adhere to the Reich', 'I want to be a member of the Reich'? What do we gain if we alienate a justified sense of identity of the South, sacred by centuries of traditions and if we nourish the insinuations and persuasions of those who tend to appeal to centrifugal instincts?<sup>193</sup>

Bismarck carried this point against Bamberger. The obverse of each coin was unified with the common denomination and the symbol of the empire, but the reverse would recall the prime issuer, the individual principality, duchy, grand Duchy, kingdom or free city.<sup>194</sup> In a similar compromise between the old and the new, the division of responsibility for the imperial coinage among the mints of individual States reflected the political arrangements of a federal State. Legislation ensured that central control by the Imperial Chancellor was effective on the amount of gold to be coined, the division of these amounts between the various coins and the mints of the different States, supplying centrally the mints with gold. The final text of the legislation did not allow for the minting of gold coins for private account but that provision was introduced with the 1873 monetary law that completed the previous one. A Reichsbank was also created in 1875 to regulate the unified currency and Bamberger convinced the Reichstag to concentrate financial authority in it.<sup>195</sup> The Reichsbank incorporated the Prussian State Bank, but left thirty-two other local note-issuing banks. However, these *Zettelbanken* were limited in their operations to the area of their state territory and

<sup>191</sup> *Stenographische Berichte*, 324–5.

<sup>192</sup> *Ibid.* 325.

<sup>193</sup> *Ibid.* 337.

<sup>194</sup> Art. 5 of the 1871 coinage law of the Reich.

<sup>195</sup> Zucker (1975: 67–70).

fifteen of those stopped immediately to issue notes, while sixteen others gave up by 1905, leaving only progressively the monopoly to the Reichsbank.<sup>196</sup>

Supporters of international monetary unification were quick to condemn the German decision. For Jevons the action was 'retrograde',<sup>197</sup> Bagehot and Hendricks were baffled, and Parieu bitter.<sup>198</sup> Some German economists were more optimistic but they were looking at a much more distant future than they thought: 'after the shattering experience of 1870, the result was that people were no longer discussing a direct incorporation [*Anschluss*] of the German system into the French system, they were no longer pursuing the Paris ideas for unification . . . As soon as these crises are over, nations will compete peacefully and the question of international monetary unification will be on the agenda again.'<sup>199</sup> When the proposal for the German gold currency was passed into law at the beginning of December 1871, the idea of a European monetary unification was dead and buried for a long time. It would take two more 'bloody wars' between France and Germany to see Parieu's and Mohl's ideas resurfacing in Europe.

<sup>196</sup> Kindleberger (1993: 127).

<sup>197</sup> Jevons (1875: 166).

<sup>198</sup> Parieu quoted the *Moniteur universel* of 24 Oct. 1872 on the introduction of the mark in Germany 'Les journaux anglais blâment cette décision. Ils font observer qu'elle créera des embarras multiples dans les rapports de peuple à peuple. Mais le journal officieux du cabinet de Berlin se soucie médiocrement de ces difficultés et ne se préoccupe que de l'intérêt national, entendu dans le sens le plus égoïste du mot, de l'empire allemand: "le capital mobilier, dit-il, n'a déjà que trop de propensions internationales: le dénationaliser encore davantage serait, à notre avis, une grande faute politique." L'Allemagne est assez forte désormais pour ne pas craindre l'isolement commercial et industriel; c'est à elle au contraire de faire la loi au reste du monde' (Parieu 1872: 383).

<sup>199</sup> Weibezahn (1871: 6 and 17).