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5

Experience With Historical Monetary Unions

By Hans R. Krämer

- Monetary unions of the past had a better chance of success if economic policies of the participating states were in harmony. Example: The Scandinavian Monetary Union in contrast to the Latin Monetary Union.

- Since harmony of economic policies could not be maintained under political stress (in the First World War), even the Scandinavian Union failed.

- The only cases where monetary unions have survived up to now are those of general political, economic, and monetary unification: Switzerland, Italy and Germany. In monetary matters, the centralizing of decisions has been a minimum requirement for the success of a union.

- No historical monetary union has brought about political unification. It has always been the *other way round.*

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Experience With Historical Monetary Unions

1. Monetary union among the members of the European Economic Community is at present one of the important and controversial topics in the discussion about economic integration. The merits, the dangers, and the consequences of such a union have already been looked at from some different angles. It is, however, surprising to observe that one of the most traditional approaches to study the problems involved has been neglected so far. I think of the historical approach. There have been monetary unions in the past. Why shouldn't one try to find out whether some lesson can be drawn from this past experience?

2. The term "monetary union" will be used here rather loosely. A modern definition would be of little use when applied to the old cases. But this excuse may even be unnecessary since there is no such thing as a generally accepted definition of a monetary union. A definition made up solely for our purpose here would not be helpful, either. This will become obvious when the cases to be treated under the heading of monetary union are named: the Latin monetary union, the Scandinavian monetary union, the German-Austrian monetary union, the Swiss monetary union, the Italian monetary union, the German monetary union.

   Not only do the degrees of "cooperation" applied in these "unions" differ considerably, one may even doubt whether the monetary arrangements which accompanied the national unifications of Switzerland, Germany, and Italy should be named "monetary unions" at all. But if one hesitates to do so, one would exclude just those cases which are most similar to the present European project: economic and political integration accompanied or followed by monetary unification.

   Under these circumstances it seems appropriate to make no attempt to define the "monetary union", and to simply start discussing one of the historical cases.

3. The Latin Monetary Union is the loosest of the arrangements to be regarded and, geographically, the most extensive. It was founded in 1865 by France, Belgium, Switzerland, and Italy. Greece joined in 1868.

4. The formation of the Latin Monetary Union amounted, partly, to an institutionalization of already existing facts: When Belgium became politically independent in 1831, it adopted the monetary system of France.[1] The Belgian coins - "francs" like the French ones - were of the same fineness and of the same value as those of France. The French coins were made legal tender in Belgium.

   In Switzerland the Bundesverfassung of 1848 brought the previously existing confusion of cantonally issued money to an end.[2] As in Belgium, the French monetary system was adopted, the Swiss franc corresponding exactly to the French franc. French silver coins were granted legal status. Although the law[3] concerned only silver coins, the French gold pieces circulated in Switzerland, as well.

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[1] Cf. H.P. WILLIS, A History of the Latin Monetary Union. Chicago 1901, reprinted New York 1968, p. 15.

[2] Cf. H.P. WILLIS, op. cit., p. 26.

[3] Of May 7, 1850.

Italy, after its unification, introduced a coinage system similar to that of France,[1] the lira taking the place of the franc.[2] Moreover, the French coins were to circulate legally in Italy as they did in Belgium and in Switzerland.

Not only did the French coins circulate in the three other countries. The same was true for Belgian coins in France, Switzerland, and Italy as well as for Swiss and Italian coins in the remaining three countries. There was, however, one difficulty regarding subsidiary coin, i.e. pieces of less than five francs in value. These were of different fineness in the four states: Swiss coins were .800 fine, Italian ones .835 fine, while Belgian coins had a fineness of .900, and in France some were .835 and others .900 fine.

5. These differences were one of the subjects of the treaty establishing a monetary union between the four countries.[3] It stipulated that coins of 2 francs, 1 franc, 50 centimes and 20 centimes should have a fineness of .835.[4] As for the other coins, the parties agreed on a fineness of .900 for gold pieces of 100, 50, 20, 10 and 5 francs[5] and for silver 5-franc pieces.[6]

6. Since, at a fineness of .835, the nominal value of the small coins was greater than their real value, a country issuing great quantities of such coins might have been able to make some gains, if these coins circulated in the whole union. The amount each state was allowed to mint was, therefore, limited to the equivalent of six francs per capita.[7]

7. That precaution taken, the treaty could stipulate that the coins issued by each of the contracting parties were reciprocally received in their public treasuries.[8] This meant, in practics, that they could freely circulate in the four countries, for nobody had any reason to refuse a coin issued in one of the other states.

