THE SINGLE CURRENCY IN HISTORICAL PERSPECTIVE

THE HOWARD LINECAR MEMORIAL LECTURE 1999

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Introduction: Our Continuing Debt to Howard Linecar

To be asked to give this lecture to pay tribute to the outstanding life-work of Howard Linecar is a considerable honour and privilege. My initial reluctance to accept, in view of my very limited knowledge of numismatics, was overcome when ultimately convinced that an outsider's observations would be appropriate for such an occasion. Numismatics has owed much to the contagious and enduring enthusiasm devoted to its cause by Howard Linecar for around half a century. I regret I cannot claim to have known him personally, unlike many in this audience who have been fortunate enough to enjoy that stimulating experience. His contribution to the wider dissemination of our knowledge of coinage puts all of us deeply in his debt. I have long been conscious that the painstaking contribution of numismatists, whether working as did Howard Linecar for a dealer and publisher like Spink – the oldest existing firm of its kind in the world, dating back at least to 1666 – or working in our museums, has been in general vastly under-appreciated by economists and economic historians. Consequently in paying this particular tribute to Howard Linecar I am glad also to be able to acknowledge and underline the overdue debt owed by the economics profession to numismatists as a whole. Their indispensable spadework has for too long been ignored by many of those who reap the fruits of their labour. Howard Linecar's generosity in endowing this biennial series of lectures beneficently extends his life-long interest in numismatics: a thing of beauty is a joy forever.

The Euro: an Elephant on our Doorstep

Controversy constantly enlivens the dismal science of political economy, often shedding more heat than light, and has become fashionable among historians as the past is re-interpreted by each new generation. Even the Linecar Lectures have disclosed disagreements, for example with regard to the extent of coinage recycling in the early years of the English penny and, later, of the extent to which peasants used money.[1] However, it would be hardly possible to choose a subject more likely to stir up controversy, probably more so in Britain than anywhere else in the EU, than the subject of the euro, its antecedents and its pretended eventual inevitability. This question of the

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[1] In the first Howard Linecar Lecture, 'English Numismatics – Progress and Prospects', Ian Stewart writes 'to put it bluntly, much of the interpretation placed on the late Anglo-Saxon monetary system in recent years seems to be misconceived' and he doubted whether there was 'a full recoinage after each change of type' in Eadgar's reign. *BNJ* 58 (1988), 119.

In the fifth Howard Linecar Lecture, 'Peasants and Coins: the Uses of Money in the Middle Ages', Christopher Dyer convincingly contests the view that 'peasants are often seen as living within a natural, self-sufficient economy, in which money played a small part' and shows that 'late medieval peasants owned and used coins, were embedded in a market economy and were money conscious. The belief that they were insulated from money fluctuations by their self sufficiency can no longer be advanced with assurance'. *BNJ* 67 (1997), 30 and 46.

union of currencies splits governments, splinters oppositions, both among the 'ins' and the 'outs',[2] and sharply divides members of most political parties and of none. Needless to say, the economists in the United Kingdom are deeply divided, with the pessimistic Eurosceptics probably in the majority. Admittedly, money throughout history, because of its intrinsic nature, has rarely, if ever, been neutral in its effects on society.[3] It has always led to disputes and arguments; yet the promise or threat of the euro has raised the stakes to an unprecedented degree. Obviously the question of the single currency is a matter of transcending importance, the natural culmination of the Treaty of Rome, 1957, and potentially, if it endures, easily the most important monetary event of the twentieth century for Europe, and possibly even of the 1,600 years since the Fall of Rome in 410 AD when the world's longest-lasting single currency system, already riven by hyper-inflation, was shaken to its foundations. Perhaps a favourable omen for the euro was the unearthing by Transco in 1994 of the Bridgend Hoard, just about ten miles from the Royal Mint at Llantrisant, comprising some 1,400 coins minted during the reign of Diocletian from uniform dies scattered widely throughout Europe and the Mediterranean.