8. One precaution was not taken, however, and this was felt almost immediately. The treaty did not regulate the relation of gold to silver. True, since gold pieces as well as silver pieces were defined in fineness, weight, and measure, a ratio between the two metals was determined. This ratio was 15 1/2 : 1. This would have sufficed only if the respective values of gold and silver had remained constant, which they did not. First, owing to the new discovery of gold in California and elsewhere, the value of gold respective to silver diminished. Later on, the value of gold recovered and even commanded a considerable premium over silver.

As the coinage of pieces of 5 francs and more was free, it was to be expected that the coins of the relatively dearer metal would disappear and be replaced by those of the cheaper metal. This working of Gresham's law was, of course, no speciality of the monetary union. A new feature was, however, that the member states were in a position to enrich themselves at the expense of the other partners of the union. If they

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1 By the law of August 24, 1862.
2 Cf. H.P. WILLIS, op. cit., p. 36.
3 Treaty of December 23, 1865. Reprinted in H.P. WILLIS, op. cit., Appendix I.
4 Art. 4 of the treaty.
5 Art. 2 of the treaty.
6 Art. 3 of the treaty.
7 Art. 9 of the treaty.
8 Art. 2 for gold pieces, Art. 3 for 5-franc silver pieces, Art. 7 for small coins (2, 1, 0.50, 0.20 francs).

issued low value coins it was highly probable that a good deal of these coins found their way to the partner states.

9. Although it cannot be said that one or the other of the members of the union acted deliberately in this way, France found herself burdened with great quantities of low value silver 5-franc pieces. So, finally, the coinage of these pieces was "provisionally" suspended.[1] Moreover, the parties agreed that at the expiration of the treaty the silver 5-franc pieces should be reimbursed by the country which had issued them.[2]

10. With these steps, the Latin Union practically adopted the gold standard. This had been advocated by the smaller countries from the beginning.[3] France had, however, succeeded in preserving her system, which duly caused some crises in the Union. After the revision of 1885, the obstacles connected with bi-metallism were removed, so that the Union could concentrate on difficulties of another character. Such difficulties existed, as will be seen later. The big crisis came when, at the beginning of the First World War in 1914, the circulation of gold, and with it the functions of the Union, were suspended. The attempts, after the war, to revive it[4] met with little success. So it was dissolved formally in 1926.[5]

11. From the history of the Latin Monetary Union one lesson can be learnt which is by no means new: Given a bi-metallic standard, Gresham's law operates. Old as this observation may be, it is of value even today in connection with the projects of a EEC monetary union. Of course, no gold or silver will circulate inside the Community. There have been plans, however, to issue an EEC-currency which is to circulate simultaneously with the national currencies of the member states.

    If there are fixed exchange rates between the EEC-currency and the franc, guilder, D-Mark and lira, then there will be another opportunity for Gresham's law to be tested. The EEC-currency is "good" money in - say - Italy, if the lira depreciates vis-à-vis the other currencies of the Community. Italians using EEC-currency will get more for their money abroad than those who use lire. So, everybody will use EEC-currency for payments abroad while goods and services bought in Italy will be paid for in lire. The "good" EEC-money will be "driven out".

    In another member state - say Germany - EEC-currency becomes "bad" money if the value of the D-Mark vis-à-vis the currencies of the member states rises above the respective value of the EEC-currency. Then payments abroad will be made in D-Mark while German goods and services are paid for in EEC-currency. So, at least a tendency of "bad" EEC-currency driving out "good" D-Mark will be noticed.

12. Apart from the experiment in bi-metallism, the different fineness of the silver coins in the partner states of the Latin Monetary Union could have given rise to some operations of Gresham's law. It will be remembered, however, that the Union treaty stipulated a unique fineness of .835 to be used in future issues.

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[1] It was never taken up again. Art. 9 of the traty of 1878. Reprinted in H.P. WILLIS, op. cit., Appendix I.

[2] Art. 14 of the treaty of 1885. Reprinted in H.P. WILLIS, op. cit., Appendix I.

[3] As to the arguments see H.P. WILLIS, op. cit., p. 42 et seq.

[4] Cf. L.-A. DUBOIS, La fin de l'Union Monetaire Latine, Arbois 1950, p. 45 et seq.

[5] The Swiss government sent a note to the member states declaring that it considered the Union dissolved as per December 31, 1926. L.-A. DUBOIS, op. cit., p. 73.

13. Another rule regarding the small silver coins issued by the Union members may be of more interest in EEC-times: It is article 9 of the treaty which limited the issue of these coins to the equivalent of six franc per capita. This regulation is of special importance since it dealt with coins the silver value of which was less than the nominal value.

The reason for the limitation was given above: It was feared that partner states issuing great quantities of such coins would make some profit at the expense of other Union members. Since the treasury's gains from coinage are approximately equivalent to the difference between nominal and metal value of a coin, the overall profit of the mint rises with the amount and the nominal value of the coins issued.

Since the amount of coins which can be circulated in the national economy is limited by the paying habits of the public, the mint can make additional profits only if undervalued coins are circulated elsewhere, i.e. in the other member states of the Union. These, of course, would like to do the profitable minting business themselves. Hence the necessity to reserve a share for all partners. This was done by article 9.

In addition, article 8 of the treaty stipulated that each participating state was obliged to receive from individuals or public treasuries of the other states the small silver coins it had issued and to exchange them against fully valued gold (or silver 5-franc) pieces.

14. Obviously, the rules concerning subsidiary coins as such are of little more than historical interest at present. The problem which these coins of low metal value posed is, however, essentially the same as that posed by banknotes which have not even a metal value: If, within a monetary union, the authorities of the member states are allowed to issue national money, which, if any, rules must be introduced to regulate this issue?

15. The treaty establishing the Latin Monetary Union did not stipulate that the coins issued by a member state were legal tender in the remaining countries. Since it obliged the treasuries of all participating countries to accept these coins, free circulation was, nevertheless, practically assured. This situation may appear similar to that existing in a modern system of free convertibility. In such a system convertible banknotes issued in other countries are accepted by the national authorities (the reserve bank) and exchanged against national currency.

Although this condition is given in the European Economic Community (and in the whole area of convertibility) little circulation of currency can be observed outside the national boundaries. This may be due to the fact that the present system involves the risk of exchange rate variations. In the Latin Monetary Union no such risk existed.[1] A coin of 1 Belgian franc circulating in Switzerland was worth exactly 1 Swiss franc, and sure to remain so.

Apart from giving security against exchange rate variations this relation 1 Belgian franc = 1 Swiss franc = 1 French franc = 1 lira = 1 drachme was extremely convenient. No calculations were necessary to find out the value of a foreign coin in national currency. There can be no doubt that this convenience facilitated the cir-

[1] This means that the official exchange rate between the circulating coins was not altered. It will be seen later that in the market the exchange rates between the currencies of the Union varied considerably.

culation of coins inside the whole Union very much. And probably this fact is playing a rôle in the modern plans for a single European currency.

16. Another question is, whether the precautions taken by the founders of the Latin Union against excessive minting of low value coins are worth considering today. As said, subsidiary coins are not the problem. But at present the value of coins and banknotes of all sorts is almost totally only nominal, the metal or paper value being negligible. So, if one thinks in terms of minting profit - as was the case regarding the small coins in the Latin Monetary Union - minting and printing money offers great profit for the treasury. A policy making excessive use of this opportunity is nowadays by no means unknown, although the reasons given for such easy money policy are a bit more sophisticated than was the purpose of which the governments were suspected in the treaty establishing the Latin Monetary Union.

17. Easy money policy pursued by a member state within a monetary union of modern kind can spread the danger of inflation to the partner countries. This point needs no elaboration: If there is one source of easy money in a monetary union, this one source can suffice to float the whole union with money, even if none is supplied by the authorities of the other member states. This is unconditionally true in a union with a single currency. If different currencies exist, the process will be complicated by the balance of payments problem, but the tendency remains the same.

18. So, clearly, it will be very useful to protect the participating countries against excessive use of the printing press by one or more of the other member states. In a union with a single currency, this would even be true if everybody were fond of an inflation. No monetary union is conceivable in which all parties are glad to see one partner taking away all gains to be had from an inflationary policy, while the disadvantages are "socialized".