Although coins form only a small and long diminishing proportion of modern money -only around one-tenth of 'cash' and 1/300th part of the broad money supply, M4[4] – yet it is still their durable, familiar, everyday attraction that will shortly bring brightly home to the man and woman in the street and in the shop the full realisation of the historic significance of the new Single Currency, born wholesale on 1 January 1999, but which will appear in concrete retail form only from 1 January 2002. The process of simultaneously terminating the use of the cash currencies used by every one of the 290 million people of the eleven members of 'Euroland'[5] will require the issue of around twelve billion banknotes and fifty billion coins in the space of six months, a changeover unprecedented in scope and nature. Despite all the revolutionary technical changes in the field of finance in recent years it remains the fact that cash in the form of notes and coin is the only form of money used by every one of all ages and incomes, requiring no prior authorisation by the user and, being anonymous, leaves no trace when being passed from hand to hand,[6] reminding us that for most of the past 2,500 years coins have been by far the most important kind of money. Though their relative importance has been generally declining for 300 years, the absolute number of coins today is much higher than ever before. According to the Payments Market Briefing, APACS, July 1999: 'cash remains responsible for over three-quarters of payments made in the UK by individuals in 1998, amounting to 25.3 billion cash payments. The enduring trend has been for the proportion of all payments made by cash to fall by about 1% pa.' In the case of the euro a gap of three years separates the introduction of the various forms of wholesale abstract bank moneys and plastic from the more concrete, retail, traditional forms of notes and coins. (This incidentally offers an enormous marketing opportunity for the sellers of plastic money). The above pattern reflects, on a much more rapid time-scale, the emergence of the earliest use of banking and then later of coinage. The Babylonians were the world's first bankers, a development which preceded the rise of Lyddite and Greek coinage along the shores of modern Turkey (a disappointed EU aspirant) by some 2000 years. The death of the drachma, the world's oldest existing monetary unit, currently being eagerly sought by the Greek government, may have to wait a few more years. What a magnificent market, comprising the rapid production of fifty billion new

[2] The 'ins', that is those countries that joined the Euro system from its commencement on 1 January 1999, are: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain. The 'outs', that is those members of the EC that did not so join are: Denmark, Greece, Sweden and the UK.

[3] Monetary changes of any substantial weight could only be neutral if everyone had the same amounts, incomes, wealth, debts, expectations, etc as everyone else: an impossibility. C.P. Kindleberger quotes Schumpeter as 'doubting that money can *ever* be "neutral" in any meaningful sense'. *A Financial History of Western Europe* (London, 1994), p. 4.

[4] For a fuller treatment see my brief essay on 'The Rise and Fall of the Coinage Empire' in *Payments, Past, Present and Future* (APACS, London, 1995).

[5] In comparison, the UK's decimalisation in 1971 was a non-event. Thus A.D. Garrett, in the third Howard Linecar Lecture: '*The Royal Mint: a pursuit of Technical and Artistic Excellence*' shows that 'the potential effect [of entry] is huge … previous conversions of currency, our own decimalisation for example, are small by comparison'. *BNJ* 62 (1992), 192.

[6] New developments in digital cash and 'anonymous electronic money' may in future erode this advantage – but not for the masses of the world's poor.

coins, just for starters, with the corresponding disappearance of a similar number, is being placed before mints and numismatists at the birth of this new Millennium![7]

What light, if any, does past experience of single currencies, or their approximations, shed on the possible future progress of the euro? This subject, as vast as it is controversial, can only be traced here in the barest outline, so that sins of omission are bound to complement those of commission. Moreover, as a recent report of the Bank for International Settlements reminds us, 'all economic projections and judgements should be approached with a proper sense of humility'.[8] Because the presence of the euro poses a special and distinctive challenge to the UK I shall concentrate on Britain's experience with single or common currencies, an approach which is justified for a number of reasons. To begin with, England was one of the first post-Roman European countries to establish *and maintain* a nation-wide currency. Secondly the pound sterling has never yet had to be replaced by a 'new' currency, in contrast to most of the other European countries. Thirdly the pound, taking the very long-term into account, has been a much more stable currency than that of its neighbours (though that record has been badly tarnished by its inflationary experience in the last three decades). Fourthly sterling for much of the nineteenth century and for the early part of the twentieth was by far the most widely sought-after currency in world history. Fifthly, we still do less trade within Europe proportionately than other EU members. (This difference is now diminishing to marginal proportions. The most recent statistics show that the UK's exports to the EU came to 57.3 per cent of our total in 1998, exceeding our exports to the USA by over four times). Thus to view the euro from the standpoint of our off-shore island is not to indulge in ostrich-like insularity but rather to take into account the fact that Britain's financial history was bound to make her acceptance of the single currency a more difficult choice than for any of the other fourteen members of the EU. The fear that we have more to lose is at least understandable.