19. The Latin Monetary Union envisaged two forms of protection against such a policy. These were, redemption of the money floated in the partner countries and a system limiting the issue of money.

    The gold standard[1] offered a simple method of redemption within the Lation Union, i.e. payment in gold. Moreover, the amount of money which could fall under the redemption clause was relatively small: Coins of 5 franc or less. In a modern European Monetary Union this amount could be far greater, the technical possibilities of the printing press to produce banknotes of every nominal value being practically unlimited. Nevertheless, redemption is possible.

20. Redemption could be organized according to the old "Latin" method: EEC-currency banknotes or coins issued in member state A and circulated in another member state B may be offered by the authorities of B to those of A. A, having issued these banknotes or coins, must exchange them against gold of an equal value. B should, of course, thake back money it had issued. Possibly it could be arranged that other currencies - such as US dollar - could be given instead of gold, as well.

    The procedure might be refined by using a clearing method, so that the system could work rather smoothly. This way, without to much interference with the free

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[1] For the purpose of this discussion the standard employed in the Latin Monetary Union can be regarded as a gold standard in spite of the (controlled) circulation of silver 5-franc pieces.

circulation of all EEC-currency, some check to excessive issuing of money can be built in.

21. A far simpler check would be "Latin" method no. 2: The high contracting parties shall issue money only to an amount equivalent to either a given amount per capita or some percentage of the GNP, etc.[1] Probably, the percentage criterion would be better suited since it lets room for an expansion of the amount of money in relation to the growth of the GNP. Better still might be a method by which not the whole amount of money but only newly issued money were limited to a percentage of the growth of the GNP.

22. One further lesson to be drawn from the history of the Latin Monetary Union has to do with the so-called cours forcé of national currencies. This practice is probably the main reason for the agony of the Latin Union, but it had already caused considerable difficulties in its earlier years.

The first case in point was the cours forcé of the lira in 1866. It was the result of a chronic deficit in the Italian budget and a large surplus of imports over exports.[2] The circulation of paper money was increased until it reached an amount far in excess of the specie. Under these circumstances it was not surprising that the paper money could no longer be redeemed in gold at the official rate. Therefore, when with the declaration of hostilities between Italy and Austria in April 1966 the finance minister was granted extraordinary powers, these powers were used at once to make the notes irredeemable, although their "course" remained, by legal "force", the same.

23. What happened on account of the cours forcé was to be expected. The coins left Italy in direction of the partner states of the Union. That they immediately disappeared from circulation inside the Peninsula had nothing to do with the existence of the Latin Union. The reason was that the coins kept their metal value while the value of the national currency depreciated. Only the second part of the story was partly due to the fact that Italy was partner of a monetary union. The full value pieces of 5 francs and more could have been exported to every country where gold and silver could be presented for minting. But it should be remembered, that inside the Union the pieces were accepted without re-minting at their face value. This was of special importance as far as the small coins of low metal value were concerned. They retained their full nominal value in every country of the union, in spite of the fact that the market value of one lira was considerably less than that of one franc.

24. The flooding of the other countries of the Union with Italian coins caused, of course, a redundancy of subsidiary money in these states while in Italy the amount of small coins became smaller than necessary for normal transactions. Since the treaty obliged Italy to redeem the coins it had issued, the situation seems to have caused most difficulties in Italy herself: shortage of small coins and the obligation to redeem the coins exported in gold, i.e. at a price much higher than the exchange value of the lira. But the other member states had at least to give forced credit to the Italian government in the amount ot the circulating Italian coin.

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1 Text adopted from Art. 9 of the treaty establishing the Latin Monetary Union, where the amount in question is six francs per capita.

2 For details see H.P. WILLIS, op. cit., p. 61 et seq.

25. The experience with the cours forcé was repeated several times during the history of the Latin Union. Until the First World War it concerned especially Italy and Greece, where the actual exchange rate of the (paper) currency was continually lower than the parity of the coins. Starting with the war the currencies of all partners depreciated against the Swiss franc. Redemption of paper money in gold ceased everywhere. In 1921 the French franc had lost 64 % against the Swiss franc, the Belgian franc had lost 65 %, the lira 78 % and the drachme still more.[1]

It was, therefore, not surprising that the coins - exchanged still at nominal parity - were the object of considerable speculation, and the circulation of all coins within the whole Union became an absurd onesided affair. One might think that the only reasonable thing would have been to stop the exchange of coins officially. But this would have amounted to a dissolution of the Union, the intercirculation being the main reason for its existence. So, when finally in 1926 the small coins were nationalized, the Latin Union was dissolved.

26. Why the Latin Monetary Union lived for so long in spite of its disadvantages seems to be due to a mixture of economic and political reasons. One reason for the longevity of the Union was that its dissolution would have been rather costly[2] because, according to the convention of 1885, it necessitated the redemption of the silver 5-franc pieces in gold, by the states having issued these pieces. This would have meant losses to the treasuries of those states, since the market rate of silver respective to gold had deteriorated considerably, while the official rate remained at 15 1/2 : 1.

Another reason of more or less a political kind must be mentioned. France was the predominant power in the Union economically and politically. Paris was a financial center. This position was strengthened by the Union so that France could not be interested in its dissolution. Neither were most of her partners who enjoyed some protection by France and were unwilling to antagonize her[3] .

That the intercirculation of coins facilitated the transactions between the member countries of the Union must have become less important since the foundation of the Union, owing to the development of the habits of payment. Cheques, bills of exchange, money orders took the place of coins as medium of payment, if ever these were employed to a large extent in international transactions.

27. For transactions in banknotes and through banks the market exchange rate between the different currencies prevailed - not the metal parity. There is, however, another experiment in monetary union where transactions in banknotes took place at parity, too. It is the Scandinavian Monetary Union.

As in the case of the Latin Union, the money of each of the three Scandinavian states Denmark, Sweden, and Norway circulated in the whole of Scandinavia even before the monetary union was established in 1873[4]. So, the Scandinavian Monetary Union institutionalized insofar the existing practice as did the Latin Union.

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1 Cf. L.-A. DUBOIS, op. cit., p. 62.

2 Cf. L.-A. DUBOIS, op. cit., p. 18.

3 Cf. A.E. JANSSEN, Les conventions monétaires, Paris et Bruxelles 1911, p. 382; L.-A. DUBOIS, op. cit., p. 19.

4 In 1873 a convention was concluded between Sweden and Denmark. Norway joined in 1875. Cf. A.E. JANSSEN, op. cit., p. 110 et seq. French text of the convention, ibid., p. 506 et seq.

28. To a large extent the Scandinavian Union was a copy of the Latin Union, at least as far as the text of the convention goes. The common unity of account was the crown, consisting of 100 öre, and defined in weight, measure and fineness.[1] Coins minted in one of the contracting states were legal tender in the other countries.

In contrast to the Latin Union no limitation of the issue of low value small coin was stipulated. The parties found it impossible to fix the appropriate amount in advance.[2] They saw, however, that one state could issue excessive sums of subsidiary coins at the expense of the partners. To exclude this possibility the authors of the convention accepted the method of redemption, as did those of the Latin Union. According to article 11 of the convention, each contracting party had to exchange, upon request, the small coin it had issued against fully valued pieces.

29. The most remarkable feature of the Scandinavian Union as contrasted with the Latin Union was that not only coins intercirculated between the different states but that banknotes were accepted at par, as well. This was not stipulated in the convention but, in fact, the circulation of banknotes was far greater than that of coins.[3] Moreover, a regular procedure was developed by which the banknotes were returned from time to time to their country of origin by way of the respective central banks.[4]

In addition, the central banks of the three Scandinavian countries concluded a convention of close cooperation. Each of the banks established an account for each of the others. Cheques could be drawn on these accounts, a credit balance bearing no interest.[5]

30. Up to the First World War the Scandinavian Union was a success. Having adopted the gold standard from the start, it avoided the troubles caused by bi-metallism inside the Latin Union. Coins and banknotes were redeemed without difficulties. No member country had to resort to a forced course, a practice which threatened to ruin the Latin Union.

Naturally, a forced course in one of the Scandinavian countries would have been quite incompatible with the circulation of banknotes within the whole Union. The same would have been true, if the market exchange rate between the Scandinavian currencies had differed from the official parity. A depreciated currency could, under such circumstances, always have been transferred to one of the partner countries with a gain.