Preferred, Shared, Common and Single Currencies

There are many forces pushing and pulling currencies into prominent use beyond their own regional or national frontiers. Three of the most powerful of these have been, first, the attractiveness or intrinsic quality of a currency which makes it stand out above its rivals; second, the push given by political and military factors; and, third, commercial pressures in inter-regional or international trade. Not only does trade lead the flag but on occasion the lead roles are reversed, but, whether for war or for peaceful trade, the vitally necessary currency may come to play a significant part beyond its original homeland. The geographical extent and the duration of such monetary expansions tended to be increased when these forces continued to complement each other and were correspondingly reduced or negated when for example merchants failed to receive support from their governments, or when formerly favoured currencies became debased or suffered from shortages of supply. (It was the shortage of English money which caused the American colonists to turn to a variety of other currencies – including wampum, tobacco and paper – while demand for tax payment in sterling was a strong contributory cause of the revolution of 1776).[9] In much the same way agreements among governments to share currencies have typically been disrupted by traders, dealers and speculators whenever their economic interests so dictated. Thus bimetallist agreements in the second half of the nineteenth century and the gold standard and Bretton Woods systems in the twentieth century are just a few examples where economic realities overcame political rhetoric, with even gold in serious danger of becoming virtually demonetised after Gordon Brown's surprising announcement in May 1999 that around half of the Bank of England's gold reserve was to be sold – until gold's price and prestige were rescued by the five-year moratorium on gold sales hastily agreed on 26 September 1999 by fifteen EU central banks following strong pressure from South Africa, the World Gold Council and conservative opinion world-wide.[10]

[7] Some Eurosceptics, even among the 'ins', have wondered whether the existing coinages should be stored rather than recycled.

[8] B.I.S. 68th Annual Report (Basle, 1998), p. 162.

[9] Dr D.M. Clark, in her study of *The Rise of the British Treasury* (New Haven, 1960), pp. 123 and 197, shows that a shortage of currency 'combined with the necessity of paying the new duties in sterling aggravated the problem' so 'the Treasury bore the main responsibility for measures inciting to revolution'

[10] For contrasting views on the folly or wisdom of retaining gold as a significant part of central bank reserves, see A. Kaletsky, *The Times*, 13 July 1999, and the article 'Gold Comfort' in *The Economist*, 2 October 1999, 113–16.

Where preferred external currencies are officially condoned, encouraged, adopted or shared to such an extent that they readily cross national boundaries we arrive *de facto* or *de jure* at a common currency. Where a preferred currency grows to such an extent as to displace the existing indigenous currency completely then we arrive at a single currency, the euro being the extreme example of its type. The victory of the euro is not the result of a natural commercial process, the culmination of growing commercial pressure (though these have followed, excused and strengthened the political lead) but rather has been clearly and indisputably the result of sustained political pressure for 'ever closer union' in Europe.

The long list of preferred currencies stretches from ancient Greece to the present day and includes the Athenian owls, the Persian archers, the Roman solidus, the bezant, the florin, the écu, pieces of eight, the sovereign, the Maria Theresa thaler and its mighty namesake, the US dollar, now easily the world's most desired currency, though no longer simply in the thaler's original metallic form. Salient features from England's monetary history may be taken to illustrate the forces determining the progress from a regional to a national and eventually an international currency.

The Expansion of the Penny and the Pound

The continuous history of the penny begins with the coins of Offa, King of Mercia, of which the earliest had been struck by *c*.765.[11] During the following two centuries, a result of regional conquests and of the superior attractiveness of the penny when compared with the motley variety of sceats and stycas, Eadgar (959–975) was able to unify both the country and its coinage with a single currency re-minted in whole or part every few years. Subsequently trade with and tribute to the Danish invaders brought about a very considerable increase in mint output of pennies and in their use abroad, from Ireland to Scandinavia, particularly under Canute (1016–1035), though this first EFTA-like cooperative venture broke up soon after his death. Political and commercial causes worked strongly together to produce this short-lived but interesting early example of a shared currency.[12] It took many centuries, however, before the penny and the pound became fully accepted all over the British Isles, for despite the very strong commercial connections the necessary political consensus proved elusive.