That the Scandinavian Union depended on the fixed parity between the Nordic currencies became obvious during the First World War when the redemption of banknotes in gold was given up and the exchange rates deviated from one another.[6] Without the foundation on gold standard and fixed parity between the Scandinavian currencies the Union came to an end.

31. Both the story of the Latin Union and that of the Scandinavian Union show that monetary unions of sovereign states depend at least on one thing: the official exchange

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1 Art. 3 of the convention for pieces of 10 and 20 crowns, Art. 5 for smaller coins.
2 Cf. A.E. JANSSEN, op. cit., p. 121.
3 Cf. A.E. JANSSEN, op. cit., p. 132 et seq.
4 Cf. A.E. JANSSEN, op. cit., p. 134.
5 For details see A.E. JANSSEN, op. cit., p. 137 et seq.
6 Cf. L.-A. DUBOIS, op. cit., p. 97; O. VEIT, Grundriß der Währungspolitik. 3. Aufl., Frankfurt 1969, p. 710.

rates at which the respective currencies circulate in the different countries of the union must not deviate from the market exchange rates.

This may seem to be an unnecessarily general statement because in the monetary unions regarded so far the exchange rates were parity. But parity is no necessity. In the Austro-German Monetary Union, for instance, another exchange rate prevailed.[1] The exchange rate laid down in the German (Dresdner) Monetary Convention between the (northern) thaler and the (southern) guilder was 14 : 24 1/2.[2]

32. Not parity but coincidence between the official and the market exchange rates has proved necessary for the functioning of a monetary union. If there is a difference, a premium will be paid for the depreciating currency in the partner states of the union, as long as intercirculation is assured. Such a thing happened when Italy and Greece adopted a forced course for their paper money. It happened further when the exchange rates of the other countries of the Latin Union began to differ considerably during and after the First World War.

Differences between the established exchange rate and that prevailing in the market destroyed the Scandinavian Union, too, although it had, for long years, functioned without trouble, including the intercirculation of paper money.

33. Nevertheless, it cannot be denied that the Scandinavian Union did, as long as it lasted, much better than its Latin equivalent. The reason is that both unions were equivalent only superficially. They tried to regulate the intercirculation of coins at parity. That the Latin Union stipulated a limit to the issue of subsidiary coins while the Scandinavian Union did not, cannot be regarded as essential, since the Latin limit was changed several times. Further, redemption of small coin in gold was stipulated in both treaties, and seems to have been precaution enough against excessive minting of subsidiary money.

34. Nordic and Latin Monetary Union were not at all equivalent in economic homogenity. Belgium/France/Switzerland and their Mediterranean partners differed considerably with regard to economic development and stability. Hence the growing differentiation of exchange rates and the cours forcé. In Scandinavia economic conditions and economic policy were practically the same in all three countries. Therefore, it was possible to proceed to intercirculation not only of coins but equally of banknotes and cheques. The end of the union came, when this condition was no longer given, when the different countries adopted different economic policies.

Since our purpose is to draw lessons from the older experiences, we should translate these conclusions into EEC language: Historical experience with monetary unions shows that little trouble is to be expected if the homogenity with regard to economic development and to economic policy is great, and no (exogenous) disturbances (like the First World War) occur. Simpler: Harmonizing of economic policy is a prerequisite to the success of a monetary union.

35. Since even under ideal conditions (exogenous) disturbances occur now and then whereby the harmony of economic policy tends to get lost, history seems not to

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[1] Cf. A.E. JANSSEN, op. cit., p. 46; O. VEIT, op. cit., p. 462.

[2] Cf. O. VEIT, op. cit., p. 459; W.O. HENDERSON, The Zollverein. London 1959, p. 139.

encourage the foundation of monetary unions. We can notice, however, that while the Latin, the Scandinavian and the Austro-German[1] monetary unions failed, there have been others which have succeeded - as can be seen from the list at the first page of this essay: The Swiss and the Italian monetary unions blossom today and, if political disturbances are discounted, the German monetary union must be said to have survived, as well.

36. In Switzerland, in the first half of the 19th century, nearly all cantons minted some own money, even the small one of Zug with 15, 000 inhabitants[2]. Moreover, many coins from other countries circulated inside the Confederation. This situation was ended with the Bundesverfassung of 1848 which gave to the Confederation, among other competences, all rights concerning the issue of money.[3] The cantons, on the other hand, lost those rights. A law of 1850 established a single currency which was, as will be remembered, closely linked to the French monetary system.