Without shared sovereignty even numerous, close daily trading contacts were generally insufficient of themselves to secure durable common currencies. Thus, for instance, the agreement in 1469 between Edward IV and Charles the Bold of Brabant to provide similar coinage soon disintegrated. It took many centuries after the initial attempts in 1512 before the occasionally shared large-value coins of the nebulous Holy Roman Empire finally coalesced into the single monetary system of the new German Empire of 1871, forcefully united by the Prussian policy of blood and iron. Single currencies evolved painfully slowly and hesitantly.

After the union of the crowns by James I in 1603 attempts were made to align Scottish coinage with that of England. In 1604 the Tower Mint issued a new £1 coin called the 'Unite', worth £12 Scots. 'This was a monetary conformity not monetary union': union took over a century to complete for in practice 'there was no fundamental change in the use by the Scots of foreign currency ... the evidence of hoards buried in the sixteenth and seventeenth century in Scotland points to a majority of foreign coins in circulation both in number and also by value ... in rural areas the pound Scots (at the 12:1 ratio) continued long into the eighteenth century'.[13] Shortages of coin also occurred in England, for example in the 1790s Spanish coins were punchmarked with the head of George III for re-issue. Unfortunately they traded at a discount from their official value of

[11] D.S. Chick, 'Towards a chronology for Offa's coinage: an interim study', *The Yorkshire Numismatist* 3 (1997), 47–64.

[12] When the armoured cars of the Royal Dragoons rolled north into Denmark in May 1945 the grateful citizens of Viborg presented each soldier with a replica of Canute's silver penny – an apt reminder of northern Europe's first single currency. English-type pennies formed of course only part of a shared mixture of other currencies in Scandinavia, including coins from France, Germany and beyond, the result not merely of tribute and plunder but also of widespread trade. See G. Davies, *A History of Money from Ancient Times to the Present Day*, revised edition (Cardiff, 1996), pp. 130–3. Perhaps I should add that EFTA never envisaged monetary union.

[13] R. Saville, *Bank of Scotland, a History, 1695–1995* (Edinburgh, 1996), p. 836.

five shillings, hence the public criticism: 'Two heads and not worth a Crown', and, 'Being short of silver to make money pass, they stamped the head of a fool on the neck of an ass'. Yet by the time of the Act of Union, 1707, 'both sides of the border were well down the road of a paper currency',[14] but Scotland very much more so than England. Adam Smith had pointed out in the mid-1770s that 'the circulation of paper in the room of gold and silver replaces a very expensive instrument of commerce with one very much less costly' and estimated that of what we today would call 'narrow' money three-quarters was paper[15] whereas even more than a century later three-quarters of narrow money in England was made up of coin, mostly of gold and silver.[16] When the 1825 crisis led to the failure of twenty-six banks in England and Wales the government attempted to extend its prohibition of the issue of bank notes of less than £5, enacted for England, to Scotland and Ireland also, even though no comparable failures had occurred there. The strong case made by the Scottish bankers saved the small note issues for both Scotland and Ireland. Space does not permit much reference to Ireland except to note its aversion to being used for monetary experiments such as Henry VIII's first debasement, and the attempt to foist on the Irish 'Wood's Ha'pence', which called forth general condemnation typified in Swift's 'Drapier's Letters' (1724–5), just as the threat to small note issues brought Walter Scott's powerful influence into action in 1826 under the pen-name 'Malachi Malagrowther'. His portrait has, since the bank's tercentenary in 1995, adorned, aptly enough, Bank of Scotland notes for £5, these now being much smaller in real terms than the £1 notes of 1826. Ireland, of course, has been among Euroland's most enthusiastic members, receiving record per capita subsidisation and displaying in return a remarkable take-off into sustained growth.[17]