Italy, having consisted of a number of small countries, had had several different systems of money, too. With the political unification, in 1859/60, most of the states were annexed to Sardinia. The monetary system was unified in the same way as was the political system. By a law of August 24, 1862 the monetary system of Sardinia was extended to the whole of Italy.[4] The former states having lost their political identity lost at the same time their coinage rights.[5]

The German monetary union has a somewhat longer history. The monetary confusion, existing as in Switzerland and Italy, was cured in two steps. At first, in the Dresden Convention of 1838, two new unified systems were created: a northern one based on the thaler and a southern one based on the guilder, both systems being connected by a fixed exchange rate 14 : 24 1/2.[6]

After the political unification of Germany had taken place the monetary system was unified, too. In the constitution of 1871[7] ist was laid down that the Reich became competent in monetary matters, the states losing their rights. As Switzerland, and unlike Italy, Germany choose to create a new currency, and not to extend the validity of the Prussian thaler.[8]

37. In the light of our previous arguments the successes of the Italian, Swiss, and German monetary unions are rather disappointing. Economic harmony in Italy was certainly inferior to that of Scandinavia. Perhaps this was true even of Germany. Nevertheless, monetary integration succeeded in Italy and in Germany, but not in Scandinavia.

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1 The Austro-German Monetary Union was concluded in 1857 between the member states of the Zollverein and the Austrian Empire. Its main purpose was to establish a rate of exchange between the thaler, the guilder of South Germany and the Austrian guilder, and to regulate the intercirculation of money. Already in 1867 the Austro-German Union was dissolved. It may suffice here to simply present the Austro-German Union as a failure, which it was. The experience made with this union does not contradict the above line of argument but rather strengthens it. For information see A.E. JANSSEN, op. cit., p. 38 et seq.

2 The example is cited in A.E. JANSSEN, op. cit., p. 178.

3 Art. 36 of the Swiss Constitution.

4 Sardinia's monetary system was, as pointed out, similar to that of France.

5 For details see A.E. JANSSEN, op. cit., p. 183 et seq.; H.P. WILLIS, op. cit., p. 36 et seq.

6 Cf. W.O. HENDERSON, op. cit., p. 138 et seq.

7 Equally in the Constitution of the North German Confederation.

8 For details of the German monetary unification see especially O. VEIT, op. cit., p. 447 et seq.

There is only one basic difference which can explain this phenomenon. In Scandinavia, economic policy may well have been conducted in harmony with the other Nordic countries, but there was no unity.[1] The other cases were cases of political unification, the economic conditions notwithstanding. Monetary union was possibly regarded as a (necessary) correlate to political union, but it certainly had no priority among the aims to be realized during the unification process. Once realized, however, monetary union in this context meant the centralization of all decisions which had to do with the monetary system. This fact should be noted, for it seems to have been of vital importance for the success of the Swiss, Italian, and German monetary unions.

38. The evidence so far available may be regarded as meagre. From the historical experiences we must, nevertheless, draw the conclusion: As long as the European Economic Community is concerned with economic harmonization but does not bring about economic and political unification, a monetary union should be regarded with suspicion. Experiments with bi-metallism may not recur. But the circulating of money from different sources with fixed courses has equally proved the value of Gresham's law. Issuing an EEC-currency under similar circumstances will probably provide another case in point.

Without harmonization of economic policy there is almost no chance for a monetary union to succeed. If such an harmonization is assured, some hope may exist. It could be that the EEC is more efficient in dealing with external disturbances than was the Scandinavian Monetary Union.

Nevertheless, no monetary union is on record which has survived without unification. A minimum requirement seems to be some form of centralized decision-making process in monetary matters. Political unification probably is necessary, too. It was, at any rate. And never has a monetary union brought about economic and political union. That makes it very doubtful whether, in the EEC, monetary union could act as a "motor" for a broader unification. In the historical cases it has always been the other way round.

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[1] The fact that the king of Sweden wore the Norwegian crown until 1905 does not represent political unity. This was stressed by the Norwegian parliament when it accepted the Scandinavian Monetary Union two years later than the Swedish and Danish parliaments did.