Sovereignty and Sterling

The Irish choice of the euro and its rejection of sterling is but the most recent example among a long list of countries that have broken their previously close links with sterling. The earliest to do so (apart of course from the USA) was Canada, initially in 1851 with regard to decimalising its currency (120 years before the UK) but also having to demonstrate its different financial priorities on many occasions subsequently, most notably when refusing to become a member of the sterling area in 1932, though still participating in the system of Commonwealth Preferences which were first drawn up in Ottawa in that same year.[18] The fundamental reason for Canada's exceptional position was the obvious and inescapable fact that she too had an elephant on her doorstep. 'Over a long period [Britain] had attempted to secure the adoption of the pounds, shillings and pence system in the colonies. Commercial and financial connections with the US were too close, however, to permit [the continued] implementation of this policy'.[19] The decimal coins for Canada were produced by Heatons of Birmingham or at the Royal Mint in London until it established a branch in Ottawa in 1908: very belated compared with Australia's first branch in 1853. Despite her big neighbour, British influence over Canadian banking meant that it followed the branch banking system, which proved much stronger than the USA's unit banking system.

Canada was the exception. For the rest of the Empire the declared policy was that 'only one description of currency should be established throughout our Colonial Empire'.[20] This ambition

[14] Saville, as in n. 13, p. 72.

[15] A. Smith, *Wealth of Nations* (1776), Book 2, p. 262.

[16] G.P. Dyer, in his examination of 'Gold and the Goschen Pound Note', describes how the share of coins in the UK's total of 'notes and coin' actually rose appreciably from 48.3 per cent in 1845 to 76.7 per cent in 1913. *BNJ* 65 (1995), 190.

[17] 'The Irish economy continued to record very rapid growth estimated at 8¼% in 1998' says the Central Bank's annual report for that year and, after showing that 'economic performance over the past five years has been exceptional', goes on to warn that 'this should be regarded as something of a catch-up', pp. 7–8. A highly respected neutral observer praises Ireland as being the EU's 'leading country in terms of economic growth' with 'industrial output up by over 15% in 1997 and 1998'. *Deutsche Bundesbank*, Monthly Report, August 1999, p. 9.

[18] See P.W. Bell, *The Sterling Area in the Postwar World* (Oxford, 1956).

[19] Ever since the mid seventeenth century Canada had been using the £sd system, but shortage of sterling coins forced Canadians to use other coins, reinforcing her decision to use dollar and cents from 1851. W.T. Easterbrook and H.C.J. Aitken, *Canadian Economic History* (Toronto, 1956), p. 459.

[20] C.E. Trevelyan, Assistant Secretary to the Treasury, 12 December 1844 (Royal Mint Library).

was most fully accomplished in those places where formal Currency Boards were established – West Africa, Central Africa, East Africa, the West Indies and Singapore and Malaya – but approximations to this system were applied to a large number of other places ranging from Iceland to Hong Kong. As early as 1825 an Order in Council stated that 'both on grounds of policy and expediency … it was desirable to introduce silver coins into the circulation of the Colonies'. Henceforth, according to Lord Chalmers' *History of Currency in the British Colonies,* 'the shilling was to circulate wherever the British drum was heard'.[21] It must have been deafening in West Africa around the turn of the century. The annual amount of silver issued for West Africa alone rose from an average of £24,426 in the five years to 1890 to reach £847,850 by 1911, thus exceeding the amount issued in the UK. All the same in local markets in both East and West Africa it may be surprising to realise that so-called 'primitive' cowrie currency was still being used after many centuries up to and including the 1950s.[22] Marion Johnson asserts, in a comprehensive study of 'The Cowrie Currencies of West Africa', that the humble cowrie is 'in no sense a "primitive" money, but a sophisticated form of currency capable of adaption to the particular needs of West African trade … by 1850 the Gold Coast was importing cowries at the rate of some 150 tons a year' mostly from the Maldives, with ships bringing these shells as ballast to Britain before re-exporting them to Africa.[23] In rural areas large bags of cowries were used for high-value and wholesale trade, while six or so individual shells were useful for the tiniest transactions of the local fairs. Thus sterling gold and silver coins never quite became the exclusive single currency even in the longest and most strictly controlled Currency Board areas, those which were the last to achieve political independence. In this regard it is of interest to note that Ghana chose the 'cedi' (the Ashanti word for cowrie) as its unit of currency after gaining independence. Thus not until our life-time did the world's oldest, gap-filling, supplementary common currency cease practically to exist.

It was not the minor drawbacks of the coinage but rather the threat to the huge sterling balances which the overseas sterling area had built up in London, especially during the period of the second world war and its aftermath, that painfully exposed the ultimate unfairness and vulnerability of a system of shared currency that, together with its gold standard precursor, had served a large portion of the world well for a century or more. Had these sterling balances maintained their value the system might still have endured, but the devaluation of 1949 and even more so that of 1967 dealt the system a heavy blow from which it never fully recovered. Criticism of the sterling system came from poor and from rich countries. Thus Professor W.A. Lewis wrote in the *Financial Times,* 18 January 1952: 'Britain talks of colonial development but on the contrary it is African and Malayan peasants who are putting capital into Britain'. James Callaghan felt duty bound to resign after the 1967 devaluation, according to his autobiography, because he had given his word a year previously to the Kuwaiti ambassador, when questioned about sterling's strength, that the pound would not be devalued. 'On the strength of my reply, Kuwait had maintained very substantial sterling balances which would in future be worth much less'. Criticism of sterling's weakness came also from the European Commission. 'Couve de Murville, the French Foreign Minister, seized on this as an additional reason for obstructing Britain's entry'.[24] Such concern regarding the sustainability of the exchange rate of potential entrants was a forerunner of one of the six Maastricht convergence criteria. Before looking at these and their relevance to Britain's present position a glance must be made at the extremely ambitious attempts, mostly pressed by France, to secure some form of single currency from about 1865 to 1914.

[21] R. Chalmers, *A History of Currency in the British Colonies* (London, 1893), p. 40.

[22] Professor G.O. Nwankwo, a former student of mine, described to me how cowries were in common everyday use in Ibo fairs in his boyhood. Later as a Director of the Bank of Nigeria he represented his country abroad at OPEC conferences – from cowries to petrocurrencies in a generation … and we balk at the euro!

[23] M. Johnson, in 'Metals and Monies in an Emerging Global Economy', edited by D.O. Flynn and A. Giraldez, *Variorum* (1997), 193–248.

[24] James Callaghan, *Time and Chance* (London, 1987), pp. 222 and 216.

Britain and International Monetary Union in the Nineteenth Century

'In nothing is the English nation so conservative as in matters of currency' asserts Milton Friedman when referring to Britain's ability to shake herself free from entanglement with the bimetallist movements in France and the USA in the second half of the nineteenth century.[25] If the confident optimists who made themselves prominent in the plethora of monetary conferences held in that period had managed to achieve greater credibility the world might well have adopted a universal monetary union based on a uniform gold coin representing 25 francs, 5 dollars and 1 sovereign. If Britain had raised the gold content of the sovereign by about one per cent, if the USA had made a similar adjustment in the opposite direction and if France had raised its seigniorage charge slightly to one per cent, then, said the optimists, the whole of the civilised world would have followed this lead and the ideal of a universal single money system would have resulted.

The harsh reality of wars and the disruptive effect of imbalances in relative supplies of gold and silver prevented these idealistic dreams from becoming reality, as the world split into a limping bimetallist system led by France and the continuation of Britain's conservative gold standard, which other countries like Germany in 1871 and the USA in 1900 decided to join as being the better bet. All the same two European monetary unions did emerge, one large Latin Monetary Union from 1865 and the much smaller Scandinavian model from 1872. One of the main aims of France in arranging the formation of the Latin Union was 'to secure a monetary hegemony over other states by inducing them to adopt her system, and thus to obtain an influence over them which might be transmuted ... into a political leadership'.[26] This was but a continuation by Napoleon III of that pressed by Napoleon I earlier in the century. Thus in a letter to the King of Naples on 6 May 1807 the first French emperor wrote: 'Brother! When you issue coins I would like you to adopt the same valuations as in French money ... in this way there will be monetary uniformity all over Europe [as with de Gaulle, Britain was non-European] which will be a great advantage for trade'. The same letter was written to other heads of state.[27] These sentiments were strongly supported by the French public, even by those opposed to the régime. Victor Hugo, writing in 1855, proposed 'one Continental money, which would drive the activities of 200 million people, instead of all the absurd varieties of money we have today'.[28] Though not then reaching 200 million, France was joined in the Latin Union by Belgium, Switzerland, Italy, the Papal States, Greece and Rumania, while Spain, Austria, Hungary and Bulgaria aligned some of their gold and silver coins to the French system. Germany remained aloof, and was criticised for not even attending some of the conferences. The much smaller Scandinavian Union comprised Denmark and Sweden with the reluctant and partial addition of the more independently-minded Norway. (Plus ça change ...). After a few stumbling decades both unions were swept away by the First World War. In practice they had not amounted to much, but they represent the closest precedent we have to the EMU of today.

Opinion in Britain was divided, with the manufacturing sector being generally in favour of monetary union and the financial sector mostly being opposed (apparently the converse of today). 'The Association of Chambers of Commerce of the United Kingdom, in a session held at Birmingham the 16th and 17th of November, 1869, decided unanimously that a report should be presented in favor of the internationalization of Coinage.'[29] In contrast, the conclusion of the Bank of England when asked to express its opinion to the International Monetary Conference in Paris, 1881, was not to become involved 'on the ground that a subject partly of abstract science and partly of political application was not its business'.[30] Such divided opinions were rehearsed again

[25] M. Friedman, 'Bimetallism Revisited', *Journal of Economic Perspectives* (Fall 1990), 97.

[26] H.P. Willis, *A History of the Latin Monetary Union* (Chicago, 1901), p. 143.

[27] 'Correspondance de Napoleon I', Tome 15 (Paris, 1854), p. 199.

[28] V. Hugo, *Actes et Paroles Pendant L'Exil* (Paris, 1861), pp. 138–9.

[29] International Monetary Conference, held in Paris, 1878, published by the Government Printing Office (Washington, 1879), p. 383.

[30] Sir John Clapham, *The Bank of England* (Cambridge, 1944), II, p. 313. No longer aloof, the Bank successfully coordinated the technical preparations for the integration of Europe's financial markets 'of which London is the biggest international centre by far ... Whether the UK is in or out, the City of London's broad and liquid markets in the euro are an asset for the whole of Europe': *Bank of England Annual Report, 1999*, p. 5. Similarly, 'the Mint has played a full part in the efforts of the European Mint Directors Working Group' and has 'completed contracts to supply copper-plated steel blanks for euro coins from seven of the eleven countries introducing the euro coinage in January 2002' *Royal Mint Annual Report 1998–99*

at tiring length before the Royal Commission on the Precious Metals, 1888. In the end they decided on a very British, pragmatic 'wait and see' policy: 'any scheme which involves a great alteration in our system of currency would be so opposed to the traditions and prejudices of the people of this country, that we think some considerable period of time must elapse before it will have gained that amount of support among the public which will entitle it to be considered as a practicable proposal'.[31] They did not even suggest a referendum; but now at long last our official policy is to 'prepare and decide'.

The Criteria for Decision

A decent interval of time having now elapsed and a truly great alteration having just taken place on our doorstep involving nearly 300 million of our neighbours, the decision time for the UK would finally appear to be of the highest urgency and priority. Above all it remains a political decision, made by government, not markets, by the still sovereign power, not by the sovereignty of the consumer. The decision as to whether and when to enter into Stage III of EMU is dependent on a referendum if the next or some future (Labour?) government considers the time and price to be right. Though the future decision is to be fully democratic, the criteria on which the government's case is being put forward are entirely economic.

In 1997 the government commissioned an assessment of the economic consequences of EMU from which it derived the following five criteria:

(a) what would be the effects on employment, growth and stability?
(b) what would be the impact on financial services and the City?
(c) how would it affect investment, particularly from overseas?
(d) if problems emerge is there enough flexibility to deal with them?
(e) are business cycles and economic structures compatible with those of the Euro-zone so that we could live comfortably with euro interest rates?[32]

The report concludes that membership of EMU has the potential to enhance growth and employment, but only if there were sufficient convergence and flexibility within the UK and EU economies. Obviously to some degree judgement of the outcome is likely to be subjective with the various interested parties supporting their cases with selective statistics. Even the more objective and quantified targets laid down by the Maastricht treaty for calculating convergence were interpreted elastically enough to allow all the applicants to be admitted to the third stage, except Greece, which was then a fudge too far. Since these criteria will also be used for judging future potential entrants – and therefore are relevant to the UK's situation – they too may be briefly summarised:

(a) consumer prices not to exceed 1.5 per cent above the average in the three best countries of the EU;
(b) exchange rate to be within the 'normal' bands of the Exchange Rate Mechanism for two years (now 'ERM2');
(c) long-term interest rates were not to exceed two per cent above the average in the best three countries;
(d) each national central bank's legislation had to be compatible with that of the European Central Bank and guarantee the political independence of those banks;
(e) budget deficits were not to exceed three per cent of GDP;
(f) government debt was not to exceed sixty per cent of GDP.[33]

The fiscal disciplines of the convergence criteria have been carried forward in enhanced form in the 'Stability and Growth Pact'. If fiscal discipline is not enforced the ECB's monetary objectives

[31] Final Report of the Royal Commission on the Precious Metals (London, 1888), p. 53, para. 168.
[32] H.M. Treasury, 'UK Membership of the Single Currency: an Assessment of the Five Economic Tests', October 1997.
[33] Barclays Bank, 'EMU: a Guide for Business', November 1996.

are thwarted. The Bank's main objective is to help to achieve price stability, defined as an annual increase of retail prices of up to two per cent, with a reference guide for increases in broad money, M3, of $4\frac{1}{2}$ per cent. None of this should prove to be a barrier to UK entry. The real difficulties lie elsewhere, for example in the EU's apparently arrogant, legalistic and insufficiently accountable bureaucracy; in the multitude of its costly and enterprise-inhibiting rules and regulations; in the appropriate entry level of the pound; in the CAP; in labour immobility, tax harmonisation, unfunded pensions, the rebate – and so on.

According to the European Monetary Institute 'major improvements in convergence have been seen in the EU since 1996'.[34] A more recent research paper by the European Central Bank, in May 1999, concludes that 'in the last ten years central bank policy rules have displayed a remarkable tendency to converge', which is likely to have been a factor helping 'the increased correlation of economic performance'.[35] In other words EU countries have grown more alike, dragooned by their convergent policies. The emphasis on the independence of central banks, according to Professor Charles Goodhart, 'is currently a most fashionable idea' but he warns 'all fashionable ideas are likely to be exaggerated and misleading' and 'it would be sensible to be extremely wary of the idea that the act of granting the ESCB independence from political control will guarantee a much better record'.[36] Some central banks have had to amend their legislation so as to ensure that the total issues of coins come under the ECB as part of its control of the money supply. Surprisingly a somewhat similar 'proposal was made in the year 1780, by Mr. [Edmund] Burke, to abolish the Mint, and place the coinage entirely in the hands of the Bank of England'.[37]

The recent decline of the euro to near parity with the dollar (though particularly welcome to German exporters) again raises the question of universal money: dollarisation merging with euro-expansion. No doubt the controversies concerning the euro will continue to rage, fiercely and finely balanced. In such circumstances of uncertainty a decision is sometimes reached by the toss of a coin - at least it has a fifty-fifty chance of coming down heads ... but whose, our Queen's or, say, Napoleon's or Bismarck's?[38] On this matter our continental friends would do well to consult Howard Linecar's authoritative and beautifully illustrated work on 'Crown Pieces of Great Britain and the Commonwealth' (1962), for he more than most knew that there is nothing better than coins for bringing history to life. There they would see that the coins of George I not only depicted the crown of Charlemagne but also carried an (abbreviated) inscription of his legal title of 'Arch-Treasurer of the Holy Roman Empire' no less.[39] Perhaps now is the time to re-phrase our coins to reflect our historic royal prerogative!

[34] European Monetary Institute, 'Convergence Report' (1998), p. 4.

[35] L. Angelona and L. Dadola, 'From the ERM to the Euro: New evidence on Economic and Policy Convergence', European Central Bank, May 1999.

[36] C. Goodhart in *European Banking*, edited by A. Mullineux, (Oxford, 1992), p. 24

[37] *First Annual Report of the Deputy Master of the Mint, 1870* (London, 1871), p. 13.

[38] Whereas euro notes are to be uniform, coins may have one side kept for a 'national' design, though both notes and coin are to be legal tender throughout the zone.

[39] H.W.A. Linecar, *The Crown Pieces of Great Britain and the British Commonwealth of Nations 1551–1961*, second edition (London, 1969), p. 41. See also Spink, *Coins of England and the United Kingdom*, thirty-fourth edition (London, 1999), p. 330.